

Performance Audit of the U.S. Department of Commerce's Working Capital Funds

FINAL REPORT NO. OIG-22-033-A

SEPTEMBER 22, 2022



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



September 22, 2022

MEMORANDUM FOR: Stephen Kunze
Deputy Chief Financial Officer and Director for Financial Management
Office of the Secretary

Laurie E. Locascio, Ph.D.
Under Secretary of Commerce for Standards and Technology and
Director, National Institute of Standards and Technology

FROM: Richard Bachman
Assistant Inspector General for Audit and Evaluation

SUBJECT: *Performance Audit of the U.S. Department of Commerce's Working
Capital Funds*
Final Report No. OIG-22-033-A

Attached is the final report on the audit of the U.S. Department of Commerce's (the Department's) working capital funds (WCFs) operated by the Office of the Secretary (Departmental) and the National Institute of Standards and Technology (NIST). The audit objectives were to determine whether (1) the Departmental and NIST WCF billing methods used to allocate costs for internal Department support services are valid, reasonable, and consistently applied in accordance with applicable Department policies and (2) the internal Department support services costs billed through the WCFs are reasonable, allowable, and supported with documentation in accordance with applicable laws, regulations, and policies.

We contracted with KPMG LLP—an independent certified public accounting firm—to perform this audit in accordance with *Government Auditing Standards* and contract terms. Our office oversaw the progress of this audit; however, KPMG is solely responsible for the attached report and conclusions expressed in it. We do not express any conclusions about the Departmental and NIST WCF billing methods used to allocate costs for internal Department support services or the internal Department support services costs billed through the WCFs.

For the Departmental WCF, KPMG concluded that

- No instances were identified where the Departmental WCF billing methods used in allocating costs for internal Department support services in FY 2020 were not in accordance with applicable Department policies in terms of validity, reasonableness, and consistent application.
- No instances were identified where the internal Department support services costs billed through the Departmental WCF in FY 2020 were not in accordance with applicable laws, regulations, and policies in terms of reasonableness, allowability, and supporting documentation.

For the NIST WCF, KPMG concluded that

- For finance service level agreements, the NIST WCF determined its initial billing methods used in allocating costs for internal Department support services in FY 2020 did not reasonably estimate costs, and the adjustments used to revise these bills were not fully documented. Therefore, KPMG could not determine if they were reasonable and consistently applied in accordance with applicable criteria.
- For other reimbursable agreements, no instances were identified where the NIST WCF billing methods used in allocating costs for internal Department support services in FY 2020 were not in accordance with applicable criteria in terms of validity, reasonableness, and consistent application.
- No instances were identified where the internal Department support services costs billed through the NIST WCF in FY 2020 were not in accordance with applicable laws, regulations, and policies in terms of reasonableness, allowability, and supporting documentation, except that the NIST WCF did not consistently document the methodology used to estimate certain reimbursable agreement amounts; and did not consistently follow policy related to the application of 'off-site' indirect cost rates.

Further, KPMG identified 5 internal control deficiencies—4 related to the NIST WCF and 1 related to both the Departmental and NIST WCFs—and 5 related recommendations.

We received the NIST and Departmental responses to KPMG's draft report, which are included within the final report as Appendix A. NIST did not concur with the finding related to finance service level agreements but overall, both NIST and Departmental responses concurred with the recommendations and described actions taken or planned to address them.

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 the Office of Inspector General'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 KPMG by your staffs during this audit. If you have any questions or concerns about this report, please contact me at (202) 793-3344 or Patricia McBarnette, Audit Director, at (202) 793-3316.

Attachment

cc: Jeremy Pelter, Acting Chief Financial Officer and Assistant Secretary for Administration,
Office of the Secretary
MaryAnn Mausser, Audit Liaison, Office of the Secretary
Mark B. Daley, Deputy for Acquisition Program Management, Office of the Secretary
Rehana Mwalimu, Risk Management Officer and Primary Alternate Department GAO/OIG
Liaison, Office of the Secretary
Amy Egan, Audit Liaison, NIST
Catherine Fletcher, Audit Liaison, NIST

**Performance Audit of the U.S. Department of Commerce's
Working Capital Funds for:**

- **Office of the Secretary and**
- **National Institute of Standards and Technology**

Prepared for: Inspector General, U.S. Department of Commerce

As of Date: April 8, 2021

Report Date: August 25, 2022

KPMG LLP
1801 K Street NW, Suite 12000
Washington, DC 20006

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KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Inspector General;
Deputy Chief Financial Officer and Director for Financial Management, Office of the Secretary; and
Director, National Institute of Standards and Technology
U.S. Department of Commerce

This report presents the results of our work conducted to address performance audit objectives related to the U.S. Department of Commerce's (Department) Office of the Secretary (Departmental) and National Institute of Standards and Technology (NIST) Working Capital Funds (WCFs) for the fiscal year ended September 30, 2020 (FY 2020). Our work was performed during the period of December 1, 2020 through April 8, 2021, and our results are as of April 8, 2021. The Department's Office of Inspector General released the draft report to the Department's Office of the Secretary and NIST on July 28, 2022; the Department's Office of the Secretary and NIST provided responses and representation letters on August 25, 2022.

We conducted these performance audits in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (GAGAS). Those standards require that we plan and perform the audits 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 obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In addition to GAGAS, we conducted these performance audits in accordance with the *Standards for Consulting Services* established by the American Institute of Certified Public Accountants (AICPA). This performance audit did not constitute an audit of financial statements or an attestation level report as defined under GAGAS and the AICPA standards for attestation engagements.

The audit objectives of our work were to determine whether:

1. The Departmental WCF billing methods used in allocating costs for internal Department support services are valid, reasonable, and consistently applied in accordance with the Working Capital Fund Advances and Reimbursements Final Handbook 2020 ("WCF Handbook"), the Department's Office of Financial Management's *Accounting Principles and Standards Handbook, Chapter 12 Managerial Cost Accounting* ("OFM Handbook"), and the Working Capital Fund Carryover Funding Standard Operating Procedure (Carryover SOP).
2. The internal Department support services costs billed through the Departmental WCF are reasonable, allowable, and supported with documentation in accordance with 15 U.S. Code (USC) § 1521 and § 1526; the *Antideficiency Act* (31 USC) § 1341(a)(1)(A), § 1341(a)(1)(B), and § 1517(a) ("ADA"); the *Standards for Internal Control in the Federal Government*, 2014 ("Green Book"); the WCF Handbook; the OFM Handbook; and the Carryover SOP.
3. The NIST WCF billing methods used in allocating costs for internal Department support services are valid, reasonable, and consistently applied in accordance with the OFM Handbook and NIST Procedure Manual sections 4000.01 *Identification of Institutional Support Rate Type* (NIST PR 4000.01), 4100.01 *Working Capital Fund* (NIST PR 4100.01), and 4104.00 *Managerial Cost Accounting* (NIST PR 4104.00).



4. The internal Department support services costs billed through the NIST WCF are reasonable, allowable, and supported with documentation in accordance with 15 USC § 278b, the ADA, the Green Book, the OFM Handbook, NIST PR 4000.01, NIST PR 4100.01, and NIST PR 4104.00.

For Objective 1, we did not identify instances where the Departmental WCF billing methods used in allocating costs for internal Department support services in FY 2020 were not in accordance with the WCF Handbook, the OFM Handbook, and the Carryover SOP in terms of validity, reasonableness, and consistent application.

For Objective 2, we did not identify instances where the internal Department support services costs billed through the Departmental WCF in FY 2020 were not in accordance with 15 USC § 1521 and § 1526, the ADA, the Green Book, the WCF Handbook, the OFM Handbook, and the Carryover SOP in terms of reasonableness, allowability, and supporting documentation.

For Objective 3:

- For finance service level agreements, the NIST WCF determined its initial billing methods used in allocating costs for internal Department support services in FY 2020 did not reasonably estimate costs, and the adjustments used to revise these bills were not fully documented. Therefore, we could not determine if they were reasonable and consistently applied in accordance with the OFM Handbook, NIST PR 4000.01, NIST PR 4100.01, and NIST PR 4104.00.
- For other reimbursable agreements, we did not identify instances where the NIST WCF billing methods used in allocating costs for internal Department support services in FY 2020 were not in accordance with the OFM Handbook, NIST PR 4000.01, NIST PR 4100.01, and NIST PR 4104.00 in terms of validity, reasonableness, and consistent application.

For Objective 4, we did not identify instances where the internal Department support services costs billed through the NIST WCF in FY 2020 were not in accordance with 15 USC § 278b, the ADA, the Green Book, the OFM Handbook, NIST PR 4000.01, NIST PR 4100.01, and NIST PR 4104.00 in terms of reasonableness, allowability, and supporting documentation, except that the NIST WCF:

- Did not consistently document the methodology used to estimate certain reimbursable agreement amounts in accordance with the Green Book; and
- Did not consistently follow NIST PR 4000.01 related to the application of 'off-site' indirect cost rates.

KPMG cautions that projecting the results of our evaluation to future periods is subject to the risks that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate.

This report is intended solely for the use of the U.S. Department of Commerce and its Inspector General and is not intended to be and should not be relied upon by anyone other than these specified parties.

KPMG LLP

August 25, 2022

I. BACKGROUND

A. Departmental WCF¹

The Departmental WCF was established in 1944 by 15 USC § 1521. It is one of three WCFs operating within the Department. Each fund functions independently and has unique internal control and budget processes. The Departmental WCF is a revolving fund and its mission is to provide services that may be delivered more advantageously as central services to its customers.

Departmental operating units—such as the Office of General Counsel and Office of the Chief Information Officer—act as the providers of services delivered under the Departmental WCF. These services include information technology, human resources, security, and legal services, among others. For each of these services, Department customers reimburse the appropriate operating unit for services through the Departmental WCF. The Departmental WCF facilitates services to all bureaus within the Department, either directly or indirectly, and has relatively few external transactions. In FY 2020, the Departmental WCF recognized \$254 million in intracommerce revenue.

The Departmental WCF generally executes a Memorandum of Understanding (MOU) with each customer to outline the services to be provided. The Departmental WCF meets with the Chief Financial Officer (CFO), Budget Director, and/or representative of each customer to discuss and agree upon a final operating budget. Customers are billed on quarterly basis using estimates of the quarter's anticipated obligations for project billings. The WCF works with customers throughout the year to discuss the status of funds, issues, changes, or other activities that may need to be communicated.

B. NIST WCF¹

Established in 1901, NIST promotes U.S. innovation and industrial competitiveness by advancing measurement science, standards, and technology. The NIST WCF was established in 15 USC § 278b, providing the agency a way to (a) fund the cost of providing services and information to other agencies and the public, (b) efficiently distribute costs that should be shared by all sources of support, and (c) invest in equipment and inventories.

The NIST WCF provides various services to its internal Department customers, which are primarily accounting and budget related. Examples of services not related to accounting and budget include rent and telecommunications services at the Boulder campus, enterprise cybersecurity diagnostics and monitoring, and science calibration and evaluation services. The NIST WCF customers within the Department include the Office of the Secretary (OS), the Departmental WCF, the International Trade Administration (ITA), the Office of the Inspector General (OIG), and several others. In FY 2020, the Departmental WCF recognized \$20 million in intracommerce revenue. The NIST WCF also has agreements with parties external to the Department (e.g., laboratories) that were outside the scope of our performance audits.

¹ Source: Populations of transactions provided, walkthroughs performed with WCF personnel, and inspection of documentation provided as part of our audit.

The NIST WCF generally executes a reimbursable agreement with each customer to outline the services to be provided; for accounting and budget related services, these reimbursable agreements are referred to as finance service level agreements. The NIST WCF meets with the CFO, Budget Director, and/or representative of each customer to discuss and agree upon a final operating budget. Customers are billed in advance of the contracts, which are typically annual, based on the anticipated obligations for project billings. The NIST WCF works with customers throughout the year to discuss the status of funds, issues, changes, or other activities that may need to be communicated.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

A. Objectives

We conducted our performance audits to assess whether:

1. The Departmental WCF billing methods used in allocating costs for internal Department support services are valid, reasonable, and consistently applied in accordance with the WCF Handbook, the OFM Handbook, and the Carryover SOP.
2. The internal Department support services costs billed through the Departmental WCF are reasonable, allowable, and supported with documentation in accordance with 15 USC § 1521 and § 1526; the ADA; the Green Book; the WCF Handbook; the OFM Handbook, and the Carryover SOP.
3. The NIST WCF billing methods used in allocating costs for internal Department support services are valid, reasonable, and consistently applied in accordance with the OFM Handbook and NIST PR 4000.01, NIST PR 4100.01, and NIST PR 4104.00.
4. The internal Department support services costs billed through the NIST WCF are reasonable, allowable, and supported with documentation in accordance with 15 USC § 278b, the ADA, the Green Book, the OFM Handbook, NIST PR 4000.01, NIST PR 4100.01, and NIST PR 4104.00.

B. Scope

The performance audits covered internal Department support services billed through the Departmental and NIST WCFs and the related billing methods in FY 2020. Our work was performed during the period of December 1, 2020 through April 8, 2021, and our results are as of April 8, 2021. The Department's Office of Inspector General released the draft report to the Department's Office of the Secretary and NIST on July 28, 2022; the Department's Office of the Secretary and NIST provided responses and representation letters on August 25, 2022.

We conducted these performance audits in accordance with the standards applicable to performance audits contained GAGAS and the AICPA's *Standards for Consulting Services*. Those standards require that we plan and perform the audits 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 obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We were not engaged to assess the efficiency or effectiveness of the internal Department support services provided by the Departmental and NIST WCFs.

C. Methodology

To achieve the performance audit objectives, we:

- Obtained an understanding of the criteria listed in the audit objectives related to the WCFs.

- Reviewed the applicable policies and procedures of each WCF.
- Performed walkthroughs of the processes and transactions relevant to each WCF.
- Tested a statistical sample of the following internal DOC support services general ledger transactions for each WCF:
 - Unfilled Customer Orders (UCO)² to assess the WCFs' process to estimate allocated costs, communicate, and monitor costs and funding. This testing included an evaluation of the methodologies and inputs used by the WCF in the process to determine if they were valid, reasonable, and consistently applied in accordance with applicable criteria identified in objectives 1 and 3. For applicable sample items, this testing included an evaluation of the use of counts of manual and automated transactions as an input to the methodology to determine whether their use was valid, reasonable, and consistently applied in accordance with these criteria. These samples were also used to assess internal controls relevant to the initiation, monitoring, and close-out of the related projects.
 - For the NIST WCF, we selected a sample of 25 from a population of 84 transactions.
 - For the OS WCF, we selected a sample of 55 from a population of 951 transactions.
 - Revenue³ to assess the WCFs' process to bill and apply revenue as reimbursable work was performed to determine if costs billed were reasonable, allowable, and supported with documentation in accordance with applicable criteria identified in objectives 2 and 4, which excluded the Economy Act. These samples were also used to assess controls relevant to the billing and application of costs to projects.
 - For the NIST WCF, we selected a sample of 31 from a population of 1,122 transactions.
 - For the OS WCF, we selected a sample of 69 intracommerce activity transactions of 45,807 transactions; a sample of 3 unknown⁴ customer activity transactions from a population of 691 transactions; and a sample of 3 transactions with project codes that align with both intracommerce and non-commerce transactions from a population of 307 transactions. In addition, we subjected two on-top adjustments to testing.
- Tested a non-statistical sample of UCO and revenue transactions within the Departmental and NIST WCFs that were coded to external customers to determine the completeness of the internal UCO and revenue populations used in our testing.
- Inquired of a non-statistical sample of customers to determine whether they received the services for which they were billed and to obtain their feedback regarding each WCF in FY 2020.

² Represents the creation of the initial agreement between the WCF and its customer.

³ Represents the periodic application of amounts collected from customers to costs incurred for customers.

⁴ Represents project codes that are not clearly attributable to one WCF customer.

III. RESULTS AND CONCLUSIONS

For Objective 1, we did not identify instances where the Departmental WCF billing methods used in allocating costs for internal Department support services in FY 2020 were not in accordance with the WCF Handbook, the OFM Handbook, and the Carryover SOP in terms of validity, reasonableness, and consistent application.

For Objective 2, we did not identify instances where the internal Department support services costs billed through the Departmental WCF in FY 2020 were not in accordance with 15 USC § 1521 and § 1526, the ADA, the Green Book, the WCF Handbook, the OFM Handbook, and the Carryover SOP in terms of reasonableness, allowability, and supporting documentation.

For Objective 3:

- For finance service level agreements, the NIST WCF determined its initial billing methods used in allocating costs for internal Department support services in FY 2020 did not reasonably estimate costs, and the adjustments used to revise these bills were not fully documented. Therefore, we could not determine if they were reasonable and consistently applied in accordance with the OFM Handbook, NIST PR 4000.01, NIST PR 4100.01, and NIST PR 4104.00.
- For other reimbursable agreements, we did not identify instances where the NIST WCF billing methods used in allocating costs for internal Department support services in FY 2020 were not in accordance with the OFM Handbook, NIST PR 4000.01, NIST PR 4100.01, and NIST PR 4104.00 in terms of validity, reasonableness, and consistent application.

For Objective 4, we did not identify instances where the internal Department support services costs billed through the NIST WCF in FY 2020 were not in accordance with 15 USC § 278b, the ADA, the Green Book, the OFM Handbook, NIST PR 4000.01, NIST PR 4100.01, and NIST PR 4104.00 in terms of reasonableness, allowability, and supporting documentation, except that the NIST WCF:

- Did not consistently document the methodology used to estimate certain reimbursable agreement amounts in accordance with the Green Book, and
- Did not consistently follow NIST PR 4000.01 related to the application of 'off-site' indirect cost rates.

Section IV contains the details of our findings, identified internal control deficiencies, and related recommendations.

IV. FINDINGS

Objective 1 – Departmental WCF Billing Methods

We have evaluated the Departmental WCF billing methods used in allocating costs for internal Department support services in FY 2020. We did not identify instances where the Departmental WCF billing methods used in allocating costs for internal Department support services in FY 2020 were not in accordance with the WCF Handbook, the OFM Handbook, and the Carryover SOP in terms of validity, reasonableness, and consistent application.

Objective 2 – Internal Department Support Services Costs Billed through the Departmental WCF

We have evaluated the internal Department support services costs billed through the Departmental WCF in FY 2020. We did not identify instances where the internal Department support services costs billed through the Departmental WCF in FY 2020 were not in accordance with 15 USC § 1521 and § 1526, the ADA, the Green Book, the WCF Handbook, the OFM Handbook, and the Carryover SOP in terms of reasonableness, allowability, and supporting documentation.

Objective 3 - NIST WCF Billing Methods

We have evaluated the NIST WCF billing methods used in allocating costs for internal Department support services in FY 2020. For reimbursable agreements other than finance service level agreements, we did not identify instances where the NIST WCF billing methods used in allocating costs for internal Department support services in FY 2020 were not in accordance with the OFM Handbook, NIST PR 4000.01, NIST PR 4100.01, and NIST PR 4104.00 in terms of validity, reasonableness, and consistent application.

For finance service level agreements, the NIST WCF determined its initial billing methods used in allocating costs for internal Department support services in FY 2020 did not reasonably estimate costs, and the adjustments used to revise these bills were not fully documented. Therefore, we could not determine if they were reasonable and consistently applied in accordance with the OFM Handbook, NIST PR 4000.01, NIST PR 4100.01, and NIST PR 4104.00.

Specifically, for 9 of 25 sampled UCOs, the NIST WCF determined that the billing methodology did not reasonably estimate the agreement costs and performed manual adjustments to the originally computed bill amounts. However, the methodology used to apply the manual adjustments was based on a 'complexity factor' and was not fully documented. (*NFR WCF 2020-5*) All 9 exceptions related to finance service level agreements. The following table shows the impact of the 'complexity factor' on the applicable customers' FY 2020 bills.

Customer	Initial Bill	Complexity Adjustment	Adjusted Bill
Office of the Secretary	\$776,250	(\$65,000)	\$711,250
Office of the Secretary Working Capital Fund	\$1,459,412	\$198,000	\$1,657,412

Customer	Initial Bill	Complexity Adjustment	Adjusted Bill
Bureau of Economic Analysis/ Economics and Statistics Administration	\$769,143	\$111,000	\$880,143
International Trade Administration	\$5,489,390	\$0	\$5,489,390
Minority Business Development Agency	\$151,220	\$36,000	\$187,220
National Telecommunications and Information Administration	\$795,421	(\$115,000)	\$680,421
National Telecommunications and Information Administration – FirstNet	\$636,708	\$160,000	\$796,708
Office of Inspector General	\$995,997	(\$325,000)	\$670,997

Cause: Although it is the practice of the NIST WCF to maintain documentation supporting the reimbursable agreement amounts, that practice is not documented in current policy. NIST WCF stated it believed the complexity analysis was straightforward and not complex, and thus did not identify the need to document it.

Effect: Inadequate documentation over the determination of reimbursable agreement amounts increases the risk that the amount included in the reimbursable agreement is inaccurate and not reflective of the underlying level of effort. In addition, inadequate documentation increases the risk that the customer may not understand the methodology used to estimate the amounts and that the methodology cannot be repeated in future years if applicable.

Objective 4 - Internal Department Support Services Costs Billed through the NIST WCF

We have evaluated the internal Department support services costs billed through the NIST WCF in FY 2020. We did not identify instances where the internal Department support services costs billed through the NIST WCF in FY 2020 were not in accordance with 15 USC § 278b, the ADA, the Green Book, the OFM Handbook, NIST PR 4000.01, NIST PR 4100.01, and NIST PR 4104.00 in terms of reasonableness, allowability, and supporting documentation, except as follows:

- The NIST WCF did not consistently document the methodology used to estimate certain reimbursable cost amounts in accordance with the Green Book. Specifically, for 1 of 25 sampled UCOs, the cost in the agreement was not supported at the time the agreement was signed. However, for this sample item, NIST provided a subsequently completed analysis demonstrating how the cost amount in the agreement was determined. (NFR WCF 2020-5)

Cause: The NIST WCF determined that the calculation related to the reimbursable agreement was simple and, thus, did not consider it necessary to maintain supporting documentation. In addition, the full-time equivalent (FTE) headcount was documented and included in the reimbursable agreement, which the NIST WCF determined was sufficient documentation related to the determination of the related costs. However, a clear connection between the FTE headcount and the costs per the agreement was not documented.

Effect: Inadequate documentation over the determination of reimbursable agreement amounts increases the risk that the amount included in the reimbursable agreement is inaccurate and not reflective of the underlying level of effort. In addition, inadequate documentation increases the risk that the customer may not understand the methodology used to estimate the amounts and that the methodology cannot be repeated in future years if applicable.

- The NIST WCF did not consistently follow NIST PR 4000.01 related to the application of 'off-site' indirect cost rates. Specifically, for five of 31 revenue sample items selected for testing, the 'off-site rate' was applied without completion of the applicable 'off-site checklist' or NIST Form-609 as required. (*NFR WCF 2020-4*)

Cause: NIST WCF may not have a monitoring control in place to ensure the 'off-site' checklists are completed in accordance with policy. Specifically, the NIST WCF's conclusion to use the off-site rate was documented via email, and the NIST WCF determined that completing the applicable checklist or Form-609 was not necessary.

Effect: For the sample items noted above, the application of the 'off-site' indirect cost rate was not clearly appropriate as the agreements pertained directly to NIST sites. Lack of adherence to policy increases the risk that the incorrect indirect cost rate is applied for an agreement, which could result in incorrect billing for services to customers.

A. Deficiencies in Internal Control

In planning and performing our audits of the FY 2020 Departmental and NIST WCFs, we considered internal controls that were relevant to our audit objectives by obtaining an understanding of those controls and assessing control risk for the purposes of achieving our objectives.

The objective of our audits was not to provide assurance on the internal controls; therefore, we did not express an opinion on the internal controls as a whole. Our consideration of the Departmental WCF's and NIST WCF's internal controls relevant to our audit objectives would not necessarily disclose all deficiencies that might be significant within the context of the audit objectives. Because of the inherent limitations on internal controls, noncompliance with applicable laws, policies, and procedures may nevertheless occur and not be detected.

To assess the implementation and effectiveness of the Department's internal controls relevant to our audit objectives, we conducted walkthroughs and interviews and reviewed supporting documentation. For both WCFs, we evaluated controls related to the establishment of customer agreements, periodic billings to customers, customer agreement close-out, customer feedback surveys, and year over year billing fluctuations. In addition, for the NIST WCF, we evaluated controls related to the establishment and application of indirect cost rates.

As a result of our assessment over internal controls relevant to the audit objectives and our statistical sampling test work, we identified the following deficiencies in internal control:

1. The NIST WCF did not consistently document the methodology used to estimate reimbursable agreement amounts. Further, the internal review process over these agreements did not identify certain amounts that were not supported by documentation. *(NFR WCF 2020-5)*
2. The NIST WCF and the Departmental WCF did not have a policy or process in place to consistently request, document, and assess customer feedback on services provided, including related performance considerations. *(NFR WCF 2020-1)*
3. The NIST WCF did not have a policy in place prescribing a timeline for communicating estimated reimbursable agreement amounts to customers for recurring agreements. *(NFR WCF 2020-2)*
4. The NIST WCF did not have a policy in place prescribing a timeline for true-up and closeout of reimbursable agreements with customers. *(NFR WCF 2020-3)*
5. The NIST WCF did not consistently follow its policy in the application of the indirect cost rate. Specifically, the 'off-site rate' was applied without completion of the applicable 'off-site checklist' or NIST Form-609 as required by policy. *(NFR WCF 2020-4)*

B. Recommendations

We recommend that:

1. The NIST WCF update existing policies to ensure that the methodology used to estimate reimbursable agreement amounts is consistently documented and the review of reimbursable agreements considers whether amounts are supported and explained by documentation.
2. The NIST WCF and Departmental WCF develop, document, and implement a policy to require divisions providing services to customers to periodically solicit formal feedback from customer bureaus, document and assess the feedback received, and document the 'going-forward' considerations surrounding the feedback received.
3. The NIST WCF coordinate with customers to define a reasonable timeline to communicate estimated reimbursable agreement amounts for recurring agreements; and develop, document, and implement a policy related to the timing of communication of estimated agreement amounts.
4. The NIST WCF coordinate with customers to define a reasonable timeline for the true-up and closeout of customer agreements; and develop, document, and implement a policy defining the timeline surrounding the true-up and closeout process.
5. The NIST WCF develop and implement monitoring procedures to ensure that documentation used to support the determination of the indirect cost rate is completed and maintained in accordance with NIST PR 4000.01.

Management's Responses

The Departmental WCF and NIST WCF responses to our findings and recommendations are included in Appendix A. In summary, except as noted in the Auditors' Response section below, management of the Departmental and NIST WCFs concurred with our findings and recommendations.

Auditors' Response


NIST WCF management did not concur with the finding related to finance service level agreements within Objective 3. We evaluated management's nonconcurrence and determined the finding and related recommendation remain valid as additional documentation was not provided to support the billing adjustments. Therefore, we did not revise our finding or recommendation.



UNITED STATES DEPARTMENT OF COMMERCE
 National Institute of Standards and Technology
 Gaithersburg, Maryland 20899
 OFFICE OF THE DIRECTOR

August 23, 2022

MEMORANDUM FOR Richard Bachman
 Assistant Inspector General for Audit and Evaluation

From: Laurie E. Locascio, Ph.D. 
 Under Secretary of Commerce for Standards and Technology &
 Director, National Institute of Standards and Technology

Subject: National Institute of Standards and Technology's Response to the Office of the Inspector General's Memorandum dated July 28, 2022, *Performance Audit of the U.S. Department of Commerce's Working Capital Funds*, Draft Report

This memorandum provides the National Institute of Standards and Technology's (NIST) response to the cover memorandum dated July 28, 2022 from the Office of the Inspector General (OIG) entitled, *Performance Audit of the U.S. Department of Commerce's Working Capital Funds*, Draft Report, which includes the KPMG Performance Audit Draft Report for both the Office of the Secretary and the NIST Working Capital Funds (WCF).

The draft report and cover memorandum included the following findings:

1. For finance service level agreements, the NIST WCF determined its initial billing methods used in allocating costs for internal Department support services in FY 2020 did not reasonably estimate costs, and the adjustments used to revise these bills were not fully documented. Therefore, we could not determine if they were reasonable and consistently applied in accordance with the OFM Handbook, NIST PR 4000.01, NIST PR 4100.01, and NIST PR 4104.00.

Specifically, for 9 of 25 sampled UCOs, the NIST WCF determined that the billing methodology did not reasonably estimate the agreement costs and performed manual adjustments to the originally computed bill amounts. However, the methodology used to apply the manual adjustments was based on a 'complexity factor' and was not fully documented. All 9 exceptions related to finance service level agreements. The following table shows the impact of the 'complexity factor' on the applicable customers' FY 2020 bills.

NIST Response:

Under the OFRM Financial services agreement there are 9 agreements, each representing a different customer. Adjustments are sometimes needed in order to avoid large swings from year to year. In 2020, in order to make this process more transparent, we incorporated a complexity analysis in the process. This complexity analysis evaluates customers responsiveness to requests/data calls and the overall complexity of the customer.

Complexity is evaluated based on the types of needs that the customer has, including but not limited to, standalone audits, monthly estimated accruals, Department of State files and activity, etc. When developing the SLA and considering any adjustments, these factors are used to help guide increases and decreases to the base calculation. This adjustment represents less than 3% of the overall bill to customers.

Documentation for our analysis was maintained, however it did not in all cases document the complexity analysis. All other components of the SLA process were sufficiently documented.

2. The NIST WCF did not consistently document the methodology used to estimate certain reimbursable cost amounts in accordance with the Green Book. Specifically, for 1 of 25 sampled UCOs, the cost in the agreement was not supported at the time the agreement was signed. However, for this sample item, NIST provided a subsequently completed analysis demonstrating how the cost amount in the agreement was determined.
3. The NIST WCF did not consistently follow NIST PR 4000.01 related to the application of 'off-site' indirect cost rates. Specifically, for 5 of 31 revenue sample items selected for testing, the 'off-site rate' was applied without completion of the applicable 'off-site checklist' or NIST Form-609 as required.

The auditors made five recommendations to NIST in the draft report.

1. The NIST WCF update existing policies to ensure that the methodology used to estimate reimbursable agreement amounts is consistently documented and the review of reimbursable agreements considers whether amounts are supported and explained by documentation.
2. The NIST WCF and Departmental WCF develop, document, and implement a policy to require divisions providing services to customers to periodically solicit formal feedback from customer bureaus, document and assess the feedback received, and document the 'going-forward' considerations surrounding the feedback received.
3. The NIST WCF coordinate with customers to define a reasonable timeline to communicate estimated reimbursable agreement amounts for recurring agreements; and develop, document, and implement a policy related to the timing of communication of estimated agreement amounts.
4. The NIST WCF coordinate with customers to define a reasonable timeline for the true-up and closeout of customer agreements; and develop, document, and implement a policy defining the timeline surrounding the true-up and closeout process.
5. The NIST WCF develop and implement monitoring procedures to ensure that documentation used to support the determination of the indirect cost rate is completed and maintained in accordance with NIST PR 4000.01.

Except for Finding 1 noted above, NIST concurs with the overall findings and recommendations outlined in the memorandum and draft report. In order to address the findings mentioned in the draft report, NIST has or will be taking the following actions:

- NIST will instruct all OUs engaging in Other Agency activities to maintain documentation to support agreements calculations including indirect cost rate decisions.
- NIST will instruct OUs to perform periodic surveys for customers to solicit feedback consider such feedback in future periods.
- We will work with customers to distribute Service Level agreements out to customers as soon as possible, ensuring that they also have the most up to date information available for accurate estimated billings.
- We will work to refine the true up process for customers to ensure timely close out of customer agreements.

NIST will develop and submit a corrective action plan to adequately address the risks identified within the OIG's memorandum and draft report.

cc: Amy Egan, NIST OIG Liaison



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

August 25, 2022

KPMG LLP
1801 K Street NW
Washington DC 20006

Departmental Management Response to Finding and Recommendation from the KPMG Audit of the Departmental Management Working Capital Fund

The Departmental Management (DM) Working Capital Fund (WCF) had a performance metrics in the *Working Capital Fund and Advances and Reimbursements Handbook* that “Each year a customer survey is sent to all offices and bureaus to assess the level of satisfaction of services provided. Action plans are designed to improve performance of customer service on an annual basis using the results of the survey.”

A customer survey was not sent out in FY 2020 or FY 2021 as the House Appropriations Committee Surveys and Investigations Division and separately the Office of the Inspector General (OIG) through KPMG conducted audits of the DM WCF and surveyed the DM WCF customers directly. In addition, the General Accountability Office (GAO) is currently conducting an audit of the WCF and surveyed customers directly in FY 2022. The Office of the Secretary Financial Management (OSFM) chose not to burden the customers with an additional survey during these three WCF audits.

Going forward per the KPMG recommendation, the Office of the Secretary Financial Management will do an annual survey of both its Bureau customers and its Office of Secretary Office customers. A draft survey has been prepared and will be distributed in October of 2022 to approximately 50 Bureau customers across 12 Bureaus and approximately 75 Office customers across 12 Offices. Results will be collected, assessed, and used to develop improvement plans to the Bureau and Office customers.

U. S. Department of Commerce, Office of the Secretary Working Capital Fund

A handwritten signature in blue ink, appearing to read "Holden Hoofnagle".

Holden Hoofnagle
Name

Director, Office of the Secretary Financial Management
Title

Appendix B
List of Acronyms and Short References

Acronym	Definition
ADA	The Antideficiency Act (31 USC) § 1341(a)(1)(A), § 1341(a)(1)(B), and § 1517(a)
AICPA	American Institute of Certified Public Accountants
Carryover SOP	Departmental Working Capital Fund Carryover Funding Standard Operating Procedure
Departmental	Office of the Secretary
DOC	Department of Commerce
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
Green Book	<i>Standards for Internal Control in the Federal Government, 2014</i>
NIST	National Institute of Standards and Technology
NIST PR 4000.01	NIST Procedure Manual section 4000.01, <i>Identification of Institutional Support Rate Type</i>
NIST PR 4100.01	NIST Procedure Manual section 4100.01, <i>Working Capital Fund</i>
NIST PR 4104.00	NIST Procedure Manual section 4104.00, <i>Managerial Cost Accounting</i>
OFM	Department of Commerce Office of Financial Management
OFM Handbook	Accounting Principles and Standards Handbook, Chapter 12, <i>Managerial Cost Accounting</i>
UCO	Unfilled Customer Order
WCF	Working Capital Fund
WCF Handbook	Working Capital Fund Advances and Reimbursements Final Handbook 2020