

ARS □ **CSREES** □ **ERS** □ **NASS**

Bulletin

Title: Unliquidated Obligations

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Originating Office: Financial Management Division
Administrative and Financial Management
Agricultural Research Service

Distribution: All REE Agencies

The purpose of this notice is to provide procedural guidelines for the quarterly review of unliquidated obligations.

ACRONYMS/DEFINITIONS

ARS Operations Section - Controller Operations Division personnel located at the National Finance Center (NFC) who support the Agricultural Research Service (ARS) financial operations.

ADO - Authorized Departmental Officer. The Agency's official delegated authority to negotiate, award, administer, suspend, and terminate extramural agreements. The ADO is the only person that can obligate funds or commit the resources of the Agency with regard to extramural agreements.

ABFO - Area Budget and Fiscal Officer.

Deobligation - the cancellation or downward adjustment of a previously recorded obligation.

FDW - Financial Data Warehouse. The Agency's repository of financial transactions.

FFIS - Foundation Financial Information System. The Agency's financial system.

GovTrip - the Agency's travel system.

IAS - Integrated Acquisition System. The Agency's acquisition system

OCFO - Office of the Chief Financial Officer.

PRCH - the Agency's legacy procurement system.

Research Support Agreement (RSA) - a cost reimbursable agreement with a State Cooperative Institution, college or university for the acquisition of goods and/or services without regard to competition and other acquisition regulations. The terms RSA and Cost Reimbursable Cooperative Agreement are interchangeable.

Specific Cooperative Agreement (SCA) - an agreement between the Agency and another party that describes in detail a jointly planned and executed research program or project of mutual interest between the parties where both parties contribute resources.

TRVL - the Agency's travel system currently used to process local travel as well as relocation travel.

Unliquidated Obligations - represent the amount of obligations incurred for which a payment or outlay is expected, immediately or in the future.

PURPOSE

The purpose of this notice is to provide procedural guidelines for the quarterly review of unliquidated obligations.

AUTHORITIES

Office of Management and Budget (OMB) Circular A-11 – Preparation, Submission, and Execution of the Budget

USDA Departmental Regulation Number 2230-001 - Reviews of Unliquidated Obligations

U.S. Code Title 31 Chapter 15 -1501 states in part: An amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of a binding agreement between an agency and another person (including an agency) that is in writing, in a way and form, and for a purpose authorized by law; and executed before the end of the period of availability for obligation of the appropriation or fund used for specific goods to be delivered, real property to be bought or leased, or work or service to be provided; from appropriations made for payment of, or contributions to, amounts required to be paid in specific amounts fixed by law or under formulas prescribed by law; under an agreement authorized by law; or under plans approved consistent with and authorized by law.

Treasury Financial Management Bulletin 2008-06 (Reconciliation of Obligations section) states that agencies should review their unliquidated obligations to ensure that agencies properly record transactions meeting the criteria of valid obligations set forth in 31 U.S.C. 1501 and retain work papers and records on verifications to facilitate future audits.

BACKGROUND

Based on the OCFO's Material Weakness Corrective Plan for Open Obligations, Departmental Regulation 2230-001, "Reviews of Unliquidated Obligations," is currently being revised to require quarterly reviews and certifications of unliquidated obligations. The Office of Inspector General (OIG) has noted that obligations were not always valid because agencies were not effectively reviewing all unliquidated (open or active) obligations and taking appropriate actions (deobligating). Invalid obligations increase the risk that funds may be inappropriately diverted for purposes other than what Congress intended. Previous OIG audits within the Department of Agriculture (USDA) have found 48 percent of the obligations reviewed were invalid and agencies planned to de-obligate the items. One Agency identified \$560 million in obligations that were determined to be invalid.

A number of other steps are also being undertaken by the OCFO to help address this material weakness:

- refining existing reports which allow the agency to identify and age unliquidated obligations,
- establishing a working group consisting of representatives of all USDA agencies to monitor the timely review of open obligations,
- sampling the supporting documentation from agencies, and
- using the sample results to advise agency heads and subcabinet officials of performance and accountability issues.

Quarterly reviews of unliquidated obligations are necessary to properly report obligation balances, certify the validity of obligated balances, make funds available that otherwise would not be used, reduce the risk of misuse and theft of funds, and improve the Treasury Department's ability to forecast outlay and borrowing needs.

Unliquidated obligations are incurred when orders are placed, contracts awarded, services received, agreements executed/awarded, and other similar transactions occur during a given period that will require payments during the same or future periods. Unliquidated obligation balances are reported to the Department of Treasury and OMB.

One of the President's Management Agenda Governmentwide initiatives is "Improved Financial Performance." Federal agencies are responsible for adequate and sound accountability of financial data that is reported. The ability to maintain accurate data is necessary for management to extract meaningful reports for effective funds management. Without accurate and timely financial information it is not possible to accomplish the best performance and highest measure of accountability.

In performing this review, OCFO has advised that we should focus on obligations with no activity for the most recent 12 months and those with high dollar amounts. OIG will continue to pull samples of unliquidated obligations with no activity for 12 or more months. Additionally, because of the cancellation provisions of Public Law 101-510 (M Account legislation), careful attention should be paid to obligations that will be canceled at the end of this fiscal year (FY) (i.e., single year 04 budget authority and 2 year 03/04 funds that will be cancelled as of September 30th 2009.) As part of improving our financial performance, our goal is to decrease our unliquidated obligation balances by ensuring that only unliquidated obligations for which there is a documented bona-fide purpose remain on our books. This will help to increase our accountability and adequacy of our financial reports and statements to Congress.

POLICY

The Research, Education, and Economics (REE) agencies will review the designated reports for their agency and validate active financial management, accounting, agreement and procurement records which support transactions of genuine obligations for goods and services ordered. During each review any obligation with no activity within the last 12 months must be selected for review. Documentation must be maintained for those that are deemed to be valid and be maintained for a period of 5 years.

- Review obligations for goods received but not yet paid, expedite payments as required, return unacceptable goods, and adjust or deobligate the invalid (excessive) amounts obligated as appropriate.
- Cancel orders, contracts or agreements for goods and services that are no longer needed or orders that are not likely to be delivered and deobligate the excess amounts from the accounting records.
- Eliminate invalid obligations in the most cost-effective way to the maximum extent possible.

Specific documentation should be maintained for those obligations that have not had any activity for over a year and should be available for OIG review.

PROCEDURE

In order to comply with Departmental Regulations we must follow these steps: Financial personnel will identify unliquidated obligations inactive for twelve months or more and coordinate efforts to validate that all of these unliquidated obligations should remain on the financial books. Financial personnel will work with program, agreements, and contracting personnel to determine the validity of these unliquidated obligations. Financial personnel will maintain supporting documentation as to the validity of all obligations that have been inactive for 12 months and for which we do not remove from the financial system.

Agreements Specialists, program and contracting personnel will review unliquidated obligations which have not had any activity for 12 or more months to determine whether delivery of goods or services or performance is expected to occur.

When determining if an unliquidated obligation is still valid, the following must be considered:

- The period of fund availability;
- The timeliness of delivery or performance;

- The completeness and accuracy of information provided by grant recipients;
- Whether funds have been expended consistent with the percentage of completion;
- Whether remaining funds are sufficient to complete the order in accordance with the specifications;
- Justifications for amendments to funding levels;
- Reasons for lack of activity, such as litigation or delay in contract closeout;
- Any provisions of the agreement or contract that may permit or prohibit deobligation or reprogramming; and
- Any other relevant factors, when making a determination.

The review should provide support for the liquidation of any obligations for any project:

- That does not have a legal basis, or is not properly authorized and supported by appropriate documentation;
- Which has been completed and has not been closed out; and
- Under which no future expenditures are expected.

For example, goods and services routinely needed and ordered but not yet received from 9 to 12 months after the order date should be canceled unless they still meet the bona fide need for delivery of a specific or unique finished end product.

The existence of an official obligation document (i.e., purchase order, contract, agreement, travel authorization, etc.) is sufficient to justify leaving the unliquidated obligation on the books as long as activity against the obligation has occurred within the last 12 months. If there has not been any receipt or payment activity against the unliquidated obligation within the last twelve 12 months further support is needed to justify allowing the open obligation to remain on the books.

Once a determination is made that an unliquidated obligation can be deobligated, contracting, agreement, and financial personnel should work together to remove the obligation. If the obligation was created by a feeder system (i.e., IAS, TRVL or GovTrip) it is preferable to liquidate the obligation through the feeder system. However, if this cannot be accomplished timely, financial personnel should process the necessary documents directly in the financial system.

It is important to note that if an obligation is removed from the financial system and an invoice is subsequently received for the item, service, contract, agreement etc., the obligation is still chargeable to the budget FY when the obligation was legally incurred. The general rule is to obligate the amount to the available annual (current year) or no-year appropriation based on the FY period when the bona fide need was decided and the obligating document was approved (signed).

Remember that an unliquidated obligation that is deobligated will not end up as an audit sample so now is the time to deobligate all invalid unliquidated obligations. Unliquidated obligations reports are available for each of the REE agencies on the FDW that can be used to generate listings of those transactions that have not had activity for more than 12 months.

The Cooperative State Research, Education, and Extension Service (CSREES), Economic Research Service (ERS) and National Agricultural Statistics Service (NASS) should submit annotated reports evidencing the review of unliquidated obligations by the end of each FY quarter (December 31st, March 31st, June 30th, and September 30th). Any item on the report with no activity for over 1 year must be annotated that the item has been deleted (or will be deleted) or will require a justification as to why it is still valid. ARS ABFO's should maintain their annotated reports in their respective area offices, and should send an email to the Financial Management Division certifying that the review has been completed.

EXAMPLES

Listed below are examples that may help determine if an unliquidated obligation that has not had activity within the last 12 months is invalid and should be removed from the financial system.

SCA's or RSA's where there is not activity within a 12 month period need to be investigated. A good indication that the agreement may still be active would be that the cooperator has submitted a recent financial report for the agreement which indicates work is continuing. However, if this is the case, additional communication with the cooperator should occur to ensure they will be making additional draws. Another good indication that the obligation is still valid would be a statement from the Lead Scientist on the project justifying why there has been a temporary suspension of activity on the project. It should be noted that if the funds have been transferred to another agreement we need to follow through to ensure that not only is the amended agreements put into place but that the money is moved as well. Keep in mind that RSA's are generally funded for 12 months and open obligations exceeding 12 months are likely no longer valid and must be deobligated. If confirmation cannot be obtained that an outlay is expected, immediately or in the future, the obligation should be removed from the financial system.

Purchase orders for goods or services where there is no activity within a 12 month period do not normally pass the reasonableness test that the obligation is valid and the obligation should be removed. However, if confirmation can be obtained from the vendor that they have not received payment and are in the process of invoicing, the obligation should be left on the books.

PRCH system orders. GA and GD documents from the PRCH system, especially those over one year old, should be reviewed since the PRCH system is no longer being used. Unless the vendor is contacted and indicates they will be invoicing for these items consider deobligating such unliquidated obligations.

Purchase orders for maintenance agreements. As a general rule, we do not pay for a service before it is received/completed. Sometimes, maintenance agreements are paid in quarters or semi-annually. However, there are instances where we will not pay for the agreement until the year is over. In the case of an annual maintenance agreement where the agreement calls for payment upon completion of the one-year coverage period, the 12 month period of inactivity is explainable and should remain on the books.

Agreements with other Federal Agencies where we are the paying Agency are not as clear-cut. Currently, we have been experiencing a trend that many of the Federal Agreements are taking the full five years to liquidate and it is not uncommon to have long periods of inactivity. Until this situation is rectified, we will leave these obligations on the books as long as 1) we have a signed reimbursable agreement, 2) we have contacted the other Federal Agency and they have not either provided us with an amended agreement or confirmed that the balance can be deobligated or 3) the requesting official is able to confirm that we have received services and they believe the entire amount is owed to the cooperator.

Training is normally liquidated within 12 months; ensure that open amounts over 12 months old are still owed to the vendor.

Nominal amounts (e.g., 83 cents) should be reviewed to determine if these are still valid since most goods or services cannot be procured for nominal amounts.

Security Clearances with the Office of Personnel Management (OPM) should be reviewed since our experience has shown that any clearances that have not cleared within 18 months are probably no longer valid. If OPM cannot confirm they have not collected for the security clearance, delete.

Government Printing Office orders should be reviewed since generally these orders clear within 2 years.

Vehicle purchases where the obligation has been partially liquidated should be reviewed. Experience has shown that when an invoice for a vehicle is processed and it is for an amount less than the obligation balance, the obligation is only partially liquidated even when the payment represented a final payment.

Facilities Contracts. The vast majority of facility contract unliquidated obligations are “Active”. On occasion a retainage is withheld from a contractor pending completion of outstanding or disputed items during closeout of a construction project, or there is money held “open” on an A-E contract to keep the contract alive until construction is awarded. The validity considerations for these unliquidated obligations should be documented in the contract file.

ACTION REQUIRED

ARS Headquarters, ARS ABFOs, National Agricultural Library (NAL) and Financial Personnel (NASS, ERS, and CSREES) will:

- Provide the Open Item Summary Report to Extramural Agreements Division (EAD), the Area Agreement Specialists (ARS) and contracting/procurement personnel.
- Coordinate efforts to liquidate any obligations not supported by appropriate documentation, which have been completed but not closed out or obligations for which no future expenditures are expected.
- Issue supplemental guidance and instructions as warranted to personnel regarding the closeout/liquidation of obligations.
- Maintain the documentation for the bona-fide purpose for an obligation with no activity for the most recent 12 months for audit purposes for a period of 5 years.
- Manage all activities pertaining to the review of all unpaid transactions listed on the Open Item Summary Report run from the FDW.
- ARS Headquarters, ARS ABFOs, and NAL will maintain the quarterly annotated reports evidencing the review of unliquidated obligations (December 31st, March 31st, June 30th and September 30th) and send an email to sharon.williams@ars.usda.gov certifying that the review has been completed by the end of each FY quarter.
- CSREES, ERS and NASS will submit annotated reports evidencing the review of unliquidated obligations by the end of each fiscal year quarter (December 31st, March 31st, June 30th and September 30th) documenting the completion of the quarterly review to:

ARS/AFM/Financial Management Division
Portals - Suite 580C
1280 Maryland Avenue, SW
Washington, DC 20024-2142
Phone: (202) 720-7031
Fax: (202) 720-0385

Contracting/Procurement and Facilities Personnel will:

- Review the Open Item Summary Report to determine which of the following action(s) will be taken:
 1. If the Open Item Amount is \$0.00, take no action on the entry.

2. Review obligations for goods received but not yet paid, expedite payments as required, and adjust or deobligate the invalid (excessive) amounts obligated as appropriate.
3. Cancel orders or contracts for goods and services that are no longer needed or orders that are not likely to be delivered and deobligate the excess amounts from the accounting records.
4. If the obligation was created by IAS, it is preferable to liquidate the obligation through IAS. However, if this cannot be accomplished timely, contracting/procurement personnel should coordinate with financial personnel to have the necessary documents processed directly in the financial system.
5. Provide a copy of the quarterly annotated reports evidencing the review of unliquidated obligations (December 31st, March 31st, June 30th and September 30th). APD and FD personnel should send their report certifying that the review has been completed by the end of each fiscal year quarter to ARS Headquarters, Fiscal Operations Branch. Area contracting/procurement personnel should send their report to their servicing ABFO office certifying that the review has been completed by the end of each fiscal year quarter.

Extramural Agreements: Authorized Departmental Officer (ADO)/Area Agreements Specialist will:

The ADO will review the Open Item Summary Report to determine which of the following action(s) will be taken:

- If the Open Item Amount is \$0.00, the ADO will take no action on the entry.
- If the Open Item Amount was liquidated by an advance payment or reimbursement that is not reflected on the report, the ADO will:
 1. Ensure that there are recent financial and/or performance reports in the official file to substantiate or justify the advance or reimbursement.
 2. The ADO will notate on the Open Item Summary report the amount of the advance payment or reimbursement.
 3. Work with the ABFO and the ARS Operations Section at NFC to ensure that the liquidation of the advance payment or reimbursement is reflected in the financial system.

- If the Open Item Amount on the report is accurate and no advance payment or reimbursement have been processed on the agreement, then the ADO will:
 1. Ensure that the obligation is valid and must remain in the financial system for the successful completion of the project. This can be accomplished by reviewing current financial and/or performance reports from the Cooperator.
 2. Notify the ABFO by notating on the Open Item Summary report that the obligation is valid.

- If an Open Item Amount on the report needs to be deobligated, the ADO will:
 1. Reduce the obligation through the execution of the REE-451 and provide a copy to the ARS Operations Section at NFC and the ABFO.
 2. Notate on the Open Item Summary report the amount of the deobligation.

- Provide a copy of the quarterly annotated reports evidencing the review of unliquidated obligations (December 31st, March 31st, June 30th and September 30th). EAD should send their report to ARS Headquarters, Fiscal Operations Branch certifying that the review has been completed by the end of each fiscal year quarter. Area Agreement Specialists should send their report to their servicing ABFO office certifying that the review has been completed by the end of each FY quarter.

INQUIRIES

Questions concerning this bulletin should be directed to the FFIS Operations Branch at (301) 504-4429, or via e-mail at michelle.garner@ars.usda.gov.

EFFECTIVE DATE

This bulletin is effective immediately.

/s/
STEVEN M. HELMRICH
DIRECTOR
FINANCIAL MANAGEMENT DIVISION