



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

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SUBJECT: MANAGEMENT ALERT: Lack of Management Action on Enterprise Risk  
Management and Internal Control Enters Critical Stage (OIG 20-05)

## INTRODUCTION

The Office of Inspector General is issuing this management alert to the U.S. AbilityOne Commission (Commission) as notice that the Agency's ability to mitigate risk in its programs and operations remains inadequate. Senior Agency staff has failed to address internal controls, and noncompliance with Office of Management and Budget (OMB) revised Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, persists.

Enterprise Risk Management (ERM) comprises the culture, capabilities, and practices, integrated with strategy-setting and performance, that organizations rely on to identify, assess, and manage risks.<sup>1</sup> It provides an enterprise wide, strategically-aligned portfolio view of organizational challenges that leads to better insight to effectively prioritize resource allocations to mitigate risks to achieve goals and objectives. OMB A-123 underscores the importance of coordinating ERM activities with the strategic planning and review process and internal controls required by the Federal Managers' Financial Integrity Act (FMFIA) and Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government (GAO Standards).<sup>2</sup>

<sup>1</sup> Committee of Sponsoring Organizations of the Treadway Commission: Enterprise Risk Management—Integrating with Strategy and Performance (2017).

<sup>2</sup> OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control (July 15, 2016).



Strong leadership at the top of the organization, including defining the desired organizational culture, demonstrating commitment to core values and active participation in oversight, is important for achieving success in an ERM program.<sup>3</sup> However, the strong “tone-at-the-top” needed to provide active oversight and implement an ERM framework successfully has not been provided by the Executive Director.<sup>4</sup> Consequently, the Commission has failed to comply with OMB guidelines and has made virtually no progress implementing an ERM framework, which—when properly implemented—is instrumental in mitigating risk, improving organizational resiliency, and preventing and detecting occurrences of fraud in the AbilityOne program (The Program).

## BACKGROUND

In 1938, Congress established the Committee on Purchases of Blind-Made Products under the Wagner-O’Day Act to create employment opportunities for the blind. In 1971, Congress expanded the Program under the Javits-Wagner-O’Day Act to employ people with other severe disabilities and provide services (in addition to products) to federal customers. The name of the Program changed in 2006, and it is now known as the “AbilityOne program” and the independent federal entity that oversees it is known as the “AbilityOne Commission.”

The Commission employs about 32 full-time employees in the administration of the Program with assistance from two Central Nonprofit Agencies (CNAs): National Industries for the Blind and SourceAmerica. A third CNA American Foundation for the Blind was recently designated as a CNA. The Program is a source of employment for approximately 45,000 people who are blind or have other significant disabilities through contracts—valued at nearly \$3.6 billion—between more than 500 NPAs and federal agencies across all fifty states, the District of Columbia, and the U.S. territories. The Commission is ultimately responsible for the administration of the \$3.6 billion worth of contracts between the NPAs and the federal government. Given the complex and decentralized nature of its operation and the high dollar value involved, the Program is inherently risky.

In July 2016, OMB issued an update to Circular A-123 mandating federal agencies to implement ERM procedures so executives can ensure the achievement of the agency’s strategic objectives. The circular provides guidance to agencies on how to integrate organizational performance and ERM to produce an “enterprise-wide, strategically-aligned portfolio view of organizational challenges that provides better insight about how to most effectively prioritize resource allocations to ensure successful mission delivery.”<sup>5</sup> Circular A-123 specifies that each year agencies must

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<sup>3</sup> Committee of Sponsoring Organizations of the Treadway Commission: Enterprise Risk Management—Integrating with Strategy and Performance (2017) at 10.

<sup>4</sup> OIG first reported the lack of ERM as top management challenge in its 2017 Top Management and Challenges Report; <https://www.oversight.gov/report/cppbsd/top-management-and-performance-challenges> at 7.

<sup>5</sup> See OMB Circular No. A-123 at 9.



develop and maintain a risk profile coordinated with their annual strategic reviews. Risk profiles identify risks arising from mission and mission support operations. Their primary purpose is to provide a thoughtful analysis of the risks an Agency faces toward achieving its strategic objectives arising from its activities and operations, and to identify appropriate options (i.e. risk responses) for addressing significant risks. Risk responses take many forms, including the reduction of risk through implementation of outstanding audit recommendations.

Each year since 2017, the OIG has reported the lack of an ERM program as a serious management challenge. In our 2019 Top Management and Performance Challenges Report, the OIG indicated that the Commission has 1) made virtually no progress in addressing the challenge of not having a present, functioning, and compliant ERM framework and 2) failed to prepare a risk profile document as required by OMB guidance, or make progress toward achieving this goal.<sup>6</sup> In addition, audit reports issued by independent public accounting firms (IPAs) engaged by the OIG identified significant weaknesses in internal controls over operations, financial reporting, and information security. The recommendations provided in these audit reports remain open.<sup>7</sup> OIG will consider these recommendations “closed” once we’ve verified that corrective actions<sup>8</sup> were timely, effective, and adequate.

## DISCUSSION

The establishment of robust and integrated systems of internal control and ERM contributes to overall organizational success. Both frameworks facilitate and support governance processes when implemented effectively, and foster the achievement of strategic objectives and optimize value. A significant part of these integrated frameworks is the implementation of audit recommendations. OMB Circular A-123 emphasizes the importance of recommendation implementation. Specifically, the Circular states “Management has a responsibility to complete action, in a timely manner, on audit recommendations on which agreement with the OIG has been reached.”<sup>9</sup> Moreover, deficiencies that have been identified and not corrected timely are an indicator of the strength of an agency's internal control environment and leaves risks—that may affect the Commission’s ability to achieve its strategic objectives—unmitigated.

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<sup>6</sup> <https://www.oversight.gov/report/cppbsd/top-management-and-performance-challenges-report-0>

<sup>7</sup> In addition, the House Committee on Appropriations in reports accompanying AbilityOne’s FY2020 and FY2021 appropriations bills stated that “oversight is necessary to ensure the program is operating in accordance with statutory requirements that blind or other severely disabled individuals provide at least 75 percent of hours of direct labor required for the production or provision of the products or services to Federal government agencies.” STAFF OF H. COMM. ON APPROPRIATIONS, 116th Cong. REP. ON DEPARTMENTS OF LABOR, HEALTH AND HUMAN SERVICES, AND EDUCATION, AND RELATED AGENCIES APPROPRIATIONS BILL, 2021 at 285 (Comm. Print 2020) (submitted by Rep. DeLauro on behalf of the House Comm. on Appropriations); H.R. REP NO. 116-62, at 223 (2019).

<sup>8</sup> Corrective actions are “Measures taken to implement resolved audit findings and recommendations.” See OMB Circular No. A-50 Revised, “Audit Followup” (September 29, 1982).

<sup>9</sup> OMB Circular No. A-50 Revised.



As of July 16<sup>th</sup>, 2020, 33 audit recommendations—made in four OIG reports remain open, with 26 of those recommendations ranging from approximately one month to more than six months overdue.<sup>10</sup> Table 1 lists the Commission entity or Audit Follow-up Office (AFO) that is responsible for implementing the recommendations, the corresponding report number, the report name, the number of recommendations, the audit report date and target implementation date, and the number of days open/overdue. Brief summaries of the OIG reports with overdue recommendations are provided below.<sup>11</sup>

**Table 1: OIG Audit Recommendations Analysis**

Audit Follow-Up Office	Report Number	Report Short Name	Report Date	Number of Recommendations <sup>a</sup>	Target Implementation Date	Days Open <sup>b</sup>	Days Overdue <sup>c</sup>
Office of Information Technology	20-01	FISMA	11/21/2019	2	12/31/2019	238	198
Office of Information Technology	20-01	FISMA	11/21/2019	1	3/31/2020	238	107
Office of Contracting & Policy	20-02	Financial Statement Audit	12/13/2019	18	6/10/2020	216	36
Executive Director	20-03	Program Fee	12/20/2019	3	3/31/2020	209	107
Executive Director	20-03	Program Fee	12/20/2019	2	6/17/2020	209	29
Program Management Office	20-04	Cooperative Agreement Audit	4/8/2020	4	10/5/2020	99	0
Program Management Office	20-04	Cooperative Agreement Audit	4/8/2020	3	9/30/2021	99	0
<b>Total</b>				<b>33</b>			

<sup>a</sup>The six challenge areas identified in the 2019 Top Management and Performance Challenges are not included in this table

<sup>b</sup>Days Open = Report Date - Management Alert "As of" Date

<sup>c</sup>Days Overdue = Target Implementation Date - Management Alert "As of" Date

**Source: Generated by the OIG using audit report data compiled as of July 16<sup>th</sup> 2020**

<sup>10</sup> A recommendation is considered “overdue” if OIG has not received and verified documentation that supports effective and adequate implementation of the recommendation occurred prior to the recommendation’s target implementation date.

<sup>11</sup> Cooperative Agreement Audit Recommendations are open but have not been included in this report since they have not exceeded their target implementation date.



*Evaluation of the U.S. AbilityOne Commission's Compliance with the Federal Information Security Modernization Act, Report No. 20-01*<sup>12</sup>

The OIG contracted with McConnell & Jones LLP to assess the effectiveness of the Commission's information security and privacy program as of September 30<sup>th</sup>, 2019. The evaluation:

- focused on the Commission's General Support System (GSS) and related information security policies, procedures, standards, and guidelines and
- assessed the Commission's maturity level across key areas and its compliance using the evaluation guide developed by the Council of the Inspectors General on Integrity and Efficiency (CIGIE).

The overall assessment of the Commission's FY 2019 information security program was deemed not effective because the tested, calculated, and assessed maturity levels across the functional and domain areas received an overall rating at Level 3— Consistently Implemented.<sup>13</sup> The findings from the evaluation demonstrated that improvements are needed with respect to continuous monitoring and information system and communication. The report provided three recommendations.

*Audit of the U.S. AbilityOne Commission's Financial Statements for Fiscal Year 2019, Report No. 20-02*<sup>14</sup>

The OIG contracted with Allmond & Company to audit the Commission's financial statements and related footnotes as of September 30, 2019. The audit resulted in an adverse opinion due to significant departures from generally accepted accounting principles (GAAP) and federal reporting requirements, including material misstatements and omissions in the Commission's financial statements and footnotes. The misstatements and omissions were material and pervasive, and included the failure to record accounts payable accrual and accurately record other accrued liabilities, which materially misstated the Commission's beginning and ending balances, and the omission of uncorrected errors in required footnotes.

As a result, Allmond & Company determined the Commission's financial statements were not presented fairly, in all material respect, as of September 30, 2019, nor were they in accordance with GAAP. Allmond & Company's report includes two material weaknesses and two significant deficiencies related to the Commission's internal control over financial reporting. In addition, there

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<sup>12</sup> <https://www.oversight.gov/report/cppbsd/evaluation-us-abilityone-commissions-compliance-fisma-fy-2019>

<sup>13</sup> According to the Federal Information Security Modernization Act of 2014 (FISMA) Reporting Metrics Version 1.3, Level 3 consistently implemented means, "Policies, procedures, and strategies are consistently implemented, but quantitative and qualitative effectiveness measures are lacking."

<sup>14</sup> <https://www.oversight.gov/report/cppbsd/audit-us-abilityone-commissions-financial-statements-fiscal-years-2019>



are two findings related to noncompliance with certain provisions of applicable laws and regulations. The report provided 18 recommendations.<sup>15</sup>

The Commission concurred with all 18 recommendations, including the findings regarding the obligation of expired funds, and indicated that it had requested the USDA to conduct an internal review/investigation into the “root cause of the violation.”<sup>16</sup>

### *Performance Audit Report of the AbilityOne Program Fee, Report No. 20-03<sup>17</sup>*

The OIG contracted with CliftonLarsonAllen LLP to perform an audit of the history and function of the Program Fee, and to determine whether effective and transparent criteria exists with the Program Fee. The auditors concluded that:

- The Commission did not provide effective and transparent criteria related to the Program Fee; and
- the administration of the fee does not have a designated Commission office or equivalent to allow for proactive management of the fee determination and to facilitate informed, data-driven decision making.

The report provided five recommendations.

### *Concerns of Program-Wide Fraud as a Risk Area*

Implementation of risk and control systems within the Agency’s compliance programs will achieve the Commission’s identified need to strengthen the compliance and cooperative agreement programs and ensure a better understanding of whether there is widespread certification fraud of disabled and blind workers. The lack of a system categorizing and addressing risk aggravates the Commission’s vulnerability. Over the past three years the OIG has illustrated a number of basic steps for the Commission that include establishing a system of internal controls and risk management that are required by OMB. The Commission should execute work in the implementation of a risk management program and, at a minimum, develop a risk-based approach.

## CONCLUSION

Management has failed to address internal controls, and there is continued noncompliance with Office of Management and Budget (OMB) revised Circular A-123, *Management’s Responsibility*

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<sup>15</sup> Allmond & Company will be testing implementation of the recommendations made during the FY18 audit during work performed in 2019.

<sup>16</sup> U.S. AbilityOne Commission FY19 Financial Statement Audit Response to Findings, 6. NFR-2019-06. The Commission ultimately employed the services of GSA to conduct an investigation into ADA violations.

<sup>17</sup> <https://www.oversight.gov/report/cppbsd/performance-audit-abilityone-program-fee>



*for Enterprise Risk Management and Internal Control.* The establishment of an ERM program, together with timely implementation of audit recommendations, indicates sound governance and risk management and is vital to the achievement of organizational goals and objectives. However, the lack of progress by the Commission in implementing an ERM framework coupled with open audit recommendations leaves the Commission vulnerable to fraud and mismanagement of resources, and diminishes reasonable assurance that the AbilityOne program is being managed and administered efficiently, effectively, and in compliance with applicable laws and regulations. Properly implementing an ERM framework is instrumental in mitigating risk, improving organizational resiliency, and preventing and detecting occurrences of fraud in the Program.

CC: Kelvin Wood  
Chief of Staff

