



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884



REPORT
NO. 92-062

March 19, 1992

MEMORANDUM FOR DIRECTOR, DEFENSE ADVANCED RESEARCH PROJECTS
AGENCY

SUBJECT: Report on Merged ("M") Accounts at the Defense
Advanced Research Projects Agency
(Project No. 1FE-3001.03)

Introduction

This final report on the audit of merged accounts at the Defense Advanced Research Projects Agency (DARPA) is provided for your information and use. This report covers a portion of the DoD-wide audit, the results of which were summarized in our Report No. 92-028, "Merged Accounts of the Department of Defense," December 30, 1991. The primary audit objective was to determine the validity of obligation balances in the Merged ("M") Accounts established by the Department of Defense under United States Code, title 31, sec. 1552(a).

The Defense Authorization Act for FY 1991, Section 1406, requires the Secretary of Defense to audit each DoD account established under U.S.C., title 31, sec. 1552(a). For each merged account, the audit shall identify:

- o the balance of each account as of November 4, 1990;
- o the amount required to meet valid obligations and the amount considered to be no longer valid;
- o sources of amounts in the account, shown by fiscal year, and the amounts for each fiscal year;
- o the average length of time funds have been obligated;
- o the average size of obligations; and
- o object classifications of the obligations.

Since DoD automated accounting systems could not provide midmonth data, we relied on the October 1990 month-end data to accurately represent the value of "M" accounts. In our DoD-wide report, we published the average age, size, and object classifications of DARPA's obligations.

Scope of Audit

The audit was made between January and June 1991. Enclosure 5 lists the activities we visited or contacted. We reviewed the financial statement documentation for unliquidated obligations in DARPA's merged accounts. Funding for DARPA is provided to its agents on a reimbursable basis under the Research, Development, Test and Evaluation (RDT&E) appropriation. The Comptroller of DARPA reported the following balances as of October 31, 1990:

DARPA'S REPORTED BALANCES

<u>Fiscal Year</u>	<u>RDT&E Funds</u>
1986 and prior years	\$33.71 million
1987	<u>18.05 million</u>
Total	<u>\$51.76 million</u>

The DARPA merged obligation balance included a separate unliquidated balance in FY 1987 funds that had not been merged because DoD's RDT&E appropriation was overdisbursed. Treasury regulations prohibit merging of year-end accounts with negative preclosing balances. During our review, this account was pending resolution.

Selection of sample. To evaluate DARPA's "M" accounts, we used statistical sampling techniques. In selecting our sample, we used a stratified three-stage cluster. In the first stage, we selected DARPA from the universe of Defense agencies, and in the second stage, we selected three DARPA agents: the Office of the Secretary of Defense (OSD), Washington Headquarters Services (WHS); the Office of the Chief of Naval Research (OCNR); and Air Force activities at Los Angeles, Hanscom, and Wright-Patterson Air Force Bases. During the third stage, we stratified and randomly selected specific obligations for review, as shown below:

ITEMS FOR REVIEW

	<u>Universe</u>		<u>Sample</u>	
	<u>Items</u>	<u>Obligations</u>	<u>Items</u>	<u>Obligations</u>
OSD	595	\$31.80 million	31	\$6.63 million
OCNR	293	7.70 million	30	3.40 million
Air Force	<u>241</u>	<u>6.67 million</u>	<u>36</u>	<u>(3.16 million)</u>
Totals	<u>1,129</u>	<u>\$46.17 million</u>	<u>97</u>	<u>\$6.87 million</u>

Due to negative balances of unliquidated obligations, the sample's total value did not effectively present the range and dollar value of the total DARPA universe. The positive balance was \$31.73 million and the negative unliquidated obligation balance was \$24.86 million, which produced a net sample value of \$6.87 million. The sample included 22 RDT&E items for FY 1987, valued at \$12.99 million.

Limitations. The scope of the audit was set by the Defense Authorization Act for FY 1991, Section 1406. We did not evaluate the propriety of obligations, the reliability of computer-processed data, or the implementation of the Federal Managers' Financial Integrity Act pertaining to the audit objectives.

The unliquidated obligations in DARPA's "M" account balances were obtained from each agent's accounting system. The unliquidated obligation balance was computed by finance and accounting personnel, using the value of obligations recorded minus posted disbursements. This procedure often resulted in an overdisbursed condition with a negative balance, which distorted the total unliquidated obligation balance in the "M" accounts and the related sample.

The Inspector General, DoD, Inspection Report No. 90-INS-05, March 22, 1990, reported significant internal control weaknesses in the management of DoD's merged accounts. These weaknesses are discussed below under "Prior Reviews" and include inadequacies in oversight, review, reconciliation, accounting data, and documentation. Due to the work involved in verifying the account balances in merged accounts, we did not have time to identify the causes of the deficiencies noted during our audit. However, we believe that Inspection Report No. 90-INS-05 accurately describes the types of control weaknesses that led to such deficiencies. Our audit was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD.

Background

Congress appropriates funds for specific purposes with varying periods of availability. Two years after funds expire, the remaining obligations are transferred to a merged account. A merged account contains appropriations for the same general purpose. Monies that are not obligated, or that are subsequently deobligated, are returned to the Treasury of the United States. These monies are maintained in a Treasury merged surplus account until they are needed to meet valid obligations that were previously incurred.

Congress established merged accounts in 1956 (Public Law 84-798) so that agencies could pay obligations associated with activities for which no unexpired appropriation exists. Congress dissolved the merged accounts in 1990 and made all appropriations available for disbursements and adjustments for 5 fiscal years following expiration. After 5 years, all disbursements and adjustments for an appropriation must be made from current year funds appropriated for similar purposes. Appropriations maintain their identity throughout the 5-year period.

Prior Reviews

Both the General Accounting Office (GAO) and the Inspector General, DoD, have evaluated DoD's merged accounts.

GAO review. The GAO issued a final report, "Expired Appropriations: New Limitations on Availability Make Improved Management by DoD Essential," OSD Case No. 8309-C, July 1991. The report documented a large increase in the use of DoD merged surplus authority and recommended strengthening restoration procedures by increasing management's attention to this issue.

Inspector General, DoD, review. Inspection Report No. 90-INS-05 identified areas in which management needed to improve the fiscal control and management of merged accounts. These problem areas included:

- o systemic problems with reconciliation and validation, oversight, and policy;
- o inaccurate unliquidated balances because of the inclusion of negative unliquidated obligations;
- o inadequate or inconsistent reviews;
- o lack of command emphasis and routine quality assurance; and
- o inadequate accounting data because of weak internal controls and poor recordkeeping practices.

Management generally agreed with the report, but did not make sufficient resources available to ensure corrective action in all cases. We observed many of the same problems.

Discussion

Review of unliquidated obligations. DARPA's total "M" account balance did not accurately reflect the status of its RDT&E account. Accounts were not verified annually; therefore, balances were improperly stated. Official account balances reflected unliquidated obligations of \$46.17 million, while our projections indicated that an absolute value of \$52.89 million was valid and that the account could be underobligated.

The DARPA Comptroller reported \$51.76 million in total "M" year obligations, including FY 1987 funds. Of this total, the three selected DARPA agents reported a merged account balance of \$46.17 million, or 89 percent of the total DARPA "M" account balance. The reported balance is a net figure of positive and negative obligations. The negative obligations existed due to improper posting of disbursements to individual contract line items. The absolute value methodology of calculating the balance more accurately portrays the true value of the account. (An absolute value is one in which all figures are defined only by magnitude, without a positive or negative sign.) We calculated the absolute value of the three DARPA agents' balance to be \$128.83 million. This was computed by adding \$87.5 million, the absolute value of the positive obligations, to \$41.33 million, the absolute value of the negative obligations.

Using statistical sampling techniques, we projected the net value of valid obligations to be a negative balance of \$7.03 million and the net value of invalid obligations to be a positive balance of \$21.35 million (see Enclosure 2). These net values included negative balances within the projections. Accounting and finance personnel at audit sites were advised to deobligate invalid balances during the audit. The projected value of the valid obligations was \$52.89 million, which was based on absolute balances of \$22.93 million in positive and \$29.96 million in negative obligations. The absolute value of invalid obligations was \$75.94 million, which also included undistributed and unmatched disbursements.

Our projections for valid accounts exceeded the reported value of our sample universe (\$46.17 million) by \$6.72 million because many sample items contained negative obligation balances. Because we did not conduct a 100-percent review of all accounts, we could not determine whether the projected excessive obligations are a function of statistical variance, or whether our sample reflected the Defense Agencies entire RDT&E appropriation, which was overdisbursed.

The balances that included negative obligations distorted DARPA's "M" account balances reported to OSD and Congress.

Negative balances decreased the total "M" account balance, and additional funds may need to be obligated to correct the deficits in individual DARPA orders. This condition occurred because managers did not ensure an effective annual review of the validity of unliquidated obligated balances. Also, finance and accounting personnel were not reconciling payment discrepancies. Reconciliation of payment discrepancies was time-consuming because finance and accounting personnel had to deal with accounting systems, programs, and procedures of the Defense Contract Administration Services Regions (DCASRs) and DARPA agents.

We considered obligation balances to be invalid when:

- o balances were not supported by adequate documentation;
- o disbursements were incorrectly posted;
- o no disbursements had been made from the account during the last 2 full fiscal years;
- o final payment had been disbursed to the contractor but the remaining funds had not been deobligated; or
- o the paying office had made disbursements, but the finance and accounting office had not posted the disbursements by November 4, 1990 (undistributed disbursements).

We randomly selected and verified account balances against recorded obligations. We verified records of disbursement maintained by both the finance and accounting activity (the posting office) and the paying office (usually DCASRs). From the 97 items reviewed, we identified 35 items with full or partial valid obligations. Of these, there were 21 items with positive valid obligations of \$14.74 million and 14 items with negative valid obligations of \$17.85 million, which resulted in valid obligations totaling a negative \$3.11 million. Until all accounts are reconciled, DARPA agents' disbursements may be greater than obligations available. Negative obligations can be deemed valid if it is determined that the disbursements were correct, but insufficient funds were obligated to cover expenses posted to the DARPA order or contract line item.

For example, at WHS, we found that one DARPA order appeared to be overdisbursed by \$4.84 million. We did not validate the propriety of the payments, but we verified that the disbursement was posted to the correct DARPA order cited on the voucher. We found additional undistributed or unmatched vouchers of

\$1.31 million. When the undistributed amount of \$1.31 million was added to the current balance of this DARPA order, the result was a negative unliquidated obligation balance of \$6.15 million.

We identified \$2.73 million of invalid balances that could be deobligated and put to better use (see Enclosure 3). Of the sampled items that had full or partial invalid obligations, 40 percent of the dollar amounts reported by DARPA were available for reobligation to meet other contract adjustment requirements. A summary of invalid items and dollar amounts and an explanation of each is at Enclosure 1.

Recording of unmatched and undistributed disbursements. Unmatched or undistributed disbursements are those payments made by the paying office but not posted to the accounting records. Finance and accounting offices had problems collecting disbursement data. The Defense Finance and Accounting Service (DFAS) was aware of the problems with reconciliation of account balances and had begun taking corrective action; however, considerable work remained. Of the unliquidated obligations sampled, there were 62 items with full or partial invalid obligations. Of the 62 items, 43 items were no longer valid because disbursements had been made prior to November 5, 1990, but had not been posted. These 43 items accounted for \$7.26 million in invalid obligations.

Resolution of overdisbursed accounts. The resolution of overdisbursed accounts remains a significant problem at the Defense finance and accounting offices. As noted previously, no DARPA contract was overdisbursed, but many individual DARPA orders associated with large contracts carried negative balances. This overdisbursed condition resulted from posting errors, duplicate payments, and obligation documents that did not agree with finance and accounting office records. An effective program did not exist to reconcile overdisbursed obligations in a timely manner. In addition to the DARPA order that was overdisbursed by \$6.15 million, a negative obligation balance existed for an FY 1986 sample item with a negative balance of \$54,000. The reconciliation of this sample item revealed that a payment of \$14,700 was erroneously posted to the accounting records three times, and an additional payment of \$10,000 was posted to the wrong DARPA order. These posting errors caused the negative obligation of this item. When the errors are corrected, the item will have a zero balance.

Since the "M" account surplus authority was withdrawn, the problem of negative obligations has become more visible. Accounts now appear to be overobligated or overdisbursed and may require Anti-Deficiency Violation reporting as prescribed in DoD Directive 7200.1, "Administrative Control of Appropriations,"

July 27, 1987. Posting errors and duplicate payments contribute to negative obligation balances in the overall "M" account balance. We recommended that finance and accounting offices record negative obligations as accounts receivable or refunds receivable instead of canceling them when accounts are closed. This will create offsetting debits and allow for the possibility that negative unliquidated obligation balances may result from posting errors or duplicate payments, and will allow agencies to research the balances and receive any refunds due the Department of Defense.

The "DoD Accounting Manual," DoD Manual 7220.9-M, February 1988, states, "All debts and accounts for which a determination is made that money is owed to the U.S. Government shall be considered as receivables and recorded in a DoD Component's accounting system at the earliest opportunity." Until otherwise reconciled, "M" accounts with negative obligation balances should not be deobligated and should be considered as receivables, since the balances may contain duplicate payments for which the Department of Defense or its agents are due a refund. However, once the negative obligations are posted to accounts receivable status, they must be reconciled to a positive balance prior to the write-off of "M" account obligations as required by law, and prior to final expiration of all "M" accounts in FY 1993.

Related Reporting Requirements

DoD Manual 7220.9-M, Chapter 93, "Year-End Closing Statements," requires fund administrators to provide a supplemental schedule of obligations reviewed by independent sources, and the dollar amounts deobligated based on the independent reviews. The results of this review should be incorporated into DARPA's year-end closing statements, and should be submitted with the completed "Accounting Report" ([M]1176) or "Year-End Closing Statement," Treasury Fiscal Service Form 2108.

Recommendations For Corrective Action

We recommend that the Director, Defense Advanced Research Projects Agency:

1. Require its agents to adjust their accounts so that all invalid merged account balances listed in Enclosure 1 are deobligated and unused funds are reobligated where appropriate.
2. Require agents to conduct an item-by-item review of the Defense Advanced Research Projects Agency's remaining unliquidated merged accounts and deobligate invalid funds.

3. Require agents to identify negative unliquidated obligations. Once identification has been completed, negative obligations should either be reconciled to the original obligations or treated as receivables until the overdisbursements can be resolved.

Management Comments

Management concurred with Recommendation 1. DARPA will request that the agents selected for statistical audit sampling review the audited accounts and report to DARPA the actions taken to comply with the recommendation. The estimated completion date is January 31, 1992.

Management concurred with Recommendation 2. DARPA will ask all of its agents to improve their reviews of unliquidated merged accounts and follow up with timely deobligation of invalid funds. The estimated completion date is January 31, 1992.

Management concurred with Recommendation 3. DARPA will request that all of its agents improve their procedures for identifying and reconciling negative unliquidated obligations for the merged accounts. The estimated completion date is January 31, 1992.

The complete text of DARPA's comments is at Enclosure 4. DARPA did not comment on the estimated monetary benefits in the draft report. DoD Directive 7650.3 requires comments on each recommendation as well as on the estimated monetary benefits resulting from the audit (see Enclosure 3). The Director of DARPA is requested to comment on the monetary benefits shown in the final report. Comments should be received by April 30, 1992.

The courtesies extended to the audit staff are appreciated. If you have any questions about this audit, please contact Mr. Terry L. McKinney at (703) 693-0430 (DSN 223-0430) or Mr. Richard B. Bird at (703) 693-0476 (DSN 223-0476). Enclosure 6 lists the distribution of this report.


Robert J. Lieberman
Assistant Inspector General
for Auditing

cc:
Comptroller of the Department of Defense

SCHEDULE OF DARPA ACCOUNTS REVIEWED

Office of the Secretary of Defense - Washington Headquarters Services, 1986 and Prior Years

Sample Number	Object Class	Contract Number	Amount Audited	Valid Obligations	Invalid Obligations	Undistributed Disbursements	Explanation
1	2525	81C-0335	\$(2,985,000.00)	\$(2,985,000.00)	\$ 0	\$ 0	Record obligation
2	2525	81C-0335	(226,019.10)	(976,019.10)	0	750,000.00	Record obligation
3	2525	81C-0335	54,293.00	0	54,293.00	0	2-year rule
4	2525	85C-0149	(107,421.64)	(107,421.64)	0	0	Record obligation
5	2525	81C-0335	400,000.00	0	100,000.00	300,000.00	2-year rule/unposted disbursements
6	2525	85C-R124	(144,838.99)	(113,352.54)	(31,486.45)	0	Incorrect postings/record obligation
7	2525	86F-1481	11,425.89	0	11,425.89	0	2-year rule
8	3131	86F-0448	2,716.00	0	2,716.00	0	2-year rule
9	2631	86M-BE01	2,564.50	0	2,564.50	0	2-year rule
10	2510	86F-1172	6,822.00	0	6,822.00	0	2-year rule
11	2525	86K-0010	16,981.82	0	0	16,981.82	2-year rule/unposted disbursements
12	2525	84C-0225	35,758.47	35,758.47	0	0	Valid
13	2525	86C-0178	(283,359.00)	(283,359.00)	0	0	Record obligation
14	2525	85K-0100	(54,327.51)	0	(54,327.51)	0	Incorrect postings
15	2525	86C-0100	107,558.00	107,558.00	0	0	Valid
16	2525	DOE	107,035.00	7,035.00	100,000.00	0	No support/valid
17	2525	86C-0265	(218,776.33)	(218,776.33)	0	0	Record obligation
18	2525	85C-0162	(1,399.00)	(1,399.00)	0	0	Record obligation
19	2525	NRL	3,571.00	0	2,886.00	685.00	Unposted disbursements/contract closed
20	2525	86C-2277	2,134.86	2,134.86	0	0	Valid
Subtotal, 1986 and Prior Years			\$(3,270,281.03)	\$(4,532,841.28)	\$194,893.43	\$1,067,666.82	

SCHEDULE OF DARPA ACCOUNTS REVIEWED
(cont'd)

Office of the Secretary of Defense - Washington Headquarters Services, 1987

Sample Number	Object Class	Contract Number	Amount Audited	Valid Obligations	Invalid Obligations	Undistributed Disbursements	Explanation
1	2525	87C-9263	\$ 341,889.78	\$ 124,132.59	\$ (8,256.18)	\$ 226,013.37	Unposted disbursements/incorrect postings
2	2525	87C-0037	(2,809,753.91)	(2,657,424.60)	(21,754.87)	(130,574.44)	Unposted disbursements/incorrect postings
3	2525	86C-0178	600,000.00	0	600,000.00	0	2-year rule
4	2525	87C-0001	(4,844,321.88)	(6,156,778.34)	0	1,312,456.46	Unposted disbursements
5	2525	Various	(2,010,821.89)	(2,046,071.90)	0	35,250.01	Unposted disbursements
6	2525	NOSC 5047/7	1,224,616.29	0	0	1,224,616.29	Unposted disbursements
7	2525	Various	(392,135.55)	(422,043.52)	(121,843.33)	151,751.30	Unposted disbursements/incorrect postings
8	2525	88C-8006	432,826.00	0	0	432,826.00	Unposted disbursements
9	2525	Various	10,375,792.84	10,332,499.51	0	43,293.33	Unposted disbursements
10	2525	87C-8910	(1,773,078.82)	(1,872,864.00)	0	99,785.18	Unposted disbursements
11	2525	Classified	8,750,646.22	160,149.93	8,587,234.29	3,262.00	Unposted disbursements/incorrect postings
	Subtotal, 1987		<u>\$9,895,659.08</u>	<u>\$(2,538,400.33)</u>	<u>\$9,035,379.91</u>	<u>\$3,398,679.50</u>	
	Grand Total, 1986 and 1987		<u>\$6,625,378.05</u>	<u>\$(7,071,241.61)</u>	<u>\$9,230,273.34</u>	<u>\$4,466,346.32</u>	

SCHEDULE OF DARPA ACCOUNTS REVIEWED
(cont'd)

Office of the Chief of Naval Research, 1986 and Prior Years

Sample Number	Document Number	Object Class	Contract Number	Amount Audited	Valid Obligations	Invalid Obligations	Undistributed Disbursements	Explanation
				\$	\$	\$	\$	
1	4488	25	84K0073	6,619.62	0	6,619.28	0	2-year rule
2	9003	25	80C0482	57,852.41	0	0	57,852.41	Unposted disbursements
3	4427	25	84C0476	26,211.18	0	21,484.30	4,726.21	Unposted disbursement/2-year rule
4	4462	25	85WR22218	4,246.18	0	3,800.00	446.18	Unrecorded deobligation/unposted disbursements
			85WR22219	513,869.92	0	0	513,869.92	Unposted disbursements
			86WR22080	18,654.05	0	0	18,654.05	Unposted disbursements
			86WR22081	1,116.35	0	0	1,116.35	Unposted disbursements
				<u>537,886.50</u>	<u>0</u>	<u>3,800.00</u>	<u>534,086.50</u>	
5	4725	25	83WR30299	110,606.36	0	110,606.32	0	Records destroyed
6	5344	25	85C0181	1,264.87	0	1,264.33	0	2-year rule
			85D0510	3,430.21	0	3,430.21	0	2-year rule
				<u>4,695.08</u>	<u>0</u>	<u>4,695.08</u>	<u>0</u>	
7	3490	25	78C0339	1,049.11	0	1,049.11	0	2-year rule
			80C0059	188,179.71	0	0	188,179.71	Records destroyed
			80C0431	1,115.54	0	1,115.54	0	Contract completed
				<u>190,344.36</u>	<u>0</u>	<u>2,164.65</u>	<u>188,179.71</u>	
8	4174	25	81C0285	3,622.73	0	3,622.35	0	2-year rule
9	4230	25	10C0328	58,860.00	0	58,860.36	0	DCASR Final
10	3650	25	78C0526	5,934.47	0	5,934.37	0	Contract closed
			80C0251	97,411.12	97,411.12	0	0	Valid
				<u>103,345.59</u>	<u>97,411.12</u>	<u>5,934.47</u>	<u>0</u>	
11	3543	25	78C0268	12,265.00	0	12,265.00	0	Contract retired
12	4300	25	81K0742	58,454.57	0	0	58,454.57	Unposted disbursements

SCHEDULE OF DARPA ACCOUNTS REVIEWED
(cont'd)

Office of the Chief of Naval Research, 1986 and Prior Years

<u>Sample Number</u>	<u>Document Number</u>	<u>Object Class</u>	<u>Contract Number</u>	<u>Amount Audited</u>	<u>Valid Obligations</u>	<u>Invalid Obligations</u>	<u>Undistributed Disbursements</u>	<u>Explanation</u>
20	1984	25	80C0505	\$ 312,437.95	\$ 0	\$ 312,437.45	\$ 0	2-year rule
21	4462	25	82WR222	(2,351.41)	0	(2,351.41)	0	Invalid work request number
			83C0139	2,672.53	0	2,672.53	0	2-year rule
			83C0167	5,048.40	0	48.40	5,000.00	Unposted disbursements/2-year rule
			83C0190	415,801.52	0	0	415,801.52	Contract completed/unposted disbursement
			3C0368	(228,564.00)	0	(228,564.00)	0	Incorrect posting
			84C0491	35,690.00	0	0	35,690.00	Unposted disbursement
			84WR221	(929.00)	0	(929.00)	0	Invalid work request number
				<u>227,368.04</u>	<u>0</u>	<u>(229,123.48)</u>	<u>456,491.52</u>	
22	4786	25	83K0146	114,192.83	0	0	114,192.83	Unposted disbursements
23	2095	25	83K0125	447,435.95	761,925.77	(314,489.46)	0	Incorrect postings
24	4507	25	82K0680	132,074.83	0	0	132,074.83	Unposted disbursements
			84K0291	73,262.45	0	0	73,262.45	Unposted disbursements
				<u>205,337.28</u>	<u>0</u>	<u>0</u>	<u>205,337.28</u>	
25	3972	25	80C0622	224,692.57	0	24,018.61	200,673.96	Unposted disbursements/2-year rule
				<u>3,475,885.21</u>	<u>1,033,805.21</u>	<u>109,765.80</u>	<u>2,332,314.20</u>	

Office of the Chief of Naval Research, 1987

SCHEDULE OF DARPA ACCOUNTS REVIEWED
(cont'd)

Sample Number	Document Number	Object Class	Contract Number	Amount Audited	Valid Obligations	Invalid Obligations	Undistributed Disbursements	Explanation
26	4349	25	86C0086	\$ 4,101.67	\$ 4,101.67	\$ 0	\$ 0	Valid
27	4762	25	83K0454	50,000.00	0	50,000.49	0	2-year rule
28	5554	25	86C0038	(181,975.27)	0	(181,975.50)	0	Incorrect posting
29	5602	25	83K0125	36,023.28	0	36,023.51	0	2-year rule
30	9525	25	88C0512 88C0705	22.36 17,400.95 <u>17,423.31</u>	22.36 17,400.95 <u>17,423.31</u>	0 0 0	0 0 0	Valid Valid
Subtotal, 1987				\$ (74,427.01)	\$21,524.98	\$ (95,951.99)	\$ 0	
Grand Total, 1986 and 1987				\$3,401,458.20	\$1,055,330.19	\$ 13,813.81	\$2,332,314.20	

SCHEDULE OF DARPA ACCOUNTS REVIEWED
(cont'd)

Los Angeles Air Force Base, 1986 and Prior Years

Sample Number	Contract Number	Amount Audited	Valid Obligations	Invalid Obligations	Undistributed Disbursements	Explanation
1	83C0084	\$ (195,534.79)	0	\$ (\$195,534.79)	0	No documentation
2	83C0084	5,094.43	0	5,094.43	0	No documentation
3	83C0084	11,234.00	0	11,234.00	0	2-year rule
4	83C0084	7,249.58	0	7,249.58	0	2-year rule
5	77C0065	537,258.00	0	537,258.00	0	2-year rule
6	77C0107	(3,659,481.55)	0	(3,659,481.55)	0	Incorrect postings
7	SD60036	152,075.00	0	152,075.00	0	2-year rule
8	77C0107	(4,884,127.00)	0	(4,884,127.00)	0	Incorrect postings
9	82C0062	44,470.27	0	6,806.02	37,664.25	2-year rule/unposted disbursements
10	77C0107	742,712.36	0	710,038.72	32,673.64	Unrecorded transfer/unposted disbursements
Subtotal, 1986 and Prior Years		<u>\$ (7,239,049.70)</u>	<u>0</u>	<u>\$ (7,309,387.59)</u>	<u>\$ 70,337.89</u>	

Los Angeles Air Force Base, 1987

1	77C0065	\$ 1,322,976.93	\$ 983,594.87	\$ 296,086.18	\$ 43,295.88	No documentation
2	86C0143	(58,040.94)	0	(58,040.94)	0	Incorrect postings
Subtotal, 1987		<u>\$ 1,264,935.99</u>	<u>\$ 983,594.87</u>	<u>\$ 238,045.24</u>	<u>\$ 43,295.88</u>	
Total, 1986 and 1987		<u>\$ (5,974,113.71)</u>	<u>\$ 983,594.87</u>	<u>\$ (7,071,342.35)</u>	<u>\$ 113,633.77</u>	

SCHEDULE OF DARPA ACCOUNTS REVIEWED
(cont'd)

Hanscom Air Force Base, 1986 and Prior Years

Sample Number	Contract Number	Amount		Valid Obligations	Invalid Obligations	Undistributed Disbursements	Explanation
		Audited					
1	83C0090	\$ 5,000.00	\$ 0	0	\$ 5,000.00	0	2-year rule
2	85C0057	(13,701.00)	(13,701.00)		0	0	Need obligation set up
3	85C0057	17,702.26	0	0	3,843.38	13,858.88	2-year rule/unposted disbursements
4	78C0002	16,557.70	0	0	16,557.70	0	2-year rule
5	80C0002	7,310.45	0	0	7,310.45	0	2-year rule
6	80C0002	2,967.45	0	0	2,967.45	0	2-year rule
7	80C0002	20,764.11	0	0	20,764.11	0	2-year rule
8	80C0002	20,064.62	0	0	20,064.62	0	2-year rule
9	84C0001	124.00	0	0	124.00	0	2-year rule
10	85C0002	9,492.99	0	9,492.99	0	0	Valid
Total, 1986		\$ 86,282.58	\$ (4,208.01)	\$ 9,492.99	\$ 76,631.71	\$ 13,858.88	

1987

1	86C0001	\$ 300,000.00	\$ 0	\$ 0	\$ 300,000.00	0	Deobligations not posted
2	86C0001	3,197.00	0	0	3,197.00	0	2-year rule
Subtotal, 1987		\$ 303,197.00	\$ 0	\$ 0	\$ 303,197.00	0	
Grand Total, 1986 and 1987		\$ 389,479.58	\$ (4,208.01)	\$ 9,492.99	\$ 379,828.71	\$ 13,858.88	

SCHEDULE OF DARPA ACCOUNTS REVIEWED
(cont'd)

Wright-Patterson Air Force Base, 1986 and Prior Years

Sample Number	Contract Number	Amount Audited	Valid Obligations	Invalid Obligations	Undistributed Disbursements	Explanation
1	78C5235	\$ 22,961.02	0	0	\$ 22,961.02	Unposted disbursements
2	80C5004	14,848.20	0	0	14,848.20	Unposted disbursements
3	80C5008	118,490.93	31,541.75	0	86,949.18	Unposted disbursements
4	82C3000	329,568.00	329,568.00	0	0	Valid
5	82C3000	166,591.00	0	166,591.00	0	2-year rule
6	83C1091	1,725.01	1,725.01	0	0	Valid
7	85C3800	1,369.99	0	1,369.99	0	2-year rule
8	75C0310	129,638.01	(21.99)	0	129,660.00	Unposted disbursements
9	78C0306	32,946.41	0	0	32,946.41	Unposted disbursements
10	85C2586	5,222.05	0	5,222.05	0	2-year rule
	Total, 1986	\$ 823,360.62	\$ 362,812.77	\$ 173,183.04	\$ 287,364.81	
1	86C2124	\$ 546,528.17	\$ 504,090.45	0	\$ 42,437.72	Unposted disbursements
2	86C2124	1,057,418.00	1,057,418.00	0	0	Contract open
	Total, 1987	\$1,603,946.17	\$ 1,561,508.45	0	\$ 42,437.72	
	Total, 1986 and 1987	\$2,427,306.79	\$ 1,924,321.22	\$ 173,183.04	\$ 329,802.53	
	DARPA Grand Total	\$6,869,508.91	\$(3,112,203.34)	\$ 2,725,756.55	\$ 7,255,955.70	

SUMMARY OF STATISTICAL PROJECTIONS FOR ACCOUNTS AUDITED
AT DEFENSE ADVANCED RESEARCH PROJECTS AGENCY

VALID OBLIGATIONS

<u>Account Type</u>	<u>Universe</u>	<u>Valid</u>	<u>Valid Percentage</u>	<u>Precision with 95-Percent Confidence</u>	<u>Relative Precision Percentage (+-)</u>
RDT&E (1987 and prior years)	\$ 87,500,000 (41,330,000)	\$ 22,930,000 (29,960,000)	26.21 72.49	\$ 20,320,000 (18,440,000)	88.62 61.55
Totals	<u>\$ 46,170,000</u>	<u>\$ (7,030,000)</u>		<u>\$ 1,880,000</u>	

<u>Account Type</u>	<u>Universe</u>	<u>Invalid</u>	<u>Invalid Percentage</u>	<u>Precision with 95-Percent Confidence</u>	<u>Relative Precision Percentage (+-)</u>
RDT&E (1987 and prior years)	\$ 87,500,000 (41,330,000)	\$ 38,730,000 (17,380,000)	44.26 42.05	\$ 21,530,000 (9,770,000)	55.59 56.21
Totals	<u>\$ 46,170,000</u>	<u>\$ 21,350,000</u>		<u>\$ 11,760,000</u>	

INVALID OBLIGATIONS

<u>Account Type</u>	<u>Invalid Projection</u>	<u>Precision with 95-Percent Confidence</u>	<u>Range of Projected Benefits Lower Limit Upper Limit</u>
RDT&E (1987 and prior years)	\$38,730,000	\$ 21,530,000	\$17,200,000 to \$60,260,000
Totals	<u>\$38,730,000</u>		<u>\$17,200,000 to \$60,260,000</u>

**SUMMARY OF POTENTIAL
BENEFITS RESULTING FROM THE AUDIT**

<u>Recommendation Reference</u>	<u>Description of Benefits</u>	<u>Amount and/or Type of Benefit</u>
1.	Compliance. Deobligation of the invalid balances shown at Enclosure 1 will result in a one-time savings; additional Treasury restorations will not be needed because current funds will not be required to cover shortfalls in the "M" account.	\$2,725,757; funds put to better use.
2.	Compliance with DoD Manual 7220.9-M will result in the deobligation of additional funds.	Undeterminable.*
3.	Internal controls and compliance with regulations will ensure that the Government will recoup funds due from vendors.	Nonmonetary.

* The amount shown for Recommendation 1. is based only on accounts reviewed during the audit and does not include projections. Although we are certain that monetary benefits of between \$17.2 million and \$60.26 million will result where all appropriations are reviewed item-by-item, we are not claiming these monetary benefits because specific deobligations cannot be made until item-by-item reviews are performed. All accounts with negative balances were omitted from our projections.



DEFENSE ADVANCED RESEARCH PROJECTS AGENCY
3701 NORTH FAIRFAX DRIVE
ARLINGTON, VA 22203-1714



MEMORANDUM FOR DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE, DODIG

SUBJECT: Comments on Draft Audit Report on Merged "M" Accounts at
DARPA Project No. 1FE-3001.03

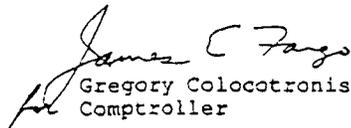
We have reviewed the three recommendations for corrective actions in the subject report dated November 1, 1991. We concur with these recommendations and propose to take the following actions to accomplish them.

Recommendation 1. DARPA will request that the agents selected for statistical sampling review the audited accounts and report to DARPA the action taken to comply with the recommendation.

Recommendation 2. DARPA will request all of our agents to improve their reviews of unliquidated merged accounts and follow up with timely deobligations of invalid funds.

Recommendation 3. DARPA will request all of our agents to improve their procedures for identifying and reconciling negative unliquidated merged account obligations.

Tasking letters will be sent out to our agents next month. A copy of the tasking letters will also be provided to your office.


Gregory Colocotronis
Comptroller



DEPARTMENT OF DEFENSE
WASHINGTON HEADQUARTERS SERVICES
WASHINGTON, DC 20301-1155

(Budget & Finance)

2 December 1991

MEMORANDUM FOR INSPECTOR GENERAL, DOD

SUBJECT: Draft Audit Report on Merged ("M") Accounts at DARPA

This office has reviewed subject report. Although some questions pertaining to specific cases may be unresolved, this office concurs with the recommendations for corrective action.


Joe Friedl
Director

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Philadelphia, PA
Defense Contract Management District - Northeast, Boston, MA
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Department of the Army

U.S. Army Tank-Automotive Command, Warren, MI

Department of the Navy

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Navy Regional Finance Center, Arlington, VA
Navy Supply Center, Oakland, CA
Navy Regional Contracting Center, Philadelphia, PA
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Naval Underwater Systems Center, New London, CT
David Taylor Research Center, Bethesda, MD

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U.S. Air Force Logistics Command, Wright-Patterson Air Force
Base, OH
Accounting and Finance Office, Los Angeles Air Force Base, CA
Accounting and Finance Office, Kirtland Air Force Base, NM
Accounting and Finance Office, Hanscom Air Force Base, MA
Accounting and Finance Office, Norton Air Force Base, CA

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U.S. Department of Energy, Liaison Office, Kirtland Air Force
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House Committee on Government Operations
House Subcommittee on Legislation and National Security,
Committee on Government Operations

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