Office of Inspector General
U.S. Department of State • Broadcasting Board of Governors

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Management Assistance Report: The Department of State Properly Addressed Invalid Unliquidated Obligations Identified During the FY 2016 Financial Statements Audit

MANAGEMENT ASSISTANCE REPORT

Summary of Review

An unliquidated obligation (ULO) represents the amount of goods or services ordered that have not been actually or constructively received or the amount of goods and services that have been received but for which payment has not yet been made. When ULO amounts are no longer needed because goods and services have been received and paid, any remaining ULO amount should be reviewed for validity and may be deobligated[1] so that funding can be made available for other authorized purposes.

The Department of State (Department) reported more than $19 billion in ULOs as of September 30, 2016. Those ULOs covered a broad range of budgetary authority, including annual, multi-year, and no-year appropriations.[2] During the annual audit of the Department's financial statements, the independent auditor tests ULOs for validity by reviewing supporting documentation. In FY 2016, the independent auditor identified 34 invalid ULOs, totaling $10.4 million, on the basis of expired periods of performance, inactivity, lack of supporting documentation, or the Department's inability to support a bona fide need.

The Office of Inspector General (OIG) conducted this audit to determine whether invalid ULOs identified during the audit of the Department's FY 2016 financial statements were properly addressed. The purpose of this Management Assistance Report is to report promptly the results of the audit and to promote management practices that result in the sound stewardship of U.S. taxpayer dollars.

OIG found that the Department properly addressed all the invalid ULO's identified during the audit of the Department's FY 2016 financial statements. Specifically, the Department appropriately deobligated the 34 invalid ULOs, totaling $10.4 million, identified by the independent auditor during its FY 2016 financial statements audit. The Department was successful in addressing all the invalid ULOs because the Bureau of the Comptroller and Global Financial Services (CGFS) prioritized the deobligation of the identified invalid ULOs and followed up with the responsible bureaus until resolution. Because of the actions of CGFS and the bureaus involved, the funds associated with these invalid ULOs were deobligated and made available for other authorized purposes. In addition, the deobligation improved the accuracy of the Department's reporting of budgetary resources in its FY 2017 financial statements.

Because of the actions the Department undertook to deobligate the invalid ULOs identified during the FY 2016 financial statements audit, OIG is not making any recommendations in this report and encourages CGFS, and the responsible bureaus involved, to continue to identify

[1] According the Government Accountability Office's "Principles of Federal Appropriations Law," Vol. II, Chapter 7, Section E (GAO-06-382SP), a deobligation is an agency's cancellation or downward adjustment of previously incurred obligations.

[2] A no-year appropriated fund is a fund with budget authority that remains available for obligation for an indefinite period of time.

and address in a timely manner invalid ULOs so the associated funds may be used for other authorized purposes.

The response from CGFS to a draft of this report is reprinted in its entirety in Appendix B.

OBJECTIVE

OIG conducted this audit to determine whether invalid ULOs identified during the FY 2016 financial statements audit were properly addressed by the respective Department bureaus.

BACKGROUND

Unliquidated Obligation and the Deobligation of Funds

A ULO represents the amount of goods or services ordered that have not been actually or constructively received or the amount of goods and services that have been received but for which payment has not yet been made. This includes amounts specified in other contracts or agreements such as grants, program subsidies, undisbursed loans and claims, and similar events. When ULO amounts are no longer needed because goods and services have been received and paid for, any remaining ULO amount should be reviewed for validity and may be deobligated so that funding can be made available for other authorized purposes. The deobligation of ULOs can occur for a variety of reasons, including:

- Amount incurred is less than the amount originally anticipated, so not all funds are used for the original purpose of the obligation.
- Cancellation of project or contract.
- Initial obligation determined to be invalid.[3]
- Reduction of previously recorded estimate.
- Correction of bookkeeping errors or duplicate obligations.

Deobligated funds may be reobligated within the same period of availability of the appropriation. For example, annual appropriations may be reobligated in the fiscal year for which the funds were appropriated and multi-year or no-year appropriated funds may be reobligated in the same or subsequent fiscal years. Funds deobligated after the expiration of the original period of obligational availability are not available for new obligations. These deobligated funds may be retained as unobligated balances in the expired account until the

[3] 31 U.S.C. Section 1501(a) (2010) requires a valid obligation to be supported by documentary evidence of a binding agreement between an agency and another person (including an agency) and 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. An invalid ULO would be considered an obligation that lacked the necessary documentary support.

account is closed and are available for adjustments.[4] Any new obligations using the deobligated funds are subject to the same rules that govern the obligation of appropriated funds.

Responsible Offices

CGFS is responsible for overseeing all Department financial management activities and directing Department financial management personnel, activities, and operations. This includes coordinating with Department bureaus and overseas posts on a monthly basis to determine whether ULOs are valid in accordance with the Foreign Affairs Manual (FAM).[5] The FAM requires all officers responsible for managing, tracking, and obligating allotted funds to implement procedures for reviewing documents supporting ULOs. These procedures must cover deobligations that require support from the Bureau of Administration acquisition personnel or procurement officers at posts.[6]

Unliquidated Obligations at the Department

The Department reported more than $19 billion in ULOs as of September 30, 2016. These ULOs covered a broad range of budgetary authority, including annual, multi-year, and no-year appropriations. During the annual audit of the Department's financial statements, the independent auditor tests ULOs for validity by reviewing supporting documentation. In FY 2016, the independent auditor identified 34 invalid ULOs, totaling $10.4 million, on the basis of expired periods of performance, inactivity, lack of supporting documentation, or the Department's inability to support a bona fide need. OIG reported ULOs as a significant deficiency[7] in both FY 2017[8] and FY 2016.[9]

Purpose of this Management Assistance Report

The purpose of this Management Assistance Report is to report promptly the results of the audit and to promote management practices that result in the sound stewardship of U.S. taxpayer dollars. OIG conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that OIG plan and perform the audit to

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[4] The expired budget authority is held in the expired account for an additional 5 fiscal years during which no new obligations may be made against it, but existing obligations may be adjusted and increased by this unobligated balance. After this period has elapsed, all obligated and unobligated balances are canceled, the expired account is closed, and all remaining funds are returned to the general fund of the Department of the Treasury and are no longer available to the agency.

[5] 4 FAM 087.2a(4), "Obligation Validity Criteria."

[6] 4 FAM 225(a), "Accounting Controls and Obligation Management."

[7] A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

[8] OIG, *Independent Auditor's Report on the U.S. Department of State 2017 and 2016 Financial Statements* (AUD-FM-18-05, November 2017).

[9] OIG, *Independent Auditor's Report on the U.S. Department of State 2016 and 2015 Financial Statements* (AUD-FM-17-09, November 2016).

obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. See Appendix A for details of the audit scope and methodology.

AUDIT RESULTS

OIG found that the Department properly addressed all the invalid ULO's identified during the audit of the Department's FY 2016 financial statements. Specifically, the Department appropriately deobligated the 34 invalid ULOs, totaling $10.4 million, reported by OIG during its FY 2016 financial statements audit. The Department successfully addressed all the invalid ULOs because CGFS prioritized the deobligation of the identified invalid ULOs and followed up with the responsible bureaus until resolution.

Of the $10.4 million that the Department deobligated, OIG determined that $5.5 million was from no-year appropriated funds and was therefore available for reobligation to other Department programs and purposes. OIG also determined that approximately $4.6 million was deobligated from closed appropriation accounts[10] and returned to the Department of the Treasury (Treasury). The remainder of the deobligated funds—totaling $252,237—involved expired appropriation accounts, which are available for adjustments to existing obligations. Because of the actions of CGFS and the bureaus involved, the funds associated with these invalid ULOs were deobligated and made available for other authorized purposes. In addition, the deobligation improved the accuracy of the Department's reporting of budgetary resources in its FY 2017 financial statements.

Actions Taken To Address Invalid Unliquidated Obligations

The FAM requires all Department officers responsible for managing, tracking, and obligating funds to perform monthly reviews to ensure that ULO balances and disbursements are valid.[11] CGFS prioritized the deobligation of the 34 invalid ULOs by having its Office of the Deputy Chief Financial Officer[12] provide detailed listings of the 34 invalid ULOs to the responsible bureaus. In addition, the Office of the Deputy Chief Financial Officer followed up with the responsible bureaus until the disposition of each identified invalid ULO was resolved.

[10] 31 U.S.C. Section 1552(a) (2010) describes a closed appropriation account as an appropriation account whose balance has been canceled. Once canceled, the amounts are not available for obligation or expenditure for any purpose.

[11] 4 FAM 225(a), "Accounting Controls and Obligation Management."

[12] The Office of the Deputy Chief Financial Officer is the primary technical and policy advisor to the Comptroller on matters relating to financial management and provides guidance and coordination to the Department's financial management program. This assistance includes matters relating to financial management systems for the Department's worldwide financial activities, including strategic planning for financial management, systems, policy, procedures, and management controls.

OIG reviewed the status of the 34 invalid ULOs as of October 2017. OIG determined that approximately $5.5 million of the $10.4 million was available for reobligation to fulfill valid Department needs; approximately $4.6 million was in closed appropriation accounts, meaning the deobligated amounts were returned to the general fund of the Treasury; and approximately $252,000 was in expired appropriation accounts, meaning the funds could be used only for adjustments to existing obligations. In addition to deobligating the invalid ULOs and making the funds available for other authorized purposes, the action improved the accuracy of the Department's reporting of budgetary resources in its FY 2017 financial statements. Table 1 presents the status of the invalid ULOs as of October 2017.

Table 1: Status of Invalid Unliquidated Obligations as of October 2017

Sample Number	Amount	Date of Deobligation	Funds Availability
1	$90,748	8/20/2017	Expired Account FY 2014
2	$4,575,472	1/6/2017	Closed Account FY 2012
3	$67,497	9/28/2017	Expired Account FY 2013
4	$71,517	6/15/2017	Closed Account FY 2012
5	$6,610	9/26/2016	Expired Account FY 2014
6	$14,888	8/22/2016	Expired Account FY 2014
7	$45,500	8/28/2016	Expired Account FY 2015
8	$3,092	9/1/2016	Expired Account FY 2015
9	$2,956	9/9/2016	Expired Account FY 2015
10	$4,623	9/9/2016	Expired Account FY 2015
11	$12,963	8/29/2016	Expired Account FY 2015
12	$3,360	6/15/2017	Expired Account FY 2015
13	$2,265,809	9/15/2017	No-year Account
14	$52,372	6/30/2017	No-year Account
15	$885,162	5/22/2017	No-year Account
16	$59,622	8/3/2017	No-year Account
17	$94,200	12/21/2016	No-year Account
18	$45,065	7/18/2017	No-year Account
19	$57,773	11/3/2016	No-year Account
20	$2,937	8/29/2016	No-year Account
21	$567,788	1/10/2017	No-year Account
22	$2,340	9/1/2016	No-year Account
23	$7,675	9/24/2016	No-year Account
24	$3,898	8/25/2016	No-year Account
25	$497,000	4/28/2017	No-year Account
26	$30,418	8/21/2016	No-year Account
27	$44,341	9/17/2016	No-year Account
28	$28,693	8/23/2016	No-year Account
29	$2,435	9/2/2016	No-year Account
30	$151,904	8/19/2016	No-year Account
31	$630,328	7/19/2017	No-year Account

Sample Number	Amount	Date of Deobligation	Funds Availability
32	$62,880	9/12/2016	No-year Account
33	$8,465	11/4/2016	No-year Account
34	$12,000	11/4/2016	No-year Account
Subtotal	**$4,646,989**		**Closed Accounts**
Subtotal	**$252,237**		**Expired Accounts**
Subtotal	**$5,513,105**		**No-year Account**
Total	**$10,412,331**		

Source: OIG prepared from data provided by CGFS and OIG testing of invalid unliquidated obligations identified during the audit of the Department's FY 2016 financial statements.

Because of the actions the Department undertook to deobligate the invalid ULOs identified during the FY 2016 financial statements audit, OIG is not making any recommendations in this report and encourages CGFS, and the responsible bureaus involved, to continue to timely identify and address invalid ULOs so that the associated funds may be used for other authorized purposes.

APPENDIX A: PURPOSE, SCOPE AND METHODOLOGY

The Office of Inspector General (OIG) conducted this audit to determine whether invalid unliquidated obligations (ULO) identified during the FY 2016 financial statements audit were properly addressed by the respective Department of State (Department) bureaus.

Audit work was performed in the Washington, DC, metropolitan area from August to October 2017. OIG conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions presented in this report.

To obtain background information for this audit, OIG reviewed information obtained during the audits of the Department's FY 2016 and FY 2015 financial statements performed by the independent auditor on behalf of and under the direction of OIG. In addition, OIG researched and reviewed Federal accounting and auditing standards as well as Department policies and procedures. Specifically, OIG reviewed the U.S. Code, the Department of the Treasury's U.S. Standard General Ledger, Office of Management and Budget guidance, Government Accountability Office guidance, and the Department's Foreign Affairs Manual.

Work Related to Internal Controls

OIG gained an understanding of and assessed the design effectiveness of the Department's internal controls related to identifying and addressing invalid ULOs. Specifically, OIG reviewed the work performed by the independent auditor during the audit of the Department's FY 2017 financial statements to gain an understanding of internal controls related to the audit objective. Additionally, OIG held discussions with Department personnel and reviewed supporting documentation on the Department's processes of reviewing ULOs.

Use of Computer-Processed Data

To determine whether invalid ULOs were deobligated, OIG reviewed documentation from the Department's Global Financial Management System, which is the Department's core financial management system used to process and track domestic transactions. OIG also reviewed the Department's Regional Financial Management System, which is the Department's overseas accounting and disbursing system. OIG reviewed the work performed during the annual audit of the Department's FY 2017 financial statements with respect to these financial systems and concluded that the data from the Department's accounting systems were sufficiently reliable to fulfill the objective of this audit.

APPENDIX B: BUREAU OF THE COMPTROLLER AND GLOBAL FINANCIAL SERVICES RESPONSE

United States Department of State
Comptroller
Washington, DC 20520

January 22, 2018

UNCLASSIFIED
MEMORANDUM

TO: OIG – Steve A. Linick

Christopher H Flaggs

FROM: CGFS – Christopher H. Flaggs

SUBJECT: Management Assistance Report on Department of State Addressing Invalid Unliquidated Obligations Identified During the FY 2016 Financial Statements Audit (AUD/FM-18-XX, January 2018)

Thank you for the opportunity to comment on the Office of Inspector General's (OIG) Draft Report titled Management Assistance Report: Department of State Addressed Invalid Unliquidated Obligations Identified During the FY 2016 Financial Statements Audit.

The Department administers over 500,000 unliquidated obligations (ULOs) totaling over $19 billion at any one given time. These ULOs run the gamut of simple payroll obligations through complex contract and grant ULOs situated in offices throughout the world. Administering and maintaining a portfolio of this size and complexity, in a compliant and cost-effective manner, is an immense task.

The Department has made significant efforts to improve the management and administration of ULOs and in recent years has expanded its ULO validation efforts. These efforts contain actions on those ULOs identified as invalid including ones identified during the annual financial statement audits. We are pleased to receive validation in the Report of our efforts in this regard. Consequently, CGFS does not have any substantive comments on the draft Report.

CGFS appreciates the collaborative manner in which the OIG conducted this review. We look forward to working with the OIG to continue to make improvements in the Department's management of ULOs.

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