



# Smithsonian Institution

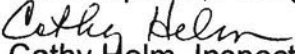
Memo

Office of the Inspector General

Date: January 9, 2015

To: David Voyles, Director, Office of Planning, Management and Budget  
Jean Garvin, Director, Office of Finance and Accounting  
Nancy Bechtol, Director, Office of Facilities, Engineering, and Operations  
Dottie Leffler, Director, Office of Contracting and Personal Property Management

cc: Albert Horvath, Acting Secretary  
John Lapiana, Acting Under Secretary for Finance and Administration

From:   
Cathy Helm, Inspector General

Subject: Smithsonian Had Effective Controls over Unliquidated Obligations for Federal Capital Contracts (A-14-03)

The Smithsonian is facing annual expenditures of hundreds of millions of dollars to meet its capital construction needs. Therefore, it is important for the Smithsonian to have controls in place for identifying excess contract funds and, where possible, reapplying those funds to other contracts. In addition, the Secretary of the Smithsonian, or his designee, is required to certify in annual appropriation requests to the President that obligated federal amounts are accurate and continue to represent valid liabilities.<sup>1</sup> After contracts are signed obligating Smithsonian's federal appropriated funds, bills are received and payments are made against the contracts, and the recorded obligation is reduced by the amount of the payments made. When all services or goods have been received and paid, the obligation is considered "liquidated," and any remaining amount of funds, or "unliquidated obligations," should be deobligated and reduced to zero. The Smithsonian may apply deobligated federal multi-year or no-year funds to other contracts.<sup>2</sup> Our audit objective was to assess the effectiveness of the Smithsonian's controls for timely deobligation of unliquidated obligations associated with no-year federal capital funds. (See attachment for further details about our objective, scope, and methodology.)

Our work showed that the Smithsonian had effective controls for identifying inactive capital contracts—defined as no payments for 18 months or longer—and

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<sup>1</sup> Annual certification requirements are contained in 31 U.S.C. § 1108.

<sup>2</sup> Federal funding may be available to obligate for 1 year, multiple years, or no year (until expended). No-year funds are principally designated for capital projects at the Smithsonian.

deobligating funds. As of May 16, 2014, the Smithsonian had obligated about \$142 million in no-year federal funds on 318 capital contracts. We identified 48 inactive contracts with a combined unliquidated obligation amount of \$325,248. During the course of our work, program managers in the Office of Facilities Engineering and Operations (OFEO), which oversees all facilities capital projects for Smithsonian units, determined 11 of these contracts totaling \$166,651 still represented valid liabilities and would need to remain open.

In addition, OFEO program managers determined that the remaining 37 contracts, totaling \$158,597, no longer represented valid liabilities and needed to be closed. As of November 21, 2014, personnel from the Office of Contracting and Personal Property Management closed 36 of the 37 contracts and released \$158,014 for use on other contracts. They were in the process of closing the remaining contract with an unliquidated obligation of \$582.

In conclusion, of the \$142 million of obligated no-year federal funds, we found that only about \$166,000 (or 0.1 percent) represented unliquidated obligations on inactive contracts. As a result, we determined that the Smithsonian had effective controls in place to identify inactive federally funded capital contracts and deobligate no-year funds that could be put to better use.

We provided a draft report to management who concurred with the report results and chose not to provide a written response.

Please call me or Joan Mockeridge, Acting Assistant Inspector General for Audits, at 202.633.7050 if you have any questions.

Major contributors to this report were Brian Lowe, Supervisory Auditor, and Steven Townsend, Auditor-in-Charge.

Attachment

### **Objective, Scope, and Methodology**

We assessed the effectiveness of the Smithsonian's controls for timely deobligation of unliquidated obligations on no-year federal capital contracts where no payments were made for 18 months or longer, which we define as inactive contracts. We reviewed unliquidated obligations associated with no-year federal capital contracts, as of May 16, 2014.

To accomplish our objective, we reviewed federal budget policies and internal Smithsonian directives and guidance. We also reviewed a prior Smithsonian Office of the Inspector General report.<sup>3</sup> Further, to obtain an understanding of best practices used by federal agencies we reviewed audit reports by other Offices of Inspector General and guidelines issued by the Government Accountability Office.

To assess the Smithsonian's controls to ensure that unliquidated obligations are promptly resolved and deobligated for other uses, we met with personnel from the Office of Planning, Management and Budget; Office of Contracting and Personal Property Management (Contracting office); and the Office of Facilities Engineering and Operations. Further, the Contracting office provided us a report of all no-year federal capital contracts with remaining balances and no activity over the past 18 months or longer, as of May 16, 2014.

We conducted this performance audit in Washington, D.C. from May 2014 through January 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>3</sup> *Unliquidated Obligations Associated with Federal Capital Funds*, M-05-02 (Sept. 15, 2005).