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

AUD-FM-IB-18-28 Office of Audits February 2018

Management Assistance Report: The Broadcasting Board of Governors Did Not Fully Address 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 for, 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 Broadcasting Board of Governors (BBG) reported more than $178 million in ULOs as of September 30, 2016. During the annual audit of BBG's financial statements, the independent auditor tested ULOs for validity by reviewing supporting documentation. On the basis of expired periods of performance, inactivity, lack of supporting documentation, or BBG's inability to support a bona fide need, the independent auditor in FY 2016 identified 27 invalid ULOs, totaling $612,164.

The Office of Inspector General (OIG) conducted this audit to determine whether invalid ULOs identified during the audit of BBG's FY 2016 financial statements were properly addressed. OIG found that BBG did not fully do so. Specifically, OIG found that BBG reviewed and deobligated 24 of 27 ULOs (89 percent), totaling $577,962. Of these 24 ULOs, BBG deobligated 14 (52 percent), totaling $311,963, only after OIG began its audit, which was 10 months after the concerns were identified. BBG did not review and provide sufficient supporting documentation for the remaining three ULOs (11 percent), totaling $34,202. BBG did not fully address the ULOs because some BBG personnel were not responsive to the Office of the Chief Financial Officer (OCFO) when it provided monthly reports to the allotment holders, requesting that they research and review the invalid ULOs and, if appropriate, deobligate them. In addition, although BBG has drafted standard operating procedures for monitoring ULOs, the procedures have not been approved and issued by BBG management.

OIG determined that approximately $566,973 worth of ULOs that BBG deobligated were in expired appropriation accounts, meaning the funds could only be used for adjustments to existing obligations, and approximately $10,989 were in closed appropriation accounts, meaning the funds were returned to the general fund of the Department of the Treasury. As a result of deobligating the invalid ULOs, OIG observed improvements in the accuracy of BBG's reporting of budgetary resources in its FY 2017 financial statements.

OIG made three recommendations to BBG to improve its ULO deobligation process and to make invalid ULOs available for other authorized purposes to the benefit of U.S taxpayers. In response to a draft of this report, BBG concurred with the three recommendations and stated that it has taken action to implement each recommendation. On the basis of BBG's actions taken and planned, OIG considers each recommendation resolved pending further action. A

[1] According to 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.

synopsis of BBG's response to the recommendations offered and OIG's reply follow each recommendation in the Results section of this report. BBG's response 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 BBG.

BACKGROUND

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 is 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.[2]
- 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 in which the funds were appropriated and multi-year or no-year appropriated[3] 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 and are available for

[2] 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 documentary support required of a valid obligation.

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

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

Responsible Offices

The OCFO Office of Budget is responsible for assuring that all funds receive appropriate accounting. Appropriate accounting provides accurate disclosure of the status of all appropriations and other forms of obligational authority in terms of apportionments, allotment authority, allotments, operating allowances, obligations, and disbursements and ensures that amounts recorded and reported as obligations are valid. Each official who receives an allotment of funds is responsible for reviewing ULOs and deobligating them when appropriate.[5] The OCFO Office of Financial Operations is responsible for establishing and maintaining a financial management system that supports the fund control system. The system should provide timely status of fund information to fund managers.[6]

Unliquidated Obligations at the Broadcasting Board of Governors

BBG reported more than $178 million 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 BBG's financial statements, the independent auditor tested ULOs for validity by reviewing supporting documentation. On the basis of expired periods of performance, inactivity, lack of supporting documentation, or BBG's inability to support a bona fide need, the independent auditor in FY 2016 identified 27 invalid ULOs, totaling $612,164. The independent auditor reported ULOs as a significant deficiency[7] in its audit report on the FY 2017 financial statements[8] and as a material weakness in its audit report on the FY 2016 financial statements.[9]

[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] Broadcasting Administrative Manual, Section 104.2, "Office of Financial Operations."

[6] Broadcasting Administrative Manual, Section 103.1, "Overall Responsibilities."

[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 Broadcasting Board of Governors 2017 and 2016 Financial Statements* (AUD-FM-IB-18-10, November 2017).

[9] OIG, *Independent Auditor's Report on the Broadcasting Board of Governors 2016 and 2015 Financial Statements* (AUD-FM-IB-17-14, November 2016).

Purpose of this Management Assistance Report

The purpose of this Management Assistance Report is to promptly report 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 obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. See Appendix A for additional details of the audit scope and methodology.

RESULTS

OIG found that BBG did not properly address all invalid ULOs identified during the audit of BBG's FY 2016 financial statements. Specifically, BBG reviewed and deobligated 24 of 27 ULOs (89 percent), totaling $577,962, but did not review and provide sufficient supporting documentation for the remaining 3 ULOs (11 percent), totaling $34,202. Moreover, OIG noted that, of these 24 ULOs, 14 (52 percent), totaling $311,963, were deobligated only after OIG began its audit. BBG did not fully address the ULOs in a timely manner because some BBG allotment holders were not responsive to OCFO when it provided monthly reports to the allotment holders, requesting that they research and review the invalid ULOs and, if appropriate, deobligate them. In addition, although BBG has drafted standard operating procedures for monitoring ULOs, BBG management has not approved and issued them.

OIG determined that approximately $566,973 of the ULOs that BBG deobligated were in expired appropriation accounts, meaning the funds could only be used for adjustments to existing obligations, and approximately $10,989 were in closed appropriation accounts, meaning the funds were returned to the general fund of the Department of the Treasury. As a result of deobligating the invalid ULOs, OIG observed improvements in the accuracy of BBG's reporting of budgetary resources in its FY 2017 financial statements.

Timeline of Deobligations

OIG reviewed the current status of the 27 ULOs identified by an independent auditor during the audit of BBG's FY 2016 financial statements and found that 10 invalid ULOs were deobligated before OIG's audit in August 2017, 14 invalid ULOs were deobligated only after the audit announcement, and 3 ULOs were not deobligated, as shown in Table 1. The independent auditor provided details of the invalid ULOs to BBG in November 2016, at least 10 months before the start of OIG's audit. During that time period, BBG reviewed and deobligated the equivalent of one ULO per month. However, after OIG's audit announcement, BBG deobligated additional invalid ULOs at a rate equivalent to more than four per month, which suggests that it was the audit itself that prompted BBG to address outstanding issues. OIG was unable to conclude whether the three remaining ULOs, which were identified by the independent auditor as invalid, should be deobligated because of insufficient documentation.

Table 1: Broadcasting Board of Governors Unliquidated Obligation Validity Review Timing in Relation to this Audit

Timing of BBG Validity Review	Number of ULOs	Deobligation Value	Remaining Obligation
Before OIG Audit	10	$265,999	$0
During OIG Audit	14	$311,963	$0
Not Addressed	3	$0	$34,202
Total	**27**	**$577,962**	**$34,202**

Source: Prepared by OIG from financial and accounting data provided by BBG.

Insufficient Actions Taken to Address Invalid Unliquidated Obligations

The Broadcasting Administrative Manual[10] states that each official who receives an allotment of funds is responsible for reviewing ULOs and deobligating them when appropriate. In addition, the Government Accountability Office's *Standards for Internal Control in the Federal Government*[11] 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.... Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination.

However, the report on the audit of BBG's FY 2016 financial statements stated that "invalid obligations continued to exist because allotment holders outside of the OCFO were not always effectively monitoring the validity of obligations.... [The independent auditor] also found that some allotment holders were unaware of their responsibility to deobligate invalid obligations that have been identified."[12]

To assist in monitoring and reviewing ULOs, OCFO distributes monthly reports to the respective allotment holders. This report lists potentially invalid ULOs and requests allotment holders to review and, if necessary, deobligate the invalid ULOs. However, some allotment holders were not

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[10] Broadcasting Administrative Manual, Section 104.2, "Funds Control System, Fund Controls."

[11] Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-14-704G, September 2014), Section 10.03 "Design of Appropriate Types of Control Activities."

[12] OIG, AUD-FM-IB-17-14.

responsive to OCFO's monthly requests. This suggests that BBG allotment holders are not routinely monitoring obligation status, as required. In an effort to improve monitoring of ULOs, BBG prepared "Unliquidated Obligations Review Standard Operating Procedures," but BBG management has not approved and issued this document and it remains unimplemented. OIG is therefore offering the following recommendations:

Recommendation 1: OIG recommends that the Broadcasting Board of Governors develop and implement annual training for allotment holders emphasizing their responsibility to monitor and deobligate invalid unliquidated obligations, as prescribed in the Broadcasting Administrative Manual.

Management Response: BBG agreed with the recommendation, stating that "[t]raining will be provided for all allotment holders to clarify their responsibilities to monitor and deobligate invalid unliquidated obligations."

OIG Reply: On the basis of BBG's concurrence with the recommendation and its planned actions, OIG considers this recommendation resolved pending further action. This recommendation will be closed when BBG develops and implements annual training for allotment holders, emphasizing their responsibility to monitor and deobligate invalid ULOs, as prescribed in the Broadcasting Administrative Manual.

Recommendation 2: OIG recommends that the Broadcasting Board of Governors approve, issue, and implement its "Unliquidated Obligations Review Standard Operating Procedures."

Management Response: BBG agreed with the recommendation, stating that OCFO is working with the Office of Contracts on ULO standard operating procedures, which it expects to complete in the first quarter of FY 2019.

OIG Reply: On the basis of BBG's concurrence with the recommendation and its planned actions, OIG considers the recommendation resolved pending further action. This recommendation will be closed when BBG approves, issues, and implements standard operating procedures for ULOs.

OIG also determined that approximately $566,973 of the ULOs that BBG deobligated were in expired appropriation accounts,[13] meaning the funds could only be used for adjustments to existing obligations, and approximately $10,989 were in closed appropriation accounts, meaning the funds were returned to the general fund of the Department of the Treasury. As a result of deobligating the invalid ULOs and making the funds available for other authorized purposes,

[13] As noted previously, 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.

BBG improved the accuracy of its reporting of budgetary resources in its FY 2017 financial statements. Table 2 presents the status of the invalid ULOs as of October 2017.

Table 2: Status of Invalid Unliquidated Obligations as of October 2017

Sample Number	Amount	Date of Deobligation	Amount Deobligated During Audit	Funds Availability
1	$100	2/2017		Expired Account FY 2015
2	$168	9/2016		Expired Account FY 2015
3	$185	8/2016		Expired Account FY 2015
4	$250	N/A*	$250	Expired Account FY 2015
6	$465	9/2017	$465	Expired Account FY 2014
7	$1,521	12/2016		Expired Account FY 2013
9	$4,738	10/2017	$4,738	Expired Account FY 2014
10	$5,244	Not available*	$5,244	Expired Account FY 2015
12	$7,737	10/2017	$7,737	Expired Account FY 2013
14	$10,725	Not available*	$10,725	Expired Account FY 2014
15	$23,774	10/2016		Expired Account FY 2015
17	$48,470	Not available*	$48,470	Expired Account FY 2015
18	$74,941	6/2017		Expired Account FY 2014
19	$78,558	Not available*	$78,558	Expired Account FY 2014
20	$127,427	10/2017	$127,427	Expired Account FY 2014
21	$6,150	8/2017	$6,150	Expired Account FY 2014
22	$2,020	Not available*	$2,020	Expired Account FY 2013
23	$5,137	Not available*	$5,137	Expired Account FY 2013
24	$11,100	Not available*	$11,100	Expired Account FY 2015
26	$3,942	Not available*	$3,942	Expired Account FY 2014
27	$154,321	4/2017		Expired Account FY 2013
SubTotal	**$566,973**		**$311,963**	**Expired Accounts**
8	$4,332	8/2017		Closed Account FY 2012
11	$5,644	9/2016		Closed Account FY 2012
25	$1,013	9/2016		Closed Account FY 2012
SubTotal	**$10,989**		**$0**	**Closed Accounts**
5	$369	Not Deobligated		Expired Account FY 2015
13	$10,000	Not Deobligated		Expired Account FY 2013
16	$23,833	Not Deobligated		Expired Account FY 2013
SubTotal	**$34,202**			
Total	**$612,164**		**$311,963**	

* Supporting documentation received and reviewed by OIG was sufficient to conclude that funds had been deobligated but did not contain the deobligation date.

Source: Prepared by OIG from financial and accounting data provided by BBG.

Recommendation 3: OIG recommends that the Broadcasting Board of Governors review the three invalid unliquidated obligations identified during the FY 2016 financial statements audit (obligation numbers 240625PCAS, T0121300012, and I812304646) and either deobligate the $34,202 so that these funds can be used for other authorized purposes or provide documentation to justify the validity of the three unliquidated obligations.

Management Response: BBG agreed with the recommendation, stating that it is "already working to complete a review" of the three invalid ULOs.

OIG Reply: On the basis of BBG's concurrence with the recommendation and actions presently underway, OIG considers the recommendation resolved pending further action. This recommendation will be closed when BBG provides evidence either that funds were deobligated or documentation to justify the validity of the three ULOs.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Broadcasting Board of Governors develop and implement annual training for allotment holders emphasizing their responsibility to monitor and deobligate invalid unliquidated obligations, as prescribed in the Broadcasting Administrative Manual.

Recommendation 2: OIG recommends that the Broadcasting Board of Governors approve, issue, and implement its "Unliquidated Obligations Review Standard Operating Procedures."

Recommendation 3: OIG recommends that the Broadcasting Board of Governors review the three invalid unliquidated obligations identified during the FY 2016 financial statements audit (obligation numbers 240625PCAS, T0121300012, and I812304646) and either deobligate the $34,202 so that these funds can be used for other authorized purposes or provide documentation to justify the validity of the three unliquidated obligations.

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 Broadcasting Board of Governors (BBG).

Audit work was performed in the Washington, DC, metropolitan area from August to December 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 BBG's FY 2016 and FY 2015 financial statements audits performed by an independent auditor on behalf of OIG. In addition, OIG researched and reviewed Federal accounting and auditing standards, as well as BBG policies and procedures. Specifically, OIG reviewed the U.S. Standard General Ledger, Office of Management and Budget guidance, Government Accountability Office guidance, the U.S. Code, the Broadcasting Administrative Manual, and BBG Standard Operating Procedures.

Work Related to Internal Controls

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

Use of Computer-Processed Data

To determine whether invalid ULOs were deobligated, OIG obtained supporting electronic documentation from Momentum, which is BBG's domestic financial and accounting system. OIG also obtained supporting electronic documentation from the Department of State's Regional Financial Management System, which is the system BBG uses for overseas accounting and disbursing. OIG reviewed the work performed during the audits of BBG's and the Department of State's FY 2017 financial statements for these financial systems and concluded that the data from the accounting systems were sufficiently reliable to fulfill the objective of this audit.

APPENDIX B: BROADCASTING BOARD OF GOVERNORS RESPONSE

Broadcasting Board of Governors
United States of America

February 2, 2018

Mr. Norman P. Brown
Assistant Inspector General for Audits
Office of Inspector General
U.S. Department of State

Dear Mr. Brown:

Thank you for the opportunity to respond to the Office of Inspector General's draft *Management Assistance Report: The Broadcasting Board of Governors Did Not Fully Address Invalid Unliquidated Obligations Identified During the FY 2016 Financial Statements Audit*. The BBG concurs with the three recommendations in the draft report, as identified in the enclosure to this letter.

We appreciate the auditor's thorough review of our procedures, and the consultative nature of the audit process. In response to OIG's findings, we have begun an effort to strengthen and clarify our procedures for deobligating unliquidated obligations, developing a new Standard Operating Procedure to more clearly inform responsible Agency officials of their duties in ensuring the timely consideration of ULOs.

Again, thank you for the opportunity to comment on the draft report. Please do not hesitate to contact us should you have any questions.

Sincerely,

John F. Lansing
Chief Executive Officer and Director

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BBG Response to OIG's Draft Management Assistance Report: The Broadcasting Board of Governors Did Not Fully Address Invalid Unliquidated Obligations Identified During the FY 2016 Financial Statements Audit
AUD-FM-IB-18-XX

February 2, 2018

Recommendation 1: OIG recommends that the Broadcasting Board of Governors develop and implement annual training for allotment holders emphasizing their responsibility to monitor and deobligate invalid unliquidated obligations, as prescribed in the Broadcasting Administrative Manual.

BBG Response (2/2/18): The BBG agrees with this recommendation. Training will be provided for all allotment holders to clarify their responsibilities to monitor and deobligate invalid unliquidated obligations.

Recommendation 2: OIG recommends that the Broadcasting Board of Governors approve, issue, and implement its "Unliquidated Obligations Review Standard Operating Procedures."

BBG Response (2/2/18): The BBG agrees with this recommendation. The Office of the Chief Financial Officer is working with the Office of Contracts on a Standard Operating Procedure (SOP) on unliquidated obligations (ULOs). The Agency expects to complete the SOP in the first quarter of FY 2019.

Recommendation 3: OIG recommends that the Broadcasting Board of Governors review the three invalid unliquidated obligations identified during the FY 2016 financial statements audit (obligation numbers 240625PCAS, T0121300012, and I812304646) and either deobligate the $34,202 so that these funds can be used for other authorized purposes or provide documentation to justify the validity of the three unliquidated obligations.

BBG Response (2/2/18): The BBG agrees with this recommendation, and is already working to complete a review of these unliquidated obligations.

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