



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.