United States Department of State and the Broadcasting Board of Governors Office of Inspector General

Office of Audits

Audit of Undelivered Orders

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Executive Summary

The independent auditor's report on the Department of State's 2007 financial statements identified the Department's internal control process related to the management of undelivered orders (UDO) as a material weakness. UDOs are unliquidated obligations for which the goods or services ordered and obligated have not been received. While appropriations have increased from $6.3 billion in 1998 to $19 billion in 2007, about 200 percent, UDOs have grown from $2 billion to $13.4 billion, an increase of 570 percent, over the same period.

The purpose of this audit was to assist the Department in providing government managers, the Congress, and the public with accurate information regarding UDOs and improving the Department's management of appropriated funds. The Office of Inspector General (OIG) audited the domestic UDOs in the Bureaus of Overseas Buildings Operations (OBO), International Narcotics and Law Enforcement Affairs (INL), and Information Resource Management (IRM) to determine whether they were valid, that is, the balances on the UDOs were necessary to pay for goods and services not yet received.

Each of the three bureaus audited had a significant number of invalid UDOs. Of the 389 sampled UDOs, totaling about $615 million, OIG found that 106, amounting to about $15.8 million, were not valid. The large number of invalid UDOs existed primarily because the bureaus did not have a systematic process for monitoring them. Despite bureau actions to reduce older UDOs, the validity of the bureaus' UDOs overall has not improved significantly because all obligations did not receive adequate attention.

Invalid UDOs affect the bureaus' management of their funds. Specifically, funds that could be used by the bureaus for other purposes, such as the $15.8 million OIG identified, have remained in unneeded obligations. Further, the large number of invalid UDOs makes monitoring unliquidated obligations more difficult and increases the risk of duplicate or fraudulent payments. In addition, invalid UDOs have also resulted in inaccurate reporting by the Department on its annual financial statements and in budgetary reports submitted to the Office of Management and Budget (OMB).

By the end of our fieldwork, the bureaus had taken actions to reduce their invalid UDOs. However, additional bureau controls are needed. OIG is recommending that the bureaus develop and implement a systematic process for monitoring unliquidated obligations, assess their obligations to determine instances in which automatic deobligations would be appropriate, and determine whether balances on the invalid UDOs OIG identified are necessary.

Management Comments and OIG Response

The three audited bureaus generally agreed with OIG's recommendations and have addressed or are taking actions to address them. For example, OBO has implemented a systematic process for monitoring unliquidated obligations, all three bureaus have or are considering implementing automatic deobligations, and IRM has made a final determination on the invalid UDOs identified by OIG. These actions enabled OIG to close one recommendation and portions of the other two recommendations upon issuance of this report.

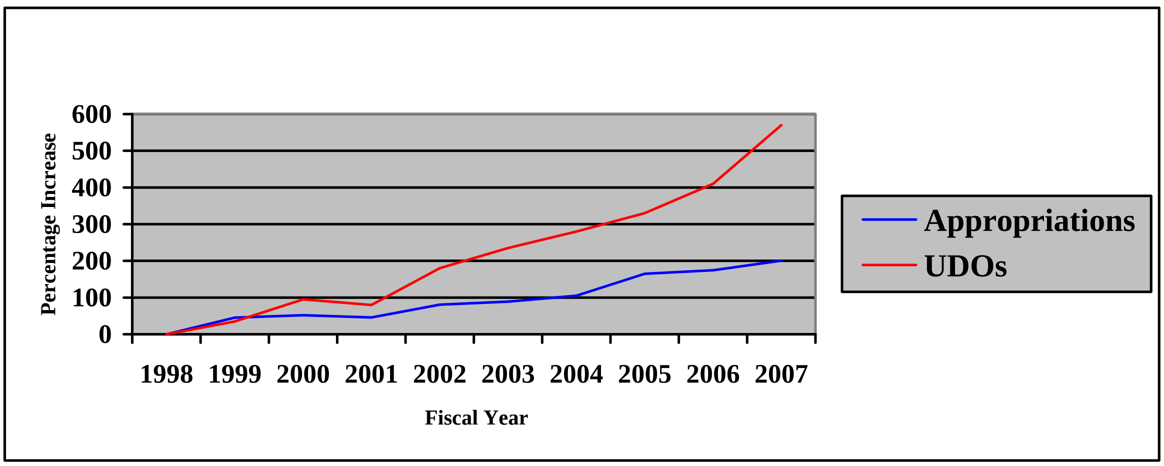
Background

During FY 2007, the Department incurred obligations amounting to over $25 billion to accomplish its programs around the world. These obligations are definite commitments that create a legal liability of the government for payment. The Department records obligations in its financial management system when it enters into an agreement, such as a contract or purchase order, to purchase goods and services.

Once recorded, obligations remain open until they are fully reduced by a disbursement or are deobligated or until the appropriation funding the obligations is closed. As invoices are received and payments are made, obligations are liquidated by the amount of the payments. UDOs are unliquidated obligations for which the goods and services ordered and obligated have not been received.[1] If all goods and services have been received and paid for, obligation balances should be deobligated and the funds should be used for other Department needs consistent with the source of the appropriation.

In recent years, the growth in the Department's UDOs has far exceeded the growth in its appropriations. While UDOs have grown from $2 billion in 1998 to $13.4 billion in 2007, an increase of 570 percent, the Department's appropriations have increased approximately 200 percent—from $6.3 billion to $19 billion over the same period. The relative increase in UDOs and appropriations is depicted in Figure 1.

Figure 1. Percentage of Increase in Appropriations and UDOs Since 1998



Source: Prepared by OIG from information in the Department's financial statements for 1998 through 2007.

The independent auditor's report on the Department's 2007 financial statements identified the Department's internal control process related to the management of UDOs as a material weakness.[2] The report indicated that potential excess obligations totaled more than

[1] According to OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, unliquidated obligations equal UDOs plus accounts payable. For this audit, we treated all unliquidated obligations as UDOs.
[2] The American Institute of Certified Public Accountants defines a material weakness as "a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected."

$550 million as of September 30, 2007. The report also noted that significant deficiencies in the UDO process have been cited in every financial statement audit report from 1997 to 2007. The overstatement of UDOs was one factor that led the independent auditor to disclaim an opinion on the Department's 2007 statements.

To address the UDO deficiency, the Department developed a corrective action plan that called for implementing a process to identify and deobligate unneeded obligations in a timely manner. At the time of this audit, the Bureau of Resource Management (RM) had completed a number of the planned actions. For example, it issued year-end guidance for bureaus and posts to review and certify their unliquidated obligations and provided a checklist to facilitate those reviews; it identified aged and large dollar obligations with no activity since October 1, 2006, and provided the information to the bureaus for review on November 23, 2007; and it updated the financial management system software to enable it to run flexible automatic deobligation routines.

Bureaus Audited

As of March 31, 2008, domestic unliquidated obligations for the three bureaus audited—OBO, INL, and IRM—accounted for about 35 percent of all Department unliquidated obligations, both domestic and overseas. The number and the available amount of unliquidated obligations for each of the three bureaus are shown in Table 1.

Table 1. Department and Bureau Unliquidated Obligations as of March 31, 2008

Bureau	Total Number of Unliquidated Obligations	Total Dollar Value of Unliquidated Obligations	Dollar Value of Bureau to Dollar Value of Department Unliquidated Obligations
Department	395,051	$9,782,461,649	100.00%
OBO	10,222	$1,853,545,319	18.95%
INL	3,958	$1,324,948,172	13.54%
IRM	5,216	$221,659,539	2.27%
Total - Three Bureaus	**19,396**	**$3,400,153,031**	**34.76%**

Source: Developed by OIG from the Department's unliquidated obligations database as of March 31, 2008.
Note: Totals may not add because of rounding.

Bureau of Overseas Buildings Operations

OBO directs the worldwide overseas buildings program for the Department and the U.S. Government community serving abroad under the authority of the chiefs of mission. OBO is responsible for managing the Department's real property assets, providing diplomatic and consular missions with secure, safe, and functional facilities. The Department's real estate portfolio exceeds $14 billion in value and consists of more than 15,000 properties. OBO requested $1,599,434,000 in funding for FY 2008.

OBO's Office of Resource Management, Financial Management Division (OBO/RM/FM), provides accounting, budgeting, and financial management services for all OBO programs.

Bureau of International Narcotics and Law Enforcement Affairs

INL's mission is to reduce the threat of international crime and illegal drugs to the United States and its global partners through cooperation. INL programs support Department efforts to (1) reduce the entry of illegal drugs into the United States and (2) minimize the impact of international crime on the United States and its citizens. These diplomatic initiatives are currently operating in more than 150 countries around the world. For FY 2008, INL requested funding of $1,077,412,000 and an additional $159,000,000 in supplemental funding. INL also receives funds transfers from other agencies, such as the Department of Defense, to implement programs using INL project management personnel and infrastructure. As of March 20, 2008, INL had received $426,475,000 in such funds transfers.

INL's Office of Resource Management (INL/RM) facilitates and supports the execution of INL programs by providing administrative, analytical, budgetary, financial management, human resources, procurement, and strategic planning services.

Bureau of Information Resource Management

IRM provides the information technology and services the Department needs to successfully carry out its foreign policy mission. IRM supports the effective and efficient creation, processing, and disposition of information required to formulate and execute U.S. foreign policy and manage the Department's daily operations. The Department annually generates more than 2 million cables, 200 million e-mails, and hundreds of thousands of indexed documents on thousands of Department Web pages. IRM requested $147,497,000 in funding for FY 2008.

On October 2, 2006, IRM and the Bureau of Administration (A) consolidated their executive offices into one new shared services operation under the A Bureau. The A Bureau's Executive Office, Financial Management Division (A/EX/FMD), performs budget execution functions for IRM.

Federal and Department Obligation Requirements

Federal law requires that agencies record an obligation only when it is supported by documentary evidence, such as a contract, purchase order, grant, or travel authorization.[3] If the precise amount is not known at the time the obligation is recorded, agencies may record an estimated amount, but the estimate should be adjusted up or down as more precise information becomes available. Overrecording obligations is improper because it makes it impossible to determine the precise status of the appropriation.

[3] 31 U.S.C. § 1501(a).

The period in which funds are available for obligation is determined by the type of appropriation. Annual, or one-year, appropriations are available for one fiscal year; multi-year appropriations are available for a definite period in excess of one year; and no-year appropriations are available for an indefinite period. Annual and multi-year funds that remain unobligated at the end of the period of fund availability "expire" for obligation purposes. Once the appropriation expires, no new obligations may be made against it; however, existing obligations may be adjusted and increased by the unobligated balance in the appropriation.[4] Five years after expiration, unliquidated obligations against expired appropriations must be closed and all remaining funds returned to the Department of the Treasury. In general, there are no time limits for obligating no-year funds, which remain available for their original purpose until expended.

Federal law requires each agency to report to the Department of the Treasury the amount of its unliquidated obligations after the close of each fiscal year, and the agency head must certify that the obligation balances reported in each appropriation account reflect proper existing obligations.[5] To support the certification, agencies are required to establish internal controls to ensure that an adequate review of unliquidated obligations is performed.

The Department's Foreign Affairs Manual (FAM) provides policies to ensure compliance with federal requirements. Specifically, the FAM states that responsibility for reviewing unliquidated obligations and deobligating funds when appropriate is assigned to each official who receives an allotment of funds.[6] The FAM also states that allotment holders must perform periodic reviews on a monthly and continuing basis throughout the fiscal year to ensure that their obligations are valid and supported by proper documentation.[7] At the end of each fiscal year, allotment holders are required to review and certify to RM that their obligation balances are valid.

Prior Reports

OIG has identified the management of obligations as a control weakness in 46 different audit and inspection reports issued from 1990 through early 2008. In general, OIG reported that the Department offices, bureaus, and posts audited or inspected were not performing periodic reviews of unliquidated obligations or making adjustments when necessary. As a result, the Department had invalid obligations and, therefore, funds that could be put to better use.

In addition to the OIG reports addressing unliquidated obligations, an OIG inspection team found, in the report *Inspection of Bureau of Administration's Office of the Procurement Executive, Office of Acquisitions Management, and the Office of Small and Disadvantaged Business Utilization* (ISP-I-07-12, Dec. 2006), that the A Bureau's Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM), was not always closing out contracts in accordance with time requirements in the Department's acquisition regulations

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[4] INL receives some multi-year funds that remain available for new obligations for 4 years after the fund would normally expire.
[5] 31 U.S.C. § 1554(b).
[6] 4 FAM 032.4–2(7)(e), "Fund Controls."
[7] 4 FAM 086(d), "Relationship to the Accounting System."

because of its heavy workload. Despite these shortcomings, most contracts, especially those of high value, were being deobligated properly. The inspection team did not find evidence of large sums of money being tied up in contracts that had not been closed out.

The Office of the Special Inspector General for Iraq Reconstruction (SIGIR) audited the Iraq Relief and Reconstruction Fund, as reported in *Controls Over Unliquidated Obligations in the Iraq Relief and Reconstruction Fund* (SIGIR-07-011, Oct. 23, 2007), to determine the amount of unliquidated obligations retained by the Department of Defense, the Department of State, and the U.S. Agency for International Development. The audit also was to determine whether those agencies had established adequate management controls over their unliquidated obligations. SIGIR reported that the Department did not provide supporting documentation for its annual review of unliquidated obligations and its determination of a continuing need for individual obligations, and it found instances in which a continuing need for an obligation could be questioned. SIGIR recommended that the Department document its year-end review of individual unliquidated obligations and its determination of a continuing need. This recommendation was open as of the end of fieldwork for this audit.

Objective, Scope, and Methodology

The purpose of this audit was to assist the Department in providing government managers, the Congress, and the public with accurate information regarding UDOs and improving the Department's management of appropriated funds. The objective of the audit was to determine whether UDOs in three selected bureaus were valid. OIG selected OBO and INL because these bureaus had the largest dollar amount of unliquidated obligations reported in the Department's financial management system, $1.6 billion and $1.1 billion, respectively, as of June 30, 2007. OIG selected IRM because it had the largest UDO error rate, about 67 percent, identified during the audit of the Department's 2007 financial statements.

OIG limited its audit to domestic UDOs, which accounted for 81 percent of the balances of all UDOs as of June 30, 2007. In addition, domestic UDOs accounted for $398 million, or 71 percent, of the potential $557 million overstatement identified during the audit of the Department's 2007 financial statements.

As background for this audit, OIG researched and reviewed the requirements relating to obligations contained in federal appropriations law, the Department of the Treasury's Financial Manual, OMB circulars, Government Accountability Office (GAO) guidance, and the Department's FAM and Foreign Affairs Handbook. OIG also reviewed the requirements for contract closeout contained in the Federal Acquisition Regulation and the Department's Acquisition Regulations. In addition, OIG reviewed and analyzed internal OIG and external audit and inspection reports to identify issues relating to obligations that had been previously reported.

OIG interviewed bureau officials and budget analysts in OBO/RM/FM, INL/RM, and A/EX/FMD to gain an understanding of their processes for monitoring, reviewing, deobligating, and certifying obligations. OIG interviewed officials and contracting officers in A/LM/AQM to gain an understanding of the procurement process and the Department's contract closeout process.

OIG obtained information from RM officials to gain an understanding of RM's responsibilities relating to the management of UDOs and RM's actions to address the UDO material weakness. OIG also obtained and reviewed the guidance relating to unliquidated obligations that RM provided to Department bureaus and posts in memoranda and cables from August 2007 to August 2008, as well as the responses RM received from OBO, INL, and A/EX.

OIG obtained a database of all Department unliquidated obligations as of March 31, 2008, from RM. From this database, OIG used stratified random sampling to select 149 OBO, 120 INL, and 120 IRM domestic UDOs to test for validity.[8] OIG's sampling methodology is detailed in Appendix A. For each UDO selected, OIG matched the fiscal data and balances in the database with the information contained in the Department's financial management system.

To determine the validity of the UDOs, OIG obtained from the bureaus and reviewed obligating documents and, when available, invoices for each UDO selected. Based on its review of the documentation, OIG made a preliminary determination on the validity of each UDO, provided a list of potentially invalid UDOs to bureau management for review, and obtained and reviewed the additional information provided by the bureaus to make a final determination on validity.

Other than obtaining an understanding of how RM maintained the database, OIG did not audit the unliquidated obligations database. However, OIG brought any anomalies identified during its analysis to the attention of RM officials and asked for explanations. The scope of this audit was limited to determining the validity of UDOs. OIG did not perform tests to determine whether the database was complete, that is, the database contained all unliquidated obligations for the three bureaus tested.

OIG's Office of Audits conducted this performance audit from May to September 2008 in accordance with generally accepted government auditing standards. Those standards require that OIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives. OIG met with officials from OBO, INL, and the A Bureau in November 2008 to discuss its findings and proposed recommendations. The three bureaus provided formal comments to the draft report, which are incorporated where applicable and included in their entirety as Appendices D through F to this report.

Results

Each of the three bureaus audited had a significant number of invalid UDOs. OIG sampled 389 UDOs with total balances of about $615 million. Of the 389 sampled UDOs, OIG found that 106, with balances of about $15.8 million, were not valid. The majority of invalid

[8] Stratified random sampling is a statistical or probability sampling method whereby the entire population is divided into strata (groups) and a simple random sample is selected from each stratum.

UDOs had small balances; however, UDOs with large balances accounted for most of the total dollar amount of invalid UDOs. Further, the majority of invalid UDOs had had no activity for 6 months or more.

The large number of invalid UDOs existed primarily because the bureaus did not have a systematic process for monitoring them. The bureaus had taken actions to improve their oversight of unliquidated obligations, which contributed to a large reduction in the number of older UDOs. Specifically, the bureaus reduced unliquidated obligations with no activity since October 1, 2006, by 65 percent overall. Despite this reduction, the validity of the bureaus' UDOs had not improved significantly because all unliquidated obligations, such as those with activity after October 1, 2006, did not receive adequate attention.

Bureau officials told OIG that their ability to review unliquidated obligations was hampered when the Department was converting to a new financial management system in 2007. Specifically, one bureau was unable to generate system reports, the bureaus identified differences between amounts in the system and other sources, and the integration of the procurement and financial management systems limited the bureaus' control over unliquidated obligations. In addition, the bureaus could not deobligate unneeded balances on obligations in the contract closeout process; instead, these balances were deobligated by A/LM/AQM as part of contract closeout. RM is working with the bureaus to resolve system conversion issues, and A/LM/AQM officials said that they plan to develop a contract closeout group to improve the timeliness of contract closeouts.

Invalid UDOs affect the bureaus' management of their funds. Specifically, funds that could be used by the bureaus for other purposes, such as the $15.8 million that OIG identified, have remained in unneeded obligations. Further, the large number of invalid UDOs makes monitoring them more difficult and increases the risk of duplicate or fraudulent payments. In addition, invalid UDOs have also resulted in inaccurate Department reporting on its financial statements and in budgetary reports submitted to OMB.

By the end of our fieldwork, the bureaus had taken actions to reduce their invalid UDOs. Specifically, OBO improved its management of unliquidated obligations by implementing a process to automatically deobligate older temporary duty travel obligations and to review and deobligate remaining balances on obligations for major construction projects as soon as possible after a project has been completed. The three bureaus had also deobligated the majority of the $15.8 million in UDOs that OIG identified as invalid, and A/EX identified an additional $10 million in IRM unliquidated obligations that could be deobligated.

Many UDOs Are Invalid

Each of the three bureaus included in the audit had a significant number of invalid UDOs. OIG randomly sampled UDOs to determine whether they were valid, that is, the balances were necessary to pay for goods or services not yet received. Of the 389 sampled UDOs, totaling about $615 million, OIG found that 106, amounting to about $15.8 million, were not valid. The results of OIG's review of the UDOs sampled for each bureau are shown in Table 2. (OIG's sampling methodology and results are detailed in Appendix A.)

Table 2. Results of Random Sample by Bureau

Bureau	Number of UDOs (as of 3/31/08)	Number of Sampled UDOs	Number of Invalid UDOs	Interval Estimate Invalid UDOs Rate[a] at 95 Percent Confidence Level[b]	Available Balance: Sampled UDOs (as of 3/31/08)	Available Balance: Invalid UDOs
OBO	10,222	149	46	58% ± 11%	$412,239,005	$6,928,837
INL	3,958	120	33	48% ± 11%	$141,438,796	$6,493,804
IRM	5,216	120	27	50% ± 11%	$60,833,482	$2,408,718
Total	**19,396**	**389**	**106**	**54% ± 7%**	**$614,511,283**	**$15,831,359**

Source: Prepared by OIG based on the results of its random sample.
[a] Rate (or percentage) was derived by weighting the stratified random sample.
[b] Confidence level is the level of certainty to which an estimate can be trusted. The degree of certainty is expressed as the chance, usually in the form of a percentage, that a true value will be included within a specified range, called a confidence interval.

The overall exception rate for the three bureaus ranged from 47 percent to 61 percent (i.e., 54 percent ± 7 percent) at the 95 percent level of confidence. At this confidence level, OIG's sample of 389 UDOs when projected to the universe indicated that between 9,131 and 11,825 of the bureaus' 19,396 UDOs were invalid. Such a large exception rate would undoubtedly translate into a much larger exception amount than the $15.8 million if the entire universe were to be examined. However, the majority of invalid UDOs in our sample consisted of small dollar amounts.

Invalid UDO Balances

The majority of invalid UDOs had small balances; however, UDOs with large balances accounted for most of the total dollar amount of invalid UDOs. Initially, OIG grouped UDOs into three categories based on available balances: (1) 0 to $99,999.99, (2) $100,000 to $499,999.99, and (3) $500,000 and over. Of the 106 invalid UDOs, 74 had balances of less than $100,000, but they accounted for only about $558,000 of the $15.8 million in invalid UDOs. Only seven of the 106 invalid UDOs had an available balance of $500,000 or more, but they accounted for $9.7 million of the $15.8 million. The number of invalid UDOs and their available balances for each dollar category are shown in Table 3.

Table 3. Invalid UDOs by Dollar Category Sampled

Dollar Category	Number of Invalid UDOs	Number of Invalid UDOs to Total	Available Balance: Invalid UDOs	Available Balance: Invalid UDOs to Total
0 to $99,999.99	74	69.81%	$558,115	3.53%
$100,000 to $499,999.99	25	23.58%	$5,538,243	34.98%
$500,000 and Over	7	6.60%	$9,735,001	61.49%
Total	**106**	**100.00%**	**$15,831,359**	**100.00%**

Source: OIG prepared based on the results of its random sample.
Note: Totals may not add because of rounding.

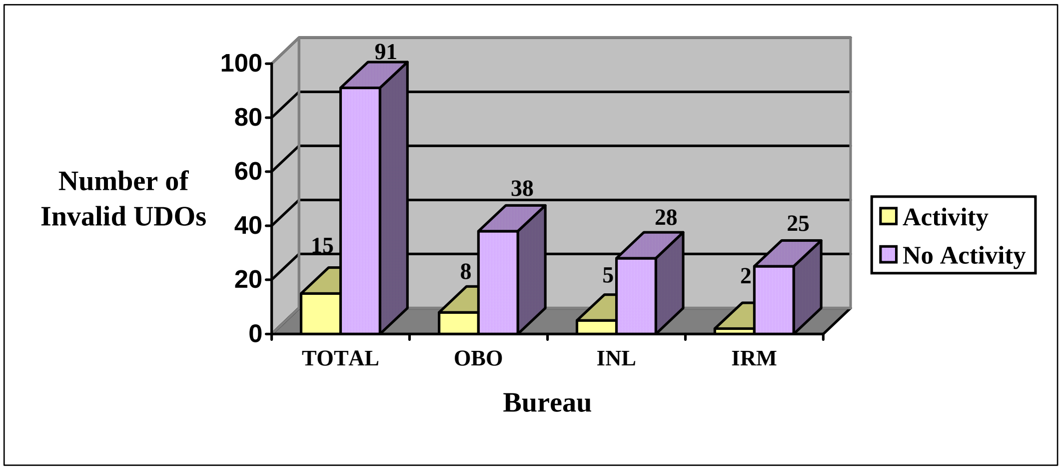
Many of the invalid UDOs had very small balances. Specifically, 46 of the 74 invalid UDOs in the 0 to $99,999.99 category had balances of less than $1,000. For example, in March 2007, one bureau obligated $6,123 to acquire metric tool kit parts. The bureau received and paid for the parts in May 2007. However, the obligation had a remaining balance of $61.23 on March 31, 2008, which was 10 months after the final payment.

Four of the seven invalid UDOs in the $500,000 and over category had balances of more than $1 million. For example, one bureau obligated $2.7 million in March 2000 for engine overhauls at post. The bureau made payments and other adjustments to the obligation through 2002. However, the obligation had a remaining balance of about $1.9 million 6 years later.

Invalid UDO Activity

The majority of invalid UDOs for all three bureaus had no activity, such as a payment, modification, or other activity that changed the amount or performance period of the obligation, for a period of 6 months or more. For our sample, we divided each of the three dollar categories discussed above into two additional categories: (1) Activity On or Since October 1, 2007, and (2) No Activity On or Since October 1, 2007. Of the 106 invalid UDOs, 91, or about 86 percent, with available balances of $15.5 million had had no activity. The numbers of invalid UDOs with activity and without activity for each bureau are compared in Figure 2.

Figure 2. Invalid UDOs With and Without Activity



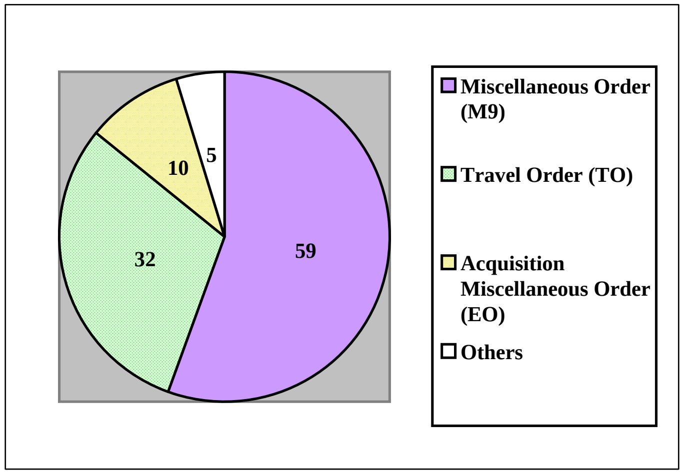
Source: Prepared by OIG based on the results of its random sample.

A number of the invalid UDOs had no activity for an inordinate amount of time. For example, one bureau obligated $612,000 for doors and windows in February 2004. The available documentation indicated that the last invoice had been received and paid in December 2004. However, the obligation had a remaining balance of $133,328 on March 31, 2008, more than 3 years after the last payment. Further, 16 of the 106 invalid UDOs had had no activity since the day they were established. For example, in September 2005, one bureau obligated $189,404 for another agency to provide training in the Middle East. The agreement with the agency ended in September 2007, and by March 2008, no payments had been made and the entire amount remained on the obligation.

Invalid UDO Transaction Types

The majority of the 106 invalid UDOs, 101, or 95 percent, were obligations related to three types of transactions: miscellaneous order (M9), travel order (TO), and acquisition miscellaneous order (EO). M9s were used by the bureaus to fund items such as design-build services, security services, demining and other training programs, and operation of communications links. TOs were used for transportation and lodging for temporary travel, as well as transportation, temporary lodging, and the transporting or storing of household goods for employees assigned to overseas posts. EOs were used to fund items such as consulting services, equipment, and vehicles.[9] The number of invalid UDOs for each of these transaction types is shown in Figure 3.

Figure 3. Invalid UDOs by Transaction Type



Source: Prepared by OIG based on the results of its random sample.

Activity by Transaction Type

Since the overwhelming majority of invalid UDOs in OIG's sample had no activity, OIG further analyzed all unliquidated obligations with transaction types M9, TO, and EO, the primary transaction types for invalid UDOs, for activity. Many had had no activity for more than 6 months, which was the period OIG used to determine activity in its random sample. Overall, M9s, TOs, and EOs with a total available balance of almost $307 million, of a possible $1.6 billion, were inactive since December 31, 2006, or a period of 15 months or more.[10] The number and available balances of M9, TO, and EO obligations that had had no activity from December 31, 2006, to March 31, 2008, for each bureau are shown in Table 4. (All M9s, TOs, and EOs for each bureau by last activity date are listed in Appendix B.)

Table 4. M9s, TOs, and EOs With No Activity Since December 31, 2006

	M9		TO		EO	
Bureau	**Number**	**Available Balance**	**Number**	**Available Balance**	**Number**	**Available Balance**
OBO	1,484	$162,361,260	923	$2,664,138	52	$2,424,912
INL	823	$94,187,999	125	$623,730	133	$21,911,328
IRM	842	$12,810,897	312	$255,053	511	$9,509,707
Total	**3,149**	**$269,360,157**	**1,360**	**$3,542,922**	**696**	**$33,845,947**

Source: OIG analysis of bureau domestic M9s, TOs, and EOs in unliquidated obligations database.
Note: Totals may not add because of rounding.

[9] The transaction code "EO" was associated with contract awards in the Department's previous procurement system. The Department uses other codes for that purpose in the new procurement and financial management systems.
[10] The $307 million of M9s, TOs, and EOs with no activity since December 31, 2006, represented about 19 percent of the $1.6 billion of M9, TO, and EO obligations for all three bureaus.

The last activity for some M9s and EOs dated back as many as 10 years or more, and last activity dates for TOs went back to 2004. Although activity, or the lack thereof, appears to be a strong predictor of validity, some unliquidated obligations without activity for a considerable period of time may still be valid. For example, bureau officials said that TO obligations for transporting and storing household goods for employees assigned to overseas posts remained valid for the duration of the employee's tour, which is generally 2 to 3 years.

Activity and Age

The bureaus had unliquidated obligations that were established with appropriations dating back to 1998 for OBO and IRM and to 1999 for INL.[11] Most of these obligations had had no recent activity, and some had had no activity since the year in which they were established. OIG analyzed unliquidated obligations from the two oldest beginning budget fiscal years for each bureau and found the following:

- OBO had 43 unliquidated obligations, amounting to over $5 million, from beginning budget fiscal years 1998 and 1999, of which 10 had had no activity since the year in which they were established and only four had had activity since December 31, 2006.

- INL had 110 unliquidated obligations, amounting to $29 million, from beginning budget fiscal years 1999 and 2000, of which 33 had had no activity since the year in which they were established and only 18 had had activity since December 31, 2006.

- IRM had 54 unliquidated obligations, amounting to over $400,000, from beginning budget fiscal years 1998 and 1999, of which 26 had had no activity since the year in which they were established and none had had activity since December 31, 2006.

OIG judgmentally selected five of the oldest unliquidated obligations with balances greater than $15,000 for each of the three bureaus and asked A/LM/AQM officials for the status of the contracts relating to these obligations. These officials said that of the 15 unliquidated obligations, one, with a balance of about $30,000, was pending deobligation and no information on the contracts relating to the remaining 14 was available. OIG subsequently learned from one bureau official that one of the 14 unliquidated obligations, with a balance of about $2.1 million, had been in litigation that was resolved at no cost to the Department.[12]

No Systematic Process Exists for Monitoring Unliquidated Obligations

The large number of invalid UDOs existed primarily because the bureaus did not have a systematic process for monitoring them. Management of the three bureaus told us that their bureaus followed Department guidance but that they did not have their own specific policies and procedures for monitoring unliquidated obligations.

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[11] OIG used beginning budget fiscal year (i.e., the first year of the appropriation) for its analysis of age; however, some unliquidated obligations were established in years prior to their beginning budget fiscal year.
[12] This unliquidated obligation was included in our stratified random sample, and the $2.1 million balance was determined to be invalid.

Many of the budget analysts interviewed during the audit said that they periodically reviewed the unliquidated obligations for which they were responsible, as required by the FAM.[13] However, the types and frequency of their reviews varied. For example, analysts in bureaus with annual appropriations said that they reviewed current obligations on a frequent basis; however, not all analysts regularly reviewed older, prior year obligations. Some analysts generated reports from the financial management system to perform their reviews; others used the lists of older, high dollar unliquidated obligations that RM provided to the bureaus. Some analysts said they tried to perform their reviews weekly or monthly; others performed their reviews when RM provided lists for review and one when the bureau's program office requested deobligations.

Since UDO management was identified as a material weakness in the report on the Department's 2007 financial statements, the three bureaus said they have taken actions to improve their oversight of unliquidated obligations. All have reviewed the lists provided by RM of aged and high dollar obligations and have either directly deobligated or provided a list to RM to deobligate the obligations the bureaus determined were unneeded. In addition, the bureaus took the following actions:

- OBO/RM/FM began an aggressive effort to reduce the number of unliquidated obligations that had had no activity since October 1, 2006, the date used to test UDOs during the 2007 financial statement audit, and said that it reported the status of these efforts to the OBO Director during monthly program performance reviews.

- INL/RM hired interns to assist in reviewing, reconciling, and determining the validity of unliquidated obligations relating to interagency agreements, as well as a contractor to assist with resolving system issues. INL/RM also said that it implemented a procedure that prevented travelers from obtaining travel authorizations until their vouchers for prior travel had been filed.

- A/EX/FMD included in its budget analysts' performance elements a commitment to review prior year obligations on a quarterly basis and to deobligate those obligations no longer needed or for which the final claim had been processed for payment. A/EX/FMD officials said that they also planned to develop standard procedures for monitoring unliquidated obligations.

The bureaus' actions have contributed to a large reduction in the number of their older unliquidated obligations. OIG compared the June 30, 2007, data used by the independent auditor for the 2007 financial statement audit with the information in the March 31, 2008, unliquidated obligations database. This comparison showed that the number of unliquidated obligations with no activity since October 1, 2006, had decreased 65 percent overall. The amount of decrease for each bureau is shown in Table 5.

[13] 4 FAM 086(d), "Relationship to the Accounting System."

Table 5. Reduction in Unliquidated Obligations With No Activity Since October 1, 2006

Bureau	Number of Unliquidated Obligations as of June 30, 2007	Number of Unliquidated Obligations as of March 31, 2008	Decrease in Unliquidated Obligations	Percent Decrease
OBO	7,405	1,591	5,814	78.51
INL	1,847	1,089	758	41.04
IRM	2,438	1,389	1,049	43.03
Total	**11,690**	**4,069**	**7,621**	**65.19**

Source: OIG comparison of June 30, 2007, data and March 31, 2008 data.

Despite the large reduction, the overall validity of the bureaus' UDOs has not improved significantly. The bureaus' actions were focused primarily on reviewing and deobligating the unliquidated obligations that contributed to the 2007 financial statement material weakness. Therefore, the bureaus reviewed UDOs with no activity since October 1, 2006, and the obligations that RM had identified for review. As a result, many obligations, such as those with activity after October 1, 2006, did not receive adequate attention.

Factors Hampering Unliquidated Obligation Reviews

Bureau management told OIG that their ability to review unliquidated obligations was hampered during the Department's 2007 conversion to a new financial management system and that bureaus could not deobligate unneeded balances on obligations associated with contracts that A/LM/AQM had to close out.

System Conversion

Bureau officials said that they could not monitor or adjust their unliquidated obligations during the transition to the new financial management system, which occurred on May 23, 2007. Further, one bureau was unable to generate Status of Obligations reports to facilitate its reviews because of the volume of its unliquidated obligations. The bureaus also identified differences in the amounts reported in the new system, the amounts in their records, and the amounts in budgetary reports. Because of these differences, one bureau did not certify that its obligations were valid, and the other two bureaus provided limited certifications for their obligations at the end of FY 2007.

The bureaus also stated that the integration of the procurement and financial management systems that occurred when the new financial system was implemented limited the bureaus' control over unliquidated obligations. Specifically, bureaus can no longer directly deobligate unneeded balances on obligations that are established in the procurement system. Instead, the bureaus must submit a request through the procurement system for a modification of the obligation amount. This process has increased the work associated with deobligations. Further, one bureau was unclear on how to deobligate obligations that had been created in the prior procurement system.

RM is working with the bureaus to address these issues. For example, bureaus unable to run Status of Obligations reports because of length may request that RM run their reports on a recurring basis. RM also planned system updates to improve performance for system reports. In June 2008, RM notified bureaus that it had developed automated routines to deobligate the invalid UDOs that the bureaus identified so that bureau staff would not have to deobligate them manually.

Contract Closeout Process

Bureau officials said that they could not deobligate unneeded balances in obligations that were in the contract closeout process. As part of the formal closeout process, A/LM/AQM prepares a contract modification to deobligate remaining balances. The bureaus and A/LM/AQM work together during the initial closeout process. However, OIG's review of the bureaus' oldest unliquidated obligations indicated that some contracts with remaining balances either had not been closed formally or that the contracts had been closed but the modifications deobligating the remaining balances had not been processed.

To improve the timeliness of contract closeouts, A/LM/AQM is establishing a contract closeout group in its Quality Assurance Branch. This group will be responsible for closing out all contracts within the Department. The plans for the closeout operation include establishing standards for closeout actions, developing a system to track the status of each contract through the closeout process, and exploring the feasibility of establishing quick closeout procedures and early closeouts of task orders. In addition, A/LM/AQM will develop a strategic plan with performance criteria, including a criterion for the timeliness of contract closeouts, and implement a means for measuring performance. A/LM/AQM planned to have the new process in place by the end of December 2008. OIG believes that A/LM/AQM's plans, when fully implemented, should enable the Department to better manage obligations related to contracts.

Invalid UDOs Affect Bureau Management of Funds and Department Reporting

Without a systematic process to monitor unliquidated obligations, invalid UDOs continue to grow, which adversely impacts the bureaus' ability to appropriately manage their funds and results in inaccurate Department reporting.

Bureau Management of Funds

Funds that could be used by the bureaus for other purposes have remained in unneeded obligations, sometimes for years. The $15.8 million in invalid UDOs identified in our random sample could be put to better use. The majority of the invalid UDOs were established using no-year funds and, when deobligated, can be used for other purposes. However, UDOs of about $1.2 million were established from one-year or multi-year appropriations that expired as of September 30, 2008, or before.[14]

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[14] Of the $1.2 million, $1,184,794 in INL funds expired, of which INL deobligated $567,779 before September 30, and $30,536 in IRM funds expired, of which A/EX deobligated the total amount before September 30.

Further, the large number of invalid UDOs made monitoring them more difficult. Invalid UDOs were allowed to accumulate, thereby increasing the number of unliquidated obligations significantly. As a result, the bureaus had to spend more time and effort to review and deobligate those UDOs no longer needed. OIG's stratified random sample results indicated that each bureau would have a much lower number of unliquidated obligations to monitor if it identified invalid UDOs and deobligated them on a regular basis. Specifically, the statistical projections to the universe disclosed the following:[15]

- OBO's 10,222 unliquidated obligations would be reduced to about 4,250.
- INL's 3,958 unliquidated obligations would be reduced to about 2,075.
- IRM's 5,216 unliquidated obligations would be reduced to about 2,593.

Lastly, the large number of potentially invalid UDOs, coupled with the lack of a regular review, increases the risk of duplicate or fraudulent payments, even though system controls designed to prevent duplicate and fraudulent payments exist. The financial management system will not process a payment unless sufficient funds remain in the obligation to cover it.[16] However, if large unneeded balances remain in obligations, duplicate or fraudulent payments may be made.

External Reporting

Invalid UDOs have also resulted in inaccurate Department reporting. Specifically, the amount of UDOs has been misstated in the Department's financial statements and budgetary reports.

Financial Statements

As discussed previously, the overstatement of UDOs in the Department's financial statements has resulted in significant deficiencies since 1997. The deficiency rose to the level of a material weakness in 2007, and the potential overstatement of $557 million contributed to the independent auditor's disclaimer of an opinion.

Additionally, inaccurate UDO balances on Department statements are transferred to the government-wide financial statements. UDOs are reported as a component of Contingencies and Commitments in a Note to the government-wide statements. In the *2007 Financial Report of the United States Government*, GAO identified a material weakness related to Commitments and Contingencies. If disclosures in the Notes are inaccurate, reliable information is not available about the extent of the federal government's unliquidated obligations.

[15] OIG determined the number of valid unliquidated obligations by subtracting the projected invalid UDOs for each bureau from the bureau's total unliquidated obligations. For example, as indicated in Table 2, the percentage of invalid UDOs for OBO was approximately 58 percent. Projecting this percentage to OBO's universe of 10,222 unliquidated obligations yields 5,972. Consequently, the projection of valid UDOs for OBO is 4,250 (10,222 - 5,972). These statistical projections were made at the 95 percent level of confidence with precision of plus or minus 11 percent.

[16] Tolerances built into the financial management system allow a payment if the amount of the payment is only a few dollars more than the balance in the obligation and the cost to amend the obligation would far exceed the nominal payment amount.

Budgetary Reports

Invalid UDOs affect budget formulation and execution schedules and reports that the Department is required to submit to OMB. Specifically, invalid UDOs result in the overstatement of obligations at the end of the period and the understatement of available budgetary resources on program and financial schedules and the quarterly *Report on Budget Execution and Budgetary Resources*. These schedules and reports are used to, among other things, identify trends, monitor the status of funds, provide a basis to determine obligation patterns when programs are required to operate under a continuing resolution, and tie an agency's financial statements to its budget execution.

Providing accurate information on the required schedules and reports is important because OMB uses obligated amounts to estimate future expenses. In addition, an RM official said that when OMB reviews budget requests, it may question an agency's need for additional funds if the agency has not expended its obligated funds. Large amounts of unexpended obligations may make it more difficult to justify future budget requests.

Bureaus Have Taken Actions to Reduce Invalid UDOs

By the end of our fieldwork, OBO had taken two significant steps to improve its management of unliquidated obligations. First, OBO implemented a new process of deobligating all temporary duty travel obligations still open 90 days after the travel end date. If a traveler has not submitted a voucher by that time and subsequently attempts to get reimbursed, the transaction will reject, and the traveler must submit a memorandum to the Executive Director, cleared by his or her deputy director, explaining why a voucher was not submitted timely. RM, at OBO's request, has automated this process so that it can be accomplished without a labor-intensive effort. OBO's new process will eliminate a large number of small dollar TO obligations, thereby enabling OBO/RM/FM to concentrate more of its efforts on higher dollar obligations. OIG believes that this process would also benefit other Department bureaus, as would identifying other types of obligations that could be automatically deobligated.

Second, OBO changed its practice relating to obligations for major construction projects. In the past, OBO kept obligations open until the contract modification by A/LM/AQM formally closed out the contract. However, according to OBO/RM management, OBO is now reviewing and requesting that A/LM/AQM deobligate remaining balances as soon as possible after a project has been completed.

Further, the three bureaus have deobligated a large number of invalid UDOs. Of the $15.8 million in UDOs that OIG identified as invalid, the bureaus deobligated $11.8 million. The amount deobligated by each bureau is shown in Table 6.

Table 6. Invalid Amounts Deobligated by Each Bureau

Bureau	Invalid Amount	Deobligated Amount	Deobligated Amount to Invalid Amount
OBO	$6,928,837	$6,928,837	100.00%
INL	$6,493,804	$3,141,383	48.38%
IRM	$2,408,718	$1,750,028	72.65%
Total	**$15,831,359**	**$11,820,248**	**74.66**%

Source: OIG review of information in the financial management system.

OBO/RM/FM deobligated all of the UDOs that OIG had identified as invalid. INL/RM and A/EX/FMD deobligated many of the invalid UDOs and planned to perform additional research before deobligating the balance. Appendix C provides a list of the invalid UDOs not deobligated by INL/RM and A/EX/FMD by the end of this audit.

In addition, A/EX/FMD obtained a list of IRM obligations that had had no activity for 6 months from RM. Based on its review of this list, A/EX/FMD requested that RM deobligate obligations amounting to over $1.7 million, which included all of IRM's obligations from beginning budget fiscal year 1998. In response to a June 26, 2008, request from RM that bureaus once again review lists of obligation balances that were several years old or that had had no activity for some time, A/EX/FMD identified additional obligations amounting to about $8.6 million for deobligation.

Additional Bureau Controls Are Needed

According to OMB Circular A-123, *Management's Responsibility for Internal Control*, management has a fundamental responsibility to develop and maintain effective internal control. Programs must operate and resources must be used consistent with missions; in compliance with laws; and with minimal potential for waste, fraud, and mismanagement. The agency head must establish controls that reasonably ensure that obligations and costs are in compliance with applicable laws. Agencies also have a responsibility to constantly review and improve internal controls.

Although the bureaus have taken actions to reduce invalid UDOs, OIG's audit results indicate that additional bureau controls are needed. Effective internal control is not one event but a series of actions and activities that occur on an ongoing basis. Documenting controls in policies and procedures helps ensure that the controls are performed consistently. Policies and procedures for monitoring obligations should include the activities to be performed by the budget analysts during their reviews of unliquidated obligations, the frequency of the reviews, the scope (e.g., activity, dollar thresholds, age, and transaction codes) of the reviews, and the manner in which management oversight will be accomplished. An ongoing, systematic process for monitoring unliquidated obligations would enhance the bureaus' ability to manage their funds and provide accurate financial data for reporting purposes.

Recommendation 1: OIG recommends that the Bureau of Overseas Buildings Operations, the Bureau of International Narcotics and Law Enforcement Affairs, and the Bureau of Information Resource Management (in coordination with the Bureau of

Administration) develop and implement a systematic process for monitoring unliquidated obligations.

Bureau Response and OIG Reply

In its response to the draft report, OBO/RM concurred with the need for a systematic process for monitoring unliquidated obligations, but it suggested that the recommendation be directed to RM to establish a Department-wide policy. OIG directed the recommendations in this report to the three bureaus in which it performed audit work. However, OIG agrees that other Department bureaus and offices that do not have a process for monitoring unliquidated obligations should develop and implement such a process, and OIG encourages them to do so. OBO/RM also stated that it has established written guidance for budget analysts on reviewing unliquidated obligations, created an on-line collaboration site where best practices can be shared among OBO budget analysts, and initiated an automated deobligation process. In addition, OBO/RM is working with RM to establish a regular aging obligation report that can capture potential invalid obligations.

In its response to the draft report, INL agreed with this recommendation and stated that it had begun taking steps to address the need for better monitoring of unliquidated obligations, including identifying and beginning the reconciliation process for more than 300 interagency agreements, many of which had unliquidated balances. INL stated that it continues to improve its oversight of interagency agreements through staffing overtime efforts to reconcile balances and identify those that are no longer valid and that are available for deobligation. INL is also amending its Financial Management Handbook to reflect standard requirements, including time frames for reviewing unliquidated obligations.

In its response to the draft report, A/EX, in coordination with IRM, agreed with this recommendation. A/EX/FMD requested from RM quarterly reports of prior year obligations with no activity for the past 6 months for review, and it issued a memorandum to IRM management explaining this new review process.

Based on the information received from the bureaus, OIG is closing this recommendation for OBO upon issuance of this report. OIG considers this recommendation resolved for INL and IRM and will close it upon OIG receipt and review of the bureaus' processes for monitoring unliquidated obligations, which should include the activities to be performed by the budget analysts, the frequency of the reviews, the scope (e.g., activity, dollar thresholds, age, and transaction codes) of the reviews, and the manner in which management oversight will be accomplished.

Recommendation 2: OIG recommends that the Bureau of Overseas Buildings Operations, the Bureau of International Narcotics and Law Enforcement Affairs, and the Bureau of Information Resource Management (in coordination with the Bureau of Administration) assess their obligations to determine instances in which automatic deobligations would be appropriate.

Bureau Response and OIG Reply

In their responses to the draft report, the three bureaus indicated that they either had implemented or were taking action to implement automatic deobligations of travel orders. In addition, OBO/RM stated that it would continue to work with RM to identify and take advantage of other opportunities for automated deobligations, and INL stated that it intends to expand the effort based on lessons learned and process refinements associated with its initial effort. Based on this information, OIG is closing this recommendation for all three bureaus upon issuance of this report.

Recommendation 3: OIG recommends that the Bureau of International Narcotics and Law Enforcement Affairs and the Bureau of Information Resource Management (in coordination with the Bureau of Administration) determine whether the balances remaining on the undelivered orders identified by OIG as invalid, which were not deobligated by the end of this audit, are necessary and, if not, deobligate them.

Bureau Response and OIG Reply

In its response to the draft report, INL agreed with this recommendation. However, INL stated that because of staff shortages, it had been unable to completely address the UDOs listed in Appendix C, many of which are interagency agreements. Based on this information, OIG considers this recommendation resolved for INL and will close it upon OIG receipt and review of INL’s final disposition of these transactions.

In its response to the draft report, A/EX, in coordination with IRM, agreed with this recommendation, and it provided the results of its review of the IRM UDOs listed in Appendix C. A/EX determined that five of the six UDOs were invalid and have been deobligated or are pending contract closeout and that the balance on one is still valid. Based on this information, OIG is closing this recommendation for IRM upon issuance of this report.

List of Recommendations

Recommendation 1: OIG recommends that the Bureau of Overseas Buildings Operations, the Bureau of International Narcotics and Law Enforcement Affairs, and the Bureau of Information Resource Management (in coordination with the Bureau of Administration) develop and implement a systematic process for monitoring unliquidated obligations.

Recommendation 2: OIG recommends that the Bureau of Overseas Buildings Operations, the Bureau of International Narcotics and Law Enforcement Affairs, and the Bureau of Information Resource Management (in coordination with the Bureau of Administration) assess their obligations to determine instances in which automatic deobligations would be appropriate.

Recommendation 3: OIG recommends that the Bureau of International Narcotics and Law Enforcement Affairs and the Bureau of Information Resource Management (in coordination with the Bureau of Administration) determine whether the balances remaining on the undelivered orders identified by OIG as invalid, which were not deobligated by the end of this audit, are necessary and, if not, deobligate them.

Abbreviations

A	Bureau of Administration
A/EX/FMD	Executive Office, Financial Management Division
A/LM/AQM	Office of Logistics Management, Office of Acquisitions Management
EO	miscellaneous order
FAM	Foreign Affairs Manual
GAO	United States Government Accountability Office
INL	Bureau of International Narcotics and Law Enforcement Affairs
INL/RM	Office of Resource Management
IRM	Bureau of Information Research Management
M9	miscellaneous order
OBO	Bureau of Overseas Buildings Operations
OBO/RM/FM	Office of Resource Management, Financial Management
OIG	Office of Inspector General
OMB	Office of Management and Budget
RM	Bureau of Resource Management
SIGIR	Office of the Special Inspector General for Iraq Reconstruction
TO	travel order
UDO	undelivered order
U.S.C.	United State Code

Sampling Methodology and Results

The Office of Inspector General's (OIG) sampling objective was to assess the validity of undelivered orders (UDO). This work was conducted in three bureaus: the Bureau of Overseas Buildings Operations (OBO), the Bureau of International Narcotics and Law Enforcement Affairs (INL), and the Bureau of Information Resource Management (IRM).

Population

The Bureau of Resource Management (RM) provided OIG a database containing all of the Department's unliquidated obligations as of March 31, 2008.[1] OIG extracted from the database all domestic unliquidated obligations for the three bureaus.

OIG excluded from the sample populations all negative obligations, which represented less than one percent of the total dollar amount of unliquidated obligations. RM officials explained that these anomalies resulted primarily from data conversion errors made during implementation of the Department's new financial management system in 2007. The total of these excluded items is shown in Table 1 in this appendix as Exclusion I. In addition, OIG excluded obligations related to certain allotments from the OBO and INL populations after learning during fieldwork that monitoring and reviewing these obligations were the responsibility of other Department bureaus.[2] The total of these excluded items is shown in Table 1 as Exclusion II.

Table 1. Identification of the Sampled Population

	OBO		INL		IRM	
Category	**Number of UDOs**	**Dollar Amount of UDOs**	**Number of UDOs**	**Dollar Amount of UDOs**	**Number of UDOs**	**Dollar Amount of UDOs**
Original Population	10,450	$1,894,365,908	4,573	$1,339,763,279	5,235	$221,123,857
Exclusion I	31	($10,050,120)	50	($4,024,090)	19	($535,682)
Revised Population	10,419	$1,904,416,028	4,523	$1,343,787,369	5,216	$221,659,539
Exclusion II	197	$50,870,709	565	$18,839,197	N/A	N/A
Sampled Population	10,222	$1,853,545,319	3,958	$1,324,948,172	5,216	$221,659,539

Source: Prepared by OIG from information in the March 31, 2008, unliquidated obligations database.

[1] RM updates the unliquidated obligations database on a monthly basis by extracting, from the Department's financial systems, all transactions that cite an accounting event that affects obligations.

[2] From OBO's population, OIG excluded obligations relating to allotments 1089 and 2031, for which the Bureau of Administration is responsible. From INL's population, OIG excluded obligations relating to allotments 2072 and 2074, Organization Code 011810, for which the Bureau of Democracy and Global Affairs is responsible.

Sample Selection

OIG used stratified random sampling as the primary sampling design for this audit. To ensure adequate audit coverage of the range of dollar amounts to be tested, OIG initially divided the unliquidated obligations for each bureau into three dollar categories: (1) 0 to $99,999.99, (2) $100,000 to $499,999.999, and (3) $500,000 and over.

The results of UDO tests performed during the audit of the Department's 2007 financial statements provided preliminary indications that a large number of invalid UDOs had had no recent activity, such as a payment, modification, or other activity that changed the amount or performance period of the obligation. Consequently, to ensure adequate coverage of UDOs by activity, OIG further divided each of the three dollar categories by two additional characteristics: (1) Activity On or Since October 1, 2007, and (2) No Activity On or Since October 1, 2007. This division resulted in a total of six strata per bureau. In addition to aiding statistical efficiency, these strata enabled OIG to evaluate the impact of dollar amount, the level of activity, and the synergy of these two factors when determining the likelihood that a given UDO was valid or invalid.

The stratified sampling plan called for randomly selecting 144 OBO, 120 INL, and 120 IRM UDOs.[3] To determine the sample size for each of the strata within each bureau, OIG first allocated the total sample size among the three dollar categories equally. Next, OIG allocated the sample size for each dollar category between the two activity categories proportionate to the number of unliquidated obligations in the universe that had activity or no activity. The results of these allocations by bureau are shown in Table 2 in this appendix.

Table 2. Target Sample Size for Each Stratum by Bureau

	OBO		INL		IRM	
Strata	**Universe**	**Sample**	**Universe**	**Sample**	**Universe**	**Sample**
0 to $99,999.99 Activity	3,785	19	1,760	19	1,914	16
No Activity	5,910	29	1,988	21	2,964	24
$100,000 to $499,999.99 Activity	260	25	290	23	181	27
No Activity	242	23	206	17	88	13
$500,000 and Over Activity	135	29	178	26	54	31
No Activity	87	19	100	14	15	9

Source: OIG sampling methodology.

[3] OIG adhered to these sampling targets for INL and IRM. OIG exceeded the planned sample size for OBO. (The section "Sample Results" in this appendix explains the reason for the revised sample size.)

Testing Methodology

To determine the validity of the UDOs sampled, OIG obtained and reviewed the obligation documentation and, when available, the invoices for each selected UDO. OIG determined that the UDO was valid if it met one or more of the following conditions:

1. The obligation was established or activity occurred recently, that is, on or after January 31, 2008.
2. Activity was expected to occur after March 31, 2008, which was the date of the unliquidated obligations database.
3. The contract period of performance was open as of March 31, 2008, and additional goods and services were expected.
4. The goods and services had been received, but the bureau was waiting for invoices from the vendor.
5. The obligation was in the contract closeout process, or other similar reconciliation process, and had had activity within the last 2 years.[4]

OIG determined that the UDO was invalid if it met one or more of the following conditions:

1. Adequate documentation was not provided for the obligation.
2. The balance had been deobligated after March 31, 2008.
3. The bureau was planning to deobligate the remaining balance.
4. The goods and services had been received, and the bureau did not anticipate receiving more invoices or no invoices had been submitted for the past 2 years.
5. The obligation was in the contract closeout process, or other similar reconciliation process, and did not have activity within the past 2 years.

Based on its review of the documentation, OIG made preliminary determinations of validity, provided a list of potentially invalid UDOs to each bureau, and asked that the bureaus review the lists and provide additional information to support the questioned UDOs. OIG considered the additional information provided using the conditions cited to make a final determination of validity.

Sample Results

Although the stratified sampling plan called for randomly selecting 144 OBO, 120 INL, and 120 IRM UDOs, only the target sample sizes for INL and IRM were obtained exactly. During testing at OBO, OIG was initially told that another bureau was responsible for five of its UDOs. OIG randomly selected replacements for the five. OIG subsequently learned that OBO was in fact monitoring those UDOs. OIG tested the five UDOs in question, as well as the

[4] The Federal Acquisition Regulation, Subpart 4.804, allows 6 to 36 months, depending on the type of contract, after the date on which the contracting officer receives evidence of physical completion to close the contract. To simplify the analysis, OIG allowed 2 years for the closeout process and applied the same 2-year standard to other UDOs that required a lengthy closeout or reconciliation process, such as interagency agreements and grants.

replacements, which increased OBO's sample size from 144 to 149 and thereby increased the total sample for the three bureaus to 389.

From this sample of 389 UDOs, OIG identified 106 invalid UDOs amounting to about $15.8 million. The number and amount of invalid UDOs, as well as the universe projections of the exception rates for each bureau, are provided in Table 3 of this appendix.

Table 3. Detailed Results of Stratified Random Sampling by Bureau

Bureau	Strata Dollar Category – Activity Category	Total Number of UDOs (as of 3/31/08)	Number of UDOs Sampled	Number of Invalid UDOs	Interval Estimate of Invalid UDO Rate[a] at 95% Confidence Level[b]	Available Balance of UDOs Sampled (as of 3/31/08)	Available Balance of Invalid UDOs
OBO	0 to $99,999.99 – Activity	3,739	20	7		$109,289	$2,540
	0 to $99,999.99 – No Activity	5,814	32	25		$296,538	$235,822
	$100,000 to $499,999.99 – Activity	242	25	1		$5,864,817	$250,000
	$100,000 to $499,999.99 – No Activity	219	24	11		$5,333,391	$2,456,091
	$500,000 and Over – Activity	128	29	0		$295,824,537	0
	$500,000 and Over – No Activity	80	19	2		$104,810,431	$3,984,384
	Totals	**10,222**	**149**	**46**	**58% ±11%**	**$412,239,005**	**$6,928,837**
INL	0 to $99,999.99 – Activity	1,427	19	5		$388,796	$1,253
	0 to $99,999.99 – No Activity	1,824	21	16		$281,427	$148,321
	$100,000 to $499,999.99 – Activity	243	23	0		$4,705,626	0
	$100,000 to $499,999.99 – No Activity	189	17	8		$3,457,697	$1,532,369
	$500,000 and Over – Activity	177	26	0		$109,484,382	0
	$500,000 and Over – No Activity	98	14	4		$23,120,867	$4,811,861
	Totals	**3,958**	**120**	**33**	**48% ±11%**	**$141,438,796**	**$6,493,804**
IRM	0 to $99,999.99 – Activity	1,914	16	2		$284,120	$31,087
	0 to $99,999.99 – No Activity	2,964	24	19		$222,116	$139,092
	$100,000 to $499,999.99 – Activity	181	27	0		$5,269,022	0
	$100,000 to $499,999.99 – No Activity	88	13	5		$2,593,983	$1,299,784
	$500,000 and Over – Activity	54	31	0		$43,782,509	0
	$500,000 and Over – No Activity	15	9	1		$8,681,733	$938,756
	Totals	**5,216**	**120**	**27**	**50% ± 11%**	**$60,833,482**	**$2,408,718**
	Overall Totals	**19,396**	**389**	**106**	**54% ± 7%**	**$614,511,283**	**$15,831,359**

Source: Prepared by OIG based on the results of stratified random sampling.
[a] Rate (or percentage) was derived by weighting the stratified random samples.
[b] Confidence level is the level of certainty to which an estimate can be trusted. The degree of certainty is expressed as the chance, usually in the form of a percentage, that a true value will be included within a specified range, called a confidence interval. The confidence interval is constructed by combining the point estimate with the level of precision, which pertains to how far the sample projection might deviate from the value that could be obtained from 100 percent verification, e.g., 54 percent ± 7 percent, or 47 percent to 61 percent.
Note: Totals may not add because of rounding.

All M9s, TOs, and EOs for Each Bureau by Last Activity Date

The three types of transactions to which the majority of invalid undelivered orders (UDO) were related are as follows: miscellaneous order (M9), travel order (TO), and acquisition miscellaneous order (EO). These transactions are listed in Tables 1, 2, and 3, respectively.

Table 1. List of all M9s for Each Bureau by Last Activity Date

Last Activity (Year)	OBO		INL		IRM		Total All Bureaus	
	No. of Items	Available Balance	No. of Items	Available Balance	No. of Items	Available Balance	No. of Items	Available Balance
1992	–	–	–	–	1	$65	1	$65
1993	–	–	2	$112,930	–	–	2	$112,930
1994	–	–	–	–	–	–	–	–
1995	–	–	6	$75,586	–	–	6	$75,586
1996	1	$2,181,605	12	$360,640	–	–	13	$2,542,245
1997	1	$53,420	12	$321,403	–	–	13	$374,823
1998	2	$54,768	58	$1,183,511	–	–	60	$1,238,280
1999	15	$1,300,510	72	$15,865,646	1	$7,710	88	$17,173,866
2000	38	$1,141,036	29	$1,106,988	5	$123,341	72	$2,371,365
2001	46	$1,242,727	27	$393,243	9	$616,861	82	$2,252,831
2002	83	$2,295,576	38	$1,157,598	28	$827,440	149	$4,280,615
2003	145	$8,736,308	65	$2,870,240	52	$1,097,102	262	$12,703,650
2004	178	$8,965,067	88	$2,884,575	132	$2,354,164	398	$14,203,806
2005	265	$13,364,468	160	$14,914,384	210	$4,867,871	635	$33,146,723
2006	710	$123,025,774	254	$52,941,256	404	$2,916,343	1,368	$178,883,373
Subtotal	**1,484**	**$162,361,260**	**823**	**$94,187,999**	**842**	**$12,810,897**	**3,149**	**$269,360,157**
2007	1,608	$ 97,240,484	579	$95,775,448	656	$15,753,201	2,843	$208,769,134
2008	531	$528,513,636	842	$258,116,134	523	$14,364,658	1,896	$800,994,428
Total	**3,623**	**$788,115,381**	**2,244**	**$448,079,581**	**2,021**	**$42,928,757**	**7,888**	**$1,279,123,719**

Source: Data from OIG's analysis of UDOs.
Note: Totals may not add because of rounding.

Table 2. List of all TOs for Each Bureau by Last Activity Date

Last Activity (Year)	OBO		INL		IRM		Total All Bureaus	
	No. of Items	Available Balance	No. of Items	Available Balance	No. of Items	Available Balance	No. of Items	Available Balance
2004	4	$19,500	3	$73,262	–	–	7	$92,762
2005	18	$104,172	7	$53,020	6	$214	31	$157,406
2006	901	$2,540,467	115	$497,448	306	$254,839	1,322	$3,292,754
Subtotal	**923**	**$2,664,138**	**125**	**$623,730**	**312**	**$255,053**	**1,360**	**$3,542,922**
2007	2,580	$5,068,887	457	$1,265,585	682	$587,923	3,719	$6,922,395
2008	1,376	$5,241,200	323	$1,128,856	388	$699,772	2,087	$7,069,828
Total	**4,879**	**$12,974,225**	**905**	**$3,018,171**	**1,382**	**$1,542,748**	**7,166**	**$17,535,145**

Source: Data from OIG's analysis of UDOs.
Note: Totals may not add because of rounding.

Table 3. List of all EOs for Each Bureau by Last Activity Date

Last Activity (Year)	OBO		INL		IRM		Total All Bureaus	
	No. of Items	Available Balance	No. of Items	Available Balance	No. of Items	Available Balance	No. of Items	Available Balance
1992	–	–	–	–	1	$1,426	1	$1,426
1993	–	–	–	–	–	–	–	–
1994	–	–	–	–	2	$2,966	2	$2,966
1995	–	–	1	$3,281	5	$18,719	6	$22,000
1996	–	–	–	–	10	$145,438	10	$145,438
1997	–	–	1	$5,043	10	$73,521	11	$78,564
1998	1	$52,655	2	$15,053	7	$89,574	10	$157,282
1999	–	–	10	$55,707	5	$21,202	15	$76,909
2000	–	–	1	$7,991	8	$80,079	9	$88,070
2001	1	$3,360	5	$162,665	13	$203,078	19	$369,103
2002	1	$5,528	2	$20,933	14	$152,819	17	$179,280
2003	3	$37,650	5	$57,442	44	$1,342,960	52	$1,438,052
2004	21	$1,615,035	16	$3,748,486	91	$2,108,611	128	$7,472,132
2005	14	$628,099	41	$2,527,623	131	$2,556,351	186	$5,712,073
2006	11	$82,585	49	$15,307,104	170	$2,712,963	230	$18,102,653
Subtotal	**52**	**$2,424,912**	**133**	**$21,911,328**	**511**	**$9,509,707**	**696**	**$33,845,947**
2007	9	$41,858	65	$35,377,692	207	$8,897,663	281	$44,317,213
2008	2	$22,263	51	$240,320,892	81	$7,145,416	134	$247,488,572
Total	**63**	**$2,489,034**	**249**	**$297,609,913**	**799**	**$25,552,786**	**1,111**	**$325,651,733**

Source: Data from OIG's analysis of UDOs.
Note: Totals may not add because of rounding.

Appendix C

Invalid Undelivered Orders With Remaining Balances

The three bureaus deobligated many of the undelivered orders (UDO) that OIG identified as invalid. However, some of the invalid UDOs for the Bureaus of International Narcotics and Law Enforcement Affairs (INL) and Information Resource Management (IRM) remained open at the end of OIG's fieldwork for this audit. Tables 1 and 2 provide a list of these UDOs.

Table 1. INL's Invalid UDOs With Remaining Balances

Fund	Line No.	Type	Transaction ID	Obligated Amount	Remaining Balance
19115710220001	1	M9	2073510090	$52,408	$52,408
19117910220001	1	TG	2073710093	$695	$695
19114610960001	1	TO	2072649K53	$45,000	$31,761
1911_X1022000A	1	M9	2072208011X	$420	$420
19117910220001	1	M9	2073710031	$7,420	$3,834
1911_X10220005	1	M9	2072807800X	$103,822	$1,054
19115610220000	1	M9	2072590909	$15,000	$15,000
1911_X10220000	1	EO	2072733M10	$797,684	$110,709
19114510220000	1	M9	2072503N11	$189,404	$189,404
19___X11540000	1	M9	2071020508	$6,000,000	$107,470
1911681022000E	1	EO	2072744602	$5,541,742	$412,611
19114610960001	1	EO	2072449004A	$57,498,393	$124,802
19___X11540000	1	M9	2071011001	$1,100,000	$262,738
1911_X10220000	1	M9	2071925130	$2,585,712	$1,906,040
1911_X10220000	1	M9	2072103045	$151,395	$133,475
Total				**$74,089,095**	**$3,352,421**

Source: Prepared by OIG based on the results of its random sample.

Table 2. IRM's Invalid UDOs With Remaining Balances

Fund	Line No.	Type	Transaction ID	Obligated Amount	Remaining Balance
19___X01130007	1	M9	1019625647	$48,560	$30,961
19___X01130006	1	M9	1019623097	$19,453	$10,259
19___X0113000E	1	M9	1019553245	$450,000	$62,132
19___X01130006	1	M9	1019156582	$35,911	$27,975
19___X01130006	1	EO	1019152363	$2,509,986	$492,364
19___X01200000	1	EO	1019373091	$1,626,705	$35,000
Total				**$4,690,614**	**$658,690**

Source: Prepared by OIG based on the results of its random sample.
Note: Totals may not add because of rounding.

United States Department of State

Washington, D.C. 20520

December 24, 2008

UNCLASSIFIED
MEMORANDUM

TO: OIG/AUD – Mr. Mark W. Duda

FROM: OBO/RM – Jurg Hochuli

SUBJECT: Draft Report on the *Audit of Undelivered Orders*

OBO offers the following in response to the subject draft report. We appreciate the opportunity to review and comment.

Comments:
Page 8, second paragraph: Says "RM has worked with the bureaus to resolve system conversion issues…" It should say "RM is working with the bureaus to resolve system issues. The process is still ongoing and involves a number of issues with the system, not just related to the conversion.

Page 15, first paragraph: Says "RM has worked with the bureaus to address these issues." Again, recommend that it be changed to say "RM is working with the bureaus to address these issues."

It also says in this paragraph that RM planned system updates which were to be implemented in late August 2008, to improve performance for system reports. To OBO's knowledge, this still has not been done.

Page 17, third paragraph: Says OBO implemented a new process of deobligating temporary duty travel obligations still open 120 days after the obligation has been established. While that was the plan when OBO staff met with the OIG, the process has been revised to deobligate all temporary duty travel still open 90 days after the travel end date.

The paragraph also says if a traveler subsequently attempts to get reimbursed, “the transaction will reject, and the traveler must submit a memorandum to his or her managing director explaining why a voucher was not submitted in a timely manner.” It should be revised to say “the transaction will reject, and the traveler must submit a memorandum to the Executive Director, cleared by his or her deputy director, explaining why a voucher was not submitted in a timely manner.”

Page 17, fourth paragraph: Says “However, OBO said that it is now reviewing and deobligating remaining balances as soon as possible…” It should say “However, OBO is now reviewing and requesting that A/LM/AQM deobligate remaining balances as soon as possible…”

Recommendation 1: OIG recommends that the Bureaus of Overseas Buildings Operations, International Narcotics and Law Enforcement Affairs, and Administration develop and implement a systematic process for monitoring unliquidated obligations.

OBO Response: While OBO understands that the draft report focuses on the bureaus that were the subject of this audit; the management of unliquidated obligations is a Department-wide problem and should be addressed as such. OBO concurs with the need for a systematic process for monitoring unliquidated obligations, but suggests that the recommendation be directed to RM to establish a Department-wide policy.

OBO has already put into place a regular, systematic process for reviewing unliquidated obligations. The actions taken thus far include:

- Establishment of clear written guidance for budget analysts on reviewing ULOs, including the definition and explanation of key concepts, analyst responsibilities, management expectations, and a regular monthly review with the Director of the Office of Financial Management.
- Creation of an on-line collaboration site where best practices can be shared among OBO budget analysts and guidance can be easily updated.
- Initiation of an automated deobligation process with the DCFO’s office.

- For the past year, OBO has requested each OIG Inspection Team to review OBO open obligations at posts a part of their post inspections.

In addition, OBO is working with the DCFO's office to establish a regular aging obligation report that can capture potential invalid obligations. Once OBO can obtain consistent, accurate, and timely information on unliquidated balances, performance metrics will be developed and incorporated into the individual performance plans for all of the budget analysts.

Recommendation 2: OIG recommends that the Bureaus of Overseas Buildings Operations, International Narcotics and Law Enforcement Affairs, and Administration assess their obligations to determine instances in which automatic deobligations would be appropriate.

OBO Response: OBO has already established such an automated deobligation process with the DCFO's office. As described in the report, all temporary duty travel obligations still open 90 days after the travel end date will be automatically deobligated. If a traveler has not submitted a voucher by that time and subsequently attempts to get reimbursed, the transaction will reject, and the traveler, will have to submit a memorandum to the Executive Director, cleared by his or her deputy director, explaining why a voucher was not submitted in a timely manner.

OBO will continue to work with the DCFO's office to identify and take advantage of other opportunities for automated deobligations.

United States Department of State

Washington, D.C. 20520
January 5, 2009

JAN 1 2 2009

MEMORANDUM

TO: OIG – Harold W. Geisel

FROM: INL – David T. Johnson

SUBJECT: Comments on Audit of Undelivered Orders, December 2008

The Bureau of International Narcotics and Law Enforcement Affairs (INL) appreciates the opportunity to provide comments and generally agrees with the draft report. It should be noted, however, that INL's Undelivered Orders (UDOs) are impacted by interagency agreements (IAAs), the process involved with their reconciliation, and staffing shortages. Specific comments concerning each audit recommendation made to INL are as follows:

Recommendation 1: *OIG recommends that the Bureaus of Overseas Buildings Operations, International Narcotics and Law Enforcement Affairs, and Administration develop and implement a systematic process for monitoring unliquidated obligations.*

INL agrees with this recommendation. Prior to the review, we identified the need for better monitoring of unliquidated balances on obligations and had begun taking steps to address our concerns. Over the summer, INL hired temporary assistance that identified and began reconciling more than 300 IAAs available for deobligation (out of the total universe of 1200 IAAs), many of which had unliquidated balances. INL continues to improve our oversight of IAAs through staffing overtime efforts that (1) reconcile IAA balances, (2) identify IAAs that are no longer valid and (3) identify IAAs that are available for deobligation. INL is seeking additional staffing options and has brought on board a detailee to work full time on the effort for continuing the process. In addition, the INL Financial Management Handbook used by domestic and overseas staff is being amended to reflect standard requirements including timeframes for reviewing unliquidated obligations.

Recommendation 2: *OIG recommends that the Bureaus of Overseas Buildings Operations, International Narcotics and Law Enforcement Affairs, and*

Administration assess their obligations to determine instances in which automatic deobligations would be appropriate.

INL agrees with this recommendation and is in the process of preparing guidance to implement this procedure beginning with travel deobligations. INL intends to expand the effort based on lessons learned and process refinements associated with the initial effort.

Recommendation 3: *OIG recommends that the Bureaus of International Narcotics and Law Enforcement Affairs and Administration determine whether the balances remaining on the undelivered orders identified by OIG as invalid, which were not deobligated by the end of this audit, are necessary and, if not, deobligate them.*

INL agrees with this recommendation. Due to staff shortages we are unable to complete the entire spreadsheet; however we will work towards this goal. We have identified many of the items from the audit and determined that they are the IAA's identified in Recommendation 1

If you have any additional questions or concerns, please contact Cheryl Williams of my staff at (202) 776-8756.

United States Department of State

Washington, D.C. 20520

January 12, 2009

MEMORANDUM

TO: OIG/AUD – Mark W. Duda

THROUGH: IRM/CIO – Susan H. Swart

FROM: A/EX – Peggy Philbin

SUBJECT: Comments on Draft Report on the Audit of Undelivered Orders

Thank you for the opportunity to review and comment on the draft audit report concerning Undelivered Orders. Amelia Sligh, A/EX/FMD, is the point of contact and can be reached on (703) 812-2391.

Recommendation 1: OIG recommends that the Bureaus of Overseas Buildings Operations, International Narcotics and Law Enforcement Affairs, and the Bureau of Information Resource Management (in coordination with the Bureau of Administration) develop and implement a systematic process for monitoring unliquidated obligations.

The Bureau of Administration (in coordination with the Bureau of Information Resource Management) agrees with this recommendation and has implemented a best practice beginning in FY09 in monitoring unliquidated obligations. We have scheduled with the DCFO's office quarterly reports of prior year obligations with no activity for the past six months for review. A memorandum was issue to explain this new best practice process and has the support of IRM Bureau senior management. Copies of this memorandum and email broadcast are attached. This exercise will be a standing quarterly work requirement for A/EX/FMD.

Recommendation 2: OIG recommends that the Bureau of Overseas Buildings Operations, the Bureau of International Narcotics and Law Enforcement Affairs, and the Bureau of Information Resource Management (in coordination with the Bureau of Administration) assess their obligations to determine instances in which automatic deobligations would be appropriate.

The Bureau of Administration (in coordination with the Bureau of Information Resource Management) agrees with this recommendation. We believe that we can implement a process similar to OBO's automatic deobligation of travel orders over 120 days and will coordinate the establishment of this travel policy within IRM Bureau.

Recommendation 3: OIG recommends that the Bureau of Overseas Buildings Operations, the Bureau of International Narcotics and Law Enforcement Affairs, and the Bureau of Information Resource Management (in coordination with the Bureau of Administration) determine whether the balances remaining on the undelivered orders identified by OIG as invalid, which were not deobligated by the end of this audit, are necessary and, if not, deobligate them.

The Bureau of Administration (in coordination with the Bureau of Information Resource Management) agrees with this recommendation. Our analysts have been working with the respective IRM program offices regarding each of the remaining six items identified in this recommendation. One obligation remains valid and the other five are invalid. The valid obligation is awaiting billing from the Department of Defense. Three of the five invalid obligations have been de-obligated and the remaining two are pending contract close-out actions with the Acquisition's Office. Their status is as follows:

1. M9 1019625647 with a remaining balance of $30,961 is still valid pending billing from the Department of Defense
2. M9 1019623097 with a remaining balance of $10,259 is invalid upon further research and was deobligated on 11/12/08
3. M9 1019553245 with a remaining balance of $62,132 is invalid upon further research and was deobligated on 12/23/08
4. M9 1019156582 with a remaining balance of $27,975 is invalid upon further research and was deobligated on 12/5/08
5. EO 1019152363 with a remaining balance of $492,364 is invalid upon further research and will have to go through the Acquisition's Office (A/LM/AQM) for close-out actions

6. EO 1019373091 with a remaining balance of $35,000 is invalid upon further research and will have to go through the Acquisition's Office (A/LM/AQM) for close-out actions

Attachment: As stated

Cleared: IRM/DCIO/OPS – Charles Wisecarver
IRM/DCIO/BPC – Janice Fedak