

Department of Commerce Working Capital Fund Billing Practices and Transparency Need Improvement

FINAL REPORT NO. OIG-18-020-A

MAY 8, 2018



U.S. Department of Commerce
Office of Inspector General
Office of Audit and Evaluation



May 8, 2018

MEMORANDUM FOR: Lisa Casias
Acting Chief Financial Officer/Assistant Secretary
for Administration, and Deputy Assistant Secretary
for Administration

A handwritten signature in black ink, appearing to read "Andrew Katsaros".

FROM: Andrew Katsaros
Assistant Inspector General for Audit and Evaluation

SUBJECT: *Department of Commerce Working Capital Fund Billing Practices
and Transparency Need Improvement*
Final Report No. OIG-18-020-A

Attached is our final report on the results of our audit of the Department of Commerce working capital fund (WCF). The objective of our audit was to evaluate controls over the WCF in FY 2016. Specifically, we sought to determine whether (1) there were effective controls over the billing and algorithm development processes, (2) relationships of reimbursements and billings to services provided were reasonable, (3) projects utilized performance metrics as management tools to assess project performance, (4) projects' funding levels were adequately supported, and (5) the Office of the Secretary Office of Financial Management Directorate (OSFM) had effective controls over retaining or returning advances received in excess of obligations.

With respect to our audit procedures, we found that relationships of reimbursements and billings to services provided were generally reasonable and that projects utilized performance metrics. However, during the audit process, we identified the following:

- I. More transparency of carryover balances and billing allocation methods is needed.
- II. WCF service providers and OSFM did not adhere to established WCF billing requirements.
- III. WCF lacks adequate documentation to support certain object classes within its final operating budget.

Attached is the Department's response, dated April 18, 2018, to the draft report's findings and recommendations, which we have included within the report as appendix B. The Department generally concurred with all six report recommendations.

Pursuant to Department Administrative Order 213-5, please submit to us an action plan that addresses the recommendations in this report within 60 calendar days. This final report will be posted on OIG's website pursuant to sections 4 and 8M of the Inspector General Act of 1978, as amended (5 U.S.C. App., §§ 4 & 8M).

We appreciate the cooperation and courtesies extended to us by your staff during this audit. If you have any questions or concerns about this report, please contact me at (202) 482-7859 or Patty McBarnette at (202) 482-3391.

Attachment



Report in Brief

May 8, 2018

Background

The Department of Commerce working capital fund (WCF) was established in 1944 by statute that is currently codified at 15 U.S.C. § 1521. It is one of three WCFs operating within the Department. Each fund functions independently and has unique internal control and budget processes. The WCF is a revolving fund that does not receive a direct annual appropriation from Congress. Its mission is to provide services that may be delivered more advantageously as central services to its customers.

The Senate Appropriations Committee proposed that OIG audit the Department's budgetary controls over WCFs—and pay particular attention to the funding needed to support the Department's Office of the General Counsel (OGC).

Departmental operating units—such as OGC and Office of the Chief Information Officer (OCIO)—act as the providers of services delivered under the WCF. These services include information technology, human resources, security, and legal services, among others. For each of these projects, Department customers reimburse the appropriate operating unit for services through the WCF.

Why We Did This Review

The objective of our audit was to evaluate controls over the WCF in fiscal year 2016. Specifically, we sought to determine whether (1) there were effective controls over the billing and algorithm development processes, (2) relationships of reimbursements and billings to services provided were reasonable, (3) projects utilized performance metrics as management tools to assess project performance, (4) projects' funding levels were adequately supported, and (5) Office of the Secretary Office of Financial Management Directorate (OSFM) had effective controls over retaining or returning advances received in excess of obligations.

OFFICE OF THE SECRETARY

Department of Commerce Working Capital Fund Billing Practices and Transparency Need Improvement

OIG-18-020-A

WHAT WE FOUND

With respect to our audit procedures, we found that relationships of reimbursements and billings to services provided were generally reasonable and that projects utilized performance metrics.

However, we noted inconsistent application of controls over the billing allocation method and algorithm development processes due to a lack of adherence to established WCF billing requirements.

We also found that both support for project funding levels and controls over retaining or returning advances need improvement. Specifically, we found a lack of adequate supporting documentation for several aspects of the final operating budget for the projects reviewed.

In addition, we identified a need for increased transparency relating to the calculation and communication of excess advances collected above obligations incurred and to the description of the billing allocation method for WCF projects.

WHAT WE RECOMMEND

We recommend that the Chief Financial Officer and Assistant Secretary for Administration do the following:

1. Update the carryover policy and procedures to ensure that both sufficiently describe the carryover process, including key terms and requirements for determining whether excess funds are earned.
2. Institute policy and procedures for documenting OSFM's periodic review and evaluation of each project's carryover, which reviews and evaluations will consider input of service providers and customers.
3. Develop and implement a communication mechanism that allows key WCF stakeholders to be apprised of the detailed annual carryover results in a timely manner.
4. Enhance the *Working Capital Fund Advances and Reimbursements Final Handbook* update process to ensure that it includes a detailed description of the billing allocation method for each project and the levels of services provided for each project.
5. Enhance the algorithm preparation and review process for the WCF to ensure that (a) billing allocation supporting data are accurate, complete, current, and sufficient, and (b) algorithm calculations are free from error.
6. Enhance the process for maintaining documentation that supports the formulation of each project's final operating budgets in the WCF.

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Cover: Herbert C. Hoover Building main entrance at 14th Street Northwest in Washington, DC. Completed in 1932, the building is named after the former Secretary of Commerce and 31st President of the United States.

Introduction

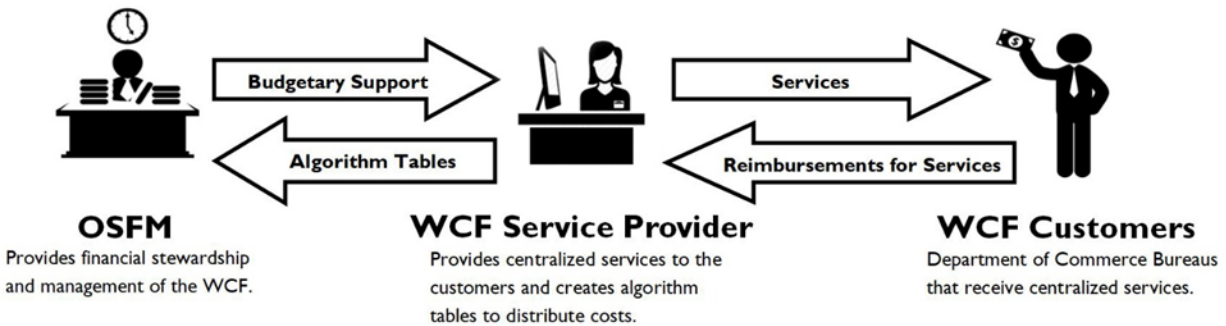
The Department of Commerce working capital fund (WCF) was established in 1944 by statute that is currently codified at 15 U.S.C. § 1521. It is one of three WCFs operating within the Department; the other two operate within the National Institute of Standards and Technology (NIST) and the Census Bureau. Each fund functions independently and has unique internal control and budget processes. The WCF is a revolving fund that does not receive a direct annual appropriation from Congress. Its mission is to provide services that may be delivered more advantageously as central services to its customers—that is, the Department’s bureaus.

The Senate Appropriations Committee¹ proposed that the Office of Inspector General (OIG) audit the Department’s budgetary controls over WCFs. The Committee proposed that OIG pay particular attention to the funding needed to support the Department’s Office of the General Counsel (OGC). This report provides the results of this requested audit work related to the WCF. It also serves as a follow up to our May 2014 report² on the WCF, where we reported that the Office of the Secretary Office of Financial Management Directorate (OSFM) and service providers did not comply with established WCF billing requirements. Specifically, we identified that OSFM (1) relied on inaccurate supporting documentation and/or used incorrect bases of charge for eight projects, and (2) did not use current billing information for four projects.

Department operating units—such as OGC and Office of the Chief Information Officer (OCIO)—act as the providers of services delivered under the WCF. These services include information technology, human resources, security, and legal services, among others. For each of these projects, Department customers reimburse the appropriate operating unit for services through the WCF. OSFM—a component within the Office of Financial Management (OFM)—provides the financial stewardship and management of the WCF. NIST’s Office of Financial Resource Management (OFRM) provides the accounting services for the WCF. In fiscal year (FY) 2016, the WCF had 13 services providers, 85 projects, and a final operating budget of approximately \$247 million.

¹ S. Rep. No. 114-239. *Report to Accompany S. 2837 (Departments of Commerce and Justice, Science, and Related Agencies Appropriations Bill, 2017)*, April 21, 2016.

² U.S. Department of Commerce Office of Inspector General, May 15, 2014. *Office of the Secretary's Working Capital Fund Billing Control Issues Resulted in Incorrect Charges*, OIG-14-020-A. Washington, DC: DOC OIG.

Figure 1. Relationships Between Units That Operate/Utilize the WCF

Source: OIG analysis of the 2016 Office of the Secretary WCF Handbook

The Department's *Working Capital Fund Advances and Reimbursements Final Handbook*³ (*WCF Handbook*) provides an overview of the WCF, and includes descriptions of WCF activities, descriptions of services provided, and the basis of budget for each project. The *basis of budget* is the type of data used to determine how much customers will pay for a particular service, and varies by project. We refer to the basis of budget as the *billing allocation method* in this report. Examples of billing allocation methods include the number of full-time equivalent (FTE) or prior year labor hours. The *WCF Handbook* is available to all Department personnel and the public on the OS website. OSFM updates the *WCF Handbook* annually to reflect the services to be provided and each project's billing allocation method for the fiscal year.

Annually, OSFM (1) compiles the WCF budget after reviewing service provider budget requests for reasonableness and (2) presents this preliminary budget to the Department's Chief Financial Officer (CFO) Council. The CFO Council—consisting of Department and bureau-level CFOs, as well as other officials within OS—assesses the budget for significant increases in WCF programs, as well as makes recommendations. The Department's CFO reviews the proposed budget increases and considers the recommendations offered by the CFO Council prior to approving. OSFM then develops a final operating budget that includes each project's budget, spending plans, and estimated customer charges per project.

The Department uses algorithms to calculate the amount that each customer must pay for a particular project. Each project has its own algorithm, which is prepared by service providers based on the billing allocation method. OSFM reviews all algorithms annually for consistency and accuracy. Every other year, OSFM and service providers host an algorithm review group composed of bureau representatives who meet and propose changes to algorithms. The CFO Council reviews proposed changes, and the CFO makes final decisions regarding changes to algorithms.

Customers pay for WCF services through quarterly advances. OSFM assesses excess advances received from customers over the annual obligations incurred to determine whether the funds can be used to either cover future funding shortfalls or reduce future customer billings. Departmental policy states that unobligated balances and advances in excess of obligations are

³ DOC Office of the Secretary, February 2016. *Working Capital Fund Advances and Reimbursements Final Handbook FY 2016*. Washington, DC: DOC OS. The *WCF Handbook* used for this audit was the FY 2016 version.

considered earned at the end of the fiscal year if OSFM determines that services were provided in accordance with the *WCF Handbook*. Those earned funds are considered *carryover* and become a part of the operating reserve. As a result, these funds lose their original available funding limitations and become no-year funds. OSFM is then responsible for ensuring that carryover funds are utilized in accordance with policy. Table I provides a summary of funding for FY 2016.

Table I. FY 2016 Funding Summary of the WCF (\$ in millions)

Total FY 2016 WCF Resources^a	\$225
FY 2016 Carryover (as of September 30, 2016)	\$4.7
Carryover as a Portion of Total FY 2016 WCF Resources	2%
Total Accumulated Operating Reserve (as of September 30, 2016)	\$8.7

Source: OIG summary of WCF budgetary data

^a Total FY 2016 WCF Resources includes the FY 2016 final operating budget, cumulative operating reserve from prior years, and other budget changes.

Objective, Findings, and Recommendations

The objective of our audit was to evaluate controls over the WCF in FY 2016. Specifically, we sought to determine whether (1) there were effective controls over the billing and algorithm development processes, (2) relationships of reimbursements and billings to services provided were reasonable, (3) projects utilized performance metrics as management tools to assess project performance, (4) projects' funding levels were adequately supported, and (5) OSFM had effective controls over retaining or returning advances received in excess of obligations.

To address our objective, we reviewed 16 projects⁴ managed by seven service providers⁵ that provide centralized services to the Department's bureaus.⁶ For further discussion on the audit's objective, scope, and methodology, see appendix A.

With respect to our audit procedures, we found that relationships of reimbursements and billings to services provided were generally reasonable and that projects utilized performance metrics. However, we noted inconsistent application of controls over the billing allocation method and algorithm development processes due to a lack of adherence to established WCF billing requirements. We also found that both support for project funding levels and controls over retaining or returning advances need improvement. Specifically, we found a lack of adequate supporting documentation for several aspects of the final operating budget for the projects reviewed. In addition, we identified a need for increased transparency relating to the calculation and communication of excess advances collected above obligations incurred and to the description of the billing allocation method for WCF projects.

I. More Transparency of Carryover Balances and Billing Allocation Methods Is Needed

To document and communicate WCF policy and operational practices, OSFM published the *WCF Handbook* and standard operating procedures (SOPs). OSFM also uses several other mechanisms to inform and obtain feedback from customers and other key stakeholders on WCF operations. For example, OSFM meets monthly with the CFO Council to discuss administrative and financial matters of the WCF; it also meets with service providers quarterly to discuss budget status and other related issues. In addition, OSFM hosts an

⁴ The 16 projects reviewed consist of the following: (1) Commerce Data Service; (2) OCIO Cyber Operations; (3) OCIO Manual Bill; (4) OFM Commerce Business Systems; (5) OFM Electronic Travel System; (6) OGC Administration and Transactions; (7) OGC First Responder Network (FirstNet) Support; (8) OGC International Trade Administration (ITA) Enforcement and Compliance; (9) OGC Legislation and Regulation; (10) OGC Litigation, Employment, and Oversight; (11) OGC Manual Bill; (12) OGC NIST/National Technical Information Service (NTIS); (13) Office of Human Resource Management (OHRM) FirstNet Support; (14) OHRM Office of Policy and Program; (15) Office of Security (OSY) Investigations and Threat Management Systems; and (16) Shared Services Strategic Sourcing.

⁵ That is, Commerce Data Service; OCIO; OFM; OGC; OHRM; OSY; and Shared Services.

⁶ That is, OS; ITA; Economic Development Administration; National Telecommunications and Information Administration; NTIS; U.S. Census Bureau; Economics and Statistics Administration/Bureau of Economic Analysis; National Oceanic and Atmospheric Administration; NIST; Minority Business Development Agency; Bureau of Industry and Security; OIG; and U.S. Patent and Trademark Office.

algorithm review group every other year, which allows the service providers to present the benefits and details of their services, as well as the billing allocation methods used, to Department customers. OSFM also utilizes a monthly status of funds report as a management tool to monitor the OS WCF's financial status, and delivers this report to the Department CFO monthly. Furthermore, OSFM informed us that they are responsive to stakeholder feedback and questions and are committed to open communication.

Our work in this area focused specifically on OSFM's process for retaining and returning excess obligations and the billing and algorithm development process. In our review of the *WCF Handbook*, the SOPs, and discussions with WCF officials regarding key processes within the WCF, we found that—although it has taken significant steps to inform its customers of WCF operations—the Department needs to provide more information to assist customers and other stakeholders in understanding the WCF carryover and the billing allocation methods used for certain projects. Specifically, we noted that policies and procedures for determining and documenting annual carryover amounts, as well as descriptions of the billing allocation methods used for some projects, lack clarity and specificity. Furthermore, OSFM's policy for determining carryover does not include quantifiable elements, such as levels of services provided. This is because OSFM implemented a new policy in FY 2016 related to carryover funding; however, sections of the policy were vague and did not include documentation requirements for the carryover analysis. In addition, OSFM did not receive specific information regarding the billing allocation methods from service providers so that it could be included in the *WCF Handbook*.

A. *Insufficient Carryover Policy*

The *Working Capital Fund Carry-over Funding Standard Operating Procedure (Carryover SOP)* provides the overall process for OSFM to determine the year-end carryover amount and the approval authorities for using carryover funds. In addition, both the *Carryover SOP* and the *WCF Handbook* describe that earned amounts left over from advances by WCF customers become a part of the WCF operating reserve and become no-year funds. These advances in excess of obligations are described as *savings from efficiencies*. However, despite this information, we found that both the *Carryover SOP* and *WCF Handbook* lacked key detail of critical areas related to carryover. As a result, OSFM typically considers any unused funds as savings from efficiencies.

Both the Carryover SOP and the WCF Handbook describe that earned amounts left over from advances by WCF customers become a part of the WCF operating reserve

Both savings from efficiencies and earned funding status are critical to understanding carryover because they are the main sources of carryover. In our review of the *Carryover SOP* and *WCF Handbook*, however, both documents included information, as previously described, but lacked definitions of these terms. For example, a portion of the FY 2016 carryover stemmed from excess funds collected for anticipated salaries not spent by September 30 due to vacant positions not filled. Discussions with WCF officials and a review of year-end financial results showed that excess funds collected were

considered earned even though the positions were unfilled and did not directly contribute to the services provided. The Government Accountability Office's (GAO's) *Principles of Federal Appropriations Law*⁷ states that amounts advanced to a WCF are not earned by the WCF until the WCF incurs costs or proper obligations in performing for its customer agency. OSFM officials stated that to determine whether funds are earned, they make inquiries of service providers to determine if the WCF services stated in the *WCF Handbook* were provided during FY 2016. However, OSFM could not provide documentation of this.

Similarly, *WCF Handbook* descriptions for sampled projects did not always include specific service information or quantifiable elements—such as level of effort for services—in the project descriptions. Specific service information or quantifiable elements would be important in instances where services were not fully provided. Further, although the policy states that OSFM performs a review at the end of the year to determine whether excess funds were earned, the policy did not outline any required steps to determine how this was done. As a result, it is unclear how the Department made earning determinations for excess funds.

B. *Lack of Earning Determination Documentation*

Our analysis of the WCF financial results for FY 2016 found that 11 of 16 projects reviewed had a positive carryover amount. In total, \$4.7 million was the carryover amount added to the operating reserve for FY 2016. According to OSFM officials, in FY 2016, based on their year-end review process, all services described in the *WCF Handbook* were fully provided to the WCF customers; therefore, all of the excess advances received from customers were considered earned and added to the operating reserve. However, when requested, OSFM was unable to provide any documentation of its year-end review or the analysis performed to determine the earned and unearned status of excess advanced funds. As a result, OSFM could not demonstrate whether all excess advances for FY 2016 were earned, and whether these funds should become part of the operating reserve or returned to customers. Additionally, although OSFM provided the total carryover amount to customers, OSFM acknowledged that it has yet to provide detailed FY 2016 carryover results to WCF customers.

OSFM could not demonstrate whether all excess advances for FY 2016 were earned

C. *Billing Allocation Method Descriptions*

Our review of the *WCF Handbook*'s descriptions of the billing allocation method for the selected projects found that the descriptions for 7 of 16 projects lacked sufficient detail to determine how project costs are allocated to customers. For example, the billing allocation method for OCIO's Cyber Operations project is the number of endpoints. However, the description neither defines what constitutes an *endpoint* nor does it

⁷ U.S. Government Accountability Office, March 12, 2015. *Principles of Federal Appropriations Law Annual Update of the Third Edition (Volumes I, II, & III)*, GAO-15-303SP. Washington, DC: GAO, 12-4.

provide the date or timeframe used in determining the number of endpoints. Further, the description does not describe whether estimated or actual endpoints are used in the billing allocation method. A detailed description is crucial in ensuring that customers understand the allocation of this project's \$15.4 million budget.

The lack of specificity in the *WCF Handbook* and *Carryover SOP*, as well as lack of documentation of the year-end carryover analysis, does not meet *GAO's Standards for Internal Control in the Federal Government*,⁸ which sets the following standard for appropriate documentation of transactions and internal control:

Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.

As a result, it is unclear (1) whether OSFM appropriately determined the FY 2016 carryover amounts, (2) whether customers have enough information to see that carryover is managed appropriately, and (3) that charges are being assessed equitably.

Recommendations

We recommend that the Chief Financial Officer and Assistant Secretary for Administration do the following:

1. Update the carryover policy and procedures to ensure that both sufficiently describe the carryover process, including key terms and requirements for determining whether excess funds are earned.
2. Institute policy and procedures for documenting OSFM's periodic review and evaluation of each project's carryover, which reviews and evaluations will consider input of service providers and customers.
3. Develop and implement a communication mechanism that allows key WCF stakeholders to be apprised of the detailed annual carryover results in a timely manner.
4. Enhance the *WCF Handbook* update process to ensure that it includes a detailed description of the billing allocation method for each project and the levels of services provided for each project.

⁸ GAO, September 2014. *Standards for Internal Control in the Federal Government*, GAO-14-704G. Washington, DC: GAO, 48.

II. WCF Service Providers and OSFM Did Not Adhere to Established WCF Billing Requirements

The *WCF Handbook* identifies the billing allocation method for each centralized service (project) provided to Department customers. Each WCF service provider delivers a project algorithm based on supporting data for the billing allocation method to OSFM, who then reviews the algorithm to determine how much the Department charges each customer for services. We found that OSFM and the service providers did not adhere to billing requirements established in the Department's *WCF Handbook* for 10 of 16 projects selected for review. Specifically, we found that the billing allocation method supporting data received from the service providers was not always accurate, current, complete, or sufficient. We also found that the algorithms prepared by service providers and reviewed by OSFM sometimes contained errors or were inconsistent with the billing allocation method supporting data. For example:

OSFM and the service providers did not adhere to billing requirements

- OGC's Legislation and Regulation (L&R) project's supporting data for its billing allocation method contained inaccuracies, resulting in incorrect charges of \$307,547.⁹ Specifically, as one example, the project's timesheets, which make up the billing allocation method supporting data, contained a formula error that resulted in an individual's work hours being excluded from the algorithm.
- OSY's Investigations and Threat Management Division project's algorithm contained miscalculations, resulting in incorrect charges of \$294,164. Specifically, the algorithm contained formula errors that had the effect of misallocating the billings for the costs of three and one-half FTEs.
- OFM's Commerce Business System project used the *Capital Asset Plan (CAP)*, which agrees with the FY 2016 *WCF Handbook* description. However, the *CAP* included FTE data from the *FY 2014 Budget in Brief* rather than data from the *FY 2016 Budget in Brief*. Therefore, OFM did not use the most current data available for the period, resulting in incorrect charges of \$204,261.

These issues occurred because OSFM and the service providers did not have effective review processes in place to ensure that each project's algorithm and billing allocation method supporting data were based on accurate, complete, sufficient, and current billing data. As a result, between undercharges and overcharges, the WCF incorrectly charged customers at least \$900,000¹⁰ for WCF services received in FY 2016.

⁹ Total incorrect charges were determined by combining both the known undercharges and overcharges to customers, irrespective of whether the amount is positive or negative.

¹⁰ Due to limited billing allocation method supporting data provided, we calculated only partial over/under charges for 3 projects and OSFM/service providers were unable to provide supporting data to determine either partial or full over/under charges for 5 other projects with errors. Only 2 of 10 projects with errors had complete supporting data that enabled OIG to calculate the full over/under charges.

We previously noted this finding in our 2014 audit report¹¹ on the WCF. In response, OSFM developed corrective actions that included a review process that used two OSFM algorithm review checklists and algorithm certifications¹² to ensure accurate, up-to-date, and sufficient supporting documentation. In our follow-up work during this audit, we reviewed the algorithm certifications and checklist for each project selected for review and found that most certifications were either not fully certified or had algorithm errors despite their certifications. Additionally, OSFM did not complete the required checklists and could not provide evidence of the completed steps outlined in the checklists. Instead, OSFM completed an abbreviated checklist that did not include critical tasks to ensure algorithms used accurate and complete billing support, such as ensuring that (a) data were accurate, (b) algorithm formulas were correct, and (c) all supporting documentation was maintained.

In addition to OSFM's corrective actions noted above, OGC developed corrective actions in response to the 2014 OGC-specific recommendation to improve tracking of attorney time. OGC's action plan included the implementation of a standardized and automated process intended to reduce data entry errors in the timesheet submission process. We reviewed the timesheets used for three projects in FY 2016 and observed that the timesheets used formulas that calculated the total hours and captured data cumulatively, which is an improvement from OGC's prior process. However, as noted in the L&R example above, the timesheets, and consequently, the associated algorithm, were not always free of error.

Recommendation

We recommend that the Chief Financial Officer and Assistant Secretary for Administration do the following:

5. Enhance the algorithm preparation and review process for the WCF to ensure that (a) billing allocation supporting data are accurate, complete, current, and sufficient, and (b) algorithm calculations are free from error.

III. WCF Lacks Adequate Documentation to Support Certain Object Classes Within Its Final Operating Budget

Through review of supporting budget formulation documentation of six object classes¹³ that account for approximately \$77 million (see table 2) of the FY 2016 WCF operating budget,¹⁴ we found that the Department generally maintained adequate documentation to

¹¹ The FY 2014 audit report uses the term *basis of charge*, which is equivalent to the term *billing allocation method* used in this report.

¹² Algorithm certifications were required for each project via signatures by an official from both the service provider and OSFM.

¹³ Object classes are classifications of obligations grouped by the nature of the goods or services purchased by the federal government without regard to the agency involved or purpose of programs for which they are used.

¹⁴ OIG reviewed the WCF final operating budget and supporting documentation for all 16 of the sampled projects. OIG also reviewed the WCF draft operating budget and supporting documentation for those eight projects that had inadequate documentation to support the final operating budget.

support the amounts included in the draft operating budget. However, we noted that OSFM could not always provide adequate documentation to support the final operating budget amounts in the six reviewed object classes: full time permanent, cash awards, benefits, rent, other contract services, and charges from other agencies.

**Table 2. FY 2016 WCF Operating Budget by Reviewed Object Classes
(\$ in thousands)**

Row #	Object Classes	FY 2016 Final Operating Budget (FOB) for All Projects	FY 2016 FOB for Sampled Projects	Differences Noted Between Sample FOB and Documented Support ^a	Percent of FOB for Sampled Projects Not Adequately Supported
1	Full Time Permanent, Cash Awards, and Benefits	\$105,464	\$42,238	\$1,586	3.75
2	Rent	\$10,053	\$2,771	\$2,771	100
3	Other Contract Services	\$76,003	\$13,619	\$3,767	27.66
4	Charges from Other Agencies	\$43,800	\$18,855	\$279	1.48
5	Subtotal	\$235,320	\$77,483	\$8,403	10.84
6	Other Object Classes ^b	\$11,812	\$2,271	Not included in review	N/A
7	Total FY 2016 Operating Budget	\$247,132	\$79,754	N/A	N/A

Source: OIG analysis of the FY 2016 WCF Operating Budget and supporting documentation

^a Documented support was sometimes higher and sometimes lower than the FOB. Either circumstance is considered a difference and thus the amounts were combined, irrespective of whether the amount is positive or negative, to determine the total difference.

^b Examples of other object classes that were not reviewed include: overtime, travel, and telephone and utilities.

We determined that the final operating budget and supporting documentation differed by \$8.4 million for the six object classes in the WCF for FY 2016 in our sample. Specifically, we noted the following differences:

- \$1.208 million for **Full Time Permanent**, \$5,000 for **Cash Awards**, \$373,000 for **Benefits** (row 1 of table 2).
- \$2.771 million for **Rent** (row 2 of table 2).
- \$3.767 million for **Other Contract Services** (row 3 of table 2).
- \$279,000 for **Charges from Other Agencies** (row 4 of table 2).

Although OSFM provided supporting documentation—such as staffing worksheets, summary listings of contracts and agreements, and copies of several of the contracts and agreements—the support differed by \$5.6 million from the amounts in the final operating

budget for items in rows 1, 3, and 4 of table 2. For example, in the **Other Contract Services** categories (row 3), we noted that the budgeted amounts for seven projects did not match the agreement and contract lists, which are used to formulate the budget amounts. In this object class, six projects' support was \$3.798 million under the budgeted amount, and one project's support was \$31,000 above the budgeted amount. This occurred because the agreement and contract lists were not updated to fully support the final operating budget after changes were made to the draft operating budget.

OSFM could not provide documentation to support the formulation of the budgeted amounts for the **Rent** object class (row 2) of the sampled projects. However, OSFM explained that the current year rent budget was developed by adding an inflationary percent to the prior year budget, and—for projects with no prior year budget—the rent was based on the current year estimate of FTE and associated square footage. In response to our questions, OSFM developed and provided a document summarizing the methodology for determining the FY 2016 rent budgets for 10 of 16 sampled projects. OSFM officials stated that maintaining documentation of the rent budget calculations by project was not a priority.

Without adequate documentation, it is unclear whether approximately \$8.4 million of the budget for those six object classes was formulated reasonably. As a result, there is a risk of over- or under-budgeting for the inadequately supported object classes. This occurred because OSFM did not adhere to the Department's guidance requiring it to maintain program and financial management documentation for amounts budgeted in the WCF. Specifically, the *Department of Commerce Budget and Program Analysis Handbook* (December 2008),¹⁵ Volume III, states the following:

Each operating unit is required to maintain additional program and financial management data not routinely provided to the Department, but expected to be available for special analyses, or as backup information in the justification and review of budgets. Such data should include worksheets and working papers in support of the budget, containing such information as the details on how its estimates were computed, workload data, cost/benefit analyses, processing methods and the like.

Recommendation

We recommend that the Chief Financial Officer and Assistant Secretary for Administration do the following:

6. Enhance the process for maintaining documentation that supports the formulation of each project's final operating budgets in the WCF.

¹⁵ The *WCF Handbook* states that the "WCF budget process adheres to the procedures required by the Commerce Budget Office." See *WCF Handbook*, 8.

Summary of Agency Response and OIG Comments

The Department's response to our draft report is included in appendix B of this report. The Department generally concurred with all six report recommendations. The Department stated that it is working to enhance the carryover policy, ensure billing documentation from service providers is accurate and timely, and ensure operating budgets are justified.

We look forward to receiving the Department's corrective action plan, which will identify the specific steps it plans to take to address the recommendations.

Appendix A: Objective, Scope, and Methodology

The objective of our audit was to evaluate controls over the WCF in FY 2016. Specifically, we sought to determine whether (1) there were effective controls over the billing and algorithm development processes, (2) relationships of reimbursements and billings to services provided were reasonable, (3) projects utilized performance metrics as management tools to assess project performance, (4) projects' funding levels were adequately supported, and (5) OSFM had effective controls over retaining or returning advances in excess of obligations. Our audit focused on the controls over the WCF from October 1, 2015, to September 30, 2016.

To accomplish our objective, we performed the following:

- Reviewed applicable laws, regulations, and policies, including the following:
 - 15 U.S.C. § 1521
 - FY 2016 *Working Capital Fund Advances and Reimbursements Final Handbook*
 - *Department of Commerce Budget, Performance, and Program Analysis Handbook*
 - GAO's *Principles of Federal Appropriations Law*
 - GAO's *Standards for Internal Control in the Federal Government*
 - OSFM's WCF SOPs, including the *Carryover Policy*
- Interviewed officials from the Department's OSFM, OGC, OCIO, OSY, OHRM, OFM, and NIST's OFRM.
- Reviewed data from the Department's time and attendance system (that is, WebTA), to determine accuracy and completeness of OGC-maintained timesheets.
- Analyzed billing allocation method, budget, performance metric, and carryover documentation received from OSFM, NIST OFRM, and the service providers related to the WCF projects selected for review.

To address our objective, we reviewed a judgmental sample of 16 projects managed by seven service providers, which had a total final operating budget of \$87,011,755, and provided services to customers between October 1, 2015, and September 30, 2016. To fulfill the direction provided by the Senate Appropriations Committee, we selected 7 out of 16 sample projects from OGC. Our sample selection was further determined by selecting a sample of projects that represented a large proportion of the overall WCF budget, selecting projects with proportionally large budget increases, more complex billing allocation methods, and/or having a diverse set of service providers. Our universe included 13 service providers and 85 projects, with a FY 2016 final operating budget of \$247,132,242. Because we selected a judgmental sample, the results should not be used as conclusive evidence of the controls in place for areas of the WCF not included in our audit.

We reviewed controls significant within the context of the audit objective by interviewing OSFM, NIST OFRM, and service provider officials; examining relevant policies and procedures; and reviewing documentation received from OSFM, NIST OFRM, the service providers, and the Department's WebTA contractor for evidence of internal control deficiencies. In satisfying our audit objective, we did not rely on computer-processed data. Instead, we reviewed documentation provided by OSFM and service providers to support WCF amounts billed to the customers. We did not test the reliability of information technology systems.

We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform our audit to obtain sufficient, appropriate evidence that provides a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We conducted this audit from November 2016 through July 2017 at Department headquarters in Washington, DC, under the authorities of the Inspector General Act of 1978, as amended, 5 U.S.C. App., and Department Organization Order 10-13, dated April 26, 2013.

Appendix B: Agency Response



UNITED STATES DEPARTMENT OF COMMERCE
Chief Financial Officer
Assistant Secretary for Administration
Washington, D.C. 20230

APR 18 2018

MEMORANDUM FOR Andrew Katsaros
Assistant Inspector General for Audit
Office of Inspector General

FROM: Lisa Casias *L. Casias*
Acting Chief Financial Officer/Assistant Secretary for
Administration, and Deputy Assistant Secretary
for Administration

SUBJECT: Comments on Draft Report Entitled, "Department of Commerce
Working Capital Fund Billing Practices and Transparency Need
Improvement"

We appreciate the opportunity to respond to the "Department of Commerce Working Capital Fund Billing Practices and Transparency Need Improvement" draft report issued on March 12, 2018.

The Department generally concurs with the draft report's findings and recommendations. We are working to enhance our carryover policy, ensure billing documentation from service providers is accurate and timely, and ensure operating budgets are well justified. We are committed to enhancing customer communication and transparency of the working capital fund.

Thank you for the opportunity to provide comments. If you have any questions or comments, please feel free to call Jennifer Ayers at 202-482-0737 or Holden Hoofnagle at 202-482-3937.

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