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

December 22, 2016

MEMORANDUM FOR: Lawrence E. Strickling
Assistant Secretary for Communications and Information
National Telecommunications and Information Administration

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

SUBJECT: *NTIA Has Significantly Reduced its Unliquidated Obligation Balances But Can Further Strengthen Review and Documentation Procedures*
Final Report No. OIG-17-011-A

This final report documents the results of our audit on the effectiveness of the National Telecommunications and Information Administration's (NTIA'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 unliquidated obligations 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 NTIA has generally met our recommendations—and has significantly reduced its ULO balance by more than 80 percent since our last review.[2]

Although it did not impact our overall conclusion, we did note approximately $7.1 million in unliquidated balances for obligations as of December 31, 2015, that we recommend reviewing for potential deobligation. We also recommend NTIA implement bureau-specific policies and procedures for conducting at least semiannual obligation reviews on all open balances (see finding I). We believe this would further enhance NTIA's management of unliquidated obligations.

Summary of Objective, Scope, and Methodology

Our objective was to evaluate the effectiveness of NTIA's obligation and deobligation review policies and procedures implemented in response to our June 2013 audit report, which reviewed the Department's ULO balances as of December 31, 2011. In that report, we

[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] NTIA reduced its overall ULO balances from approximately $3.5 billion as of December 31, 2011, to approximately $284 million as of December 2015.

recommended that the Department develop initiatives for timely deobligation of unneeded balances, as well as issue guidance to promote more effective obligation management. To date, NTIA follows the Department-wide guidance for ULO oversight, but it has not yet implemented its own bureau-specific polices.

To accomplish our audit, we first obtained an understanding of NTIA's ULO oversight process by reviewing the policies and procedures that were implemented in response to our prior report. We then tested the effectiveness by reviewing the implementation of these controls for FYs 2013, 2014, and 2015 (the period after the issuance of our 2013 report), as well as analyzing the impact on NTIA's outstanding obligation balances. We also judgmentally selected 40 remaining ULO balances as of December 2015, and determined whether there was still a valid need for the balances. Appendix A provides more detail about our audit scope and methodology; appendix B provides further details about the 40 samples tested; and appendix C notes the monetary benefits of approximately $7.1 million to NTIA 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 vouchers, 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 appropriations restrictions placed by Congress, return the money to the U.S. Department of the Treasury.

In the June 2013 audit report OIG-13-026-A, 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 were based on the evaluation of a statistical 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

- initiatives 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 Departmental ULO guidance prescribes bureaus to develop and implement their own written procedures to execute Department-wide policy. NTIA has developed, but not implemented, bureau-specific policies and procedures for managers to review outstanding obligation balances and take action if required.

Finding and Recommendations

NTIA's Controls Are Effective but Can Be Improved

This audit focused on the procedures implemented by NTIA since our previous report. We found that NTIA has adopted the Department's procedures and policies toward ULOs that generally addressed our original recommendations related to the monitoring of outstanding balances. Our conclusion is based on our review of the adequacy of procedures and their effectiveness in monitoring and reducing ULO balances.

Adequacy of procedures. Based on our overall observation of NTIA's ULO review process, we concluded that NTIA conducted reviews in a timely and efficient manner, as required by Departmental guideline[4]. Specifically, we observed that NTIA conducted annual reviews in FYs 2013 and 2014, and semiannual reviews in FY 2015 (the period after the issuance of our 2013 report). As part of this review, the NTIA Finance Division provided a list of outstanding obligations to each of its program offices, which then reviewed the list and completed the Department's certification form on whether the obligation was valid or should be deobligated. For valid obligations, program offices are required to provide justifications for maintaining the open obligation. The program offices sent the completed certification about the ULOs, along with any supporting documentation, to the Finance Division, which then processed any applicable deobligations in its accounting system.

Table 1 (next page) shows each of the recommendation elements and the results of our testing.

[3] We made two additional recommendations in OIG-13-026-A: to investigate instances where contract obligations may have been 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, we plan to verify the implementation of these recommendations in a future audit.

[4] U.S. Department of Commerce, *Policy for Undelivered Obligations (UDOs)*, revised June 22, 2015.

Table 1. Summary of NTIA's ULO Review Policies as of September 30, 2015

Applicable Recommendations from Our June 2013 Audit Report	Does NTIA's ULO Review Process Satisfy the Recommendation?
1. Develop an initiative related to the timely liquidation, deobligation, and closure of unneeded open obligations.	Yes[a]
2. Develop guidance for consistent monitoring and deobligation of ULO balances and for quarterly verification of open obligations.	Yes[a]

Source: OIG analysis of documentation provided by NTIA
[a] NTIA has developed but not implemented bureau-specific policies and procedures.

In addition to the semiannual reviews, Departmental ULO guidance also prescribes bureaus to develop and implement their own written procedures to execute Department-wide policy.[5] The U.S. Patent and Trademark Office (USPTO) and the U.S. Census Bureau have implemented the Departmental guidance by developing their own bureau-specific internal control process. Their process interconnects their organizations responsible for ULO management through one primary oversight entity, which allows USPTO and the Census Bureau to provide more streamlined and efficient monitoring of their respective ULOs. We believe NTIA can also benefit from having its own bureau-specific ULO oversight process, which would promote greater effectiveness in further reducing its ULO balances. While NTIA has developed bureau-specific policies and procedures, it has not yet implemented them.

Effectiveness of procedures. Overall, we found that NTIA's ULO review procedures were effective in monitoring and deobligating obligation balances that were no longer needed. Specifically, we found that, since our prior review, NTIA has reduced its unliquidated obligation balance by more than 80 percent from December 2011 to December 2015—reducing the overall balance by approximately $3.2 billion. Since NTIA's 2013 implementation of the new review procedures, they have generally achieved their intended effect and had a positive impact on the bureau's outstanding obligations. However, we did note that justification documentation was inadequate to support some of the remaining unliquidated balances.

Departmental ULO oversight policy requires the bureaus to review obligations that are no longer valid, or have been inactive for more than 1 year, and to deobligate as necessary. In addition, bureaus are required to ensure proper justifications exist to support the validity of open obligations.[6] To test the validity of the remaining obligation balances, we judgmentally selected a sample of 40 ULOs that had no activity for more

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[5] Id.

[6] Id.

than 1 year. Our sample totaled approximately $14 million and was representative of the different obligation types (e.g., grants, contracts, and interagency agreements). We requested supporting justifications for the 40 open obligations to determine whether the items were still valid or needed.

Out of the 40 obligations sampled, we determined that 8 of them, or 20 percent, should have been deobligated. For these 8 items, NTIA could not provide adequate justification to keep them open, as required by Departmental policy.[7] Also, for 1 of the 8 items sampled, NTIA reported a ULO in the amount of $6.9 million awarded to the Department of Transportation, with no activity since December 2012. Even though the Department of Transportation notified NTIA that the obligation was no longer needed in November 2015, the actual deobligation action did not occur until April 2016. As a result, we identified an approximate amount of $7.1million that may be put to better use (see appendix C).

We concluded that these 8 instances were not the result of ineffective procedures but, rather, NTIA's prior focus on prioritizing the review of larger or older balances. Because of the significant progress NTIA has already made, we did not view this as an internal control deficiency. We believe that, by implementing bureau-specific ULO review policies and continuing to conduct timely obligation reviews, NTIA will be able to further reduce its excess obligation balances.

Recommendations

We recommend that the NTIA Assistant Secretary for Communications and Information instruct the Office of Policy Coordination and Management Division to

1. follow up on the five obligations identified in this report to ensure that, if no longer needed, appropriate action is taken, and

2. implement bureau specific policies and procedures for conducting timely obligation reviews of all open balances.

On December 16, 2016, OIG received NTIA's response to the draft report's findings and recommendations, which we include here as appendix D. NTIA agreed with our recommendations. This final memorandum report will be posted on the OIG's website pursuant to section 8M of the Inspector General Act of 1978, as amended (5 U.S.C. app.)

In accordance with Department 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.

[7] For 3 of the 8 ULOs, NTIA deobligated the balances during the course of our audit after we brought them to management's attention.

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: Milton Brown, Audit Liaison, NTIA

Appendix A.
Objective, Scope, and Methodology

The objective of this audit was to evaluate the effectiveness of NTIA obligation and deobligation review policies and procedures that were implemented since our June 2013 audit report number OIG-13-026-A, *Monitoring of Obligation Balances Needs Strengthening*.

To satisfy this objective, we reviewed the Departmental policies and procedures pertaining to the monitoring and oversight of ULOs: U.S. Department of Commerce *Policy for Undelivered Obligations (UDOs),* revised June 22, 2015.

For the purpose of this review, we judgmentally selected a sample of 40 ULO balances, representing approximately $14 million, from a total of 174, representing approximately $16 million, based upon the following selection factors:

- ULOs that had no activity for more than 1 year; and
- ULOs from FYs 2013, 2014, or 2015 (as of December 31, 2015).

We conducted a site visit at NTIA headquarters to gain an understanding of the bureau's ULO review process. Our fieldwork occurred February–May 2016 under the authority of Inspector General Act of 1978 (5 U.S.C. App., § 8M), as amended, and Department Organization Order 10-13, dated April 26, 2013. We performed our work at NTIA offices in Washington, DC.

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 findings and conclusions based on our audit objective.

Appendix B.
Tested NTIA ULO Balances

Table B-1. Summary of Tested NTIA ULO Balances

Obligation Type	Total Number of Obligations Tested	Total Amount of Obligations Tested	Number of Obligations Identified To Be Deobligated as of December 31, 2015	Total Amount of Obligations That Should have Been Deobligated
Contracts	36	$11,487,342	8	$7,137,339
Grants	4	2,681,493	0	0
Total	**40**	**$14,168,835**	**8**	**$7,137,339**

Table B-2. Summary of Tested NTIA ULO Balances That Should Have Been Deobligated as of December 31, 2015

Vendor	ULO Amounts	Period of Performance End Date	Last Activity Date	When Deobligated
1. Department of Transportation	$6,961,828.00	N/A	12/31/2012	April 2016
2. National Oceanic and Atmospheric Administration (NOAA)	78,013.47	N/A	04/30/2014	a
3. Scitor Corp	39,515.54	03/01/2008	12/31/2008	a
4. Scitor Corp	10,314.93	03/01/2008	03/31/2009	a
5. Federal Communication Commission	36,725.00	09/30/2008	09/30/2008	March 2016
6. Federal Communication Commission	6,326.00	09/30/2008	09/30/2008	March 2016
7. Iron Bow Technologies	4,316.40	N/A	08/31/2014	a
8. Government Printing Office	300.00	09/30/2011	05/31/2011	a
Totals	**$7,137,339.00**			

[a] Inadequate justifications for not deobligating the ULOs.

Appendix C.
Potential Monetary Benefits

	Funds to Be Put to Better Use
Finding 1, table 2	$7,137,339

Appendix D.
Agency Response

UNITED STATES DEPARTMENT OF COMMERCE
National Telecommunications and Information Administration
Washington, D.C. 20230

December 16, 2016

MEMORANDUM FOR: Richard L. Bachman
Assistant Inspector General for Financial
And Intellectual Property Audits

FROM: Leonard M. Bechtel
Chief Financial Officer and Director of Administration
National Telecommunications and information Administration

SUBJECT: NTIA Response to the OIG Draft Report on Unliquidated Obligations

Thank you for the opportunity to comment on the Office of Inspector General's (OIG's) draft report, *NTIA Has Significantly Reduced its Unliquidated Obligation Balances But Can Further Strengthen Review and Documentation Procedures*. The National Telecommunications and Information Administration (NTIA) agrees with the OIG's two recommendations. NTIA will follow up on the five obligations identified in the report and will aggressively pursue de-obligating the balances. NTIA has addressed the second recommendation and implemented a policy for conducting a quarterly review of open unliquidated obligations.

Should you have any questions or require additional information, please contact Ed Ryan of my staff on 202-482-3287 or eryan@ntia.doc.gov.

Cc: Milton Brown, Audit Liaison, NTIA

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