Office of Inspector General
Committee for Purchase from People
Who Are Blind or Severely Disabled
(U.S. AbilityOne Commission OIG)

355 E Street SW (OIG Suite 335)
Washington, DC 20024-3243

November 15, 2022

MEMORANDUM

FOR: Jeffrey A. Koses
Chairperson
U.S. AbilityOne Commission

Kimberly M. Zeich
Executive Director
U.S. AbilityOne Commission

FROM: Stefania Pozzi Porter
Inspector General
U.S. AbilityOne Commission OIG

SUBJECT: Audit of the U.S. AbilityOne Commission's Financial Statements for Fiscal Year 2022

I am pleased to provide the audit report on the U.S. AbilityOne Commission's (Commission) financial statements. The Office of Inspector General (OIG) contracted with the independent certified public accounting firm, Allmond & Company, LLC (Allmond & Company), to audit the Commission's financial statements and related footnotes as of September 30, 2022, and for the year then ended. The contract requires that the audit be performed in accordance with U.S. generally accepted government auditing standards and the Office of Management and Budget bulletin, Audit Requirements for Federal Financial Statements.

Results of the Independent Audit

Allmond & Company found:

- The financial statements present fairly, in all material respects, the financial position of the Commission as of September 30, 2022, and 2021, and its net costs, changes in net position, and budgetary resources for the fiscal year then ended in accordance with generally accepted accounting principles.

- Two material weaknesses (Finding 2022-01 and 2022-02) and five significant deficiencies

(Findings 2022-03, 2022-04, 2022-05, 2022-06, and 2022-07) in internal control over financial reporting, and

- One reportable noncompliance with applicable provisions of laws, regulations, and contracts tested (Finding 2022-08).

While the report includes two material weaknesses and five significant deficiencies related to the Commission's internal control over financial reporting, and one finding related to noncompliance, the objective of Allmond & Company was not to provide an opinion on internal control over financial reporting or compliance with laws, regulations, contracts, and grant agreements applicable to the Commission.

Evaluation and Monitoring of Audit Performance

The Inspector General Act of 1978, as amended, requires that the Inspector General take appropriate steps to assure that any work performed by non-Federal auditors complies with the auditing standards established by the Comptroller General. We evaluated the independence, objectivity, and qualifications of the auditors and specialists; reviewed the plan and approach of the audit; monitored the performance of the audit; sought and obtained clarification of the auditor's methodology and findings; and reviewed Allmond & Company's reports and related audit documentation.

Allmond & Company is responsible for the attached independent auditor's report and the conclusions expressed therein. The OIG does not express opinions on the Commission's financial statements or internal control over financial reporting, or conclusions on compliance or other matters. The audit report provides an opinion on the Commission's financial statements and communicates reporting requirements on internal control over financial reporting and compliance with laws and regulations.

The OIG would like to thank the Commission staff for the assistance and cooperation. If you have any questions or need additional information, please contact me or Rosario A. Torres, CIA, CGAP, Assistant Inspector General for Auditing at (703) 772-9054 or rtorres@oig.abilityone.gov.

Enclosure: *Independent Auditor's Report, September 30, 2022*

U.S. ABILITYONE COMMISSION
INDEPENDENT AUDITORS' REPORT
SEPTEMBER 30, 2022

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Independent Auditors' Report

Chairperson, Committee Members, and Executive Director
Committee for Purchase from People Who Are Blind or Severely Disabled – U.S. AbilityOne Commission

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of the Committee for Purchase From People Who Are Blind or Severely Disabled - U.S. AbilityOne Commission (the Commission), which comprise the balance sheets as of September 30, 2022 and 2021, and the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended, and the related notes to the financial statements (hereinafter referred to as the financial statements).

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Commission as of September 30, 2022 and 2021 and its net costs, changes in net position, and budgetary resources for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with U.S. generally accepted auditing standards (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 22-01, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 22-01 are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As stated in Note 14 to the financial statements, the Commission restated its fiscal year (FY) 2021 statement of budgetary resources and related footnotes due to the identification of FY 2021 obligations that were not recorded in the agency's general ledger until FY 2022. The recording of these obligations in the next fiscal year resulted in material misstatements of new obligations and upward adjustments for both fiscal years and the material misstatement of the ending and beginning unobligated balances for FY 2021 and FY 2022, respectively. This matter is discussed in further detail in *Exhibit I, Findings and Recommendations* (2022-01) of this report. Because the errors have been corrected during the current year and the prior year statement of budgetary resources and related notes have been restated, our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Commission management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; (2) preparing, measuring, and presenting Required Supplementary Information (RSI) in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in Commission's Performance and Accountability Report and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) designing, implementing, and maintaining effective internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, generally accepted government auditing standards (GAGAS), and OMB Bulletin No. 22-01 will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, GAGAS, and OMB Bulletin No. 22-01, our responsibilities are to exercise professional judgment and maintain professional skepticism throughout the audit, to identify and assess risks of material misstatement of the financial statements, whether due to fraud or error, and to design and perform audit procedures that are responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements in order to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. In addition, in making those risk assessments, we obtain an understanding of internal control relevant to an audit of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements, and performing other procedures we consider necessary in the circumstances. We are required to communicate with those charged with governance regarding, among other matters, the planned scope of and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the financial statement audit.

Required Supplementary Information (RSI)

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the information in the RSI be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by FASAB, which considers it to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during the audit of the Commission's financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

The Commission's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. Management is responsible for the other information included in the Commission's Performance and Accountability Report. The other information comprises the *Message from the Chairperson*, *Performance*, and *Other Information* sections but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Internal Control over Financial Reporting

In connection with our audits of the Commission's financial statements as of and for the years ended September 30, 2022 and 2021, we considered the Commission's internal control over financial reporting, consistent with the auditor's responsibilities discussed below.

Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described below, and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies[1] or

1 A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a

to express an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting. Given these limitations, material weaknesses or significant deficiencies may exist that have not been identified.

During our fiscal year 2022 audit, we identified two deficiencies in the Commission's internal control over financial reporting that we consider to be material weaknesses. These deficiencies (2022-01 and 2022-02) are described in the accompanying *Exhibit I, Findings and Recommendations,* to this report. In addition, we identified five deficiencies in the Commission's internal control over financial reporting that we consider to be significant deficiencies. These deficiencies (2022-03, 2022-04, 2022-05, 2022-06, and 2022-07) are described in accompanying *Exhibit II, Findings and Recommendation*s, to this report.

We considered these material weaknesses and significant deficiencies in determining the nature, timing, and extent of our audit procedures on the Commission's fiscal year 2022 financial statements. Although the material weaknesses and significant deficiencies in internal control did not affect our opinion on the Commission's fiscal year 2022 financial statements, misstatements may occur in unaudited financial information reported internally and externally by the Commission because of these deficiencies.

In addition, we also identified deficiencies in the Commission's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies that, nonetheless, warrant management's attention. We have communicated these matters to Commission management and, where appropriate, will report on them separately.

Basis for Results of Our Consideration of Internal Control over Financial Reporting

We performed our procedures related to the Commission's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

Responsibilities of Management for Internal Control over Financial Reporting

Commission management is responsible for designing, implementing, and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for Internal Control over Financial Reporting

In planning and performing our audit of the Commission's financial statements as of and for the fiscal year ended September 30, 2022, in accordance with U.S. generally accepted government auditing standards, we considered the Commission's internal control relevant to the financial statement audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the Commission's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses. We did not

reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance.

consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

Intended Purpose of Report on Internal Control over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of the Commission's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of the Commission's internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of the Commission's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibilities discussed below.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed one instance of noncompliance for fiscal year 2022 that would be reportable under U.S. generally accepted government auditing standards. This matter is further discussed in *Exhibit III, Findings and Recommendations,* (2022-08) of this report. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to the Commission. Accordingly, we do not express such an opinion.

Basis for Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for Tests of Compliance section below.

Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Commission management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the Commission.

Auditor’s Responsibilities for Tests of Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to the Commission that have a direct effect on the determination of material amounts and disclosures in the Commission’s financial statements, and to perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Commission. We caution that noncompliance may occur and not be detected by these tests.

Intended Purpose for Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provision of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

The Commission’s Responses to Findings

The Commission's responses to the findings identified during our audit are described immediately following the auditors’ recommendations in *Exhibits I, II, and III*. The Commission’s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Allmond & Company, LLC

Lanham, Maryland
November 15, 2022

Obligations Were Not Submitted Timely for Recording in the General Ledger (2022-01)

CONDITION

Internal controls relating to the submission of transmittal forms and supporting documentation by the agency to its shared financial management service provider are not properly designed and implemented to ensure that all executed purchase orders and other binding obligations incurred by the agency are provided to the service organization timely and so that all obligations can be recorded in the agency's general ledger during the same fiscal year (FY).

During our testing over upward adjustments of prior year obligations for the period of October 1, 2021 through September 30, 2022 we identified four awards totaling $418,898.65 that were executed by the agency during fiscal year (FY) 2021, but were not submitted to the service organization and recorded in the agency's general ledger until FY 2022.

CRITERIA

Office of Management and Budget (OMB) Circular A-11 (August 2022), Section 150.3, states, "Your agency's internal controls are the organization, policies, and procedures that your agency uses to reasonably ensure that:

- Programs achieve their intended results.
- Resources used are consistent with agency mission.
- Programs and resources are protected from waste, fraud, and mismanagement.
- Laws and regulations are followed.
- Reliable and timely information is obtained, maintained, reported and used for decision making."

The Statement of Work [pertaining to the Interagency Agreement] Between the General Services Administration Office of the Chief Financial Officer and the U.S. AbilityOne Commission, which states, "Proper recording of Obligations: Client Responsibilities: 1. The client will provide consistent proper supporting documentation in a timely manner to support the recording of obligations to the USDA, OCFO-PFS ESB [Office of the Chief Financial Officer-Pegasys Financial Services External Services Branch] within 5 business days of the client incurring the obligation."

The Government Accountability Office's (GAO's) Standards for Internal Control in the Federal Government, Principle 10.01: Design Control Activities, states, "Management should design control activities to achieve objectives and respond to risks. The following attributes contribute to the design, implementation, and operating effectiveness of this principle:

- Response to Objectives and Risks
- Design of Appropriate Types of Control Activities
- Design of Control Activities at Various Levels
- Segregation of Duties."

GAO Standards for Internal Control in the Federal Government, Section OV4.01: Service Organizations, states, "Management may engage external parties to perform certain operational processes for the entity, such as accounting and payroll processing, security services, or health care claims processing. For the purpose of the Green Book, these external parties are referred to as service organizations. Management, however, retains responsibility for the performance of processes assigned to service organizations."

GAO Standards for Internal Control in the Federal Government, Principle 10.03: Design of Appropriate Types of Control Activities, states, "Management designs appropriate types of control activities for the entity's internal control system. The common control activity categories listed in figure 6 are meant only to illustrate the range and variety of control activities that may be useful to management. The list is not all inclusive and may not include particular control activities that an entity may need.

- Proper execution of transactions - Transactions are authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources are initiated or entered into. Management clearly communicates authorizations to personnel.
- Accurate and timely recording of transactions - Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded."

CAUSE

- Commission management did not timely submit transmittal documents to the service organization, which prevents the service organization from recording this information in the agency's general ledger timely.
- Standard operating procedures for the Budget and Financial Management process were still in development during the period in which the transactions occurred. As such, written guidance was not available that defined the roles and responsibilities of agency personnel when performing procurement activities.

EFFECT

- New Obligations and Upwards Adjustments in the Statement of Budgetary Resources was understated by $418,898.65 in the September 30, 2021 financial statements and footnotes and was overstated by $418,898.65 in the September 30, 2022 financial statements and footnotes.
- The prior year financial statements and footnotes will need to be restated to correct material misstatements.
- An increased number and dollar amount of upward adjustments of prior year obligations balances for prior year obligations that were not timely submitted and recorded, rather than for incidental increases that occasionally occur for timely recorded prior year transactions.

- An increased risk of noncompliance with the Antideficiency Act because unobligated balances in the financial management system and open obligations aging reports may not be accurate and complete.

RECOMMENDATION

We recommend that:

- Commission management should ensure that all transmittal forms and supporting documents are submitted to the service organization within five business days of the agency incurring an obligation so that the service organization can record the obligation in the agency's general ledger timely.
- On a quarterly or more frequent basis, Commission management (i.e., budget officers/funding officials, contracting officers, and other personnel involved in the procurement process) should perform a review of open obligation aging reports to verify that the balance for each obligation is accurate and all obligations that have been incurred by the agency have been recorded in the general ledger.
- On a quarterly or more frequent basis, Commission management should perform a review of all procurement documentation (i.e., transmittal forms, SF-30, SF-1449, and other funding or obligating documents) and agree the documentation to the open obligation aging reports in order to verify that the balance for each obligation is accurate and all obligations that have been incurred by the agency have been recorded in the general ledger.
- Personnel performing procurement activities should maintain a log or other record that includes the status of all commitments and obligations, which should be reviewed at the end of each reporting period, and particularly at fiscal year-end, so that action can be taken timely for any incomplete items.
- Standard operating procedures should be expanded, or desk procedures developed, so that policies and procedures are explained clearly, and the roles and responsibilities of personnel performing procurement activities are defined for each step of the process.

MANAGEMENT RESPONSE

Management concurs with the condition and will consider the recommendation provided when determining if a corrective action plan should be developed once the review engagement concludes.

AUDITORS' RESPONSE

Follow up procedures will be performed during the FY 2023 audit to determine if corrective actions have been fully implemented.

Year-End Accrued Expenses and Liabilities Were Not Correctly Estimated or Recorded (2022-02)

CONDITION

The Commission's internal controls over the estimation and recording of accrued expenses and liabilities are not sufficiently designed to prevent, detect, or correct errors in its financial statements. During our performance of substantive procedures over the balance of Accounts Payable and Advances and Prepayments as of September 30, 2022, we identified the following conditions:

- Two transactions totaling $599,191 were accrued for the full amount of the obligated balance rather than for unbilled or unpaid goods and services that were received and accepted as of September 30, 2022.
- The Commission did not reduce the balance of Advances and Prepayments and recognize the related Operating Expense/Program Cost when goods and services were rendered for two prepaid contracts, as required by generally accepted accounting principles. The total amount that was billed by and paid to the vendors was $24,859.64.

CRITERIA

Statement of Federal Financial Accounting Standards (SFFAS) Number (No.) 5, Accounting for Liabilities of the Federal Government, provides the definition and general principles for the recognition of a liability: A liability for federal accounting purposes is a probable future outflow or other sacrifice of resources as a result of past transactions or events. General purpose federal financial reports should recognize probable and measurable future outflows or other sacrifices of resources arising from (1) past exchange transactions, (2) government-related events, (3) government-acknowledged events, or (4) nonexchange transactions that, according to current law and applicable policy, are unpaid amounts due as of the reporting date."

The Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) 1: *Accounting for Selected Assets and Liabilities*, Advances and Prepayments, bullet 57, states, "Advances are cash outlays made by a federal entity to its employees, contractors, grantees, or others to cover a part or all of the recipients' anticipated expenses or as advance payments for the cost of goods and services the entity acquires. Examples include travel advances disbursed to employees prior to business trips, and cash or other assets disbursed under a contract, grant, or cooperative agreement before services or goods are provided by the contractor or grantee." Bullet 59 states that "Advances and prepayments should be recorded as assets. Advances and prepayments are reduced when goods or services are received, contract terms are met, progress is made under a contract, or prepaid expenses expire."

AbilityOne Budget and Financial Management Standard Operating Procedures, October 2021, Financial Management, Accrual Preparation, states, "To achieve accounting standards, AbilityOne will, at a minimum, submit material accruals (i.e., payroll, bonuses, accounts payable) prior to development of interim and end of year financial statements. Accruals will be developed for known liabilities and receipts….Accruals will follow standard funds management and obligation workflow process for funds certification and approval signatures on transmittals used."

AbilityOne Budget and Financial Management Standard Operating Procedures, October 2021, Financial Management, Accounts Payable, states, "Submit certified review of open obligations in aging report from USDA at least twice a year….Conduct activities related to researching and processing advances/prepayments; obtain invoices and submit for payment; then liquidate advance/prepayment."

The Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* (GAO-14-704G, September 2014), Principle 10 – Design Control Activities, Section 10.01 states, "Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks….As part of the risk assessment component, management identifies the risks related to the entity and its objectives, including its service organizations…."

The Government Accountability Office (GAO), *Standards for Internal Controls in the Federal Government*, (issued September 2014), Principle 10 – Design Control Activities, 10.03, Accurate and timely recording of transactions, states, "Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded."

The Government Accountability Office (GAO's) Standards for Internal Control in the Federal Government, Principle 10.01: Design Control Activities, states the following: "Management should design control activities to achieve objectives and respond to risks. The following attributes contribute to the design, implementation, and operating effectiveness of this principle:

- Response to Objectives and Risks
- Design of Appropriate Types of Control Activities
- Design of Control Activities at Various Levels
- Segregation of Duties."

The Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* (GAO-14-704G, September 2014), Section 4 – Additional Considerations, Service Organizations, OV4.03 states, "Management may consider the following when determining the extent of oversight for the operational processes assigned to the service organization: The nature of services outsourced…..[and] the extent to which the entity's internal controls are sufficient so that the entity achieves its objectives and addresses risks related to the assigned operational process."

CAUSE

- The Commission's control procedures to estimate accounts payable to be accrued at year-end in accordance with generally accepted accounting principles were not operating effectively during the period ended September 30, 2022.

- The responsibilities of Commission management relating to year-end accruals and other financial reporting functions were not clearly understood.
- Information regarding the status of open obligations and goods and services received through September 30, 2022 was not obtained from all organizational units within the reporting entity.
- General ledger account balances were not reviewed before and after adjusting entries were recorded to determine what account balances may still need to be adjusted and whether the adjustments that were recorded were reasonable.

EFFECT

- There is an increased risk of material and pervasive misstatements of the balances reported on the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and the financial statement footnotes for each year in which accrued liabilities are not recorded in the general ledger or are recorded for incorrect amounts.

- Errors in the fiscal year-end financial statements and footnotes and other required reporting included:
    - Balance Sheet - Advances and Prepayments was overstated by $24,859.64; Accounts Payable was overstated by $599,191.00, and Net Position was overstated by $574,331.36.
    - Statement of Net Cost – Total Gross Costs, Net Program Costs, and Net Cost of Operations were overstated by $574,331.36
    - Statement of Changes in Net Position – Net Cost of Operations, Net Change in Cumulative Results of Operations, and Net Position were overstated by $574,331.26.
    - $24,859.64 overstatement of Undelivered Orders-Paid and $599,191.00 understatement of Undelivered Orders-Unpaid.

RECOMMENDATION

We recommend that:

- Commission management should enhance its written policies and procedures for the financial reporting process, including procedures to identify, prepare, and review year-end entries to the general ledger to ensure that all required entries been recorded in accordance with generally accepted accounting principles.

- The Chief Financial Officer or other Commission personnel knowledgeable in accounting and finance should independently verify the amounts estimated for accrued liabilities and examine the entries that have been recorded in the Commission's general ledger to ensure that the entries agree with the information the Commission has provided.
- Commission management should enhance its existing policies and procedures to provide a more thorough review of all accounting entries for year-end accruals to ensure that all accrued liabilities have been received from all sources and recorded in accordance with generally accepted accounting principles.
- At least twice per year, to coincide with the preparation and review of the third and fourth quarter financial statements, the Commission should track the status of each open obligation for which an advance payment was made in order to determine what amount, if any, should be recognized as an expense for that period and what amount should remain or be reclassified as an advance.
- At least twice per year, to coincide with the preparation and review of the third and fourth quarter financial statements, the Commission should ensure that all approved and paid invoices have been provided to the Commission's service provider and recorded in the agency's general ledger to reduce the advanced balance and recognize operating expenses. If the goods and/or services have been received but the billing process is incomplete as of the end of the reporting period, an accrual entry should be recorded.
- Amend the financial statement review checklist to include a review of balances relating to Advances and Prepayments to identify whether expected changes to the related balances have occurred.

MANAGEMENT RESPONSE

Management concurs with the condition and will consider the recommendation provided when determining if a corrective action plan should be developed once the audit concludes.

AUDITORS' RESPONSE

Follow up procedures will be performed during the FY 2023 audit to determine if corrective actions have been fully implemented.

Financial Statements and Footnotes Were Not Prepared in Accordance with Generally Accepted Accounting Principles and Federal Reporting Requirements (2022-03)

CONDITION

Corrective action relating to the preparation and review of the financial statements and footnotes is not appropriately designed and implemented to identify errors and omissions and ensure that the financial statements and footnotes are compliant with generally accepted accounting principles (GAAP) and other financial reporting requirements for the Federal Government.

During our review of the Commission's financial statements and footnotes for the interim reporting period ended June 30, 2022, we identified the following conditions:

- Line items in the Statement of Changes in Net Position were materially misstated and the beginning balances of Unexpended Appropriations and Cumulative Results of Operations were directly changed in error rather than reporting the adjustments through Corrections of Errors.
- The legal matters reported in Commitments and Contingencies footnote did not agree to the interim legal representation letter provided to the auditors in number, classification, or dollar amount. In addition, the possible range of loss was classified as "at least reasonably possible" rather than as a dollar amount, and the likelihood of loss (as "probable," "reasonably possible," or "remote") was either not provided or was inconsistent with other supporting information provided to the auditors.
- Balances and line items reported in Note 13 – Explanation of Differences Between the Statement of Budgetary Resources (SBR) and the Budget of the U.S. Government were not accurately reported:
    - The amount for Budgetary Resources per the President's Budget was reported as $11,000,000 in the Commission's schedule in error. The actual amount is $12,000,000 per the Budget Appendix.
    - Reconciling Difference #1 was incorrectly attributed to "Unobligated balance brought forward, October 1" in the amount of $562,695.13. The amount of the difference in Budgetary Resources between the SBR and the Budget of the U.S Government should have been attributed to rounding.
    - The reconciling differences reported in the schedule are presented using inconsistent or incorrect positive or negative dollar amounts, resulting in column totals that were not mathematically correct.
- The Commission used uncorrected current and prior year trial balances to prepare Note 14 – Reconciliation of Net Cost to Outlays, resulting in material errors to the Accounts Payable and Other Temporary Timing Differences lines in the reconciliation.
- Management's review and approval of the financial statements and footnotes was not documented.

CRITERIA

Treasury Financial Manual (TFM) Bulletin No, 2022-12 (June 2022) applies to "all federal government departments, agencies, and others concerned. Item 5, Part 1, Section V: Crosswalks to the Standard External Reports for FY 2022 GTAS Reporting of this Bulletin provides the FY 2022 reporting requirements for USSGL accounts that crosswalk to the following reports: Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Custodial Activity, Statement of Budgetary Resources, and SF 133: Report on Budget Execution and Budgetary Resources & Schedule P Budget Program and Financing Schedule."

OMB Circular A-136 (June 2022), Section I.1. Guide to the Circular states, "Throughout the Circular, the terms "must" and "will" denote a requirement that management must comply with in all cases; the term "should" denotes a presumptively mandatory requirement that applies except in circumstances where the requirement is not relevant for the agency; and "may" and "could" denote best practices that may be adopted at the discretion of management."

Statements of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government,* defines a contingency as "an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss. SFFAS No. 5 requires a liability to be recognized for loss contingencies when a past event or exchange transaction makes a future outflow of resources probable and measurable. It defines "probable" as that which can reasonably be expected or believed to be more likely than not on the basis of available evidence or logic but which is neither certain nor proven…. Contingencies can be "probable," "reasonably possible," or "remote;" and, based on that, are recognized on the balance sheet, disclosed in footnotes, or not mentioned in the financial statements, respectively. However, SFAS No. 5 defines "probable" as "likely to occur" instead of "more likely than not."

OMB Circular A-136 (June 2022), Section II.3.2.4. Liabilities. Commitments and Contingencies, states, "A contingent liability should be recorded when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable. Contingencies that do not meet any of the conditions for liability recognition, but for which there is at least a reasonable possibility that a loss or an additional loss may have been incurred, should be disclosed."

OMB Circular A-136 (June 2022), Section II.3.8.31. Explanation of Differences Between the SBR and the Budget the U.S. Government, states, "Agencies should explain material differences that exist between: 1. The budgetary resources, new obligation, upward adjustments (total), and net outlay amounts from the prior year and the actual amounts from "Detailed Budget Estimates by Agency" found in the *Appendix* of the Budget." (Note: For FY 2022 reporting purposes, this would apply to the FY 2021 SBR and FY 2021 amounts in the FY 2023 Budget)."

OMB Circular A-136 (June 2022), Section II.3.8.32. Note 32: Reconciliation of Net Cost to Net Outlays (Budget to Accrual Reconciliation) states, "Disclose a reconciliation of net cost to net outlays which is also known as the "Budget to Accrual Reconciliation") as required by SFFAS 7, as amended by SFFAS 53, Budget and Accrual Reconciliation, following the guidance in the Treasury Financial Manual (TFM)."

SFFAS No. 53, *Amendments to SFFAS 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting (SFFAS 7)*, paragraph 81 states, "The net cost of operations should be adjusted by:

a. components of net cost that are not part of net outlays (e.g., depreciation and amortization expenses of assets previously capitalized, change in asset/liabilities);
b. components of net outlays that are not part of net cost (e.g., acquisition of capital assets); and
c. other temporary timing differences (e.g., prior period adjustments due to correction of errors)."

The Government Accountability Office (GAO's) Standards for Internal Control in the Federal Government, Principle 10.01: Design Control Activities, states, "Management should design control activities to achieve objectives and respond to risks. The following attributes contribute to the design, implementation, and operating effectiveness of this principle:

- Response to Objectives and Risks
- Design of Appropriate Types of Control Activities
- Design of Control Activities at Various Levels
- Segregation of Duties."

CAUSE

- Uncorrected/unadjusted trial balances were used to prepare financial statements and footnotes. Financial reporting requirements in OMB Circular A-136 were interpreted to be optional rather than presumptively mandatory, as defined by the Circular;
- Information regarding contingent liabilities relating to legal matters is not provided to the preparer and reviewer of the financial statements and footnotes timely (i.e., prior to the end of the reporting period) so that entries can be recorded when needed and the footnote can be accurately prepared;
- The classifications and reporting requirements relating to commitments and contingencies and how this information should be presented in the footnote disclosure do not appear to be understood;
- Information received regarding contingent liabilities may not be clear, concise, and accurate and/or the completed footnote is not agreed to the legal representation letter when preparing the footnote;
- Balances and other information reported in the financial statements and footnotes were not agreed to the trial balance and other supporting schedules and was not verified for mathematical accuracy;
- Variances in the Explanation of Differences Between the SBR and the Budget of the U.S. Government were either not identified or were attributed to incorrect causes.
- Checklists, working papers, and other documentation to support management's review of the financial statements and footnotes were not prepared or retained.

EFFECT

- The Commission did not fulfill the interim financial reporting requirements, as required by OMB Circular A-136 for the third quarter of FY 2022.
- Material understatements of +/- $161,441 in the beginning balances of Unexpended Appropriations and Cumulative Results of Operations due to incorrect manual adjustments and material understatements of +/- $161,441 in Adjustments – Correction of Errors in the Statement of Changes in Net Position.
- The contingent liabilities footnote was internally inconsistent and incorrectly reported two matters as "at least reasonably possible" for which the likelihood of loss was "remote."
- Explanations provided in Note 11 – Explanation of Differences Between the SBR and the Budget of the U.S. Government were not complete or accurate, the reconciliation was not mathematically accurate, and the amount attributed to Budgetary Resources per the Budget of the U.S. Government was understated by $1 million.

- Material misstatements in Note 14 – Reconciliation of Net Cost to Net Outlays:
    - ($161,441) overstatement of the intra-governmental difference for Accounts Payable
    - ($161,441) understatement of Other Temporary Timing Differences.

RECOMMENDATION:

We recommend that Commission management:

- Verify that current Treasury and OMB financial reporting requirements and other authoritative guidance is obtained and followed during the preparation and review of the financial statements and footnotes, including all mandatory and presumptively mandatory provisions, as defined in those sources.
- Reconcile the trial balance to subsidiary or supplementary sources, such as the capitalized expenditure and accrued expense worksheets to the general ledger to validate the balances reported in the trial balance.
- Increase the precision of existing checklists and variance analysis tools so that changes from known and expected results can be detected and corrected.
- Request and obtain the legal representation letter from the Office of the General Counsel (OGC) or consult with the OGC prior to the close of the reporting period so that any required entries can be recorded and the Commitment and Contingencies footnote can be prepared and reviewed timely.
- Add the review of legal matters to the financial reporting checklist or other tracking system with other adjusting entries and reconciliations so that it becomes part of a routine process that is performed at the end of each quarter.
- Verify that the information included in the Commitment and Contingencies footnote is clear, concise, accurate, complete, and properly classified according to generally accepted accounting principles and federal reporting requirements and that all contingencies reported in the footnote exist as of the reporting date.
- Verify the mathematical accuracy of all statements and footnote schedules and agree all balances reported in the statements and footnotes to corrected trial balances.
- Prepare, sign and date, and retain a formal checklist or memorandum to document the review and approval process that includes all of the procedures that were performed by management to validate the completeness and accuracy of all required financial statements and footnotes.

MANAGEMENT RESPONSE

Management concurs with the condition and will consider the recommendation provided when determining if a corrective action plan should be developed once the audit concludes.

AUDITORS' RESPONSE

Follow up procedures will be performed during the FY 2023 audit to determine if corrective actions have been fully implemented.

Corrections for Known Errors and Misstatements Were Not Identified or Recorded in the General Ledger (2022-04)

CONDITION

Internal control over the preparation and review of adjusting entries is not appropriately designed and implemented to identify errors and omissions and ensure that the financial statements and footnotes are compliant with generally accepted accounting principles (GAAP) and other financial reporting requirements for the Federal Government.

During our review of the Commission's fiscal year (FY) 2022 beginning balances and June 30, 2022 financial statements, we noted that a $161,440.76 audit adjustment from FY 2021 to correct the ending balances of Construction in Progress, Accounts Payable, Unexpended Appropriations, Undelivered Orders-Unpaid, Delivered Orders-Unpaid, and Expended Appropriations was applied as an on-top adjustment for FY 2021 reporting. The Commission recorded a $655,486.18 worksheet adjustment during FY 2022 to record Construction in Progress through May 2022; however, an additional entry was not recorded to reclassify the $161,440.76 of Expended and Unexpended Appropriations Used that were already recognized during the prior year.

CRITERIA

Statements of Federal Financial Accounting Standards (SFFAS) 21, paragraph 10, states, "Errors in financial statements result from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared."

Office of Management and Budget (OMB) Circular A-136 (June 2022), section II.3.1. Instructions for the Annual Financial Statements, states, "Entities must use the same trial balance information submitted to the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) as the basis for the financial statements and notes."

The Government Accountability Office (GAO), *Standards for Internal Controls in the Federal Government*, (issued September 2014), Principle 10 – Design Control Activities, 10.03, Accurate and timely recording of transactions, states, "Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded."

The Government Accountability Office (GAO's) Standards for Internal Control in the Federal Government, Principle 10.01: Design Control Activities, states, "Management should design control activities to achieve objectives and respond to risks. The following attributes contribute to the design, implementation, and operating effectiveness of this principle:

- Response to Objectives and Risks
- Design of Appropriate Types of Control Activities
- Design of Control Activities at Various Levels
- Segregation of Duties."

CAUSE

- The Commission's control procedures to ensure that on-top adjustments from prior years are being recorded in the general ledger during the current fiscal year are not appropriately designed and implemented to ensure that the corrections are complete, accurate, and conform to generally accepted accounting principles.
- Incomplete knowledge of generally accepted accounting principles relating to the correction of errors and the presentation and disclosure of such errors in the financial statements and footnotes.
- The Commission's review of the prior and current year financial statements, trial balances, and variance analyses are not performed at an appropriate level of precision to identify errors and omissions.

EFFECT

- There is an increased risk of material and pervasive misstatements of the balances reported in the financial statements and related footnotes when prior year corrections are not recorded or are recorded incorrectly (i.e., the appropriate general ledger accounts required for error corrections are not used).
- We identified the following known misstatements (net) relating to the conditions listed above, as of June 30, 2022:

  Statement of Net Cost:

  - $161,441 understatement of Unexpended Appropriations - Cumulative
  - ($161,441) understatement of Unexpended Appropriations – Prior-Period Adjustments Due to Corrections of Errors
  - ($161,441) understatement of Cumulative Results of Operations (beginning balance)
  - $161,441 understatement of Expended Appropriations – Prior-Period Adjustments Due to Corrections of Errors

RECOMMENDATION

We recommend that Commission management should:

- Develop a procedure to identify and track all on-top adjustments, worksheet adjustments, and other corrections for prior year transactions that were processed during the prior fiscal year, evaluate their effects on current year balances, and record them timely (during the first quarter of the fiscal year) in the general ledger.
- Review the posting logic that was applied within Pegasys for each correcting entry and record reclassification journal entries in the general ledger using the appropriate general ledger accounts for the correction of errors, in accordance with generally accepted accounting principles.

MANAGEMENT RESPONSE

Management concurs with the condition and will consider the recommendation provided when determining if a corrective action plan should be developed once the audit concludes.

General Comments

The Commission in coordination with its financial shared service provider, completed the adjusting entry to correct the condition documented. The adjusting entry was forwarded to Allmond CPA on Aug 31, 2022.

AUDITORS' RESPONSE

Follow up procedures will be performed during the FY 2023 audit to determine if corrective actions have been fully implemented.

Personnel Actions Are Not Accurate, Timely, or Complete (2022-05)

CONDITION

The Commission's internal controls over the initiation and processing of personnel actions are not sufficiently designed to prevent, detect, or correct errors in employees' payroll records and do not meet documentation accuracy, completeness, and retention requirements.

During our interim review of fourteen (14) personnel actions that were processed during the period of October 1, 2021 through June 30, 2022, we identified the following conditions:

- 5 of 14 instances in which the Request for Personnel Action completed by Commission personnel (Standard Form (SF) 52) did not agree with the Notification of Personnel Action (SF-50) that was processed:
    - 2 instances in which the effective dates did not agree, and
    - 3 instances in which other required information did not agree.
- 10 of 14 instances in which the approver of the Notification of Personnel Action (SF-50) was invalid:
    - 6 instances in which the approver was the former Executive Director who separated from the agency during the previous fiscal year,
    - 3 instances in which the approver was an unrelated officer from another federal agency, and
    - 1 instance in which the approving official signature field was blank.

CRITERIA

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*, states "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination… All documentation and records should be properly managed and maintained."

Electronic Code of Federal Regulations, Title 5-Administrative Personnel, Chapter 1- Office of Personnel Management, Subchapter B-Civil Service regulations, Part 293-Personnel Records, Subpart A-Basic Policies on Maintaining Personnel records, Section 293.103. Recordkeeping Standards, states that:

> "(a) The head of each agency shall ensure that persons having access to or involved in the creation, development, processing, use, or maintenance of personnel records are informed of pertinent recordkeeping regulations and requirements of the Office of Personnel Management and the agency.
>
> (b) The Office is responsible for establishing minimum standards of accuracy, relevancy, necessity, timeliness, and completeness for personnel records it requires agencies to maintain."

U.S. Office of Personnel Management Operating Manual – The Guide to Personnel Recordkeeping, Update 13 June 1, 2011, Chapter 1: General Personnel Recordkeeping Policies, Electronic Records, states, "The purpose of the electronic Official Personnel Folder (e-OPF) and the paper Official Personnel Folder (OPF) is to document the employment history of individuals employed by the Federal Government. The electronic

Official Personnel Folder must be complete; that is, when combined with any other documents the agency chooses to retain in paper, or is required by law or regulation to be maintained in paper, it must contain all the information.

OPM requires that each agency ensures that electronic Official Personnel Folder systems:

- Be thoroughly documented.
- Be able to produce legible paper copies of all records.
- Have access controls to ensure a high level of security and confidentiality.
- Allow correction and removal of erroneous records under strict authorization controls.
- Include backup and disaster recovery procedures."

CAUSE

- The Commission does not have adequate control procedures in place to ensure that personnel actions are accurate and complete and that concise relevant information that supports the action is retained in the electronic Official Personnel Folder (e-OPF) in accordance with OPM requirements.
- When changes to Requests for Personnel Actions are needed, the form is not updated and approved prior to the processing of the personnel action in the system.
- Notifications of Personnel Actions (SF-50s) are not being reviewed for accuracy and completeness following the processing of the action.

EFFECT

- The Commission's documentation accuracy, completeness, and retention policies and procedures do not comply with OPM requirements.
- The failure to properly record and maintain employees' official personnel records increases the risk for misstatement in payroll expense and related liabilities.
- The potential effects of this issue include:
  - errors in employee pay amounts;
  - errors in the amounts withheld from employee pay and contributed by the agency for retirement, payroll taxes, and employee benefits;
  - payment to employees before their actual start dates or before their employment has been properly approved by the appointing official; and
  - increased level of effort by Commission and service provider personnel to process personnel actions, resolve questions and inaccuracies, or correct administrative errors.

RECOMMENDATION

We recommend that:

- The Commission should perform a thorough review of all personnel actions before they are approved by the appointing official and submitted to the service provider to ensure they are complete and accurate.

- If a change to the effective date or other modification is required, the Commission should complete a revised Request for Personnel Action form and verify that is dated and signed by the appointing official prior to the revised effective date.
- The Commission should retain clear, concise, and complete documentation to support all personnel actions in the employees' Official Personnel Folders.

MANAGEMENT RESPONSE

Management concurs with the condition and will consider the recommendation provided when determining if a corrective action plan should be developed once the audit concludes.

AUDITORS' RESPONSE

Follow up procedures will be performed during the FY 2023 audit to determine if corrective actions have been fully implemented.

Employee Benefits Election Forms Were Not Maintained in eOPF per OPM Requirements (2022-06)

CONDITION

The Commission's internal controls over the maintenance of employees' personnel records are not sufficiently designed to prevent, detect, or correct errors in employees' payroll records. During our interim review of 46 payroll transactions (39 employees) selected from the population of all employees who were paid during the period of October 1, 2021 through June 30, 2022, we identified the following conditions:

- Six (6) instances (5 employees) in which the Commission was not able to provide the correct Thrift Savings Plan (TSP) election forms for the pay periods selected.
- Two (2) instances (2 employees) in which the Commission was not able to provide the correct Federal Employees Health Benefits (FEHB) election forms for the pay periods selected.
- Five (5) instances (5 employees) in which the Commission was not able to provide the correct Federal Employees' Group Life Insurance (FEGLI) Program election form for the pay period selected.
- Within the thirteen (13) exceptions listed above, there were ten (10) instances in which the missing documentation was identified and reported to the Commission during the 2019 - 2021 audits and corrective action was not taken.

CRITERIA

The Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government, states "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination… All documentation and records should be properly managed and maintained."

Electronic Code of Federal Regulations, Title 5-Administrative Personnel, Chapter 1- Office of Personnel Management, Subchapter B-Civil Service regulations, Part 293-Personnel Records, Subpart A-Basic Policies on Maintaining Personnel records, Section 293.103. Recordkeeping Standards, states that:

> "(a) The head of each agency shall ensure that persons having access to or involved in the creation, development, processing, use, or maintenance of personnel records are informed of pertinent recordkeeping regulations and requirements of the Office of Personnel Management and the agency.
>
> (b) The Office is responsible for establishing minimum standards of accuracy, relevancy, necessity, timeliness, and completeness for personnel records it requires agencies to maintain."

U.S. Office of Personnel Management Operating Manual – The Guide to Personnel Recordkeeping, Update 13 June 1, 2011, Chapter 1: General Personnel Recordkeeping Policies, Electronic Records, states, "The purpose of the electronic Official Personnel Folder (e-OPF) and the paper Official Personnel Folder (OPF) is to document the employment history of individuals employed by the Federal Government. The electronic Official Personnel Folder must be complete; that is, when combined with any other documents the agency chooses to retain in paper, or is required by law or regulation to be maintained in paper, it must contain all the information."

OPM requires that each agency ensures that electronic Official Personnel Folder systems:
- Be thoroughly documented.
- Be able to produce legible paper copies of all records.
- Have access controls to ensure a high level of security and confidentiality.
- Allow correction and removal of erroneous records under strict authorization controls.
- Include backup and disaster recovery procedures."

CAUSE

- The Commission and its payroll and its personnel shared service provider do not have adequate control procedures in place to ensure that employees' benefit election forms are thoroughly and accurately documented in the electronic Official Personnel Folder (e-OPF) in accordance with OPM requirements.
- The Commission and its payroll and personnel shared service provider do not have adequate control procedures in place to ensure that employees' benefit election forms are updated in the electronic Official Personnel Folder (e-OPF) when employees change their benefit elections, whether using the designated forms or through an electronic employee portal.
- The corrective action plan that addresses the prior year recommendations for this finding and changes to the Commission's internal control activities were not properly designed and implemented to address the control objectives.

EFFECT

- The Commission's document availability and retention policies and procedures do not comply with OPM requirements.
- The failure to properly record and maintain employees' official personnel records increases the risk for misstatement in payroll expense and related liabilities; in addition, incorrect amounts could be withheld from employees pay.
- The full effects of the conditions listed above will be assessed when the year-end testing procedures have been completed. At interim, the potential effects of this issue include:
    - Potential non-compliance with 5 U.S. Code Chapter 84, Subchapter III – Thrift Savings Plan, 5 U.S. Code Chapter 89 – Health Insurance, and Title 5 of the Code of Federal Regulations, part 870 – Federal Employees' Group Life Insurance Program.
    - Potential misstatements of the financial statements and footnotes relating to payroll expenses and liabilities
- Incorrect health, life, and retirement benefits information in the eOPF can negatively affect employees in the event of a loss or claim and cause incorrect amounts to be withheld from their pay.

RECOMMENDATION

We recommend that:

- The Commission should perform routine reviews of employee benefit elections and Official Personnel Files (OPFs) to ensure they are complete and accurate and address this issue with its shared service provider to ensure that OPM guidance is appropriately followed with respect to the Commission's personnel records.

- The Commission should obtain replacement copies of missing records that have been identified and either provide these documents to the service provider so that the information can be maintained in the e-OPF or consider developing and implementing its own repository of documentation to ease the retrieval and response process.
- At the end of each pay period or at least monthly, the Commission should review reports of employee benefits election changes made through the employee self-service portal and retain the documentation for all changes in the employees' e-OPF.

MANAGEMENT RESPONSE

Management concurs with the condition and will consider the recommendation provided when determining if a corrective action plan should be developed once the audit concludes.

AUDITORS' RESPONSE

Follow up procedures will be performed during the FY 2023 audit to determine if corrective actions have been fully implemented.

Lack of Sufficient Internal Control over Financial Reporting Relating to Upward and Downward Adjustments of Prior Year Obligations (2022-07)

CONDITION

The U.S. AbilityOne Commission's (the Commission's) internal control over financial reporting lacks sufficient control procedures to ensure the reliability of its Undelivered and Delivered Orders balances and perform appropriate procedures to validate and correct balances relating to the Upward and Downward Adjustment of Prior Year Obligations.

We noted the following exceptions during our review of current and prior year obligations:

- Offsetting downward and upward adjustment entries totaling $32,412.58 that were due to cost transfers and the re-establishment of an obligation that had been de-obligated in error.
- A $23,402.06 overstatement of upward adjustments of prior year obligations that was caused by the use of a document number that was already in use for another vendor, causing a duplicate obligation to be created to facilitate the payment process.
- A $21,636.08 overstatement of upward adjustments of prior year obligations that was not corrected when the payments were transferred to another document number during the payment process.

CRITERIA

The Government Accountability Office (GAO), Standards for Internal Controls in the Federal Government, (issued September 2014), Principle 10 – Design of Appropriate Types of Control Activities, 10.03, Accurate and Timely Recording of Transactions, states, "Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded."

The Government Accountability Office (GAO's) Standards for Internal Control in the Federal Government, Principle 10.01: Design Control Activities, states, "Management should design control activities to achieve objectives and respond to risks. The following attributes contribute to the design, implementation, and operating effectiveness of this principle:

- Response to Objectives and Risks
- Design of Appropriate Types of Control Activities
- Design of Control Activities at Various Levels
- Segregation of Duties."

CAUSE

- The posting logic that is applied to reverse a downward adjustment is to record an upward adjustment, and vice versa, rather than reversing the transactions as they were originally recorded. This has the effect of increasing the balances of both accounts and/or creating upward and downward adjustment balances that should not have existed.

- The Commission does not appear to have policies and procedures in place to review the Undelivered and Delivered Orders balances in Pegasys and to make the necessary corrections to ensure that upward and downward adjustment balances are accurate and reflect the true economic substance of each transaction.

EFFECT

- The lack of financial reporting internal controls can lead to material misstatements to the financial statements and line items not being properly valued or classified in accordance with generally accepted accounting principles.
- If uncorrected, the Commission's Statement of Budgetary Resources will be misstated as follows:
  - Unobligated Balance from Prior Year Budget Authority, net and Total Budgetary Resources will be overstated by $32,412.58
  - New Obligations and Upward Adjustments and Total Status of Budgetary Resources will be overstated by $77,450.72
  - Expired Unobligated Balance, end of year will be understated by $45,038.14

RECOMMENDATION

We recommend that:

- Commission management should work with the service provider to identify, at least quarterly, upward adjustments that have been offset by downward adjustments in the general ledger so that manual adjustments can be recorded to properly state the ending balances of both accounts.
- Commission management should work with its service provider to design and implement policies and procedures which enhance the internal review process for upward and downward adjustment transactions and includes a reconciliation of the UDO balances with the supporting documentation to ensure that transactions have been recorded correctly.

MANAGEMENT RESPONSE

Management concurs with the condition and will consider the recommendation provided when determining if a corrective action plan should be developed once the audit concludes.

AUDITORS' RESPONSE

Follow up procedures will be performed during the FY 2023 audit to determine if corrective actions have been fully implemented.

Actual and Potential ADA Violations Relating to the Obligation of Expired Funds (2022-08)

CONDITION

The Commission verified that violations of the Antideficiency Act (ADA) occurred during fiscal years (FYs) 2019 and 2020, as follows:

FY 2019**:**

- Total obligations of $1,158, 704.35 were impermissibly charged to the Commission's FY 2018 and FY 2017 Treasury Account Symbols (TAS) which should have been recorded to the Commission's FY 2019 TAS.
- An over-obligation of $1,083,532.21 of the FY 2019 TAS would have resulted if the erroneous obligations had been charged against the correct TAS.
- To date, these violations have not been formally reported to the President and Congress.

FY 2020:

- Three new obligations totaling $40,885.52 were created in the agency's FY 2017, FY 2018, and FY 2019 Treasury Account Symbols (TAS) during FY 2020 during the payment process.
- Invalid upward adjustments to prior year obligations totaling $120,407.25 were recorded to the agency's FY 2018 TAS.
- Two manual journal vouchers totaling $43,965.00 were recorded to reclassify transactions from the FY 2020 TAS to the FY 2018 TAS for FY 2018 employee bonuses that were not obligated prior to 09/30/2018 and were to be paid during FY 2020.
- To date, these violations have not been formally reported to the President and Congress.

During the review of upward adjustments of prior year obligations that were recorded in the Commission's general ledger during FY 2022, we identified one transaction for $3,500 that was incorrectly assigned to the FY 2021 TAS, resulting in the recording of a potentially invalid upward adjustment of prior year obligations.

CRITERIA

31 United States Code (USC) §1502. Balances Available, section (a) states, "The balance of an appropriation or fund limited for obligation to a definite period is available only for payment of expenses properly incurred during the period of availability or to complete contracts properly made within that period of availability and obligated consistent with section 1501 of this title. However, the appropriation or fund is not available for expenditure for a period beyond the period otherwise authorized by law."

31 USC §1501. Documentary Evidence Requirement for Government Obligations, section (a) states, "An amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of—

(1) a binding agreement between an agency and another person (including an agency) that is—

(A) in writing, in a way and form, and for a purpose authorized by law; and

(B) executed before the end of the period of availability for obligation of the appropriation or fund used for specific goods to be delivered, real property to be bought or leased, or work or service to be provided."

31 U.S. Code §1517. Prohibited obligations and expenditures, states:
"(a) An officer or employee of the United States Government or of the District of Columbia government may not make or authorize an expenditure or obligation exceeding—

(1) an apportionment; or
(2) the amount permitted by regulations prescribed under section 1514(a) of this title.

(b) If an officer or employee of an executive agency or of the District of Columbia government violates subsection (a) of this section, the head of the executive agency or the Mayor of the District of Columbia, as the case may be, shall report immediately to the President and Congress all relevant facts and a statement of actions taken. A copy of each report shall also be transmitted to the Comptroller General on the same date the report is transmitted to the President and Congress."

CAUSE

- Existing controls were not sufficient to prevent or detect and correct new obligations or upward adjustments of prior year obligations that were recorded to prior year expired Treasury Account Symbols (TAS) during fiscal years (FY) 2019-2020 through the use of purchase orders, funding documents, transfer of payments during the posting process, and reclassifying journal vouchers.
- Management override of the agency's controls and circumvention of the service organization's system controls and posting models which provided alerts that current year funding should have been used.
- The financial system is not configured on the purchase order level to prevent payments which exceed the amounts that have already been obligated in the general ledger from being recorded. That is, when payments or reclassifications are processed, the obligated amount is automatically increased if the amount of the payment exceeds the total obligations recorded in the general ledger for the purchase order, resulting in the effective increase of the prior year obligated amounts.
- Existing controls are not sufficient to prevent or detect entries to the general ledger that do not agree with source documentation (i.e., purchase orders, contract modifications, vendor invoices, and payment transfers).

EFFECT

- The Commission has not yet fulfilled its reporting obligations under 31 USC §1517(b) for the ADA violations that were verified for FY 2019 and 2020.
- $3,500 overstatement of Upward Adjustments of Prior Year Obligations-Paid in TAS 2021.
- $3,500 understatement of Delivered Orders-Paid in TAS 2022.

RECOMMENDATION

We recommend that Commission management:

- Fulfill the requirements of 31 USC §1517(b) by reporting the FY 2019 and FY 2020 violations to the President, Congress, and the Comptroller General of the United States.
- Perform a legal review of all transactions for which the assignment of a prior budget year is contemplated.

MANAGEMENT RESPONSE

Management does not concur with the Notification of Finding and Recommendation and provided further detail supporting our position in the space provided below or as an attachment to this document.

General Comments

Management non-concurs with the NFR as written to include a new potential ADA for $3,500. In accordance with OMB A-11 sec 20 (page 17), Federal agencies are authorized to execute adjustments to expired year funds when there is no legal exception to the adjustment. After further review of the data submitted by the Office of Inspector General related to the transaction mentioned in the NFR, there is legal precedent that supports the $3,500 adjustment in FY 2021. The legal opinions were provided to Allmond CPA in prior audits for your review.

AUDITORS' RESPONSE

We reviewed the legal opinions provided by management and noted that the facts and circumstances that they address appear to relate to prior year purchase orders that were documented in writing prior to the expiration of funds, but were not recorded in the general ledger during those fiscal years. Under those circumstances, we agree that upward adjustment of prior year obligations would be permitted. For the $3,500 transaction included in this finding, the purchase order was not executed in writing during FY 2021; the agreement was signed in March 2022, after the FY 2021 funding had expired. For this reason, we believe the Commission should investigate the transaction to determine if a violation has occurred.

The following table provides the fiscal year (FY) 2022 status of all recommendations included in the Independent Auditors' Report on the Commission's FY 2021 Financial Statements (November 15, 2021).

Prior Year Finding	Prior Year Recommendation	FY 2022 Status
Year-End Accrued Liabilities Not Estimated or Accurately Recorded (2019-02, 2020-02, 2020-05, 2021-04)	**Recommendations:** Improve controls relating to the estimation and recording of accrued liabilities. Specifically, we recommended that Commission management should:	
	1. Develop a procedure to review disbursements made early in the subsequent reporting period to identify items which should be included in its year-end accounts payable or develop an alternative procedure which appropriately estimates the amount of these liabilities at year-end.	Open
	2. Independently verify the amounts recorded for accrued liabilities by its shared service provider or participate in the calculation of the recorded amounts.	Open
	3. Develop written policies and procedures for the financial reporting process, including procedures to identify and perform (or assist its service provider in preparing) year-end entries to the general ledger that are required by generally accepted accounting principles;	Partially Closed
	4. Develop written policies and procedures which define the roles and responsibilities of the service provider and Commission staff in performing financial reporting functions	Closed
	5. The Chief Financial Officer or other Commission personnel knowledgeable in accounting and finance should independently verify the amounts recorded for accrued liabilities by its shared service provider and examine the entries that the service provider has recorded in its general ledger.	Open

	6. Enhance its existing policies and procedures to require a more thorough review of its year-end accounting entries to ensure that all required information pertaining to accrued liabilities has been received from all sources and has been recorded in the general ledger in accordance with generally accepted accounting principles.	Open
Financial Statements and Footnotes Were Not Prepared in Accordance with Generally Accepted Accounting Principles and OMB Circular A-136 (2019-01, 2020-01, 2021-02)	Improve the accuracy and completeness of the agency's financial statements and footnotes in accordance with U.S. GAAP and OMB Circular A-136 reporting requirements for the federal government. Specifically, we recommended that Commission management should:	
	1. Continue to gain knowledge of OMB Circular A-136 and other authoritative guidance relating to financial reporting requirements to better oversee the performance of the Commission's shared service provider and to ensure that the Commission's reporting requirements are being fulfilled, including those relating to the submission of interim financial statements and footnotes and the proper recording and reporting of loss contingencies.	Open
	2. Advise the service provider that outdated/superseded guidance was used in the preparation of its financial statements and footnotes so that this issue can be addressed by the service provider in the future.	Closed
	3. Request that the service provider enhance its current review procedures to identify errors and omissions in the required financial statements and footnotes and to ensure that all required presentation and disclosure requirements have been met.	Open
	4. In accordance with generally accepted accounting principles (GAAP), ask the Commission's General Counsel to identify loss contingencies relating to legal matters that should be recorded in the agency's general ledger and/or disclosed in the notes to the financial statements and instruct the service provider to record these entries and/or disclose these amounts, as appropriate.	Open
		Open

	5. Continue to implement management's corrective action plan, including the filling of vacant positions. 6. Verify that current Treasury and OMB financial reporting requirements and other authoritative guidance is obtained and followed during the preparation and review of the financial statements and footnotes, including all mandatory and presumptively mandatory provisions, as defined in those sources; 7. Reconcile the trial balance to subsidiary or supplementary sources, such as the capitalized expenditure and accrued expense worksheets to the general ledger to validate the balances reported in the trial balance; 8. Increase the precision of existing checklists and variance analysis tools so that changes from known and expected results can be detected and corrected; 9. Request and obtain the legal representation letter from the Office of the General Counsel (OGC) or consult with the OGC prior to the close of the reporting period so that any required entries can be recorded and the Commitment and Contingencies footnote can be prepared and reviewed timely. 10. Verify that the information included in the Commitment and Contingencies footnote is clear, concise, accurate, complete, and properly classified according to generally accepted accounting principles and federal reporting requirements and that all contingencies reported in the footnote exist as of the reporting date.	Open Open Open Open Open
Corrections for Known Errors and Misstatements Were Not Identified or Recorded in the General Ledger (2021-01)	Record entries needed to correct prior year transactions and balances timely and accurately in the agency's general ledger. Specifically, we recommended that Commission management should: 1. Develop a procedure to identify and track all on-top adjustments, worksheet adjustments, and other corrections for prior year transactions that were processed during the prior fiscal year, evaluate their effects on current year balances and record them timely (during the first quarter of the fiscal year) in the general ledger.	Open

	2. Review the posting logic that was applied within Pegasys for each correcting entry and record reclassification journal entries in the general ledger using the appropriate general ledger accounts for the correction of errors, in accordance with generally accepted accounting principles. 3. Develop a procedure to validate the agency's beginning balances that are rolled forward from the prior year to ensure that valid balances are not eliminated either before or during the closing process.	Open Open
Employee Benefits Election Forms Not Maintained in eOPF per OPM Requirements (2019-04, 2020-03, 2021-05)	Improve internal controls over the retention and maintenance of employees' personnel records. Specifically, we recommended that Commission management should: 1. Perform routine reviews of employee benefit elections and Official Personnel Files (OPFs) to ensure they are complete and accurate and address this issue with its shared service provider to ensure that OPM guidance is appropriately followed with respect to the Commission's personnel records. 2. Obtain replacement copies of missing records that have been identified and either provide these documents to the service provider so that the information can be maintained in the e-OPF or consider developing and implementing its own repository of documentation to ease the retrieval and response process. 3. Continue to implement the actions identified in its corrective action plan relating to employee payroll and benefits. 4. At the end each pay period or at least monthly, review reports of employee benefit election changes made the employee self-service portal and retain the documentation for all changes in the employees' electronic Official Personnel Folder (eOPF).	Open Open Open Open
Improvements Needed in Internal Control Relating to Property	Develop and document a process to prevent the misstatement of assets, operating expenses, and other balances relating to the acquisition and disposal of capitalized assets.	

Additions, Disposals, and the Recognition of Construction in Progress (2021-03)	Specifically, we recommended that Commission management should: 1. Correct and then regularly update a detailed listing of the assets that are reported in the agency's trial balance and financial statements to enable the agency to verify the capitalized property balances reported in the agency's financial statements are correct and are reported in accordance with generally accepted accounting principles.	Closed
	2. Regularly assess all capitalized property for assets that are no longer in service or to which the agency no longer has legal rights and ensure that these items are removed timely and proactively by Commission management.	Closed
	3. Accumulate all expenditures for the leasehold improvements for its new lease, report them as construction in progress, and adjust the balance at the end of each reporting period to reflect the work completed until the project is completed.	Closed
	4. Ensure that the date of service is entered into the Pegasys property module so that depreciation is properly calculated and recorded for all capitalized assets.	Closed
	5. Update its financial reporting policies and procedures to include the recording of new capitalized purchases, disposals of capitalized property, and depreciation/amortization in accordance with generally accepted accounting principles.	Closed
Potential ADA Violation Relating to the Obligation of Expired Funds (2019-06, 2020-06)	Complete the reporting process for Antideficiency Act violations that were verified during FY 2020. Specifically, we recommended that Commission management should: 1. Fulfill the requirements of 31 USC §1517(b) by reporting the FY 2019 and FY 2020 violations to the President, Congress, and the Comptroller General of the United States.	Open