Selected Commerce Bureaus Could Improve Review Procedures and Documentation Related to Unliquidated Obligations

FINAL REPORT NO. OIG-17-026-A

JUNE 12, 2017

U.S. Department of Commerce
Office of Inspector General
Office of Audit and Evaluation

UNITED STATES DEPARTMENT OF COMMERCE
Office of Inspector General
Washington, D.C. 20230

June 12, 2017

MEMORANDUM FOR: Lisa Casias
Deputy Assistant Secretary for Administration, Performing the Non-Exclusive Duties of the CFO/ASA

FROM: Richard Bachman
Assistant Inspector General for Financial and Intellectual Property Audits

SUBJECT: *Selected Commerce Bureaus Could Improve Review Procedures and Documentation Related to Unliquidated Obligations*
Final Report No. OIG-17-026-A

This final report documents the results of our audit of the effectiveness of selected Commerce bureaus unliquidated obligation (ULO) review policies and procedures developed since our OIG audit report issued in June 2013 (OIG-13-026-A). Our objective for this audit was to evaluate the effectiveness of each operating unit's obligation and deobligation review policies and procedures implemented since the 2013 audit report.

In this follow-up audit, we concluded that the selected bureaus achieved the intended effect of our prior audit report recommendations by reducing their cumulative ULO balances by $50 million (or 20 percent since June 2013). We found that some of the bureaus did not fully implement Departmental policy. Specifically, three of the seven bureaus tested did not develop any bureau-specific policies to conduct periodic obligation reviews. In addition, for 11 percent of the sampled obligations tested, we found that respective bureaus could not provide acceptable explanations that the outstanding balances were needed.

On May 15, 2017, OIG received the Department's response to the draft report's findings and recommendations, which we include within the report as appendix D. While management from the selected bureaus agreed with the findings, they included an editorial comment for the recommendations and a technical comment for the report. In response, we reviewed management's comments and updated our final report.

Pursuant to Department Administrative Order 213-5, please submit to us an action plan that addresses the recommendations in this report within 60 calendar days. This final report will be posted on OIG's website pursuant to sections 4 and 8M of the Inspector General Act of 1978, as amended (5 U.S.C. App., §§ 4 & 8M).

Thank you for the courtesies extended to my staff during our audit. If you have any questions or concerns about this report, please call me at (202) 482-2877 or Susan Roy, Regional Inspector General for Audit, Atlanta Regional Office, at (404) 730-2063.

Attachment

cc: Jennifer Ayers, Director, Financial Management Directorate, OS
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Report in Brief

June 12, 2017

Background

This report documents the results of our audit of the effectiveness of selected Commerce bureaus unliquidated obligation (ULO) review policies and procedures developed since our OIG audit report issued in June 2013 (OIG-13-026-A). In that report, we concluded that Department-wide controls over the management of ULOs needed strengthening. Further, effective management of outstanding obligation balances allows bureaus to review and deobligate unneeded funds, promoting a better use of federal resources.

An *obligation* is the formal reservation of agency funds to sufficiently cover all future payments. An *unliquidated obligation* is an amount of funds that has been designated for a specific purpose but has not been disbursed. Obligations must be liquidated within certain time limits. If obligated funds are not used for their original purpose within these time frames, the agency is required to release the funds for other allowable purposes or, depending on the restrictions placed by Congress, return the money to the U.S. Department of the Treasury.

Why We Did This Review

Our objective was to evaluate the effectiveness of each operating unit's obligation and deobligation review policies and procedures implemented since the 2013 audit report. For this audit, we reviewed the following bureaus: Bureau of Industry and Security, Economics and Statistics Administration (ESA), Bureau of Economic Analysis (BEA), International Trade Administration, Minority Business Development Agency (MBDA), National Technical Information Service, and Office of the Secretary.

OFFICE OF THE SECRETARY

Selected Commerce Bureaus Could Improve Review Procedures and Documentation Related to Unliquidated Obligations

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WHAT WE FOUND

Overall, we concluded that the selected bureaus achieved the intended effect of our 2013 audit report recommendations by improving the management and close out of ULOs. Since our prior review of obligations, the selected bureaus reduced their cumulative ULO balances by $50 million (or 20 percent since June 2013). We also found that the selected bureaus generally complied with Departmental documentation standards for deobligations.

However, we found that the selected bureaus did not fully implement Departmental policy. Specifically, three of the seven bureaus tested (that is, BEA, ESA, and MBDA) did not develop any bureau-specific policies to conduct periodic obligation reviews.

In addition, we found that the management of ULOs could further be improved upon. For 11 percent of the sampled obligations tested, we found that respective bureaus could not provide acceptable explanations that the outstanding balances were needed.

We believe that these bureaus' ULO monitoring efforts could be improved. We found that some of the selected bureaus primarily utilized the Departmental ULO policy and had not developed detailed bureau-specific policies. From our review, we found that because these bureaus have significantly smaller obligation balances when compared to other Commerce bureaus, they did not place a high priority on adequately developing and implementing bureau-specific ULO review policies. We also found a majority of the selected bureaus did not continuously monitor and track status of open obligations in sufficient detail. We believe that the development and implementation of detailed bureau-specific policies along with focused ULO oversight approach—such as establishing ULO documentation standards, targeting outstanding ULOs, and smaller balances—would promote greater effectiveness in reducing outstanding obligation balances.

WHAT WE RECOMMEND

We recommend that the selected bureaus' Chief Financial Officers instruct their respective ULO oversight managers to do the following:

1. Develop or enhance detailed bureau-specific policies for monitoring obligations and encourage deobligation as outlined in the *Department of Commerce Policy for Undelivered Obligations*, including policies that require (a) maintaining adequate justifications for valid obligation balances; and (b) timely deobligation actions for balances no longer needed.
2. Follow up on the obligations specifically identified in this report and take appropriate action.

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Cover: Herbert C. Hoover Building main entrance at 14th Street Northwest in Washington, DC. Completed in 1932, the building is named after the former Secretary of Commerce and 31st President of the United States.

Introduction

This final report documents the results of our audit of the effectiveness of selected Commerce bureaus unliquidated obligation (ULO) review policies and procedures developed since our OIG audit report issued in June 2013 (OIG-13-026-A).[1] In that report, we concluded that Department-wide controls over the management of ULOs needed strengthening. Further, effective management of outstanding obligation balances allows bureaus to review and deobligate unneeded funds, promoting a better use of federal resources.

An *obligation* is the formal reservation of agency funds—for the amount of an order placed, contract awarded, or service purchased during an accounting period—to sufficiently cover all future payments. Examples of obligations include signed contracts, purchase orders, issuance of travel authorizations, and lease agreements. An *unliquidated obligation* is an amount of funds that has been designated for a specific purpose but has not been disbursed. Obligations must be liquidated within certain time limits. If obligated funds are not used for their original purpose within these time frames, the agency is required to release the funds for other allowable purposes or, depending on the restrictions placed by Congress, return the money to the U.S. Department of the Treasury.

In our June 2013 audit report, we reviewed the Department's policies, procedures, and controls to manage ULO balances. Generally, we found

- obligation balances that could not be verified,
- obligations recorded in accounting records before becoming valid,
- ineffective bureau monitoring and obligation status reporting, and
- contract obligations that were improperly liquidated.

Our conclusions in the 2013 report were based on the evaluation of a sample of balances as of December 2011, which determined that the Department had approximately $159 million of unneeded obligation balances that could have been deobligated. We recommended that the Department develop

- an initiative related to the timely liquidation, deobligation, and closure of unneeded open obligations, and
- guidance for consistent monitoring and deobligation of ULO balances and for quarterly verification of open obligations.[2]

[1] U.S. Department of Commerce Office of Inspector General, June 18, 2013. *Monitoring of Obligation Balances Needs Strengthening*, OIG-13-026-A. Washington DC: DOC OIG.

[2] We made two additional recommendations in OIG-13-026-A: (1) to investigate instances where contract obligations may have liquidated against an incorrect fiscal year funding source, and (2) to provide training on the proper methodology for funding invoices of multiple-year contracts. Due to the limited scope of our audit, we did not conduct analysis to validate whether the intent of these recommendations were satisfied. However, a follow up to the Department's action plan to resolve the recommendations stated that all recommendations were implemented.

In order to comply with recommendations from our June 2013 audit report, the Department issued the *Department of Commerce Policy for Monitoring of Undelivered Obligations*.[3] The Department required all bureaus to continuously monitor and annually certify all open obligations that were past their period of performance and that had no activity for over 1 year, with applicable obligations adjusted downward or deobligated, along with semiannual and quarterly reviews. Additionally, the Department required bureaus to ensure proper documentation existed to support the validity of the obligation and the basis for deobligation. Furthermore, bureaus were required to develop and implement written procedures to execute the Department-wide policy.

[3] *Department of Commerce Policy for Monitoring of Undelivered Obligations* was issued as a memorandum on July 15, 2014, from the Department's Chief Financial Officer to all bureau finance, procurement, and grant officials. The policy was updated on June 22, 2015, and January 5, 2016. The policy contains other ULO requirements that we have not included in our report as they were not examined as part of our audit and did not impact our findings.

Objective, Finding, and Recommendations

Our audit objective was to evaluate the effectiveness of each operating unit's obligation and deobligation review policies and procedures implemented since the 2013 audit report. For this audit, we reviewed the following bureaus: Bureau of Industry and Security (BIS), Economics and Statistics Administration (ESA), Bureau of Economic Analysis (BEA), International Trade Administration (ITA), Minority Business Development Agency (MBDA), National Technical Information Service (NTIS), and Office of the Secretary (OS).[4]

To accomplish our audit objective, we obtained an understanding of the oversight process by reviewing the policies and procedures issued by both the Department and selected bureaus. In addition, we

- tested the effectiveness by reviewing the implementation of these controls for fiscal years (FYs) 2013, 2014, 2015, and the first three quarters of FY 2016 (October 1, 2015, through June 30, 2016), and
- analyzed the impact on outstanding obligation balances.

We then judgmentally selected 290 remaining ULO balances and reviewed supporting spreadsheets, accounting reports, records of correspondence, and other documentation to determine whether a valid need existed. In addition, we selected a judgmental sample of 48 closed and liquidated obligations to determine whether there were supported bases for deobligation. See appendix A for further details on our audit scope and methodology; see appendix B for further details about the ULOs tested; and see appendix C for approximately $2.1 million in monetary benefit that could be realized in the form of funds put to better use.

Overall, we concluded that the selected bureaus achieved the intended effect of our 2013 audit report recommendations by improving the management and close out of ULOs. Since our prior review of obligations, the selected bureaus reduced their cumulative ULO balances by $50 million (or 20 percent since June 2013).[5] We also found that the selected bureaus generally complied with Departmental documentation standards for deobligations.

However, we found that the selected bureaus did not fully implement Departmental policy. Specifically, three of the seven bureaus tested did not develop any bureau-specific policies to conduct periodic obligation reviews. In addition, we found that the management of ULOs could further be improved upon. For 11 percent of the sampled obligations tested, we found that respective bureaus could not provide acceptable explanations that the outstanding balances were needed.

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[4] The U.S. Census Bureau, Economic Development Administration, National Institute of Standards and Technology, National Oceanic and Atmospheric Administration (NOAA), National Telecommunications and Information Administration, and U.S. Patent and Trademark Office are larger bureaus by nature and were independently audited on their ULO policies and procedures. As a result, they were not included in the scope of this audit.

[5] According to OIG-13-026-A, selected Commerce bureaus' total unliquidated balance was $246 million as of December 31, 2011, compared to $196 million as of June 30, 2016.

Policies and Procedures for Reviewing and Monitoring ULOs Can Be Improved

To address our prior recommendations, the Department began issuing ULO guidance to the bureaus beginning in FY 2014. This guidance included requirements for bureaus to conduct at least semiannual obligation reviews,[6] as well as for the bureaus to develop and implement bureau-specific procedures to execute Department-wide policy. In addition, bureaus were required to ensure proper documentation existed to support the validity of open obligations.

We reviewed the bureaus' processes for the ULO reviews conducted during FYs 2013–2015, and the majority of FY 2016 (as of June 30, 2016), including supporting spreadsheets, correspondence, and submitted justifications. We then reviewed the implementation of the bureaus' policies and procedures as well as examined the seven bureaus' outstanding obligation balances. We selected obligations with unliquidated balances as of June 30, 2016, and determined whether there was sufficient evidence that a valid need existed to justify the open obligations.

We found that BEA, ESA, and MBDA did not fully implement Departmental policy because they did not develop bureau-specific policies to conduct periodic ULO balance reviews. ESA and MBDA[7] had no official bureau policy or procedures for monitoring and reviewing ULOs. BEA created a desk guide, however, it was not an official bureau policy and did not describe in detail the ULO review processes and procedures. Table 1 shows each of the applicable recommendation elements from the 2013 report, and the results of our testing.

Table 1. Selected Departmental Bureaus' ULO Review Process and OIG Prior Recommendations

Applicable Recommendations from Our June 2013 Audit Report	Do Selected Departmental Bureaus' ULO Review Processes Satisfy Departmental Guidance Based on the Recommendation?						
	BEA	BIS	ESA	ITA	MBDA	NTIS	OS
1. Develop a department-wide initiative related to the timely liquidation, deobligation, and closure of unneeded open obligations.	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2. Develop guidance for consistent monitoring and deobligation of ULO balances and for periodic verification of open obligations.	No	Yes	No	Yes	No	Yes	Yes

Source: OIG report *Monitoring of Obligation Balances Needs Strengthening* (OIG-13-026-A) and review of bureaus' compliance

[6] *Department of Commerce Policy for Undelivered Obligations* requires bureaus to review travel balances quarterly and non-travel balances semiannually. Additionally, each bureau is required to annual certify, as of June 30, 2016, that all open obligations have been reviewed and applicable open obligations have been deobligated or adjusted.

[7] MBDA developed a bureau-specific ULO policy during the course of the audit.

To review the validity of the selected bureaus' outstanding obligation balance, we judgmentally selected a sample of 290 open obligations (as of 30 June 2016) with no activity for more than a year. Our sample totaled over $7.7 million in open obligations and included the most common types of obligations, such as contracts, purchase orders, and interagency agreements. We requested supporting documentation and explanations from obligation managers to justify the continuing need of the obligation balances. Examples of valid explanations with accompanying supporting documentation would include, but not limited to: "services completed," "deobligation modification request submitted," or "funds deobligated." We found that 114 of the obligations sampled—or approximately 39 percent—could not be sufficiently justified to remain open (see appendix B). For example, there were 26 ULOs that had no evidentiary documentation.

As a result, we identified approximately $2.1 million that should be deobligated and put to better use (see appendix C). By not timely deobligating unneeded balances, the efficient use of funds for other purposes, such as reprogramming and upward adjustments, is prevented. Bureau officials stated that because of limited resources and competing priorities, reviews of smaller ULO balances tend to have less urgency.

We believe that these bureaus' ULO monitoring efforts could be improved. We found that some of the selected bureaus primarily utilized the Departmental ULO policy and had not developed detailed bureau-specific policies. From our review, we found that because these bureaus have significantly smaller obligation balances when compared to other Commerce bureaus—such as NOAA[8]—they did not place a high priority on adequately developing and implementing bureau-specific ULO review policies. We also found a majority of the selected bureaus did not continuously monitor and track status of open obligations in sufficient detail. We believe that the development and implementation of detailed bureau-specific policies along with focused ULO oversight approach—such as establishing ULO documentation standards, targeting outstanding ULOs, and smaller balances—would promote greater effectiveness in reducing outstanding obligation balances.

Recommendations

We recommend that the selected bureaus' Chief Financial Officers instruct their respective ULO oversight managers to do the following:

1. Develop or enhance detailed bureau-specific policies for monitoring obligations and encourage deobligation as outlined in the *Department of Commerce Policy for Undelivered Obligations*, including policies that require (a) maintaining adequate justifications for valid obligation balances; and (b) timely deobligation actions for balances no longer needed.
2. Follow up on the obligations specifically identified in this report and take appropriate action.

[8] According to OIG-13-026-A, as of December 31, 2011, the selected bureaus' total unliquidated balance was $246 million, compared to NOAA's unliquidated balance of $3.5 billion.

Summary of Agency Response and OIG Comments

In response to our draft report, management from the selected bureaus generally concurred with our recommendations. After the issuance of the draft, management provided two suggestions to clarify the report, which we accepted and made changes, where appropriate. Specifically, we changed "quarterly" to "periodic" within table I to properly reflect current Department policy which requires various review periods based on obligation type. We added additional language to the report that discussed the ULO review process, as required by Departmental policy.

Also, we combined two recommendations to both clarify our intentions and to better align with the *Department of Commerce Policy for Undelivered Obligations*. We have included the Department's consolidated response as appendix D of this report.

Appendix A: Objective, Scope, and Methodology

The objective of this audit was to evaluate the effectiveness of each operating unit's obligation and deobligation review policies and procedures since the 2013 OIG audit report. To satisfy this objective, we reviewed Departmental and bureau-specific policies and procedures pertaining to the monitoring and oversight of ULOs including the following:

- *Department of Commerce Policy for Undelivered Obligations (UDOs)* (revised January 5, 2016),
- *Office of the Secretary Financial Management Standard Operating Procedures* (dated June 9, 2014),
- *NTIS Policy for Undelivered Obligations*,
- *ITA UDO Review Procedures/Responsibilities*, and
- *BIS Office of the Chief Financial Officer, Standard Operating Procedures* (dated September 9, 2016).

For the purpose of this review, we developed a sample plan that treated each bureau as a separate sample pool. As a result, we judgmentally selected a sample of 290 ULOs from a total of 2,325 ULOs based upon the following selection factors:

- ULOs as of June 30, 2016, and
- ULOs that had no activity for more than 1 year.

We conducted an entrance conference on September 18, 2016, with representatives from the seven bureaus. We discussed the audit objective, audit approach, tentative audit schedule, OIG protocols, and audit expectations. Our fieldwork occurred from September 2016 to February 2017 under the authority of the Inspector General Act of 1978, as amended (5 U.S.C. App.), and Department Organization Order 10-13, dated April 26, 2013. We performed our work at the headquarters offices for the seven bureaus in Washington, DC.

To gain an understanding of internal controls, we interviewed appropriate obligation managers regarding policies, procedures, and internal controls implemented to ensure ULOs were monitored and deobligated in a timely manner. To assess the reliability of obligation data within the context of the audit objectives, we discussed the overall control process with bureau officials and compared data to source documentation provided by agencies to identify and support outstanding obligation balances and deobligation actions. We determined that the data was sufficiently reliable to achieve the audit objectives.

We performed our work in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence that provides a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on the audit objective.

Appendix B: Unliquidated Obligations Tested

Table B-1. Summary of ULOs Tested

Bureau	Total Number of Obligations Tested	Total Amount of Obligations Tested	Number of Potential Deobligations	Total Amount of Potential Deobligations
BEA	64	$377,767	25	$136,191
BIS	45	$1,877,850	9	$211,094
ESA	39	$278,163	12	$27,329
ITA	60	$3,829,759	28	$1,269,621
MBDA	21	$212,404	0	$0
NTIS	16	$201,772	11	$4,174
OS	45	$1,002,969	29	$470,875
Total	**290**	**$7,780,684**	**114**	**$2,119,284**

Source: OIG analysis of documentation provided by selected Departmental bureaus

Table B-2. Summary of Deobligated ULOs—Basis for Deobligation Tested

Bureau[a]	Met	Not Met	Total Deobligations Tested
BEA	8	0	8
ESA	8	0	8
ITA	8	0	8
MBDA	8	0	8
NTIS	8	0	8
OS	8	0	8
Total	**48**	**0**	**48**

Source: OIG analysis of documentation provided by selected Departmental bureaus
[a] BIS was not included in our testing of deobligated ULOs.

Appendix C: Potential Monetary Benefits

	Funds to Be Put to Better Use
Finding I (see also table B-1)	$2,119,284

Appendix D: Agency Response

MAY 1 5 2017

UNITED STATES DEPARTMENT OF COMMERCE
Chief Financial Officer and
Assistant Secretary for Administration
Washington, D.C. 20230

MEMORANDUM FOR Richard Bachman
Assistant Inspector General for Financial
Intellectual Property Audits

FROM: Lisa Casias
Deputy Assistant Secretary for Administration, Performing the
Non-Exclusive Duties of the CFO/ASA

SUBJECT: Comments on Draft Report Entitled, *Selected Commerce Bureaus Could Improve Review Procedures and Documentation Related to Unliquidated Obligations,* issued on April 14, 2017

This memorandum responds to the draft report from the Office of Inspector General (OIG) entitled, "*Selected Commerce Bureaus Could Improve Review Procedures and Documentation Related to Unliquidated Obligations*," issued on April 14, 2017. I am pleased the draft report states that the selected bureaus, BEA, BIS, ESA, ITA, MBDA, NTIS, and OS, achieved the intended effect of your 2013 audit report recommendations and made improvements to the management and close out of unliquidated obligations (ULOs).

We reviewed and generally agreed with the three recommendations contained in the draft report. Thank you for the opportunity to provide comments. Based on the edits you have already agreed to make, we have no further comments.

If you have any questions or comments, please feel free to call Gordon Alston, Director Financial Reporting and Internal Controls, extension 20753, or me at extension 24951.

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