OFFICE OF THE SECRETARY

Monitoring of Obligation Balances Needs Strengthening

FINAL REPORT NO. OIG-13-026-A

JUNE 18, 2013

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

FOR PUBLIC RELEASE

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

June 18, 2013

MEMORANDUM FOR: Ellen Herbst
Senior Advisor to the Deputy Secretary Performing the Non-Exclusive Duties of the Chief Financial Officer and Assistant Secretary for Administration

FROM: Ann C. Eilers
Principal Assistant Inspector General for Audit and Evaluation

SUBJECT: *Monitoring of Obligation Balances Needs Strengthening*
Final Report No. OIG-13-026-A

Attached is our final report on the Department's unliquidated obligations as of December 31, 2011. Our objective was to assess whether the Department and bureaus have adequate controls over the management and closeout of these unliquidated obligations.

We concluded that the Department needs stronger internal controls, policies, and procedures to ensure that bureau obligations are adequately monitored and deobligated when appropriate. Weaknesses include obligation balances that we could not verify, accounting records not accurately reflecting Department obligations, bureaus unaware of the status of obligation balances, and bureaus improperly liquidating contract obligations. Our findings include monetary benefits to the Department—in the form of estimated obligations that could have been deobligated by December 31, 2011—in the amount of $159 million.

The final report will be posted on OIG's website pursuant to section 8L of the Inspector General Act of 1978, as amended.

In accordance with Department Administrative Order 213-5, please provide us with your action plan within 60 days of the date of this memorandum. We appreciate the assistance and courtesies extended to us by the Department and its bureaus. If you have any questions about this report, please contact me at (202) 482-2754 or Andrew Katsaros, Assistant Inspector General for Audit, at (202) 482-7859.

Attachment

Report In Brief

JUNE 18, 2013

Background

An *obligation* is the amount of an order placed, contract awarded, or service purchased during an accounting period, which requires future payment.

An *unliquidated* obligation is an amount of money that has been designated for a specific purpose but has not been disbursed.

Obligations must be liquidated within certain time limits. If unobligated 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 restrictions placed by Congress, return the money to the U.S. Treasury.

Why We Did This Review

As of December 31, 2011, the Department's unliquidated obligations exceeded $9.9 billion. Of this amount, $147 million in obligations were recorded in fiscal year 2006 or earlier. This is particularly important because susceptibility for misuse increases as the obligation ages.

Seventy percent of the Department's unliquidated obligations were incurred by the National Oceanic and Atmospheric Administration and National Telecommunications and Information Administration. Sixty-two percent of the unliquidated obligations were for grant funding.

We reviewed the Department's unliquidated obligation balances as of December 31, 2011, to assess whether the Department and bureaus have adequate controls over the management and closeout of unliquidated obligations.

OFFICE OF THE SECRETARY

Monitoring of Obligation Balances Needs Strengthening

OIG-13-026-A

WHAT WE FOUND

The Department's accounting records contain amounts that can be deobligated. We examined a sample of obligations with balances as of December 31, 2011, and identified 49 obligation balances, totaling $18.4 million, that could have been deobligated. Specifically, we found:

- *Original obligation balances could not be verified.* We could not confirm the existence of, or verify the accurate recording for, 12 original obligations.
- *Accounting records did not accurately reflect Department obligations.* The Department's accounting records did not always correctly reflect actual obligations because the obligations were entered into the accounting system before they were properly approved.
- *Bureaus did not know the status of obligation balances.* We identified 39 contracts, 111 grants, and 27 other obligations for which monitoring reports either did not reflect any status of their respective obligations or reflected an inaccurate obligation status.
- *Obligation balances as of December 31, 2011, could not be verified.* Quarterly balances for 60 obligations we tested could not be verified from bureau records.
- *Bureaus improperly liquidated contract obligations.* Seven contract obligations had been improperly liquidated against incorrect fiscal year funding sources.

Our findings include monetary benefits to the Department—in the form of estimated obligations that needed to have been deobligated by December 31, 2011—in the amount of $159 million.

WHAT WE RECOMMEND

We recommend that the Senior Advisor to the Deputy Secretary Performing the Non-Exclusive Duties of the Chief Financial Officer and Assistant Secretary for Administration:

1. Develop a Department-wide initiative related to the timely liquidation, deobligation, and closure of unneeded open obligations.
2. Enhance policies and procedures to include specific, comprehensive guidance for the consistent monitoring and deobligation of unliquidated obligation balances, as well as ongoing departmental oversight.
3. Develop guidance and training on the quarterly verification of open obligations.
4. Investigate each specific instance noted in this report where contract obligations may have been liquidated against an incorrect fiscal year funding source or charged to the wrong account.
5. Provide training on the proper methodology for funding invoices of multiple-year contracts.

Contents

COVER: Detail of fisheries pediment,
U.S. Department of Commerce headquarters,
by sculptor James Earle Fraser, 1934

Introduction

An *obligation* is the amount of an order placed, contract awarded, or service purchased during an accounting period, which requires future payment.

An *unliquidated* obligation is an amount of money that has been designated for a specific purpose but has not been disbursed.

As of December 31, 2011, the Department of Commerce's unliquidated obligations exceeded $9.9 billion (see table 1). Of this amount, $147 million in obligations were recorded in fiscal year 2006 or earlier. This is particularly important because susceptibility for misuse increases as obligations age.

Seventy percent of the Department's unliquidated obligations were attributable to the National Oceanic and Atmospheric Administration (NOAA) and National Telecommunications and Information Administration (NTIA). Sixty-two percent of the unliquidated obligations were for grant funding.

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 restrictions placed by Congress, return the money to the U.S. Treasury.

In January 2012, we began this audit of unliquidated obligations that remained open as of December 31, 2011. We selected 282 unliquidated obligations for testing, ensuring that at least one contract, grant, or other[1] obligation from all bureaus was included in the sample.

Table 1. Department of Commerce Unliquidated Obligations as of December 31, 2011 (in thousands)

Bureau	Grant Balance	Contract Balance	Other Balance	Total	% of Total
National Telecommunications and Information Administration	$3,096,467	$ 4,992	$ 431,372	$3,532,831	35
National Oceanic and Atmospheric Administration	1,387,176	913,179	1,214,856	3,515,211	35
Economic Development Administration	1,175,120	2,262	1,969	1,179,351	12
National Institute of Standards and Technology	484,672	269,345	33,104	787,121	8
Census	0	306,440	135,239	441,679	4
U.S. Patent and Trademark Office	0	211,353	43,575	254,928	3
Other	12,996	35,419	198,534	246,949	3
Total	**$6,156,431**	**$1,742,990**	**$2,058,649**	**$9,958,070**	**100**

[1] The Office of Inspector General's category of other obligations includes Working Capital Fund and interagency and intra-agency agreement obligations.

Objectives, Findings, and Recommendations

We reviewed the Department's unliquidated obligation balances as of December 31, 2011, to assess whether the Department and bureaus have adequate controls over the management and closeout of unliquidated obligations.

Based on our estimate, approximately 2 percent of the Department's December 31, 2011, open obligations could be deobligated.

Our audit identified the following:

- $18.4 million in funds that need to be deobligated
- original obligation balances that could not be verified
- obligations recorded in accounting records before becoming valid
- ineffective bureau monitoring and obligation status reporting
- active obligation balances that could not be verified
- improperly liquidated contract obligations

We concluded that the Department needs stronger internal controls and policies and procedures to ensure that bureau obligations are adequately monitored and deobligated when appropriate. Weaknesses include inconsistent bureau policies and processes and inadequate bureau monitoring activities.

We performed this audit by obtaining detailed obligation data files from each of the Department's 13 bureaus. This audit was conducted under the authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated August 31, 2006. We conducted this audit in accordance with generally accepted government auditing standards. Details on the scope and methodology of our audit work are provided in appendix A. Appendix B contains monetary benefits that can be derived from this audit.

I. The Department's Accounting Records Contain Amounts That Can Be Deobligated

As noted in table 2, we examined a sample of 282 obligations with balances as of December 31, 2011, and identified 49 obligation balances, totaling $18.4 million, that should have been deobligated. Table 3 summarizes the testing results. Based on these results, we estimated that the Department's obligation balance of $9.96 billion on December 31, 2011, included approximately $159 million in amounts that can be deobligated.[2] These amounts represent our estimate of open obligations that would not be spent for their originally intended purpose. As described below, obligations remained open because bureaus did not effectively monitor and verify the status of these amounts. As a result, these amounts could not be used for other allowable purposes or returned to the U.S. Treasury.

[2] $159 million is the lowest value in the estimated confidence interval (95 percent confidence).

Table 2. Total Obligations Tested and Amounts That Can Be Deobligated

	Total Obligations Tested		Amounts That Need to Be Deobligated	
Obligation Type	No. of Obligations	Amount (in millions)	No. of Obligations	Amount (in millions)
Contracts	84	$ 92.3	28	$ 8.9
Grants	140	238.7	5	1.1
Other	58	276.7	16	8.4
Total	**282**	**$607.7**	**49**	**$18.4**

Table 3. Amounts That Can Be Deobligated

Bureau	Contract	Grant	Other	Total
NIST	$ 86,617	$ 593,217	$4,608,700	$ 5,288,534
NOAA	2,241,863	-	375,173	2,617,036
USPTO	4,375,864	-	566,910	4,942,774
Census	1,453,702	-	239,250	1,692,952
EDA	117,606	321,410	272,921	711,937
ITA	218,517	-	676,954	895,471
MBDA	200,000	-	382,700	582,700
OS	237,317	177,899	1,066,596	1,481,812
BIS	-	-	181,229	181,229
NTIA	-	-	47,987	47,987
Total	**$8,931,486**	**$1,092,526**	**$8,418,420**	**$18,442,432**

As an example of an obligation that was not appropriately monitored, the U.S. Patent and Trademark Office (USPTO) identified one particular contract as having an unliquidated balance of $3.2 million on December 31, 2011, and a period of performance ending on September 30, 2006. According to USPTO, contract management issues caused delays in the closeout process, and deobligation did not occur until January 2012. However, the obligation balance outstanding at December 31, 2011, represents an invalid obligation in our test results because it was not liquidated within prescribed time frames.

We identified similar problems with obligations associated with agreements between federal agencies. For example, the Office of the Secretary (OS) executed an interagency agreement with the U.S. General Services Administration (GSA) that was separated into tasks with different deliverables and periods of performance. GSA, however, applied the payments from OS against incorrect tasks. According to representatives from OS, the obligation balances cannot be liquidated from the accounting records until GSA reconciles the payments to the correct tasks and confirms that the obligation balance is no longer needed. However, the unliquidated obligation balances associated with this agreement were still not liquidated timely.

The existing Commerce guidance[3] on monitoring obligations is not sufficient to ensure the successful closeout of funds available for deobligation. We identified the following key deficiencies in this guidance:

- no identification of management, staff, and business functions responsible for monitoring obligations
- no required time frames and accountability for deobligating balances once identified
- no clear definition and criteria for the terms *review* or *verification*
- no guidance on performing reviews or verifications—or on ensuring accuracy and independence
- no oversight at the departmental level to ensure that the desired outcomes of monitoring are achieved

II. Original Obligation Balances Could Not Be Verified

Appropriations law requires obligation balances to be adequately documented before an obligation is recorded in the financial accounting system.[4] The requirements vary, depending on the type of obligation that is recorded. However, at a minimum, the documentation must clearly identify the obligation, so that the proper amount can be initially recorded and subsequently monitored.

We identified 12 obligations where the original obligation balance could not be verified. This occurred primarily because the bureaus either could not locate or did not provide adequate documentation to support them. USPTO and OS could not locate documentation related to three contracts. The National Oceanic and Atmospheric Administration (NOAA), the Bureau of Industry and Security (BIS), and OS did not provide proper purchasing documents for nine of their other obligations. For example, NOAA did not provide an obligating document to support one initial obligation, and documentation BIS provided for another did not support the recorded amount. Proper obligating documents, including purchase orders and approved requisitions, establish the initial date and amount of an obligation. Obligation balances cannot be tracked and monitored if the initial obligation is not approved properly and recorded accurately.

We could not confirm the existence of, or verify the accurate recording for, 12 original obligations.

[3] U.S. Department of Commerce Office of Financial Management, *Accounting Principles and Standards Handbook*. http://www.osec.doc.gov/ofm/Accounting/cover.html (accessed June 6, 2013).

[4] 31 U.S.C. § 1501, Documentary evidence requirement for Government obligations.

III. Accounting Records Did Not Accurately Reflect Obligations of the Department

Appropriations law[5] requires all obligations to be evidenced with the proper support before being recorded. Contract obligations must be supported by a binding agreement in writing[6] made by an authorized official.[7] Grant obligations must be supported by a grant award or amendment that is signed by the bureau's grant officer.[8]

We noted that Commerce's accounting records did not always correctly reflect actual obligations, because the obligations were entered into the accounting system before they were properly approved. We identified 21 such obligations, comprised of:

Twenty-one obligations we tested were recorded in accounting records before being created.

- 7 contracts (4 at NOAA and 3 at Census) recorded before the contracting officer signed the contract
- 10 interagency agreements (9 at NOAA and 1 at the Office of the Secretary) recorded before properly signed and approved
- 4 grants (1 at NIST and 3 at the Economic Development Administration, or EDA) recorded before the grant officers properly signed the award documents

Properly approving obligations before they are entered into the accounting system ensures that the accounting records only reflect actual obligations of the federal government. Because contract obligations cannot be legally recorded until they are evidenced by a binding agreement, recording early overstates undelivered orders in these instances. Further, recording after all approvals are made represents a fraud control, ensuring that recorders are only entering valid obligations.

IV. Bureaus Did Not Know the Status of Obligation Balances

The Department's *Accounting Principles and Standards Handbook* contains requirements for monitoring unliquidated balances and deobligating unneeded funds. While they are insufficiently prescriptive, the requirements mandate that "accounting organizations will periodically review obligations" to ensure they are recorded.[9] It also requires that undelivered orders "be reviewed and verified at least quarterly."[10]

Obligation monitoring reports are inaccurate and are not being updated.

[5] 31 U.S.C. § 1501, Documentary evidence requirement for Government obligations.

[6] 31 U.S.C. § 1501, Documentary evidence requirement for Government obligations.

[7] GAO Office of the General Counsel, *Principles of Federal Appropriations Law*, chapter 7, section B.1.a.

[8] Commerce Office of Acquisition Management, *Department of Commerce Grants and Cooperative Agreements Manual*, chapter 8, section I.

[9] Commerce Office of Financial Management, *Accounting Principles and Standards Handbook*, chapter 7, section 11.06(d).

We identified 39 contracts, 111 grants, and 27 other obligations for which monitoring reports either did not reflect any status of their respective obligations or reflected an inaccurate obligation status. This occurred because the bureaus are not adequately monitoring and reviewing obligations throughout their periods of performance. Of the 13 departmental bureaus, only the Bureau of Economic Analysis, the Economics and Statistics Administration, the National Telecommunications and Information Administration, and the National Technical Information Service had adequately monitored and reviewed their respective obligations that we tested. When obligations are not routinely monitored, undelivered orders may result in ongoing overstatement of obligations in bureau accounting records.

We identified several deficiencies related to obligation monitoring. First, some bureaus had an obligation monitoring process in place that was not applied to all obligations. For example, NOAA had a centralized monitoring process, but it only applied to obligations that were inactive for 2 or more years.

Second, bureaus are not complying with the Department's requirement to verify undelivered orders quarterly. For example, NIST was found to have conducted a formal verification only twice per year while BIS only conducted a formal verification annually.

Third, some monitoring reports from other bureaus showed no evidence of review or did not contain information that sufficiently or accurately reflected the obligation status. In one example, when we reviewed the monitoring reports for 50 of the EDA grants we tested, we did not identify any comments or responses related to the status of the related obligations. In another example, USPTO could not locate the file for a contract for $10.5 million that ended in fiscal year 2007. When we reviewed the obligation on the related monitoring report, the status was simply reported as "contract has not been closed out yet." While the contract was in fact not closed out, the statement did not fully reflect the fact that the file was missing or the status of related undelivered orders. Monitoring obligation balances enables bureaus to know whether the balances recorded in the accounting system are accurate and whether they still need to either remain obligated or be liquidated.

V. Obligation Balances as of December 31, 2011, Could Not Be Verified

Quarterly balances for 60 obligations we tested could not be verified from bureau records.

Bureaus must review and verify undelivered orders at least quarterly.[11] To meet this requirement, bureaus need to ensure that adequate documentation is prepared and maintained in files.

We noted that several December 31, 2011, obligation balances could not be verified. This occurred because some files did not contain sufficient information to confirm the status of the related obligations. NOAA, the Minority Business Development Agency, BIS, and EDA

[10] Commerce Office of Financial Management, *Accounting Principles and Standards Handbook*, chapter 9, section 4.0.

[11] Commerce Office of Financial Management, *Accounting Principles and Standards Handbook*, chapter 9, section 4.0.

files had a total of three contracts, 50 grants, and two other obligation balances that lacked the necessary information. As a result, balances reported in the accounting system could not be verified.

We also tested five OS and NIST working capital fund obligations, but those bureaus could not provide documentation that verified the December 31, 2011 balances. For example, we reviewed $4.6 million in obligation balances that NIST recorded during fiscal year 2007. NIST accountants told us that the amounts had actually been liquidated as of December 31, 2011, but they could not provide adequate documentation to explain why the amounts still existed in the accounting records.

VI. Bureaus Improperly Liquidated Contract Obligations

OIG identified seven contract obligations at NOAA, Census, the International Trade Administration (ITA), and USPTO that were liquidated against incorrect fiscal year funding sources. In each instance, bureaus used prior-year funding to pay for contractor services continuing under exercised option years. These services should have been paid with fiscal year funds associated with the exercised option. Title 31 of the United States Code, section 1502(a), states that a fixed appropriation account[12] may only be used to pay for obligations incurred during that period of availability. If the obligation is charged to no-year appropriations or the period of obligational authority has not expired, bureaus may deobligate funding from one option year and reobligate it into a subsequent option year. However, the charging of invoices to prior-year appropriations that are no longer available for obligation could potentially lead to an Antideficiency Act (ADA) violation.[13] At the very least, the instances below describe control issues associated with existing accounting practices.

The seven instances where we noted improper liquidation against incorrect funding sources are as follows:

- One NOAA contract had three open obligations totaling $953,355. During January 2012, NOAA received a contract invoice totaling $50,135 for activities performed in November 2011, a period attributable to option year 4 of the contract. A notation on the invoice also indicated that the costs should have been charged to a specific project code in option year 4. Accounting records provided during the audit indicated that the option year 4 project only had a remaining balance of $30,961 when the invoice was received. Because sufficient funds were not available under option year 4, NOAA charged the difference of $19,174 to the unliquidated balance still remaining from option year 1. We noted that NOAA also paid additional option year 4 invoices by using option year 1 and 2 unliquidated balances.

[12] In a fixed appropriation account, appropriations are available for obligation for a definite period. A fixed appropriation account can receive appropriations available for obligation for 1 year (an annual account) or for a specified number of years (a multiyear account). U.S. Government Accountability Office, September 2005. *A Glossary of Terms Used in the Federal Budget Process.* http://www.gao.gov/new.items/d05734sp.pdf.

[13] *See* 31 U.S.C. § 1341(a).

- NOAA awarded another contract with a base year and one option year. When we reviewed a $15,071 invoice for option year 1 services that NOAA received between October 1, 2011, and October 31, 2011, we discovered that NOAA paid this invoice on November 22, 2011, by using unliquidated obligations related to the base period. NOAA should only have used option year 1 funds to pay the invoice.
- NOAA awarded another contract with a base period and 4 option years. Only option year 3 and option year 4 had unliquidated obligation balances remaining as of December 31, 2011. When OIG reviewed an invoice for services received during option year 4, we discovered that NOAA used part of the option year 3 unliquidated obligations to pay the invoice.
- Census awarded a contract with a base period and 4 option years. As of December 31, 2011, the bureau's accounting records had no obligations remaining for the base year and option year 1, $60,355 remaining from option year 2, and $61,969 from option year 3. Our review of invoices charged against each option year found that Census incorrectly liquidated obligations with invoices applicable to subsequent option periods. Specifically, invoices charged to the base year totaling $27,994 were applicable to option year 1. In addition, invoices totaling $22,688 and $17, 089 were incorrectly charged to option year 1 and 2, respectively.
- ITA awarded a contract with one option year, separately obligating funding for each year. When we reviewed invoices to verify the December 31, 2011, balance, we identified invoices totaling $60,762 which ITA appeared to have incurred during the period of performance for the option year but paid using base-year funds. As a result, fiscal year funding constraints appear to have been compromised, while base-year and option-year balances are understated and overstated by $60,762, respectively.
- USPTO entered into an interagency agreement that provided $50,000 in funding for 5 years, each with a specific period of performance. Our review found that USPTO charged costs against this agreement based on available obligation funding (regardless of period of performance), rather than aligning the invoice activity to a specific funding year. As a result, obligation balances associated with the second funding year were liquidated with costs attributable to the third and fourth funding years.
- In another NOAA contract, NOAA charged an obligation totaling $58,519 to an incorrect account. When questioned by our office, NOAA indicated it would correct this but did not provide further explanation. We could not determine the cause of the incorrect charging of this obligation.

Some contracting personnel informed us that as a standard business practice, they processed invoices against available funding, regardless of the funding period, period of performance, or appropriation account. This is consistent with what we noted in our audit. Also, when contracting personnel obligated funds using no-year appropriations, bureaus did not provide evidence that they deobligated and reobligated funds, as required. In accordance with Departmental requirements, we provided the Department with details of the testing described above in order for the Department to assess bureau accounting practices and determine whether an ADA violation may have occurred.

Other Matters

The Department Could Not Use the Acquisition System to Monitor Obligations

At the time of our audit, the Department and bureaus, except for USPTO, used the Commerce Acquisition Standard Reporting System (CSTARS) to award and close out contracts. However, OIG review of data contained in CSTARS indicates the system was not consistently populated with key fields such as contract end date and, as a result, CSTARS could not be used to monitor obligation balances. If CSTARS users were required to record and update key fields, CSTARS could have been used as an obligation monitoring tool. However, CSTARS information was recorded by system owners at Census, NOAA, and NIST, not centrally by the Department's Acquisition Office. Failure to mandate the fields populated in CSTARS has reduced the effectiveness of the system as an obligation monitoring tool.

The Department has informed OIG that it has since replaced CSTARS with a new system, C.Suite, which it states now requires the completion of key fields before contracting officers can finalize contract actions.

Acquisition Personnel Are Not Closing Contracts

Our review of CSTARS further identified a significant number of contracts that have not been closed, although deobligation of funding may have occurred. According to bureau acquisition personnel, insufficient staffing resources—coupled with the Department's emphasis on issuing rather than closing contract awards—has resulted in contract closeouts being processed as time and staffing permits rather than in compliance with closeout requirements in the Federal Acquisition Regulation (FAR). Failure to conduct contract closeout procedures in accordance with the FAR may result in obligations not being liquidated in a timely manner.

Recommendations

We recommend that the Senior Advisor to the Deputy Secretary Performing the Non-Exclusive Duties of the Chief Financial Officer and Assistant Secretary for Administration:

1. Develop a Department-wide initiative related to the timely liquidation, deobligation, and closure of unneeded open obligations.
2. Enhance policies and procedures to include specific, comprehensive guidance for the consistent monitoring and deobligation of unliquidated obligation balances, as well as ongoing departmental oversight.
3. Develop guidance and training on the quarterly verification of open obligations.

4. Investigate each specific instance noted in this report where contract obligations may have been liquidated against an incorrect fiscal year funding source or charged to the wrong account.
5. Provide training on the proper methodology for funding invoices of multiple-year contracts.

Summary of Agency Response and OIG Comments

OIG received the Department's comments on the draft report, which we include as appendix C of this final report. Overall, the Department concurs with the findings and recommendations in the report. The Department will develop corrective action plans and ensure timely implementation to address the recommendations.

The Department states that the issue we identified related to populating key fields in its contract writing system is resolved. The Department also notes that it recognizes the importance and the requirement of contract closeouts and will continue to improve internal controls to ensure that bureau obligations are adequately monitored and deobligated promptly.

We look forward to receiving the Department's action plans.

Appendix A: Objectives, Scope, and Methodology

We reviewed the Department's unliquidated obligations balances as of December 31, 2011, to assess whether the Department and bureaus have adequate controls over the management and closeout of unliquidated obligations. We conducted our review by obtaining detailed obligation data files from each of the Department's 13 bureaus: Bureau of Economic Analysis, Bureau of Industry and Security, Census Bureau, Economic Development Administration, Economic Standards Administration, International Trade Administration, Minority Business Development Agency, National Institute of Standards and Technology, National Oceanic and Atmospheric Administration, National Technical Information Service, National Telecommunications and Information Administration, Office of the Secretary, and U.S. Patent and Trademark Office.

We accomplished our objective by performing the following tasks:

- We obtained an understanding of internal controls over management and closeout of unliquidated obligations by interviewing bureau accounting and acquisition staff involved in the recording, monitoring, management, and closeout of unliquidated obligations.
- We chose a representative sample of unliquidated obligations by aggregating each bureau's obligation data into three categories (contract, grant, and other) and restricted our sample to the universe of 5,371 unliquidated obligations valued at $100,000 or more.
- We stratified the data across bureau and obligation type for a total of 32 strata. To reach a minimum confidence level of 90 percent and a 5 percent or smaller margin of error, we sampled 258 records and proportionately allocated the records across each stratum with a minimum of 1 obligation per stratum. We also oversampled strata where, based on previous audit work, we expected higher than typical variance, resulting in a final sample size of 282. The results were then estimated for the entire Department at a 95 percent confidence level. The estimate shown in the report represents the low end of the margin of error.
- We tested the reliability of the obligation data provided from the bureaus' systems by (1) reconciling each bureau's unliquidated obligation balance to the general ledger and (2) analyzing the data for irregularities and logical inconsistencies such as duplicate records, missing data, and obvious calculation errors. We did not have access to the programming code of the systems. No discrepancies were noted; thus, we consider the data sufficiently reliable for use in our audit.
- We reviewed the rules and regulations regarding management and closeout of unliquidated obligations by assessing the Department's compliance with the Commerce Acquisition Manual, Grants Manual, Accounting Principles and Standards Handbook, the Federal Acquisition Regulation, and bureau policy and procedures, as applicable to our audit objective.

- We analyzed unliquidated obligation data reported as of December 31, 2011, in each bureau's financial system, contract management system, and/or grants management system.
- We reviewed evidence supporting the validity of each of the 282 sample items, such as contracts, grant agreements, purchase orders, and invoices. Based on the results of our test work, we made estimations about the unliquidated obligations population.

The audit was conducted under the authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated August 31, 2006, at the Department's offices in the Washington, D.C., metropolitan area. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Appendix B: Monetary Benefits

	Questioned Costs	Funds Put to Better Use
Estimated obligations that could have been deobligated by 12/31/2011	0	$159 million

Appendix C: Agency Response

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

JUN 3 2013

MEMORANDUM FOR	Andrew Katsaros Assistant Inspector General for Audit
FROM	Lisa Casias Lisa Casias Deputy Chief Financial Officer and Director for Financial Management
SUBJECT:	Comments on the Draft Report - "*Monitoring of Obligation Balance Needs Strengthening"*

This memorandum responds to the draft report from the Office of Inspector General (OIG), entitled "Monitoring of Obligation Balance Needs Strengthening" (i.e., the report"), issued on April 22, 2013. Overall, the Department concurs with the findings and recommendations in the report. We will develop corrective action plans and ensure timely implementation to address the recommendations.

The issue identified on page 9, *Other Matters – The Department Cannot Use the Acquisition System to Monitor Obligations,* noting the Commerce Acquisition Standard Reporting System (CSTARS) does not consistently populate key fields, such as contract end date, is resolved. Since the report date of December 31, 2011, the Department has upgraded CSTARS to C.Suite as its contract-writing system. C.Suite requires input of the contract end date before the contracting officer is allowed to finalize any contract actions. Regarding the page 9, *Other Matters – Acquisition Personnel Are Not Closing Contracts,* concern, the Department recognizes the importance and the requirement of contract closeouts and will continue to improve internal controls to ensure that bureau obligations are adequately monitored and deobligated promptly.

Thank you for the opportunity to provide comments. If you have any questions or comments, please feel free to call me at (202) 482-1207.

011200000140