REPORT ON THE AUDIT OF THE UNITED STATES CUSTOMS SERVICE'S UNLIQUIDATED OBLIGATIONS

OIG-00-011 November 3, 1999

Office of Inspector General

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United States Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 3, 1999

MEMORANDUM FOR RAYMOND W. KELLY, COMMISSIONER
UNITED STATES CUSTOMS SERVICE

FROM: Dennis S. Schindel
Assistant Inspector General for Audit

SUBJECT: Report on the Audit of United States Customs Service Unliquidated Obligations

This memorandum transmits the final report on the Office of Inspector General's audit of the United States Customs Service's (Customs) unliquidated obligations as of June 30, 1999. Our objectives were to (1) determine if controls are in place to ensure that an adequate review of obligated balances is performed as required by U.S.C. Title 31 and (2) determine if any unliquidated obligations should be deobligated. Our procedures included obtaining an understanding of the procedures and controls over Customs' obligation process, and testing obligations to determine if any should be deobligated. Our objective was not to opine on the fairness of Customs' unliquidated obligations balance.

The work we performed satisfied our objectives. We found that controls were adequate, but we believe a more thorough review of obligated balances is needed. This matter is discussed in detail in our report. Due to the nature of this finding, no corrective action plan is needed from you.

Our finding and recommendation has been reviewed with your staff during our audit and they generally agreed. Their official comments have been incorporated in their entirety as Appendix 1 in this report. Based on our mutual agreement, we are issuing this report as final.

Should you or your staff have any questions, you may contact me at (202) 927-5400 or Michael Fitzgerald, Acting Director of Financial Audits at (202) 927-5789. We appreciate the cooperation and the courtesies extended to our staff.

Attachment

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Overview

Federal agencies receive annual and multi-year appropriations to finance their operations. Federal agencies obligate money from their appropriations when they identify a specific spending need, such as the acquisition of goods or services. After an agency receives goods or services, it pays for them from the obligated amount. Any amount remaining after all goods and services have been received and paid for should be deobligated and made available for other needs.

Obligations from annual appropriations are valid for 5 years. On September 30 of the fifth fiscal year after the annual appropriation period ends, the appropriation is closed and any remaining balance, whether obligated or unobligated, is canceled and not available for obligation or expenditure for any purpose.

The head of each agency is required to establish internal controls to assure that an adequate review of obligated balances is performed annually. After the close of each fiscal year, the head of each agency is required to submit to the President and the Secretary of the Treasury a report regarding the unliquidated obligations, unobligated balances, and canceled balances and adjustments made to appropriation accounts during the completed fiscal year. The report is required to be submitted no later than 15 days after the date on which the President's budget for the next fiscal year is submitted to Congress.

Objectives, Scope and Methodology

Our objectives were to (1) determine if controls were in place to ensure that an adequate review of obligated balances is performed as required by U.S.C. Title 31 and (2) determine if any unliquidated obligations should be deobligated. Our procedures included obtaining an understanding of the procedures and controls over the United States Customs Service's (Customs) obligation process, and testing obligations to determine if any should be deobligated. Our objective was not to opine on the fairness of Customs' unliquidated obligations balance.

To meet our objectives, we:

- met with budget and financial staff from Customs to obtain an understanding of its internal controls over the obligation process, including controls over deobligations;

- performed walkthroughs of key transactions and events in the obligation process;

- reviewed Customs' reconciliation of unliquidated obligations to the Report on Budget Execution (SF-133);

- tested a statistically selected sample of the unliquidated obligation balance of approximately $740 million at June 30, 1999. We selected a sample of 59 unliquidated obligations, of which 17 were key items of $4 million or greater and 42 were randomly selected as statistical representation of the remaining population (non-key items). We reviewed source documentation related to each sample item to determine if the item represented a valid obligation;

- provided Customs with a list of all unliquidated obligations of $50 or less for review for possible deobligation. These items were excluded from the population of unliquidated obligations tested;

- reviewed obligations over 5 years old to determine if they were still valid; and

- reviewed the unliquidated obligation account detail for unusual items.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller of the United States.

Audit Results

We concluded that, except for the internal control matter discussed below, controls are in place to ensure that an adequate review of obligated balances is performed as required by U.S.C. Title 31.

Customs' Review of Unliquidated Obligations Should be Improved

Although Customs had established policies and procedures for conducting quarterly reviews of unliquidated obligations, Customs did not properly identify all amounts that should have been deobligated. The results of our tests of unliquidated obligations disclosed that 15 non-key items tested, totaling approximately $13,400, should be deobligated. Some of these unliquidated obligations related to amounts remaining after invoices were paid and service periods expired. The projection of these items to the non-key item population is immaterial.

In accordance with Title 31 USC Section 1554 (b) (1), after the close of each fiscal year, the head of each agency shall submit to the President and the Secretary of the Treasury a report regarding the unliquidated obligations, unobligated balances, canceled balances, and adjustments made to appropriation account of that agency during the completed fiscal year. Title 31 USC Section 1554 (c) states that the head of each agency shall establish internal controls to assure that an adequate review of obligated balances is performed to support the certification.

The performance of a thorough review of all unliquidated obligations is integral to effective management of budgetary resources and accurate reporting of obligations for financial and budgetary reporting.

Recommendation

We recommend that Customs' Chief Financial Officer ensure that the Assistant Commissioners, Directors of Field Operations, and Special Agents in Charge perform a more thorough review of unliquidated obligations to determine the validity of obligations in accordance with the U.S. Code.

Management Comments

UNITED STATES GOVERNMENT
Memorandum

DEPARTMENT OF THE TREASURY
UNITED STATES CUSTOMS SERVICE

DATE: OCT 15 [illegible]

FILE: AUD-01-OF:FMD JCL

MEMORANDUM FOR: Dennis Schindel
Assistant Inspector General for Audit
Office of Inspector General

FROM: Assistant Commissioner
Office of Finance

SUBJECT: Draft Audit Report on Unliquidated Obligations

We have reviewed the draft report on the audit of unliquidated obligations, and concur with the findings and recommendation.

If there are any questions, please contact Jo Cohen on 927-6140, or Mr. Tom Smith on (317) 298-1200, extension 1220.

for C. Wayne Hamilton

Major Contributors to This Report

Antoine Elachkar, Director, Financial Management Division
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