



remained a significant deficiency. The individual deficiencies we identified are summarized as follows:

- Support of Obligations – Obligations are definite commitments that create a legal liability of the Government for payment. The Department should record only legitimate obligations, which include a reasonable estimate of potential future outlays. We identified a large number of low-value obligations for which the Department could not provide evidence of a binding agreement. The Department's financial system was designed to reject payments for invoices without established obligations. Because allotment holders did not always record valid and accurate obligations prior to the receipt of goods and services, the Department established low-value obligations, which allowed invoices to be paid in compliance with the Prompt Payment Act, however this effectively bypassed the controls in the financial system. The continued use of this practice could lead to a violation of the Antideficiency Act and increases the risk of fraud, misuse, and waste.
- Timeliness of Obligations – The Department should record an obligation in its financial management system when it enters into an agreement, such as a contract or a purchase order, to purchase goods and services. During our testing, we identified numerous obligations that were not recorded within the requisite 15 days of execution of the obligating document and obligations that were posted after the receipt of goods and services. We also identified obligations that were recorded in the financial management system prior to the formal execution of a contract. The Department did not have processes to ensure the accurate and timely creation and recording of obligations. Without an effective obligation process, controls to monitor funds and make timely payments may be compromised, which may lead to violations of the Antideficiency Act and the Prompt Payment Act.
- Capital Lease Obligations – The Department must obligate funds to cover the net present value of the Government's total estimated legal obligation over the life of a capital lease contract. However, the Department annually obligates funds equal to 1 year of the capital lease cost rather than the entire amount of the lease agreement. The Department obligates leases on an annual basis rather than for the entire lease agreement period because that is the manner in which funds are budgeted and appropriated. Because of the unrecorded obligation, the Department's consolidated financial statements were misstated.
- Effectiveness of Allotment Controls – Federal agencies use allotments to allocate funds in accordance with statutory authority. Allotments provide authority to agency officials to incur obligations as long as those obligations are within the scope and terms of the allotment authority. We identified systemic issues in the Department's use of allotment overrides that allowed officials to exceed allotments. Certain Department systems did not have an automated control to prevent users from recording obligations that exceeded allotment amounts. Department management stated that such an automated control is not reasonable because there are instances in which an allotment may need to be exceeded; however, the Department has not formally identified, documented, and communicated the circumstances under which an allotment override is acceptable. The Department has a process to review instances in which an obligation exceeded an allotment; however, this