



February 23, 2016

MEMORANDUM FOR: John H. Thompson
Director
Census Bureau

A handwritten signature in black ink, appearing to read "RB", with a long horizontal line extending to the right.

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

SUBJECT: *Census Bureau Reviews of Unliquidated Obligations Could Be Improved with Greater Review Frequency and Additional Documentation*
Final Report No. OIG-16-019-A

This report provides the results of our audit of the effectiveness of the Census Bureau's unliquidated obligation (ULO) review policies and procedures developed in response to an 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.¹ Further, effective management of outstanding obligation balances allows agencies to review and deobligate unneeded funds, promoting a better use of federal resources.

In this follow-up audit, we found that the Census Bureau's obligation and deobligation review policies and procedures implemented since our June 2013 report were generally adequate and effective—and that the Census Bureau had achieved the intent of our recommendations.² Although this did not impact our overall conclusions, we did note the Bureau's ULO review frequency and documentation can be improved to further enhance its management of ULOs (see findings I and II).

To accomplish our audit, we first obtained an understanding of the Census Bureau's ULO oversight process by reviewing the policies and procedures that were implemented in response to our prior report. We then tested the effectiveness of these policies and procedures by reviewing the implementation of these controls for both FYs 2013 and 2014 (the period after the issuance of our 2013 report), as well as analyzing the impact on Census' outstanding obligation balances. We selected obligation documents with unliquidated balances as of May 2015 and determined whether there was sufficient evidence that a valid need existed to justify open obligations. In addition, we selected a sample of closed and liquidated obligations to determine whether they were deobligated in accordance with Bureau procedures. See appendix

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 The Census Bureau reduced its overall unliquidated obligation balances from approximately \$442 million in December 2011 to approximately \$257 million as of May 2015.

A for further detail on our audit scope and methodology; see appendix B for further detail about the ULOs tested; and see appendix C for the approximately \$2 million in monetary benefits that could be realized in the form of funds put to better use.

Background

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 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 unliquidated obligation 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 were based on the evaluation of a sample of balances as of December 2011, which determined that the Department was holding a minimum of approximately \$159 million 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 unliquidated obligation balances, as well as quarterly verification of open obligations.³

To address these recommendations, the Census Bureau developed and implemented policies and procedures for managers to review outstanding obligation balances and take action if required. Generally, the process begins with the Bureau’s Office of Finance (OF) preparing a list of current obligation balances. The list, with detailed procedures, is then sent to the respective program offices that then determine whether the obligation is still needed. In coordination with

³ We made two additional recommendations in OIG-13-026-A: to investigate instances where contract obligations may have liquidated against an incorrect fiscal year funding source, and to provide training on the proper methodology for funding invoices of multiple-year contracts. We did not conduct analysis to validate whether the intent of these recommendations were satisfied. Due to the limited scope of this review, our audit universe consisted of ULOs that were primarily funded with no-year funds. We plan to verify the implementation of these recommendations in a future audit.

OF and the Office of Acquisitions (ACQ), the program offices then take appropriate action: either deobligate the funds or ensure a valid need exists in order to remain open.

At the end of FY 2014, the Census Bureau reported a total budgetary (obligational) authority of about \$692 million for the fiscal year, with an ending balance of \$142 million in ULOs.

Objective, Findings, and Recommendations

Our objective was to evaluate the effectiveness of the Census Bureau's obligation and deobligation review policies and procedures implemented in response to our June 2013 audit report, which reviewed the Department-wide controls over the management of unliquidated obligation balances as of December 2011. This audit focused on the procedures implemented by Census since our previous report.

We found that Census' obligation and deobligation review policies and procedures implemented since our previous report are generally adequate and effective—but noted that both the frequency of the reviews and the supporting documentation justifying the deobligation action could be improved.

I. Census' ULO Review Procedures Are Generally Adequate, but the Review Frequency Can Be Improved

We reviewed the documentation for the obligation reviews conducted at the end of FYs 2013 and 2014, including supporting spreadsheets, correspondences, and submitted justifications. We concluded that the Census Bureau has developed and implemented adequate policies and procedures to periodically monitor unliquidated obligation balances—and has achieved the intent of our recommendations. Table I below shows each of the recommendation elements and the results of our testing.

Table I. Summary of Census Unliquidated Obligations Review Process

Recommendations from Our June 2013 Audit Report	Does the Census Bureau's ULO Review Process Satisfy the Intent of the Recommendation?
(1) Develop an initiative related to the timely liquidation, deobligation, and closure of unneeded open obligations	Yes
(2) Develop guidance for consistent monitoring and deobligation of unliquidated obligation balances and for quarterly verification of open obligations	Yes (semiannual reviews conducted)
(3) Investigate instances where contract obligations may have liquidated against an incorrect fiscal year funding source	N/A
(4) Provide training on the proper methodology for funding invoices of multiple-year contracts.	N/A

Source: OIG analysis of Census Bureau documentation

We did note that the current procedures, which are performed semiannually, do not comply with Departmental standards for quarterly reviews. According to the Office of Financial Management's *Accounting Principles and Standards Handbook* (revised September 2011), bureaus must review and verify undelivered orders at least quarterly. Although a semiannual review process may have been deployed due to the volume of outstanding items balanced with limited resources, we believe that the Census Bureau has made significant progress in reducing the outstanding balance. Therefore, quarterly reviews would further enhance its controls for monitoring balances.

II. Census Bureau ULO Documentation Can Be Improved

Overall, we found that the procedures to monitor and deobligate excess balances have generally achieved the intended effect and had a positive impact on Census' outstanding obligations. Since our prior review of obligations as of December 2011, Census has reduced its overall unliquidated obligation balance by more than 40 percent from December 2011 to May 2015 by reducing the overall unliquidated balances from approximately \$442 million to about \$257 million in May 2015.

However, we did note that documentation was inadequate to support remaining excess balances and prior deobligation actions, as discussed below.

A. Inadequate Documentation Supporting Excess Balances

We found that, for the remaining unliquidated balances, the Census Bureau could not justify that a valid need existed. To test whether the remaining obligation

balances were valid, we selected a judgmental sample of 65 ULOs that had no activity for more than 1 year.⁴ About 8.6 percent, or \$22 million, of the approximately \$257 million in outstanding balances were for potentially dormant obligations. Our sample totaled approximately \$14 million of the \$22 million noncurrent balance and was representative of the different obligation types.

Of the 65 items tested, we found that 15 of the items sampled, or about 23 percent, could not be supported and should be deobligated (see appendix A and table B-1 in appendix B). Census did not provide sufficient explanations to justify the need to maintain these open balances even though valid justifications are required by its ULO oversight policies.

As a result, we identified an approximate amount of \$2 million that may be put to better use (see appendix C). Table 2 below summarizes the testing results:

Table 2. Summary of Potentially Dormant Census Bureau Unliquidated Obligations That Can Be Deobligated (as of May 31, 2015)

Number of Obligations Tested	Total Amount of Obligations Tested	Number of Obligations with Adequate Justification	Number of Obligations That Can Be Deobligated	Total Amount That Can Be Deobligated
65	\$14,233,801	50	15	\$2,049,922

Source: OIG analysis of documentation provided by the Census Bureau

In discussions with Census Bureau management, we determined that this occurred primarily because of the Bureau’s previous prioritizing of the review of larger or older balances instead of the result of ineffective procedures. Because of the progress the Bureau has already made, we did not view this as a control deficiency.

We conclude that—by implementing and conducting quarterly obligation reviews, as well as continuing to focus on small-dollar items—the Census Bureau will improve the overall effectiveness of controls for monitoring and timely deobligation of excess balances, while maintaining its documentation standards.

B. Inadequate Documentation Supporting Deobligation Actions

In addition, we found that the Census Bureau did not consistently comply with Departmental documentation standards for supporting and justifying deobligations. According to Departmental policy, deobligation actions should be supported by

⁴ We selected this threshold because the Census Bureau requires valid justifications from its program offices for all dormant ULOs with no activity for more than a year.

adequate documentation, such as appropriate notifications, confirmations, and certifications.⁵

We judgmentally selected and reviewed 10 deobligation actions and found that 4 did not have the required documentation (see table B-2 in appendix B). Required documentation, for example, can include (1) confirmations provided by acquisitions staff to OF showing completed deobligations and (2) certifications provided by procurement officials attesting that all dormant obligations were reviewed and deobligated. In two instances, the Census Bureau could not locate any documentation, such as confirmations and certifications, about the deobligations. In the other two instances, documentation was available but incomplete because the Bureau could not locate the certifications. Our subsequent review determined that the deobligation actions were valid; however, without sufficient documentation, deobligations may occur even though a valid need exists to keep the obligations open.

We conclude that, by increasing focus on Departmental documentation standards, Census will improve the overall effectiveness of controls for obtaining required documentation supporting deobligation actions.

Recommendations

We recommend that the Director of the Census Bureau instruct the Director of the Census Office of Finance to

1. follow up on the remaining obligations identified in this report to ensure that, if they are no longer needed, appropriate action is taken;
2. update its obligation review policies to conduct quarterly reviews on all open balances and provide sufficient oversight to ensure timely deobligations; and
3. follow Departmental documentation standards on future deobligations by ensuring all deobligated ULOs have appropriate notifications, confirmations, and certifications on record.

On February 3, 2016, OIG received the Census Bureau's response to the draft report's findings and recommendations, which we include here as appendix D. The Census Bureau concurred with our findings and agreed with our recommendations. This final report will be posted on the OIG's website pursuant to section 8M of the Inspector General Act of 1978 (5 U.S.C. app. 3, § 8M), as amended.

In accordance with Departmental Administrative Order 213-5, please submit to us—within 60 calendar days of the date of this memorandum—an action plan that responds to the recommendations of this report.

⁵ Department of Commerce, Policy for Monitoring of Undelivered Orders, VII. C, E & VIII. (July 15, 2014).

We appreciate your cooperation and courtesies extended to us by your staff during our audit. If you have any questions or concerns about this report, please contact me at (202) 482-2877 or Susan Roy at (404) 730-2063.

cc: Colleen Holzbach, Audit Liaison, Census Bureau

Appendix A. Objective, Scope, and Methodology

The objective of this audit was to evaluate the effectiveness of the Census Bureau's obligation and deobligation review policies and procedures that were implemented since our June 2013 audit report *Monitoring of Obligation Balances Needs Strengthening*.

To satisfy this objective, we reviewed Departmental and Census Bureau policies and procedures pertaining to the monitoring and oversight of unliquidated obligations including the following:

- the Department's Office of Financial Management's *Accounting Principles and Standards Handbook*
 - U.S. Census Bureau Undelivered Order Review Process
- For the purpose of this review, we judgmentally selected 65 obligations from a total of approximately \$257 million based upon the following selection factors:
- FYs 2013 and 2014 obligation amounts left unliquidated over a year after the period of performance has ended
 - obligation types we considered risky
 - obligation types with high dollar amounts (i.e., at or above the Census Bureau threshold of \$2500)
 - obligation types with higher percentage of total obligations

In addition, we judgmentally selected 10 deobligated obligations from a total of 1,882 listed in the Census Bureau's FY 2014 semiannual review report.

We conducted site visits at the Census Bureau Office of Finance and Office of Acquisition to (1) gain understanding of how the ULO review process works and (2) perform physical file reviews.

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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

We conducted our fieldwork from June–September 2015 under the authority of the Inspector General Act of 1978 (5 U.S.C. app. 3), as amended and Department Organization Order 10-13, dated April 26, 2013. We performed our work at Census Bureau offices in Suitland, MD.

Appendix B. Unliquidated Obligations Tested

Table B-I. Sample of Open ULOs Tested

Obligation Type	Total Number of Obligations Tested	Total Amount of Obligations Tested (\$)	Number of Obligations with Adequate Justification	Number of Obligations That Can Be Deobligated	Total Amount of Obligations That Can Be Deobligated (\$)
Awards	13	409,835.49	11	2	15,582.12
Contracts (CONTR)	21	4,847,783.68	12	9	1,956,915.83
Printing purchase orders (CPPO)	2	13,935.21	2	0	0
Fixed-price contracts (FXPRPO)	5	161,669.75	2	3	68,336.17
Interagency agreements (IAPO)	15	8,675,202.09	15	0	0
Nonfederal interagency personnel agreements (IPAPO)	2	14,922.74	1	1	9,087.40
Relocation travel order (RELPO)	3	84,557.19	3	0	0
Training (TRNGPO)	4	25,895.00	4	0	0
Total	65	14,233,801.15	50	15	2,049,921.52

Source: OIG analysis of documentation provided by the Census Bureau

Table B-2. Sample of Deobligated ULOs Tested

Obligation Type	Number of ULOs Tested	Number of ULOs Deobligated per Department Standards	Number of ULOs Deobligated Improperly
Awards	1	1	0
Contracts (CONTR)	5	3	2
Printing purchase orders (CPPO)	1	0	1
Reimbursable work authorizations (RWAPPO)	1	1	0
Shipping purchase order (SHIPPO)	2	1	1
Total	10	6	4

Source: OIG analysis of documentation provided by the Census Bureau

Appendix C.
Potential Monetary Benefits

	Funds Put To Better Use
Finding II, Table 2	\$2,049,922


Appendix D. Agency Response



UNITED STATES DEPARTMENT OF COMMERCE
Economics and Statistics Administration
U.S. Census Bureau
Washington, DC 20233-0001
OFFICE OF THE DIRECTOR

FEB 03 2016

MEMORANDUM FOR Richard Bachman
Assistant Inspector General
for Audit and Evaluation

From: John H. Thompson 
Director

Subject: Draft Report: *Audit of the Census Bureau's Management of Unliquidated Obligations*

The attached comments are in response to your draft audit report, *Audit of the Census Bureau's Management of Unliquidated Obligations*. The U.S. Census Bureau appreciates the comments and recommendations developed by the Office of the Assistant Inspector General for Audit and Evaluation.

Attachment

OIG Draft Report
Audit of the Census Bureau's Management of Unliquidated Obligations
U.S. Census Bureau Response

The U.S. Census Bureau reviewed the Office of Inspector General (OIG) Draft Report and have the following comments:

I. Census' Unliquidated Obligation (ULO) Review Procedures Are Generally Adequate, but the Review Frequency Can Be Improved

RESPONSE:

The Census Bureau is committed to monitoring and deobligating ULO balances when appropriate. The ULO reports are distributed to our program offices' point of contact on a monthly basis for their information, and to maintain data integrity and funds control. The program offices review the reports and inform the Finance Division of any obligations that can be de-obligated or adjusted.

The Finance Division worked with the Office of Financial Management (OFM) to implement a semi-annual process for robustly reviewing ULOs. This review frequency is on a quarterly basis for travel balances, and semi-annually for non-travel balances. The Finance Division will work with OFM to increase the review frequency to quarterly reviews. This action will be completed by April 2016.

II. Census Bureau ULO Documentation Can Be Improved

II.A. Inadequate Documentation Supporting Excess Balance

RESPONSE:

The Census Bureau concurs that the required documentation to support the excess balances was not sufficient for the 15 items sampled. The Finance Division de-obligated seven documents and will be deobligating two more documents in February 2016. The remaining six documents will be deobligated after a legal review is completed. Each quarter, the Chief, Accounts Payable Branch, within the Finance Division, will review justifications for keeping ULOs that have been dormant for more than 1 year. This new review process will commence in February 2016.

II.B. Inadequate Documentation Supporting De-obligation Actions

RESPONSE:

The Census Bureau concurs that the required documentation was not on file for the four de-obligation documents sampled. The Finance Division will obtain adequate documentation from the program offices for these four de-obligations documents. The Finance Division will

create a template for program offices to prepare when a document should be de-obligated. The template will require the program office to certify the de-obligations request. This process will be implemented in February 2016.

OIG RECOMMENDATIONS/RESPONSES

1. We agree with your recommendation that the Census Bureau should follow up on the remaining obligations identified to ensure that, if they are no longer needed, appropriate action is taken.
2. We agree with your recommendation to update our obligation review policy to conduct quarterly reviews.
3. We agree with your recommendation to follow Departmental documentation standards on future de-obligations by ensuring all de-obligated ULOs have appropriate notification, confirmations, and certifications on record.

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