
Office of Inspector General
Audit Report

Inactive Obligations

Department of Transportation

Report Number: FE-1999-131
Date Issued: September 27, 1999






Memorandum

U.S. Department of
Transportation
Office of the Secretary
of Transportation
Office of Inspector General

Subject: **ACTION:** Report on Inactive Obligations, DOT
FE-1999-131

Date: September 27, 1999

From: John L. Meche 
Deputy Assistant Inspector General for Financial
and Information Technology

Reply To
Attn Of: Meche:x61496

To: Assistant Secretary for Budget and Programs/
Chief Financial Officer

This report presents our audit results on inactive obligations in the Department of Transportation (DOT). For purposes of this audit, we defined inactive obligations as those recorded obligations that had no activity within 18 months. Our audit objective was to determine whether inactive obligations represented valid financial liabilities. This audit was performed in conjunction with our Chief Financial Officers Act responsibilities to opine on DOT's Financial Statements for Fiscal Year (FY) 1999.

RESULTS-IN-BRIEF

DOT and its Operating Administrations had recorded obligations totaling \$51.2 billion as of March 31, 1999. Based on computer inquiries, we identified about 63,000 obligations, totaling \$5.1 billion, that had no activity within 18 months. In a joint effort with the Operating Administrations, we identified \$672 million of recorded obligations that no longer represented valid financial liabilities. The unneeded obligations existed because regular reviews of obligations were not being performed. DOT and its Operating Administrations agreed with the results, and are in the process of closing the unneeded obligations. DOT will use the funds for other valid needs or return them to the United States Treasury.

BACKGROUND

The General Accounting Office (GAO) Principles of Federal Appropriations Law state an obligation creates a liability on the part of the Government to make a payment at some later time. Title 31, United States Code, Section 1501 (31 U.S.C. 1501) states that obligations of the United States shall be recorded only when supported by documentary evidence. According to 31 U.S.C. 1108, the head of an

agency shall submit an annual certification, supported by records, showing compliance with Section 1501.

Agencies are required to review unliquidated obligations prior to certification. The Treasury Financial Manual Bulletin 98-09 states:

Agencies that have not reviewed their unliquidated obligations during the year must do so before yearend closing. This ensures that those transactions meeting the criteria of valid obligations set forth in 31 U.S.C. 1501 have been properly recorded.

SCOPE AND METHODOLOGY

DOT and its Operating Administrations had recorded obligations of \$51.2 billion as of March 31, 1999. To determine the validity of inactive obligations, we used 18 months with no activity as the basis for review. Using computer inquiries into the Departmental Accounting and Financial Information System, we identified about 63,000 obligations, totaling \$5.1 billion, that had no activity for 18 months as of March 31, 1999. Table 1 shows a breakout of the obligations.

Table 1. Recorded Obligations as of March 31, 1999

| <u>Operating Administration</u> | <u>Total Obligations (Millions)</u> | <u>Inactive Obligations</u> | |
|---------------------------------|-------------------------------------|------------------------------|-----------------------------|
| | | <u>Number of Obligations</u> | <u>Obligated (Millions)</u> |
| Federal Highway | \$ 35,851 | 24,542 | \$3,222 |
| Federal Aviation | 4,948 | 17,974 | 430 |
| Federal Transit | 7,775 | 2,306 | 1,169 |
| U.S. Coast Guard | 1,243 | 10,032 | 121 |
| Volpe Center | 92 | 1,014 | 10 |
| National Highway Traffic Safety | 431 | 2,832 | 42 |
| Maritime | 299 | 1,246 | 24 |
| Federal Railroad | 304 | 663 | 71 |
| Other* | <u>272</u> | <u>2,374</u> | <u>49</u> |
| Total | <u>\$ 51,215</u> | <u>62,983</u> | <u>\$5,138</u> |

*Includes Office of the Secretary, Transportation Administrative Service Center, Research and Special Programs Administration (excluding Volpe), and the Bureau of Transportation Statistics.

We provided the Operating Administrations with a listing of their inactive obligations. We judgmentally selected for audit 489 of these obligations totaling \$1.7 billion. Our selections were based on obligated balances above \$50,000 and age of the obligation by type, such as purchase order, contract, or grant. We requested that Operating Administrations provide support to validate obligated amounts. The Operating Administrations reviewed the remaining \$3.4 of the \$5.1 billion.

We made site visits to five Federal Highway (FHWA) division offices, four Federal Transit (FTA) regional offices, nine Federal Aviation (FAA) regional accounting offices, the Coast Guard Finance Center, and the Volpe National Transportation System Center (Volpe). We interviewed program and accounting officials, reviewed obligation documents, including grant agreements and project files, to evaluate the monitoring of selected projects. We also reconciled information in the Operating Administrations' project management system to financial records.

We conducted the audit in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States. Our audit was conducted from May through September 1999.

ANALYSES AND RESULTS

Identification of Unneeded Obligations

Our audit of DOT's FY 1998 Financial Statements¹ showed that Operating Administrations did not maintain documentation to support certification of obligations, and did not perform reviews of inactive obligations during the year. In that report, we recommended the DOT Chief Financial Officer require reviews of inactive obligations.

During FY 1999, the Operating Administrations initiated actions to improve controls over the validation of obligations. Our review identified \$672 million of obligations that no longer represented valid financial liabilities. These funds will be used for other valid needs or returned to the United States Treasury. Table 2 on the next page shows the total amount of unneeded obligations identified as a result of our joint effort with the Operating Administrations.

¹ Report on FY 1998 Consolidated Financial Statements, DOT, Report Number FE-1999-081, March 30, 1999.

Table 2. Unneeded Obligations

| <u>Operating Administration</u> | <u>Unneeded Obligations (Millions)</u> |
|---------------------------------|--|
| Federal Highway | \$284 |
| Federal Aviation | 179 |
| Maritime | 107 |
| Federal Transit | 22 |
| Coast Guard | 40 |
| Volpe Center | 9 |
| Federal Railroad | 7 |
| Other* | <u>24</u> |
| Total | <u>\$672</u> |

*Includes Office of the Secretary, Transportation Administrative Service Center, Research and Special Programs Administration (excluding Volpe), and the Bureau of Transportation Statistics.

These results demonstrated that regular reviews of inactive obligations are necessary. For example:

- FAA reduced its number of inactive obligations from about 18,000 to 4,500. As an example, FAA had an FY 1995 obligation of \$1.2 million for unemployment compensation. It received no claims against this obligation.
- In FY 1986, FHWA obligated \$52 million for emergency relief. As of July 1999, only \$3 million had been expended. FHWA agreed that about \$43 million was no longer needed.
- Volpe agreed to close contracts associated with \$9.3 million of inactive obligations. This included the 46 items in our sample (\$4.5 million) and another \$4.8 million of inactive obligations associated with a work order initiated in FY 1989.
- In December 1989, the Coast Guard-funded project on the Willamette River Bridge was completed. The Coast Guard agreed to deobligate \$1 million of unneeded obligations.

Agency Improvements

DOT and its Operating Administrations recognized the need to improve their processes to certify obligations. In addition to the reviews that identified \$672 million of unneeded obligations, the Operating Administrations took other actions to improve financial reviews of inactive obligations. Specifically:

- FAA instituted a procedure to review its obligations monthly rather than annually. Implementing this procedure will significantly reduce the number of obligations to review as part of its certification process.
- The FHWA Executive Director issued a memorandum to Division Administrators stating that FHWA had developed a process to periodically review projects over \$1 million that had no billing activity in a year, and that excess funds should be released promptly. The FHWA Administrator also issued letters to all states advising them of the FHWA initiative, and stating “. . . we need to strengthen our funds management efforts to ensure the effective use of Federal Funds.”
- Maritime Administration (MARAD) implemented a process to periodically review inactive obligations. As a result of its monitoring, MARAD cancelled more than \$180 million in obligations since July 1998.
- The Coast Guard increased its oversight of obligations. The Coast Guard is reviewing the validity of interagency orders with inactive obligations over \$50,000 and contracts inactive for 18 months with inactive obligations over \$100,000. It is also enhancing its automated system to automatically request a verification of inactive obligations on interagency orders and contracts. The Coast Guard plans to complete the enhancements by January 2000.

RECOMMENDATION

We recommend that the Assistant Secretary for Budget and Programs/Chief Financial Officer establish a Departmentwide policy requiring at least annual reviews of inactive obligations.

MANAGEMENT COMMENTS

A draft of this report was provided to the Assistant Secretary for Budget and Programs/Chief Financial Officer on September 21, 1999. He agreed with the recommendation.

We also discussed the audit results with financial managers from the Operating Administrations and DOT. They agreed with our results and are in the process of closing the unneeded obligations. The funds will be used for other valid needs or returned to the United States Treasury.

ACTION REQUIRED

Please provide written comments, within 30 days, identifying specific action taken or planned for the recommendation and commenting on the validity of the \$672 million reported as unneeded obligations.

We appreciate the courtesies and outstanding cooperation of financial management representatives from the Operating Administrations and DOT. If you have any questions, please call me at (202) 366-1496, or Harry Fitzkee at (410) 962-3612.

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