Audit Report

OFFICE OF THE INSPECTOR GENERAL

QUICK-REACTION REPORT ON POTENTIAL ANTIDEFICIENCY ACT VIOLATIONS AT THE DEPARTMENT OF DEFENSE EDUCATION ACTIVITY

Report No. 96-159 June 13, 1996

Department of Defense

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Acronyms

DoDEA	DoD Education Activity
O & M	Operation and Maintenance
FCF,C	Foreign Currency Fluctuation, Construction
MILCON	Military Construction

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June 13, 1996

MEMORANDUM FOR DIRECTOR, DEPARTMENT OF DEFENSE EDUCATION ACTIVITY

SUBJECT: Quick-Reaction Report on Potential Antideficiency Act Violations at the Department of Defense Education Activity (Report No. 96-159)

We are providing this report for your review and comment. This report is one in a series of reports issued on the audit of the control environment of the Department of Defense Education Activity (Project No. 5LA-2027). We are issuing this quick-reaction report so that the Department of Defense Education Activity can take immediate action to initiate a review of potential Antideficiency Act violations and correct the management control weaknesses that caused the violations.

Management comments on a draft of this report were considered in preparing the final report. The Director, Department of Defense Education Activity (DoDEA), did not agree with Finding A. and nonconcurred with the recommendations. The Director, DoDEA, concurred with Findings B. and C. and the related recommendations, but did not provide dates for completing the corrective actions. DoD Directive 7650.3 requires that all recommendations be resolved promptly. Therefore, we request that the Director, DoDEA, provide comments on the unresolved recommendations by July 15, 1996.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Robert J. Ryan, Audit Program Director, at (703) 604-9418 (DSN 664-9418) or Mr. Walter R. Loder, Audit Project Manager, at (703) 604-9413 (DSN 664-9413). See Appendix D for the report distribution. The audit team members are listed on the inside back cover.

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Report No. 96-159 **June 13, 1996**
(Project No. 5LA-2027.02)

Quick-Reaction Report on Potential Antideficiency Act Violations at the Department of Defense Education Activity

Executive Summary

Introduction. During our audit of the Control Environment of the Department of Defense Education Activity (Project No. 5LA-2027), we reviewed the implementation of financial internal controls at the DoD Education Activity (DoDEA). DoDEA records and reports the financial information for the DoD Dependents Schools and the DoD Domestic Dependent Elementary and Secondary Schools. This report discusses potential Antideficiency Act violations occurring in three of the DoDEA appropriations. Immediate action by DoDEA management is required to ensure that potential Antideficiency Act violations are resolved and reported, and to ensure that adequate controls are in place to prevent such violations.

Audit Objectives. The primary audit objective during the audit of the control environment of DoDEA was to evaluate the overall financial management controls at DoDEA and the levels of responsibility for implementing internal controls. Additional objectives were to determine the adequacy of funds control related to the obligation and expenditure of funds. This quick-reaction report discusses compliance with the Antideficiency Act and the internal controls needed to ensure that adequate funds are available to prevent violations of the Act. Separate reports have been issued on the DoDEA control environment and the acquisition of an automated information system. Other reports will be issued on the DoDEA management controls over asset accountability and the funds control system. A review of the management control program was an additional audit objective and will be discussed in a separate report.

Audit Results. The DoDEA used $4.1 million and potentially some or all of another $24.9 million of Operation and Maintenance funds, rather than Procurement funds, to purchase capital equipment and software. As a result, Antideficiency Act violations may have occurred (Finding A).

The DoDEA obligated and disbursed FY 1987 and FY 1993 Foreign Currency Fluctuation, Construction funds in excess of funds allocated by $57,903 and $987,383, respectively. As a result, Antideficiency Act violations may have occurred (Finding B).

The DoDEA Reports on Budget Execution and Appropriation Status by Fiscal Year Program and Subaccounts were not accurate. As a result, potential Antideficiency Act violations were not identified and reported (Finding C).

Summary of Recommendations. We recommend that the Director, DoDEA, obtain an opinion from the Office of the General Counsel to determine whether automated information system equipment purchased should be classified as investment or expense items; and adjust the fund cites based on the General Counsel position. We also recommend that DoDEA monitor the military construction payment schedules and disbursements and exchange rates to ensure that adequate Foreign Currency Fluctuation, Construction funding is available to cover authorized obligations and disbursements. In addition, we recommend that the Director, DoDEA, investigate the potential violations of the Antideficiency Act following the procedures outlined in the DoD Financial Management Regulation 7000.14-R and initiate appropriate administrative actions based on the results of the review.

Management Comments. The DoDEA did not agree to obtain an opinion from the Office of the General Counsel because it maintains it is not purchasing computer systems and recommended that we obtain the General Counsel opinion. DoDEA also stated that any opinion provided by the General Counsel should apply to future procurements of all DoD Components. It further stated that the opinion should apply to future procurements because of the ambiguity of the regulation. DoDEA did not agree that any Antideficiency Act violations occurred. However, DoDEA agreed to monitor exchange rate fluctuations and report a potential Antideficiency Act violation for foreign currency fluctuations. DoDEA did not believe the conditions described in the report were severe enough to warrant adverse personnel action.

Audit Response. We still believe that DoDEA should initiate preliminary reviews of the potential Antideficiency Act violations and request a General Counsel opinion as required by volume 14 of the DoD Financial Management Regulation. The recording of unsupported accounting transactions and potential Antideficiency Act violations are serious, and after completing its review, DoDEA should reassess whether appropriate administrative actions are needed. DoDEA did not provide the planned completion dates for the corrective actions, including a review of foreign currency transactions. We request that the Director, DoDEA, provide additional comments on the final report by July 15, 1996.

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Part I - Audit Results

Audit Background

Mission of Department of Defense Education Activity. The Department of Defense Education Activity (DoDEA) manages and supervises the DoD Dependents Schools and the DoD Domestic Dependent Elementary and Secondary Schools. DoD Dependents Schools provides kindergarten, elementary, and secondary school education to DoD dependents and other U.S. Government dependents at overseas duty stations. DoD Dependents Schools also pays tuition for students overseas in non-DoD schools. DoD Domestic Dependent Elementary and Secondary Schools (also referred to as Section 6 schools) provides kindergarten, elementary, and secondary school education to DoD dependents in 15 school systems in 7 states and Puerto Rico. DoDEA has ongoing efforts to upgrade its information systems networks used for administering educational programs and educating students.

Funding for DoDEA. The DoDEA receives appropriations for Foreign Currency Fluctuation, Construction (FCF,C), Military Construction (MILCON), Operation and Maintenance (O & M), and Procurement. Each category of appropriations is unique, and DoDEA cannot use funds from one appropriation for the purpose of augmenting another appropriation. The Office of the Under Secretary of Defense (Comptroller) allocates funds to DoDEA by issuing a funding memorandum to the Washington Headquarters Services where a funding allocation document is prepared and provided to DoDEA. For FY 1995, DoDEA received appropriations of $6.2 million in MILCON funding (MILCON included $300,000 for FCF,C), $1.2 billion for O & M, and $3.1 million for Procurement.

The DoDEA uses a Funds Control System to manually record and to report information for budgetary accounts. DoDEA does not have a transaction-based general ledger system.

Public Law. United States Code, title 31, section 1301, "Application," states that appropriations shall be applied only to the objects for which the appropriations were made. To illustrate, O & M funds cannot be used to purchase equipment valued at $150,000; procurement funds should be used.

Public Law. United States Code, title 31, section 1341(a), "Limitation on Expending and Obligating Amounts," forbids any employee of the United States from obligating, expending, or authorizing the use of funds exceeding the amount available in an appropriation or fund. Exceeding a limitation of funds administratively imposed by DoD or a DoD Component on obligations or expenditures may be a violation of the Antideficiency Act under United States Code, title 31, subsection 1517(a).

Public Law. United States Code, title 31, section 1351 requires the head of the agency to report violations of section 1341(a). It requires reporting to the President through the Office of Management and Budget and the Congress an overobligation or overexpenditure of an appropriation or fund in any case where an employee of the United States has made or authorized an expenditure from or created an obligation against any appropriation or fund in excess of the amount available in the account.

Antideficiency Act. The Antideficiency Act was codified into United States Code, title 31, and its provisions were incorporated into a number of sections of that title. The sections of the public law in title 31 are still referred to collectively as the Antideficiency Act in regular usage and in this report.

Audit Objectives

The primary audit objective during the audit of the control environment of DoDEA was to evaluate the overall financial management controls at DoDEA and the levels of responsibility for implementing internal controls. Additional objectives were to determine the adequacy of funds control related to the obligation and expenditure of funds. This quick-reaction report discusses compliance with the Antideficiency Act and the internal controls needed to ensure that adequate funds are available to prevent violations of the Act. Appendix A discusses the audit scope and methodology, and Appendix B discusses prior audit coverage related to the audit objectives discussed in this report. Separate reports have been issued on the DoDEA control environment and the acquisition of an information system. Other reports will be issued on the DoDEA management controls over asset accountability and the funds control system. The review of the management control program was an additional audit objective and will be discussed as part of a separate report.

Finding A. Use of Operation and Maintenance Funds

The DoDEA used $4.1 million and potentially another $24.9 million of FY 1995 O & M funds, rather than Procurement funds, to purchase capital equipment and software. The DoDEA had budgeted only $3.1 million for procurement in FY 1995. The condition occurred because DoDEA management classified the equipment purchased as stand-alone components qualifying for use of O & M funds, rather than as components to be used as part of a system requiring use of Procurement funds. As a result, Antideficiency Act violations may have occurred.

DoD Financial Management Regulation

The DoD Financial Management Regulation 7000.14R (the Financial Regulation) provides guidance on the type of appropriated funds that should be used to purchase equipment, and cites examples of Antideficiency Act violations.

Equipment Purchases. The Financial Regulation, volume 2A, "Budget Presentation and Formulation," chapter 1, "Criteria for Determining Expense and Investment Costs," May 1994, defines expense and investment costs as follows.

o Expenses are the costs incurred to operate and maintain an organization. Expenses would include personnel services, supplies, and utilities. O & M funds are used for expenses.

o Investments are unit system costs of property and equipment that organizations use with a useful life of 2 years or more and meeting a dollar threshold, which Congress prescribes annually in the DoD Appropriations Act. (Congress set the investment dollar thresholds for FYs 1995 and 1996 at $50,000 and $100,000, respectively.) Capital equipment is depreciable property, plant, equipment, and software developed, manufactured, transferred, or acquired, such as automated data processing hardware and teleconferencing equipment. When applying the dollar threshold to purchases, the application of the purchased component is relevant. If the component being purchased is part of a system that will satisfy a documented requirement, the cost of the entire system, as opposed to the cost of the individual component, is the basis for meeting the threshold. If the component is not part of a system, the cost of the individual component is the basis for meeting the threshold. Therefore, items

that are part of a system are much more likely to meet the investment dollar threshold. Procurement funds are used for items meeting the investment criteria and dollar threshold.

Antideficiency Act Violations. The Financial Regulation, volume 14, "Administrative Control of Funds and Antideficiency Act Violations," chapter 2, "Violations of the Antideficiency Act," August 1995, provides additional guidance on violations of the Antideficiency Act. It states that a violation would occur if a DoD organization used O & M funds, rather than Procurement funds, to purchase a data processing local area network. Although the hardware components and local area network operating system software may be purchased separately, the components and software together would constitute a system with an aggregate cost in excess of the investment dollar threshold that Congress specifies for the required use of Procurement funds. A violation would occur if an organization did not have the required amount of Procurement funds at the time of the purchase.

Operation and Maintenance Fund Purchases

The DoDEA used $4.1 million of FY 1995 O & M funds, rather than Procurement funds, to purchase capital equipment and software. DoDEA may have violated the Antideficiency Act because it did not have $4.1 million in Procurement funds available to purchase the equipment (DoDEA had obligated $.5 million of about $3.1 million in Procurement funds appropriated), and it incorrectly obligated O & M funds for the purpose reserved for Procurement funds. Based on our review of $4.1 million in purchases, DoDEA had a potential Antideficiency Act violation of about $1.5 million.

Purchases Totaling $4.1 Million

The $4.1 million in purchases consisted of $2.1 million for teleconferencing equipment and $2 million for automated information system equipment and software.

Teleconferencing Equipment. The teleconferencing equipment met the definition of an investment item because the equipment purchased was part of a system and exceeded the dollar threshold for investment items of $100,000. The teleconferencing equipment was to establish a video telecommunications capability between 16 DoDEA sites including Headquarters, the district superintendent's offices, and warehouse facilities. Therefore, DoDEA should

have used Procurement funds to make the purchases. DoDEA agreed that $2.1 million in Procurement funds rather than O & M funds should have been used and took corrective action to charge Procurement funds.

Automated Information System Equipment. The automated information system equipment purchased for $2 million included software and hardware related to the development and installation of a local area network and wide area network system. The purchases met the definition of an investment because they were purchased as part of a system and met the prescribed dollar threshold of $50,000 during FY 1995. The automated information system equipment was installed at a total cost of $826,000 in 42 schools, and 4 DoDEA administrative sites. Also included in the $2 million was $433,000 for network projects and $712,000 for a distance learning project. Therefore, Procurement funds should have been used.

DoDEA Management Criteria

Procurement Fund Requirements. The DoDEA management classified the equipment purchased as stand-alone components qualifying for use of O & M funds, rather than as components to be used as part of a system requiring use of Procurement funds. However, DoDEA did not plan to use the equipment in a stand-alone mode. The cost of the components ranged from $63 to $2,386. DoDEA stated that based on primacy of use, the components should not be classified as part of a system. Further, it did not classify the components purchased as part of a system because it did not want the purchases to go through the budget and review process required for Procurement funds. DoDEA believed that Procurement funds would be denied in the budget process at higher levels because of the increased visibility. Use of O & M funds allowed DoDEA unilateral control over the use of funds. In addition, DoDEA stated that the use of Procurement funds would have resulted in unnecessary delays in the completion of equipment and software purchases in support of its technology plan.

Technology Plan. The DoDEA in its draft FY 1995 technology plan identified component purchases of $329 million to fully implement the plan. (The technology plan provides for development of an automated system providing local area network and wide area network access to improve student learning.) The plan uses personal computers as part of area networks and for distance learning programs, which meet the definition of a system.

O & M Equipment Purchases

The DoDEA used an additional $24.9 million of O & M funds for equipment and related software purchases that may have met the investment criteria and should have been purchased with Procurement funds. According to DoDEA financial records, DoDEA purchased $29 million in equipment and software with O & M funds. Our review of $4.1 million in purchases indicated that the $4.1 million should have come from Procurement funds. Therefore, it is possible that some or all of an additional $24.9 million not reviewed in the audit may have been spent under the wrong appropriation. Further, DoDEA purchased some of its automated information system equipment with Procurement funds ($.5 million obligated). The same type of equipment with identical uses was purchased with both O & M and Procurement funds. We could not distinguish between one purchase qualifying as a part of a system, and the other qualifying as a stand-alone component.

Management Comments on Finding and Audit Response

Management Comments. The Director agreed that DoDEA erroneously charged $2.1 million of O & M funds for the purchase of teleconferencing equipment. DoDEA said the use of O & M funds was the result of an administrative oversight, and that no Antideficiency Act violation occurred because the error was immediately corrected when the IG, DoD, identified it. The Director did not agree that $2 million should have been charged to the Procurement appropriation because the computers and other equipment purchased were not part of a system, but were stand-alone components. DoDEA considers the "primacy of usage" of the school and classroom computers to be stand-alone workstations, therefore, not part of a system. DoDEA believes its usage of O & M funds is consistent with the practices of other agencies to procure computer workstations. The Director also denied that DoDEA management made statements that it did not want purchases to go through the procurement process.

Audit Response. We believe that the computer hardware and software procured by DoDEA are part of a system. Volume 14 of the Financial Regulation states that computers that are an integral part of a local area network should be purchased using procurement funds, if the investment dollar threshold is met. Public Law and DoD policies do not include primacy of usage as a valid criteria to be used in determining whether a system or local area network exists. DoDEA contracting documents, congressional testimony and budget submissions state that DoDEA is implementing a comprehensive plan to

improve information technology systems in all DoDEA schools. DoDEA is procuring a variety of equipment and software that will be connected through local area and wide area networks.

The DoDEA did not mention that it had requested Procurement funds for the purchase of an automated system under the Technology Plan that was denied by the Program Objective Memorandum cycle and the Defense Resources Board in July 1995. Most of the equipment purchased with O & M funds and discussed in this report would support the Technology Plan for which a funding stream was denied.

The DoDEA is following a strategy that it believes will allow it to unilaterally control its acquisition program. We documented several meetings at which the Associate Director for Operations stated concerns about using Procurement funds rather than O & M funds. DoDEA stated that the total funds obligated for information technology in FY 1995 was $24.2 million, including unspecified amounts for communications, maintenance, and information technology that could be part of its technology improvement plan. DoDEA did not indicate whether the amounts obligated included Section 6 and overseas schools. We believe the $24.2 million may be understated because it does not include Section 6 schools.

Recommendations, Management Comments, and Audit Response

A. We recommend that the Director, Department of Defense Education Activity:

1. Obtain an opinion from the General Counsel on whether the automated information system equipment and software purchases should be considered stand-alone components and purchased with Operation and Maintenance funds or considered part of a system and purchased with Procurement funds.

Management Comments. The DoDEA nonconcurred with the recommendation, stating that its interpretation of the use of O & M funds is correct. It recommended that the IG, DoD, initiate a request to the General Counsel for a legal opinion and apply the opinion to future procurements of all DoD Components. The complete text of management comments is in Part III.

Audit Response. Volume 14 of the Financial Regulation requires DoDEA to initiate a preliminary review of potential violations. It also requires DoDEA to

coordinate with the appropriate legal counsel. DoDEA should request an opinion from the General Counsel and reconsider its position in response to the final report.

2. **Adjust fund cites to the accounting records based on the General Counsel's position.**

Management Comments. The DoDEA nonconcurred with the recommendation. It believes that any General Counsel opinion should apply to future procurement actions due to the ambiguity of the regulation.

Audit Response. After DoDEA obtains the opinion of the General Counsel cited in Recommendation A.1., we request that it provide additional comments to this recommendation.

3. **Investigate the potential Antideficiency Act violations following the procedures outlined in the DoD Financial Management Regulation 7000.14-R. The investigation should include the purchases of teleconferencing equipment and automated information system equipment, as appropriate.**

Management Comments. The DoDEA nonconcurred with the recommendation, and believed that the use of O & M funds to procure teleconferencing equipment was an administrative error that was corrected. DoDEA also believed that the purchases of computer equipment were not an Antideficiency Act violation.

Audit Response. The Financial Regulation requires DoDEA to request a preliminary review and initiate a formal investigation of any potential Antideficiency Act violations disclosed by the preliminary review, even those caused by errors. The Financial Regulation states that a DoD organization that used O & M funds rather than Procurement funds to purchase computers for local area networks, may have violated United States Code, title 31, section 1517, if sufficient Procurement funds were not available. Therefore, we request that DoDEA reconsider its position in response to the final report.

Finding B. Obligation and Disbursement of Foreign Currency Fluctuation Funds

The DoDEA obligations and disbursements exceeded the funds allocated by the Washington Headquarters Services in the FY 1987 and FY 1993 FCF,C allocations by $57,903 and $987,383, respectively. Obligations and disbursements exceeded funds available because DoDEA did not effectively monitor MILCON payment schedules, disbursements, and exchange rates. As a result, Antideficiency Act violations may have occurred.

Application of the Antideficiency Act to Foreign Currency Fluctuation, Construction Allotments

Both the DoD Accounting Manual 7200.0, chapter 97, "Foreign Currency Reports," December 14, 1987, effective until February 1996 and the Financial Management Regulation, volume 6, "Reporting Policy and Procedures," chapter 7, "Foreign Currency Reports," February 1996, establish that FCF,C funds are subject to the Antideficiency Act. In addition, the Director of Budget and Finance, Washington Headquarters Services, made the allocation to the Director, DoDEA, subject to the provisions of United States Code, section 1517, the Antideficiency Act.

Obligations and Disbursements of Funds

Funds Allocated. The DoDEA incurred obligations and made disbursements in excess of its FY 1987 and FY 1993 FCF,C allocations. Negative fund balances (disbursements in excess of funds allocated) of $57,903 and $987,383 were reported in the DoDEA August 1995 Report on Budget Execution (1176 Report) that summarizes the status of DoD appropriations.

The obligations and disbursements that exceeded the funds allocated did not occur in FY 1995. Obligations and disbursements exceeded the FY 1987 allocation in September 1990 and the FY 1993 allocation in September 1993. Table 1 shows prior year fund balances for the FY 1987 and the FY 1993 FCF,C allocations (funds available). As indicated, no additional disbursements

have affected the FY 1987 account; however, additional disbursements charged to the FY 1993 fund allocation have resulted in further increases in the negative balance.

Table 1. Prior Year Funds

(Negative Balances)

	1987 FCF,C	1993 FCF,C
September 1990	($57,903)	$ NA
September 1993	(57,903)	(828,367)
September 1994	(57,903)	(903,106)
August 1995	(57,903)	(987,383)

Monitoring MILCON Payment Schedules, Disbursements, and Exchange Rates. The DoDEA incurred obligations and made disbursements in excess of funds allocated because it did not monitor MILCON payment schedules, disbursements, and exchange rates. The FCF,C allocation is charged when MILCON disbursements are made, at an exchange rate different than the rate at the time the MILCON contract was issued. Therefore, it is essential to monitor MILCON payment schedules, disbursements, and exchange rates to anticipate FCF,C fund requirements. DoDEA did not obtain copies of payment schedules for all MILCON contracts, and did not receive complete records of disbursements made against its MILCON contracts. In addition, DoDEA did not monitor exchange rates. As a result, potential Antideficiency Act violations may have occurred.

Management Action. We advised DoDEA that potential Antideficiency Act violations had occurred in the FY 1987 and FY 1993 FCF,C allocations. DoDEA had personnel from outside DoDEA review the potential violations. DoDEA reported the potential Antideficiency Act violations to the Washington Headquarters Services on April 12, 1996, as required by Office of Management and Budget Circular A-34, part III, "Requirements for Reporting Antideficiency Act Violations," November 1994.

Recommendations, Management Comments, and Audit Response

B. We recommend that the Director, Department of Defense Education Activity:

1. Monitor military construction payment schedules, disbursements, and exchange rates to ensure that adequate Foreign Currency Fluctuation, Construction, funding is obtained from the Under Secretary of Defense (Comptroller) to cover obligations and disbursements.

Management Comments. The DoDEA concurred with the recommendation. DoDEA will request the U.S. Army Corps of Engineers to accept direct cite Military Interdepartmental Purchase Requests, request copies of all payment vouchers, and initiate a review and reconciliation of all payment vouchers .

Audit Response. We consider the DoDEA comments responsive. However, DoDEA did not provide dates for completion of the corrective actions. We request DoDEA to provide the dates in response to the final report.

2. Investigate the potential violations of the Antideficiency Act following the procedures outlined in DoD Financial Management Regulation 7000.14-R.

Management Comments. The DoDEA concurred with the recommendation, stating that it had performed a comprehensive review of the circumstances surrounding the potential violation. On April 12, 1996, it submitted a report to the Director, Budget and Finance, Washington Headquarters Service, disclosing the potential violation.

Finding C. Accuracy of Reports

The DoDEA September 1995 Reports on Budget Execution (1176 Report) and Appropriation Status by Fiscal Year Program and Subaccounts (1002 Report) were not accurate. The reports were not accurate because DoDEA posted unsupportable adjusting entries effecting a transfer of funding, not approved by the Office of the Under Secretary of Defense (Comptroller), incorrectly in the accounting records. As a result, potential Antideficiency Act violations were not reported.

Reports and Guidance

1176 Report and 1002 Report. The 1176 Report summarizes the status of DoD appropriations. Each month, DoDEA prepares the report and submits it to the Washington Headquarters Services, where it is consolidated with reports from other DoD Components and submitted to the Office of the Under Secretary of Defense (Comptroller). The 1002 Report also summarizes the status of DoD appropriations. It does not contain as much detail as the 1176 Report; however, it does report MILCON projects and FCF,C allocations as separate line items. Potential Antideficiency Act violations are to be reported on line 8, Total Unobligated Balances Available (Fund Balance), of the 1176 Report and in column I, Total Unobligated Balance (Fund Balance), of the 1002 Report.

DoD Budget Guidance Manual. The DoD Budget Guidance Manual 7110-1-M, (change 1), part 4, "Budget Administration," section 1, "Apportionment," chapter 412, "Apportionment and Reapportionment Schedule," (DD Form 1105) June 1992, states that all amounts transferred to and from the FCF,C accounts are subject to the approval of the Office of the Under Secretary of Defense (Comptroller).

Balances on Appropriations Reports

Balances on the DoDEA September 1995 1176 Report and 1002 Report were not accurate. The inaccurate balances occurred in three of the DoDEA allocations, the FY 1987 FCF,C allocation; the FY 1993 FCF,C allocation; and the FY 1995 MILCON allocation. Table 2 shows amounts reported and the correct fund balances for the allocations.

Table 2. Reported Status of Allocations on the 1176 Report and 1002 Report (September 1995)

Status of Allocations	1987 FCF,C	1993 FCF,C	1995 MILCON
Reported	$ 97	$ 231,540	$1,709,015
Correct	(57,903)	(968,460)	2,967,015
Difference	**$58,000**	**$1,200,000**	**$1,258,000**

The fund balances reported were inaccurate because entries of obligations and adjustments of obligations for each account were not supportable. Recoveries of obligations reported in the FY 1987 and FY 1993 FCF,C allocations for $58,000 and $1.2 million never occurred and were therefore overstated. Obligations in the FY 1995 MILCON allocation were overstated by $1.26 million. The unsupportable adjusting entries had the effect of reprogramming FY 1995 allocation authority to cover the DoDEA overexpenditure of the previous years' allocations from the Washington Headquarters Services.

Posting the Transfer of Funds in the Accounting Records

The inaccurate balances on the DoDEA reports occurred because DoDEA personnel posted unsupportable adjusting entries, in effect, incorrectly transferring funds, in the accounting records that were not approved by the Office of the Under Secretary of Defense (Comptroller).

Transfer of Funds. In September 1995, the Chief of the Accounting Branch, DoDEA, posted unsupportable adjusting entries, in effect, improperly transferring funds between the FY 1995 MILCON allocation and the FY 1987 and FY 1993 FCF,C allocations in the Treasury disbursing records. The transaction was accomplished by submitting Treasury Form 1081 to the Defense Finance and Accounting Service reflecting the transfer. The transfer increased the fund balances of the FY 1987 and FY 1993 FCF,C allocations by $58,000 and $1.2 million, respectively, and decreased the fund balance of the FY 1995 MILCON allocation by about $1.26 million. The transfer of funds was improper because it is considered a reprogramming action requiring the approval of the Office of the Under Secretary of Defense (Comptroller) to transfer funds between allocations.

Posting the Transfer. The DoDEA did not properly report the transfer of funds in its accounting records. Instead of reporting a transfer of funds, DoDEA reported that obligations in the FY 1987 and FY 1993 FCF,C allocations had been recovered and the 1995 MILCON obligations had been increased. The chief of the Accounting Branch informed us that there were no actual recoveries of obligations in the allocations.

Potential Antideficiency Act Violations

As a result of the inaccurate balances, DoDEA did not reflect potential Antideficiency Act violations in its FY 1987 and FY 1993 FCF,C allocations in its September 1995 Form 1176 Report of Budget Execution. As stated in Finding B, the DoDEA Form 1176 report of August 1995 included potential Antideficiency Act violations against those allocations. It reported obligations and disbursements in excess of funds available, or negative fund balances, of $57,903 and $987,383, respectively in the allocations. After the unsupported adjusting entries, in effect, transferring about $1.26 million, positive fund balances of $97 and $231,540 appeared in the two allocations. As a result, the potential Antideficiency Act violations were not included in the DoDEA September 1995 1176 Report to the Washington Headquarters Services.

DoDEA Proposed Actions

We informed DoDEA that inaccurate balances were reported on its 1176 Report and 1002 Report and that the chief of the Accounting Branch, DoDEA, had posted unsupportable entries transferring funds between allocations without obtaining approval from the Office of the Under Secretary of Defense (Comptroller). DoDEA is reviewing the validity of the transaction.

Recommendations, Management Comments, and Audit Response

C. We recommend that the Director, Department of Defense Education Activity:

1. Correct the improper transactions posted to accounting records.

Management Comments. The DoDEA concurred with the recommendation. It stated that it will post the proper transactions when the payment reconciliation process is completed.

Audit Response. We consider the DoDEA comments to be responsive. However, DoDEA did not provide dates for completion of the corrective action. We request that DoDEA provide dates for completion of the proposed actions in response to the final report.

2. Review the accounting controls and performance of staff responsible for posting unsupportable adjusting entries in effect transferring funds between allocations in violation of DoD policy. DoD Education Activity should initiate appropriate administrative action based on the results of the review.

Management Comments. The DoDEA partially concurred with the recommendation, stating it has initiated a review of accounting controls and implemented additional reviews of transactions. DoDEA believes the findings identified in this report can be attributed to DoD-wide deficiencies in the processing of disbursement documents or the ambiguity of DoD directives in determining the correct appropriation to charge. DoDEA did not agree that the deficiencies in staff performance were severe enough to warrant disciplinary action.

Audit Response. Management comments were not responsive. Although DoDEA stated that it has implemented additional reviews, it did not state what those reviews were and the completion dates for them. We do not agree that the weaknesses identified in this report were caused by DoD-wide deficiencies or ambiguity of directives. They were caused by unsupported accounting entries that DoDEA employees made. We request that DoDEA reconsiders its position and provide additional comments on the final report. We also request that DoDEA provide the proposed corrective action and the completion dates for those actions.

Part II - Additional Information

Appendix A. Scope and Methodology

We reviewed Public Law, and DoD and DoDEA policies and procedures related to the administrative controls over funds. We evaluated DoDEA budget submissions, financial reports, and the underlying supporting records from FYs 1987 through 1995 including a judgmental sample of purchases in FY 1995. We reviewed financial reports to validate program codes and object class spending, and to determine whether funding deficiencies existed. We reviewed financial reports and compared them to the underlying supporting documentation to determine the accuracy of the audit trail. We also interviewed personnel at DoDEA, Defense Finance and Accounting Service, and Office of the Under Secretary of Defense (Comptroller).

Limitations to Audit Scope. We did not review the management control program. The program will be addressed in another report.

Use of Computer-Processed Data. To evaluate the overall financial management controls at DoDEA, we used computer-processed data from the Funds Control System. We also reviewed computer-generated financial reports. We did not evaluate general and application controls for the system, although we relied on data produced by the Funds Control System to assess the financial management control environment.

Audit Period, Standards, and Locations. We performed this financial-related audit from July 1995 through January 1996 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. The organizations we visited or contacted are listed in Appendix C.

Appendix B. Prior Audits and Other Reviews

Inspector General, DoD, Report No. 96-125. The Inspector General, DoD, issued audit Report No. 96-125. "Quick-Reaction Report on the Acquisition of the Department of Defense Education Activity Automated Information System," May 21, 1996. The report discussed DoDEA management of the acquisition of a major automated information system, and DoDEA compliance with DoD acquisition policies and procedures.

The report recommended that the Under Secretary of Defense (Comptroller) review amended budget submissions for the DoDEA major automated information system; and that the Deputy Assistant Secretary of Defense (Command, Control, Communications, and Intelligence Acquisition) perform the required major automated information system review council milestone reviews. Additionally, the report recommended that the Deputy Assistant Secretary of Defense (Personnel Support, Families, and Education) review and approve the mission need statement, and confirm that DoDEA implemented required policies and procedures for the management of the major automated information system. The report recommended that DoDEA discontinue the major automated acquisitions until the program was restructured and managed in accordance with DoD acquisition polices and procedures; prepare and submit required documentation for the major automated information system to the Deputy Assistant Secretaries of Defense as appropriate; and amend and submit the FY 1997 budget exhibits for the major automated information system to the Under Secretary of Defense (Comptroller). The Under Secretary of Defense (Comptroller) concurred with the recommendation. Comments from the Deputy Assistant Secretaries of Defense and DoDEA did not agree with the recommendations and additional comments were requested.

Inspector General, DoD, Report No. 91-INS-03. The Inspector General, DoD, issued Inspection Report No. 91-INS-03, "Department of Defense Dependents Schools," March 1, 1991. The report discussed the accounting system, accountability over assets, and the management control program of DoD Dependents Schools. The report was a followup to a 1984 Inspector General inspections report. The report identified continuing problems in the accounting system and a lack of reconciliation of the financial accounts with the property records. In addition, the report stated that the Internal Management Control Program was not fully effective because of inadequate followup procedures and ineffective oversight in the high and medium risk vulnerability areas.

The report recommended that DoD Dependents Schools develop a program budget and establish a general ledger to comply with DoD and General Accounting Office accounting guidelines, reconcile fixed assets with accounting records, review the internal control office functions, and realign the organization to focus on primary mission. DoD Dependents Schools concurred with the recommendations.

Appendix C. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller), Arlington, VA
- Deputy Chief Financial Officer, Arlington, VA
- Deputy Comptroller (Program/Budget), Arlington, VA

Assistant Secretary of Defense (Force Management Policy), Arlington, VA
- Deputy Assistant Secretary of Defense (Personnel Support, Families, and Education), Arlington, VA

Defense Organizations

Defense Finance and Accounting Service, Arlington, VA
Department of Defense Education Activity, Arlington, VA

Other Defense Organization

Washington Headquarters Services, Arlington, VA

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Force Management Policy)
  Deputy Assistant Secretary of Defense (Personnel Support, Families, and Education)
Assistant to the Secretary of Defense (Public Affairs)
Deputy General Counsel (Fiscal)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Director, National Security Agency
  Inspector General, National Security Agency
Director, Department of Defense Education Activity
Inspector General, Defense Intelligence Agency

Other Defense Organization

Director, Washington Headquarters Services

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
General Accounting Office
National Security and International Affairs Division
Technical Information Center

Chairman and ranking minority member of each of the following congressional committees and subcommittees

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
House Committee on National Security

Part III - Management Comments

Department of Defense Education Activity Comments

DEPARTMENT OF DEFENSE
EDUCATION ACTIVITY
4040 NORTH FAIRFAX DRIVE
ARLINGTON, VIRGINIA 22203-1635

MAY 21

MEMORANDUM FOR AUDIT PROGRAM DIRECTOR, DODIG
ATTN: MR. ROBERT RYAN

SUBJECT: Department of Defense Education Activity (DoDEA) Comments to the Draft Quick-Reaction Report on Potential Antideficiency Act Violations at DoDEA

This memorandum is provided as a response to the draft proposed audit report dated April 25, 1996. Our comments follow:

FINDING A. Use of Operation and Maintenance Funds

Page 5

IG Finding - O&M Fund Purchases. The DoDEA used $4.1 million of FY 1995 O&M funds, rather than Procurement funds to purchase capital equipment and software. DoDEA may have violated the Antideficiency Act because it did not have sufficient funds available to purchase the equipment. Based on the review of $4.1 million in purchases, DoDEA had a potential Antideficiency Act Violation of about $1.5 million.

DoDEA Response

Partially Concur. DoDEA erroneously charged $2.1M of O&M funds for the purchase of teleconferencing equipment. This action was an administrative oversight which was immediately corrected when identified by the DoDIG. There was no violation of the Antideficiency Act. In addition, DoDEA implemented additional level of review for all purchase requests which exceed $100K to preclude future errors.

We nonconcur that the remaining $2.0 million should have been charged to the Procurement appropriation, because purchases in question were not part of a system but, in fact, were stand alone components. We also nonconcur that a potential Anti- deficiency Act violation exists.

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DoDEA Management Criteria

IG Finding - Procurement Fund Requirements. DoDEA classified the equipment purchased as stand alone components. DoDEA did not classify the equipment as components of a system requiring the use of Procurement funds. However, DoDEA did not plan to use the equipment in a stand alone mode.

DoDEA Response

Nonconcur. The purchase of computer equipment in question was intended for, and used primarily in, a stand alone mode. DoDEA considers the primary usage of our school classroom and laboratory computers to be stand alone workstations for instructional purposes. They are not components of a system because each workstation: (1) can be used by the teacher or student for instruction or study purposes without causing a systems failure, and (2) has routine access to other workstations or databases through E:mail or a network. This usage is consistent with the definition used by other agencies to procure off-the-shelf computer workstation for administrative or instructional purposes with O&M funds.

IG Finding - Procurement Fund Requirements. The DoDEA stated that it did not classify the components purchased as part of a system because it did not want the purchases to go through the budget and review process required for Procurement funds. DoDEA believed that Procurement funds would be denied in the budget process at higher levels because of the increased visibility.

DoDEA Response

Nonconcur. DoDEA denies making the statement described in the finding. DoDEA found no evidence to substantiate the finding. On the contrary, DoDEA does not classify transactions to avoid the budget and review process for procurement funds. DoDEA has never been denied procurement funds when requested and properly justified.

IG Finding - Procurement Fund Requirements. In addition, DoDEA stated that the use of Procurement funds would have resulted in unnecessary delays in the completion of equipment and software purchases.

DoDEA Response

Nonconcur. There are no unnecessary delays in equipment purchases using Procurement funds. The process, when properly documented would take the same length of time whether the funds were O&M or Procurement.

IG Finding - Technology Plan. DoDEA included the $329 million of purchases in its draft FY 1995 technology plan as part of a system. The plan uses personal computers as part of area networks and for distance learning programs, which meets the definition of a system.

DoDEA Response

Nonconcur. The offices of the Deputy Assistant Secretary of Defense (PSF&E) and Deputy Assistant Secretary of Defense (C(3)I Acquisition) performed a joint review of the DoDIG Quick-Reaction report on the DoDEA Automated Information System. In that report, dated March 27, 1996, it was stated that the DoDEA technology program is not subject to the policies and procedures of a major automated information system (MAIS).

Page 7

IG Finding - O&M Equipment Purchases. According to DoDEA financial records, DoDEA purchased $29 million in equipment and software with O&M funds.

DoDEA Response

Nonconcur. DoDEA has not purchased $29 million with O&M funds in any fiscal year. DoDEA obligated $24.2 million in FY 1995 for Information Technology in O&M funds. Of the $24.2 million, $8.679 million was expended for equipment and $3.186 million for software. The remaining funds were obligated for communications, maintenance and information technology. In FY 1994, the total O&M obligation was $20.5 million.

Recommendations for Corrective Action

A1. **Recommendation.** DoDEA obtain an opinion from the General Counsel on whether the automated information system equipment and software purchases should be considered stand-alone components and purchased with O&M funds or considered part of a system and purchased with Procurement funds.

DoDEA Response

Nonconcur. DoDEA believes that its interpretation of the use of Operations and Maintenance funds is correct. Therefore, we recommend that the DoDIG initiate a request for an opinion from the General Counsel and that the opinion apply to future procurement actions of all DoD components.

A2. **Recommendation.** DoDEA adjust fund cites to the accounting records based on the General Counsel's position.

DoDEA Response

Nonconcur. The opinion of the General Counsel should apply to future procurement actions due to the ambiguity of the regulation.

A3. Recommendation. DoDEA investigate the potential Antideficiency Act violations following the procedures outlined in the DoD Financial Management Regulation 7000.14R. The investigation should include the purchases of teleconferencing equipment and automated information system equipment, as appropriate.

DoDEA RESPONSE

Nonconcur. As stated in the report, DoDEA concurred with the DoDIG's finding on the teleconferencing equipment. The use of O&M funds was clearly an administrative error which was corrected. In addition, the process for citing funds was immediately changed and now requires review by the Chief, Fiscal Division on all procurement requests which exceed the $100K threshold. We do not believe that the purchase of automated information systems equipment is an antideficiency violation.

Finding B. Obligation and Disbursement of Foreign Currency Fluctuation Funds

Pages 8 and 9

IG Finding - Obligations and Disbursement of Funds. The DoDEA incurred obligations and made disbursements in excess of its FY 1987 and FY 1993 Foreign Currency Fluctuation (FCF) allocations, because it did not monitor MILCON payment schedules. DoDEA did not have copies of payment schedules for all MILCON contracts and did not receive complete records of disbursements made against its MILCON contracts. In addition, DoDEA did not monitor exchange rates. As a result, potential Antideficiency Act violation Act violations may have occurred.

DoDEA RESPONSE

Nonconcur. DoDEA does not disburse for itself. Disbursements for the MILCON appropriations are initiated by the U.S. Army Corps of Engineers. The vast majority of our MILCON projects are located in Europe and administered by the Corps' European Field Division (EUD) in Germany. The disbursements are actually made by the local disbursing office servicing the individual Corps of Engineer's field divisions. DoDEA only receives payment vouchers supporting major/minor construction and design funding. We have never received payment vouchers from the EUD for the FCF; therefore, we could not effectively monitor fluctuation charges or rates. DoDEA only receives

summary cash charges though the Cash Book, which represents what has been reported to the U.S. Treasury against out accounts by the DFAS centers.

In addition, we do not incur obligations in the FCF accounts in the normal sense. As explained in the draft audit report, FCF is charged by the paying office when the disbursement is made. The disbursement charges are used to generate the obligations. This process is opposite to the general rules of obligation. Because DoDEA never received the actual vouchers and the Cash Book charges could not be validated, it was the opinion of the DoDEA Accounting Branch Chief, that there was insufficient justification to warrant obligating the FCF funds. DoDEA's research in August of 1995 also disclosed massive charges to the FY 1990 FCF account which appeared to be inconsistent with the lack of funding in the FY 1990 program year.

DoDEA did not believe the negative balances in the FCF-C account represented an Antideficiency Act status, since its overall MILCON position always remained positive. However, based on the audit finding DoDEA submitted a report on a potential violation to the Director, Budget and Finance, WHS, as required by the DoD FMR. DoDEA has not been notified of the WHS findings.

Recommendations for Corrective Action

Page 10

B1. Recommendation. DoDEA monitor military construction payment schedules, disbursement, and exchange rates to ensure adequate funding.

DoDEA RESPONSE

Concur. DoDEA has taken the following actions to ensure the proper recording of disbursements/obligations and obtaining adequate funding:

1. Requested that the U.S. Army Corps of Engineers accept direct cite MIPRs in lieu of reimbursable MIPRs for DoDEA's construction projects. This action will require the Corps of Engineers to submit a copy of all obligation and disbursement documents to the DoDEA accounting office for recording.

2. Requested DFAS Indianapolis Center provide copies of all payment vouchers initiated by the Corps of Engineers which cite DoDEA FCF-C funds.

3. Initiated a review and reconciliation of all payment vouchers citing DoDEA FCF-C accounts for available years.

B2. Recommendation. DoDEA investigate the potential violations of the Antideficiency Act following the procedures outlined in the DoD FMR.

Concur. DoDEA has performed a comprehensive review of the circumstances surrounding the potential violation. In addition, we submitted a report to the Director, Budget and Finance, WHS, on April 12, disclosing the potential violation identified by the audit.

Finding C. Accuracy of Reports

Page 11

IG Finding - Balances on Appropriation Reports. Balances on the September 1995 DD-1176 Report and DD1002 Report were not accurate. The inaccurate balances in three of the DoDEA allocations, the FY 1987 FCF-C; the FY 1993 FCF-C allocation; and the FY 1995 MILCON allocation. The unsupportable adjusting entries had the effect of reprogramming FY 1995 allocation authority to cover overexpenditures of the previous years' allocations from WHS.

DoDEA RESPONSE

Partially Concur. DoDEA agrees that report balances were not accurate. Adjustments were made to correct unsupportable FCF-C charges. When the unsupported charges were discovered in August of 1995, DoDEA took action to obtain actual payment vouchers from the U.S. Army Corps of Engineers. When the payment reconciliation is completed, DoDEA will adjust the incorrect accounts.

Page 12

IG Finding - Posting the Transfer of Funds in the Accounting Records. The inaccurate balances on the DoDEA reports occurred because DoDEA personnel posted unsupportable adjusting entries via an SF1081, in effect, incorrectly transferred funds in the accounting records that were not approved by the DoD Comptroller.

DoDEA RESPONSE

Nonconcur. DoDEA did not transfer funds using the SF-1081, since that document only transfers disbursements and collections which have been reported to the U.S. Treasury. There was no reprogramming action, nor was any intended, which would require approval of the DoD Comptroller. As stated above, we considered the FCF-C charges previously used to support our FCF-C obligations to be inaccurate. We chose the SF1081 as the appropriate vehicle to accomplish this task. When we determine the proper FCF-C charges, we will correct the account balances with another SF-1081. At that time, if there are still negative balances in these accounts, they will be reported to WHS and funds will be requested to cover the deficiencies. DoDEA still maintains that there is no Antideficiency Act violation, if the overall MILCON account is positive. This issue is currently being addressed by WHS.

Page 13

IG Finding - Potential Antideficiency Act Violations. As a result of the inaccurate balances, DoDEA did not reflect potential Antideficiency Act violations in FY 1987 and FY 1993 FCF-C allocations in its September DD-1176 Report.

DoDEA RESPONSE

Nonconcur. DoDEA also believed that the balances were incorrect, and, therefore, made interim corrections to adjust those balances. Although negative balances were eliminated, the intent was to correct the obligations and disbursements. DoDEA will report negative balances, if they exist, after completion of the payment voucher reconciliation. As previously stated, DoDEA does not believe that a negative balance in the FCF-C account, by itself, constitutes an Antideficiency Act violation at the organizational level. This matter is currently being investigated by the WHS.

Recommendations for Corrective Action

Pages 13 and 14

C1. **Recommendation.** DoDEA correct the improper transactions posted to accounting records.

DoDEA RESPONSE

Concur. When the payment reconciliation process is completed, DoDEA will post the proper transactions.

C2. **Recommendation.** Review the accounting controls and performance of staff responsible for posting unsupportable adjusting entries in effect transferring funds between allocations in violation of DoD policy. DoDEA should take appropriate disciplinary action based on the results of the review.

DoDEA RESPONSE

Partially concur. DoDEA has initiated a review of the accounting controls and has implemented additional reviews of transactions as stated above. The findings identified in this report can be attributed to DoD-wide deficiencies in the processing of disbursement documents or the ambiguity of DoD directives in determining the correct appropriation to charge for equipment purchases.

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We do not concur that these are deficiencies in staff performance which are so severe that disciplinary actions would be warranted.

We appreciate the opportunity to provide responses. Please contact Mr. D. Sibley at (703) 696-3850, extension 101, if you need additional information or have questions.

for Jerald E. Bloom
Lillian Gonzalez
Director

cc:
DASD (PSF&E)

Audit Team Members

This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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