Audit of Department of State
Use of Appropriated Funds
Prior to Expiration and Cancellation
PREFACE

This report was prepared by the Office of Inspector General (OIG) pursuant to the Inspector General Act of 1978, as amended, and Section 209 of the Foreign Service Act of 1980, as amended. It is one of a series of audit, inspection, investigative, and special reports prepared by OIG periodically as part of its responsibility to promote effective management, accountability, and positive change in the Department of State and the Broadcasting Board of Governors.

This report is the result of an assessment of the strengths and weaknesses of the office, post, or function under review. It is based on interviews with employees and officials of relevant agencies and institutions, direct observation, and a review of applicable documents.

The recommendations therein have been developed on the basis of the best knowledge available to OIG and, as appropriate, have been discussed in draft with those responsible for implementation. It is my hope that these recommendations will result in more effective, efficient, and/or economical operations.

I express my appreciation to all of those who contributed to the preparation of this report.

Norman P. Brown
Assistant Inspector General
for Audits
Acronyms

BP Bureau of Budget and Planning
CGFS Bureau of the Comptroller and Global Financial Services
FAM Foreign Affairs Manual
IRM Bureau of Information Resource Management
NEA Bureau of Near Eastern Affairs
OIG Office of Inspector General
PRM Bureau of Population, Refugees and Migration
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Executive Summary

Because of budget constraints, the Department of State (Department) has to make funding decisions on programs and emphasize financial accountability, responsibility, and efficiency. The Department must also spend the funds that it receives in accordance with Federal law. Funds, or appropriations, are said to “expire” at the end of the fiscal year for which they are appropriated. However, expired funds remain available for certain purposes for 5 years after expiration. At the end of that 5-year period, the funds are “canceled” and any remaining funds are taken back by the Department of the Treasury (the Treasury).

The objectives of this audit were to determine whether Department bureaus used appropriated funds within the deadlines of the appropriations and to determine whether obligations using expired funds were made in accordance with Federal requirements.

Overall, the Office of Inspector General (OIG) found that the Department used the majority of its appropriated funds within the periods of availability for the related appropriations. OIG found that the Department had to return $153 million, or 1.3 percent, of its FY 2007 appropriations to the Treasury when the funds were canceled in FY 2012. Although the Department had generally used the majority of its available funds within the periods of availability, OIG found that there were opportunities to improve fund management. OIG performed work at three bureaus—the Bureau of Information Resource Management (IRM); the Bureau of Near Eastern Affairs (NEA); and the Bureau of Population, Refugees and Migration (PRM). OIG identified two issues that negatively affected fund management and that could be improved: insufficient oversight of unliquidated obligations and delays in the contract closeout process. As a result, although the Department had used the vast majority of its funding within the approved time periods, the Department lost the use of approximately $153 million in funds because of limitations in funds management.

In addition, OIG found that two of three selected bureaus had made obligations using expired funds in accordance with Federal requirements. Specifically, OIG found that all 98 domestic obligations made by NEA and IRM using expired funds that OIG tested were allowable. The 98 obligations were either allowable adjustments to existing obligations, realignments of funding using contract modifications, refunds to obligations with a zero balance, or obligations that were created during the periods of availability for which the dates of the obligations were incorrectly entered.

OIG made four recommendations to the Department related to improving fund management. Specifically, OIG made recommendations related to improving the oversight of obligations and deobligating unneeded obligations.

In March 2014, OIG provided a draft of this report to IRM, NEA, PRM, the Bureau of Budget and Planning (BP), and the Bureau of the Comptroller and Global Financial Services.

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1 PRM did not have any obligations made using expired funds and therefore was excluded from this testing. The section “Detailed Sampling Methodology” in Appendix A provides additional information.
In its March 17, 2014, response (see Appendix B) to the draft report, IRM concurred with Recommendations 1 and 2 but did not indicate agreement or disagreement with the amount of obligations that OIG had identified as invalid. In its March 21, 2014, response (see Appendix C) to the draft report, NEA concurred with Recommendations 3 and 4 but did not indicate agreement or disagreement with the amount of obligations that OIG had identified as invalid. Although no recommendations were addressed to PRM and BP, these bureaus provided comments to the draft report, which are presented in Appendix D and Appendix E, respectively. Based on the comments received, OIG considers Recommendations 1 and 3 resolved, pending further action, and Recommendations 2 and 4 unresolved. The bureaus’ responses to the recommendations and OIG’s replies to the responses are presented after each recommendation.

Background

As a result of the recent focus within the Government on reducing spending, the Department has been required to adjust budgets and make decisions on programs and to emphasize financial accountability, responsibility, and efficiency. The Department’s FY 2013 Congressional Budget Justification stated that in a “time of fiscal restraint and economic hardship for the American people,” the Department is “seeking out every opportunity to work smarter and more efficiently.”

Budget Authority

The Department must spend the funds that it receives in accordance with Federal law. Budget authority is the authority for an agency to enter into financial obligations that result in immediate or future outlays of Government funds. Most budget authority is in the form of appropriations. Appropriations are classified as no-year, multi-year, and single-year. No-year appropriations are available for obligating and expending without a fiscal year limitation. Multi-year appropriations are available for obligating for a defined period that exceeds 1 year, while single-year appropriations are available for obligating only during the fiscal years for which they were made. Funds, or appropriations, are said to “expire” for the purpose of obligating at the end of the fiscal year for which they are appropriated. Both multi-year and single-year appropriations have an additional 5-year period beyond the original period during which the “expired” funds remain available for certain types of adjustments to obligations. At the end of the 5-year period, the appropriation is closed and any remaining balance, whether obligated or unobligated, is “canceled” and the remaining funds are taken by the Treasury.

Fund Management Responsibilities

The Department has two bureaus whose responsibilities specifically include fund management—CGFS and BP. CGFS oversees all financial management activities related to the programs and operations of the Department, monitors the financial execution of the budget in

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2 Obligations are amounts of orders placed, contracts awarded, services rendered, and similar transactions during a given period that will require payment.

relation to actual expenditures, and establishes financial management policies and management controls.

BP assists the bureaus when they develop their budget requests. Once the Department receives its funding, BP provides funds to the bureaus based on the bureaus’ financial plan. Throughout the year, BP analysts monitor the bureaus’ use of funds in comparison to each bureau’s financial plan, and analysts make adjustments as necessary. BP also exercises control over the Department’s funds by providing funds that have not expired but have been deobligated to bureaus so the funds can be used for other Department priorities, rather than allowing the funds to expire. In addition, BP has the authority to use expired Diplomatic and Consular Program appropriation funds for certain expenses because of fluctuations in foreign currency values and payments of rewards for information related to terrorism, narcotics trafficking, and war crimes.

All bureaus, offices, and posts have fund management responsibilities in respect to the funds that have been allotted to them. Specifically, budget offices are responsible for ensuring that the funds are used for the purposes stated in the organizations’ financial plans and that there is adequate funding available prior to obligation. The budget offices are also responsible for monitoring funds and ensuring the necessity of obligations.

During the course of the audit, OIG performed work at three bureaus—IRM, NEA, and PRM. IRM’s mission is to rapidly and securely deliver information technology services worldwide to accomplish the foreign affairs mission of the United States. NEA has a leading role in advancing U.S. interests with the nations of the Near East. PRM’s mission is to provide aid and sustainable solutions for refugees, victims of conflict, and stateless people around the world through repatriation, local integration, and resettlement in the United States.

Prior OIG Reports

In an FY 2012 report on internal controls, issued as part of the audit of the Department’s annual financial statements, 4 the financial statement auditor reported that the audit had identified obligations made to expired funds during FY 2012. The report stated that the Department did not have a process in place to review obligations to ensure that they were not made against expired funds, and the auditors did not find any system controls that prevented a user from recording a new obligation against expired funds.

Audit Objectives

The objectives of this audit were to determine whether Department bureaus used appropriated funds within the deadlines of the appropriations and to determine whether obligations using expired funds were made in accordance with Federal requirements.

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Audit Results

Finding A. Department Used the Majority of Funds Within the Deadlines of the Appropriations

Overall, OIG found that the Department had used the majority of its appropriated funds within the periods of availability for the related appropriations. Specifically, the Department returned only 1.3 percent of its FY 2007 appropriations when the funds were canceled in FY 2012. The amount of unused funds for specific bureaus and offices ranged from less than 1 percent to over 20 percent of funds. To determine whether there were any specific factors that negatively affected the bureaus’ ability to effectively use their funds, OIG performed work at three bureaus—IRM, NEA, and PRM. As a result of its work, OIG identified two key factors that negatively affected fund management: insufficient oversight of unliquidated obligations and delays in the contract closeout process. Although the Department had used the vast majority of its funding within the approved time periods, the Department lost the use of some funds as a result of limitations in funds management.

Department Generally Used Appropriated Funds Within Deadlines

According to Federal policy, management must ensure that Federal resources assigned to them are used efficiently and effectively to achieve the desired objectives of the programs that they manage. Fund management is especially important for single-year and multi-year funds because of the limited time of fund availability.

OIG found that overall the Department used the majority of its appropriated funds within the deadlines of the related appropriations. For instance, the Department received approximately $11.9 billion in single-year and multi-year appropriations that expired at the end of FY 2007. Of that amount, the Department used about $11.8 billion, and 5 years later, when the funds were canceled in FY 2012, it returned unused funds amounting to about $153 million (1.3 percent) to the Treasury. For appropriations that expired during FYs 2005–2007 (and were returned to the Treasury in FYs 2010–2012), the total amount of funds returned to the Treasury was about $521 million, or only 1.6 percent of the appropriations received, as shown in Table 1.

Table 1. Percent of Single-Year and Multi-Year Funds Returned to the Treasury (FYs 2010–2012)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Appropriations Received</th>
<th>Amount Returned to the Treasury</th>
<th>Percent of Funds Returned to the Treasury</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$7,595,110,733</td>
<td>$69,671,007</td>
<td>0.9</td>
</tr>
<tr>
<td>2006</td>
<td>13,652,916,989</td>
<td>298,659,083</td>
<td>2.2</td>
</tr>
<tr>
<td>2007</td>
<td>11,923,881,825</td>
<td>153,215,674</td>
<td>1.3</td>
</tr>
<tr>
<td>Totals</td>
<td>$33,171,909,547</td>
<td>$521,545,764</td>
<td>1.6</td>
</tr>
</tbody>
</table>

Source: Prepared by OIG using the “Modified High Level Budget and Spending Extract” budget reports for appropriations that were canceled in FYs 2010–2012 and the Statements of Budgetary Resources for FYs 2010–2012.

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5 OMB Circular A-123, Management’s Responsibility for Internal Control.
6 OIG defines “used” as expending available funds.
Although the Department used the vast majority of its appropriated funds within the periods of availability, the amount of unused funds for the bureaus and offices ranged from less than 1 percent to over 20 percent of funds received. For example, in FY 2010, the Office of the Chief of Protocol returned to the Treasury approximately 21.8 percent ($371,000) of the nearly $1.7 million that it had received in FY 2005. Of the 35 bureaus and offices that had canceled funds in FY 2012, 24 bureaus or offices returned over 2 percent of their funds to the Treasury.

To determine whether there were any specific factors that negatively affected the bureaus’ ability to use their funds, OIG performed testing at three bureaus—IRM, NEA, and PRM. Two of the bureaus, IRM and NEA, generally exceeded the Department’s overall average of 1.6 percent of funds returned to the Treasury, and the two bureaus returned more than $1 million of unused funds to the Treasury each year between FY 2010 and FY 2012. For example, in FY 2012, IRM returned approximately $7 million to the Treasury, which was 4.4 percent of the appropriation it had received in FY 2007 and NEA returned approximately $36 million, which was 2.3 percent of the funds that it had received in FY 2007. In addition, these two bureaus accounted for approximately 28.2 percent of all Department funds returned to the Treasury in FY 2012. In contrast, PRM consistently returned less than 1 percent of its funds to the Treasury. The amounts returned to the Treasury by the three bureaus during FYs 2010–2012 are detailed in Table 2.

Table 2. Appropriated Funds From FYs 2005–2007 Returned to the Treasury by Selected Bureaus

<table>
<thead>
<tr>
<th>Bureau</th>
<th>FY 2005 Appropriations</th>
<th>FY 2006 Appropriations</th>
<th>FY 2007 Appropriations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount Received</td>
<td>Amount Returned to the Treasury (Percent)</td>
<td>Amount Received</td>
</tr>
<tr>
<td>IRM</td>
<td>$125,450,000</td>
<td>3,773,608 (3.0)</td>
<td>$147,118,577</td>
</tr>
<tr>
<td>NEA</td>
<td>294,890,267</td>
<td>7,512,377 (2.5)</td>
<td>483,486,541</td>
</tr>
<tr>
<td>PRM</td>
<td>6,738,913</td>
<td>47,943 (0.7)</td>
<td>415,869,774</td>
</tr>
<tr>
<td>Totals</td>
<td>$427,079,180</td>
<td>$11,333,928</td>
<td>$1,046,474,892</td>
</tr>
</tbody>
</table>

Source: Prepared by OIG using the “Modified High Level Budget and Spending Extract” budget reports for appropriations that canceled in FYs 2010–2012.

Insufficient Oversight of Obligations and Delays in Contract Closeout Process Negatively Affected Fund Management

Although NEA and IRM had used the vast majority of their available funds within the periods of availability, OIG found that there were opportunities to improve fund management. OIG met with officials in NEA and IRM to gain an understanding of the factors that negatively affected fund management.

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7 There were 35 bureaus and offices with canceled funds in FYs 2012 and 2011. However, only 33 bureaus and offices had canceled funds in FY 2010.

8 Appendix A, “Scope and Methodology,” includes information on the bureaus and offices that returned the highest and lowest amount of funds to the Treasury.

9 The section “Detailed Sampling Methodology” in Appendix A provides information on how these bureaus were selected for this audit.
affected the bureaus’ fund management. OIG also met with PRM officials to gather information on potential best practices that other bureaus could adopt to improve fund management. As a result, OIG identified two key factors that negatively affected fund management at NEA and IRM: insufficient oversight of unliquidated obligations and delays in the contract closeout process.

**Insufficient Management of Unliquidated Obligations**

Obligations are commitments made by the Government that create a legal liability for payment, such as when the Government enters into a contract to purchase goods or services. Obligations are a significant component of Government fund management, since obligations restrict the use of funds because those funds are committed for a future purpose. Obligations remain open until they are fully reduced by disbursements, are deobligated, or the related appropriation is canceled. If all goods and services have been received and paid for, or if there is a decrease in the cost of the goods or services needed, obligation balances should be deobligated and the funds should be used for other Department needs consistent with the source of the appropriation.

OIG found that IRM and NEA did not sufficiently manage open obligations. OIG randomly sampled obligations from the three bureaus to determine whether they were valid. During its testing, OIG identified a significant number of obligations for IRM and NEA that were not valid. PRM, however, had only one obligation that was not valid. Specifically, of 183 obligations tested at the three bureaus, totaling $87.7 million, 113 obligations (about 62 percent), totaling approximately $6.9 million, were invalid. Of 113 invalid obligations identified, 53, totaling approximately $5.4 million, were canceled at the end of FY 2012, meaning those funds were returned to the Treasury. The results of OIG’s testing of obligations at each bureau are shown in Table 3.

<table>
<thead>
<tr>
<th>Bureau</th>
<th>Obligations Tested Number*</th>
<th>Dollar Value</th>
<th>Valid Obligations Number</th>
<th>Dollar Value</th>
<th>Invalid Obligations Number</th>
<th>Dollar Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>IRM</td>
<td>99</td>
<td>$7,448,230</td>
<td>33</td>
<td>$6,165,831</td>
<td>66</td>
<td>$1,282,399</td>
</tr>
<tr>
<td>NEA</td>
<td>71</td>
<td>9,880,376</td>
<td>25</td>
<td>4,220,105</td>
<td>46</td>
<td>5,660,271</td>
</tr>
<tr>
<td>PRM</td>
<td>13</td>
<td>70,414,614</td>
<td>12</td>
<td>70,414,373</td>
<td>1</td>
<td>241</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>183</strong></td>
<td><strong>$87,743,220</strong></td>
<td><strong>70</strong></td>
<td><strong>$80,800,309</strong></td>
<td><strong>113</strong></td>
<td><strong>$6,942,911</strong></td>
</tr>
</tbody>
</table>

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

*OIG selected IRM and NEA obligations based on a random sample. OIG tested all 13 PRM obligations. The section “Detailed Sampling Methodology” in Appendix A provides information on the selection of obligations tested.

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10 OIG defined an obligation as valid if it was deobligated 6 months or less from the date of the last monetary activity, if the obligation had monetary activity that occurred 6 months or less prior to testing, if the obligation was completely liquidated prior to testing, or if bureau management could support that the obligation was still needed for a valid purpose.

11 The section “Detailed Sampling Methodology” in Appendix A provides information on how these bureaus were selected for this audit.
Of 99 IRM items tested, OIG identified 66 invalid obligations, totaling approximately $1.3 million. Specifically, 56 of 66 invalid obligations involved documentation deficiencies. For 40 of 56 invalid obligations involving documentation, IRM could not provide documentation regarding why it took so long to deobligate the items and suggested that OIG contact other Department officials for the information. IRM should have sufficient documentation available to support both open and recently closed obligations.12 The majority (34 of 40) of these obligations were open for 4 years or more. For 16 of 56 invalid obligations involving documentation, an IRM official stated that IRM did not keep the complete contract files and instead relied on the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, to maintain the needed support for obligations for contracts. According to IRM officials, 10 of 66 invalid obligations remained open when the obligations were no longer needed because of personnel changes or miscellaneous other issues, such as invoicing problems.

Of 71 NEA items tested, OIG identified 46 invalid obligations, totaling approximately $5.7 million. For example, one obligation, for $15,964, had been held over 5 years at the request of the Bureau of Administration for a planned renovation that never occurred. NEA officials cited the challenges of working under difficult circumstances in Iraq as a reason that some of the obligated items had remained open longer than necessary. NEA officials also cited issues such as obtaining information from program offices and other agencies as reasons for delays in closing out obligations. According to an NEA official, approximately 40 percent of NEA funds come from reimbursements from other agencies, such as the U.S. Agency for International Development, for positions at overseas locations. The NEA official also stated that because these reimbursements are often provided in September, which is the end of the fiscal year, NEA finds it difficult to use the funds before the appropriation expires.

Of 13 PRM items tested, OIG identified only one nominally valued invalid obligation.13 This invalid item had been open for more than 3 years with no activity. PRM officials stated that this obligation remained open because a grantee had not provided the final Negotiated Indirect Cost Rate Agreement, which is a requirement for the grant closeout process, even though PRM had requested the information on several occasions. PRM stated that this would not be a factor in the future because new rules had been implemented that tightened the timeframes for grantees to submit their final financial reports based on the indirect cost rate agreements.

Monitoring Obligations. Monitoring obligations is a challenge, according to a Department official, especially when it involves monitoring amounts that are obligated domestically but managed by program officers in other bureaus, at overseas locations, or other agencies. The Department’s Foreign Affairs Manual (FAM) states that responsibility for reviewing obligations and deobligating funds when needed is assigned to each official who receives an allotment of funds.14 The FAM also states that allotment holders must establish procedures for monthly reviews of unliquidated obligations and these reviews should ensure that those unliquidated obligations deemed valid are supported with proper documentation.15 In addition to the required monthly reviews, CGFS has implemented additional periodic reviews of

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13 The one invalid PRM obligation totaled $241.
14 4 FAM 032.4-2(7)(e), “Fund Controls.”
15 4 FAM 225, “Accounting Controls and Obligation Management.”
obligations, including at the end of the fiscal year. This control requires bureaus and posts to review selected obligations, certify their validity or deobligate, and report the results of this review to CGFS.

All three bureaus indicated that they had reviewed and took action as needed on the selected obligations provided periodically by CGFS for review. For instance, 5 of 46 obligations for NEA that OIG identified as being invalid were finally reviewed and deobligated as part of the CGFS initiated review. However, we found that the IRM and NEA did not comply with the requirement to review all obligations each month. Specifically:

- IRM developed new processes in FY 2013 that rely on several applications to track the status of funds and communicate that information to the program offices. These applications keep track of obligated funds for each program and list the status of obligations by program office. In addition, IRM officials stated that IRM has monthly meetings with program officers during which the officers are reminded to review their programs for opportunities to deobligate funds. However, IRM does not require a comprehensive monthly review of obligations. Instead, IRM focuses its obligation review on the obligations provided by CGFS quarterly. IRM’s policy is that the program offices should respond to the IRM budget office on each open obligation from the CGFS list within 30 days. IRM budget officials estimated that program offices provide responses only on about 50 percent of the requested items within the 30-day timeframe.

- NEA officials indicated that the NEA obligation reviews are focused on responding to the quarterly requests from CGFS. In addition, NEA officials stated that NEA has monthly meetings to remind program offices to deobligate funds as soon as possible. NEA officials stated that they have begun to review obligations more often in order to use more funds before they expire. However, NEA indicated in its annual obligations certification that it was unable to review all open obligations because of NEA’s huge volume of obligations, including obligations related to Iraq, lack of staff, and other priority deadlines.

On the other hand, PRM’s budget analysts performed monthly reviews of obligations, which was in compliance with Department policy. PRM officials stated that PRM places a high priority on reviewing obligations. The officials also stated that PRM has worked diligently to get the number of open obligations to a manageable level. As shown by OIG’s testing, implementing this control has been an effective way to keep invalid obligations to a minimum.

Inadequate controls over obligations have been a longstanding problem within the Department. For instance, weaknesses in controls over obligations were initially reported in the audit of the Department’s FY 1997 financial statements and subsequent audits. In the FY 2013 report, the financial statement auditors identified invalid obligations amounting to approximately $244 million that had not been identified by the Department’s review process. The auditors also reported that the Department’s internal controls were not sufficient to ensure that obligations were consistently and systematically evaluated for validity and deobligation. It is important for the Department to continue to focus management attention on this deficiency.
Delays in Contract Closeout Process

Officials from NEA and IRM cited delays in the contract closeout process as having a negative effect on their ability to manage funds. The Federal Acquisition Regulations\textsuperscript{16} provide timelines ranging from 6 months to 36 months for closing out different types of contracts, which is a significant amount of time for an agency’s funds to be restricted. However, this situation becomes worse when the closeout process takes longer than the Federal Acquisition Regulations timelines. For example, NEA had 12 obligations, totaling about $2.3 million, that remained open unnecessarily for an average of 2 years before being deobligated because of the contract closeout process. IRM also had two obligations, totaling about $44,000, that remained open between 1 and 5 years longer than needed because of delays in the contract closeout process.

An OIG report\textsuperscript{17} found that of 53 completed task orders tested, only 13 (24.5 percent) had been closed out within the timelines prescribed by the Federal Acquisitions Regulations. The OIG contract closeout report identified deficiencies with the Department’s comprehensive procedural guidance for contract closeout. In addition, the report stated that the Department needed a unified contract management system. The report identified $38.7 million in funds related to the contracts tested that had not been available to use for other purposes because of the deficiencies noted in the contract closeout process. Because the recommendations in this report had not been addressed as of December 2013, OIG is not making additional recommendations related to contract closeout in this report. However, the length of time needed to close out contracts has a significant negative effect on the Department’s ability to manage its funds successfully.

Funds Could Have Been Put to Better Use

Although the Department had used the vast majority of its funding within the approved time periods, the Department lost the use of some funds as a result of limitations in fund management. These funds could have been used by the Department for high-priority unfunded needs. As reported, the Department returned over $153 million to the Treasury in FY 2012. Although this is a small percentage of the Department’s overall budget, it still represents funds that could have been put to better use. Based on the concerns identified with oversight of obligations, it is clear that at least some of the funds lost could have been managed better and used during the periods of availability.

Of 113 invalid obligations that OIG identified at the three bureaus audited, 78 obligations, totaling $5.8 million, had either been deobligated or returned to the Treasury before OIG began the audit. Of the remaining invalid items, the bureaus deobligated eight obligations, totaling about $184,000, after OIG had requested support for those items, meaning that these funds could have been put to better use. In addition, 27 obligations, totaling about $981,000, remained open as of August 21, 2013. If the Department deobligated these funds, they could be

\textsuperscript{16} FAR 4.804, “Closeout of Contract Files.”

\textsuperscript{17} Audit of the Contract Closeout Process for Contracts Supporting the U.S. Mission in Iraq (AUD-MERO-14-06, November 2013).
used for other allowable purposes. Details on the status of the funds related to invalid obligations identified during the audit are provided in Table 4.

Table 4. Status of Funds Related to Invalid Obligations

<table>
<thead>
<tr>
<th>Bureau</th>
<th>Amount Sampled</th>
<th>Adjustments for Valid Activity</th>
<th>Amount Canceled and Returned to the Treasury</th>
<th>Amount Deobligated Before Audit</th>
<th>Amount Deobligated After Audit</th>
<th>Amount of Open Obligations</th>
</tr>
</thead>
<tbody>
<tr>
<td>IRM</td>
<td>$1,282,399</td>
<td>$18,996</td>
<td>$929,444</td>
<td>$85,531</td>
<td>$8,961</td>
<td>$239,467</td>
</tr>
<tr>
<td>NEA</td>
<td>5,660,271</td>
<td>(51,463)</td>
<td>4,494,021</td>
<td>300,771</td>
<td>175,397</td>
<td>741,545</td>
</tr>
<tr>
<td>PRM</td>
<td>241</td>
<td>0</td>
<td>241</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Totals</td>
<td>$6,942,911</td>
<td>($32,467)</td>
<td>$5,423,706</td>
<td>$386,302</td>
<td>$184,358</td>
<td>$981,012</td>
</tr>
</tbody>
</table>

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

**Recommendation 1.** OIG recommends that the Bureau of Information Resource Management (IRM) enhance its funds management standard operating procedures to improve oversight of obligations. Specifically, IRM should include a requirement that the allotment holders review obligations monthly and that the review of obligations is independently monitored.

**IRM Response:** IRM agreed with this recommendation, stating that it had developed “a new Unliquidated Obligation Tracking Tool.” This new tool allows “allotment holders to conduct comprehensive monthly reviews.” Additionally, IRM has “monthly monitor and obligation reviews” with BP and CGFS.

**OIG Reply:** OIG considers the recommendation resolved. This recommendation can be closed when OIG reviews and accepts documentation showing that IRM has enhanced its funds management standard operating procedures to improve its oversight of obligations.

**Recommendation 2.** OIG recommends that the Bureau of Information Resource Management determine whether the balance of $239,467 in invalid unliquidated obligations identified by OIG is necessary and, if not, deobligate.

**IRM Response:** IRM agreed with this recommendation, stating that it had “communicated guidance to allotment holders to determine whether the remaining balance . . . in invalid unliquidated obligations” was needed and “if not, to deobligate . . . .” IRM required allotment holders “to provide determinations on these obligations in 30 days.”

**OIG Reply:** While IRM stated that it agreed with OIG’s recommendation, the response was not satisfactory to resolve the recommendation because management did not provide a decision with respect to the validity of the $239,467 in unliquidated obligations identified by OIG as invalid. This recommendation can be resolved when IRM provides a determination (dollar value agreed to or not agreed to) on the validity of the obligations.

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$239,467 in unliquidated obligations. This recommendation can be closed when OIG reviews and accepts documentation showing the actions IRM has taken to deobligate the obligations determined to be invalid.

**Recommendation 3.** OIG recommends that the Bureau of Near Eastern Affairs (NEA) enhance its funds management standard operating procedures to improve oversight of obligations. Specifically, NEA should include a requirement that the allotment holders review obligations monthly and that the review of obligations is independently monitored.

**NEA Response:** NEA stated that it was “currently performing monthly obligation reviews” and that it had already made “gains in deobligating a substantial number” of obligations by “conducting more frequent meetings with accountable NEA personnel.” NEA also stated that it is working with other bureaus on “logistical challenges” concerning closing obligations.

**OIG Reply:** OIG considers the recommendation resolved. This recommendation can be closed when OIG reviews and accepts documentation showing that NEA has enhanced its funds management standard operating procedures to improve its oversight of obligations.

**Recommendation 4.** OIG recommends that the Bureau of Near Eastern Affairs determine whether the balance of $741,545 in invalid unliquidated obligation identified by OIG is necessary and, if not, deobligate.

**NEA Response:** NEA stated that it will review the obligations identified by OIG and “make a determination” if deobligation “is required.”

**OIG Reply:** The NEA response was not satisfactory to resolve the recommendation because management did not provide a decision with respect to the validity of the $741,545 in unliquidated obligations identified by OIG as invalid. This recommendation can be resolved when NEA provides a determination (dollar value agreed to or not agreed to) on the validity of the $741,545 in unliquidated obligations. This recommendation can be closed when OIG reviews and accepts documentation showing the actions NEA has taken to deobligate the obligations determined to be invalid.

**Finding B. Selected Bureaus Complied With Federal Requirements When Obligating Expired Funds**

Federal regulations limit how agencies can use funds once an appropriation has expired. OIG found that NEA and IRM made obligations using expired funds in accordance with Federal

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requirements. Specifically, OIG found that all 98 obligations made by NEA and IRM using expired funds were allowable. The 98 obligations were either allowable adjustments to existing obligations, realignments of funding using contract modifications, refunds to obligations with a zero balance, or obligations that were created during the periods of availability but the dates of the obligations were incorrectly entered.

No Instances of Noncompliance Identified During Testing of Obligations

According to Federal appropriation law, expired funds remain available for 5 years after the period of availability “for recording, adjusting, and liquidating obligations properly chargeable to that account.” However agencies cannot obligate funds for newly determined needs after the periods of fund availability have ended. For example, if the agency needs to increase the quantity of items ordered after the funds have expired, the agency would have to use other funds for the additional items.

In order to assess the Department’s compliance with Federal regulations related to expired funds, OIG tested 98 domestic obligations against expired funds included in the Department’s unliquidated obligation database as of March 31, 2013, for two bureaus—NEA and IRM. As shown in Table 5, the total amount of obligations tested for the two bureaus was $485,965,597.

<table>
<thead>
<tr>
<th>Bureau</th>
<th>Number of Obligations Tested</th>
<th>Amount of Obligations Tested</th>
</tr>
</thead>
<tbody>
<tr>
<td>NEA</td>
<td>33</td>
<td>$443,466,102</td>
</tr>
<tr>
<td>IRM</td>
<td>65</td>
<td>42,499,495</td>
</tr>
<tr>
<td>Totals</td>
<td>98</td>
<td>$485,965,597</td>
</tr>
</tbody>
</table>

Source: Unliquidated obligation database as of March 31, 2013.

We found that the 98 obligations tested were established in compliance with Federal requirements. Specifically, 5 of the obligations were allowable adjustments that provided additional funds to existing obligations, 68 were realignments of funding through contract modifications that did not change the amounts originally awarded to the contracts, 22 were refunds received and posted to obligations with zero balances, and 3 were obligations that were established during the period of availability but that had different dates in the Department’s financial management system. The results of the testing, by bureau, are provided in Table 6.

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20 PRM did not have any obligations using expired funds during the scope of the audit; therefore, no testing was performed at PRM for this objective. The section “Detailed Sampling Methodology” in Appendix A provides information on how these bureaus were selected for this audit.
22 Details on our testing are provided in the section “Scope and Methodology” of this report.
Table 6. Results of Testing Obligations Using Expired Funds

<table>
<thead>
<tr>
<th>Obligation Category</th>
<th>NEA</th>
<th>IRM</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Upward Adjustment</td>
<td>5</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Realignment of Funds</td>
<td>12</td>
<td>56</td>
<td>68</td>
</tr>
<tr>
<td>Refund Posted</td>
<td>13</td>
<td>9</td>
<td>22</td>
</tr>
<tr>
<td>Incorrect Date</td>
<td>3</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Totals</td>
<td>33</td>
<td>65</td>
<td>98</td>
</tr>
</tbody>
</table>

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

Adjustments to Existing Obligations

Of 98 obligations tested, 5 were allowable adjustments to existing obligations, which increased the amount of the original obligations during the expired period. For example, an obligation was established using FY 2012 funds to acquire goods for Embassy Baghdad. The initial vendor was unable to complete all of the requirements included in the purchase order; therefore, another vendor was selected to complete the order. However, the new vendor charged more for the services than the initial vendor. In January 2013, after the period of availability of the FY 2012 funds had expired, NEA used FY 2012 funds to increase the amount of the original obligation to cover the additional costs, which is an allowable upward adjustment to an existing obligation.

Realignments of Funding

OIG determined that 68 of 98 obligations tested were allowable realignments of funds through contract modifications that did not increase the amount originally obligated. For example, IRM realigned $1,600 from one equipment repair category related to a task order to a different equipment repair category in the same task order. Although the realigned funds were related to an expired period—FY 2008 for the example—the realignments did not increase the original funding amount but instead moved funds to more accurately reflect the work being performed under the task order.

Refunds Posted to Obligations With Zero Balances

Of 98 obligations tested, 22 were refunds recorded to obligations with a zero balance. For example, in February 2008, NEA established an obligation in the amount of $1 million for a cooperative agreement. In March 2010, the funds had been fully expended. However, the grantee provided a refund after the obligation had been fully expended. When the refund was recorded, it showed up in the unliquidated obligation database as a new obligation. According to a CGFS official, in order to sufficiently maintain the data in the accounting system, the Department had been removing obligations with a zero balance. When a refund was received for an obligation that had been removed, the transaction created an obligation with a new “established date.” It therefore appeared to be a new obligation, even though it was actually a refund. During FY 2012, the Department modified the process and no longer removes zero-balance obligations from the accounting system.
Valid Obligations With Incorrect Dates

OIG found that 3 of 98 obligations were created during the period of fund availability but that the correct date was not recorded for the obligation. Specifically, data entry errors had been made for two of the three obligations. The third obligation was entered into the financial management system on the last day of the fiscal year, but because of the time it took to process the transaction, the system automatically recorded the transaction as of the date it was processed, which was the first day of the new fiscal year.
List of Recommendations

Recommendation 1. OIG recommends that the Bureau of Information Resource Management (IRM) enhance its funds management standard operating procedures to improve oversight of obligations. Specifically, IRM should include a requirement that the allotment holders review obligations monthly and that the review of obligations is independently monitored.

Recommendation 2. OIG recommends that the Bureau of Information Resource Management determine whether the balance of $239,467 in invalid unliquidated obligations identified by OIG is necessary and, if not, deobligate.

Recommendation 3. OIG recommends that the Bureau of Near Eastern Affairs (NEA) enhance its funds management standard operating procedures to improve oversight of obligations. Specifically, NEA should include a requirement that the allotment holders review obligations monthly and that the review of obligations is independently monitored.

Recommendation 4. OIG recommends that the Bureau of Near Eastern Affairs determine whether the balance of $741,545 in invalid unliquidated obligations identified by OIG is necessary and, if not, deobligate.
Scope and Methodology

The purpose of this audit was to assist the Department of State (Department) in its efforts to manage its funds and ensure that obligations made against expired funds complied with the law. The objectives of this audit were to determine whether Department bureaus used appropriated funds within the deadlines of the appropriations and to determine whether obligations using expired funds were made in accordance with Federal requirements.

The Office of Inspector General (OIG) conducted fieldwork for this audit from May to October 2013 at the Bureau of Budget and Planning (BP); the Bureau of the Comptroller and Global Financial Services (CGFS); the Bureau of Information Resource Management (IRM); the Bureau of Near Eastern Affairs (NEA); and the Bureau of Population, Refugees and Migration (PRM). In order to assess the bureaus’ use of funds, OIG limited its audit work to reviewing appropriations provided during FYs 2005–2007, meaning that these funds were canceled during FYs 2010–2012. In order to assess whether obligations using expired funds were in compliance with Federal requirements, OIG limited its audit work to domestic obligations made during FYs 2009–2013.

OIG conducted this performance audit 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 its findings and conclusions based on its audit objectives. OIG believes that the evidence obtained provides a reasonable basis for its findings and conclusions based on the audit objectives.

To obtain background for the audit, OIG researched and reviewed public laws and U.S. Code sections related to appropriations, Government Accountability Office guidance, the Department’s Foreign Affairs Manual and Foreign Affairs Handbook, Department financial system reports, bureau guidance, budget-related documents, and other Department guidance. OIG also obtained and reviewed the Department’s financial statements and the Department’s Congressional Budget Justifications.

OIG interviewed officials in BP, CGFS, IRM, NEA, and PRM to gain an understanding of the processes involved in the formulation of budgets, as well as the processes for obligating and monitoring appropriated funds, to ensure that the funds were used within their deadlines. OIG also obtained and analyzed IRM, NEA, and PRM written procedures and other available documentation to gain an understanding of their monitoring and reporting responsibilities. Additionally, OIG interviewed IRM, NEA, and PRM officials to gain an understanding of their roles and responsibilities for ensuring that funds were properly monitored.

During the audit, OIG performed steps to determine whether selected bureaus had used their appropriated funds effectively and efficiently within the deadlines of the appropriations. Specifically, OIG obtained the Department’s Statements of Budgetary Resources for FYs 2010–2012 and extracted the single-year and multi-year appropriations that were canceled in those fiscal years. OIG then calculated the amount of funds returned to the Department of the Treasury (the Treasury) for the three fiscal years. To determine how much the Department
received in single-year and multi-year funds for those fiscal years, OIG identified appropriation codes, which it used to run budget reports from the Department’s domestic accounting system and identify the appropriated amounts received by the Department. OIG was then able to determine the percentage of funds that were canceled compared with funds received at the Department level for each fiscal year.

OIG also obtained the Modified High-Level Budget and Spending Extract Reports from the domestic accounting system, which OIG used to identify the approximate amount of funds canceled by bureau by fiscal year. OIG used the budget reports to determine an estimate of funds canceled by bureau for FYs 2010–2012. OIG analyzed the information to determine the amount and percent of funds returned to the Treasury by bureau for FYs 2010–2012.

In order to determine whether the selected bureaus had complied with Federal requirements when obligating expired funds, OIG obtained the Department’s unliquidated obligations database as of March 31, 2013. OIG limited its work to domestic obligations with a positive balance. OIG excluded zero dollar value obligations, as these items had no effect on the Department’s funds. OIG then extracted the obligations by fiscal year and identified the bureaus that made obligations against expired funds.

Use of Computer-Processed Data

The audit team used computer-processed data from the Department’s Global Financial Management System, which is the Department’s domestic accounting system, during this audit. OIG obtained budgeted amounts received and canceled funds data for FYs 2010–2012 by bureau. OIG also generated a sample of obligations for testing using the unliquidated obligations database as of July 31, 2012, and tested the obligations for reliability. Issues identified during fieldwork are detailed in the section “Audit Results” of Finding A, “Department Used the Majority of Funds Within the Deadlines of the Appropriations.” Finally, OIG used data from the unliquidated obligations database as of March 31, 2013, to select obligations made using expired funds and tested them for reliability. Results of the testing are detailed in the section “Audit Results” of Finding B, “Selected Bureaus Complied With Federal Requirements When Obligating Expired Funds.”

Work Related to Internal Controls

OIG performed steps to assess the adequacy of internal controls related to the areas audited. For example, OIG tested obligations to determine whether the selected bureaus had sufficient controls in place to manage their funds. Work performed on internal controls during the audit is detailed in the section “Audit Results” of the report.

Detailed Sampling Methodology

OIG’s sampling objectives were to determine whether selected bureaus had valid unliquidated obligations and whether the bureaus complied with Federal requirements when obligating expired funds.
Selection of Bureaus

OIG selected IRM, NEA, and PRM to perform its audit work using a nonstatistical sampling methodology known as judgment sampling. Because this method uses discretionary criteria to effect sample selection, OIG was able to use information garnered during its preliminary work to aid in making informed selections. Primarily, OIG used two criteria to select the bureaus for performing audit testing.

The first criterion was the amount of funds received in FYs 2005–2007 that were returned to the Treasury in FYs 2010, 2011, and 2012, respectively. OIG used information from the Department to identify the 10 bureaus or offices that had returned the highest amount of funds to the Treasury, which are shown in Table 1. In addition, as shown in Table 2, OIG used the same information to identify the 10 bureaus or offices that had returned the least amount of funds to the Treasury during FYs 2010–2012.

Table 1. Bureaus or Offices With the Highest Amount of Funds From FYs 2005–2007 Returned to the Treasury (in millions)

<table>
<thead>
<tr>
<th>Bureau</th>
<th>FY 2005 Appropriations</th>
<th>FY 2006 Appropriations</th>
<th>FY 2007 Appropriations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount Received</td>
<td>Amount Canceled (Percent)</td>
<td>Amount Received</td>
</tr>
<tr>
<td>International Narcotics and Law Enforcement Affairs</td>
<td>$326.0</td>
<td>$0.7 (0)</td>
<td>$3,262.5</td>
</tr>
<tr>
<td>Diplomatic Security</td>
<td>$423.5</td>
<td>$17.9 (4)</td>
<td>$1,322.1</td>
</tr>
<tr>
<td>Near Eastern Affairs</td>
<td>$294.9</td>
<td>$7.5 (3)</td>
<td>$483.5</td>
</tr>
<tr>
<td>African Affairs</td>
<td>$402.6</td>
<td>$9.4 (2)</td>
<td>$456.4</td>
</tr>
<tr>
<td>Administration</td>
<td>$310.0</td>
<td>$8.8 (3)</td>
<td>$323.3</td>
</tr>
<tr>
<td>European and Eurasian Affairs</td>
<td>$562.0</td>
<td>$12.1 (2)</td>
<td>$569.9</td>
</tr>
<tr>
<td>Western Hemisphere Affairs</td>
<td>$196.7</td>
<td>$4.8 (2)</td>
<td>$221.4</td>
</tr>
<tr>
<td>Information Resource Management</td>
<td>$125.5</td>
<td>$3.8 (3)</td>
<td>$147.1</td>
</tr>
<tr>
<td>International Security and Nonproliferation</td>
<td>$145.1</td>
<td>$0.9 (1)</td>
<td>$195.8</td>
</tr>
<tr>
<td>East Asian and Pacific Affairs</td>
<td>$215.7</td>
<td>$5.2 (2)</td>
<td>$231.0</td>
</tr>
</tbody>
</table>

Source: Prepared by OIG using the “Modified High Level Budget and Spending Extract” budget reports for appropriations that were canceled in FYs 2012–2010.
Table 2. Bureaus or Offices With the Least Amount of Funds From FYs 2005–2007 Returned to the Treasury (in millions)

<table>
<thead>
<tr>
<th>Bureau or Office</th>
<th>FY 2005 Appropriations</th>
<th>FY 2006 Appropriations</th>
<th>FY 2007 Appropriations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount Received</td>
<td>Amount Canceled</td>
<td>Amount Received</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(Percent)</td>
<td></td>
</tr>
<tr>
<td>Bureau of Economic and Business Affairs</td>
<td>$5.1</td>
<td>$0.6 (12)</td>
<td>$5.2</td>
</tr>
<tr>
<td>Office of Inspector General</td>
<td>$31.9</td>
<td>$0.3 (1)</td>
<td>$30.0</td>
</tr>
<tr>
<td>Diplomatic Telecommunications Service Program Office</td>
<td>$30.6</td>
<td>$1.5 (5)</td>
<td>$29.3</td>
</tr>
<tr>
<td>International Joint Commission</td>
<td>$0</td>
<td>—</td>
<td>$6.5</td>
</tr>
<tr>
<td>Bureau of Population, Refugees and Migration</td>
<td>$6.7</td>
<td>$0 (0)</td>
<td>$415.9</td>
</tr>
<tr>
<td>Bureau of Arms Control, Verification and Compliance</td>
<td>$8.3</td>
<td>$0.6 (7)</td>
<td>$8.4</td>
</tr>
<tr>
<td>Office of Medical Services</td>
<td>$23.9</td>
<td>$3.8 (16)</td>
<td>$19.5</td>
</tr>
<tr>
<td>Office of the Legal Adviser</td>
<td>$12.5</td>
<td>$0.5 (4)</td>
<td>$11.1</td>
</tr>
<tr>
<td>Office of the Chief of Protocol</td>
<td>$1.7</td>
<td>$0.4 (24)</td>
<td>$2.2</td>
</tr>
<tr>
<td>International Boundary and Water Commission</td>
<td>$0</td>
<td>—</td>
<td>$1.4</td>
</tr>
</tbody>
</table>

Source: Prepared by OIG using the “Modified High Level Budget and Spending Extract” budget reports for appropriations that were canceled in FYs 2012–2010.

The second criterion used to select bureaus was that the bureaus had at least one obligation that was made using expired funds in each of the five fiscal years, FYs 2009–2013, from the Department’s unliquidated obligations database as of March 31, 2013. As shown in Table 3, only six bureaus made obligations against expired funds in all five fiscal years reviewed.

Table 3. Bureaus With Obligations Made After Funds Expired

<table>
<thead>
<tr>
<th>Bureau or Office</th>
<th>FY 2009</th>
<th>FY 2010</th>
<th>FY 2011</th>
<th>FY 2012</th>
<th>FY 2013</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bureau of Democracy, Human Rights, and Labor</td>
<td>4</td>
<td>3</td>
<td>5</td>
<td>21</td>
<td>14</td>
<td>47</td>
</tr>
<tr>
<td>Bureau of Information Resource Management</td>
<td>13</td>
<td>14</td>
<td>4</td>
<td>21</td>
<td>13</td>
<td>65</td>
</tr>
<tr>
<td>Secretary</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>Bureau of Near Eastern Affairs</td>
<td>1</td>
<td>8</td>
<td>4</td>
<td>21</td>
<td>3</td>
<td>37</td>
</tr>
<tr>
<td>Foreign Service Institute</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>6</td>
<td>3</td>
<td>14</td>
</tr>
<tr>
<td>Bureau of Administration</td>
<td>10</td>
<td>2</td>
<td>11</td>
<td>4</td>
<td>3</td>
<td>30</td>
</tr>
</tbody>
</table>

Source: Prepared by OIG using the unliquidated obligation database as of March 31, 2013.
OIG included two bureaus in the audit that had high dollar values of funds returned to the Treasury and that had at least one obligation made using expired funds during FYs 2009–2013. Based on its analysis of the data, OIG selected IRM and NEA for testing. Only three bureaus, IRM, NEA, and the Bureau of Administration, that had created obligations using expired funds also had large amounts of funds returned to the Treasury each year. OIG chose the two bureaus that had the largest number of obligations made using expired funds—IRM had 65 and NEA had 37—while the Bureau of Administration had 30.

OIG also included one bureau that had a low dollar value of funds returned to the Treasury and that did not have any obligations made using expired funds. Of the ten bureaus that had the lowest amount of canceled funds, PRM was selected because it had a low dollar value of funds returned to the Treasury each year and it had no obligations made using expired funds during the five fiscal years included in the analysis. Although there were bureaus that had lower dollar values, for example the Office of the Chief of Protocol, OIG determined that the other bureaus did not receive enough funding each year to allow for meaningful analysis.

**Selection of Obligations for Validity Testing**

OIG selected a sample of obligations for IRM, NEA, and PRM in order to determine whether the oversight of obligations impacted a bureau’s ability to manage funds. OIG obtained a copy of the Department’s unliquidated obligations database as of July 31, 2012, and extracted domestic obligations with positive balances greater than $10 made using single-year or multi-year appropriations for IRM, NEA, and PRM. OIG removed any obligations made using expired funds, as these obligations were tested separately.

OIG selected the obligations for validity testing via stratified random sampling. OIG initially grouped the obligations by those that had an ending budget fiscal year of 2007 and those with ending budget fiscal years of 2008–2012. OIG then divided the groups of obligations between two strata—obligations with available balances between $10.00 and $999.99 and obligations with available balances greater than or equal to $1,000.00. OIG used these strata to ensure that some of the lower dollar value obligations would be reviewed but to emphasize higher dollar value obligations. OIG selected 99 obligations for IRM, 71 obligations for NEA, and 13 obligations for PRM, for a total of 183, as shown in Table 4.

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1 A stratified random sample is a sample obtained by separating the population elements into nonoverlapping groups, called “strata,” and then selecting a simple random sample from each stratum. A simple random sample is a sample in which each member of the population has an equal chance of being drawn for the sample.
Table 4. Number and Amount of Obligations Tested

<table>
<thead>
<tr>
<th>Group</th>
<th>Strata</th>
<th>IRM</th>
<th>NEA</th>
<th>PRM</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>60</td>
<td>3</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>FY 2007</td>
<td>($22,958)</td>
<td>($1,502)</td>
<td>($266)</td>
<td>($241)</td>
</tr>
<tr>
<td></td>
<td>113</td>
<td>40</td>
<td>15</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>($2,324,847)</td>
<td>($976,075)</td>
<td>($4,587,263)</td>
<td>($24,496)</td>
</tr>
<tr>
<td>$1,000.00 and Over</td>
<td>791</td>
<td>5</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>($257,607)</td>
<td>($1,677)</td>
<td>($107,765)</td>
<td>($0)</td>
</tr>
<tr>
<td>FY 2008 - FY 2012</td>
<td>1,615</td>
<td>51</td>
<td>1,130</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>($124,158,399)</td>
<td>($6,468,976)</td>
<td>($277,827,220)</td>
<td>($70,389,877)</td>
</tr>
<tr>
<td></td>
<td>2,579</td>
<td>99</td>
<td>1,417</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>($126,763,811)</td>
<td>($7,448,230)</td>
<td>($282,522,514)</td>
<td>($70,414,614)</td>
</tr>
<tr>
<td>Totals</td>
<td>71</td>
<td>13</td>
<td>71</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>($7,448,230)</td>
<td>($9,880,376)</td>
<td>($70,414,614)</td>
<td>($70,414,614)</td>
</tr>
</tbody>
</table>

Source: Prepared by OIG based on information in the July 31, 2012, unliquidated obligation database and OIG’s sampling plan.

**Testing Methodology.** OIG confirmed the status of the obligation in the Department’s domestic accounting system on August 21, 2013. To determine the validity of the obligations, OIG obtained and reviewed obligation documentation. OIG concluded that an obligation was valid if it met any of the following conditions:

1. Obligation was deobligated 6 months or less from the date of last expenditure or other monetary activity.
2. Obligation had monetary activity, such as an expenditure, that occurred 6 months or less prior to August 21, 2013.
3. Obligation was completely liquidated.
4. Bureau provided supporting documentation showing the obligation was still needed for a valid purpose.

OIG considered an obligation to be invalid if it met any of the following conditions:

1. Obligation had no monetary activity for more than 6 months and remained open, and the bureau did not provide a reasonable explanation for the inactivity.
2. Obligation was deobligated after having no monetary activity for more than 6 months, and the bureau did not provide a reasonable explanation for the inactivity.

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

The results of OIG’s testing of obligations to determine validity are included in the section “Audit Results” of the report.
Selection of Obligations Using Expired Funds

In order to address its second objective, OIG tested all domestic obligations made using expired funds to determine whether the obligations were made in accordance with Federal requirements. IRM had 65 of these obligations, and NEA had 37 of these obligations, for a total of 102 obligations. During its initial review of the documentation, OIG determined that 4 of NEA’s 37 obligations were actually established by the European Logistics Support Office in Belgium using domestic funds. Because the scope of the audit was limited to domestic obligations, OIG removed these 4 obligations from testing, which decreased the total to 98 obligations.

OIG reviewed financial and contractual information obtained from the Department’s financial system and other information, such as emails, obtained from the bureaus and discussed the obligations with bureau officials to determine why dates of the obligations had been established during the period in which the funds had already expired.

The results of OIG’s testing of obligations to determine compliance with Federal requirements are included in the section “Audit Results” of the report.
TO: OIG/AUD – Norman P. Brown
FROM: IRM – Steven C. Taylor

SUBJECT: IRM Response to the Draft Report Recommendations on Audit of Department of State Use of Appropriated Funds Prior to Expiration and Cancellation

The Bureau of Information Resource Management (IRM) thanks the Office of the Inspector General (OIG) for the opportunity to review and comment on its draft report on the Audit of Department of State Use of Appropriated Funds Prior to Expiration and Cancellation.

We have reviewed the draft report and commend the OIG for the thorough and professional manner in which it conducted the Audit. We agree with and accept the two recommendations provided by the OIG to improve IRM’s oversight of obligations.

Our responses to the recommendations are as follows:

Recommendation 1. OIG recommends that the Bureau of Information Resource Management (IRM) enhance its funds management standard operating procedures to improve oversight of obligations. Specifically, IRM should include a requirement that the allotment holders review obligations monthly and that the review of obligations is independently monitored.

Response. IRM agrees with this recommendation. IRM has enhanced its funds management standard operating procedures to improve oversight of obligations. This enhancement was achieved through the development of a new Unliquidated Obligation (ULO) Tracking Tool that replaces the Metastorm tasking system reviewed by the OIG. The tool dramatically enhances visibility into IRM’s obligations and enables allotment holders to conduct comprehensive monthly reviews. In addition, IRM has in place
monthly monitor and obligation reviews that include IRM/FM, Budget Planning (BP), and Comptroller and Global Financial Services (CGFS).

Recommendation 2. OIG recommends that the Bureau of Information Resource Management determine whether the balance of $239,467 in invalid unliquidated obligations identified by OIG are necessary and, if not, deobligate them.

Response. IRM agrees with this recommendation. On March 13, 2014, IRM communicated guidance to allotment holders to determine whether the remaining balance of $217,800 of the $239,467 in invalid unliquidated obligations identified by OIG are necessary and, if not, to deobligate them. Allotment holders are required to provide determinations on these obligations in 30 days.
MEMORANDUM

TO: OIG/AUD – Norman P. Brown

FROM: NEA - Lee Lohman

SUBJECT: NEA’s Response to Report on Audit of Department of State Use of Appropriated Funds Prior to Expiration and Cancellation

This memorandum is in response to the 2014 NEA OIG audit report. Below, we have addressed both recommendations for NEA, as stated on the draft report.

Recommendation 3: “OIG recommends that the Bureau of Near Eastern Affairs (NEA) enhance its funds management standard operating procedures to improve oversight of obligations. Specifically, NEA should include a requirement that the allotment holders review obligations monthly and that the review of obligations is independently monitored.”

We are currently performing monthly obligation reviews. Moreover, we have already made substantial gains in deobligating a substantial number of ULOs by conducting more frequent meetings with accountable NEA personnel and improving our oversight and follow-up on open obligations.

In addition, we’re working with some of our agency counterparts, such as AQM and Charleston, on some of the logistical challenges concerning closing out ULO’s, i.e. contract close-out delays, delayed training and contract invoicing, etc. Another challenge we face is motorizing domestic obligations that are managed by overseas Program Officers. We’ve recently improved coordination with Post by providing them the necessary reports on the status of open obligations, which assists them with their review and tracking of ULOs. Constant follow up has proven to be very effective in managing our ULOs.

Recommendation 4: “OIG recommends that the Bureau of Near Eastern Affairs determine whether the balance of $741,545 in invalid unliquidated obligations identified by OIG are necessary and, if not, de-obligate them.”
We will re-review all obligations that the OIG identified as “invalid” and make a determination if a de-obligation is required or if the obligations remain legitimate and must stay on our books until fully executed.

We appreciate your continued assistance and guidance with helping us to improve our financial management processes and procedures, and we are working diligently to remain in compliance with department standards. Please feel free to contact Vennett Smith at 202-736-____ or ______@state.gov if you require further assistance.
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MEMORANDUM

TO: OIG/AUD – Norman P. Brown
FROM: PRM – Kelly T. Clements

SUBJECT: Draft Report on Audit of Department of State Use of Appropriated Funds Prior to Expiration and Cancelation

Thank you for the opportunity to provide comments on the subject draft audit report. Although the report does not contain any recommendations addressed to PRM, we appreciate that the report highlights opportunities to improve funds management as well as procedures to put in place to ensure adequate controls over obligations. PRM will continue to strive to monitor and close out obligations on a timely basis and PRM remains committed to effective management of humanitarian assistance programs.
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Appendix E

United States Department of State
Washington, D.C. 20520

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TO: OIG – Norman P. Brown
FROM: BP – Barbara A. Retzlaff
SUBJECT: Draft Report Audit of Department of State Use of Appropriated Funds Prior to Expiration and Cancelation

In response to the Draft Report Audit of Department of State Use of Appropriated Funds Prior to Expiration and Cancelation, version March 2014, BP offers the following comments:

Page 1: As a result, although the Department had used the vast majority of its funding within the approved time periods, the Department lost the use of approximately $153 million in funds because of limitations in funds management.

Recommended Change: As a result, although the Department had used the vast majority of its funding within the approved time periods, the Department lost the use of approximately $14 million in funds because of limitations in funds management.

BP Response: We are concerned that this finding is overly sweeping, as it is passing judgment on the Department’s entire expired balance based on the sample of three bureaus that represented 9% of that total, of which NEA was 7%. The statement should be narrowed to only the $14.2 million in cancelled funds for the three bureaus (OIG, PRM, and NEA) reviewed. The report itself acknowledges that NEA faces unique challenges.

Page 14:
Recommendation 1: OIG recommends that the Bureau of Information Resource Management (IRM) enhance its funds management standard operating procedures to improve oversight of obligations. Specifically, IRM should include a

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requirement that the allotment holders review obligations monthly and that the review of obligations is independently monitored.

Recommendation 2: OIG recommends that the Bureau of Information Resource Management determine whether the balance of $239,467 in invalid unliquidated obligations identified by OIG are necessary and, if not, deobligate them.

BP Response: The two recommendations pertaining to IRM are valid. Although IRM does have monthly meetings with program managers, they do not perform a comprehensive monthly review of obligations and expenditures. The 4 FAM 087.2 requires that unliquidated obligation balances and disbursements be reviewed on a monthly basis.

If you have any questions or require additional information, please contact Stephen Verrecchia at 202-647-[Redacted]@state.gov)
Major Contributors to This Report

Gayle Voshell, Director
Financial Management Division
Office of Audits

Mary P. Siatis, Audit Manager
Financial Management Division
Office of Audits

Angelo Arpaia, Auditor
Financial Management Division
Office of Audits

Karen Crue, Auditor
Financial Management Division
Office of Audits

Carol E. Hare, Auditor
Financial Management Division
Office of Audits
FRAUD, WASTE, ABUSE, OR MISMANAGEMENT OF FEDERAL PROGRAMS HURTS EVERYONE.

CONTACT THE OFFICE OF INSPECTOR GENERAL HOTLINE TO REPORT ILLEGAL OR WASTEFUL ACTIVITIES:

202-647-3320
800-409-9926
oighotline@state.gov
oig.state.gov

Office of Inspector General
U.S. Department of State
P.O. Box 9778
Arlington, VA 22219