

Management Advisory Report
Unliquidated Obligations
Associated with Federal Capital Funds

Number M-05-02

September 15, 2005



Smithsonian Institution

Office of Inspector General



Office of the Inspector General

Date September 15, 2005

To Alice C. Maroni, Chief Financial Officer
William W. Brubaker, Director, Office of Facilities Engineering and Operations
John W. Cobert, Director, Office of Contracting
Bruce A. Dauer, Director, Office of Planning, Management and Budget

cc Lawrence M. Small, Secretary
Sheila P. Burke, Deputy Secretary and Chief Operating Officer
Debra S. Ritt

From Debra S. Ritt, Inspector General

Subject Management Advisory Report on Unliquidated Obligations Associated with Federal Capital Funds, Report Number M-05-02

This report presents the results of our review of unliquidated obligations associated with no-year federal capital funds. Our objective was to determine whether the Smithsonian's unliquidated obligations represent valid financial liabilities or can be used on other projects. An obligation represents the liability created when the Institution enters into a binding legal agreement, such as a contract. The Secretary of the Smithsonian or his designee is required to certify in annual appropriation requests to the President that obligated amounts are accurate and continue to represent valid liabilities.¹

The ability of the Institution to ensure that obligated amounts continue to represent valid liabilities is a critical measure of the effectiveness of its financial management practices. In today's tight budget environment, when unneeded obligations for contracts are identified, the funds should be deobligated, and where possible, reapplied to other projects.² As of June 15, 2005, 82 facilities contracts³ had remaining balances of \$1.9 million and no voucher activity in 18 months. All of these contracts were managed by the Office of Facilities Engineering and Operations (OFEO), which oversees the majority of federal contract dollars for the Institution.

To determine whether unneeded federal funds were being deobligated, we requested OFEO assistance in determining whether unexpended obligations exceeded estimated needs. Appendix A further describes our scope and methodology. This report addresses

¹ Annual certification requirements are contained in Title 31, United States Code, Section 1108.

² Earmarked funds may only be used on the projects for which they were intended and cannot be reapplied.

³ These figures include contracts and work orders. Work orders are issued against a base open-term contract. For purposes of this report, the term "contracts" will refer to both types of legal agreements.

16 of the 82 contracts, which account for \$893,753 or 47 percent of the remaining balances on the 82 contracts. In addition, we included three contracts outside our initial sample that had nearly \$300,000 in unexpended balances. OFEO has agreed to examine the remaining 66 contracts and take appropriate close-out actions.

ANALYSES AND RECOMMENDATIONS

Our review identified \$890,965 on 14 of the 16 facilities contracts that no longer represent legitimate financial liabilities. Between October 2004 and May 2005, OFEO undertook a major effort to review unliquidated contract balances and identified all 14 contracts for closure. OFEO also initiated a close-out action for one contract with a balance of \$751,000. However, as of August 4, 2005, no funds had been deobligated for any of the 14 contracts. In addition, we identified three contracts outside our sample that were designated for close-out in May 2005, but still had \$299,333 in unexpended balances, bringing the total that can be deobligated to \$1.2 million.⁴ This amount, while a small percentage of the \$126 million appropriated for facilities capital in FY 2005, may be reapplied to other projects. The following table shows the unliquidated obligations we reviewed, listed by contract number.

Unliquidated and Unneeded Obligations Reviewed

Contractor Names	Contract Number	Unliquidated Obligations	Unneeded Obligations
Federal Highway Administration	736KC10483	\$ 751,053	\$ 751,053
Ehrenkrantz & Eckstut Architects	836KW10301	13,081	13,081
E & V Constructora	936KC10631	500	500
Architrave pc Architects	936KW10319	625	625
Engineering Applications Consultants	936KW10551	1,432	1,432
Einhorn Yaffee Prescott Architects	936KW10622	6,001	6,001
Fundaciones, S.A.	036KC10116	1,825	0
Hayes, Seay, Mattern & Mattern	036KW10304	3,520	3,520
Einhorn Yaffee Prescott Architects	036KW10317	11,403	11,403
Law Engineering and Environmental Services, Inc.	036KW10560	19,782	19,782
Smithgroup Midatlantic, Inc.	136KW10017	66,734	66,734
Quinn Evans Architects	136KW10120	4,803	4,803
Apex Environmental, Inc.	136KW10184	116,367	116,367
International Builders, Inc.	136KW10500	3,142	3,142
Smithgroup Midatlantic, Inc.	136KW10547	7,800	7,800
Law Engineering and Environmental Services, Inc.	236KW10275	179,447	179,447
Tex/Am Construction Co, Inc	236KW10305	963	0
Law Engineering and Environmental Services, Inc.	236KW10373	2,956	2,956
Apex Environmental, Inc.	236KW10581	1,652	1,652
Total		\$1,193,086	\$1,190,298

⁴ We rounded \$1,190,298 up to \$1.2 million.

If the proportion of unneeded obligated balances identified on the 19 contracts in the table is representative of the remaining 66 contracts that OFEO is still researching, we estimate that an additional \$987,774⁵ of unneeded unliquidated obligations can be deobligated and used on other projects.

Funds Sat Idle for Years

Our review showed that unneeded obligated funds were allowed to sit idle for years. The average time that funds sat idle on the 80 contracts that had no activity for 18 months was approximately 3 years, with unexpended balances on 13 contracts sitting idle for more than 4 years, and balances on one contract sitting idle for over 8 years. For example:

- A contract with Intec Companies, Inc., awarded in 1995, has had a remaining balance of \$28,223 for the last 8 years. At our request, OFEO is researching the status of unliquidated obligations on this contract.
- In 1997, a contract was awarded to the Federal Highway Administration for the rehabilitation of sidewalks along Jefferson Drive. The contract currently has a balance of \$751,053, and no expenditures have been made in the last 5 years. OFEO confirmed that this contract can now be closed and has initiated close-out procedures with the Office of Contracting (OCon).
- In 1998, a contract was awarded to Ehrenkrantz Eckstut Architects for replacement of a greenhouse. For the last 5 years the contract has carried a balance of \$13,081, but in May 2005, OFEO designated it for closure. As of August 2005, the funds had not yet been deobligated.
- In 2001, a contract was awarded to the Smithgroup MidAtlantic for Smithsonian Institution Traveling Exhibits space modifications. The contract, which has a remaining balance of \$66,734, has had no voucher activity for the last 3 years. In May 2005 OFEO determined that this contract could be closed, but has not yet deobligated the funds.
- A contract was awarded in 2000 to Law Engineering and Environmental Services, Inc., for \$19,782 to monitor lead paint removal at the National Zoological Park. However, no expenditures were ever made because the project was cancelled. OFEO designated the project for closure in May 2005, but has not deobligated the funds.

⁵ We estimated that \$987,774 or 99.8 percent (\$1,190,298 / \$1,193,086) of the \$990,087 remaining on the 66 contracts could be deobligated.

- In 2000, a contract was awarded to Einhorn Yaffe Prescott Architects for picnic area paving. The remaining balance on the contract is \$11,403, and the last expenditure was recorded over 3 years ago. This contract was designated for closure in May 2005, but the funds remain obligated.

Greater Oversight of Unliquidated Obligations is Needed

While there may be valid reasons for large unexpended balances on facilities contracts, OFEO did not review unliquidated balances on a regular basis to determine whether unexpended balances exceeded estimated needs. It also did not report to OCon and the Chief Financial Officer (CFO) whether funds should be deobligated and, if appropriate, the contracts closed. We also found that OCon had not been contacting business units when contractual performance periods were completed to determine whether unliquidated obligations were still valid.

In several cases where we found that funds could be deobligated, the projects were or had been without project managers to oversee account activity. Further, according to OFEO's Director for Resource Management, project managers generally oversee a combination of 100 to 200 purchase orders and contracts, which can lead to lapses in oversight. OFEO staff also informed us that certain contracts were left open to provide contingency funds for unforeseen conditions on other smaller projects. For example, a total of \$295,800 has been held on two contracts for several years as a contingency for abatement inspection and hazmat monitoring services for smaller OFEO projects.

We also found that no single office within the Institution is responsible for providing oversight of unliquidated contract balances. As set out in the draft revision to Smithsonian Directive (SD) 305, provided to us by the Office of Planning, Management and Budget (OPMB) in August 2005, unit heads are responsible for monitoring unit obligations. The directive states that "unit heads are required to ensure that obligations and expenditures are for the purposes intended in the appropriation bill and...satisfy the bona fide need statute." To facilitate monitoring of account balances, units were provided ready access to obligations and commitment data when the new Enterprise Resource Planning (ERP) financial system was deployed.

While units need to be vigilant in managing their contract balances, an annual notice by the CFO to deobligate unliquidated contract balances would enhance Institution-wide oversight of these funds and help ensure funds are not sitting idle. This practice would be consistent with annual reminders the CFO issues for purchase order activity. Currently, the CFO reminds units to deobligate unliquidated balances on purchase orders during the third quarter of each fiscal year as part of its year-end close-out activities. However, these reminders are directed at only 1- and 2-year federal funds and central trust monies, and do not address no-year funds or contracts.

By not directing units to identify unliquidated contract balances as part of its year-end activities, the CFO may also not be getting the assurances and documentation needed to certify in appropriations requests that obligated amounts represent valid liabilities.⁶ In making the certifications, agencies are required to review unliquidated obligations prior to certification. Specifically, Treasury Financial Management Bulletin 2005-06 requires that “Agencies that have not reviewed their unliquidated obligations do so before year-end closing. This ensures agencies properly record transactions meeting the criteria of valid obligations set forth in 31 U.S.C. 1501.”

Our review disclosed that the staffs in the CFO’s office are not validating the accuracy of obligated balances. In addition, they could not tell us who had been delegated the authority to certify to the accuracy of obligated amounts in appropriations requests. Because the draft revision to SD 305 states that the CFO is responsible for “financial reporting and financial management internal controls for the Institution,” we believe the CFO should certify in annual appropriation requests to the President that obligated amounts are accurate and continue to represent valid liabilities. This certification should be based on year-end assurances from the units that they have reviewed unliquidated contract balances and identified those funds that could be put to better use.

Clean-up of Data in Financial System is Needed

Maintaining accurate data in the ERP financial system is necessary for management to extract meaningful reports for effective funds management. However, our review identified potential data inaccuracies in the ERP financial system. For example, 107 facilities contracts with no funds remaining are recorded as active contracts in the ERP system. These contracts, which are listed in Appendix B, should be reviewed to see if their status has been accurately recorded.

We also identified 110 Smithsonian Business Venture (SBV) contracts, totaling \$25 million, which should be deleted in the ERP financial system as SBV no longer uses this system for accounting and payment purposes. A listing of the SBV contracts can be found in Appendix C.

RECOMMENDATIONS

To ensure that unneeded obligations are redeployed to other projects, where possible; obligated funds are accurate and properly certified; and the ERP financial system data is reliable, our recommendations address both the deobligation of funds identified in this report as well as process improvements needed to ensure unliquidated balances are regularly reviewed and annually certified as valid. Specifically, we recommend that the Director of OFEO:

1. Work with OCon to initiate close-out of the 17 completed contracts identified in

⁶ The statute requires the Secretary to “designate officials to make the certifications, and those officials may not delegate the duty to make certifications.” 31 U.S.C. section 1108(c).

this report and deobligate \$1.2 million to put these funds to better use.

2. Expedite its review of the remaining 66 contracts with unliquidated obligations; work with OCon to close those contracts that are completed; and report to OCon, the CFO, and the Office of the Inspector General the associated funds that can be deobligated and put to better use.

We also recommend that the Director, OCon:

3. Expedite the deobligation of \$1.2 million to put these funds to better use.
4. Work with OFEO staff to remove contracts from ERP with zero balances.
5. Work with SBV staff to remove the \$25 million of unliquidated contracts from the ERP financial system.
6. Contact units when contractual performance periods are completed to determine whether unliquidated obligations are still needed.

Finally, we recommend that the CFO:

7. Revise current year-end procedures to provide unit heads a listing of no-year contract balances sitting idle for 18 months or longer; and direct that they research the need for such balances, document the results, and notify CFO and contracting officers of unneeded obligations.
8. Based on unit responses, certify in annual appropriations requests that obligated amounts are accurate and represent valid liabilities.

MANAGEMENT RESPONSE

Management officials provided formal written comments to our August 9, 2005, draft report on August 18, 2005. All offices generally concurred with our analyses and recommendations and identified actions taken or planned for each recommendation. The Directors of OFEO and OCon indicated that 9 of the 17 contracts we reviewed have already been closed-out and balances totaling \$1.1 million have been deobligated. The remaining eight contracts totaling \$117,000 will be closed and monies deobligated by September 30, 2005. The review and close-out of the remaining 66 contracts with longstanding unliquidated obligations has been targeted for February 28, 2006. Management also agreed to conduct coordinated reviews of other contracts we identified that are recorded in the ERP financial system and deobligate unliquidated balances by February 28, 2006. Additionally, Office of the Comptroller management will certify at each year-end that obligated amounts are accurate and represent valid liabilities.

The Director of OCon and the CFO partially concurred with our recommendations regarding contacting units when contractual performance periods are completed and providing them lists of no-year contract balances sitting idle for 18 months or longer. Management officials indicated that it is the responsibility of unit heads and Contracting Officers' Technical Representatives (COTR) to monitor contractual obligations and performance. However, they agreed to emphasize these monitoring responsibilities during procurement and COTR training classes and include a reminder to review unliquidated obligations in the annual Fiscal Year End Procedures instructions memorandum that is issued by the OPMB each spring. The full text of management's comments is included in Appendix D.

OFFICE OF THE INSPECTOR GENERAL COMMENTS

Management's proposed actions are responsive to our recommendations and we consider the recommendations resolved. We are pleased to see that OCon will initiate an effort to determine if an ERP report, other than the ones currently available, could better assist unit heads with their contract oversight responsibilities. However, while we agree that unit heads and COTRs are primarily responsible for monitoring contract performance, contracting officers (CO) share responsibility for monitoring the contracts and assisting in the review and close-out of contracts with balances sitting idle for years. In accordance with Federal Acquisition Regulation, Part 1.602-2, titled *Responsibilities*, CO's are responsible for ensuring performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the United States in its contractual relationships. Delegating these duties does not relinquish the CO's oversight responsibilities to ensure that contracts are completed and closed out in a timely manner.

APPENDIX A. SCOPE AND METHODOLOGY

To determine whether inactive obligations recorded in the Smithsonian Institution's ERP financial system represented valid financial liabilities, we obtained a June 2005 report on contract balances from the ERP financial system. From this report we identified 82 facilities contracts, using federal no-year funds, with remaining balances that had no voucher activity for 18 months or more. We conducted an aging analysis of expenditure activity on the 82 contracts to determine the average length of time funds sat idle.

We used a May 2005 "Potential Fund Reconciliation"⁷ schedule provided by OFEO to identify what contracts OFEO had designated for closure. We determined that 16 of the 82 contracts were listed on this schedule and confirmed with responsible OFEO staff that the remaining federal no-year capital funds were not needed on 14 of these contracts. We identified an additional three contracts with idle funds that were not on the ERP report but that OFEO confirmed should be closed out.

We interviewed OFEO staff to determine why periodic reviews of inactive obligations were not performed and the reasons why funds sat idle for long periods of time. We also interviewed OCon and OFEO staff to identify policies and procedures for closing contracts in the ERP financial system. Finally, we contacted the CFO and Director, OPMB, to determine whether they certify annually in the Appropriations requests to the President that obligated amounts are accurate and represent valid liabilities.

⁷ This schedule was generated by OFEO's Project Tracking and Financial System.

APPENDIX B. ACTIVE CONTRACTS IN THE ERP FINANCIAL SYSTEM THAT HAD ZERO FUND BALANCES

No	PO_ID	ENDBAL
1	036KC10364 Total	-
2	036KW10089 Total	-
3	036KW10416 Total	-
4	136KC10086 Total	-
5	136KC10460 Total	-
6	136KW10215 Total	-
7	136KW10261 Total	-
8	136KW10264 Total	-
9	136KW10310 Total	-
10	136KW10381 Total	-
11	136KW10382 Total	-
12	136KW10494 Total	-
13	136KW10536 Total	-
14	136KW10552 Total	-
15	136KW10584 Total	-
16	236KC10017 Total	-
17	236KC10242 Total	-
18	236KC10332 Total	-
19	236KC10340 Total	-
20	236KC10385 Total	-
21	236KC10565 Total	-
22	236KW10094 Total	-
23	236KW10107 Total	-
24	236KW10128 Total	-
25	236KW10131 Total	-
26	236KW10175 Total	-
27	236KW10225 Total	-
28	236KW10236 Total	-
29	236KW10238 Total	-
30	236KW10243 Total	-

APPENDIX B. ACTIVE CONTRACTS IN THE ERP FINANCIAL SYSTEM THAT HAD ZERO FUND BALANCES

No	PO_ID	ENDBAL
31	236KW10245 Total	-
32	236KW10273 Total	-
33	236KW10303 Total	-
34	236KW10306 Total	-
35	236KW10327 Total	-
36	236KW10338 Total	-
37	236KW10345 Total	-
38	236KW10350 Total	-
39	236KW10359 Total	-
40	236KW10361 Total	-
41	236KW10378 Total	-
42	236KW10404 Total	-
43	236KW10426 Total	-
44	236KW10428 Total	-
45	236KW10432 Total	-
46	236KW10435 Total	-
47	236KW10436 Total	-
48	236KW10448 Total	-
49	236KW10455 Total	-
50	236KW10459 Total	-
51	236KW10464 Total	-
52	236KW10470 Total	-
53	236KW10490 Total	-
54	236KW10494 Total	-
55	236KW10501 Total	-
56	236KW10513 Total	-
57	236KW10516 Total	-
58	236KW10543 Total	-
59	236KW10550 Total	-
60	236KW10556 Total	-

APPENDIX B. ACTIVE CONTRACTS IN THE ERP FINANCIAL SYSTEM THAT HAD ZERO FUND BALANCES

No	PO_ID	ENDBAL
61	236KW10561 Total	-
62	236KW10579 Total	-
63	236KW10597 Total	-
64	236KW10598 Total	-
65	236KW10600 Total	-
66	236KW10605 Total	-
67	236KW10615 Total	-
68	536KW10424 Total	-
69	736KC10601 Total	-
70	836KC10123 Total	-
71	836KW10416 Total	-
72	936KC10693 Total	-
73	936KW10652 Total	-
74	F03CC10028 Total	-
75	F03CC10133 Total	-
76	F03CC10223 Total	-
77	F03CC10271 Total	-
78	F03CC10276 Total	-
79	F03CC10322 Total	-
80	F03CC10435 Total	-
81	F03CW10035 Total	-
82	F03CW10036 Total	-
83	F03CW10039 Total	-
84	F03CW10099 Total	-
85	F03CW10107 Total	-
86	F03CW10112 Total	-
87	F03CW10117 Total	-
88	F03CW10118 Total	-
89	F03CW10143 Total	-

APPENDIX B. ACTIVE CONTRACTS IN THE ERP FINANCIAL SYSTEM THAT HAD ZERO FUND BALANCES

No	PO_ID	ENDBAL
90	F03CW10147 Total	-
91	F03CW10150 Total	-
92	F03CW10156 Total	-
93	F03CW10157 Total	-
94	F03CW10161 Total	-
95	F03CW10169 Total	-
96	F03CW10173 Total	-
97	F03CW10174 Total	-
98	F03CW10186 Total	-
99	F03CW10196 Total	-
100	F03CW10216 Total	-
101	F03CW10269 Total	-
102	F03CW10311 Total	-
103	F03CW10338 Total	-
104	F03CW10364 Total	-
105	F03CW10374 Total	-
106	F03CW10375 Total	-
107	F03KC10215 Total	-

APPENDIX C. SBV CONTRACTS IN THE ERP FINANCIAL SYSTEM

No	PO_ID	ENDBAL
1	036KC10127 Total	\$ 31,850
2	036KC10139 Total	5,021,350
3	036KC10163 Total	93,819
4	036KC10272 Total	85,638
5	036KC10295 Total	127,224
6	036KC10296 Total	229,909
7	036KC10307 Total	165,076
8	036KC10347 Total	20,280
9	036KC10366 Total	11,267
10	036KC10380 Total	242,089
11	036KC10430 Total	37,556
12	036KC10501 Total	400,000
13	036KC10611 Total	103,822
14	336KC10473 Total	24,106
15	436KC10111 Total	71,286
16	436KC10114 Total	8,719
17	436KC10194 Total	5,241
18	436KC10195 Total	25,781
19	436KC10201 Total	4,952
20	436KC10308 Total	28,724
21	436KC10403 Total	5,361
22	436KC10410 Total	3,537
23	436KC10436 Total	8,670
24	436KC10454 Total	2,755
25	436KC10464 Total	7,261
26	436KC10512 Total	34,809
27	436KC10515 Total	10,122
28	436KC10530 Total	2,269
29	436KC10575 Total	3,606
30	436KT10012 Total	22,333
31	436KW10078 Total	10,330
32	436KW10079 Total	12,994

APPENDIX C. SBV CONTRACTS IN THE ERP FINANCIAL SYSTEM

No	PO_ID	ENDBAL
33	536KC10068 Total	12,779
34	536KC10086 Total	2,108
35	536KC10164 Total	1,502,934
36	536KC10166 Total	821,869
37	536KC10171 Total	4,286
38	536KC10193 Total	664
39	536KC10198 Total	521,330
40	536KC10223 Total	93,867
41	536KC10333 Total	103,686
42	536KC10347 Total	120
43	536KC10499 Total	2,930
44	536KC10532 Total	22,472
45	536KC10578 Total	3,795
46	536KT10509 Total	2,509
47	536KW10435 Total	23,478
48	636KC10024 Total	52,600
49	636KC10032 Total	754,448
50	636KC10052 Total	2,213,291
51	636KC10067 Total	290,618
52	636KC10140 Total	64,973
53	636KC10158 Total	65,711
54	636KC10189 Total	1,919
55	636KC10197 Total	812
56	636KC10231 Total	33,987
57	636KC10242 Total	163,496
58	636KC10250 Total	3,846
59	636KC10262 Total	10,762
60	636KC10289 Total	118,416
61	636KC10299 Total	532,070
62	636KC10522 Total	49,979
63	736KC10007 Total	48,484
64	736KC10023 Total	7,783

APPENDIX C. SBV CONTRACTS IN THE ERP FINANCIAL SYSTEM

No	PO_ID	ENDBAL
65	736KC10135 Total	660
66	736KC10140 Total	11,850
67	736KC10161 Total	1,500
68	736KC10343 Total	22,389
69	736KC10345 Total	9,432
70	736KC10377 Total	15,126
71	736KC10434 Total	33,361
72	736KC10495 Total	2,460,422
73	836KC10005 Total	13,478
74	836KC10050 Total	8,696
75	836KC10181 Total	3,451
76	836KC10192 Total	51,485
77	836KC10193 Total	29,340
78	836KC10224 Total	428
79	836KC10225 Total	14,215
80	836KC10241 Total	504
81	836KC10243 Total	10,494
82	836KC10263 Total	98,196
83	836KC10264 Total	39,139
84	836KC10280 Total	2,123,280
85	836KC10286 Total	265,322
86	836KC10297 Total	27,160
87	836KC10363 Total	7,336
88	836KC10562 Total	97,468
89	936KC10073 Total	168,868
90	936KC10103 Total	45,052
91	936KC10107 Total	25,088
92	936KC10111 Total	28,743
93	936KC10136 Total	20,428
94	936KC10190 Total	60,000
95	936KC10236 Total	31,000
96	936KC10247 Total	125,282

APPENDIX C. SBV CONTRACTS IN THE ERP FINANCIAL SYSTEM

No	PO_ID	ENDBAL
97	936KC10253 Total	0
98	936KC10333 Total	94,268
99	936KC10342 Total	111,662
100	936KC10347 Total	65,303
101	936KC10349 Total	15,429
102	936KC10378 Total	2,305,777
103	936KC10402 Total	89,778
104	A36KC10420 Total	36,684
105	B36KC00084 Total	145,200
106	B36KC03043 Total	470,477
107	C36KC00706 Total	126,888
108	C36KC14897 Total	1,354,233
109	D36KC00558 Total	41,797
110	D36KC70595 Total	20,000
	Grand Total	\$25,121,447

APPENDIX D. MANAGEMENT COMMENTS



Smithsonian Institution

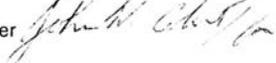
Memo

Alice C. Maroni
Chief Financial Officer

Date August 18, 2005

To Debra S. Ritt, Inspector General

cc William W. Brubaker, Director, Office of Facilities Engineering and Operations
John W. Cobert, Director, Office of Contracting
Bruce A. Dauer, Director, Office of Planning, Management and Budget
Andrew J. Zino, Comptroller
Marc Saitta, Chief Financial Officer, Smithsonian Business Ventures

From Alice C. Maroni, Chief Financial Officer 

Subject Draft Report on the Management Advisory Review of Unliquidated Obligations

Thank you for the opportunity to comment on your draft report, Management Advisory Review of Unliquidated Obligations, M-05-02. We have reviewed the draft report and generally concur with the facts as presented. We have also reviewed the recommendations and offer our consolidated comments below for each recommendation.

RECOMMENDATIONS

For action by the Director, OFEO:

1. Work with OCon to initiate close-out of the 17 completed contracts identified in this report and de-obligate \$1.2 million to put these funds to better use.

Comment: We concur.

During the period that the management advisory review was being conducted OFEO and OCon concluded that the \$751,000 in unliquidated funds for the contract with the Federal Highway Administration (736KC10483) should be de-obligated. The unliquidated funds have been de-obligated and redirected for use to another project. This action culminated a two year process in which OFEO coordinated with the contractor to ensure that all work and contractor billing was complete and the parties agreed to contract close-out. Since the date of the draft report, an additional 8 contracts have been closed-out and \$322,231 of unliquidated funds tied to those contracts has been de-obligated. Action is ongoing by OFEO, OCon and OPMB to complete close-out of the remaining contracts and de-obligate and make available for other projects, unliquidated funds totaling \$117,014.

Victor Building, Suite 4400
750 9th Street, NW, MRC 987
Washington DC 20560-0987
202.275.2020 Telephone
202.275.2252 Fax

APPENDIX D. MANAGEMENT COMMENTS

Page 2 – Debra S. Ritt, Inspector General

We would like to note that the approximately \$1.2 million of unliquidated obligations identified during the management advisory review represents a small amount (.2%) of the total capital funds that OFEO has managed over the past 10 years

Action completion date: September 30, 2005

2. Expedite its review of the remaining 66 contracts with unliquidated obligations; work with OCon to close those contracts that are completed; and report to OCon, the CFO, and the Office of the Inspector General (OIG) the associated funds that can be de-obligated and put to better use.

Comment: We concur.

We agree that the remaining 66 contracts with unliquidated obligations need to be reviewed. However, OFEO and OCon will need to balance the necessary contract reviews with other higher priority projects and normal office workloads.

Action completion date: February 28, 2006

For action by the Director, OCon:

3. Expedite the de-obligation of \$1.2 million to put these funds to better use.

Comment: We concur.

OFEO and OCon staffs have coordinated the close-out of 9 contracts and de-obligated \$1,107,284 of unexpended funds tied to those contracts. This amount represents 93% of the actual amount of unliquidated funds that the OIG estimated may be available for use in other projects. The remaining 8 contracts are now being reviewed to determine actions necessary to complete close-out and make available the remaining \$117,014 of unliquidated funds.

Action completion date: September 30, 2005

4. Work with OFEO staff to remove contracts with zero balances,

Comment: We concur.

Reviews of the 107 facilities contracts identified in the draft report, Appendix B, that are recorded as active in ERP with no funds remaining shall be conducted concurrent with the actions necessary to address recommendation 2 above.

Action completion date: February 28, 2006

APPENDIX D. MANAGEMENT COMMENTS

Page 3 – Debra S. Ritt, Inspector General

5. Work with Smithsonian Business Ventures (SBV) staff to remove the \$25 million of unliquidated contracts from the ERP financial system.

Comment: We concur.

The files and payment records for the contracts listed in the draft report, Appendix C will need to be reviewed in order that actual unexpended funds amounts can be determined. Staff from OCon has already been in touch with SBV staff to establish the plan and timeframes for completing the necessary review. This collaboration by OCon and SBV staff will lend to decisions to modify and transfer contracts to SBV administration, or de-obligate unliquidated balances and close-out the contracts when appropriate.

Action completion date: February 28, 2006

6. Contact units when contractual performances periods are completed to determine whether unliquidated obligations are still needed.

Comment: We partially concur.

It is the responsibility of program managers and Contracting Officer Technical Representatives (COTR) to: monitor contractor performance; review and approve requests for payment; alert OCon when performance period end dates are approaching; and notify OCon when final contractor payment is requested.

Procurement delegate and COTR responsibilities for monitoring contract performance period dates and available balances will continue to be emphasized during the procurement and COTR training classes OCon conducts. We will stress to COTRs the importance that performance of their responsibilities has in preventing delays in the contract close-out process and unexpended funds from being used for other projects when not otherwise restricted.

Action completion date: October 1, 2005

For action by the Chief Financial Officer (CFO):

7. Provide unit heads a listing of no-year contract balances sitting idle for 18 months or longer; and direct that they research the need for such balances, document the results, and notify the CFO and contracting officers of unneeded obligations.

Comment: We partially concur.

As indicated in the draft report, unit heads are responsible for monitoring contractual obligations. This is part of their compliance with Smithsonian Directive 305. Units have access to various financial reports from ERP to

APPENDIX D. MANAGEMENT COMMENTS

Page 4 – Debra S. Ritt, Inspector General

assist them with determining outstanding obligations and decisions to retain, adjust or cancel obligations. The units should not rely on reminders from the CFO to periodically perform these responsibilities.

We agree to remind procurement delegates, COTRs and program managers at every opportunity to review unliquidated obligations and contact OCon for necessary action. OCon will determine if an ERP report other than ones currently available could better assist units in this effort. A reminder to review unliquidated balances in contracts for which no year funds are obligated will be included in the annual Fiscal Year-End Procedures instructions memo that is issued by the Office of Planning, Management and Budget each spring.

Action completion date: May 30, 2006

8. Based on unit responses, certify in annual appropriations requests that obligated amounts are accurate and represent valid liabilities.

Comment: We concur.

Certification that obligated amounts are accurate and represent valid liabilities is accomplished through the FACTS II reporting process. At year-end, the Year-End Closing Statement (F'S Form 2108) contains a statement "that the obligation balances in each appropriation account of the agency reflect proper existing obligations and that expenditures from the account since the preceding review were supported by a proper obligation of funds and otherwise meet the criteria of 31 USC 1501(A)." This statement is signed by the Manager, Financial Analysis & Reporting Division within the Office of the Comptroller (OC). Documentation of this delegation will be maintained by the CFO and Comptroller.

Action completion date: October 1, 2005

Thank you for the opportunity to comment prior to issuance of your final report. Please direct any questions you may have regarding the information provided in this memo to Curtis Sanchez in OCon for a coordinated response. Mr. Sanchez may be reached at telephone number 202.275.1174 or via email to SanchezC@si.edu.