



UNITED STATES DEPARTMENT OF AGRICULTURE  
OFFICE OF INSPECTOR GENERAL  
Washington D.C. 20250



DATE: March 30, 2001

REPLY TO  
ATTN OF: 50601-1-Te

SUBJECT: Controls Over Unliquidated Obligations

TO: Patricia E. Healy  
Acting Chief Financial Officer  
Office of the Chief Financial Officer

We conducted an audit of the controls over unliquidated obligations focusing on the Natural Resources and Environment mission (NRE) area. The NRE mission area is comprised of the Forest Service (FS) and Natural Resources and Conservation Service (NRCS). We reviewed internal controls at both agencies and performed audit tests at one field office for each of the two agencies. Further, we evaluated related departmental controls.

Both offices overstated their obligation balances for the period reviewed. Our review disclosed a lack of oversight and internal review of unliquidated obligations by responsible agency officials. Further, departmental and agency policies and procedures do not establish effective controls over unliquidated obligations. As a result, unliquidated obligations are at risk of being materially overstated, especially among liabilities over 2 years old.

We recommend that the U.S. Department of Agriculture (USDA), Office of Chief Financial Officer (OCFO), update and reissue Departmental Regulation (DR) 2230-001, Improvement of Management Controls Over Unliquidated Obligations. The intent of the original regulation, dated January 23, 1984, was to provide policy and procedural requirements for improving agency reviews and management controls over unliquidated obligations. Our review determined the controls specified in DR 2230-001 are not in current use, and have been rendered ineffective with the passage of time.

## **BACKGROUND**

Two recent Office of Inspector General (OIG) audits and our current survey have revealed significant weaknesses in controls over unliquidated obligations. In February 2000, OIG issued the results of an audit of the Rural Utilities Service's telephone loan program policies and procedures. OIG identified loans over 5 years old with unused balances totaling about \$602.3 million.<sup>1</sup> In March 2000, OIG issued the results of the audit of the NRCS contracting, procurement, and disbursement activities at the National Business Management Center in Fort Worth, Texas. This audit revealed the theft of more than \$311,000 and unauthorized procurement expenditures of more than \$473,000. In both instances, unliquidated obligations were not timely deobligated, in part, because of deficiencies in internal controls related to the review and certification of obligation balances.<sup>2</sup>

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<sup>1</sup> Audit Report No. 09016-1-Te, February 2000.

<sup>2</sup> Audit Report No. 10601-1-Te, March 2000.

The USDA, in its "Combining Statement of Budgetary Resources" for the year ended September 30, 1999, reported a total of \$26.636 billion of unliquidated obligations. The NRE mission area reported a balance of \$1.464 billion for the year ended September 30, 1999. This amount represents approximately 5.5 percent of all USDA obligations. The balances reported by FS and NRCS were \$994 million and \$470 million, respectively.

## **OBJECTIVES**

The survey objective was to determine the effectiveness of accounting and managerial controls over unliquidated obligations in order to maintain the integrity of appropriated funds.

## **SCOPE AND METHODOLOGY**

Because of control weaknesses identified in Audit Report No. 10601-1-Te, we focused on the controls over unliquidated obligations of the NRE mission area and included tests at both FS and NRCS agencies. Our audit included a review of departmental and agency regulations, policies, and procedures relevant to the control and certification of unliquidated obligations.

We used the most current information available for our reviews of unliquidated obligations at the FS and NRCS field offices. We visited the FS supervisor's office in Lufkin, Texas, and NRCS Texas State office in Temple, Texas, during July 2000. At both locations, we judgmentally sampled from the available obligation reports closest to the period, which ended June 30, 2000. The FS office had an unliquidated obligation balance of \$976,930. We reviewed six of the obligations totaling \$390,750. The NRCS State office had an unliquidated obligation balance of \$25,116,939. We reviewed 11 obligations totaling \$3,545,268. We also prepared flowcharts depicting internal controls over unliquidated obligations for both agencies.

We conducted our audit from February through December 2000 in accordance with Government Auditing Standards.

## **FINDINGS**

Both of the agency field offices we audited had obligations over 2 years old with balances recorded as active liabilities, that were in fact, either fully paid or the contracts had been completed for less than the obligated amounts. In our opinion, these conditions developed because FS and NRCS internal controls did not ensure adequate oversight and internal review of unliquidated obligations by responsible agency officials. Further, departmental controls regarding identification of inactive projects and validations of related obligations by program officials who are not responsible for project performance, as promulgated by DR 2230-001, were not functioning. As a result, the Department is vulnerable to a significant overstatement of unliquidated obligations.

At the FS supervisor's office, we reviewed six obligations totaling \$390,750 and questioned four obligations totaling \$162,808. At the NRCS State office, we reviewed 11 obligations totaling \$3,545,268 and questioned 2 obligations totaling \$55,066. Of the six questioned obligations, five were in error because remaining obligations balances were not deobligated once the contract was completed. The other erroneous obligation was attributed to a posting error.

Agency officials at both field offices said they performed periodic reviews of unliquidated obligations. In the case of FS, they did not have any documentary evidence of any recent

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<sup>3</sup> Audit Report No. 10601-1-Te, March 2000.

review. However, FS officials transitioned to the Foundation Financial Information System accounting system for fiscal year 2000, and they said all of their manuals related to accounting are no longer valid. On the other hand, NRCS had a written procedure requiring each administrative office to certify quarterly the correctness of its obligations (Section 1311, Certification Report). We reviewed the reports and sampled from the data used to prepare the report.

We also reviewed departmental and agency regulations, policies, and procedures relevant to the control and certification of unliquidated obligations. Our review in this area centered on the following criteria:

- The USDA DR 2230-001,
- Office of Management and Budget (OMB) requirements for the certification of obligations,<sup>4</sup> and
- Form SF-133, Report on Budget Execution.<sup>5</sup>

The intent of DR 2230-001, dated January 23, 1984, was to provide policy and procedural requirements for improving agency reviews and management controls over unliquidated obligations. The regulation required at least an annual review of inactive unliquidated obligations to comply with the requirements of OMB Circular A-11. Inactive obligations were defined by the regulation as projects and activities with no physical or fiscal activity for at least 12 months. Inactive projects were to be stratified by dollar amounts. A dollar cutoff level was set to assure that a majority of the unliquidated obligations was reviewed. Based on the review, agencies and staff offices were to decide which projects and activities should be closed out and deobligated, or reprogrammed.

The DR required each agency to prepare and file three reports with the Office of Finance and Management (now OCFO) no later than November 30 each year:

- Form AD-1000, Stratification of Inactive Projects and Unliquidated Obligation Amounts,
- Form AD-1001, Status of Unliquidated Obligations, and
- Form AD-1002, Summary of Results Of Unliquidated Obligations Review.

We described the regulation to the field personnel we visited at FS and NRCS offices. They were not aware of this regulation or the reports. Although the regulation is currently posted on the USDA OCIO directives website, it is not in current use and the reports described in the regulation are no longer filed. Agencies currently use the SF-133, Report on Budget Execution (filed quarterly) to report and certify obligation balances.

The NFC maintains the software for the SF-133 report on its computer system. Agencies input or feed pertinent data into the system, and when the due date is near, NFC generates the report and makes it available for agency review. NFC files the report electronically with OMB when due. According to NFC personnel, they only compile the information for each reporting entity's SF-133. They do not perform any control functions mentioned in the regulation at NFC. (Note: According to NFC, NRCS controls the generation of its SF-133 reports, but they use the same NFC system that generates all SF-133's.)

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<sup>4</sup> OMB Circular A-11, Preparation and Submission of Budget Estimates

<sup>5</sup> OMB Circular A-34, Instructions on Budget Execution

We determined that most of the criteria referenced in DR 2230-001 are still current. However, the controls specified in the regulation have been rendered ineffective with the passage of time. Therefore, although the Department certifies to OMB the accuracy of its unliquidated obligations as required, we have concluded the weaknesses in the internal controls structure leave the Department vulnerable to an overstatement of unliquidated obligations, especially among liabilities over 2 years old. The reduction of unliquidated obligations should improve the Treasury Department's ability to forecast outlay and borrowing needs. Further, large amounts of dormant obligations leave agencies vulnerable to misuse and theft of funds.<sup>2</sup>

Better oversight and coordinated internal review of unliquidated obligations are needed. There is a lack of departmental and agency policies and procedures specifying effective controls over unliquidated obligations. Specifically, there is a lack of communication between program, contracting, and administrative (accounting) personnel that has permitted unliquidated obligations, whose purposes have expired, to remain recorded as liabilities of the Government. Due to the significance of the issue and magnitude of dollars at risk, we will propose further agency audit work in this area.

The audit was discussed with OCFO staff members on February 7, 2001, and they expressed agreement with the finding and recommendation. We requested a written reply to the Official Draft of this report, but we did not receive it within the timeframes afforded.

## **RECOMMENDATIONS**

We recommend the USDA OCFO update and reissue DR 2230-001, Improvement of Management Controls Over Unliquidated Obligations.

Please provide a written reply within 30 days describing the actions taken to address our recommendation. Note that Departmental Regulations require that a management decision be reached on the recommendation within a maximum of 6 months from report issuance. We appreciate the courtesies and cooperation extended to our staff during this review.

/s/

JAMES R. EBBITT  
Assistant Inspector General  
for Audit

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<sup>2</sup> Audit Report No. 10601-1-Te, March 2000.