



February 3, 2017

MEMORANDUM FOR: Benjamin Friedman
Deputy Under Secretary for Operations

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

SUBJECT: *NOAA Reviews of Unliquidated Obligations Could Be Improved
with Greater Review Frequency and Additional Documentation*
Final Report No. OIG-17-014-A

This final report documents the results of our audit of the effectiveness of the National Oceanic and Atmospheric Administration's (NOAA's) unliquidated obligation (ULO) review policies and procedures developed since we issued our OIG audit report in June 2013 (OIG-13-026-A). In that report, we concluded that Department-wide controls over the management of ULOs needed strengthening.¹ We also concluded that effective management of outstanding obligation balances allows bureaus to review and deobligate unneeded funds, promoting a better use of federal resources.

In this follow-up audit, we found that NOAA has not established any bureau-specific deobligation policies and procedures since our previous report. While NOAA's Chief Financial Officer has developed ULO oversight training and has conducted outreach to the various offices responsible for managing and monitoring ULOs, we found that NOAA management has not developed and implemented a robust monitoring process for dormant obligations and therefore has not significantly reduced their ULO balances (see finding I).² We also found that documentation was inadequate to support prior deobligation actions and to keep obligations open (see finding II). Finally, we identified approximately \$7.8 million in ULO balances that could have been deobligated (see finding I and appendix C).

Objective, Scope, and Methodology

Our objective was to evaluate the effectiveness of NOAA's ULO review policies and procedures implemented since our June 2013 audit report, which reviewed the Department-wide controls over the management of ULO balances. This audit focused on the procedures implemented by NOAA since our previous report to address our prior recommendations.

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 According to OIG-13-026-A, NOAA's unliquidated balance was \$3.5 billion as of December 31, 2011, compared to \$3.3 billion as of December 31, 2015.

To accomplish our audit, we first obtained an understanding of NOAA'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 fiscal years (FYs) 2013, 2014, and 2015 (the period after the issuance of the 2013 report), as well as analyzing the impact on NOAA's outstanding obligation balances. We also judgmentally selected 66 remaining ULO balances and determined whether there was still a valid need for the balances. In addition, we selected a sample of closed and liquidated obligations to determine whether they were deobligated in accordance with Department procedures. See appendix A for further detail on our audit scope and methodology; see appendix B for further details about the ULOs tested; and see appendix C for the approximately \$7.8 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 payment. 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 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 sample of balances as of December 2011, which determined that the Department had approximately \$159 million of unneeded obligation balances 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 ULO balances and for quarterly verification of open obligations.³

³ We made two additional recommendations in OIG-13-026-A: to investigate instances where contract obligations may have liquidated against an incorrect FY funding source, and to provide training on the proper methodology for

Since our previous report, NOAA has

- developed deobligation and review/certification of obligation training,
- offered training on querying data to the line offices to assist in the determination of deobligations, and
- formed a close-out team that aids in the deobligation process.

NOAA's organization includes a mission support line office⁴ and six additional line offices⁵ that carry out the business of the bureau. Each line office monitors ULOs separately and there are no bureau-specific policies and procedures to ensure consistent oversight.

Findings and Recommendations

We found that NOAA did not fully implement Departmental policy as a result of our recommendations, specifically by not developing policies to conduct periodic obligation reviews. For 50 percent of the sampled obligations tested, we found that NOAA could not provide acceptable explanations that the outstanding balances were needed, and we also found that deobligation actions were untimely and lacking documentation. As a result, NOAA continues to maintain a significantly high ULO balance. As of December 31, 2015, NOAA's total ULOs exceeded \$3.3 billion.

I. NOAA's Procedures for ULO Monitoring Were Ineffective

To address our prior recommendations, the Department began issuing annual ULO guidance to the bureaus beginning in FY 2014. This guidance included the requirements for bureaus to conduct at least semiannual obligation reviews, as well as for the bureaus to develop and implement written bureau-specific procedures to execute Department-wide policy.⁶ In addition, bureaus are required to ensure proper explanations exist to support the validity of open obligations.⁷

funding invoices of multiple-year contracts. Due to the limited scope of our audit, we did not conduct analysis to validate whether the intent of these recommendations were satisfied. However, a follow up to the Department's action plan to resolve the recommendations stated that all recommendations were implemented.

⁴ The mission support line office includes offices such as the Office of the Chief Information Officer; Acquisition and Grants Office; Office of the Chief Administrative Officer; and Office of the Chief Financial Officer.

⁵ The six additional line offices are the National Marine Fisheries Service; National Ocean Service; National Environmental Satellite, Data, & Information Service; Office of Oceanic & Atmospheric Research; National Weather Service; and Office of Marine & Aviation Operations.

⁶Policy for Monitoring Undelivered Orders was issued as a memorandum on July 15, 2014 from the Department's Chief Financial Officer to all Bureau Finance, Procurement, and Grant officials, then updated on June 22, 2015. The Department-wide policy prescribes the overall framework for obligation review and monitoring. Bureau finance offices should collaborate with acquisitions personnel to develop and implement written procedures to execute the Department-wide policy.

⁷ Policy for Monitoring Undelivered Orders, June 22, 2015.

We reviewed the process for the ULO reviews conducted during FYs 2013, 2014, and 2015 (as of December 31, 2015), including supporting spreadsheets, correspondence, and submitted justifications. We then reviewed the implementation of these policies and procedures as well as examined NOAA’s outstanding obligation balances. We selected obligation documents with unliquidated balances as of December 31, 2015 and determined whether there was sufficient evidence that a valid need existed to justify the open obligations.

We found that, although NOAA has taken some steps to improve its ULO review efforts, they have not satisfied departmental guidance based on the recommendations from our previous report. Table I below shows each of the applicable recommendation elements from the 2013 report, and the results of our testing.

Table I. NOAA’s ULO Review Process and OIG Prior Recommendations

Applicable Recommendation from Our June 2013 Audit Report	Does NOAA’s ULO Review Process Satisfy Departmental Guidance based on the Recommendation?
1. Develop a Department-wide initiative related to the timely liquidation, deobligation, and closure of unneeded open obligations.	No
2. Develop guidance for consistent monitoring and deobligation of ULO balances and for quarterly verification of open obligations.	No

Source: OIG analysis of NOAA documentation

Since our prior report, NOAA has taken steps to improve the review of obligations by setting up a training course in the Department’s online Learning Center and providing technical support to the line offices by assisting in identifying balances in need of deobligation. However, we found that NOAA has not developed comprehensive bureau-wide initiatives to identify and address outstanding obligations that are no longer needed. Additionally, we found NOAA has not developed any bureau-specific obligation and deobligation review procedures, as required by departmental guidance. This has resulted in no significant change to NOAA’s unobligated balance since our prior report. As of December 2015, NOAA had \$3.3 billion in ULOs, which is only 6 percent lower than the \$3.5 billion as of December 2011.

In comparison, we did similar testing at other Departmental bureaus and found that issuing bureau-specific guidance enhanced the effectiveness of ULO oversight and led to significant reductions in obligation balances. For example, the U.S. Patent and Trademark Office (USPTO) and the U.S. Census Bureau have developed and implemented their

own specific procedures, resulting in a decrease of their unliquidated balances by 91 percent and 42 percent respectively. In both instances, the procedures provide specific guidance to their various offices to review balances and establish one primary oversight entity, allowing a more centralized and streamlined monitoring of their respective ULOs.

To review the validity of NOAA's outstanding obligation balance, we judgmentally selected a sample of 66 open obligations (as of December 2015) with no activity for more than a year. Our sample totaled over \$18 million and included the most common types of obligations, such as grants, contracts, and interagency agreements. We requested detailed explanations to justify the continuing need and validity of the obligation balances. Valid explanations would include: grantee does not draw funds until the end of the grant period, dispute with the invoice or the service provided, or the vendor has not yet billed the Department. We found that 33 of the obligations sampled, or 50 percent, could not be sufficiently justified to remain open (see appendix B). In fact, for 20 of the 33 obligations (totaling \$4.2 million) in need of deobligation, NOAA provided no explanations but instead indicated that they should be deobligated.

As a result, we identified over \$7.8 million that should be deobligated and put to better use (see appendix C). By not timely deobligating unneeded balances, the efficient use of funds for other purposes such as reprogramming and upward adjustments is prevented. NOAA officials stated that because of the significant volume of outstanding obligations to be reviewed, limited resources, and competing priorities, they were not able to fully implement departmental guidance. During our audit, NOAA began to review and take action on our identified obligations.

NOAA's current monitoring process is not adequate to address the significant number of ULOs. We believe that the implementation of a bureau policy along with a phased and focused ULO oversight approach, such as targeting unexpired funds, would promote greater effectiveness in reducing its ULO balances.

II. NOAA's ULO Deobligation Process Can Be Improved

We found that NOAA did not consistently comply with Departmental documentation standards for supporting and justifying deobligations. According to Departmental policy, deobligation actions should be retained and supported by adequate documentation, such as appropriate notifications, confirmations, and certifications.⁸

We judgmentally selected and reviewed eight deobligation actions and found that two did not have the required notification documentation. NOAA officials stated that they could not locate the supporting documentation. We requested that NOAA research these deobligations and obtain the proper recommendation for deobligation. After reviewing the recommendations for deobligation, we determined that the deobligation actions were valid; however, without following proper procedures and retaining

⁸ *Department of Commerce Policy for Undelivered Obligations (UDOs)*, VIII. C, E, & IX. (June 22, 2015).

adequate documentation, deobligations may occur even though a valid need exists to keep the obligations open.

Additionally, Department policy requires deobligation actions to occur within 30 days of receipt of notification.⁹ We found that 4 of the 8 deobligations tested exceeded 30 days, and in one case the deobligation was not processed until more than 2 years after notification. We determined this occurred because NOAA did not follow Departmental ULO oversight guidelines. Untimely deobligation makes monitoring ULOs more difficult and the funds cannot be used for alternative purposes such as reprogramming or upward adjustments to existing obligations.

Recommendations

We recommend that the NOAA Administrator instruct the NOAA Chief Financial Officer and the Director of the Acquisition and Grants Office to

1. develop bureau-specific policies and procedures for monitoring obligations that require open ULOs to have proper justification documentation and timely reviews;
2. follow up on the obligations specifically identified in this report and take appropriate action; and
3. require compliance with Departmental documentation standards on future deobligations by ensuring all deobligation actions have appropriate notifications, confirmations, and certifications on record and are processed in a timely manner.

OIG received NOAA's response, dated January 13, 2017, to the draft report's findings and recommendations, which we include here as appendix D. NOAA concurred 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.

Thank you for the courtesies extended to my staff during this review. If you have any questions or concerns about this report, please call me at (202) 482-2877 or Susan Roy, Regional Inspector General for Audit, Atlanta Regional Office, at (404) 730-2063.

cc: Mack Cato, Audit Liaison, NOAA

⁹ *Department of Commerce Policy for Undelivered Obligations (UDOs)*, VIII. E. (June 22, 2015).

Appendix A. Objective, Scope, and Methodology

The objective of this audit was to evaluate the effectiveness of NOAA'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 policies and procedures pertaining to the monitoring and oversight of ULOs including the following:

- the Department's Office of Financial Management's Accounting Principles and Standards Handbook (revised September 2011)
- the Department's Policy for Monitoring Undelivered Orders (issued as a memorandum on July 15, 2014, from the Department's Chief Financial Officer to all Bureau Finance, Procurement, and Grant officials) then updated on June 22, 2015

For the purpose of this review, we judgmentally selected a sample of 66 ULOs totaling \$18,598,890 from a total of 27,713 ULOs totaling \$3,325,013,625 based upon the following selection factors:

- ULOs as of December 31, 2015
- ULOs that had no activity for more than 1 year
- ULOs above \$100,000

Additionally, we reviewed the explanations provided by NOAA from the sample of 66 ULOs, and judgmentally selected 8 of the 66 that NOAA stated were in fact deobligated.

We conducted a site visit to NOAA offices in Germantown, MD to gain an understanding of how the ULO review process works. Our fieldwork occurred from February to June 2016 under the authority of the Inspector General Act of 1978, as amended (5 U.S.C. App.), and Department Organization Order 10-13, dated April 26, 2013.

To gain an understanding of internal controls we interviewed appropriate NOAA management regarding policies/procedures and internal controls implemented to ensure ULOs are monitored and deobligated in a timely manner. To satisfy our audit objectives, we did not rely upon computer processed data. Instead, we used a limited system report as a secondary check.

We performed 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 that provides 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. Sample of ULOs Tested

Obligation Type	Total Number of Obligations Tested	Total Amount of Obligations Tested	Number of Obligations That Can Be Deobligated	Total Amount of Obligations That Can Be Deobligated
Contracts	50	\$13,298,760	25	\$5,041,730
Grants	3	628,856	3	628,856
Other ^a	13	4,671,274	5	2,156,000
Total	66	\$18,598,890	33	\$7,826,586

Source: OIG analysis of documentation provided by NOAA

^aThe Other category consisted of the following:

CONV03: conversion contract/purchase order from a previous accounting system

FEDSTR: federal standard requisitioning (General Service Administration)

GSARWA: General Service Administration reimbursable work agreements

IAGPO: interagency agreements

IPA: intergovernmental personnel action

LEASE: rent

PCSTRV: permanent change of station travel

PO2WAY: purchase order (no receiving ticket required)

Appendix C.
Potential Monetary Benefits

	Funds to Be Put to Better Use
Finding I	\$7,826,586

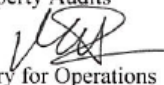
Appendix D. Agency Response



UNITED STATES DEPARTMENT OF COMMERCE
The Deputy Under Secretary for Operations
Washington, D.C. 20230

JAN 13 2017

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

FROM: Benjamin Freidman 
Deputy Under Secretary for Operations

SUBJECT: *NOAA Reviews of Unliquidated Obligations Could Be Improved
with Greater Review Frequency and Additional Documentation*
Draft Report

Thank you for the opportunity to comment on the Office of Inspector General's draft report evaluating unliquidated obligations within the National Oceanic and Atmospheric Administration. We concur with the recommendations, and our attached response describes actions to address each recommendation.

If you have questions, please contact Mack A. Cato, Director, Audit and Information Management Office on (301) 628-0949.

Attachment



**Department of Commerce
National Oceanic and Atmospheric Administration
Comments to the OIG Draft Report Entitled
“NOAA Reviews of Unliquidated Obligations Could Be Improved with Greater Review
Frequency and Additional Documentation”
(December 2016)**

General Comments

The Department of Commerce's National Oceanic and Atmospheric Administration (NOAA), Acquisition and Grants Office (AGO) and Finance Office (FO) appreciates the opportunity to review and comment on the Office of Inspector General (OIG) draft report on NOAA's Unliquidated Obligations (ULO). NOAA AGO and FO reviewed the report and our combined responses to each recommendation are listed below.

Recommended Changes for Factual/Technical Information

None.

Editorial Comments

None.

NOAA Response to OIG Recommendations

Recommendation 1: Develop bureau-specific policies and procedures for monitoring obligations that require open ULOs to have proper justification documentation and timely reviews.

NOAA Response: Concur. In order to strengthen the monitoring of ULOs, a policy and procedure will be developed to implement a corporate metric beginning second quarter of fiscal year (FY) 2017. Each Line Office (LO) will have a quarterly target balance of \$250,000 or less and Staff Offices (SO) have a quarterly target of \$100,000 or less of undelivered orders on documents inactive for 12 or more months. A priority will be placed on deobligations within their period of availability. Each LO/SO will be responsible for maintaining supporting documentation for the reported metric amount.

The policy and procedure implementation will allow NOAA to identify ULOs, but will not resolve the issue of resource constraints currently faced by the Bureau. NOAA will work towards compliance but cannot guarantee timely reviews will be achieved for all ULOs due to the limitation on available resources.

Recommendation 2: Follow up on obligations specifically identified in this report and take appropriate action.

NOAA Response: Concur. NOAA will follow-up quarterly on each specifically identified document that has not had the appropriate action taken. This follow-up will continue until all documents are complete. NOAA will work towards the goal of completing all identified documents in FY2017, but cannot guarantee this goal will be achieved due to the limitation to available resources.

Recommendation 3: Require compliance with Departmental documentation standards on future deobligations by ensuring all deobligation actions have appropriate notifications, confirmations, an certifications on record and are processed in a timely manner.

NOAA Response: Concur. NOAA provides a complete list of non-travel deobligations meeting the departmental criteria. Each August, an updated certification and explanation record is required to be submitted to the Department. Semi-annually the list is re-evaluated to identify any outstanding deobligations that have not been completed. The Departmental metrics are recalculated and provided as required. Travel deobligations are monitored quarterly and any travel not taken within one year of the obligation is automatically deobligated and reported to the department as required.

NOAA cannot guarantee all documents will be processed timely due to the limitation to available resources.

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