Audit Report

OFFICE OF THE INSPECTOR GENERAL

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

Report No. 97-078 January 23, 1997

Department of Defense

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Acronyms

DDESS	Domestic Dependent Elementary and Secondary Schools
DoDEA	Department of Defense Education Activity
DoDDS	Department of Defense Dependents Schools
LAN	Local Area Network
O&M	Operation and Maintenance

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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ARLINGTON, VIRGINIA 22202-2884

January 23, 1997

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DEPUTY ASSISTANT SECRETARY OF DEFENSE (COMMAND, CONTROL, COMMUNICATIONS, AND INTELLIGENCE)
DEPUTY ASSISTANT SECRETARY OF DEFENSE (PERSONNEL SUPPORT, FAMILIES, AND EDUCATION)
DIRECTOR, DEPARTMENT OF DEFENSE EDUCATION ACTIVITY

SUBJECT: Report on Potential Antideficiency Act Violations at the Department of Defense Education Activity (Report No. 97-078)

We are providing this audit report for review and comment. This report is one in a series of reports issued on financial management at the Department of Defense Education Activity. The report discusses potential violations of the Antideficiency Act. Management comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Under Secretary of Defense (Comptroller) did not provide comments on the draft report. The comments from the Deputy Assistant Secretary of Defense (Personnel Support, Families and Education) were responsive and comments from the Department of Defense Education Activity were partially responsive to the recommendations. As a result of our meetings with management, we added Recommendation 2. Therefore, we request that the Under Secretary of Defense (Comptroller) and the Deputy Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) provide comments on the final report and that the Director, Department of Defense Education Activity, provide additional comments on the unresolved issues by March 24, 1997.

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

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Office of the Inspector General, DoD

Report No. 97-078 **January 23, 1997**
(Project No. 6LA-2011.03)

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

Executive Summary

Introduction. During our audit of financial management at the Department of Defense Education Activity (DoDEA), we reviewed FY 1995 obligations for the Domestic Dependent Elementary and Secondary Schools (DDESS). At the DDESS schools that were acquiring and installing local area networks (LANs), we reviewed FY 1993 through FY 1996 obligations supporting the acquisition. We also reviewed FY 1994 through FY 1996 budget execution data for contracts, supplies, and equipment, and compared them to supporting documentation at the Department of Defense Dependents Schools. DoDEA, with a FY 1996 operating budget of over $1.3 billion is responsible for the effective management of DDESS and the Department of Defense Dependents Schools. DDESS provides education to students located in the continental United States, and the Department of Defense Dependents Schools provides education to students overseas. This report discusses potential Antideficiency Act violations by DDESS and the Department of Defense Dependents Schools, and is the second report on potential Antideficiency Act violations occurring at DoDEA.

Audit Objectives. The primary audit objective was to assess internal controls and compliance with laws and regulations to support our audit of the DoD-wide financial statements. Additional objectives were to review and to test accounting transactions to validate the effectiveness of the accounting controls.

Audit Results. The DDESS used $5.4 million of FY 1993 through FY 1996 appropriated Operation and Maintenance funds, rather than appropriated Procurement funds, to acquire and install investment items, including equipment and software for its LAN systems. Specifically, DDESS used $5.4 million of Operation and Maintenance funds, $662,882 of which were used in combination with $775,849 of Procurement funds, to acquire LAN equipment and software. In addition, the Department of Defense Dependents Schools used at least $1.5 million of FY 1994 through FY 1996 Operation and Maintenance funds, rather than Procurement funds, to procure and install LANs. As a result, Antideficiency Act violations may have occurred.

Summary of Recommendations. We recommend that the Under Secretary of Defense (Comptroller) direct the initiation of an investigation of potential Antideficiency Act violations if sufficient funds are not made available in the FY 1993 through FY 1996 Procurement account to fund obligations made by the Director, DoDEA. We

recommend that the Under Secretary of Defense (Comptroller), and the Deputy Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) jointly study and provide specific guidance on the definition, acquisition, and appropriate funding for automated data processing equipment including LANs within DoD. We recommend that the Deputy Assistant Secretary of Defense (Personnel Support, Families, and Education) direct the Director, DoDEA, to investigate and report the potential Antideficiency Act violations as outlined in DoD Regulation 7000.14-R. We recommend that the Director, DoDEA, establish controls necessary to discontinue the acquisition of investment items with a cost in excess of the applicable investment item cost threshold with Operation and Maintenance funds; to make necessary accounting adjustments to deobligate Operation and Maintenance funds; and obligate Procurement funds.

Management Comments. The Under Secretary of Defense (Comptroller) did not respond to the draft report.

The Deputy Assistant Secretary of Defense (Personnel Support, Families, and Education) partially concurred with the recommendation, stating that DoDEA has issued a policy memorandum that will preclude errors identified in the report from occurring in the future. The Deputy Assistant Secretary also stated that if the Under Secretary of Defense (Comptroller), directs the initiation of an Antideficiency Act investigation, she will take the necessary steps to accomplish the investigation.

The DoDEA generally concurred with the recommendations to discontinue the acquisition and installation of investment items with Operation and Maintenance funds and to obligate Procurement funds for the cost of investment items procured. However, DoDEA disagreed that Antideficiency Act violations would have occurred because it had Procurement funds to cover those accounting adjustments. In addition, DoDEA disagreed with the definition of a system stating that the LANs at the schools were individual stand-alone systems, based on the primacy of purpose of each system. DoDEA stated it processed accounting adjustments of $806,972 for DDESS and $298,402 for Department of Defense Dependant Schools to correct the appropriation charged for LANs.

Audit Response. We consider the Deputy Assistant Secretary of Defense (Personnel Support, Families, and Education) comments responsive. We do not consider the DoDEA comments totally responsive. The completion of the reviews of the potential Antideficiency Act violations initiated by the Under Secretary of Defense (Comptroller) will determine whether DoDEA violated the law. The primacy of purpose of the DoDEA acquisition of LAN systems was to link them together to form a single system. Stand-alone personal computers that serve as access points to a LAN system may not be part of the LAN system. However, the initial software acquisition to make such access possible is part of the acquisition cost of the system. We request that DoDEA reconsider its position and provide additional comments in response to the final report. We also request that the Under Secretary of Defense (Comptroller) and the Deputy Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) provide comments on the final report by March 24, 1997.

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Part I - Audit Results

Audit Background

The Chief Financial Officers' Act of 1990, Public Law 101-576, and United States Code, title 31, sections 3515 and 3521 (31 U.S.C. 3515 and 3521), require audits of financial statements of Defense agencies. They require Government agencies, including DoD, to prepare annual financial statements. Further, the laws require the financial statements to be audited in accordance with generally accepted government auditing standards.

Mission of the Department of Defense Education Activity. The Department of Defense Education Activity (DoDEA) manages and supervises the Domestic Dependent Elementary and Secondary Schools (DDESS) and the Department of Defense Dependents Schools (DoDDS). DDESS provides prekindergarten, elementary, and secondary education to eligible DoD dependents and dependents of other Federal civilian employees residing on Federal property in 16 school systems in 7 states and Puerto Rico. DoDDS provide kindergarten, elementary, and secondary school education to DoD dependents and other U.S. Government dependents at overseas duty stations. DoDDS also pays tuition for students overseas in non-DoD schools. In FY 1995, DoDDS had 191 schools. The DoDDS organization includes three regional offices, Europe; Pacific; and Panama. DoDDS is comparable to the 22nd largest school system in the United States. DoDEA has ongoing efforts to upgrade its information system networks used for administering educational programs and educating students.

Funding for DoDEA. The DoDEA receives appropriations for Operation and Maintenance (O&M), Procurement, and Military Construction. Funds from one appropriation cannot be used to augment or supplement 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, which prepares and provides a funding allocation document to DoDEA. DoDEA prepares fund authorization documents and allocates the funds to its subelements, including DDESS and DoDDS. However, DoDEA retains administrative control over all funds it receives.

Funding for DDESS. In FY 1995, DoDEA allocated $285.8 million in O&M funds, $1.4 million in Procurement funds, and $1.5 million in Military Construction funds to DDESS. In FY 1996, DoDEA allocated $337.7 million in O&M funds, $1.4 million in Procurement funds, and $6.9 million in Military Construction funds to DDESS. DDESS Headquarters, in turn, allocated the funds for its headquarters operations, and its school systems, through the Chief of Naval Education and Training, Pensacola, Florida. The Chief of Naval

Education and Training issued allotment and suballotment authorization documents establishing funding targets for DDESS. The school systems obligated funds against their funding targets.

Funding for DoDDS. In FY 1995, DoDEA allocated $869.2 in O&M funds, $1.7 million in Procurement funds, and $4.5 million in Military Construction funds to DoDDS. In FY 1996, DoDEA allocated $815.9 million in O&M funds, $.2 million in Procurement funds, and $29.8 million in Military Construction funds to DoDDS. DoDDS Headquarters, in turn, allocated the funds for its headquarters operations, and to the regional offices for execution by the schools in the districts.

Guidance Contained in United States Code. The 31 U.S.C. 1301, commonly called the "purpose statute," prohibits an agency from using appropriations for other than the intended purposes. The statute prohibits funds appropriated for one purpose to be used for other purposes. For example, O&M funds cannot be used to acquire investment items that require the use of Procurement funds.

Antideficiency Act. The Antideficiency Act was codified into 31 U.S.C., and its provisions were incorporated into a number of sections of that title. The sections of the public law in title 31 (listed below) are still referred to collectively as the Antideficiency Act in regular usage and in this report.

Limitation of Funds. The 31 U.S.C. 1341(a), "Limitation on Expending and Obligating Amounts," prohibits an officer or employee of the Federal Government from making or authorizing an expenditure or obligation exceeding an amount available in an appropriation or fund. Exceeding an apportionment limitation of the funds administratively imposed on a DoD Component may also constitute a violation of the Antideficiency Act under 31 U.S.C. 1517(a).

Reporting Antideficiency Act Violations. The 31 U.S.C. 1351 requires the head of an agency to report violations of section 1341(a). A similar reporting requirement exists for violations of section 1517(a). In either case, the agency must report all relevant facts and a statement of actions taken to the President and to the U.S. Congress.

Implementation of Antideficiency Act. The 31 U.S.C. 1514(a) requires agency heads to establish systems of administrative control to implement the Antideficiency Act.

Audit Objectives

The primary audit objective was to assess internal controls and compliance with laws and regulations at DoDEA to support our audit of the DoD-wide financial statements. Additional objectives were to review and to test accounting transactions to validate the effectiveness of the accounting controls. Appendix A discusses the audit scope and methodology. Appendix B provides a summary of related prior audits and other reviews.

Use of Operation and Maintenance Funds

The DoDEA used $6.9 million of appropriated O&M funds between FY 1993 and FY 1996 for other than their intended purposes.

o The DDESS used $5.4 million of FY 1993 through FY 1996 O&M funds, rather than Procurement funds, to acquire and install investment items, including computer equipment and software, for its local area networks (LANs). Specifically, DDESS used $4.8 million of O&M funds as the sole funding, and $662,882 of O&M funds in combination with $775,849 of Procurement funds, to acquire its LAN equipment and software.

o The DoDDS did not account for all costs related to the LAN installations by site. However, DoDDS used at least $1.5 million of O&M funds, rather than Procurement funds, to acquire and install LANs.

The O&M funds were used because DDESS and DoDDS misclassified the equipment as stand-alone components, which required O&M funds, rather than Procurement funds, to acquire them. As a result, potential Antideficiency Act violations may have occurred.

DoD Financial Management Regulation

The DoD Regulation 7000.14-R, "DoD Financial Management Regulation," (the DoD Financial Regulation) provides guidance on the type of funds that should be used to finance the operation and maintenance of an agency and the investment item acquisitions. The DoD Financial Regulation also cites examples of Antideficiency Act violations. See Appendix E for a summary of selected DoD guidance on acquisition of computer related equipment.

Financing of Operations and Maintenance. The DoD Financial Regulation, volume 2A, chapter 1, section 010201C.1, "Procedures for Determining Expenses Versus Investment," May 1994, defines expenses as the cost of resources consumed in operating and maintaining DoD. Expenses would include the costs of personnel resources, supplies, and utilities. O&M funds are used for operating expenses.

Investment Item Acquisitions. The DoD Financial Regulation, volume 2A, chapter 1, sections 010201C.1 and .2 state that investments are the acquisition

costs of capital assets of DoD, such as real property; equipment; and labor; and the cost of incidental material required to install an investment item. Costs to be classified as investments include costs for equipment items that are equal to or greater than the annual expense and investment thresholds Congress established. Congress established the expense and investment threshold at $15,000 for FY 1993; $25,000 for FY 1994; $50,000 for FY 1995, and $100,000 for FY 1996. The investment item must also have a useful life of at least 2 years. When applying the dollar threshold, the acquisition of the investment item may not be fragmented or the item acquired in a piecemeal fashion so as to circumvent the expense and investment policy.

Section 010201D of the DoD Financial Regulation provides additional guidance on applying the expense and investment criteria to general purpose communications and automatic data processing equipment purchases. The section states that the aggregate costs to be considered in the expense and investment criteria include peripherals and system unique software. Section 010201D also applies to additional, replacement, or cost to upgrade existing systems. Section 010201F.8 defines a system as "the combination of a number of components that are functioning within the context of a whole to satisfy a documented requirement." Procurement funds are used to purchase items meeting the investment criteria and dollar threshold.

Antideficiency Act Violations. The DoD Financial Regulation, volume 14, "Administrative Control of Funds and Antideficiency Act Violations," August 1995, provides additional guidance on violations of the Antideficiency Act. It states that a violation of the Antideficiency Act would occur if a DoD organization used O&M funds, rather than Procurement funds, to purchase a data processing LAN, unless the total cost of the entire LAN system is less than the amount designated for the use of Procurement funds. Although the hardware components and LAN 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.

Use of FY 1993 Through FY 1996 Operation and Maintenance Funds at DDESS

FY 1993 through FY 1996 LAN Acquisitions. The DDESS used $5.4 million of FY 1993 through FY 1996 O&M funds, rather than Procurement funds, to acquire and install capital equipment and software for their LANs. Of

the 11 schools we visited, 8 were acquiring LANs. Of the $5.4 million in O&M funds, DDESS used $4.8 million to acquire equipment and software for LANs at four of the eight schools. DDESS also used a combination of $662,882 of O&M funds and $775,849 of Procurement funds, to acquire equipment and software for LANs at the remaining four schools. The table below shows the FY 1993 through FY 1996 O&M funds used to purchase computer equipment and software and the O&M funds used in combination with Procurement funds to acquire the LANs at 8 schools we visited.

Operation and Maintenance and Procurement Funds Spent for Local Area Networks
(FY 1993 through FY 1996)

School System	O&M Funds Spent	O&M Funds Spent with Procurement Funds	Procurement Funds Spent	Total Funds Spent
Camp Lejeune	$ 245,853	$ 0	$ 0	$ 245,853
Fort Bragg	1,279,876	0	0	1,279,876
Fort Campbell	2,549,784	0	0	2,549,784
Fort Knox	0	374,957	99,360	474,317
Fort Rucker	0	103,974	446,561	550,535
Maxwell Air Force Base	0	123,117	123,393	246,510
Quantico Marine Corps Base	696,700	0	0	696,700
Warner Robins Air Force Base	0	60,834	106,535 *	167,369
Total	**$4,772,213**	**$662,882**	**$775,849**	**$6,210,944**

* Does not include $50,000 of Procurement funds that were available to spend until September 30, 1997.

As shown above, the Fort Rucker school system used $103,974 of O&M funds in combination with $446,561 of Procurement funds, to acquire LAN equipment and software. See Appendix C for the O&M and Procurement funds the schools we visited spent from FY 1993 through FY 1996 by fiscal year. The DDESS had been using O&M funds to acquire LAN hardware and software before FY 1993. For example, in FY 1992, the Fort Bragg school system used $480,522 of O&M funds to acquire equipment for its LAN.

Classification of LAN Equipment. The DDESS classified the LAN equipment as stand-alone components, thereby justifying the use of O&M funds, rather than as components of LAN systems, requiring the use of Procurement funds. However, justification documents did not support the classification. For instance, the Fort Rucker school system justification documents for the acquisition of the LAN described the procurement as a system. Additionally,

the justification documents indicated that only Procurement funds would be used for the acquisition. Further, DDESS did not plan to use the equipment in a stand-alone mode, and DoDEA was aware of the DDESS plans. For example, the specification standards for the LAN at the Maxwell school system included a number of servers (with no limit to the number) connected over the LAN and wide area network links with the capability to include electronic mail services. The school system received both O&M funds and Procurement funds from DoDEA, specifically to acquire its LAN.

The DoD Financial Regulation prohibits the piecemeal acquisition of investment items to preclude the use of Procurement funds. Additionally, it requires acquiring agencies to consider the total system cost, rather than the individual component costs of a system, when deciding the type of funds to be used to acquire the system. The acquisition of the DDESS LANs was fragmented and system components were acquired piecemeal. Further, the DoDEA budget officer was aware that O&M and Procurement funds were being used to acquire investment items.

DDESS Management of LAN Acquisitions. The DoDEA budget officer did not provide Procurement funds to all DDESS schools for the acquisition of LANs. As a result, DDESS used O&M funds to acquire and install their LANs, sometimes with the knowledge of the DoDEA budget officer. The investment items acquired for the LANs included cabling, computer servers equipped with ethernet cards, software, workstations, and printers. The total costs for the LANs at the schools we visited exceeded the expense and investment thresholds, requiring the use of Procurement funds rather than O&M funds.

Yearend Spending for LAN Acquisitions. In FY 1995, DDESS received O&M funding authority of about $285.8 million. The funds were allocated quarterly; however, about $5.1 million was allocated to the 11 schools we visited during the last 2 weeks of the fiscal year. For example, on September 18, 1995, 12 days before the end of the fiscal year, the DoDEA budget officer allocated $600,000 of O&M funds to the Fort Campbell school system, specifically marked for the acquisition of a LAN. Before that date, the Fort Campbell school system had been using O&M funds to acquire its LAN, although it had estimated the total system cost to be $2.5 million, which exceeded the expense and investment thresholds requiring the use of Procurement funds rather than O&M funds.

Use of FY 1994 Through FY 1996 Operation and Maintenance Funds at DODDS

Between FY 1994 and FY 1996, DoDDS used at least $1.5 million of O&M funds, rather than Procurement funds, to acquire and install LANs at 10 schools in its Pacific region.

LAN Program The DoDDS has installed and plans to install LANs in many of its schools. The DoDDS costs of establishing a LAN in most schools, including installation and equipment costs, exceed $100,000 per site. LAN installation costs include site surveys, cabling, drilling, establishing communication drops, and connecting and configuring equipment. Equipment includes passive components, such as conduits, equipment racks, fiber distribution centers, fiber optic cables, hubs, and panduits. LANs will be installed in buildings and classrooms throughout each school. Cabling is required both inside and outside the buildings. The LAN cabling and drops will be an integral part of the buildings and facilities. DoDDS used O&M funds to fund its LAN installation costs in the Europe and Pacific regions, and planned to fund future LAN installations with O&M funds using a computer maintenance contract. Research, Development, Test and Evaluation funds were also used in the Europe region.

Installation Costs in Europe Region. The DoDDS regional office in Europe did not have adequate accounting for the funds related to LANs installation, and could not provide us with LAN installation costs including engineering, equipment, and installation costs by site. The regional office planned to install about 13 LANs in FY 1995. Only 4 of the 13 LANs had been installed as of June 28, 1996. DoDDS Europe used firm-fixed-price contracts with O&M and Research, Development, Test and Evaluation funds to acquire and install LANs in the region. Because of that, DoDDS stated that it did not need to keep records of LAN installation costs by site. DoDDS therefore could not provide us with the cost per site for LAN installation in the Europe region.

Installation Costs in the Pacific Region. The costs of installing LANs in the Pacific area is provided in Appendix D. DoDDS installed LANs at 10 schools at an average cost of $152,961 per school using O&M funds, including labor and equipment. DoDDS Pacific region planned to install LANs in 24 additional schools.

Maintenance Contract. In FY 1995, DoDDS began procurement procedures to establish a Federal Information Processing maintenance contract. The Federal Information Processing maintenance contract included LAN installation in its statement of work, and provided for site surveys, engineering plans, equipment, materials, and services relating to LAN installation. The Federal Information Processing maintenance contract provided that O&M funds will be

used. DoDDS planned to use the Federal Information Processing maintenance contract as a mechanism to contract for LAN installations at sites worldwide. The contract is a firm-fixed-price contract with a maximum cost of about $30 million.

On August 7, 1996, the Inspector General, DoD, informed the Deputy Assistant Secretary (Personnel Support, Families, and Education) of a DoDEA plan to use the Federal Information Processing maintenance contract for LAN installations. In a memorandum dated August 13, 1996, the Deputy Assistant Secretary responded that there will be no delivery orders placed against the Federal Information Processing maintenance contract until a determination is made on the appropriate type of funds to use for LAN installation. At the time of this report, we were waiting for the determination.

Using a Federal Information Processing maintenance contract funded with O&M funds for LAN installation is inappropriate. LAN installation requires the use of Procurement funds if the total cost of the LAN exceeds established dollar thresholds for the use of O&M funds. Using O&M funds reduces the visibility of LAN installation costs. LAN capital equipment and installation costs should not be expensed, but financed with Procurement funds and capitalized.

DoDDS Management of LAN Acquisitions. The DoDEA classified its LAN acquisitions as a technology modernization program with stand-alone computer work stations with the ability to access, retrieve, store, manipulate, . . . and transmit data to other stand-alone computers. DoDEA has stated that it did not consider the LAN acquisitions as a system. However, the technology modernization program indicates that DoDEA intended to connect the LANs to form a system. The total equipment and installation costs for the LANs at 10 schools we reviewed exceeded the expense and investment thresholds, requiring the use of Procurement funds rather than O&M funds.

Standard Cost Accounting Policies. The Europe region could not provide us with the cost per site for the installation of LANs in the region. DoDDS did not have standard cost accounting policies to accumulate LAN installation costs by site. As a result, the DoDDS Europe region was not aware that the aggregate cost of the LAN acquisitions requiring the use of Procurement funds rather than O&M funds was being exceeded. The use of firm-fixed-price contracts did not preclude the DoDDS Europe region from accumulating LAN acquisition costs by site.

Potential Antideficiency Act Violation

The DDESS and DoDDS used O&M funds to acquire and install capital equipment and software for the school LANs; however, the acquisitions were fragmented. Additionally, the aggregate cost of the LAN systems acquired with O&M funds exceeded the dollar thresholds Congress established for the use of O&M funds. Procurement funds, rather than O&M funds, should have been used to acquire and install the LAN systems. Because DDESS and DoDDS used O&M funds instead of Procurement funds to acquire the investment items, an Antideficiency Act violation may have occurred.

Recommendations, Management Comments and Audit Response

Renumbered and Added Recommendations. As a result of our meetings with management, we added Recommendation 2. and renumbered draft Recommendations 2., 3.a., 3.b., and 3.c. as Recommendations 3., 4.a., 4.b., and 4.c.

1. We recommend that the Under Secretary of Defense (Comptroller) direct the initiation of an investigation of potential Antideficiency Act violations if sufficient funds are not available in the FY 1993 through FY 1996 DoDEA Procurement account to fund the obligations totaling $6.9 million.

Management Comments Required. The Under Secretary of Defense (Comptroller) did not provide comments on the draft report. If comments are received, we will consider them as comments on the final report.

2. We recommend that the Under Secretary of Defense (Comptroller) and the Deputy Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) jointly study and provide specific guidance on the definition, acquisition, and appropriate funding for automated data processing equipment including local area networks within DoD.

3. We recommend that the Deputy Assistant Secretary of Defense (Personnel Support, Families, and Education) direct the Director, DoDEA, to investigate and report the potential Antideficiency Act violations based on Recommendation 1., as prescribed in DoD Regulation 7000.14-R, "DoD Financial Management Regulation."

Deputy Assistant Secretary Comments. The Deputy Assistant Secretary of Defense (Personnel Support, Families, and Education) partially concurred with the recommendation, stating that DoDEA has issued a policy memorandum that will preclude errors identified in the report from occurring in the future. The Deputy Assistant Secretary also stated that if the Under Secretary of Defense (Comptroller) directs the initiation of an Antideficiency Act investigation, she will take the necessary steps to accomplish the investigation.

Audit Response. The Deputy Assistant Secretary of Defense comments are responsive.

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

a. Establish the controls necessary to discontinue the acquisition and installation of investment items with Operation and Maintenance funds, and ensure that the acquisition and installation of investment items are not fragmented as a means to use Operation and Maintenance funds.

DoDEA Comments. The DoDEA concurred with the recommendation, stating that it issued a policy memorandum in October 1996. The policy provides specific guidance to the DoDEA staff on how to apply investment criteria for information technology purchases. DoDEA also stated that the Office of the Under Secretary of Defense (Comptroller) reviewed and concurred with the policy memorandum.

Audit Response. The DoDEA comments are responsive. However, we request that DoDEA reevaluate the policy memorandum based on the outcome of Recommendation 2.

b. Make the necessary accounting adjustments to deobligate $667,222 of FY 1993, $227,062 of FY 1994, $4.3 million of FY 1995, and $213,401 of FY 1996 DDESS Operation and Maintenance funds; and obligate $667,222 of FY 1993, $227,062 of FY 1994, $4.3 million of FY 1995, and $213,401 of FY 1996 Procurement funds.

DoDEA Comments. The DoDEA stated that it concurred with the need to deobligate some O&M funds and obligate Procurement funds. DoDEA also stated that, based on its interpretation of the DoD Financial Regulation, defined in DoDEA Information Technology policy memorandum 96-F-001, only $806,972 of FY 1993, FY 1994, and FY 1995 O&M funds must be adjusted. Additionally, DoDEA stated that it had sufficient Procurement funds to process the adjustment; therefore, according to volume 14 of the DoD Financial Regulation, a violation of the Antideficiency Act has not occurred. DoDEA disagreed with the auditors' interpretation of the DoD Financial Regulation. As discussed in comments on draft report Recommendation 3.a., DoDEA stated

that the auditors treated each school district within DDESS as a system and each school within DoDDS as a system. It disagreed with both approaches, stating that the "primacy of purpose" or function should determine whether a LAN is stand-alone or part of a system.

Audit Response. We consider the comments as partially responsive. We disagree that only $806,972 of O&M funds should be deobligated because DoDEA arrived at that amount based on its definition of a system, which we disagree with. We have asked the Under Secretary of Defense (Comptroller) and the Deputy Assistant Secretary of Defense (Command, Control, Communication, and Intelligence) to define a system. In addition, the result of the investigation of the potential Antideficiency Act violations will determine whether DoDEA has sufficient Procurement funds to cover the O&M funds being deobligated. Regarding the auditors approach, our analysis reflected the DoDEA organization and management structure. For example, for DDESS, the one school located at Maxwell Air Force Base, Alabama, is considered a school district, and the seven schools at Fort Campbell, Kentucky, are considered one school district. Each contract for LAN installation was awarded for the entire school district. DoDDS is organized and managed at area and district levels. A DoDDS district includes schools that are not located on the same military installation. We request that DoDEA reconsider its position and provide additional comments in response to the final report.

c. Make the necessary accounting adjustments to deobligate $1.5 million of FY 1994 through FY 1996 DoDDS Operation and Maintenance funds; and obligate $1.5 million of FY 1994 through FY 1996 DoDDS Procurement funds.

DoDEA Comments. The DoDEA concurred with the recommendation and stated that four LANs at two schools, valued at $228,263, were improperly charged to O&M funds. DoDEA also agreed that the LAN cost at Lester middle school included $70,139 for Research, Development, Test, and Evaluation funds that should not have been used for the LAN acquisition. Further, DoDEA stated that it had sufficient funds to process adjustments to correct the errors that the auditors identified. As a result, a potential violation of the Antideficiency Act has not occurred. As discussed in comments on draft report Recommendation 3.a., DoDEA considered the LANs at each school as individual stand-alone LAN systems.

Audit Response. We do not consider DoDEA comments to be fully responsive. The DoDEA requirements documents indicated that the LANs at each school were one system, and independent LANs. Connectivity of the LANs was very important to DoDEA. For example, the five independent LANs at each of the DoDDS schools DoDEA identified included "LAN to LAN." Although, DoDEA did not define LAN to LAN, LAN to LAN connection is evidence of the DoDEA original intent to acquire one system, as

connection is evidence of the DoDEA original intent to acquire one system, as stated in its requirements documentation. Each LAN was acquired separately as a component of a larger LAN system. The cost of the LANs identified in the report were for cabling infrastructure and did not include all the costs associated with LANs, such as LAN hardware and software. Those additional costs could increase the cost of the independent LANs above the respective expense and investment threshold. In addition, the result of the investigation of the potential Antideficiency Act violations will determine whether DoDEA has sufficient funds to cover the Research, Development, Test, and Evaluation funds erroneously used to acquire and install the LAN system at Lester middle school. We request that DoDEA reconsider its position and provide additional comments in response to the final report.

Part II - Additional Information

Appendix A. Audit Process

Scope

We reviewed the FY 1995 Domestic Schools Obligation Report and supporting documentation, including contracts; requisitions; and military interdepartmental purchase requests for FY 1993 through FY 1995 at 11 of the 16 DDESS school systems. The 11 schools obligated $167.8 million of the $284.3 million in O&M funds obligated by the DDESS system in FY 1995. Additionally, we reviewed FY 1996 obligation documents if the schools had used FY 1996 funds for LAN acquisitions at the time of our visit. We evaluated the basis of the DDESS O&M budget submission that was included in the DoDEA FY 1997 budget submission. The DDESS FY 1997 O&M budget submission was based on FY 1995 obligations.

At DoDDS, we reviewed DoDEA funds control policies and procedures, and the FY 1994 through FY 1996 budget execution for the contracts, supplies and equipment object classes. We also obtained documentation on the DoDEA execution of Defense Advanced Research Projects Agency provided funds.

Use of Computer-Processed Data. At DDESS, we relied on computer-processed data from the Standard Accounting and Reporting System (STARS), but did not perform tests of the system's general and application controls to confirm the reliability of the data. We verified the data on the STARS report to source documents at the schools we visited. We determined that amounts by cost elements on the source documents did not agree with data on the report generated by the STARS. Part of the differences were due to coding and input errors. However, some differences could not be supported. Salary expense on the STARS report for the schools we visited was not supported by source documents at the schools. Although we identified errors in the system information, the results of our audit were not materially affected.

Our review of computer-processed data at DoDDS was limited to reports generated from the Funds Control System, the official accounting system for DoDEA, and reports generated from local data bases at the 30 DoDDS schools and administrative offices we visited. We did not evaluate general and application controls for the local data base systems.

Use of Legal Assistance. We obtained legal assistance from our Office of the Deputy General Counsel, which reviewed the report.

Audit Period and Standards. We performed this financial-related audit from January through August 1996 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD.

Methodology

We reviewed DoD and DoDEA budget execution and funds allocation policies and procedures. We visited DDESS headquarters and judgmentally selected and visited 11 schools that were located in Alabama, Georgia, Kentucky, North Carolina, and Virginia. We interviewed school operating personnel. We did not use statistical sampling in selecting the schools visited. However, we considered the recent history of the reported costs per student at the DDESS schools in making our selection.

We also visited the DoDDS Europe and Pacific regional offices, 4 district offices and 30 schools located in the 2 regions. We reviewed FY 1994 through FY 1996 budget execution data for contracts, supplies, and equipment, and compared them to underlying documentation such as availability of funds, statements of need, and statements of work to determine the accuracy of the audit trail for the amounts in the Funds Control System. We reviewed the Defense Advanced Research Projects Agency's Computer Aided Education Technology Initiative project to determine the appropriateness of funds control, adequacy of planning, and status of the project. We also interviewed operating personnel at DoDEA headquarters, Defense Advanced Research Projects Agency and operating personnel and administrators at the schools and administrative offices we visited. We did not use statistical sampling in selecting the sites or schools visited or in selecting accounting transactions for audit testing and verification at the DoDDS.

We reviewed prior Inspector General, DoD, audit reports. We reviewed FY 1995 obligations citing O&M funds, and compared them to underlying documentation, including availability of funds statements; statements of need; and statements of work; to assess the accuracy of the audit trail. We also reviewed FY 1996 obligation documents if the schools had used FY 1996 funds for LAN acquisitions at the time of our visit. We interviewed operating personnel at DoDEA headquarters and operating personnel and administrators at the schools we visited.

Organizations and Individuals Visited or Contacted

Contacts During the Audit. We visited or contacted individuals and organizations within DoD. Further details are available on request.

Appendix B. Prior Audits and Other Reviews

During the past 5 years, the General Accounting Office has testified before Congress and the Office of the Inspector General, DoD, has published three reports related to the DoDEA financial management.

General Accounting Office

General Accounting Office 1994 Testimony, T-HEHS-94-155. In April 1994, the General Accounting Office testified before the Subcommittee on Readiness, House Committee on Armed Services, on military dependents' education and potential savings in the Department of Defense Dependents Schools. The General Accounting Office stated that because of underlying weaknesses in the DoDEA accounting and information systems, it was unable to verify the accuracy of data obtained during its review.

Inspector General, DoD

Inspector General, DoD, Report No. 96-181, "Management Control Environment for the Department of Defense Education Activity," June 28, 1996, discussed the DoDEA control environment and whether the financial system could produce reliable financial information needed to prepare financial statements required by the Chief Financial Officers Act. The report stated that DoDEA did not have assurance that its internal policies and procedures were being implemented and achieved, that revenues and expenditures were properly recorded and reported, and that assets were properly managed. DoDEA did not have a general ledger accounting system and did not adequately implement its Management Control Program and review accounting system controls as required.

The report recommended that DoDEA establish an independent internal review function; improve controls over budget formulation, budget execution, accounting transactions, financial reporting, and assets; implement a general ledger accounting system; perform risk assessments and assign an associated level of risk to all assessable units; evaluate the accounting system using all applicable key accounting requirements; and report the lack of a general ledger accounting system as a material weakness in its Annual Statement of Assurance. The report also recommended that the Assistant Secretary of Defense (Force Management Policy) request assistance from the Under Secretary of Defense (Comptroller) and the Defense Finance and Accounting Service to help resolve DoDEA accounting, assets, and management control problems. DoDEA concurred with the recommendations and agreed to take appropriate actions including a plan of action with milestones dates to be developed and provided to us.

Inspector General, DoD, Report No. 96-159, "Quick-Reaction Report on Potential Antideficiency Act Violations at the Department of Defense Education Activity," June 13, 1996, discussed potential Antideficiency Act violations in FY 1995 O&M funds and FYs 1987 and 1993 Foreign Currency Fluctuation, Construction funds. The report also discussed the management controls needed to ensure that adequate funds are available to prevent violations of the Act. The report stated that DoDEA used $4.1 million and potentially some or all of another $24.9 million of O&M funds, rather than Procurement funds, to purchase capital equipment and software.

The report recommended that 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; monitor the military construction payment schedules and disbursements and exchange rates; and investigate potential violations of the Antideficiency Act. DoDEA generally concurred with the recommendations, and agreed to take appropriate actions.

Inspector General, DoD, Report No. 96-125, "Quick-Reaction Report on the Acquisition of the Department of Defense Education Activity Automated Information System," May 21, 1996, discussed DoDEA management of the acquisition of a major automated information system, and DoDEA compliance with DoD acquisition policies and procedures. The report stated that DoDEA did not provide adequate overall management for the acquisition of a major automated information system.

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. Further, the report recommended that DoDEA discontinue the major automated information acquisition 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 systems to the Under Secretary of Defense (Comptroller). The Deputy Assistant Secretaries of Defense are taking appropriate actions. Comments from DoDEA were acceptable because of the corrective actions that will be implemented by the Deputy Assistant Secretary of Defense (Personnel Support, Families, and Education).

Appendix C. DDESS Operation and Maintenance and Procurement Funds Spent on Local Area Networks

School System	Type of Fund Used	FY 1993	FY 1994	FY 1995	FY 1996	Total
Camp Lejeune	O&M	$ 0	$ 46,161	$ 199,692	$ 0	$ 245,853
	Procurement	0	0	0	0	0
Fort Bragg	O&M	568,324	75,107	449,706	186,739	1,279,876 [1]
	Procurement	0	0	0	0	0
Fort Campbell	O&M	0	0	2,549,784	0	2,549,784
	Procurement	0	0	0	0	0
Fort Knox	O&M	0	0	374,957	0	374,957
	Procurement	0	0	0	99,360	99,360
Fort Rucker	O&M	38,064	4,103	56,571	5,236	103,974
	Procurement	149,613	296,948	0	0	446,561
Maxwell Air Force Base	O&M	0	101,691	0	21,426	123,117
	Procurement	28,393	75,000	20,000	0	123,393
Quantico Marine Corps Base	O&M	0	0	696,700	0	696,700
	Procurement	0	0	0	0	0
Warner Robins Air Force Base	O&M	60,834	0	0	0	60,834
	Procurement	0	106,535 [2]	0	0	106,535
Subtotal	O&M	**667,222**	**227,062**	**4,327,410**	**213,401**	**5,435,095**
Subtotal	Procurement	**178,006**	**478,483**	**20,000**	**99,360**	**775,849**
Total		**$845,228**	**$705,545**	**$4,347,410**	**$312,761**	**$6,210,944**

[1] Fort Bragg also used $480,532 in FY 1992.
[2] Amount does not include $50,000 of Procurement funds that are available to spend until September 30, 1997.

Appendix D. LAN Installation Costs at Schools in the DoDDS Pacific Region

Site	Equipment	Labor	Total Cost*
Japan			
Edgren High	$ 69,843	$ 69,139	$ 138,982
Kadena High	48,086	85,529	133,615
Kadena Middle	53,077	69,531	122,609
Kinnick High	67,531	78,400	145,931
Kubasaki High	75,511	122,286	197,797
Lester Middle	113,120	97,770	210,890
Yokota High	83,946	98,245	182,190
Zama High	67,437	78,400	145,837
Korea			
Osan High	56,975	55,199	112,174
Seoul High	67,001	72,584	139,585
Total	**$702,527**	**$827,083**	**$1,529,610**
Average	**$ 70,253**	**$ 82,708**	**$ 152,961**

* The LAN installation costs include equipment and labor required to install cabling and to connect LAN components.

Appendix E. Selected DoD Definition of Automated Information Systems

DoD Directive 5000.1, "Defense Acquisition," March 15, 1996. Automated Information System. A combination of computer hardware and software, data, or telecommunications, that performs functions such as collecting, processing, transmitting, and displaying information. Excluded are computer resources, both hardware and software, that are physically part of, dedicated to, or essential in real time to the mission performance of a weapon system.

"Information Technology (IT) and National Security System (NSS) IT Acquisition Oversight," August 6, 1996. Assistant Secretary of Defense (Command, Control, Communication, and Intelligence). Information System. A combination of elements that shall function together to produce the capabilities required to fulfill a mission need, including hardware, ancillary equipment, software or any combination thereof, but excluding construction or other improvements to real property.

DoD Regulation 7000.14-R, "Financial Management Regulation," volume 2B, May 1994. Chapter 1. System. The concept of a system must be considered in evaluating the procurement of an individual end item. A system shall be considered to exist if a number of components are part of and function within the context of a whole to satisfy a documented requirement. In this case, system unit cost applies to the aggregate cost of all equipment items being acquired as a new system.

DoD Regulation 7000.14-R, "Financial Management Regulation," volume 2B, May 1994. Chapter 18. Automated Information System. A combination of computer hardware and computer software, data and telecommunication, that performs functions such as collecting; processing; transmitting; and displaying information.

DoD Directive 8000.1, "Defense Information Management (IM) Program," October 27, 1992. Automated Information System. A combination of information, computer, and telecommunication resources, and other information technology and personnel resources that collect, process, store, communicate, retrieve, and display information.

DoD Directive 8320.1, "DoD Data Administration," September 26, 1991. Automated Information System. A combination of information, computer, and telecommunications resources and other information technology that collect, record, process, store, communicate, retrieve, and display data.

DoD Directive 5200.28, "Security Requirements for Automated Information Systems (AIS)," March 21, 1988. Information System. The organized collection, processing, transmission, and dissemination of information, in accordance with defined procedures, whether automated or manual.

DoD Directive 5200.28, "Security Requirements for Automated Information Systems (AIS)," March 21, 1988. Automated Information System. An assembly of computer hardware, software and firmware configured to collect, create, communicate, compute, disseminate, process, store, and control data or information.

Appendix F. 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 Assistant Secretary of Defense (Command, Control, Communication, and Intelligence)
Deputy General Counsel
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

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency

Other Defense Organizations (cont'd)

Director, National Security Agency
  Inspector General, National Security Agency
Director, Department of Defense Education Activity
Inspector General, Defense Intelligence Agency

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

Office of the Assistant Secretary of Defense Comments

Final Report Reference

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, DC 20301-4000

FORCE MANAGEMENT POLICY

DEC 3 [illegible]

MEMORANDUM FOR DEPUTY ASSISTANT INSPECTOR GENERAL FOR AUDITING
(ATTN: MR. DAVID K. STEENSMA)

SUBJECT: Draft Proposed Audit Report, "Quick-Reaction Report on Potential Antideficiency Act Violations at the Department of Defense Education Activity (Project No. 6LA-2011.03), dated October 11, 1996."

This memorandum responds to your request of October 11 to provide comments on the subject draft report. The recommendation for corrective action is addressed below:

Renumbered Rec. 3

Recommendation 2, page 11: "We recommend that the Deputy Assistant Secretary of Defense (Personnel Support, Families and Education) direct the Director, DoDEA to investigate and report the potential Antideficiency Act violations based on Recommendation 1, as prescribed in DoD Regulation 7000.14R, DoD Financial Management Regulation."

Partially concur. The Director, DoDEA is investigating the transactions identified in the report and is taking corrective action as required and reported in their response to the draft audit report. In order to preclude errors in the future, the Director, DoDEA issued a policy memorandum, "Department of Defense Education Activity (DoDEA) Information Technology Funding Policy Memorandum 96-F-001," on October 16, 1996. This memorandum provides specific guidance on how to apply investment criteria for information technology purposes.

Subsequent to the publication of this memorandum, the Under Secretary of Defense (Comptroller) convened a meeting on November 18, 1996, to review findings of previous reports related to DoDEA. The subject of policy regarding the use of procurement versus O&M funding for the acquisition of technology equipment and software was discussed. As a result, it is our understanding that a broader review of Defense policy will be conducted. In the interim, DoDEA will continue to apply the investment criteria described in the DoDEA policy memorandum.

Should the Under Secretary of Defense (Comptroller) direct the initiation of an Antideficiency Act investigation, I can assure you that we will take all necessary action to accomplish this investigation. However, since DoDEA does not have staff trained to conduct these reviews, we would need to seek expertise from another organization for this purpose.

Carolyn Becraft

Carolyn H. Becraft
Deputy Assistant Secretary of Defense
(Personnel Support, Families and Education)

Department of Defense Education Activity Comments

Final Report Reference

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

NOV 27 1996

MEMORANDUM FOR DEPUTY ASSISTANT INSPECTOR GENERAL FOR AUDITING
(ATTN: MR. DAVID K. STEENSMA)

SUBJECT: Response to Draft Proposed Audit Report, "Quick-Reaction Report on Potential Antideficiency Act Violations at the Department of Defense Education Activity (Project No. 6LA-2011.03), Dated October 11, 1996"

This memorandum responds to your request of October 11 to provide comments on the subject draft report. The audit recommendations for corrective action and related findings are addressed below.

Recommendation 1 (page 11): "We recommend that the Under Secretary of Defense (Comptroller) direct the initiation of an investigation of potential Antideficiency Act violations if sufficient funds are not available in the FY 1993 through FY 1996 DoDEA procurement account to fund the obligations totaling $6.9 million."

Response. It is our understanding that the Under Secretary of Defense (Comptroller) will respond directly.

Renumbered Rec. 3

Recommendation 2, page 11: "We recommend that the Deputy Assistant Secretary of Defense (Personnel Support, Families and Education) direct the Director, DoDEA, to investigate and report the potential Antideficiency Act violations based on Recommendation 1., as prescribed in DoD Regulation 7000.14-R, "DoD Financial Management Regulation."

Response. The Deputy Assistant Secretary of Defense (Personnel Support, Families and Education) will respond directly.

Renumbered Rec. 4.a. Page 12

Recommendation 3a, page 11: "We recommend that the Director, Department of Defense Education Activity establish the controls necessary to discontinue the acquisition and installation of investment items with Operation and Maintenance funds, and ensure that the acquisition and installation of investment items are not fragmented as a means to use Operation and Maintenance funds."

Concur. As a follow-up to the DoDEA General Counsel opinion dated August 2, 1996, we drafted a policy memorandum providing specific guidance on how to determine the appropriate funding source for information technology items. The Deputy Director, Investment Branch, Program/Budget, Office of the DoD Comptroller, reviewed and concurred with the

policy. Subsequently, on October 16, 1996, DoDEA published the DoDEA Information Technology (IT) Funding Policy Memorandum 96-F-001. This policy provides specific guidance to the DoDEA staff on how to apply investment criteria for information technology purchases. We are confident that this guidance will prevent any future recurrences of the identified problem.

The definition of a system described in the IT Funding Policy Memorandum 96-F-001 is based on DoD Financial Management Regulation (FMR) 7000.14R. However, it differs from the auditors' interpretation of the FMR.[1] For example, within DDESS, the auditors treated each district as a system and applied the Procurement vs. O&M rules to the collective dollars spent on LAN installation for the district. Within DoDDS the auditors used the school not the district as the system. We disagree with both these approaches.

Our interpretation of the FMR as defined in the DoDEA Information Technology Funding Policy memorandum 96-F-001, dated October 16, 1996, is as follows:

> "IT System: Software and/or hardware which is integral to performing the mission or function identified in an IT Requirements Document other than a stand-alone system. For the purposes of this policy memorandum, any combination of hardware/software which work together to perform a function or to satisfy an approved requirement as defined above. A system likely exists when any combination of hardware/software work together to perform a function or to satisfy an approved requirement; or when a component is integral to (i.e., is a necessary component of) a particular requirement. For example, the component parts of a LAN (the cables, servers, LAN software, and the cost of installing that equipment) will be considered a "system." The personal computers that serve as customer access points to the LAN may not be part of the LAN system if they have a stand-alone primacy of purpose or function; but they may be part of the LAN system if they were acquired as integral parts of the LAN pursuant to a requirement document.
>
> Systems may be components of or work in conjunction with other systems. Whether multiple systems that interact should be considered a single system or a multiple system depends upon the primacy of purpose of each separate system and whether the continued operation of each system is dependent on (integral to) the other system." Based on the above definition of an Information Technology (IT) system, we would apply the provisions of FMR, Volume 2A: Budget presentation and Formulation, Chapter 1, Section 0102. 010201.D, page 1-14, dated May 1994, and the applicable investment threshold to determine the source of funding for the system. This guidance states: "The determination of expense or investment cost

[1] Refer to Draft Report pages 5 and 6, Section: "Financial Management Regulation," for the auditors' analysis.

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will be applied on the basis of each system in the requirements document, if the document includes more than one system."

In addition, the IT Funding Policy Memorandum 96-F-001, provides accountability controls to monitor and implement the policy. For example, the DoDEA managers must prepare an Information Technology Requirements Document (ITRD) for each IT requirement totaling $1,000 or more. The approved ITRD must be maintained by the requesting official to support the funding decision. The ITRD requires the manager to: a) provide a description of the purchase, b) identify all related costs including installation costs, and c) complete a decision matrix to assist in identifying the appropriate funding source.

Renumbered Rec. 4.b. Page 12

Recommendation 3b, page 11: "We recommend that the Director, Department of Defense Education Activity make the necessary accounting adjustments to deobligate $667,222 of FY 1993, $227,062 of FY 1994, $4.3 million of FY 1995, and $213,401 of FY 1996 DDESS O&M funds; and obligate $667,222 of FY 1993, $227,062 of FY 1994, $4.3 million of FY 1995, and $213,401 of FY 1996 Procurement funds."

Concur with exception.

We have reviewed all transactions that support the amounts identified in the subject report. Our review confirmed that there were inconsistencies in the use of funding when six Domestic Dependent Elementary and Secondary School (DDESS) districts purchased technology investment items. We found that $806,972 must be adjusted to correct the inappropriate funding of investment items.

Attachment 1 identifies the **total** dollars spent on LANs in DDESS. The data are presented in the same manner as they were presented in the audit report to facilitate comparison. In addition, we noted during our review of the DoDEA accounting data for FY 1995 that the total amount spent on LAN at Fort Campbell was $2,403,778. However, Appendix C of the audit report shows a total expenditure of $2,549,284. Appendix C has overstated Fort Campbell's expenditures by $146,006. The corrected amount of $2,403,778 is reflected in our table at Attachment 1. Attachment 2 is a **school by school analysis** of the expenditures reflected in Attachment 1. The analysis reflects the review of approximately 50 ITRDs.

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Below is a **summary the adjustments** that are required for FY 1993 through FY 1996:

		FY 1993	FY 1994	FY 1995	FY 1996	Total
What was charged	O&M	667,222	384,155	4,181,404	213,401	5,446,182
	Procurement	178,006	321,390	119,360	0	618,756
What should have been charged	O&M	521,336	422,319	3,382,794	312,761	4,639,210
	Procurement	323,892	283,226	818,610	0	1,425,728
Required adjustments	O&M	-145,886	38,164	-798,610	99,360	-806,972
	Procurement	145,886	-38,164	699,250	0	806,972

We are processing adjustments to correct the errors identified during the review. We have confirmed that there are sufficient funds available to process these adjustments. The FMR states that a violation of the Antideficiency Act does not automatically occur if O&M funds are used when Procurement funds were required. Paragraph B.7.d., Chapter 10, Volume 14 of the FMR states that: ". . . when discovered, the obligation is simply moved from the O&M account to the applicable procurement account. If sufficient funds are available after recording the obligation in the procurement account, including all other known obligations and deobligations, a potential violation of the Antideficiency Act has not occurred . . ." Therefore, no further action is required at this time.

On a final note, the report seems to suggest that DoDEA officials, including the DoDEA budget officer, encouraged the selection of incorrect funding sources in the DDESS technology investment purchases. Our evidence suggests that the errors resulted from a lack of clear guidance on the appropriate use of O&M and Procurement Funds.[2] We request removal of this comment in the final audit report. The DoDEA IT Funding Policy Memorandum 96-F-001, establishes the guidance and controls to prevent any future recurrence of the noted problems.

Revised Paragraph Page 8

Recommendation 3c, Page 11: "We recommend that the Director, Department of Defense Education Activity make the necessary accounting adjustments to deobligate $1.5 million of FY 1994 through FY 1996 DoDDS Operation and Maintenance funds; and obligate $1.5 million for FY 1994 through FY 1996 DoDDS Procurement funds."

Renumbered Rec. 4.c. Page 13

Concur with exception.

We have reviewed all transactions which support LAN installation for the schools in the Pacific area. We retroactively applied the requirements of the DoDEA IT Funding Policy to all transactions identified at Appendix D of the audit report. We found that two LANs at Kubasaki HS ($63,399.42 and $56,308.87) and two LANs at Yokota HS ($57,167.07 and $51,387.75) were

[2] Refer to pages 7 and 8 of the Draft Audit Report, Section: "Classification of LAN Equipment," for auditors' discussion of the DDESS LAN equipment.

improperly charged to O&M funds. The cost of each of these LANs exceeded the FY 1995 investment threshold of $50K and should have been charged to Procurement funds. The individual cost of each of the remaining 46 LANs did not exceed the threshold. O&M funds were properly used for these purchases. The chart below shows the results of our review.

Results of the DoDEA Review

Schools	LAN to LAN	Classroom LAN	Admin. LAN	Media LAN	Computer Science LAN	Totals
Edgren	42193.36	38838.76	29285.68	16339.43	8682.15	135339.38
Kadena HS	32735.97	40391.75	31125.41	17661.50	8477.13	130391.76
Kadena MS	39435.44	33163.08	25521.14	14466.77	7051.82	119638.25
Kinnick	48998.63	41640.70	31824.58	17944.35	8885.03	149293.29
Kubasaki HS	63399.42	56308.87	43540.77	24771.14	11957.08	199977.28
Lester MS	25589.56	30707.47	23735.42	15353.73	6972.06	102358.24
Osan HS	42408.70	28011.18	21383.14	12046.06	6127.39	109976.47
Seoul HS	37212.13	41843.72	31458.06	17510.16	9687.16	137711.23
Yokota HS	57167.07	51387.75	39190.75	22061.50	11158.70	180965.77
Zama HS	46459.51	42889.11	33161.86	18865.49	8968.62	150344.59

All of the DoDDS schools reviewed by the auditors (listed in Appendix D of the subject audit report) were included in our review and the costs reflected in the above table. With the exception of Lester MS, the amounts we reported were not materially different from the amounts reported by the auditors. Lester MS costs reported by the auditors ($210,890) included $70,139 of RDT&E funds which should not be included.

We are processing adjustments to correct the errors identified during the review. We have confirmed that there are sufficient funds available to process these adjustments. As stated in our response to Recommendation 3b., since sufficient funds are available, a potential violation of the Antideficiency Act has not occurred.

The audit report also states that the "DoDDS Europe Regional office" (now the Area Service Center-Europe) did not have adequate accounting for the funds related to LANs installation and could not provide the auditors with LAN installation costs including engineering, equipment, and installation costs by site.[3] To address this finding, we are researching all the transactions associated with the purchase of equipment and installation of LANs in Europe.

[3] Refer to page 9 of the Draft Audit Report, Section: "Installation Costs in Europe Region."

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We will establish an accounting of costs for each independent LAN, and provide a summary report to the DoDIG by January 15, 1997.

We appreciate the opportunity to provide comments to your audit report on the potential Antideficiency Act violations at DoDEA.

for Jerald E. Bloom
Lillian Gonzalez
Director

Attachments:
As stated

DDESS Operations & Maintenance and Procurement Funds Spent on Local Area Networks

School System	Type of Funds Used	FY 1993	FY 1994	FY 1995	FY 1996	Total
Camp Lejeune	O & M	$ -	$ 46,161	$ 199,692	$ -	$ 245,853
	Procurement	$ -	$ -	$ -	$ -	$ -
Fort Bragg	O & M	$ 521,336	$ 75,107	$ 449,706	$ 186,739	$ 1,232,888
	Procurement	$ 46,988	$ -	$ -	$ -	$ 46,988
Fort Campbell	O & M	$ -	$ -	$ 1,605,168	$ -	$ 1,605,168
	Procurement	$ -	$ -	$ 798,610	$ -	$ 798,610
Fort Knox	O & M	$ -	$ -	$ 374,957	$ 99,360	$ 474,317
	Procurement	$ -	$ -	$ -	$ -	$ -
Fort Rucker	O & M	$ -	$ 301,051	$ 56,571	$ 5,236	$ 362,858
	Procurement	$ 187,677	$ -	$ -	$ -	$ 187,677
Maxwell Air Force Base	O & M	$ -	$ -	$ -	$ 21,426	$ 21,426
	Procurement	$ 28,393	$ 176,691	$ 20,000	$ -	$ 225,084
Quantico Marine Corps Base	O & M	$ -	$ -	$ 696,700	$ -	$ 696,700
	Procurement	$ -	$ -	$ -	$ -	$ -
Warner Robbins Air Force Base	O & M	$ -	$ -	$ -	$ -	$ -
	Procurement	$ 60,834	$ 106,535	$ -	$ -	$ 167,369
Subtotal	O & M	$ 521,336	$ 422,319	$ 3,382,794	$ 312,761	$ 4,639,210
Subtotal	Procurement	$ 323,892	$ 283,226	$ 818,610	$ -	$ 1,425,728
Total		$ 845,228	$ 705,545	$ 4,201,404	$ 312,761	$ 6,064,938

Attachment 1

Attachment 2
School By School Analysis of the ITRDs

To help determine the correct funding sources for the DDESS purchases, we retroactively applied the requirements of the DoDEA IT Funding Policy Memorandum 96-F-001 to all DDESS transactions identified at Appendix C of the audit report. The criteria established in the funding policy was applied retroactively using applicable investment thresholds ($15K for FY 1993, $25K for FY 1994, $50K for FY 1995 and $100K for FY 1994). Below is a school by school analysis of approximately 50 ITRDs:

(1) Fort Campbell

The Fort Campbell contract (identified as $2,549,784 in FY 1995 O&M funds was actually obligated at $2,463,780) was issued for multiple purposes. The contract included $1,041,662 in real property upgrades in all buildings; $131,089 for installation of telephone lines in every classroom; $185,049 to connect all classrooms for cable television; $66,216 for ancillary equipment not integral to the LAN installation; $19,527 for software, supplies, and training not integral to the LAN; and $161,625 for management of the entire contract. All of the above items are properly chargeable to O&M funds. Eight LANs were purchased and installed at a cost of $798,610, which should have been charged to Procurement funds because each LAN exceeded the FY 1995 investment threshold of $50K. A portion of the contract, $60,002 was not executed and has been deobligated.

(2) Fort Bragg

(a) A LAN was purchased and installed for $46,988 using FY 1993 O&M funds. Procurement funds should have been charged because the LAN cost exceeded the FY 1993 investment threshold of $15K.

(b) Seven LAN upgrades for a total of $33,000 were properly chargeable to FY 1993 O&M funds because the cost of individual LAN upgrades did not exceed the $15K threshold.

(c) Ten LAN upgrades for a total of $252,845 did not exceed the $50K threshold and was properly chargeable to FY 1995 O&M funds.

(d) We determined that $947,043 of FY 1993, FY 1994, FY 1995, and FY 1996 funds were properly charged to O&M for computer hardware and software maintenance.

(3) Robins AFB

(a) A LAN was purchased for $60,834 using FY 1993 O&M funds. Procurement funds should have been charged because the LAN cost exceeded the FY 1993 $15K investment threshold.

(b) Two LANs were purchased for a total of $106,535 using FY 1994 Procurement funds, which is proper.

(4) Fort Rucker

(a) A LAN was purchased for $38,064 using FY 1993 O&M funds. Procurement funds should have been charged because the LAN cost exceeded the FY 1993 $15K investment threshold.

(b) A FY 1994 contract in the amount of $296,948 was charged to Procurement ($139,855) and O&M ($157,093). The contract was issued to purchase 80 stand-alone computers and software, ancillary equipment for $259,232 and two LANs ($22,721 and $14,995). The entire contract should have been charged to O&M funds. The individual stand-alone equipment and LAN costs did not exceed the FY 1994 investment threshold of $25K.

(c) $149,613 in FY 1993 Procurement funds were properly charged for purchase of two computer labs.

(d) $4,103 of FY 1994, $56,571 of FY 1995 and $5,236 of FY 1996 O&M funds were properly chargeable for 87 stand-alone computers and ancillary equipment.

(5) Maxwell AFB

(a) A LAN was purchased for $101,691 using FY 1994 O&M funds. Procurement funds should have been used because the LAN cost exceeded the FY 1994 investment threshold of $25K.

(b) A contract was issued in September 1995 to purchase a LAN for $123,393 using FY 1993, FY 1994, and FY 1995 Procurement funds. Procurement funds were properly used for this LAN purchase.

(c) $21,426 of FY 1996 O&M funds were properly charged for ancillary equipment.

(6) Fort Knox

(a) 48 Stand-alone computers were purchased for $99,360 using FY 1995 Procurement funds in October 1995. The report incorrectly showed that FY 1996 funds were

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charged. FY 1996 O&M funds should have been used because each individual stand-alone computer did not exceed the FY 1996 investment threshold of $100K.

(b) 209 stand-alone computers for $374,957 were properly charged to FY 1995 O&M funds.

(7) Quantico

(a) Four LANs were purchased for $164,833 using FY 1995 O&M funds. O&M funds were properly charged because no individual LAN exceeded the FY 1995 investment threshold of $50K.

(b) 192 stand-alone computers for a cost of $530,780 were properly charged to FY 1995 O&M funds because the cost of each computer did not exceed the threshold.

(c) $1,087 for ancillary equipment was properly chargeable to FY 1995 O&M funds.

(8) Camp Lejeune

(a) Two LANs were purchased for a total of $42,277 using FY 1994 O&M funds. O&M funds were properly used because the individual LAN costs did not exceed the FY 1994 investment threshold of $25K.

(b) $3,884 in FY 1994 O&M funds were properly charged to purchase software and ancillary equipment.

(c) $195,331 in O&M funds were properly used to purchase upgrades to 17 LANs because the individual LAN upgrade cost did not exceed the FY 1995 investment threshold of $50K.

(d) $4,361 in O&M funds were properly charged for the purchase of stand-alone software and ancillary equipment.

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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