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

April 27, 2017

MEMORANDUM FOR: Dennis Alvord
Deputy Assistant Secretary for Regional Affairs
Economic Development Administration

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

SUBJECT: *EDA Can Strengthen Its Policies and Procedures for Monitoring ULOs*
Final Report OIG-17-023-A

This final report documents the results of our audit on the effectiveness of the Economic Development Administration's (EDA's) unliquidated obligation (ULO) review policies and procedures developed since our OIG audit report issued in June 2013 (OIG-13-026-A). In our 2013 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 EDA has generally achieved the intent of our recommendations[2] by reducing its ULO balance by approximately $500 million since our last review. However, EDA has not established any bureau-specific deobligation policies and procedures as required by Departmental policy.[3] As a result, we identified approximately $3 million in ULOs that could have been deobligated (see finding).

Our objective for the current audit was to evaluate the effectiveness of EDA obligation and deobligation practices as well as review policies and procedures that were implemented since our June 2013 audit report. To accomplish our audit objective, we first obtained an understanding of EDA's ULO oversight process by reviewing the policies and procedures that

[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] EDA reduced its overall ULO balances from approximately $1.2 billion as of December 2011 to approximately $700 million as of March 2016.

[3] *Policy for Monitoring of Undelivered Orders* was issued as a memorandum on July 15, 2014, from the Department's Deputy Chief Financial Officer to all Bureau Finance, Procurement, and Grant officials. This Policy was revised on June 22, 2015 and entitled *Policy for Undelivered Obligations (UDOs)*. 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.

were implemented since our prior report. We then tested the effectiveness by reviewing the implementation of these controls for Fiscal Years (FY) 2013, 2014, and 2015 (the period after the issuance of our 2013 report), as well as analyzing the impact on EDA's outstanding obligation balances. We also judgmentally selected 80 remaining unliquidated obligation balances and determined whether there was still a valid need for the balances. Appendix A provides more details about our audit scope and methodology. Appendix B provides further details about the 80 samples tested. Appendix C notes the monetary benefits of approximately $3 million to EDA 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 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 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 statistical sample of balances as of December 2011, which determined that the Department had approximately $159 million of unliquidated 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 unliquidated obligation balances, as well as quarterly verification of open obligations.[4]

[4] 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. Due to the limited scope of our audit, we did not conduct analysis to validate whether the intent of these recommendations were satisfied. However, the Department provided an action plan to resolve prior recommendations.

To address these recommendations, EDA implemented

- grant close-out procedures to review and deobligate outstanding FY 2013 and FY 2014 ULO balances as necessary, and
- Departmental ULO review and deobligation guidance for FY 2015 ULO balances.

EDA Budget and Finance Division staff provide a list of outstanding obligations to each of its regional program offices, which then reviews the list and indicates whether the obligation is valid or not. For valid obligations, regional program offices provide justifications for maintaining the open obligation. The regional program offices then send the completed listing, along with any supporting documentation, to EDA's accounting service provider[5], which then processes any applicable deobligations in its accounting system.

Finding and Recommendations

Since our prior review of obligations in December 2011, we found that EDA reduced its overall ULO balance by approximately 40 percent as of March 2016, reducing its outstanding ULO balance from $1.2 billion to approximately $700 million. EDA has taken steps to aggressively close out outstanding grants during FYs 2013 and 2014, with monthly open grants reviews. This resulted in reducing excess obligation balances embedded within those grants. In addition, as of July 2014, EDA implemented Departmental ULO semiannual open obligation and deobligation review procedures.

However, we found that EDA did not develop and implement written bureau-specific procedures to execute the Department-wide policy as required. As a result, in 9 of the 80 (11 percent) of the sampled obligations tested, we found that EDA could not provide acceptable explanations that outstanding balances were needed.

EDA Can Strengthen Policies and Procedures for Monitoring ULOs

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 obligations 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]

We reviewed the process for the ULO reviews conducted during FYs 2013, 2014, 2015, and 2016 (as of March 31, 2016), including reviewing supporting spreadsheets, correspondence, and submitted justifications. We then reviewed the implementation of these policies and

[5] National Oceanic and Atmospheric Administration (NOAA) is EDA's service provider.

[6] *Policy for Monitoring of Undelivered Orders*, July 15, 2014; *Policy for Undelivered Obligations (UDOs)*, revised June 22, 2015.

[7] *Policy for Undelivered Obligations (UDOs)*, revised June 22, 2015. Section VII.C. Notification provides that bureau program office personnel should notify financial personnel of UDOs meeting the review selection criteria that should be deobligated. A detailed explanation is required for each UDO that meets the review selection criteria in Section V but not requested to be deobligated.

procedures as well as examined the impact of these reviews on EDA's outstanding obligation balances. We also selected obligation documents and unliquidated balances as of March 31, 2016, and determined whether there was sufficient evidence that a valid need existed to justify the open obligations.

We found that EDA has satisfied some of the Departmental guidance based on the recommendations from our previous report. Table 1 below shows each of the applicable recommendation elements from the 2013 report and results of our testing.

Table 1. EDA's ULO Review Process and OIG Prior Recommendation

Applicable Recommendations from Our June 2013 Audit Report	Does EDA's ULO Review Process Satisfy Departmental Guidance Based on 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 ULO balances and for quarterly verification of open obligations.	No

Source: OIG analysis of documentation provided by EDA

Since our prior report, EDA has taken steps to improve the review of obligations. Currently, EDA reviews grants on a monthly basis and prepares a report explaining why grants that are one year past their closeout date are kept open. However, we found that EDA has not developed bureau-specific obligation and deobligation review procedures that address overall ULO oversight, as required by Departmental guidance.

In comparison, we reviewed 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) has developed and implemented its own specific procedures, resulting in a decrease of its unliquidated balances by 91 percent. USPTO's procedures provide specific guidance to its various offices to review balances and establish one primary oversight entity, allowing a more centralized and streamlined monitoring of its respective ULOs.

To review the validity of EDA's outstanding obligation balance, we judgmentally selected a sample of 80 open obligations (as of March 31, 2016) with no activity for more than one year. Our sample totaled over $121 million and consisted of grants and interagency agreements. We requested detailed explanations to justify the continuing need for the obligation balances, such as an active agreement or anticipated future payments. We found that nine of the obligations sampled, or 11 percent, could not be justified to remain open (see appendix B), which resulted in over $3 million that should be deobligated and put to better use (see table B-1 in appendix

C). By not timely deobligating unneeded balances, the efficient use of funds for other purposes, such as reprogramming and upward adjustments, is prevented. We believe that the implementation of bureau-specific policy alone, with a focused ULO oversight approach, such as targeting unexpired funds, would promote greater effectiveness in further reducing EDA's ULO balances.

Recommendations

We recommend the Assistant Secretary for Economic Development instruct the Director of EDA's Budget and Finance Division to

1. follow up on the nine obligations identified in this report to ensure that, if no longer needed, appropriate action is taken, and
2. develop and implement bureau-specific policies and procedures for conducting timely obligation reviews of all open balances.

OIG received EDA's response, dated April 10, 2017, to the draft report's findings and recommendations, which we include here as appendix D. EDA concurred with our recommendations. This final memorandum report will be posted on the OIG's website pursuant to sections 4 and 8M of the Inspector General Act of 1978, as amended (5 U.S.C. App. 3, §§ 4 & 8M).

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.

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: Deborah Haynes, Audit Liaison, EDA

Appendix A.
Objective, Scope, and Methodology

The objective of this audit was to evaluate the effectiveness of EDA obligation and deobligation practices as well as 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: *Policy for Monitoring of Undelivered Orders,* July 15, 2014; *Policy for Undelivered Obligations (UDOs)*, revised June 22, 2015.

To gain an understanding of internal controls we interviewed appropriate EDA management regarding policies, procedures, and internal controls implemented to ensure ULOs are monitored and deobligated in a timely manner. We also considered the information system controls over computer processed data to the extent of the significance and impact of the information on the findings and conclusions. EDA provided a spreadsheet of its unliquidated obligations as of March 31, 2016. EDA indicated that the source of the spreadsheet information was from EDA's Operations Planning and Control System (OPCS) and NOAA's Grants Online.

To review the validity of EDA's outstanding obligation balance, we judgmentally selected a sample of 80 open obligations (as of March 31, 2016) with no activity for more than one year. Our sample totaled over $121 million, from 1,593 representing approximately $700 million, and consisted of grants and interagency agreements. We requested detailed explanations to justify the continuing need of the obligation balances.

We conducted a site visit at EDA headquarters to gain an understanding of the bureau's ULO review process. Our fieldwork occurred August 2016 to December 2016 under the authority of the Inspector General Act of 1978, as amended (5 U.S.C. App. 3), and Department Organization Order 10-13, dated April 26, 2013. We performed our work at EDA offices in Washington, DC.

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.
Table B-1. Summary of Tested EDA ULO Balances

Obligation Type	Total Number of Obligations Tested	Total Amount of Obligations Tested	Number of Obligations Identified to Be Deobligated as of March 31, 2016	Total Amount of Obligations That Should Have Been Deobligated
Grants	78	$121,043,965	7	$3,066,722
Interagency Agreement	2	$58,010	2	$58,010
Total	**80**	**$121,101,975**	**9**	**$3,124,732**

Source: OIG analysis of documentation provided by EDA

Appendix C.
Potential Monetary Benefits

	Funds to Be Put to Better Use
Finding 1	$3,124,732

Source: OIG analysis of documentation provided by EDA

Appendix D.
Agency Response

UNITED STATES DEPARTMENT OF COMMERCE
Economic Development Administration
Washington, D.C. 20230

April 10, 2017

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

FROM: Greg Brown
Chief Financial Officer/Chief Administrative Officer

SUBJECT: Response to draft Report, 'EDA Can Strengthen Its Policies and Procedures for Monitoring ULOs'

This memorandum responds to the draft report from the Office of Inspector General (OIG) on the effectiveness of the of the Economic Development Administration's (EDA's) unliquidated obligation (ULO) policies and procedures since June 2013. Overall, the EDA concurs with the recommendations in the report and we are encouraged that the report found that EDA has generally achieved the intent of previous OIG recommendations to significantly reduce ULO balances.

By the close of FY 2017, the Budget and Finance Division will lead the follow up on the nine obligations identified in the report to ensure supporting documentation is appropriately represented and take appropriate action to close the ULO. Additionally, EDA will develop and implement written bureau-specific procedures to execute the Department-wide policy, establish for consistent monitoring and de-obligation of ULO balances and implement quarterly verification of open obligations by the end of the FY 2018.

Thanks you for the opportunity to provide comments. If you have any questions or comments, please feel free to call me at (202) 482-0886.

c.c. Dennis Alvord, Deputy Assistant Secretary for Regional Affairs
Deborah Haynes, Audit Liaison

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