

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**FINANCIAL MANAGEMENT AT THE DEPARTMENT
OF DEFENSE EDUCATION ACTIVITY**

Report No. 97-131

April 17, 1997

Department of Defense

Additional Copies

To obtain additional copies of this audit report, contact the Secondary Reports Distribution Unit of the Analysis, Planning, and Technical Support Directorate at (703) 604-8937 (DSN 664-8937) or FAX (703) 604-8932.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Planning and Coordination Branch of the Analysis, Planning, and Technical Support Directorate at (703) 604-8939 (DSN 664-8939) or FAX (703) 604-8932. Ideas and requests can also be mailed to:

OAIG-AUD (ATTN: APTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, Virginia 22202-2884

Defense Hotline

To report fraud, waste, or abuse, contact the Defense Hotline by calling (800) 424-9098; by sending an electronic message to Hotline@DODIG.OSD.MIL; or by writing to the Defense Hotline, The Pentagon, Washington, D.C. 20301-1900. The identity of each writer and caller is fully protected.

Acronyms

ADP	Automated Data Processing
CAETI	Computer Aided Education Technology Initiative
DARPA	Defense Advanced Research Projects Agency
DDESS	Domestic Dependent Elementary and Secondary Schools
DoDDS	Department of Defense Dependents Schools
DoDEA	Department of Defense Education Activity
ISA	Interservice Support Agreement
LAN	Local Area Network
O&M	Operation and Maintenance
RDT&E	Research, Development, Test, and Evaluation



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



April 17, 1997

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DEPUTY UNDER SECRETARY OF DEFENSE,
INDUSTRIAL AFFAIRS AND INSTALLATIONS
DIRECTOR, DEPARTMENT OF DEFENSE EDUCATION
ACTIVITY**

**SUBJECT: Audit Report on Financial Management at the Department of Defense
Education Activity (Report No. 97-131)**

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

As a result of comments from the Deputy Under Secretary of Defense, Industrial Affairs and Installations, we deleted the draft report Recommendation A.1.a and revised draft report Recommendations A.2.a. and A.2.b. The Under Secretary of Defense (Comptroller) did not comment on a draft of this report. DoD Directive 7650.3 requires that internal audit issues be resolved promptly. We request that the Under Secretary of Defense (Comptroller) and the Director, Department of Defense Education Activity, provide comments on the unresolved recommendations and the potential monetary benefits by May 16, 1997.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. John A. Gannon, Audit Program Director, at (703) 604-9427 (DSN 664-9427) or Mr. Walter R. Loder, Audit Project Manager, at (703) 604-9413 (DSN 664-9413). See Appendix F for the report distribution. A list of audit team members is on the inside back cover.

Robert J. Lieberman
Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 97-131

(Project No. 6LA-2011.01)

April 17, 1997

Financial Management at the Department of Defense Education Activity

Executive Summary

Introduction. The DoD Education Activity (DoDEA) consists of two primary components, the DoD Dependents Schools (DoDDS) and the Domestic Dependent Elementary and Secondary Schools (DDESS). DoDEA, with a FY 1996 operating budget of over \$1.3 billion, is responsible for the effective management of DoDDS and DDESS. The Chief Financial Officers Act (Public Law 103-356) requires DoD to provide consolidated financial statements for FY 1996 to the Office of Management and Budget. DoD consolidated financial statements will include the financial statements for DoDEA. An adequate system of funds control is a prerequisite for auditable and reliable financial information. This is one in a series of reports on financial management at DoDEA. Other prior reports covered potential Antideficiency Act violations at DDESS and DoDDS and property accountability.

Audit Objective. The audit objective was to assess financial management controls and compliance with laws and regulations to support our audit of the DoD-wide financial statements required by the Federal Financial Management Act of 1994. The specific audit objective was to assess internal controls and compliance with laws and regulations relating to funds control. We tested accounting transactions to validate the effectiveness of accounting controls.

Audit Results. Host installations did not provide DoDEA appropriate billings and budget submissions for interservice support agreement costs at the installations reviewed. As a result, DoDEA overpaid \$20,604 in water and sewer charges because of inaccurate billings and DoDEA wasted staff time and resources in disputes with host installations (Finding A).

The DoDEA lacked good procedures for controlling yearend spending. As a result, DoDEA obligated \$731,938 and \$1,280,327 in Operation and Maintenance funds at the end of FYs 1994 and 1995 for goods and services that were questionable purchases in light of laws and regulations governing yearend spending (Finding B).

The DoDEA did not adequately plan implementation of the Defense Advanced Research Projects Agency Computer Aided Education Technology Initiative including maintaining adequate funds control. As a result, schedules slipped reducing time available for testing and \$338,980 of purchases were for the wrong materials (Finding C).

The DoDEA did not report tuition collections in the fiscal year collected. As a result, DoDEA applied FY 1995 funds of \$7.3 million to FY 1996 Operation and Maintenance funds (Finding D).

The DoDEA could achieve budget reductions of \$7.3 million by reporting tuition when collected and using it in the same year (see Appendix D).

Summary of Recommendations. We recommend that DoDEA establish procedures for performing resource management reviews of interservice support agreements and establish effective followup on reports of review for interservice support agreement billings; establish guidance to implement DoD acquisition policies and procedures, including appointing a program manager when acquiring systems; and report all tuition in the fiscal year collected, including the \$7.3 million collected but not reported in FY 1995. We recommend that the Under Secretary of Defense (Comptroller), review the DoDEA tuition collections and make appropriate authorization and budget adjustments.

Management Comments. The DoDEA concurred with the recommendation to establish procedures for performing resource management reviews and effective followup on reports of review. DoDEA nonconcurred with the recommendations related to the yearend spending finding (Finding B). DoDEA concurred with the recommendation to establish acquisition guidance, including appointing a program manager. DoDEA nonconcurred with the recommendation to report tuition collections. DoDEA stated that its current method of collecting prepaid tuition and the recording of collections in the year earned is in compliance with accounting principles of accrual. DoDEA stated that it would direct its field organizations to process tuition collections in accordance with the guidance issued by the Under Secretary of Defense (Comptroller). See Part I for complete discussion of management comments and Part III for complete text of management comments.

Audit Response. As a result of the comments from the Deputy Under Secretary of Defense, Industrial Affairs and Installations we deleted our draft report recommendation concerning facilities capital cost. We also deleted a recommendation made in the draft report to the Director, Defense Advanced Research Projects Agency. The DoDEA actions on improving oversight of yearend spending obviated the need for recommendations in the final report. We disagree with the DoDEA comments on tuition collections because DoDEA should report tuition as it is collected. We believe the Under Secretary of Defense (Comptroller) should reduce the DoDEA funding by the amount of tuition collections not reported. We request that the Under Secretary of Defense (Comptroller) and the Director, DoDEA, provide additional comments in response to the final report by May 16, 1997.

Table of Contents

Executive Summary	i
Part I - Audit Results	
Audit Background	2
Audit Objectives	3
Finding A. Interservice Support Agreements	4
Finding B. Budget Execution and Spending Requirements	11
Finding C. Project Planning and Funds Control	17
Finding D. Tuition Collection	24
Part II - Additional Information	
Appendix A. Audit Process	
Scope	34
Methodology	34
Appendix B. Prior Audits and Other Reviews	36
Appendix C. DoD Education Activity Comments on Defense Advanced Research Projects Agency	38
Appendix D. Summary of Potential Benefits Resulting From Audit	40
Appendix E. Report Distribution	41
Part III - Management Comments	
Under Secretary of Defense for Industrial Affairs and Installations Comments	44
Department of Defense Education Activity Comments	45

Part I - Audit Results

Audit Background

The Chief Financial Officers Act of 1990, Public Law 101-576, requires that Government agencies, including DoD, prepare annual financial statements and that financial statements of Defense agencies be audited in accordance with generally accepted auditing standards. The review of systems used to control the obligations of funds is required by generally accepted auditing standards. The Department of Defense Education Activity (DoDEA) used the Funds Control System to record and report financial information.

DoDEA Organization. The DoDEA, with an operating budget of over \$1.3 billion, manages and supervises DoD Dependents Schools (DoDDS) and the DoD Domestic Dependent Elementary and Secondary Schools (DDESS). DoDDS provides kindergarten, elementary, and secondary school education to dependents of DoD and other Federal employees at overseas duty stations. The DDESS provides free education for prekindergarten through grade 12 for eligible dependents of DoD military personnel and Federal civilian employees residing on Federal property within the continental United States, Alaska, Puerto Rico, and the U.S. territories.

Funds Control System. The DoDEA used the Funds Control System to provide its management with up-to-date information regarding the availability of funds, to ensure the propriety and legality of expenditures, and to provide information concerning the execution of funding programs. The Funds Control System was designed to ensure that funds were used for the purpose intended and to ensure that obligations did not exceed amounts authorized. DoDEA accounting reports were produced from the Funds Control System.

Interservice Support Agreements. The DoDEA had agreements to receive recurring support from other DoD organizations (host installations). Those agreements were called interservice support agreements (ISAs). ISAs define the support that a host installation provides to DoDEA, specify the basis for calculating reimbursements (if any) for each support service, and establish the billing and reimbursement process. In FY 1995, DoDEA paid about \$75.8 million for custodial maintenance, rents, and utilities under ISAs.

Technology Upgrades. The DoDEA is upgrading the information system networks it uses for administering educational programs and educating students. The DoDEA purchased computers and printers for its transportation offices and other administrative offices. The DoDEA also received research and development funds from the Defense Advanced Research Projects Agency (DARPA) to further the development of computer-aided technology for education.

Audit Objectives

The audit objective was to assess financial management controls and compliance with laws and regulations to support our audit of the DoD-wide financial statements required by the Federal Financial Management Act of 1994. Specifically, the objective of this audit was to assess internal controls and compliance with laws and regulations relating to funds control. We also tested accounting transactions to validate the effectiveness of accounting controls. See Appendix A for a discussion of the audit process and Appendix B for a summary of prior related coverage.

Finding A. Interservice Support Agreements

Host installations did not provide DoDEA appropriate billings and budget submissions for ISA costs at the installations reviewed. Host installations did not provide DoDEA appropriate billings and budget submissions because DoDEA did not adequately manage reviews for interservice support agreement costs, including followup, written responses, and staff contact with host installation support providers. In addition, DoDEA had unresolved disputes with Army and Air Force civil engineers over utility plant upgrade costs. Also, DoDEA did not maintain ISAs in a current status. As a result, DoDEA overpaid \$20,604 in water and sewer charges because of inaccurate billings and DoDEA was forced to waste staff time and resources in disputes with host installations.

DoD Guidance

The use of ISAs is subject to the guidance in DoD Instruction 4000.19 and DoD Manual 1342.6-M.

DoD Instruction 4000.19. DoD Instruction 4000.19, "Interservice and Intragovernmental Support," August 9, 1995, (the Instruction) implements policy and establishes responsibilities and procedures for interservice and intragovernmental support. The Instruction applies to the Military Departments, the Defense agencies, and DoD field Activities. The Instruction states that DoD organizations requiring support from other sources should first consider using support capabilities available from the host installations, although tenant organizations are not required to use host support when a better value is available from another source. The Instruction states that interservice and intragovernmental support is reimbursable to the extent that the support increases the supplier's direct costs. It also states that overhead costs and fixed costs are nonreimbursable.

DoD Manual 1342.6-M. DoD Manual 1342.6-M, "Administrative and Logistic Responsibilities for DoD Dependents Schools," August 1995 (the Manual) assigns responsibilities for the administrative and logistic support of DoDEA. Specifically, the Manual:

- o requires installation commanders to provide administrative and logistic support to local DoDEA organizations in accordance with the Manual and the applicable ISAs.

- o requires district superintendents to negotiate, implement, and monitor all administrative and logistic support that host installations furnish.

- o states that performing installations will provide budget estimates for reimbursable administrative and logistic support.

Finding A. Interservice Support Agreements

- o requires commanders of host installations providing support to ensure that obligations and billings do not exceed authorized funding, that all services specified in the agreement are delivered, and that funds in excess of services delivered are returned.
- o requires performing activities to absorb any excess costs.
- o establishes procedures and provides operational guidelines for computing monthly costs of administrative and logistic support provided to DoDEA, including utilities.

Billings and Budget Accuracy

Host installation civil engineers did not provide DoDEA appropriate billings and budget submissions for ISA costs at three of the installations reviewed. At one Army and two Air Force installations ISA billings and budgets were inconsistent with the requirements of the Manual or DoDDS policy. In addition, DoDEA had unresolved disputes with Army and Air Force civil engineers over utility plant upgrade costs.

Civil Engineering Billings. Civil Engineers at Mannheim, Germany; Kadena, Japan; and Yokota, Japan, prepared billings and budgets that were inconsistent with the requirements of the Manual or DoDDS policy. Specifically, utility costs billed to DoDEA were not based on actual usage or the best estimate of usage; and custodial services charges were not based on correct currency exchange rates as required by DoDDS policy.

Civil Engineer Billings for Utilities. Civil engineer billings for utilities were not accurate. The civil engineers at Mannheim, Kadena, and Yokota prepared billings and budgets inconsistent with the requirements of the Manual. For example, Mannheim civil engineers overcharged DoDEA \$20,604 for water and sewer by using data from an unsigned ISA instead of actual population data for 1995. Use of actual population data would have provided a more accurate best estimate of usage. In addition, Yokota Air Base billed for utilities based on a tenant's prior year estimated usage rather than current year estimated utility usage.

The Deputy Under Secretary of Defense, Industrial Affairs and Installations is coordinating a draft installation energy management policy. Paragraph D. 4.d.(6) "Metering," of that draft policy states that utility meters shall be installed for utility sales customers when the meter installation cost does not exceed the estimated gross revenues for 1 year. The policy requires Military Departments to budget for and prioritize the installation of utility meters for the sale of utilities and services. Using meters would have prevented the billing problems at Mannheim and Yokota.

Civil Engineer Billings for Custodial Services. At one installation, custodial services were not based on correct currency exchange rates. DoDDS

Finding A. Interservice Support Agreements

policy required the use of a uniform exchange rate for an entire fiscal year. Kadena used three different foreign currency exchange rates to convert Japanese yen to U.S. dollars, made no adjustments to the budgeted rate, and did not correct billings. Because the civil engineers used the wrong yen rates, DoDEA was underbilled \$8,866 for November custodial services and overbilled \$274 for November utilities.

DoDEA Reviews of Billings and Followup

The DoDEA did not effectively review, challenge, or follow up on ISA charges and budget submissions. Regarding the civil engineer inappropriate billings at Mannheim, Kadena, and Yokota, DoDEA personnel either did not effectively review the billings, or reviewed and ineffectively challenged the billings because of inadequate followup or elevation of the issue. DoDEA attempted to resolve utility plant upgrade costs without apparent satisfactory resolution. A contributing cause was the attempt to enforce expired or unsigned ISAs.

Review of Billings. The DoDEA did not have adequate procedures for performing resource management reviews. At one installation, DoDEA personnel did not identify the inappropriate charges for custodial services because of lack of billing review procedures. At the Okinawa District Superintendent's Office, a resource management review had not been performed by May 1996. Problems noted in the yen rates on billings in the Okinawa District Superintendent's Office for Kadena had not been discovered until our review. The lack of review of ISA billings increases the likelihood that errors will not be detected and billing procedures will not be corrected. DoDEA should establish procedures for performing resource management reviews.

Followup of Inappropriate Billings. The DoDEA personnel challenged the inappropriate billings, but did not followup to ensure that corrective action was taken or to elevate the issue to a higher level of authority. For example, DoDDs Europe Service Center, Wiesbaden, Germany, reported total savings of \$1.1 million from resource management reviews and total cost avoidance of \$0.7 million on the Interservice Support Program Report Summary for March 1995, October 1995, and March 1996. However, civil engineers were not changing billings despite recommendations resulting from the DoDEA reviews. Although the Europe Service Center maintained a log of followup actions, the log was not resolved for past due dates. There was no indication that DoDEA elevated the unresolved cost issues to a higher level of authority.

In another example, DoDEA performed a resource management review and recommended that Yokota Air Base bill utility cost consistent with guidance in the Manual. The Manual provided guidance to host installations on estimating utility charges when actual costs are not known. The civil engineers at Yokota did not change their utility billing practices, although host installations were required to follow the Manual. The inaction of the Yokota civil engineers in response to a DoDEA review recommending changes in their practices demonstrates the need for a followup system to report on ISA billings.

Finding A. Interservice Support Agreements

Expired or Unsigned Interservice Support Agreements. The ISAs were not maintained in a current status, which contributed to a lack of mutual agreement on the terms of the agreement and its enforcement. Host installations with heat plant disputes (Augsburg and Ramstein Air Base) were operating under expired ISAs. Mannheim, with billing errors in water and sewer, also had an expired ISA. In the Europe Service Center, 34 of 62 ISAs had expired. Although services were still rendered under the expired ISAs, the terms for services were no longer clear or current. In some cases, the provider followed the terms of a proposed new ISA, in other cases the provider continued to provide services under the terms of the old ISA. In many instances providers declined to sign new ISAs that DoDEA suggested to replace expired ISAs. DoDEA did not elevate the issue to a higher level of authority to obtain resolution. Although the host installations continued to provide services, providing services under an expired ISA or an unsigned ISA was an invitation for misunderstandings and disputes.

Working Relationship with Host Installations. The district superintendent's office could improve the willingness and responsiveness of the host installation civil engineers to seek resolution of issues by establishing a working relationship with them. For instance, at the Kaiserslautern District Superintendent's Office, the first visit to the civil engineers at Ramstein Air Force Base by DoDDS occurred in June 1996 in conjunction with our audit. We believe that by establishing a working relationship the need to elevate issues will be minimized.

Utility Plant Upgrade Costs. Civil engineers at Augsburg, Germany; Landstuhl, Germany; Ramstein, Germany; and Vogelweh, Germany billed or planned to bill DoDEA for the cost of utility plant upgrades. DoDEA had disputed the billing for utility plant upgrade costs in Augsburg, Germany.

Augsburg. Utility costs in the Augsburg school complex have significantly increased for DoDEA. Costs caused by reallocating utility cost billings to Augsburg are summarized in Table 1.

Table 1. Costs by Fiscal Year for Augsburg Heating Plant

<u>Fiscal Year</u>	<u>Costs</u>
1994	\$ 246,650
1995	376,200
1996	<u>126,575</u>
Total	\$ 749,425

The U.S. Army Europe contracted with the city of Augsburg to reimburse the cost of a new heat plant and passed all of the costs to DoDEA because the Augsburg school complex was the sole recipient of the heat. The U.S. Army billed DoDEA \$749,425 for the investment cost of the new heat plant. DoDEA maintained that the billing cost for the new heat plant was inappropriate and inconsistent with DoD Instruction 4000.19. DoDEA requested the U.S. Army Europe to cease billing for investment costs and return all FY 1994, 1995, and 1996 funds charged for capital investments.

Finding A. Interservice Support Agreements

In a meeting with the Army 6th Area Support Group, DoDEA objected to being billed for the upgrades. DoDEA elevated the dispute over investment costs with the Army to Headquarters, U.S. Army Europe. On July 9, 1996, Headquarters, U.S. Army Europe disputed the DoDEA interpretation of the Instruction. The Army stated that costs for district heat are legitimate costs passed on by the utilities supplier to the U.S. Government. The Army also stated that district heat is neither an extension nor an expansion of an Army owned system and is thus not an investment. On October 11, 1996, DoDEA referred the dispute to the Assistant Chief of Staff, Installation Management, U.S. Army Europe.

Landstuhl, Ramstein, and Vogelweh. The Air Force also planned to bill DoDEA a total of \$10.8 million for the cost of upgrading its utility plants at Landstuhl, Ramstein, and Vogelweh. The utility budgets for Landstuhl and Ramstein complexes increased by \$1 million per year beginning in FY 1998. The 6-year cost for Landstuhl and Ramstein is \$6 million. The Air Force complex at Vogelweh consisted of four schools. The utilities budget in the Vogelweh complex increased by \$795,700 per year beginning in FY 1997 for heat and hot water. The 6-year total cost for Vogelweh is \$4.8 million. The Air Force has contracted with a private company to upgrade and operate the plant.

The DoDEA discussed the dispute with the Air Force with the civil engineers (86th Logistics Group) at Ramstein Air Base. The civil engineers stated that they were instructed to contract for utility plant upgrades and operations. The civil engineers also stated that the Air Force instructed them to bill each tenant a proportionate share for the entire cost of the utility plant upgrades.

Elevation of Disputed Costs. The disagreement over utility plant costs should have been elevated to the Deputy Under Secretary of Defense, Industrial Affairs and Installations, because it establishes policy for ISAs, including cost billings. Also, the issues involved were complicated and required a higher authority to resolve. If DoDEA had successfully challenged host installation billings and budgets for support services, it could have avoided \$10.8 million in unnecessary costs. We believe that DoDEA should have elevated the dispute to the Deputy Under Secretary sooner to resolve so that both DoDEA and host installations could use their resources for other aspects of managing ISAs.

Recommendations, Management Comments, and Audit Response

Deleted, Renumbered, and Revised Recommendations. As a result of management comments we deleted Recommendation A.1.a. and renumbered Recommendations A.1.b., A.1.c., and A.1.d. as A.1.a., A.1.b., and A.1.c. We also revised and renumbered draft report Recommendations A.2.a. and A.2.b. as A.2.

Finding A. Interservice Support Agreements

A.1. We recommend that the Director, Department of Defense Education Activity:

a. Establish procedures for performing resource management reviews, including timing of reviews.

DoDEA Comments. The DoDEA concurred with the recommendation, stating that the DoDEA area service centers had already implemented annual resource management reviews at the time of the audit.

Audit Response. The DoDEA comments were partially responsive. While some schools had been reviewed at the time of the audit, other schools, including an entire school district had not been reviewed. DoDEA had not set requirements for periodic reviews in all schools in each school district. We request that DoDEA reconsider its position and provide additional comments in response to the final report.

b. Establish effective followup on reports of reviews of interservice support agreement billings by requiring DoD Education Activity personnel to:

(1) Maintain a current followup log for recommendations directed to interservice support agreement providers.

(2) Request written response from support providers on audits of interservice support agreement billings.

(3) Direct district superintendents and chiefs of service centers to have regular contact, including office visits, with interservice support agreement support organizations to review the current status of interservice support agreements and to review billings and source documents.

(4) Elevate unresolved disputes to a higher level of authority for resolution.

DoDEA Comments. The DoDEA concurred with the recommendation, stating that it had already implemented a log system; and that it will request a written response from providers to findings and recommendations that it identifies from its future ISA reviews. This action will be completed by June 1997. DoDEA also stated that its district budget officers and area service center logistics staff are already in monthly contact with host installation civil engineering offices.

Audit Response. Although DoDEA comments concerning written responses are responsive, other comments are partially responsive. The European Area Service Center had a log, but resolution dates had passed; however, the Pacific Area Service Center did not have a log system. DoDEA needs to establish a log system in the Pacific area and keep the log system in Europe current. In addition, DoDEA staff responsible for support agreements were not in monthly contact with civil engineering offices of host installations. DoDEA had not provided sufficient guidance to its staff to accomplish the contacts. Finally,

Finding A. Interservice Support Agreements

DoDEA did not comment on the recommendation to elevate disputes with providers to higher authority. We request that DoDEA provide comments on the elevation of disputes and reconsider its position on unresolved issues and provide additional comments in response to the final report.

c. Coordinate with host installations on the installation of meters to measure the usage of utilities.

DoDEA Comments. The DoDEA concurred with the recommendation and agreed to coordinate the installation of meters with host installations following the publishing of the Installation Energy Management Policy.

A.2. We recommend that the Deputy Under Secretary of Defense, Industrial Affairs and Installations finalize the installation energy management policy that is being coordinated and monitor installation of meters to measure utility charges.

Under Secretary of Defense Comments. The Deputy Under Secretary of Defense, Industrial Affairs and Installations, commented that the energy management directive is still in the formal coordination stage with a projected fielding date of August 1997.

Audit Response. Comments from the Deputy Under Secretary were responsive.

Finding B. Budget Execution and Spending Requirements

The DoDEA needed better procedures for managing yearend spending. Questionable procurements were made at yearend FYs 1994 and 1995 with Operation and Maintenance (O&M) funds for goods and services that were not a bona fide need of the fiscal year, because the funds would otherwise have expired. As a result, DoDEA obligated \$731,938 and \$1,280,327 in O&M funds for goods and services at the end of FYs 1994 and 1995, respectively, that were questionable yearend purchases.

Public Law and Interpretation

Public law and interpretation of the law provide guidance on budget execution.

United States Code, Title 31, Section 1502(a). United States Code, title 31, section 1502(a), "Balances Available," also referred to as the bona fide need rule, specifies that funds should be obligated for expenses properly incurred during the period in which the funds were available. Funds that Congress appropriates are to be used for the purpose intended and for requirements identified in the fiscal year in which the funds were initially available for obligation. The placing of time limits on the availability of appropriations is one of the primary means of congressional control of Government activities.

General Counsel Decision B-235086, April 24, 1991, and 37 Comptroller General 155, 159 (1957). General Counsel Decision B-235086, April 24, 1991, and 37 Comptroller General 155, 159 (1957), discuss the timing of delivery of goods. O&M funds may not be used for the needs of some time period after the expiration of the period of availability. Where goods or services are available and the time intervening between contracting and delivery is excessive, a violation of the bona fide needs rule occurs. If goods or services are scheduled for delivery after the fiscal year in which purchased, or if contract timing effectively precludes delivery until the following fiscal year, it will be presumed that the contract was made only to obligate funds from an expiring appropriation, and that the goods or services were not intended to meet a bona fide need of that year. Each situation must be evaluated on its own merit to determine if the bona fide need rule is met.

DoDEA Policy

Dependent Schools Regulation 7100.2, "Department of Defense Dependents Schools Budget Execution," December 6, 1994, establishes policy and responsibilities for the execution of the DoDDS O&M budget. DoDDS managers are responsible for the effective, efficient, and economical use of all

Finding B. Budget Execution and Spending Requirements

resources made available to their organizational entity. DoDEA had procedures for requirements analysis and management approval of procurements exceeding certain dollar thresholds. For example, procurement of technology equipment exceeding \$25,000 per transaction needed a requirements analysis and approval from the Management Information Systems Division in Headquarters, DoDEA.

Yearend Procurements

We reviewed procurements at yearend FYs 1994 and 1995 made with O&M funds for \$7.3 million in contracts, \$0.6 million in supplies, and \$1.4 million in equipment. DoDEA obligated \$731,938 and \$1,280,327 of the amount reviewed in O&M funds for goods and services at the end of FYs 1994 and 1995, respectively, that were not a bona fide need of the fiscal year, as shown in Table 2.

Table 2. Procurements Without Bona Fide Need

<u>Item</u>	<u>FY 1994</u>	<u>FY 1995</u>
Carpet	\$337,874	0
LAN* installation	394,064	0
Computer equipment	0	\$1,215,801
Safety tiles	<u>0</u>	<u>64,526</u>
Total	\$731,938	\$1,280,327

*Local area network.

Installation of Carpet. In September 1994, DoDDS used \$337,874 of FY 1994 O&M funds to purchase about 21,800 square yards of interior carpeting, for which there was not a bona fide need for the fiscal year. Although FY 1994 funds were used to purchase carpet, DoDDS did not contract for the installation of the 21,800 square yards of carpet until September 1995. The carpeting arrived during the summer of 1995 and was stored. During our visit to DoDDS facilities in May 1996, the carpet was still in storage. About 5,100 square yards were stored in DoDDS warehouse facilities, and about 16,700 square yards were in a flight hangar on Yokota Air Base. The carpet in storage on Yokota Air Base was planned to be installed during the summer of 1996. The excessive time interval between contracting, delivery, and installation of the carpet was a violation of the bona fide need rule.

Installation Services for Local Area Networks. On September 23, 1994, DoDEA Headquarters issued a \$394,064 delivery order for site surveys and engineering plans for the installation of local area networks (LAN) that were not needed in FY 1994. Under the delivery order, DoDDS paid for LAN port installation services and other LAN installation services that did not comply

Finding B. Budget Execution and Spending Requirements

with the original statement of work. Further, the contractor did not perform the required work within 60 days after receipt of order. The contractor neither performed a site survey nor delivered a site survey report or engineering plan as required in the statement of work. DoDEA did not identify the locations for the site surveys or provide a performance schedule. Because deliveries of the site surveys and LANs were scheduled for subsequent fiscal years and specific locations and buildings were not provided, the order was an apparent mechanism for obligating expiring funds. In November 1994, DoDEA determined that it would perform the site surveys, not the contractor. In January 1995, DoDEA modified the delivery order to include LAN installation and did not change the funding to FY 1995 appropriations. LAN installation was not within the scope of site surveys and engineering plans, and the modification effectively created a new order requiring FY 1995 funds. At the time of the modification, to include LAN installation, DoDEA still had not identified the specific locations and buildings where the contractor was to install the LAN cabling, and had not provided a performance schedule. DoDEA should have deobligated FY 1994 funds and obligated FY 1995 funds for the costs related to the LAN installation modification. Rather, DoDEA continued to use the FY 1994 delivery order for LAN installation through July 1996.

Procurement of Computer Equipment. The DoDEA used \$1,215,701 in FY 1995 funds at yearend to purchase computer equipment for which there was not a bona fide need in the fiscal year. A requirement analysis either was not prepared or was inadequate.

Requirement. The DoDEA did not have an adequate requirements analysis for a FY 1995 yearend purchase of \$464,160 in automated data processing (ADP) equipment. DoDEA provided the draft Educational Technology Plan, which was not officially approved or finalized, as the requirements documentation for the \$464,160 in ADP equipment purchased. However, DoDEA also stated that the draft Educational Technology Plan was a wish list and not intended to serve as a requirements document; and eventually did not approve it.

Of the \$464,160 in ADP equipment DoDEA purchased at yearend, 30 computers and related peripherals costing \$116,040 could not be used because of inadequate electrical supply. During our June 1996 visit to Kaiserslautern Elementary School, Kaiserslautern, Germany, the 30 computers were still not in use because of a lack of electrical power. Personnel at Kaiserslautern Elementary School were not aware that the computers were coming, and were not prepared to receive and use the computers. The computers were stored in a classroom and not in use.

Storage of Equipment Purchased at Yearend. The DoDEA purchased equipment at yearend FY 1995 and did not use the equipment. DoDDS purchased computers, printers, and software. Table 3 shows the equipment in storage, the cost, and the date received.

Finding B. Budget Execution and Spending Requirements

Table 3. FY 1995 Equipment in Storage

<u>Location and Equipment</u>	<u>Cost</u>	<u>Received</u>
Europe Service Center		
6 notebook computers	\$ 16,806	Dec. 1995
11 pentium computers	32,934	Mar. 1996
10 laser printers	15,770	Nov. 1995
Mainz-Kastel Warehouse		
33 computers	55,666	Dec. 1995
Software	<u>15,860</u>	June 1996
Total	\$137,036	

In June 1996, the 6 notebook computers, the 11 pentium computers, and the 10 laser printers purchased at yearend FY 1995 were still in the original packaging and stored at the Europe Service Center.

The DoDDS also obligated \$71,526 of FY 1995 O&M funds at yearend FY 1995 for computers and related peripherals and software to support the increase in personnel at a transportation office in the Europe Service Center. DoDEA did not plan to increase personnel at the transportation office until the following fiscal year. It purchased 33 computers and accompanying software. During our visit of warehouse facilities in Mainz-Kastel, Germany, in June 1996, the computers were stacked in boxes in the warehouse. The plan to increase personnel at the transportation office was not funded.

DDESS Purchase of Equipment. The DDESS did not have adequate requirements documentation to support the purchase of the ADP equipment. DDESS did not identify or request the ADP equipment before yearend FY 1995, and did not provide a requirement analysis to support the purchase. The DDESS had funds remaining at yearend, and decided to buy ADP equipment. As a result, DDESS did not use normal procurement procedures to purchase ADP equipment. For instance, Quantico Dependents School System, Quantico, Virginia, initially attempted to use a base procurement office to procure equipment, but the base procurement office did not accept the order because it did not have adequate lead time to process the procurement before the end of FY 1995. The procurement office received the order on September 28, 1995. When it refused to process the DDESS order, DDESS did not use the normal base contracting procedures. Rather, it used a Defense Logistics Agency procurement office at Fort Belvoir, Virginia, to issue the \$348,152 delivery order on September 30, 1995. The procurement office used a joint service contract to issue the delivery order.

In addition, Fort Stewart Dependents Schools, Fort Stewart, Georgia, had no requirement for ADP equipment purchased at yearend FY 1995 and did not identify or request the ADP equipment before yearend FY 1995. The Fort Stewart school attempted to obligate \$266,453 in O&M funds remaining at yearend FY 1995 for ADP equipment through a base contracting office. The base contracting office refused the request because it did not have adequate lead

Finding B. Budget Execution and Spending Requirements

time to process the procurement before the end of FY 1995. On September 29, 1995, the school used a Navy procurement office in Pensacola, Florida. The Navy procurement office identified a contractor who could provide the equipment under the short time frame. However, the Navy charged Fort Stewart a procurement fee of \$56,000 to make the procurement. The school purchased \$210,000 in ADP equipment, and paid \$56,000 in procurement fees because of the short notification and lateness in the fiscal year.

Safety Tiles. In FY 1994, the Pacific area received and accepted a double shipment of safety tiles that was not needed in FY 1994. Safety tiles were used on playgrounds to help cushion children from falls. Having twice as many tiles as ordered, DoDEA obligated \$64,526 in O&M funds in September 1995 to purchase the extra safety tiles. During our visit to Yokota Air Base in May 1996, the safety tiles were stored outside a warehouse with a tarp cover. The safety tiles had been stored there since FY 1994. In FY 1995, DoDEA had no requirement for the additional safety tiles and did not use any safety tiles from the excess. The double shipment consisted of 2,093 small safety tiles, 360 medium safety tiles, and 50 large safety tiles and materials for application. DoDEA planned to use in FY 1996 about 1,008 of the 2,093 small safety tiles, 36 of the 360 medium safety tiles in the summer of 1996, and none of the 50 large safety tiles. The remaining safety tiles are planned to be used in FY 1997 and later. Although FY 1995 O&M funds were used for the purchase of the safety tiles, there was no need for the tiles in FY 1995.

Controls to Prevent Yearend Spending

The DoDEA obligated FY 1994 and FY 1995 O&M funds to purchase goods and services that were not needed in the respective fiscal years because DoDEA did not have adequate controls in place to manage spending efficiently and effectively. Specifically, DoDEA did not have adequate procedures to review, monitor, and enforce budget execution to improve management of spending. Although DoDEA policy required that procurements be approved by management, DoDEA did not adequately review requirements and monitor yearend procurements to comply with public law concerning bona fide need. At yearend FY 1995, DoDEA eliminated controls on funding between programs, which allowed it to use funds at yearend for other than the budgeted purposes. The DoDDS budget execution policy should be monitored and enforced to comply with applicable public law; and improved budget execution during the year would reduce yearend spending.

The DoDEA personnel reviewed budget execution, but they did not review or require spending plans during the course of the year. When DoDEA personnel noted a lack of budget execution, they should have required spending plans to avoid the excessive aggregation of spending at yearend.

Finding B. Budget Execution and Spending Requirements

Management Actions

In August 1996, DoDEA revised procedures for submitting unfinanced requirements to improve management of yearend spending. The procedures included the identification, review, and approval of unfinanced requirements at yearend over \$25,000 by DoDEA management. DoDEA also reestablished controls on funding between programs. Implementation of the procedures should help ensure compliance with regulations governing yearend spending. Therefore, we are not making recommendations related to this finding.

Finding C. Project Planning and Funds Control

The DoDEA did not adequately plan for implementation of the \$8.7 million DARPA Computer Aided Education Technology Initiative (CAETI) project, including maintaining funds control. The DoDEA planning was inadequate because DoDEA did not implement DoD acquisition policies and procedures. In addition, DARPA and DoDEA did not coordinate responsibilities and funding issues effectively. As a result, DoDEA made purchases in advance of requirements, before adequate equipment specifications were developed, and for non-DARPA equipment with DARPA funds. Further, DoDEA had to request additional Research, Development, Test, and Evaluation (RDT&E) funds and use O&M funds to continue the project. Finally, the lack of planning for the LAN installation caused DARPA schedules to slip by at least 1 year, reducing the time for student testing by one-third, and \$338,980 of purchases were for the wrong materials.

Purpose of CAETI Initiative

Objective of CAETI. The objective of the DARPA funded CAETI project was to determine the efficiency of using educational software as a teaching device. The project consisted of a number of software packages to be installed on computers in classrooms and included in the curriculum of the teachers participating in the project. Students would be tested during the year to determine whether their performance improved with the introduction of educational software.

Role of DoDEA. The role of DoDEA in the CAETI project was to create a testbed in schools on which the software would be placed. That included installing LANs in the schools and purchasing and assembling hardware for the classrooms. The DoDEA schools participating in the project were from three districts in Germany and one district in Italy. DoDEA also played a major role in selecting teachers for the project.

Funding for CAETI. The DARPA funded the CAETI project with RDT&E funds received from Congress. DARPA provided DoDEA \$6.74 million in December 1994 and an additional \$2 million in March 1995 in support of the CAETI project.

Defense Acquisition Guidance

DoD Directive 5000.1. DoD Directive 5000.1, "Defense Acquisition," March 15, 1996, requires that at the inception of a new acquisition project, a project manager will be assigned and the project manager shall propose

Finding C. Project Planning and Funds Control

objectives and thresholds for cost, schedule, and performance, that will result in systems that are affordable, timely, effective, and suitable. All DoD acquisition programs are subject to DoD Directive 5000.1. When specifically stated, less-than-major programs are subject to DoD Directive 5000.2-R, "Mandatory Procedures for Major Defense Acquisition Programs and Major Automated Information System Acquisition Programs," March 15, 1996. DoD Directive 5000.2-R applies to the DARPA CAETI project.

DoD Directive 5000.2-R. DoD Directive 5000.2-R states that included in steps to establish program goals, every acquisition program shall establish an acquisition program baseline to document the cost, schedule, and performance objectives and thresholds of that program beginning at program initiation. The Directive also states that in accordance with development of an acquisition strategy, the project manager shall devise a contracting approach including the types of contracts for each phase and the timing of service contracts.

Planning and Funds Control

The DoDEA did not adequately plan for implementation of the CAETI project, including funds control. According to DARPA, it was the responsibility of DoDEA to provide program management for the testbed portion of the DARPA CAETI project. Adequate planning would include development of schedules and tracking costs.

Development of Schedules. The DoDEA did not establish or use long-term schedules or a cost and schedule control system for the testbed portion of the CAETI project. The schedules should have included dates for the development of specifications and purchase of equipment, the timing of LAN installation and electrical upgrades of schools, and the download of CAETI software onto computers. The schedules also should have included costs to accomplish each of the tasks.

The schedules would have prevented problems that DoDEA had coordinating tasks within DoDEA. For example, organizations purchasing equipment (generally, DoDEA Headquarters) did not coordinate effectively with the schools receiving the equipment. The CAETI equipment was delivered to schools without prior notice, and the schools were not informed of the intended use of the equipment. In addition, there was confusion within DoDEA on whether DoDEA contractors or the Management Information System Division in Europe would perform site surveys and draw up engineering plans.

Tracking Costs. The DoDEA did not track costs associated with the CAETI project, including the RDT&E funds received from DARPA. DoDEA also did not separately account for the O&M funds it used to support the CAETI project. As a result, DoDEA was unable to determine the total cost of the DARPA project and whether it had the funds necessary to complete it.

Implementation of DoD Policies and Procedures and Coordination Between DARPA and DoDEA

The DoDEA planning was inadequate because DoDEA did not implement DoD acquisition policies and procedures. In addition, the CAETI project was not adequately planned because DARPA and DoDEA did not coordinate effectively to assure the responsibilities of each agency are clearly defined and documented.

Implementation of DoD Acquisition Guidance. The DoDEA did not implement DoD acquisition guidance. Specifically, DoDEA did not assign a project manager to the DARPA project in a timely manner, develop an acquisition program baseline, and develop an acquisition strategy.

Establishment of Project Manager. The DoDEA had not established a project manager position for the CAETI project when it was initiated, as required by DoD guidance. Project managers are responsible for managing assigned projects within the resources, project cost, performance and schedule, and providing assessments of contractor performance. They also provide assessments of project status and risk to higher authorities and to the user. Although DoDEA received \$6.7 million of funding from DARPA in December 1994, DoDEA did not assign a project manager to the CAETI project until January 1996. Until January 1996 DoDEA had no effective lines of responsibility for the DARPA project.

Acquisition Program Baseline. The DoDEA did not establish an acquisition program baseline. DoD policies and procedures state that no acquisition project should be executed in any phase of acquisition without an acquisition program baseline. The DoDEA project manager should have prepared the acquisition program baseline and included cost, schedule, and performance objectives. Schedules should have been prepared, including milestones for development of equipment specifications, LAN installations and electrical upgrades, purchase of hardware and software, and download of CAETI software onto the testbed.

Acquisition Strategy. The DoDEA did not identify or approve an acquisition strategy. In addition, DoDEA did not develop a strategy for service contracts including LAN installation contracts before obligating funds. The strategy should include contract approach, such as the timing and types of contracts.

Coordination Between DARPA and DoDEA. The DoDEA planning of the testbed portion of the CAETI project was also inadequate because DARPA and DoDEA did not coordinate effectively. For example, there was no indication that DARPA and DoDEA clearly defined and documented responsibility to ensure that facilities could support the CAETI project, including LAN installation and electrical upgrades. The CAETI project required coordination between DARPA and DoDEA for many aspects of the project including responsibility for funding, the timing of fund expiration, and approvals of specifications.

Finding C. Project Planning and Funds Control

Coordination of Funding. The DARPA and DoDEA had not effectively coordinated which agency would fund each portion of the project. As indicated in Appendix C, there was confusion over which agency would fund the cost involved in development of the curriculum of DoDEA educators and the costs to support infrastructure such as Management Information System's staff installation of LANs.

Timing of Fund Expiration. The timing of fund expiration also was not effectively coordinated between DARPA and DoDEA. As indicated in Appendix C, DARPA provided DoDEA funding documents with expiration dates that would not allow DoDEA enough time for development of equipment specifications. DARPA admitted that it urged DoDEA to obligate funds by June 1995 to avoid loss of the funds through reprogramming by higher levels of the DoD.

Approval of Equipment Specifications. In addition to encouraging DoDEA to expedite purchases to avoid loss of funds, DARPA delayed providing DoDEA final equipment specifications until June 1995. Although DARPA indicated that its role in the development of equipment specifications was purely advisory, DARPA admitted that it attempted to leave specifications to the last moment so that as much research as possible could occur before procurements were made. DoDEA indicated that DARPA had not provided adequate support for the development of specifications and site selection and that the DARPA delay and indecision contributed to the delays in making purchase decisions.

Despite the lack of coordination between DARPA and DoDEA, neither can be excused from sharing responsibility for planning the program. Although DARPA indicated that program management for the testbed portion of the project was the responsibility of DoDEA, DoDEA did not assign a project manager at the start of the project. If either agency had problems with meeting internally generated timelines on the development of specifications and the procurement of funds, the procurement of \$6.7 million should not have occurred until those issues were resolved.

Effects of Lack of Planning and Fund Control

As a result of the lack of planning and fund control, purchases for the DARPA project were not systematic. Also, DoDEA had to request additional RDT&E funds and used O&M funds to continue work on the CAETI project when the initial funding ran out. In addition, the lack of planning and inadequate contracting for LAN installation caused schedules to complete the DARPA project to slip. The DoDEA did not adequately plan for equipment purchases or installation of LANs.

Timing of Purchases. The DoDEA made purchases in advance of requirements, before adequate equipment specifications were developed, and for non-DARPA equipment with DARPA funds. DoDEA received \$6.74 million in

Finding C. Project Planning and Funds Control

RDT&E funds in December 1994. Although DoDEA had 7 months to obligate the funding, most of the purchases were made at the deadline of June 1995 before the requirements and specifications were developed. Of the \$6.74 million available, \$6.4 million (95 percent) was obligated in June 1995.

Requirements for Equipment. The DoDEA purchased equipment, computers; monitors; software; and laser printers, before it was required. The majority of the CAETI equipment was purchased in June 1995 and was shipped to either the DoDEA schools or the DoDEA warehouse during the fall of 1995 and stored. In June 1996, the majority of that equipment was still boxed up and in storage at the schools. The warranties on the equipment were expiring even though the equipment was not in use.

Equipment Specifications. The DoDEA made purchases before adequate equipment specifications were developed. As a result, it had to replace equipment, incurring additional costs. For example, in June 1995, DoDEA purchased aluminum cable tray channeling for \$338,980, to hold LAN cables. In September 1995, the aluminum cable trays were delivered to a DoDEA warehouse in Mainz-Kastel, Germany. In November 1995, DoDEA determined that it had ordered the wrong item and would not be able to use the aluminum cable trays. The installers stated that the cable trays would require too much effort to size and would be difficult to install in masonry buildings. DoDEA purchased replacement cable trays at \$176,000 that were shipped by express carrier to Europe.

Non-DARPA Equipment. The DoDEA also made purchases that were not part of the DARPA project with DARPA funds. In June 1995, DoDEA purchased \$111,580 in hardware and software for non-DARPA projects. It used \$30,513 for the DoDEA distance learning center, and \$81,067 for ADP equipment to operate SIMS City software. The distance learning center is not part of the CAETI project. DoDEA has funded the distance learning project with O&M funds since it was established, but it used DARPA RDT&E funds to buy equipment for the distance learning project. SIMS City was software for a game commercially available and was not a research and development item. The DoDEA planned to use SIMS City software in some classes.

Request for Additional Funds. Because DoDEA did not develop schedules and cost estimates, it did not anticipate all costs for the CAETI project and had to request additional funds to continue the project. At the early stages of the project, DARPA and DoDEA had expanded the number of schools participating in the project and agreed that DoDEA could fund a technology training center (not part of the CAETI project) for about \$500,000 with the DARPA funding. DoDEA had not anticipated at this time that funding would be a problem. After DoDEA purchased large quantities of hardware in June 1995, it realized that the CAETI project was drastically underfunded. As indicated in Appendix C, DoDEA required substantially more than an additional \$2 million.

Use of O&M Funds for DARPA. The DoDEA used O&M funds to continue the project when the RDT&E funds from DARPA were expended. DoDEA used \$239,111 of O&M funds for purchases including the replacement for the aluminum cable tray channeling, paper trays to replace incorrectly sized trays

Finding C. Project Planning and Funds Control

that were delivered with laser printers, and other miscellaneous tools. DoDEA personnel also indicated that LAN installation in one of the DARPA school districts was funded with O&M funds. Because DoDEA did not track purchases made with O&M funds, it could not be determined whether any additional equipment was purchased.

LAN Installation. The DoDEA did not adequately plan or contract work for DARPA LAN installations. LAN installation was not adequately planned in full and the effort and work required to install LANs was not anticipated. LAN installation efforts were not coordinated between the DoDEA in-house Management Information System division, DoDEA procurement, and DoDEA contractors. Contractors performed work in schools without coordinating with regional offices and District Superintendent's Offices. Also, one of the contracts DoDEA had for LAN installation was invalid and contributed to schedule delays.

Planning for LANs. Because DoDEA did not have a project manager for the CAETI project, planning work necessary to install LANs was inadequate. In November 1995, one DoDEA employee and two contractor employees began drilling holes and installing boxes for the LAN cabling. However, it soon became apparent that the level of resources provided was inadequate for installing LANs at schools in a timely manner.

Contracting for LANs. The DoDEA did not adequately plan and manage contracts for LAN installation at the testbed schools. DoDEA used a contract it had issued in September 1994 to obtain the services of the two contractor employees in November 1995 to install cabling for LANs. However, the September 1994 contract did not include the sites or delivery date of services so the contractor had no incentive to provide adequate resources or adhere to a schedule. When the efforts under the contract were deemed inadequate for the CAETI project, DoDEA tried to use another contract issued in June 1995 for the LAN installation. DoDEA legal counsel determined in March 1996 that the June 1995 contract for LAN installation was invalid. Specifically, DoDEA had not planned to use the contract in the fiscal year it was written, and DoDEA and the contractor had not agreed to the contract terms. A new contract had to be let and the contractor had to hire a new work force.

During the summer of 1996 adequate resources were applied to install the LANs. The delay in LAN installation delayed the entire CAETI project and reduced the time available for testing students by a semester, one-third of the time planned for testing.

Update of the DARPA CAETI Project

As of October 3, 1996, DoDEA continued to have problems with LAN components and the installation of the CAETI software onto DoDEA testbeds. DoDEA was also having problems locating some equipment that had been

Finding C. Project Planning and Funds Control

purchased in June 1995. It planned to purchase replacement equipment if the equipment was not located by the end of October 1996. As of October 15, 1996, DARPA stated that an evaluation using 8 of the 24 CAETI technologies was in process, and the remaining evaluations were scheduled to begin in the spring of 1997.

Recommendations, Management Comments, and Audit Response

C. We recommend that the Director, Department of Defense Education Activity establish guidance to implement DoD acquisition policies and procedures. Specifically, the guidance should ensure that in future automated system acquisitions a program manager is appointed at the beginning of the project and that acquisition program baselines, and acquisition strategies are developed, which should lead to the development of schedules and tracking of program costs.

DoDEA Comments. The DoDEA concurred and stated it will develop and issue appropriate guidance to implement DoD acquisition policies and procedures in accordance with Defense acquisition guidelines for acquisition reform. DoDEA further stated that because the guidance is integral to the development of DoDEA guidance for several complex acquisition issues, the estimated completion date is June 20, 1997.

Finding D. Tuition Collection

The DoDEA did not report all the tuition it collected in the fiscal year it was collected. Tuition collections were reported in the wrong fiscal year because DoDEA did not have adequate controls over tuition collections including adequate policy, procedures, and management oversight. As a result, DoDEA carried over \$7.3 million of funds from prior years to FY 1996 funds. In addition, the DoDEA Reports on Budget Execution have been incorrect and DoDEA budget requests have been overstated. By recording tuition collections to the correct fiscal year, DoDEA could reduce its O&M budget for 1 year by \$7.3 million.

DoD Guidance

Tuition collections are subject to DoD guidance in the DoD Accounting Manual 7220.9-M (DoD Accounting Manual), "Installation Level Budgetary Resources," October 1993, chapter 24, and various volumes of the DoD Financial Management Regulation. DoD provides guidance over the deposit of collections, the reporting of collections, the use of collections, general ledger and budgetary accounting entries, and the availability of funds in suspense accounts.

Deposit of Collections. DoD Financial Management Regulation, volume 5, "Collections," December 1993, chapter 10, states that to expedite the flow of funds to the Government collections should be deposited not later than the following business day.

Reporting Collections. Both the DoD Accounting Manual and the DoD Financial Management Regulation, volume 6, "General Purpose Reporting," February 1996, chapter 5, state that collections are to be reported in the fiscal year collected. Collections appear in the Report on Budget Execution, line 3B, "Change in Unfilled Customer Orders." Collections will also appear on the trial balance and will be recorded under general ledger account 1011, "Funds Collected."

Use of Collections. The DoD Accounting Manual (chapter 24-10) states that obligations may be incurred against reimbursables upon acceptance of customer orders. That is, collections may be used to offset obligations in the fiscal year they are received. Therefore, tuition collections are available for use in the fiscal year they are collected.

General Ledger and Budgetary Accounting Entries. Both the DoD Accounting Manual and the DoD Financial Management Regulation, volume 4, "Other Liabilities," January 1995, chapter 13, require accounting entries both at the time collections are made and the time collections are earned. Budgetary and Proprietary accounts are affected at the time of collection and the time of earning.

Finding D. Tuition Collection

Suspense Account. DoD Financial Management Regulation, volume 4, chapter 13, states that funds in suspense accounts are not available for paying salaries, grants, or other expenses of the Government. Tuition collections, which are used to offset DoDEA payroll expenses, may not be deposited into a suspense account.

Tuition Paying Students

The DoDEA allows non-DoD students to attend DoDEA schools, and it collects tuition from those students. DoDEA uses the tuition collections to offset O&M expenditures. In FY 1995, DoDEA reported tuition paying student enrollment at 4,089 students and tuition collections of \$33.5 million.

Authority to Collect Tuition. Tuition collections are considered part of the DoDEA budget. When the Office of the Under Secretary of Defense (Comptroller) determines the amount of funding to distribute to DoDEA, it uses an estimate of tuition collections to offset the DoDEA total funding. The estimate of collections is provided to DoDEA on a funding document, and DoDEA is authorized to make collections up to that amount only. If DoDEA collections exceed the estimate, DoDEA must get the estimate increased. In FY 1995, DoDEA was authorized tuition collections of \$33.5 million.

Each of the DoDEA areas (Europe, Pacific, Panama, and Headquarters) collect tuition. To track tuition collections, DoDEA Headquarters divided the \$33.5 million of authority among the areas. DoDEA Headquarters distributed \$25.6 million to the Europe and Pacific areas, and \$7.9 million to the Panama area and headquarters.

Tuition Collection and Tuition Earning. The DoDEA requires that parents or sponsors of non-DoD students pay tuition before the beginning of each semester. Therefore, DoDEA generally collected tuition between July and September for the fall semester and in January and February for those students who did not pay for the full school year between July and September. Because tuition is paid in advance for services DoDEA provides throughout the school year, DoDEA considers the tuition collections as earned only upon the passage of time and rendering of services as the school year progresses. A portion of the tuition collected between July and September is considered earned each month of the school year. However, DoDEA will not refund tuition before the end of the semester.

Collection of Tuition in School Year Versus Fiscal Year. The school year is from August through June and the fiscal year is from October through September. Because of the difference in school year and fiscal year, tuition is generally collected in the fiscal year before the fiscal year it is earned. For example, collections that occur in August 1995 for the following school year (school year 1995/1996) are collected in FY 1995, and the majority of the collections are earned in FY 1996.

Finding D. Tuition Collection

Recording Tuition Collected

The DoDEA Europe and Pacific areas did not report all tuition collections in the year they were collected. The nonreporting violated DoD guidance that stated that collections are to be reported and applied to offset the appropriation in the year collected. Tuition collections for the Panama area and DoDEA Headquarters were not reviewed.

Reporting Tuition Collections. In FY 1995, the Europe and Pacific areas collected \$24.5 million in tuition and did not report \$7.3 million as fiscal year collections. The total collections were not in reports that DoDEA submitted to the Office of the Secretary of Defense (Comptroller) and were not recorded in accounting records until FY 1996. In FY 1996, the collections were reported on the DoDEA Report on Budget Execution and in DoDEA accounting records.

Prior Fiscal Years. Tuition collections were recorded in the wrong fiscal year. For example, in FY 1994, \$8.6 million of tuition collected in FY 1994 was not reported in FY 1994, but in FY 1995.

Because the Europe and Pacific areas have reported tuition collections in the fiscal year following collection for a number of years, the collections actually reported in any year are a combination of current and prior year collections and collections are continuously left off the books until the following fiscal year.

Although tuition collected in FY 1995 totaled only \$24.5 million, DoDEA reported tuition collections of \$25.8 million. The \$25.8 million tuition reported included FY 1994 collections of \$8.6 million that were not reported in FY 1994 and only \$17.2 million of the \$24.5 million collected in FY 1995. DoDEA did not report the additional \$7.3 million of tuition collected in FY 1995 because the Europe and Pacific areas reported tuition collections only up to the \$25.8 million amount authorized by DoDEA Headquarters.

Determining Amount to be Reported. The DoDEA Europe and Pacific areas reported tuition collections up to the predetermined amount that DoDEA Headquarters authorized. In FY 1995, DoDEA Headquarters provided the Europe and Pacific areas the authority to collect \$25.8 million in tuition. Although that authority was meant as an estimate of tuition collections, which could be increased or decreased based on actual collections, the Europe and Pacific areas used the authority as a ceiling on reporting tuition.

Applying Funds to an Appropriation. Tuition collections are used to offset O&M funding. Because DoDEA did not report all collections in the year they were collected, all collections were not used to offset the O&M appropriation in the year collected. Thus, in FY 1995, tuition collections of \$7.3 million that should have been applied to the DoDEA FY 1995 O&M appropriation were applied to the DoDEA FY 1996 O&M appropriation.

Controls Over Reporting Tuition Collections

The DoDEA reported tuition collections in the wrong fiscal year because it did not have adequate controls over tuition collection, including policy, procedures, and management oversight.

DoDEA Policy. The DoDEA policy on using tuition collections was not consistent with DoD policy. According to the DoDEA Accounting Manual, chapter 24, tuition collections "are not available for obligation until earned." Because tuition is paid in advance between July and September for services DoDEA provides throughout the school year, DoDEA considered most tuition collections to be earned in the fiscal year following collection from October through June. The DoDEA policy was inconsistent with DoD policy, which states that collections are available for obligation when they are collected. Compliance with the DoD policy would have resulted in proper reporting of the collections.

In addition to being inconsistent with DoD policy, the DoDEA policy on tuition collections was inconsistent with the DoDEA policy on non-DoDDS tuition payments. DoDEA makes tuition payments for military dependents who must attend schools where DoDDS schools are not available. In FY 1995, DoDDS Europe used FY 1995 O&M funds to pay for school year 1995 and 1996 tuition. DoDDS Europe did not use a combination of FY 1995 and FY 1996 funds to reflect its tuition policy of recognizing services provided when earned.

DoDEA Procedures. The DoDEA Europe and Pacific areas tuition collection procedures were not in accordance with DoD and DoDEA guidance. Tuition collections were not deposited promptly when received, the Europe area utilized a no-year suspense account to record tuition collections, and the Pacific area did not record tuition collections in the appropriation to which they had actually been deposited. In addition, DoDEA did not record tuition collections in the proper General Ledger accounts.

Deposit of Collections. Tuition collections were not always deposited when received, as required by DoD and DoDEA policy. In the Okinawa district, DoDEA did not submit tuition checks received in FY 1995 to a finance office for deposit until November 1995. According to DoDEA, the checks were maintained in a safe for 1 to 2 months in the local district superintendent's office. According to DoD guidance, collections should be deposited not later than the following business day of collection. The late deposit of collections caused funds to be applied to the DoDEA FY 1996 O&M appropriation instead of the FY 1995 O&M appropriation. Prompt deposit of collections would help ensure correct reporting of tuition collections. DoDEA should include requirements for timely deposits of funds received in training to personnel handling tuition collections.

Suspense Account. In the Europe area, tuition collections were deposited into a suspense account before being credited to O&M appropriations. The suspense account that DoDEA used was a revolving fund. Funds deposited in that account did not expire and could be applied to any year.

Finding D. Tuition Collection

In FY 1995, \$8.2 million in tuition collections for school year 1995 and 1996 were deposited into the suspense account. Of that amount, \$2.8 million was transferred from the suspense account to the DoDEA FY 1995 O&M appropriation, and \$5.4 million was transferred to the DoDEA FY 1996 appropriation. The DoDEA use of a suspense account was a violation of the DoD Financial Management Regulation because tuition collections were expected to offset payroll expenses. Using a suspense account also allowed the deposit of funds into the wrong fiscal year appropriation.

Processing Collection Vouchers. The Pacific area delayed processing collection vouchers from FY 1995 to FY 1996 and DoDEA did not record tuition collections into the appropriation to which they had actually been deposited. DoDEA reported that tuition collections had been deposited into the FY 1996 appropriation although they had actually been deposited into the FY 1995 appropriation.

Recording Tuition into Accounts. The Europe and Pacific areas did not utilize accounts required by DoD guidance. Registration of students, tuition collections, and earnings were recorded simultaneously with one accounting entry. Both DoD and DoDEA guidance require that collections of tuition be recorded in the accounting system and on reports when collected and as an earning when earned.

Management Oversight. The DoDEA did not ensure that adequate reimbursable authority was obtained to cover tuition collections, and that the Europe and Pacific areas followed established policies and procedures. Adequate reimbursable authority and compliance with DoD policy would help ensure correct reporting of tuition collections.

Amount to Cover Actual Tuition Collection. The DoDEA did not ensure that the Europe and Pacific areas were authorized an amount to cover actual tuition collections. Actual FY 1995 collections plus actual FY 1994 collections, which were not reported in FY 1994, were \$33.1 million, while the authority amount was \$25.8 million. The Europe and Pacific areas reported the \$25.8 million authorized amount as collected versus the actual amount of \$33.1 million. DoDEA did not closely monitor tuition collections and did not request authority to increase the collection amount and report the additional tuition of \$7.3 million.

Policy. The DoDEA did not ensure that the Europe and Pacific areas followed DoDEA policy. Although DoDEA policy was not consistent with DoD policy, the Europe and Pacific areas did not follow either DoD policy or DoDEA policy. The DoDEA Accounting Manual states that tuition should be reported when collected and applied to an appropriation when earned. Both the Europe and Pacific areas recorded tuition collections up to the amount of authority that DoDEA Headquarters provided and applied the same amount to O&M appropriations.

Procedures. The DoDEA did not ensure that the Europe area followed DoD or DoDEA procedures. In January 1995, DoDEA Headquarters directed the areas to abandon use of the suspense account, and credit tuition collections

Finding D. Tuition Collection

to O&M appropriations. The Europe area did not implement the guidance. DoDEA needs to perform reviews to ensure that the Europe and Pacific areas process tuition collections in accordance with DoD guidance.

Carry Over of Funds to Next Fiscal Year

As a result of recording tuition collected to the wrong fiscal year, DoDEA had accumulated \$7.3 million funds from prior years to FY 1996 O&M funds. Recording of tuition collections to the wrong year caused inaccurate Reports on Budget Execution and overstated the DoDEA budget.

Report on Budget Execution. The DoDEA Reports on Budget Execution were incorrect for each year funds were recorded in the fiscal year following the year of collection. DoDEA Reports on Budget Execution were understated for tuition collections recorded in the fiscal year following the year of collection and overstated for tuition collections recorded from the prior fiscal year.

Overstated Budget. The DoDEA requested more O&M funds than needed because less than the full amount of tuition collections expected was offset against budget requirements. DoDEA carried over funds of \$7.3 million from FY 1995 to FY 1996 without offsetting the FY 1996 budget request. In prior years, including FYs 1993 and 1994, DoDEA had carried over funds from the prior year to the following year appropriation without offsetting the budget request. By recording tuition collections to the correct fiscal year, DoDEA could reduce its O&M budget in 1 year by \$7.3 million (see Appendix D).

Recommendations, Management Comments, and Audit Response

D.1. We recommend that the Director, Department of Defense Education Activity:

a. Report all tuition in the fiscal year collected, including the \$7.3 million collected in FY 1995 but not reported. If necessary, request additional tuition collection authority from the Office of the Under Secretary of Defense (Comptroller). If additional authority is obtained, ensure that the Office of the Under Secretary of Defense (Comptroller) reduces the Department of Defense Education Activity funding by the same amount.

DoDEA Comments. The DoDEA nonconcurred with the recommendation. It stated that the current method of collecting tuition and recording collections in the year earned is in compliance with accounting principles of accrual.

Finding D. Tuition Collection

Audit Response. The DoDEA comments were nonresponsive. Omitting transactions from financial reports is not in compliance with either accrual or fund accounting principles. Tuition is to be recorded and reported when collected. We request that DoDEA reconsider its position and provide additional comments in response to the final report.

b. Change Department of Defense Education Activity policy to state that collections are reported and available to offset obligations in the fiscal year they are collected. In addition, ensure that the policy implements DoD guidance on the appropriate use of accounts.

DoDEA Comments. The DoDEA nonconcurred with the recommendation. It reiterated that reimbursable activity accounting procedures should not apply to the DoDEA prepaid tuition practice. DoDEA stated that it has petitioned the Director, Accounting Policy, DoD Comptroller [Under Secretary of Defense (Comptroller)] for an exemption to the general rule on earnings and collections. It further stated that it will conform to policy guidance received from the Director of Accounting Policy, DoD Comptroller.

Audit Response. Although DoDEA nonconcurred with the recommendation, its planned alternative action to conform with requested policy guidance from the Director of Accounting Policy, Under Secretary of Defense (Comptroller) is responsive to the intent of the recommendation.

c. Provide adequate training to employees handling tuition collections to ensure that collections are deposited in a timely manner and that tuition collections are reported in the same appropriation that they were deposited into.

DoDEA Comments. The DoDEA concurred with the recommendation. It stated that it would direct the European and Pacific areas to deposit and report tuition collections in the same appropriation, in a timely manner, in response to the Under Secretary of Defense (Comptroller) expected guidance.

Audit Response. The comments from DoDEA are nonresponsive. At the time of audit the Europe and Pacific areas were not following directions from DoDEA concerning tuition. DoDEA still needs to train employees in applying the Under Secretary of Defense (Comptroller) policy regarding tuition collection. We request that DoDEA reconsider its position and provide additional comments in response to the final report.

d. Establish necessary controls to hold the European and Pacific areas accountable for processing tuition collections in accordance with DoD and Department of Defense Education Activity guidance, including abandoning use of the suspense account.

DoDEA Comments. The DoDEA concurred with the recommendation. It stated that it would direct its field activities to process tuition collections in accordance with Under Secretary of Defense (Comptroller) guidance, including abandoning the use of suspense accounts.

Finding D. Tuition Collection

D.2. We recommend that the Under Secretary of Defense (Comptroller) review the Department of Defense Education Activity tuition collections, state DoD policy on tuition collections, and make appropriate authorization and budget adjustments.

Audit Response. The Under Secretary of Defense (Comptroller) did not comment on a draft of this report. Therefore, we request that the Under Secretary of Defense (Comptroller) provide comments on the final report.

Management Comments on the Monetary Benefits and Audit Response

DoDEA Comments. The DoDEA nonconcurred with the potential monetary benefit of \$7.3 million that could be realized by recording tuition in the year of receipt and using it to offset current obligations. DoDEA stated that the current method of collecting tuition and recording collections in the year earned is in compliance with accounting principles of accrual.

Audit Response. We do not agree with the DoDEA comments. Tuition collections expected should offset the budget request, and DoDEA had not reported \$7.3 million in tuition collections. 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 DoDEA funds control policies and procedures and ISA management practices. We also reviewed yearend procurements in FY 1994 and FY 1995 for \$7.3 million in contracts, \$0.6 million in supplies, \$1.4 million in equipment object classes, and tuition collections in FY 1995 of \$33.5 million. The documents reviewed were from FY 1994 through FY 1996. We reviewed execution of DARPA provided funds and DARPA project management. We reviewed prior reports, fund authorization documents, DoDEA accounting reports, and interviewed operating personnel. We did not review the DoDEA management control plan.

Methodology

We did not use statistical sampling in selecting the sites or schools visited or in selecting accounting transactions for audit testing and verification.

We examined ISA management procedures to determine whether procedures were properly implemented for custodial maintenance, rents, and utilities. We reviewed FY 1994 through FY 1995 budget execution data for contracts, equipment, and supplies, and compared them to underlying documentation such as availability of funds, statement of need, and statement of work to determine the accuracy of audit trail for the amounts in the Funds Control System. We reviewed the CAETI project to determine adequacy of funds control, adequacy of planning, and status of the project. We also interviewed operating personnel at DoDEA Headquarters and DARPA, and operating personnel and administrators at the schools and administrative offices we visited.

Use of Computer-Processed Data. Our review of computer-processed data 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 schools and administrative offices we visited. The reports generated from the Funds Control System were not accurate. However, the reports did not affect our review or audit results because we verified and relied on source documents. We did not evaluate general and application controls for the systems.

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

Appendix A. Audit Process

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

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 DoDDS. The General Accounting Office personnel stated that they had not verified the accuracy of data obtained during their review and they were aware that there might be some inaccuracies because of weaknesses in the underlying accounting and information systems.

Inspector General, DoD

Inspector General, DoD, Report No. 96-181. The Inspector General, DoD, issued Report No. 96-181, "Management Control Environment for the Department of Defense Education Activity," June 28, 1996. The report 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 Officer 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 has 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. The Inspector General, DoD, issued Report No. 96-159, "Quick-Reaction Report on Potential Antideficiency Act Violations at the Department of Defense Education Activity," June 13, 1996. The report 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

Appendix B. Prior Audits and Other Reviews

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. The DoDEA generally concurred with the recommendations and agreed to take appropriate management actions. The DoDEA General Counsel issued an opinion that personal computers and electronic equipment costing less than the investment threshold (in FY 1996, \$100,000) could be purchased with funds from O&M Appropriations but that equipment costing in excess of the investment threshold, such as LANs, required Procurement funds. Washington Headquarters Service stated that no antideficiency violation occurred and that no investigation was required for foreign currency fluctuation. However, the Comptrollers office initiated an investigation on the potential antideficiency act violations concerning foreign currency fluctuation. The Comptrollers office also reviewed the use of O&M funds to purchase computers, and will provide clarification and guidance on the type of funds to use.

Inspector General, DoD, Report No. 96-125. The Inspector General, DoD, issued Report No. 96-125, "Quick-Reaction Report on the Acquisition of the Department of Defense Education Activity Automated Information System," May 21, 1996. The report discussed DoDEA management of the acquisition of a major automated information system, and DoDEA compliance with DoD acquisition policies and procedures. The report 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. The report recommended that DoDEA discontinue the major automated information acquisition until the project was restructured and managed in accordance with DoD acquisition polices and procedures; prepare and submit required documentation for the major automated information system to the Deputy Assistant Secretaries of Defense as appropriate; and amend and submit the FY 1997 budget exhibits for the major automated information system to the Under Secretary of Defense (Comptroller). Comments from DoDEA were not considered responsive; however, because corrective actions will be implemented at the Deputy Assistant Secretary of Defense (Personnel Support, Families, and Education) level, the comments from DoDEA were accepted.

Appendix C. Department of Defense Education Activity Comments on Defense Advanced Research Projects Agency

THE DARPA PROJECT

23 September 1996

A. ISSUE

The DoDIG audit team has criticized DoDEA for (1) the lack of DoDEA project and resource planning for the DARPA project, (2) the lack of assigning a project manager to the program, (3) the premature procurement of computer equipment in advance of their date of need, and (4) the inappropriate use of DARPA funds in support of a technology academy.

The purpose of this document is to ensure that the DoDIG management is aware that (1) the R & D nature of the project funding and schedules were controlled solely by the DARPA staff, not DoDEA, (2) DoDEA submitted a proposal for project management costs which was not funded by DARPA, (3) the computer procurement schedules were driven by MIPR expiration dates that were issued by DARPA, not by the DARPA test schedules, and (4) that a technology academy was indeed a part of the original plan submitted by DoDEA.

B. DISCUSSION

1. Original Work Scope. In response to DARPA's request to use some of DoDEA's schools as a testbed for the Computer Assisted Education Technology Initiative (CAETI), DoDEA submitted a proposed work scope on August 29, 1994, which included program costs for (1) testbeds computer equipment, (2) a technology academy, and (3) project staff to manage the program. DARPA agreed with the spirit and intent of the proposal. (Attachment 1).
2. MIPR # 1. On November 18, 1994, DARPA issued a MIPR in the amount of \$6,740,000 to procure technology equipment in support of the CAETI program. The MIPR had an unrealistic obligation expiration date of 43 days, and expired on December 31, 1994 before any obligations could be made. (Attachment 2).
3. First Revision to MIPR # 1. On March 15, 1995, DARPA revived the MIPR which had expired on December 31, 1994, and extended the obligation expiration date to June 30, 1995. This allowed for a 75 day window for the obligation of funds between March 15 and June 30. (Attachment 3). The 75 days did not provide adequate lead time for the procurement of technology equipment, and DoDEA requested an extension of the MIPR to September 30, 1995.
4. Second Revision to MIPR # 1. On June 23, 1995, DARPA forwarded a second revision to MIPR # 1, which extended the obligation expiration

Appendix C. Department of Defense Education Activity Comments on Defense
Advanced Research Projects Agency

date to September 30, 1995. (Attachment 4). The MIPR was fully executed by September 30, 1995.

5. **MIPR # 2.** As DARPA further defined the number of testbed schools and number of classrooms that were to be served, it became evident that the original MIPR authorization of \$6,740,000 would not be adequate. Therefore, DARPA issued MIPR # 2 on November 22, 1995, to authorize an additional \$2,000,000 in funding in support of the CAETI testbeds. This MIPR had an expiration date of March 31, 1996. (Attachment 5).
6. **Inadequate Funds.** On January 24, 1996, DoDEA expressed its concern that the DARPA requirements for the purchase of technology equipment to support the testbeds had grown substantially, and far exceeded the \$2,000,000 authorized by MIPR # 2. (Attachment 6). DoDEA was reluctant to expend the \$2,000,000 without full agreement on what should be purchased. DoDEA then proposed a solution that would remain within the authorized funding, which was accepted by DARPA. (Attachment 7).
7. **Revision to MIPR # 2.** On April 3, 1996, DARPA revised MIPR # 2 and extended its obligation expiration date to June 30, 1996. (Attachment 8). This MIPR was fully executed by June 30, 1996.
8. **Non-payment of Project Management Costs.** In the final analysis, DoDEA was not allowed to charge any project management labor costs against the DARPA fund cite. (Attachment 9). In December 1995, DoDEA assigned a full time project manager for the DARPA project, out of hide. Meanwhile, the DoDIG has criticized DoDEA for not providing a project manager from the inception of this program.
9. **Assignment of Computers.** DARPA instructed DoDEA to not allow the computers to be assigned to any teachers until DARPA had completed its selection of teachers and associated classrooms for each testbed. Therefore, the computers were held in storage until the teacher selections were made. The final teacher selections for the STS-1 was completed in April 1996, and the STS-2 teacher selections will be completed in October 1996. The final selections will determine which teachers will receive the DARPA funded computers.

C. CONCLUSION

The project funding, procurement, classroom teacher selection schedules and allocation of computers to teachers have been controlled solely by the requirements set by DARPA and the MIPRs issued by DARPA.

Appendix D. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and Type of Benefit
A.1. and A.2.	Economy and Efficiency. Avoids incorrect billing and payment of utility costs.	Nonmonetary.
C.	Program Results. Improves program management.	Nonmonetary.
D.1 and D.2.	Compliance with Regulations. Ensures proper recording of collections.	Funds put to better use of \$7.3 million by reducing budget request for funds not previously identified (FY 1998/9780100.6000).

Appendix E. 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 Secretary of Defense (Public Affairs)
Deputy Under Secretary of Defense, Industrial Affairs and Installations
Assistant 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 Advanced Research Projects Agency
Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency

Appendix E. Report Distribution

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 Subcommittee on Government Management, Information and Technology, Committee on Government Reform and Oversight
House Committee on National Security

Part III - Management Comments

Under Secretary of Defense for Industrial Affairs and Installations Comments

Final Report
Reference



ACQUISITION AND
TECHNOLOGY

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON DC 20301-3000

21 FEB 1997

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DOD
ATTN: Mr. Walter Loder, Audit Projects Manager

SUBJECT: Audit Report on Financial Management at the Department of Defense
Education Activity (Project No. 6LLA-2011.01)

In response to your request for comments on subject audit report, the following subject areas are within the purview of ODUSD (IA&I):

Nonconcur with Finding A, Interservice Support Agreements, relative to the alleged inappropriate billings for utility plant upgrades by the Army and Air Force. The instruction does not prohibit reimbursement of investment costs for facilities upgrades as stated in the finding. Paragraph D3, DoDI 4000.19, provides for reimbursement of services and support provided solely for the benefit of one or more tenants and which would not have otherwise been incurred. These costs are defined as "direct costs" (See Definitions in Encl. 2, of DoDI 4000.19), therefore:

- Billings at Augsburg were appropriate since they represented legitimate direct costs passed on by the supplier to the government and the school complex was the sole recipient.
- The billings by the Air Force were also appropriate since they were legitimate direct costs proportionately divided among the using tenants.

In reference to Recommendation A.2.a, the energy management directive is still in the formal coordination stage with a projected fielding date of August 1997.

In reference to Recommendation A.2.b, the guidance in the Instruction is considered adequate because the capital investment costs were not nonreimbursable fixed costs as indicated in the finding. However, an interservice support workshop is scheduled during our upcoming Installation Commanders Conference on February 25-27, 1997, and issues such as ISA problems and any confusing guidance or lack thereof will be addressed, and changes to DoDI 4000.19 will be drafted accordingly.

Questions should be directed to Bob Hobson at (703) 604-5805.


Douglas B. Hansen
Director

Installations Requirements and Management



Page 8
Recommendation
deleted

Recommendation
A.2.a. and
A.2.b.
renumbered as
Recommendation
2.

Department of Defense Education Activity Comments



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

DEC - 7 1997

MEMORANDUM FOR DEPUTY ASSISTANT INSPECTOR GENERAL FOR AUDITING
INSPECTOR GENERAL, DEPARTMENT OF DEFENSE
(ATTN: MR. DAVID STEENSMA)

SUBJECT: Draft Audit Report on Financial Management at the Department of Defense
Education Activity (Project No. 6LA-2011.01)

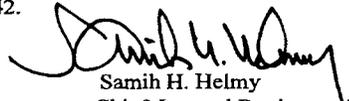
The DoDEA Internal Review and Oversight office reviewed the subject draft report and obtained management comments. The attached comments provide additional facts to the findings and recommendations.

We are providing information and facts for your consideration and as a basis upon which the draft audit report can be revised to accurately reflect DoDEA's position. DoDEA managers agreed in part with three of the four findings and disagreed with the finding dealing with the accounting for the collection of tuition. However, based on our review of the report, we do not concur with 7 of the 18 recommendations. The attachment contains the additional data, information and facts to support our rationale and position.

Appendix E in the report presupposes potential monetary benefits of \$18.1 million. Prior to the audit, DoDEA identified \$10.8 million in billings for nonreimbursable overhead utility costs and declined to make the payments. Furthermore, the reporting of \$7.3 million of tuition when earned or projected does not generate any savings or cost avoidance. The summary section of potential benefits should be eliminated from the report.

The audit team performed a limited scope of review that should not be used as a basis for expressing a general opinion and assessment of the total DoDEA financial management system. The DoDEA Internal Review Office has scheduled audits of the DoDEA's managerial controls, financial management, and follow-up on prior reviews cited in the report.

Thank you for the opportunity to submit our comments. I am available to resolve any disagreements before the final report is issued. If you have any questions, please contact me or call Mr. Paul Goss at 696-9052 ext. 4042.


Samih H. Helmy
Chief, Internal Review and
Audit Oversight Office

Attachments:
As stated

DoDEA COMMENTS
DODIG Draft Audit Report on Financial Management
Project No. 6LA-2011.01

A. FINDING A

Page 4. "Finding A. Interservice Support Agreements"

"Host Installations did not provide DoDEA appropriate billings and budget submissions for ISA costs at the seven installations reviewed. Host installations did not provide DoDEA appropriate billings and budget submissions, in part, because of the unresolved issue of whether utility plant costs are billable to DoDEA. In addition, ISA charges and budget submissions were not effectively reviewed, challenged, or followed up. Also, DoDEA did not maintain ISAs in a current status. As a result, DoDEA inappropriately paid \$749,425 (\$246,650 in FY 1994, \$376,200 in FY 1995, and \$126,575 in FY 1996) for costs of utility plant upgrades covered under ISAs with the Army. From FY 1997 through FY 2003, DoDEA plans to pay the Air Force \$10.8 million for costs of utility plant upgrades covered under ISAs. Also in FY 1995, DoDEA overpaid \$20,604 in water and sewer charges because of inaccurate billings.

Concur With Exception. Finding A should be corrected to (1) clarify that it was DoDEA who discovered the over-billings and briefed the DoDIG audit team on this finding, and (2) delete the DoDIG's unsubstantiated speculation that DoDEA planned to pay the Air Force \$10.8 million for future utility plant upgrade costs.

a. **Discovery by DoDEA.** DoDEA (1) discovered the Army over-billings for FYs 1994 and 1995 during its annual ISA review process in late 1995, (2) challenged the over-billings for FYs 1994, 1995, and 1996 in January 1996, (3) notified the military command that future over-billings would not be paid, (4) elevated the issue to the major command level (U.S. Army Europe), and (5) briefed the DoDIG audit team on these facts in June 1996.

b. **Misimpression by Finding A.** The current language of Finding A leaves the reader with the misimpression that (1) it was the DoDIG who discovered the over-billings, (2) DoDEA was unaware of, and did not challenge the over-billings, and (3) DoDEA was planning to pay for future over-billings.

c. **Invalid Speculation.** The audit statement that DoDEA was planning to pay \$10.8 million in future over-billings is invalid. DoDEA had already informed the Air Force that future over-billings would not be paid, and the

Department of Defense Education Activity Comments

Final Report
Reference

Air Force had not submitted such a billing to DoDEA. **This statement should be deleted.**

d. **Incorrect Conclusion.** The DoDIG has concluded incorrectly that inappropriate billings can be avoided if the ISA is kept current. The ISA does not specify the non-payment of capital investment costs, since it is prohibited by regulation. **This conclusion should be deleted.**

Finding A should be amended as follows:

Page 1. "Audit Results. Through its annual ISA review process, the DoDEA discovered in late 1995 that the host installations had billed DoDEA inappropriately for interservice support agreement costs in FYs 1994 and 1995. DoDEA has formally challenged \$770,000 in excess costs for FYs 1994, 1995, and 1996, has declined to pay for future over-billings from FY 1997 through FY 2003, and has elevated the issue for resolution at the major command level (Finding A)."

Page 9. "Recommendations for Corrective Action"

"A.1. We recommend that the Director, Department of Defense Education Activity:

a. Elevate the dispute with the U.S. Army and the U.S. Air Force concerning capital facilities costs billed under interservice support agreements to the Deputy Under Secretary of Defense, Industrial Affairs and Installation.

b. Establish procedures for performing resource management reviews, including timing of reviews.

c. Establish effective follow-up on reports of reviews of interservice support agreement billings by requiring DoD Education activity personnel to:

(1) Maintain a current follow-up log for recommendations directed to interservice support agreement providers.

(2) Request written response from support providers on audits of interservice support agreement billings.

(3) Direct district superintendents and chiefs of service centers to have regular contact, including office visits, with interservice support agreement support organizations to review the current status of interservice support agreements and to review billings and source documents.

Page 8

Recommendation
deleted

Recommendation
renumbered as
A.1.a.

Recommendation
renumbered as
A.1.b.

Department of Defense Education Activity Comments

Final Report
Reference

Recommendation
renumbered as
A.1.c.

(4) Elevate unresolved disputes to a higher level of authority for resolution.

d. Coordinate with host installations on the installation of meters to measure the usage of utilities.

A.1.a. Concur With Comment. DoDEA has elevated the Army billing issue to the U.S. Army Europe Command level, and will elevate it to the Deputy Under Secretary of Defense, Industrial Affairs and Installation, if it is needed. DoDEA has not received an overbilling from the Air Force. If it is received, DoDEA will challenge the billing, elevate the issue to the U.S. Air Force Europe command level, and if needed, elevate the issue further to the Deputy Under Secretary of Defense Industrial Affairs and Installation.

A.1.b. Concur With Comment. The report should acknowledge that DoDEA Area Service Centers had implemented annual resource management reviews at the time of the audit. During FY 1996, DoDDS-Europe conducted 23 reviews involving 56 schools. The audit team was provided with the procedures, ISA review schedules, and trip reports.

A.1.c. Concur with Comment. The report should acknowledge that (1) the DoDEA Area Service Centers had implemented a log system for the quarterly follow-up of outstanding recommendations prior to the audit, and (2) that both the District Budget Officers and Area Service Center Logistics staff are in monthly contact with the host installation civil engineering offices. The audit team was provided with copies of the quarterly status reports for follow-up reports on findings and recommendations from prior ISA reviews. DoDEA will request a written response from providers to findings and recommendations that are identified by DoDEA in future ISA reviews. This action will be completed by June 1997.

A.1.d. Concur. DoDEA will coordinate the installation of meters with host installations following publication of the Installation Energy Management Policy.

B. FINDING B

Page 11. "Finding B. Budget Execution and Spending Requirements."

"The DoDEA made procurements at yearend FYs 1994 and 1995 with Operation and Maintenance (O&M) funds for goods and services that were not a bona fide need of the fiscal year. DoDEA obligated O&M funds at yearend because DoDEA did not have adequate controls to manage spending in an efficient and effective manner. As a result, DoDEA obligated \$731,938 and \$1,280,327 in O&M funds for goods and services at the end of FYs 1994 and 1995, respectively, that were not needed."

Pages 12-13. "In September 1994, DoDDS used \$337,874 of FY 1994 O&M funds to purchase about 21,800 square yards of interior carpeting, for which there was not a bona fide need for the fiscal year."

Nonconcur. This conclusion is incorrect and should be deleted. The audit team did not consider (a) regulations which allow an exception to the bona fide need rule when materials cannot be obtained in the same fiscal year, (b) the long procurement lead times required for the overseas delivery of carpets, (c) the need to install carpets when the school is out of session, and (d) the need to defer carpet installations a full year if they are received too late for installation in the summer.

- a. **Exception to Bona Fide Need Rule.** The regulations allow an exception to the bona fide need rule, where the obligation is made in one year, and the delivery is made in the subsequent fiscal year (GAO principles of Federal Appropriations Law, Second Edition, Volume I, chapter 5, Section B 4 - Delivery of Materials beyond the fiscal year). This is the case with carpet procurements. In addition, if the obligation is proper when made, unforeseen delays which cause the delivery or performance to extend into the following fiscal year does not invalidate the obligation.
- b. **Bona Fide Need.** There was a bona fide need to replace the carpeting at the three Yokota AB schools at the end of school year 1994-95. The FY 1994 end of year funds were used to procure carpets for installation in the summer of 1995.
- c. **Carpet Lead Time.** Carpet orders require a long procurement lead time. The carpet industry's standard practice is to accumulate orders until a large production run can be made. The surface shipment of carpet from CONUS to overseas locations is relatively long due to its bulk and weight.
- d. **Carpet Schedules.** The normal carpet installation sequence calls for (1) buying the carpet in the fall, (2) vendor production and shipment during January-March,

Department of Defense Education Activity Comments

Final Report
Reference

Page 12

(3) receipt of the carpet during March-May, and (4) installation during the June-August summer break. Carpets ordered at the beginning of a new fiscal year can be delayed by late budget authorizations (e.g. The late approval of the FY 1996 budget) and could miss the normal vendor production and shipment schedules.

e. Late Carpet Deliveries. This carpet order was received too late in the summer for installation before the beginning of school. Therefore, the installation was delayed to (and completed in) the summer of 1996 for all three schools.

Page 13. "Installation services. On September 23, 1994, DoDEA issued a \$394,064 delivery order for site surveys and engineering plans for the installation of local area networks (LAN) that was not needed in FY 1994. Under the delivery order, DoDEA paid for LAN maintenance services that did not comply with the statement of work, and the contractor did not perform the required work within 60 days after receipt of order."

Nonconcur. These statements are incorrect and should be deleted.

a. Delivery Order. The September 23, 1994, delivery order was issued by the Defense Logistics Agency on behalf of DoDEA for existing LAN requirements that had been previously identified by DoDEA.

b. Maintenance Services. No maintenance services were performed under this delivery order.

c. Services Performed. The contractor performed site survey reviews and installed LAN cabling and conduit at the United Kingdom District Superintendent Office during March 1995. This is consistent with the type of work that is authorized under the Statement Of Work (e.g. installation of LAN ports).

Page 13. "Installation Services. ...The contractor did not perform a site survey and did not deliver a site survey or engineering plan as required in the statement of work...In January, 1995, DoDEA modified the order to include LAN installation."

Nonconcur. This conclusion is incorrect and should be deleted. The audit team assumed incorrectly that the contractor must perform all elements of the contract work statement. The contract allows DoDEA the option of asking the contractor to perform all or any portion of the contract.

a. Actual Services Performed. The contractor was not asked by DoDEA to perform a site survey or to deliver an engineering plan. The contractor was asked to review the site surveys, recommend enhancements to the LAN installation (e.g. specification of power requirements), and install the LAN passive components.

b. Contract Modification. The contract was modified by the Defense Logistics Agency on behalf of DoDEA to add authorization for the installation of passive LAN components during Phase 2 of the contract.

Page 13. "The DoDEA used \$1,215,701 in FY 1995 funds at yearend to purchase computer equipment for which there was not a bona fide need in the fiscal year. A requirement analysis either was not prepared or was inadequate."

Page 14-15. "Storage of Equipment Purchased at Yearend. The DoDEA purchased equipment at year end FY 1995 and did not use the equipment."

Page 13

Nonconcur. This finding is incorrect and should be deleted. All of the following FY 1995 procurements met the bona fide need rule:

a. Purchase of 120 Pentium Computers (\$464,160). Curriculum requirements in SY 1994-95 called for the teaching of keyboarding/data entry, word processing, and technology terminology at the elementary level. In the spring of 1995 the curriculum coordinators determined that the most essential technology related element of the curriculum was keyboarding. A review of the inventory of ADP equipment available to support the keyboarding and technology curriculum requirements revealed a shortfall in appropriate equipment. Four schools were identified that needed 30 computers each for their computer labs to support the technology curriculum requirements. DoDEA provided the district offices notification on this equipment several months in advance of delivery. Kaiserslautern ES was the only school that experienced problems in using the equipment immediately as a result of inadequate electrical service.

b. Yearend Storage of Equipment (\$137,036).

(1) Europe Service Center. The 6 notebook computers received in December 1995 were scheduled for use in the video teleconferencing room as a training lab for small groups. The room renovation and installation of communication lines encountered delays that were outside of DoDEA's control. The lab became fully operational on October 21, 1996. The 11 pentium computers received in March 1996 were purchased for new MIS Division employees. Five of the computers were issued as of September 15, 1996. The selection of remaining personnel has been delayed by the lack of authorized certification lists from the Office of Personnel Management (OPM), which is outside of DoDEA's control.

(2) Mainz Kastel Warehouse. The software and peripherals for the 33 computers were received in June 1996 by new transportation personnel. As of December 1996, 21 were issued to new transportation personnel, 4 are scheduled for use at the new Spangdahlem School Bus Office in January 1997, 7 are scheduled for use as servers and e-mail gateways in March 1997 at Bad Krueznach, Bamberg, Giessen, Livorno, Mannheim, Rhein-Main, and Vilseck. The one remaining system will be used as maintenance backup to avoid system down-time in the event of component failures in the Europe wide transportation system. There are 137 computer workstations currently in use within transportation.

Department of Defense Education Activity Comments

Final Report
Reference

When it is not possible to synchronize the arrival of equipment and personnel perfectly, DoDEA considers it more prudent to err on the side of having the equipment arrive earlier and sit idle, than to have the staff arrive and sit idle without equipment.

- c. Purchase of DDESS ADP Equipment (\$348,152 at Quantico, \$266,453 at Fort Stewart).

The audit team did not properly consider that (a) the documentation was available, (b) DDESS had access to multiple procurement channels, and that (c) the use of a joint service contract is legitimate.

Requirements documentation was filed by DDESS to support the purchase of ADP equipment with yearend funds.

Multiple Procurement Channels were available to DDESS during the audit review period, including the FISC Norfolk Detachment, Philadelphia, local contracting offices, FISC, DoDDS, and other agencies that are available. Therefore, the procurement process was not circumvented. DDESS can also use an alternate procurement office if a given office establishes a cut off date and declines to accept new procurement requests. In this instance, the schools made use of their alternate procurement source.

Joint Service Contracts can be used as a legitimate means for obtaining materials and services.

Page 15. "DDESS Purchase of Equipment. The DDESS did not have adequate documentation to support the purchase of the ADP equipment. ...As a result, DDESS did not use normal procurement procedures to purchase ADP equipment." ...The procurement office used a joint service contract to issue the delivery order."

Nonconcur with same comment as paragraph c. above.

Page 15. "The school purchased \$210,000 in ADP equipment, and paid \$56,000 in procurement fees because of the short notification and lateness in the fiscal year."

Concur With Comment. Our review of the Fort Stewart school district ADP purchase confirmed that a service fee of 20 percent was paid to the Naval Computer & Telecommunications Station, Pensacola, Florida. To preclude future overpayments of service fees, the Director of DDESS issued a policy memorandum on December 4, 1996, which (a) establishes 4 percent of the procurement dollar value as an acceptable contracting fee, (b) states that the local

Department of Defense Education Activity Comments

Final Report
Reference

contracting office and Philadelphia are the only authorized contracting offices, and (c) requires the Director's prior approval to pay a fee in excess of 4 percent.

Page 15. "Safety Tiles. In FY 1994, the Pacific area received and accepted a double shipment of safety tiles that was not needed in FY 1994."

Concur with comment. The shipment of safety tiles was received in April 1994 at Yokota AB. The receiving report was not submitted by the DSO Japan receiving activity at Yokota AB until August 1994. DoDEA directed that a discrepancy report (SF-364) be submitted to the contracting activity. This was not accomplished, was not monitored, and became an oversight. A status check of the contract in August 1995 indicated that there was still a standing requirement for the safety tile at various schools in Japan. As a result, available FY 1995 funds were used to procure a duplicate quantity for shipment.

Page 17. "Recommendations for Corrective Action"

B. We recommend that the Director, Department of Defense Education Activity:
1. Deobligate \$731,938 and \$1,280,327 in FY 1994 and FY 1995 appropriated funds, respectively, and obligate the appropriate funds of the fiscal year in which the bona fide need arose.

Recommendation
deleted

Nonconcur. This recommendation should be deleted.

As discussed earlier, (a) the delays encountered in placing FY 1994 assets into service were beyond DoDEA's control, (b) the procurement of carpeting (\$337,874) and LANs (\$394,064) were in support of bona fide FY 1994 needs, and (b) the procurement of computer equipment (\$1,215,801) and safety tiles (\$64,526) were in support of bona fide FY 1995 needs.

B.2. Require budget execution spending plans to be prepared and approved at the start of each fiscal year, and monitored for execution during the year.

Recommendation
deleted

Nonconcur. The Financial Management Regulation does not require that Operation and Maintenance spending plans be prepared. However, DoDEA does perform the following reviews:

Monthly Reviews. DoDEA performs a monthly review of obligations against each district's and division's budget to (1) ensure that funds are obligated in timely manner, and (2) reprogram available funds.

Unfinanced Requirements (UFRs). DoDDS also receives and prioritizes a list of Unfinanced Requirements (UFR) list throughout the fiscal year. The UFRs include supplies, equipment, and other operational needs that could not be funded due to fiscal

constraints at the beginning of the fiscal year. The monthly analysis, coupled with a mid-year review in May, identifies the funds that are approved by the Director for reprogramming.

C. FINDING C

Page 18. "Finding C. Project Planning and Funds Control."

"The DoDEA did not adequately plan for implementation of the \$8.7 million DARPA Computer Aided Education Technology Initiative (CAETI) project, including maintaining funds control. The DoDEA planning was inadequate because DoDEA did not implement DoD acquisition policies and procedures. In addition, DARPA and DoDEA did not coordinate responsibilities and funding issues effectively. As a result, DoDEA made purchases in advance of requirements, before adequate equipment specifications were developed, and for non-DARPA equipment with DARPA funds. Further, DoDEA had to request additional Research, Development, Test, and Evaluation (RDT&E) funds and use O&M funds to continue the project. Finally, the lack of planning for the LAN installation caused DARPA schedules to slip by at least 1 year, reducing the time for student testing by one-third, and \$338,980 of purchases were for the wrong materials."

Concur With Exception. While DoDEA concurs there was a need for improved program management controls, this finding should be corrected to recognize that (1) DoDEA's request for program management funds was not authorized by DARPA, (2) the early procurement of equipment, storage of equipment, and student test schedules were solely controlled by DARPA, and (3) DoDEA did not receive additional funding.

a. CAETI Program Controls. DoDEA established a single point of contact at the onset of the CAETI project. DoDEA's proposal to DARPA also requested \$510,000 to provide a focused project management and on-site support program. However, despite the CAETI Program Manager's recommendation, DARPA did not authorize DoDEA labor charges for the program management function. The lack of program management led to poor coordination of the fluctuating R&D DARPA requirements. Recognizing the need for a central management focal point, the Director of DoDEA established a technology task force, including a full time project manager in Europe to coordinate the testbed complexes.

b. Scope of DoDEA Controls. DoDEA received 8 percent of the total CAETI funding made available by DDR&E. The balance of the program funding, schedules and deliverables were controlled solely by CAETI.

equipment requirements were finalized in February 1996. The final selection of testbed teachers were made in mid-1996.

d. Slippage of Test Schedules. The LAN classroom connections were delayed by the late selection of testbed teachers and the late delivery of courseware modules by CAETI. DARPA's funding was adequate to connect the LAN to only the classrooms of the teachers who were selected to participate in the CAETI project. The final classroom connections could not be made until DARPA selected the teachers in July 1996 for the phase 1 test program, and in September 1996 for the phase 2 test program. In addition, the DARPA courseware modules became available at the beginning of school year 1996-97. They were not available for testing during school year 1995-96.

e. Additional R,D,T&E Funds. DoDEA did not receive any funds beyond the \$8.7 million over the two fiscal years (FY 1994-95). The CAETI R&D requirements fluctuated greatly during the project from 5 computer workstations in 6 classrooms, to 6 computer workstations for 20 classrooms in all schools. Because of the lack of adequate funding, an agreement was reached in February 1996 to provide 5 computer workstations in 6 classrooms for each testbed school. This completed the project within the available funding.

Page 24. "Recommendations for Corrective Action."

"C.1. We recommend that the Director, Department of Defense Education Activity establish guidance to implement DoD acquisition policies and procedures. Specifically, the guidance should ensure that in future automated system acquisitions a program manager is appointed at the beginning of the project and that acquisition program baselines, and acquisition strategies are developed, which should lead to the development of schedules and tracking of program costs."

C.1. Concur. DoDEA will develop and issue appropriate program guidance to implement the DoD acquisition policies and procedures in accordance with Defense acquisition guidelines for acquisition reform. This policy guidance will ensure that future automated system acquisitions by DoDEA, regardless of who controls the funding and overall program schedules, will have a program manager at the inception of the project. The program manager will develop an appropriate plan for said acquisitions that includes program baselines and strategies which will lead to the efficient development of schedules, the tracking of costs, and a reporting system based on critical milestones. Because this action is integral to the development of DoDEA program guidance for several complex acquisition issues requiring extensive coordination the estimated completed date for this action is June 20, 1997.

Recommendation
renumbered as
C.

D. FINDING D.

Page 26. "Finding D. Tuition Collection

The DoDEA did not report all the tuition it collected in the fiscal year it was collected. Tuition collections were reported in the wrong fiscal year because DoDEA did not have adequate controls over tuition collections including adequate policy, procedures, and management oversight. As a result, DoDEA carried over \$7.3 million of funds from prior years to FY 1996 funds. In addition, the DoDEA Reports on Budget Execution have been incorrect and DoDEA budget requests have been overstated. By recording tuition collections to the correct fiscal year, DoDEA could reduce its O&M budget for 1 year by \$7.3 million."

Nonconcur. This finding should be deleted in its entirety, or corrected to (1) delete a recommendation which runs counter to good accounting principles of accrual, (2) recognize the difference between reimbursement procedures for industrial funded operations versus the accepted practice of collecting prepaid school tuition, (3) recognize that DoDEA's method of recording collections in the year earned complies with good accounting principles of accrual, (4) request that the DoD accounting policy be clarified to allow the recording of school tuition collections in the year that it is earned, (5) delete the erroneous conclusion that the shift of \$7.3 million in accumulated funds from FY 1996 to FY 1995 would result in a reduced budget requirement, and (6) locate the proper references which require the reporting of collections within the fiscal year it is collected.

Normal Reimbursement Procedures. The industrial funded operation performs the requested service, incurs expenses, and then bills the customer for reimbursement.

Normal Tuition Collection Procedures. The school system accepts prepaid tuition as a basis for enrolling the tuition paying student, and records the collection in the year it is earned. Therefore, when the tuition is collected in August for the first school semester, the earnings through September 30 are recorded in the current fiscal year, and the balance of the tuition is recorded in the next fiscal year.

Good Accounting Principles. The auditor's proposal to transfer the funds runs counter to good accounting principles of accrual. DoDEA's recording method complies with Paragraph 153 of Statement No. 4, Statements of the Accounting Principles Board, which states: "The realization principle requires that revenue be earned before it is recorded. This requirement usually causes no problems because the earnings process is usually completed or nearly completed by the time of the required exchange. The requirement that revenue be earned becomes important, however, if money is received or amounts are billed in advance of the delivery of goods or rendering of services. For example, amounts

Department of Defense Education Activity Comments

Final Report
Reference

for rent or magazine subscriptions received in advance are not treated as revenue of the period in which they were received but as revenue of the future period or periods in which they were earned. These amounts are carried as unearned revenues - that is, liabilities to transfer goods or render services in the future until the earnings process is complete. The recognition of this revenue in the future period results in recording a decrease in a liability rather than an increase in an asset."

DoDEA Request for Change. DoDEA has submitted a recommendation to the Under Secretary of Defense (Comptroller) that the FMR be changed to allow for the recording of collections in the year that it is earned.

DoDIG References. DoDEA was not able to locate the auditor's reference to two requirement sources for the reporting of collections in the year collected. They include references to the DoD Accounting Manual, and Volume 6, Chapter 5 of the FMR. In addition, the FMR section referenced by the auditor has been canceled and replaced by the new CFO reports.

No Budget Reduction. The auditor has concluded incorrectly that the transfer of \$7.3 million in accumulated funds from prior years will produce a savings or reduce the budget requirement. The program cost will remain at \$33.5 million regardless of which year the collections are used to offset operational costs. The transfer of \$7.3 million from FY 1996 back to FY 1995 would require a request for additional authority in FY 1995. Similarly, the \$7.3 million would then be replaced by the collection that is made in August 1996 and reported fully in FY 1996. The auditor's proposal for the transfer would require bookkeeping adjustments with no savings to the government. As stated above, the auditor's proposal would also run counter to good accounting principles of accrual.

D.1. We recommend that the Director, Department of Defense Education Activity:

(Page 32) D.1.a. Report all tuition collected, including the \$7.3 million collected in FY 1995 but not reported. If necessary, request additional tuition collection authority from the Office of the Under Secretary of Defense (Comptroller). If additional authority is obtained, ensure that the Office of the Under Secretary of Defense (Comptroller) reduces DoDEA funding by the same amount

Nonconcur. As noted above, DoDEA's current method of collecting prepaid tuition and the recording of collections in the year earned is in compliance with good accounting principles of accrual. Conversely, applying the same general rule (for reimbursable activities) of recording collections in the year collected would run counter to good accounting principles of accrual.

(Page 32) D.1.b. Change DoDEA policy to state that collections are reported and available to offset obligations in the fiscal year they are collected. In addition, ensure that the policy implements DoD guidance on the use of accounts.

Page 29

Page 30

Department of Defense Education Activity Comments

Final Report
Reference

Nonconcur. Recognizing that the reimbursable activity accounting procedures should not apply to DoDEA's prepaid tuition practice, DoDEA has petitioned the Director, Accounting Policy, DoD Comptroller for an exemption to the general rule on earnings and collections (memorandum attached). DoDEA will conform to policy guidance received from the Director of Accounting Policy, DoD Comptroller.

In addition, the auditor's reference to DoDEA payment of tuition for its Non-DoD School Program (Page 29) should be removed, as it bears no relation to the issue of tuition collections.

D.1.. We recommend that the Director, Department of Defense Education Activity:

(Page 32) D.1. c. Provide adequate training to employees handling tuition collections to ensure that collections are deposited in a timely manner and that tuition collections are reported in the same appropriation that they were deposited into.

Concur. In response to the DoD Comptroller's guidance, DoDEA will direct the European and Pacific areas deposit and report tuition collections in the same appropriation, and in a timely manner.

(Page 32 D.1.d. Establish necessary controls to hold the European and Pacific areas accountable for processing tuition collections in accordance with DoD and Department of Defense Education Activity guidance, including abandoning use of suspense accounts.

Concur. DoDEA will direct the field activities to process tuition collections in accordance with the DoD Comptroller's guidance, including abandoning the use of suspense accounts.

D.1.. We recommend that the Office of the Under Secretary of Defense (Comptroller) review the Department of Defense Education Activity tuition collections and make appropriate authorization and budget adjustments.

Comment. The Office of the Under Secretary of Defense (Comptroller) is reviewing the DoDEA tuition collection policy in response to DoDEA's request for an exception at Attachment A. DoDEA will conform to the policy guidance issued by the Director of Accounting Policy, DoD Comptroller.

Page 30

Page 30

Page 36. "Appendix B. Prior Audits and Other Reviews."

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 DoDDS. The General Accounting Office personnel stated that because of underlying weakness in the DoDEA accounting and information systems, they were unable to verify the accuracy of data obtained during their review.

Nonconcur. This statement is incorrect and should be deleted or corrected. The auditor has paraphrased the GAO incorrectly. The GAO stated that they had not verified the accuracy of data. The GAO did not state that they were unable to verify the accuracy of the data.

Audit Team Members

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

Shelton R. Young
John A. Gannon
Walter R. Loder
Joseph A. Powell
Kristene McMinn
Stephen H. Chow