# Audit Report

OFFICE OF THE INSPECTOR GENERAL

**PRINCIPAL FINANCIAL STATEMENTS OF THE NATIONAL SECURITY EDUCATION TRUST FUND - FY 1992**

Report No. 93-143 June 30, 1993

DTIC QUALITY INSPECTED 3

**Department of Defense**

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**Acronyms**

| | |
|---|---|
| ASD(C3I) | Assistant Secretary of Defense (Command, Control, Communications and Intelligence) |
| CFO | Chief Financial Officer |
| DFAS | Defense Finance and Accounting Service |
| DIA | Defense Intelligence Agency |
| DISA | Defense Information Systems Agency |
| OMB | Office of Management and Budget |

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

June 30, 1993

MEMORANDUM FOR SECRETARY OF DEFENSE
COMPTROLLER AND CHIEF FINANCIAL OFFICER OF
THE DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on the Principal Financial Statements of the National Security Education Trust Fund - FY 1992 (Report No. 93-143)

We are providing this audit report for your information and use, and for use by Congress. Financial statement audits are required by the Chief Financial Officers Act of 1990 (the CFO Act). Office of Management and Budget Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993, requires the Inspector General to render an opinion on the fairness of financial statements. Also, we are required to report on the adequacy of internal controls and compliance with laws and regulations.

The audit determined that the Principal Statements present fairly, in all material respects except one, the assets, liabilities, and net financial position of the National Security Education Trust Fund (the Fund) as of September 30, 1992, and the results of its operations, cash flows, and reconciliation to budget for the year then ended, in accordance with DoD accounting policies and procedures. However, because obligations and disbursements from the Fund have not yet been authorized, and the National Security Education Program is considered to be nonoperational, the FY 1992 financial statements are meaningless except to depict the status of the Fund at its inception.

This report contains no recommendations that are subject to resolution in accordance with DoD Directive 7650.3, and accordingly, comments are not required.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Harrell D. Spoons at (703) 692-2846 (DSN 222-2846) or Ms. Dianna J. Pearson at (703) 692-2851 (DSN) 222-2851. The distribution of this report is listed in Part IV, Appendix D.

Robert J. Lieberman
Assistant Inspector General
for Auditing

**Office of the Inspector General, DoD**

Report No. 93-143
(Project No. 3RF-2005.01)

June 30, 1993

# PRINCIPAL FINANCIAL STATEMENTS OF THE NATIONAL SECURITY EDUCATION TRUST FUND - FY 1992

## EXECUTIVE SUMMARY

**Introduction**. The David L. Boren National Security Education Act of 1991 established the National Security Education Trust Fund (the Fund) to provide scholarships, fellowships, and grants to support undergraduate and graduate studies in foreign languages and international fields critical to the nation's interest. The Assistant Secretary of Defense (Command, Control, Communications and Intelligence) (ASD[C3I]) was responsible for administering the Fund. In January 1992, the ASD(C3I) established the National Security Education Program (the Program) to manage the Fund. The Fund was authorized a corpus of $150 million. The Defense Finance and Accounting Service (DFAS) maintained the FY 1992 accounting records for the Fund. As of the time of the audit, the Program had not begun disbursing monies to students or to educational institutions. The corpus of the Fund was invested in U.S. Treasury securities.

**Objectives.** The audit objective was to determine whether the Fund's FY 1992 financial statements were presented fairly in accordance with generally accepted accounting principles for Federal entities. We also evaluated the internal controls established for the Fund and assessed compliance with applicable laws and regulations that could have a material effect on the financial statements.

**Independent Auditor's Opinion.** In our opinion the Principal Statements, including the Notes to the Principal Statements, present fairly, in all material respects except one, the assets, liabilities, and net financial position of the National Security Education Trust Fund as of September 30, 1992, and the results of its operations, cash flows, and reconciliation to budget for the year then ended, in accordance with DoD accounting policies and procedures. The exception was the nondisclosure of an accounting procedure that categorized expenses incurred, in the amount of $418,487 for FY 1992, in doing the business of the Program as "nonoperational expenses." See Part IV, Appendix A for a tabulation of the FY 1992 "nonoperational" expenses incurred.

**Internal Controls.** Part II contains our report on internal controls. In FY 1992, the National Security Education Program incurred $418,487 in "preoperational" expenses. The Program Administrator did not report these expenses to DFAS; therefore, DFAS did not disclose in the Footnotes to the FY 1992 financial statements the "preoperational" expenses and their source of funds. Furthermore, the Program Administrator did not maintain records of the "preoperational" expenses.

**Compliance with Laws and Regulations.** The David L. Boren National Security Education Act of 1991 requires expenses for administration of the Program to be paid from the Fund. Until such time as the Congress provides the necessary authority to

make disbursements from the Fund, "preoperational" expenses should be recorded and disclosed in the appropriate accounting records to show the source of support for the Program. Part III contains our report on compliance with laws and regulations.

**Usefulness of Financial Statements.** The Principal Financial Statements are useful in depicting the financial status of the Fund at its inception. In view of the nonoperational status of the Program, the statements reflecting liabilities, results of operations, cash flows and reconciliation to budget are not useful and could be eliminated.

**Management Comments.** We issued a draft audit report to the Administrator, National Security Education Program, on May 28, 1993, and received comments on June 15, 1993. The Administrator disagreed with the finding conclusion that the cost of Program administration expenses should be reimbursed to the supporting organizations and reflected appropriately in the financial statements. The basis for the Administrator's position was an opinion rendered on December 3, 1992, by the Office of General Counsel, DoD, that the Program office cannot obligate monies from the Fund until an authorization and a provision in an appropriation act are enacted. As of the close of FY 1992 and the time of our audit the required enactments had not been made. Rather than exceed the level of authority established, the expenses have been categorized by management as "preoperational." In view of this decision and Counsel's opinion that there is legal precedent for funding necessary "preoperational" expenses from other sources, we have dropped our recommendation to adjust the FY 1992 financial statements to reflect the expenses incurred. The Administrator concurred with the recommendation to establish a system of controls to account for administration expenses. See Part VI for the complete text of management's comments.

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This report was prepared by the Readiness and Operational Support Directorate, Office of the Inspector General for Auditing, DoD. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate (703) 614-6303 (DSN 224-6303).

# Part I - Independent Auditor's Opinion on the Financial Statements

# Introduction

The National Security Education Trust Fund (the Fund) was established by the David L. Boren National Security Education Act of 1991. The purpose of the Fund is to provide scholarships, fellowships, and grants to support studies by U.S. citizens in foreign languages and international fields that are critical to the nation's interest. A National Security Education Board comprised of seven Federal Government officials and six private citizens, appointed by the President, will determine which fields of study will be eligible for assistance from the Fund.

The National Security Education Program (the Program) was established by the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) (ASD[C3I]) in January 1992 to administer the Fund. At the end of FY 1992, the Program had two permanent staff and six personnel detailed from the Defense Intelligence Agency. The Fund was established with a corpus of $150 million. The Fund reported interest income of $479,807 and no expenditures for FY 1992.

The Chief Financial Officers Act requires an annual audit of the Fund. The Defense Finance and Accounting Service (DFAS) managed the Fund's investments and maintained its FY 1992 accounting records. DFAS is required to prepare the Principal Financial Statements for FY 1992. Those Statements are the responsibility of the Administrator, National Security Education Program. Our responsibility is to express an opinion on those Statements based on our audit.

# Scope

We audited the Principal Financial Statements of the National Security Education Trust Fund as of and for the year ended September 30, 1992. The Principal Financial Statements include the Statement of Financial Position, Statement of Operations, Statement of Cash Flows, and Statement of Budget and Actual Expenses. Also included are the Footnotes, Overview, and Supplemental information.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in those Statements, including the Notes. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Statement presentation. We developed a client profile for the National Security Education Program and assessed the internal control structure for the fund balances with Treasury, procurement, revenue, expenditures, and payroll. Also, we performed substantive testing of each financial statement account maintained by DFAS. See Appendix C in Part IV for the activities visited or contacted. We believe that our audit efforts provide a reasonable basis for our results.

## Auditing Standards

We conducted our audit in accordance with generally accepted auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, Department of Defense, and Office of Management and Budget (OMB) Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Principal Statements are free from material misstatements.

## Accounting Principles

Accounting principles are currently being studied by the Federal Accounting Standards Advisory Board (the Board). Generally accepted accounting principles for Federal entities are to be promulgated by the Joint Financial Management Improvement Principals, based on advice from the Board. In the interim, Federal agencies are to use a comprehensive basis of accounting as defined in OMB Bulletin No. 93-06. The summary of significant accounting policies included in the Notes to the Principal Statements describes the accounting principles and methods of applying those principles that management has concluded are the most appropriate for presenting the National Security Education Trust Fund's significant assets, liabilities, net position, results of operations, cash flow, and reconciliation to the budget.

## Opinion on the Financial Statements

In our opinion the Principal Statements present fairly, in all material respects except one, the assets, liabilities, and net financial position of the National Security Education Trust Fund as of September 30, 1992, and the results of its operations, cash flow, and report on reconciliation for the year ended September 30, 1992, in accordance with DoD accounting policies and procedures and generally accepted accounting principles. The exception was the nondisclosure of an accounting procedure that categorized expenses incurred, in the amount of $418,487 for FY 1992, in doing the business of the Program as "nonoperational expenses."

## Additional Information

Our audit was conducted for the purpose of forming an opinion on the Principal Statements described above. During our audit, we reported deficiencies to the Program Administrator in the form of a draft audit report. The deficiencies

included the lack of procedures to account for and report obligations and expenditures. Management action to establish controls over obligations and expenditures had not been initiated at the conclusion of our audit field work. Also, we reviewed the financial information in management's "Overview of the National Security Education Program." That information is presented for the purpose of additional analysis. We have not audited such information, and, accordingly, we do not express an opinion on the information.

# Part II - Internal Controls

## Introduction

We audited the internal control structure of the National Security Education Trust Fund (the Fund) for the year ended September 30, 1992. Such audits are a requirement of the Chief Financial Officers Act of 1990.

The Administrator of the Fund is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable but not absolute assurance that the following are met.

o Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets.

o Transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements, and any other laws and regulations that the Office of Management and Budget (OMB), entity management, or the Inspector General, Department of Defense, have identified as being significant for which compliance can be objectively measured and evaluated.

o Data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information.

## Objectives and Scope

The objective of the audit was to determine whether material internal control weaknesses existed. In planning and performing our audit of the Fund for the year ended September 30, 1992, we evaluated the Fund's internal control structure. The purposes of this evaluation were to determine our auditing procedures for expressing our opinion on the Principal Statements and to determine whether the internal control structure was established to ensure that the Statements were free of material misstatements. We obtained an understanding of the internal control policies and procedures and assessed the level of control risk relevant to all significant cycles, classes of transactions, and account balances. For those significant control policies and procedures that had been properly designed and placed in operation, we performed sufficient tests to provide reasonable assurance that the controls were effective and working as designed.

For the purpose of this report, we have classified the significant internal controls, policies, and procedures into the following categories:

o investments - policies, procedures, and internal controls relating to the receipt, investment, and disbursement of funds by DFAS, Defense Accounting Office, Cleveland Center; and

o financial reporting - policies and procedures associated with preparing financial statements.

Our consideration of the internal control structure would not necessarily disclose all matters that might be reportable and, accordingly, would not necessarily disclose all conditions that are also considered to be material weaknesses.

We conducted our audit in accordance with generally accepted auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Principal Statements are free of material misstatements.

## Prior Audit Coverage

There have been no prior audits of the internal controls of the Fund. The National Security Education Program was established in January 1992, and the corpus of the Fund was established on September 4, 1992.

## Results of Audit

Internal control weaknesses existed that we consider to be material and reportable conditions under standards established by OMB Bulletin 93-06. Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to effectively control and manage its resources and ensure reliable and accurate financial information to manage and evaluate operational performance. A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities could occur. Such errors would be in amounts that would be material in relation to the statements being audited, or material to a performance measure or aggregation of related performance measures, and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We found no procedures to identify and record operating expenses incurred by the office of the Administrator, National Security Education Program, and that no "preoperational" expenses had been reported to DFAS for inclusion in the accounting records of the Fund. We issued a draft audit report to the Administrator on May 28, 1993, describing the lack of controls over administration expenses and recommending that a system of controls be established to record obligations and expenses in the accounting records of the Fund.

**Operating Expenses.** Internal controls did not exist to ensure that $418,487 in "preoperational" expenses were disclosed in the Notes to the Principal Statements. DFAS managed the investment of the Fund's corpus and accounted for interest income. The Defense Information Systems Agency (DISA) was to provide obligation and expenditure accounting for the Fund. The Program Administrator did not report these expenses to either DFAS or DISA; therefore, DFAS did not disclose the "preoperational" expenses or their source of funds in the Notes to the FY 1992 Principal Statements. Furthermore, the Program Administrator did not maintain records of "preoperational" expenses. Appendix A in Part IV of this report provides a tabulation of the expenses incurred during FY 1992.

# Management Comments

Responding for the Office of the Undersecretary of Defense for Policy, the Acting Administrator, National Security Education Program, concurred in the need to establish a system of controls to record obligations and liabilities in the records of the Fund. See Part VI for the complete text of management's comments.

# Part III - Compliance with Laws and Regulations

## Introduction

We tested the National Security Education Trust Fund (the Fund) for material instances of noncompliance with laws and regulations for the year ended September 30, 1992. Such tests are required by the Chief Financial Officers Act of 1990.

## Objectives and Scope

The objective of the audit was to determine whether material instances of noncompliance with laws and regulations existed. Material instances of noncompliance are failures to follow requirements of or violations of prohibitions contained in laws and regulations. Such failures or violations are those that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements, or those whose sensitive nature would cause them to be perceived as significant by others.

Compliance with laws and regulations applicable to the Fund is the responsibility of the Program Administrator. As part of obtaining reasonable assurance about whether the Fund's Principal Statements are free of material misstatements, we tested compliance with laws and regulations that may directly affect the financial statements and certain other laws and regulations designated by the OMB and DoD (see Part IV, Appendix B).

We conducted our audit in accordance with generally accepted auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, Department of Defense, and OMB Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance that the Fund's Principal Statements are free of material misstatements.

## Prior Audit Coverage

There have been no prior audits of compliance with laws and regulations related to the Fund.

## Results of Audit

The results of our tests of compliance disclosed no instances of noncompliance that materially affected the reliability of the Fund's Principal Statements.

**Funding Administration Expenses.** The David L. Boren National Security Education Act of 1991 (the Act) mandates that all expenditures necessary for the administration of the Program are to be paid from the Fund, however, no expenditures from the Fund are permitted until congressional approval is manifested in an appropriations act. At the time of the audit, the Congress had not approved expenditures from the Fund in an appropriation act. The office of the Program Administrator was established in January 1992. Because expenditures from the Fund were not authorized, the incurred administration expenses of the Program have been paid by the Defense Intelligence Agency, the ASD(C3I), and the Air Force.

We issued a draft audit report on May 28, 1993, that recommended revising the financial statements to show the incurred administration expenses and their associated liabilities of the Fund.

## Management Comment

Responding for the Office of the Undersecretary of Defense for Policy, the Acting Administrator, National Security Education Program nonconcurred that the cost of Program administration expenses should be reimbursed to the supporting organizations and reflected as liabilities in the financial statements. The basis for the Administrator's position was an opinion rendered on December 3, 1992, by the Office of General Counsel, DoD, that the Program office cannot obligate monies from the Fund until an authorization and a provision in an appropriation act are enacted. As of the close of FY 1992 and the time of our audit the required enactments had not been made. Rather than exceed the level of authority established as opined by Counsel, management determined that the Program had not commenced operations and categorized the incurred costs as necessary "preoperational" expenses. See Part VI for the complete text of management's comments.

## Audit Evaluation of Management Comments

Counsel has advised that no obligations of, or expenditures from, the corpus of the Fund are permissable until authorized by an appropriations act. Therefore, the administration expenses incurred by the Program are not liabilities of the Fund, but should be treated as necessary "preoperation" expenses. Until such

time as disbursements from the Fund are permitted, expenses may be paid from other sources. In view of Counsel's opinion that there is legal precedent for funding necessary "preoperational" expenses from other sources, we have dropped our recommendation to adjust the FY 1992 financial statements to reflect the expenses incurred. However, we believe that "preoperation" expenses and the source of funding support for the Program, as shown in Appendix A of Part IV, should be disclosed in the Notes to the Financial Statements.

# Part IV - Additional Information

# Appendix A. FY 1992 "Nonoperational" Expenses

The "nonoperational" expenses of the National Security Education Program during FY 1992 were $418,487.

| | DIA | ASD(C3I) | USAF* | Total |
|---|---|---|---|---|
| Civilian Salaries | $255,441 | | | $255,441 |
| Military Salaries | | | $65,159 | 65,159 |
| Accrued Leave | 24,231 | | | 24,231 |
| FICA | 5,911 | | | 5,911 |
| FEGLI | 1,395 | | | 1,395 |
| Health Benefits | 9,181 | | | 9,181 |
| Retirement Benefits | 13,933 | | | 13,933 |
| Travel Costs | 1,224 | $11,105 | | 12,329 |
| Lease | 21,780 | | | 21,780 |
| Purchase Requests | 5,339 | | | 5,339 |
| Postage | | 3,000 | | 3,000 |
| Supplies | 788 | | | 788 |
| Totals | $339,223 | $14,105 | $65,159 | $418,487 |

* U.S. Air Force

# Appendix B. Laws and Regulations

DoD Appropriation Act of 1992

Federal Managers' Financial Integrity Act of 1982, Public Law (P.L.) 97-255

Chief Financial Officers Act of 1990, P.L. 101-576

David L. Boren National Security Education Act of 1991, P.L. 102-183

Title 2 of the General Accounting Office's "Policy and Procedures Manual for Guidance of Federal Agencies," August 1987

Office of Management and Budget (OMB) Bulletin 93-02, "Form and Content of Agency Financial Statements," October 22, 1992

OMB Bulletin 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993

OMB Circular A-123, "Internal Control Systems," August 4, 1986

OMB Circular A-127, "Financial Management Systems," December 10, 1984

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987

DoD Manual 7220.9-M, "DoD Accounting Manual," October 1983

# Appendix C. Organizations Visited or Contacted

## Office of the Secretary of Defense

Assistant Secretary of Defense (Command, Control, Communications and Intelligence), National Security Education Program, Washington, DC

## Defense Agencies

Headquarters, Defense Intelligence Agency, Washington, DC
Headquarters, Defense Information Systems Agency, Arlington, VA
Defense Finance and Accounting Service, Defense Accounting Office-Cleveland Center, Arlington, VA

# Appendix D. Report Distribution

## Office of the Secretary of Defense

Secretary of Defense
Under Secretary of Defense (Policy)
Assistant Secretary of Defense for Command, Control, Communications and Intelligence
Comptroller and Chief Financial Officer of the Department of Defense
Assistant to the Secretary of Defense for Public Affairs
Administrator, National Security Education Program

## Department of the Army

Auditor General, Army Audit Agency

## Department of the Navy

Auditor General, Naval Audit Service

## Department of the Air Force

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

## Defense Agencies

Defense Finance and Accounting Service
Defense Intelligence Agency
Defense Intelligence Agency Inspector General
Defense Information Systems Agency
National Security Agency Inspector General

## Non-Defense Federal Organizations

Office of Management and Budget
U.S. General Accounting Office, National Security and International Affairs Division, Technical Information Center

## Non-Defense Federal Organizations (Cont'd)

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
Senate Select Committee on Intelligence
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations
House Permanent Select Committee on Intelligence
House Subcommittee on Oversight and Evaluation, Permanent Select Committee on Intelligence

# Part V - Principal Financial Statements of the National Security Education Trust Fund - FY 1992

OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

APR 8 1993

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, DOD

SUBJECT: Transmittal of Printed Financial Statements on FY 1992 Financial Activity

Attached are printed financial statements on FY 1992 financial activity for the Department of Defense reporting entities listed below. The printed copies are bound, have a common typeset and have been edited by the Defense Finance and Accounting Service - Indianapolis Center. The attached statements encompass the following reporting entities:

- Department of the Army (all funds and accounts)
- Department of the Navy (revolving and trust funds)
- Department of the Air Force (all funds and accounts)
- Defense Logistics Agency Revolving Funds
- Pentagon Reservation Maintenance Revolving Fund
- Defense Revolving Funds (Army as Executive Agent)
- DoD Military Retirement Trust Fund
- DoD Education Benefits Fund
- National Security Education Trust Fund
- Defense Commissary Surcharge Collections Account
- Defense Security Assistance Agency

My staff is available to provide additional assistance and information, if needed. Additionally, the Department will continue to work with your staff to make such adjustments or improvements as may be identified, and appropriate, to enhance, explain, or more fairly present the assets, liabilities, and net financial position shown in the attached unaudited financial statements.

Alvin Tucker
Acting Chief Financial Officer

Attachments

# *National Security Education Trust Fund*

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# *OVERVIEW OF THE NATIONAL SECURITY EDUCATION PROGRAM*

The National Security Education Program (NSEP) was established by the David L. Boren National Security Education Act of 1991 (Public law 102-183), and as amended. Legislative objectives are to meet the national security education needs as they change over time; to strengthen teaching in language, area studies, and other international fields; to interest more people in government jobs; to broaden the nation's international perspective; and to strengthen government advocacy and support for international education. The Act calls for the Secretary of Defense to carry out a program to make educational awards to meet these objectives through the awarding of scholarships, fellowships and grants.

The program will also be carried out in consultation with a 13-member National Security Education Board. There will be 7 government members and 6 members appointed by the President. Their responsibilities will be to recommend the critical areas that will be the focus of awards, determine criteria for awards and determine the qualifications that applicants must have. The Board also will ensure broad publicity for award programs and will review program administration. The charter for the Board was filed on 23 June 1992.

The Act provides for the creation of a $150 Million trust fund with authorization for expenditures of $35 Million in FY 92 available until expended. On 4 September 1992, transfer of funds to the trust fund was completed. Since that date the trust fund has been invested in Treasury Securities. No expenditures from the fund have been made. OSD/GC rendered an opinion that a separate authority and a provision in an appropriation act in FY 93 is required before expenses from the fund can be made.

The National Security Education Program Office was established in January 1992 with two permanent staff and six detailed personnel provided by the Defense Intelligence College.
The organization reports to the Office of the Assistant Secretary of Defense/Command, Control, Communications and Intelligence. A DoD Directive, Instruction, Charter for the Board and personnel organization plan have been approved.

# *Principal Statements for the National Security Education Trust Fund*

**Department/Agency: National Security Education Trust Fund**
**Reporting Entity: Principal Statements**
**Statement of Financial Position**
**as of September 30, 1992**
**(In Dollars)**

| ASSETS | 1992 |
|---|---|
| **1. Financial Resources:** | |
| a. Fund Balances with Treasury (Note 2) | $2,036 |
| b. Cash | |
| c. Foreign Currency | |
| d. Other Monetary Assets | |
| e. Investments, Non-Federal (Note 3) | |
| f. Accounts Receivable, Net - Non-Federal | |
| g. Inventories Held for Sale, Net | |
| h. Loans Receivable, Net - Non-Federal | |
| i. Advances and Prepayments, Non-Federal | |
| j. Property Held for Sale | |
| k. Other, Non-Federal | |
| l. Intragovernmental Items: | |
| (1) Accounts Receivable, Federal | |
| (2) Loans Receivable, Federal | |
| (3) Investments, Federal (Note 3) | 150,477,771 |
| (4) Other, Federal | |
| m. **Total Financial Resources** | $150,479,807 |
| **2. Non-Financial Resources:** | |
| a. Resources Transferable to Treasury | |
| b. Inventories Not Held for Sale | |
| c. Property, Plant and Equipment, Net | |
| d. Other | |
| e. **Total Non-Financial Resources** | $0 |
| **3. Total Assets** | $150,479,807 |
| **LIABILITIES** | |
| **4. Funded Liabilities** | |
| a. Accounts Payable, Non-Federal | |
| b. Accrued Interest Payable | |
| c. Accrued Payroll and Benefits | |
| d. Accrued Entilement Benefits | |
| e. Lease Liabilities | |
| f. Debt | |
| g. Guarantees Payable | |
| h. Other Funded Liabilities, Non-Federal | |

The accompanying notes are an integral part of these statements.

## 6 Principal Statements

**Department/Agency: National Security Education Trust Fund**
**Reporting Entity: Principal Statements**
**Statement of Financial Position**
**as of September 30, 1992**
**(In Dollars)**

| LIABILITIES Continued | 1992 |
|---|---|
| i. Intragovernmental Liabilities | |
| (1) Accounts Payable, Federal | |
| (2) Debt | |
| (3) Deferred Revenue | |
| (4) Other Funded Liabilities, Federal | |
| j. Total Funded Liabilities | |
| 5. Unfunded Liabilities: | |
| a. Accrued Leave | |
| b. Lease Liabilities | |
| c. Pensions and Other Actuarial Liabilities | |
| d. Other Unfunded Liabilities | |
| e. Total Unfunded Liabilities | |
| 6. TOTAL LIABILITIES | $0 |
| **NET POSITION** | |
| 7. Fund Balances: (Note 4) | |
| a. Revolving Fund Balances | |
| b. Trust Fund Balances | $150,479,807 |
| c. Appropriated Fund Balances | |
| d. Total Fund Balances | $150,479,807 |
| 8. Less Future Funding Requirements | |
| 9. Net Position | $150,479,807 |
| 10. Total Liabilities and Net Position | $150,479,807 |

The accompanying notes are an integral part of these statements.

**Department/Agency: National Security Education Trust Fund**
**Reporting Entity: Principal Statements**
**Statement of Operations (and Changes in Net Position)**
**for Period Ended September 30, 1992**
**(In Dollars)**

| REVENUES AND FINANCING SOURCES | 1992 |
|---|---|
| 1. Appropriations Expensed | |
| 2. Revenues from Sales of Goods | |
| a. To the Public | |
| b. Intragovernmental | |
| 3. Interest and Penalties, Non-Federal | |
| 4. Interest, Federal | $479,807 |
| 5. Taxes | |
| 6. Other Revenues and Financing Sources (Note 5) | 150,000,000 |
| 7. Less: Taxes and Receipts Returned to the Treasury | |
| 8. Total Revenues and Financing Sources | $150,479,807 |
| **EXPENSES** | |
| 9. Cost of Goods or Services Sold | |
| a. To the Public | |
| b. Intragovernmental | |
| 10. Program or Operation Expenses | |
| 11. Depreciation | |
| 12. Bad Debts and Write-offs | |
| 13. Interest | |
| a. Federal Financing Bank/Treasury Borrowing | |
| b. Federal Securities | |
| c. Other | |
| 14. Other Expenses | |
| 15. Total Expenses | $0 |
| 16. Excess (Shortage) of revenues and Financing Sources Over Total Expenses Before Adjustments | $150,479,807 |
| 17. Plus (Minus) Adjustments: | |
| a. Extraordinary Items | |
| b. Prior Period Adjustments | |
| 18. Excess (Shortage) of Revenues and Financing Sources over Total Expenses | $150,479,807 |
| 19. Plus: Unfunded Expenses | |
| 20. Excess (Shortage) of Revenues and Financing Sources Over Funded Expenses | $150,479,807 |

The accompanying notes are an integral part of these statements.

## 8 Principal Statements

**Department/Agency: National Security Education Trust Fund**
**Reporting Entity: Principal Statements**
**Statement of Operations (and Changes in Net Position)**
**for Period Ended September 30, 1992**
**(In Dollars)**

| EXPENSES Continued | 1992 |
|---|---|
| 21. Net Position, Beginning Balance | $0 |
| 22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses | $150,479,807 |
| 23. Plus (Minus) Equity Transfers | |
| 24. Net Position, Ending Balance | $150,479,807 |

The accompanying notes are an integral part of these statements.

**Department/Agency: National Security Education Trust Fund**
**Reporting Entity: Principal Statements**
**Statement of Cash Flows (Indirect)**
**for the Period Ended September 30, 1992**
**(In Dollars)**

| | 1992 |
|---|---|
| **Cash Flows from Operating Activities:** | |
| 1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses | $150,479,807 |
| **Adjustments affecting Cash Flow:** | |
| 2. Appropriations Expensed | |
| 3. Decrease (Increase) in Accounts Receivable | |
| 4. Decrease (Increase) in Loans Receivable | |
| 5. Decrease (Increase) in Other Assets | |
| 6. Increase (Decrease) in Accounts Payable | |
| 7. Increase (Decrease) in Debt | |
| 8. Increase (Decrease) in Other Liabilities | |
| 9. Depreciation and Amortization | |
| 10. Other Unfunded Expenses | |
| 11. Other Adjustments | |
| 12. Total Adjustments | $0 |
| 13. Net Cash Provided (Used) by Operating Activities | $150,479,807 |
| **Cash Flows from Non-Operating Activities:** | |
| 14. Proceeds from Sales of Investments | |
| 15. Proceeds from Sales of Property, Plant and Equipment | |
| 16. Purchases of Investments | ($150,477,771) |
| 17. Purchases of Property, Plant and Equipment | |
| 18. Net Cash Provided (Used) by Non-Operating Activities | ($150,477,771) |
| **CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES** | |
| 19. Appropriations (Current Warrants) | |
| 20. Add: | |
| a. Restorations | |
| b. Transfers of Cash from Others | |
| 21. Deduct: | |
| a. Withdrawals | |
| b. Transfers of Cash to Others | |
| 22. Net Appropriations | |

The accompanying notes are an integral part of these statements.

## 10 Principal Statements

**Department/Agency: National Security Education Trust Fund**
**Reporting Entity: Principal Statements**
**Statement of Cash Flows (Indirect)**
**for the Period Ended September 30, 1992**
**(In Dollars)**

| CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES Continued | 1992 |
|---|---|
| 23. Borrowing from the Public | |
| 24. Repayments on Loans | |
| 25. Borrowing from the Treasury and the Federal Financing Bank | |
| 26. Repayments on Loans from the Treasury and the Federal Financing Bank | |
| 27. Other Borrowings and Repayments | |
| 28. Net Cash Provided (Used) by Financing Activities | |
| 29. Net Cash Provided (Used) by Operating, Non-Operating and Financing Activities | $2,036 |
| 30. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning | $0 |
| 31. Fund Balance with Treasury, Cash, and Foreign Currency, Ending | $2,036 |

The accompanying notes are an integral part of these statements.

**Department/Agency: National Security Education Trust Fund**
**Reporting Entity: Principal Statements**
**Statement of Budget and Actual Expenses**
**for the Period Ended September 30, 1992**
**(In Dollars)**

| Program Name (s) | BUDGET Resources | BUDGET Obligations Direct | BUDGET Obligations Reimbursed | ACTUAL Expenses |
|---|---|---|---|---|
| Education Benefits | $26,676,960 | $0 | | $0 |
| Totals | $26,679,960 | $0 | | $0 |

**Budget Reconciliation**

| | |
|---|---|
| A. Total Expenses | $0 |
| B. Add: | |
| (1) Capital Acquisitions | |
| (2) Loans Disbursed | |
| (3) Other Expended Budget Authority | |
| C. Less: | |
| (1) Depreciation and Amortization | |
| (2) Unfunded Annual Leave Expense | |
| (3) Other Unfunded Expenses | |
| D. Expended Appropriations | $0 |
| E. Less Reimbursements | |
| F. Expended Appropriations, Direct | $0 |

The accompanying notes are an integral part of these statements.

Footnotes 13

# *Footnotes To The National Security Education Trust Fund*

# *Footnotes to the National Security Education Trust Fund*

**Note 1. Significant Accounting Policies:**

The National Security Education Trust Fund was authorized in PL 102-183 for the accumulation of funds in to finance a new education program applicable to the general public. The purpose of this law is to provide for the necessary resources, accountability and flexibility to meet the national security education needs of the United States. The accounting is accomplished by the DFAS-DAO-CL. Reports are prepared from the Trial Balance data generated by an automated system on the accrual basis. Balances are reconciled monthly with Treasury records.

The program is funded by:
(1) Transfer of appropriated amounts
(2) Interest on investments
(3) Gifts of money and other donated property

**Note 2. Fund Balances with Treasury:**

| | |
|---|---|
| Trust Funds | $2.036 |

**Note 3. Investments:**

| | (1) Face Amount | (2) Market Value | (3) Amortization Method | (4) Unamortized Premium/ (DISCOUNT) | (5) Investment Net (BOOK VALUE) |
|---|---|---|---|---|---|
| B. Federal Securities: | | | | | |
| Non-Marketable | 151,245,000 | 150,576,104 | Effective Interest | (767,229) | 150,477,771 |

**Note 4. Fund Balances:**

| | |
|---|---|
| Cumulative Results of Operations (Trust Funds) | 150,479,807 |

**Note 5. Other Revenues and Financing Sources:**

| | 1992 |
|---|---|
| (1) Transfer of appropriated funds | $150,000,000 |

$8,338,000 of this $150,000,000 was transferred to the Fund incorrectly on 30 September as a negative disbursement instead of to trust fund receipt account 97X8168.1, corrected in November 1992.

**Note 6. Program or Operating Expenses:**

| A. Operating Expenses by Object Classification: | 1992 |
|---|---|
| Other- - - - Education Benefits | $-0- |

# Part VI - Management Comments

# Under Secretary of Defense for Policy

OFFICE OF THE UNDER SECRETARY OF DEFENSE

WASHINGTON, D C 20301-2000

8 JUN 1993

POLICY

MEMORANDUM FOR DIRECTOR, READINESS AND OPERATIONAL SUPPORT

SUBJECT: Draft Audit Report on the National Security Education Trust Fund Financial Statements for FY 1992 (Project No. 3RF-2005)

I have reviewed the draft DoDIG audit report for the National Security Education Trust Fund for FY 1992 Financial Statements and nonconcur on the findings. I do however, concur with your recommendation to establish a system of controls to record obligations and liabilities in the accounting records of the National Security Education Trust Fund.

Our noncurrence is based on the DoDIG report containing inaccurate statements, selective analysis and use of data unrelated to the FY 1992 review of financial statements. The following analysis is offered to correct the draft audit:

a. the DoDIG makes the assumption that the office is conducting a program and incurring expenses which should be allocated against the Trust Fund. A legal opinion rendered by the OSD/GC on 3 December 1992, determined that this office cannot take on an operational status until an authorization and a provision in an appropriations act are enacted. This determination reinforced the course of action that the Defense Intelligence Agency established for supporting the initial setup process i.e. it is appropriate to assist in the setting up of a program, absent designated funds for the program, without reimbursement if there is a related and functional interest. In this case, the legislation specifically identified an administrative relationship to the Defense Intelligence College, an activity in the Defense Intelligence Agency organization.

b. based on background information in para. 2a, it is inappropriate to identify support assistance rendered by DIA and ASD/C3I to adjust the financial statements of the NSETF. There was no request by DoD components or legislative requirement that setup costs were to be identified as operational costs associated with conducting a program.

c. since the Program held official status with the ASD/C3I, support was temporarily created by personnel detailed from DIA. There were no funds available to purchase software necessary to independently record and maintain costs customarily incurred by DIA personnel. DIA Accounting and Finance did, however, maintain records of those costs. In addition, procedures were established

to record expenditures to the NSEP as evidenced by existing MOAs among DFAS, DIA and the NSEP and between DISA and the NSEP.

d. other areas of the report found to reflect inaccurate data are:

-page 2. para. 5, there was not a provision in the FY 1992 legislation that would allow the Trust Fund to accept gifts; that provision is included in the legislative package for the FY1994 Budget request.

-page 3. para. 1, states that $35 million remains available until expended. These funds have not been available, as indicated by a 3 December 1992 GC opinion which states that there was required an authorization and a provision in an appropriations act to incur obligations from the Trust Fund.

-page 7. para. 2, it is the position of the current administration that the four Board nominations made this past January be replaced with six new nominations. They have not been made to date.

-page 7. para. 3, notwithstanding what the Act has called for, it is the position of DIA that operational administrative costs have not been incurred and that those costs accrued to date are not incompatible with normal and customary expenses incurred by its personnel.

If you have questions or require further information, please contact Mr. Gary G. Dettman at (703)693-7717.

for R. Charlene King
Acting Administrator
National Security
Education Program

# Audit Team Members

| | |
|---|---|
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# INTERNET DOCUMENT INFORMATION FORM

**A . Report Title: Principal Financial Statements on the National Security Education Trust Fund-FY 1992**

**B. DATE Report Downloaded From the Internet: 04/24/99**

**C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #):** **OAIG-AUD (ATTN: AFTS Audit Suggestions)**
**Inspector General, Department of Defense**
**400 Army Navy Drive (Room 801)**
**Arlington, VA 22202-2884**

**D. Currently Applicable Classification Level**: Unclassified

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**F. The foregoing information was compiled and provided by:**
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