




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

December 6, 2020

TO: U.S. AbilityOne Commission

FROM: Thomas K. Lehrich
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SUBJECT: MANAGEMENT ALERT: Persistent Deficiencies and Mismanagement of Agency Programs Hamper AbilityOne's Future

INTRODUCTION

The Office of Inspector General (OIG) is issuing this management alert to the U.S. AbilityOne Commission (Commission) to provide information of continuous mismanagement that is hampering the future of the AbilityOne program (the Program). On October 22, 2020, we provided the Commission with a transition memorandum and analysis of present issues facing the Commission concerning deficiencies, and other serious problems. The transition memorandum synthesized the content of reports on the AbilityOne Commission and Programs conducted by the Government Accountability Office (GAO), the 898 Panel, and independent public accounting firms (IPAs) engaged by the OIG. About a month after our transition memorandum to the Commission, the issued audit report of the independent audit of the Commission's FY2020 financial statements established a clean opinion with significant findings stemming from accounting errors and lack of sufficient controls over financial reporting, and provided 25 recommendations.¹

Based on the OIG analysis of the reports, the majority of management issues surrounding the Commission's operations can be traced to gaps in two of five internal control components,² specifically the control environment which is the foundation for all other components of internal control, providing discipline and structure, and the control activities which are the policies and procedures that help ensure that management directives are carried out.

¹ AbilityOne Office of Inspector General, *U.S. AbilityOne Commission Final Audit Report* (November 16, 2020) (<https://www.oversight.gov/report/cppbsd/audit-us-abilityone-commission%E2%80%99s-financial-statements-fiscal-year-2020>).

² We focused on the internal control components of Control environment and Control activities, which were related to 65 percent of the compiled issues. The other three components, specifically Monitoring (16 percent), Risk Assessment (10 percent), and Information and Communication (9 percent) were not discussed in this memo. See *Standards for Internal Control in the Federal Government* (GAO-14-704G) (<https://www.gao.gov/assets/670/665712.pdf>).

The severity of the shortfalls identified in these reports has increased as the Commission has failed to address them, dating back to at least 2013, when GAO issued its first comprehensive review of the Commission.³ The reports we analyzed provide specific recommendations that would enhance efficiency and confidence in the Agency, reduce identified deficiencies, and foster program growth. The reports show a consistent failure by Commission senior staff to resolve persistent problems in the management and administration of the Program, in part because the senior staff have not consistently incorporated the requirements and key practices identified during the course of the audits. Matters which were also reiterated in semiannual reports to Congress.

Due to the serious and continuous management breakdowns discussed in this alert, immediate action is needed to ensure the AbilityOne Program realizes its strategic objectives as well as achieving its full growth potential. Immediate action is needed to address the ineffective stewardship by senior staff. Establishing a sound organizational structure will enable the AbilityOne Program to achieve its strategic objectives and realize its potential.

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 “U.S. AbilityOne Commission.”

The Commission administers the Program with assistance from two Central Nonprofit Agencies (CNAs): National Industries for the Blind (NIB) and SourceAmerica. A third nonprofit, that the Commission in 2018 designated as a CNA, the American Foundation for the Blind (AFB), recently ended its status as an AbilityOne CNA after it decided not to pursue the future phases that would provide employment to people who are blind or have significant disabilities.

The Program is a source of employment through contracts with federal agencies—valued at nearly \$4 billion annually—for approximately 45,000 people who are blind or have other significant disabilities who are employed by 500 Non Profit Agencies (NPAs) across all fifty states, the District of Columbia, and the U.S. territories. The Commission is ultimately responsible for the administration of the \$4 billion worth annually of contracts between the NPAs and the federal government. Given the complex and decentralized nature of its operations and the high dollar value involved, the Program is inherently risky.

Starting in 2017 with its report top management report and semiannual reports to Congress, OIG

³ GAO Report: Enhanced Oversight of the AbilityOne Program Needed (GAO-13-457) (May 30, 2013) (<https://www.gao.gov/assets/660/654946.pdf>).

identified several management and performance challenges the Commission faced. In addition, beginning with its first report in 2018, the 898 Panel⁴ (Panel) provided two comprehensive annual reports, highlighting the Panel's activities, findings, and recommendations with regard to the overall effectiveness of the Program and internal controls related to DoD contracts.

The OIG analyzed these reports, extracting and grouping 110 managerial breakdowns, categorizing the breakdowns based on relevant internal control standards, and assessing them against widely accepted criteria for good governance. Upon review, the reports show a consistent failure by Commission senior staff to resolve persistent management problems, in part because the senior staff have not consistently incorporated the requirements and key practices identified during the course of the audits. Matters which were also reiterated in semiannual reports to Congress. Additionally, the Commission senior staff have failed to sufficiently address issues highlighted annually as top management challenges.⁵

DISCUSSION

Upon analyzing the reports available, the data demonstrate insufficient or ineffective management to establish and maintain an effective system of internal control to promote reliable financial reporting, effectiveness and efficiency in operations, and compliance with applicable laws and regulations. The resulting weaknesses discussed in these reports exposed the Commission to waste, fraud, and mismanagement. The reports demonstrate that basic controls are not clearly and consistently incorporated into Commission policies and procedures and, in some cases, the written policies were nonexistent or ambiguous and contributed to improper transactions (e.g., Antideficiency Act violations), breakdowns in operations and financial accounting, negative key performance indicators, and an inability to identify, anticipate, manage, and respond to program risks.

Based on the OIG analysis of these reports, the management issues at the heart of the Commission's operations can be attributed to gaps in two of five internal control components,⁶ namely the control environment which is the foundation for all other internal control components, providing discipline and structure, and the control activities, which are the policies and procedures that help ensure management directives are carried out.

⁴ Section 898 of the National Defense Authorization Act for Fiscal Year 2017 (Public Law 114-328), directs the Secretary of Defense to establish the "Panel on Department of Defense and AbilityOne Contracting Oversight, Accountability and Integrity" of senior level representatives from Department of Defense agencies, the U.S. AbilityOne Commission, and other organizations as specified in the legislation. The overall mission of the Panel is to address the effectiveness and internal controls of the AbilityOne Program related to DoD contracts (https://www.acq.osd.mil/dpap/cpic/cp/panel_on_dod_and_abilityone_contracting_oversight.html).

⁵ Top Management and Performance Challenges Reports 2017–2020 (available [hyperlinked here](#)).

⁶The audit focused on the internal control components of Control environment and Control activities which were related to 65 percent of the compiled issues. The other three components, specifically Monitoring (16 percent), Risk Assessment (10 percent), and Information and Communication (9 percent) were not discussed in this memo. See *Standards for Internal Control in the Federal Government* (GAO-14-704G) (<https://www.gao.gov/assets/670/665712.pdf>).

Analysis of Published Reports

OIG performed extensive analysis of 19 published reports within the most recent seven years to identify and compile the recurring managerial breakdowns observed. We assessed the nature of the breakdowns to categorize them into one of the five internal control components (see Figure 1) which would allow us to assess the breakdowns against the fundamental principles underpinning these control components. We identified which principles under the corresponding internal control standard were not present and functioning appropriately, and we tracked how many times the issues occurred. Upon our review of the reports, we identified and extracted 110 separate issues that, over the course of seven years, have significantly degraded the Commission’s ability to mitigate risks and carry out program objectives efficiently, effectively, transparently, and in compliance with laws and regulations.

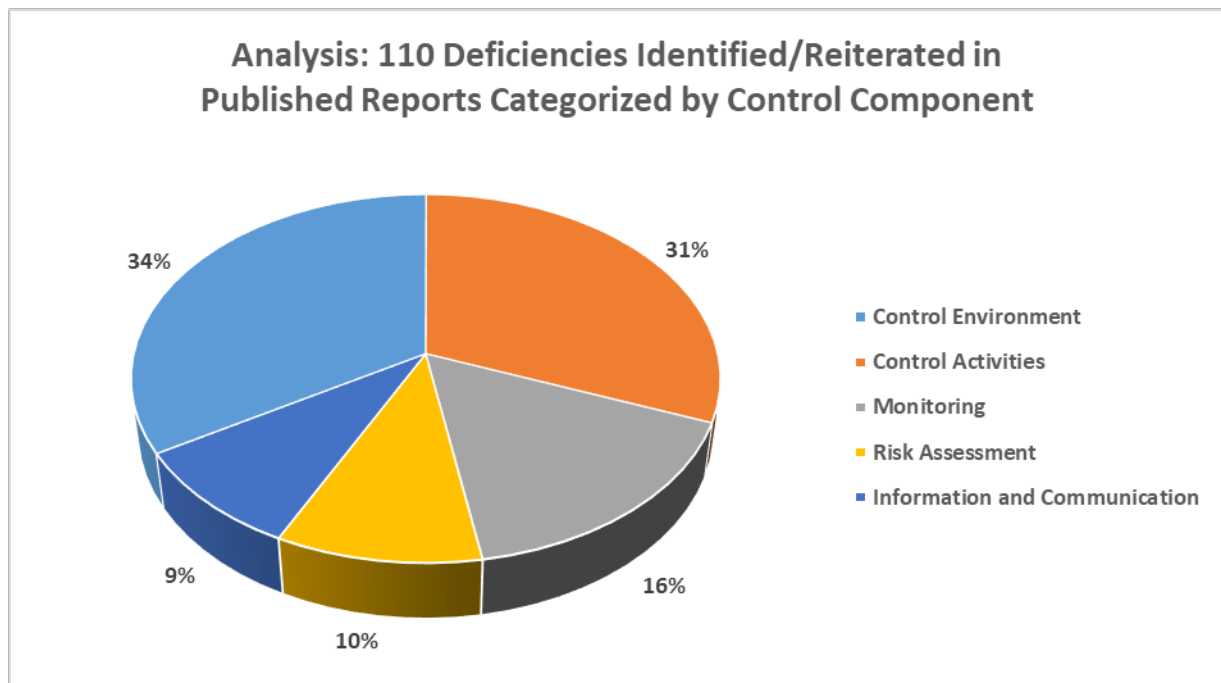


Figure 1: OIG Analysis of 19 reports

Weaknesses in the Commission’s Ability to Provide Stewardship, Build a Competent Workforce, and Establish a Sound Organizational Structure

Of the 110 issues identified, OIG determined that 37 (34%) were related to the control environment component of internal control. The control environment is the foundation for the Commission’s internal control system, providing discipline and structure, which affects the overall quality of internal control. The underlying principles within this internal control component were partially or completely absent at the Commission. The absence prevented the Commission from being able to establish a

sound organizational structure, exercise its oversight responsibility, and implement optimal human capital management strategies. Specifically, the OIG analysis of the 19 reports determined:

- 14 of the reports highlighted at least 31 deficient conditions potentially hampering the Commission's ability to manage risk and establish a sound organizational structure with clear reporting lines, authorities and responsibilities;
- 12 of the reports highlighted at least 24 deficient conditions potentially hampering the Commission's ability to provide adequate oversight, remediate identified deficiencies, and fulfill responsibilities set forth by applicable laws and regulations, relevant government guidance, and feedback from key stakeholders (e.g. Congress, other Federal agencies, the public).
- 12 of the reports highlighted at least 24 deficient conditions potentially impeding the Commission's ability to carry out assigned responsibilities and achieve program objectives.

The aforementioned deficiencies include the non-existence of an enterprise-wide risk management framework, inadequate staffing levels, inadequate employee training, challenges in the allocation of roles, responsibilities, and authorities among Commission staff, and a lack of clarity in CNA functions and authority.⁷

The impact to the Commission's operations are severe and widespread and include stifled decision making, unclear lines of communication, low productivity, suboptimal work distribution between offices, inefficient work, consistent operational deficiency, and diminished reasonable assurance that Commission staff possess and maintain a level of competence necessary to achieve business objectives and accurate financial reporting.

Office of Government Ethics 2020 Inspection Report Reveals Failures

The Office of Government Ethics Inspection Report⁸ resulted in a failing grade to the Commission after finding other problems in the ethics financial disclosure program, designed to prevent conflicts of interest. The OGE found in their report that of the 17 confidential financial reports required to be filed at the Agency, OGE examined 14, and none were certified. The OGE reported that it:

[E]xamined the Executive Director's 2019 annual public financial disclosure report covering 2018. The Executive Director had received a filing extension from the DAEO that established an extended due date of August 1, 2019. The report was not filed until August 17, 2020. This report had also not been certified at the time of OGE's examination on September 17, 2020.

⁷ OIG Management Alert: Lack of Management Action on Enterprise Risk Management and Internal Control Enters Critical Stage (https://www.oversight.gov/sites/default/files/oig-reports/Management%20Alert_U.S.%20AbilityOne%20Commission%20OIG%2020-05.pdf), Table 1, Number 4-9, 12-16, and 18.

⁸ U.S. AbilityOne Commission Ethics Inspection Report (Report No. 20-50I, September 29, 2020) ([https://www.oge.gov/web/oge.nsf/0/62932FC1D2F1AD7D852585F8005C77F4/\\$FILE/2020%20AbilityOne%20Inspection%20Report%2020-50I.PDF](https://www.oge.gov/web/oge.nsf/0/62932FC1D2F1AD7D852585F8005C77F4/$FILE/2020%20AbilityOne%20Inspection%20Report%2020-50I.PDF)).

It is troubling that no administrative action to collect the applicable \$200 late filing fee or refer the matter to the Department of Justice (DOJ) had been initiated. See 5 C.F.R. § 2634.704. This failure raises concern that this matter might have gone unaddressed had the timing of OGE’s review been different.

Opportunities Exist to Improve the Selection, Development, and Deployment of Key Controls

Of the 110 issues we identified and extracted from the 19 reports analyzed, OIG determined 34 of 110 issues (31 percent) were related to the control activities component of internal control. The underlying principles within this internal control component weren’t fully present or functioning and prevented the Commission from being able to adequately select and develop control activities and effectively implement them through policies and procedures.

According to GAO, “Control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity’s information system.”⁹

Specifically, when it comes to the internal control principle “Design Control Activities,” GAO states, “Management should design control activities to achieve objectives and respond to risks.”¹⁰ Yet, seven of the reports analyzed highlighted at least 24 deficiencies in the design and effectiveness of control activities that inhibited Commission’s ability to fulfill defined responsibilities, achieve objectives, and respond to risks in the internal control system. The breakdowns include a lack of controls to:

- ensure accurate and timely recording of transactions,
- prevent or detect material errors,
- validate the propriety and integrity of key performance indicators,
- ensure proper management and retention of documents and records, and
- timely collect, review, and certify public and confidential financial disclosure reports.¹¹

In regard to the internal control principle “Implement Control Activities,” GAO states, “Management should implement control activities through policies.”¹² Policies provide a clear and full understanding of and commitment to an organization’s expectations and guidelines. They also set a consistent standard for operations at all levels of an entity. Procedures are the strategies, methods, and practices that put those policies into action. However, nine of the reports analyzed highlighted at

⁹ *Standards for Internal Control in the Federal Government* at 44 (GAO-14-704G) (<https://www.gao.gov/assets/670/665712.pdf>).

¹⁰ *Id.*

¹¹ *Audit of AbilityOne Cooperative Agreements* (<https://www.oversight.gov/node/24143>), Table 1, Item Numbers 13, 15, and 16; see also U.S. AbilityOne Commission Ethics Inspection Report (Report No. 20-50I, September 29, 2020) ([https://www.oge.gov/web/oge.nsf/0/62932FC1D2F1AD7D852585F8005C77F4/\\$FILE/2020%20AbilityOne%20Inspection%20Report%2020-50I.PDF](https://www.oge.gov/web/oge.nsf/0/62932FC1D2F1AD7D852585F8005C77F4/$FILE/2020%20AbilityOne%20Inspection%20Report%2020-50I.PDF)).

¹² *Standards for Internal Control in the Federal Government* at 44 (GAO-14-704G) (<https://www.gao.gov/assets/670/665712.pdf>).

least 25 shortfalls in the formulation of policies and procedures that prevented the Commission from being able to properly estimate key account balances, provide for a review of critical reporting functions, and adequately monitor and manage changes in performance indicators and business processes. The breakdowns included a lack of or deficiencies in written policies and procedures for:

- the performance or review of several financial reporting functions,
- the review of accrual calculations and the completeness of liabilities owed by the Commission,
- the processes and criteria for determining the Program Fee Ceiling adjustments,
- the implementation of separate and ongoing monitoring functions such as annual performance evaluations, and
- the development and refinement of suitable key performance indicators.¹³

Without adequate policies in place to set expectations, and procedures to put those policies into action, Commission senior management is unable to hold individuals accountable for the assigned responsibilities. In addition, the lack of well-defined policies and procedures outlining performance requirements, organizational independencies (e.g. between the departments within the Commission or between the Commission and CNAs), and controls prevent the Commission from being able to identify operational gaps and address those gaps through improvement opportunities and savvier application of key controls.

CONCLUSION AND ADOPTING A PROACTIVE MODEL

The Inspector General Act of 1978, as amended, requires our office to keep the Commission fully and currently informed concerning fraud and other serious problems, abuses, and deficiencies relating to the Commission. We provide in this alert a grouping of the management and operational failures that need immediate attention, as they hamper the potential of the AbilityOne Program. The reports analyzed by OIG highlight the gravity of identified shortfalls and provide numerous specific recommendations that the Agency should follow to prevent further operational failures. Immediate action is needed to address the ineffective stewardship by senior staff. Establishing a sound organizational structure will enable the AbilityOne Program to achieve its strategic objectives and realize its potential.

¹³ *Audit of the U.S. AbilityOne Commission's Financial Statements for Fiscal Year 2019* (<https://www.oversight.gov/node/21387>), Table 1, Item Number 18; *See also Audit Report on the AbilityOne Program Fee* (<https://www.oversight.gov/node/21488>), Table 1, Item Number 1, 4, 6, 10, 12-14, 16, and 18; *Audit of AbilityOne Cooperative Agreements* (<https://www.oversight.gov/node/24143>), Table 1, Item Number 16.