



United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-271300

April 12, 1996

The Honorable Deborah P. Christie
The Navy Assistant Secretary for Financial
Management and Comptroller

Dear Ms. Secretary:

As part of our broad review of Navy financial operations for fiscal year 1994, we examined Navy investigative reports of 15¹ cases, totaling about \$87 million, in which the Department of Defense (DOD) reported to the Congress that the Navy had violated the Anti-Deficiency Act. This letter identifies similarities among these cases and recommends improvements to Navy training in the area of funds control.

RESULTS IN BRIEF

Navy investigation reports stated that a major cause of reported Anti-Deficiency Act violations was misinterpretation of DOD regulations and guidance. The most common improper interpretation involved buying component parts of overall automated data processing (ADP) systems with Operations and Maintenance rather than with Procurement appropriations. The adjustments made to the Procurement appropriations to correct the improper charges to the Operations and Maintenance appropriations resulted in overobligation of amounts apportioned from Procurement appropriations.

Our assessment of Navy training materials provided by the Naval Financial Management Career Center showed that courses available to operations-level staff did not discuss anti-deficiency related matters in extensive detail. None of the training materials discussed the most common types of problems identified in

¹The reported violations occurred between fiscal years 1985 and 1993, and were investigated in fiscal years 1993, 1994, and 1995. As of February 1996, the Navy reported seven cases under investigation.

the Navy investigative reports or the disciplinary actions that may be taken against responsible parties. DOD and Navy training officials told us that they do not have an Anti-Deficiency Act course or a curriculum of courses regarding financial management and administrative control of funds. However, DOD's recently issued regulations on fund control procedures² recognized the need for training by specifically stating that "DOD personnel should be knowledgeable of the requirements of this volume, and supervisors at all levels should provide their employees with the requisite training and experience in the control and use of funds."

NAVY INVESTIGATIVE REPORTS OF
ANTI-DEFICIENCY VIOLATIONS

Navy's investigative reports of violations disclosed that 13 of the 15 cases, representing almost \$78 million, resulted from misunderstanding, confusion, and/or misapplication of financial management regulations and guidance regarding procurement and fund management. Reports of violation for the remaining two cases did not state that misinterpretation of regulations or guidance contributed in any way to the violation. Ten cases—eight involving purchases of ADP equipment—involved charges to the wrong appropriation account in violation of 31 U.S.C. Section 1301, commonly referred to as the Purpose Statute.³ When the Navy adjusted its accounts to charge the purchases to the proper appropriation account, it found that it had overobligated the amount that was apportioned and administratively made available for the purchases, thus violating provisions of the Anti-Deficiency Act (31 U.S.C. Section 1517).

Generally, the circumstances involving these reported violations were similar. For example, in the eight ADP-related cases, the Navy made various purchases of ADP equipment—representing individual components of an overall system—that it treated as expense items chargeable to Navy's Operation and Maintenance (O&M) appropriation account. However, the DOD Financial Management

²DOD Financial Management Regulation 7000.14R, Volume 14, "Administrative Control of Funds and Anti-Deficiency Act Violations," August 1995.

³The Purpose Statute requires that appropriated funds be used only for purposes for which the appropriation is made.

Regulation generally requires that purchases that total more than \$15,000,⁴ and are essentially part of one overall procurement, be treated as a single acquisition and charged as an investment item to procurement accounts such as the Other Procurement, Navy (OPN) appropriation account—an account available for such purposes. Cases such as these, in which one acquisition is divided into several purchases and the O&M appropriation is improperly used, impair financial management and circumvent internal controls designed to account for and administratively control funds.

As an illustration of improper use of O&M appropriations, investigations found that O&M funds totaling \$420,358 were used for several projects which exceeded the expense threshold and for which no OPN funds had been authorized over the 4-year period involved, thus resulting in a violation of the Anti-Deficiency Act. In this case, the Navy's investigative report stated that a Navy field activity-level instruction required fund administrators to "receive training in and demonstrate knowledge of appropriation cognizance and Title 31 U.S.C. Section 1517 before appointment as a funds administrator." However, the individual who signed project documents as funds administrator was never officially assigned funds administration duties and had not received training nor demonstrated knowledge required by the Navy field activity-level instruction to perform funds administration duties. For this reason, according to the investigative report, the individual was not disciplined; however, the commanding officers were given nonpunitive Letters of Caution because, as required by the field activity-level instruction, they did not ensure that the individual had the necessary training and knowledge before assigning funds administration duties. Similar and sometimes stronger disciplinary actions, including counseling, suspensions, and removal from office, were taken in other cases.

⁴Generally, the \$15,000 threshold was in place at the time the reported violations occurred between fiscal years 1985 and 1993. For fiscal years 1994, 1995, and 1996, the threshold—commonly called the expense/investment threshold—is \$25,000, \$50,000, and \$100,000, respectively. DOD Financial Management Regulation 7000.14R, Volume 1, Chapter 3, and Volume 4, Chapter 1, require that all property and equipment, including ADP software, with an initial acquisition cost in excess of the threshold and an estimated useful life of more than 2 years be capitalized—that is, treated as an investment item using procurement appropriations. Amounts less than the threshold generally use the O&M appropriation and are treated as expenses.

NAVY TRAINING IS INADEQUATE

Inadequate training is a common thread in the reports because Navy investigators cited confusion, misunderstanding, misinterpretation, and/or insufficient knowledge of applicable regulations and guidance as factors in 13 of the 15 reported violations involving 55 Navy personnel. DOD Financial Management Regulation 7000.14R Volume 14 also indicates that lack of appropriate training is one of the most frequent causes of Anti-Deficiency Act violations. Consequently, we asked the Naval Financial Management Career Center to provide us with the training materials for all Navy courses that addressed the Anti-Deficiency Act. We received and reviewed training materials entitled Principles of Navy Budgeting and Introduction to Navy Financial and Managerial Accounting.

Generally, the budget and accounting training materials contained information regarding Navy financial management, the Anti-Deficiency Act, and general guidelines related to the administrative control of funds. However, the training materials did not specifically address all prominent factors involved in the acquisition of ADP equipment. Also, the training materials did not adequately address common acquisitions that had been divided into several purchases resulting in the improper application of the expense or investment threshold and improper use of an O&M appropriation like the cases disclosed by Navy investigative reports of Anti-Deficiency Act violations. Additionally, none of the training materials we reviewed contained information about the serious nature of the Anti-Deficiency Act violations or the range of disciplinary actions that were taken against individuals determined to be responsible for the recently reported violations.

A Navy Financial Management Career Center official and the Chief of DOD's Financial Management Education and Training Division told us that there is no required training curriculum for financial managers and fund administrators nor is there presently a required course specifically on the Anti-Deficiency Act. Officials in DOD and in the Navy Comptroller's offices agreed with their statement. Because the DOD Financial Management Regulation states that "individuals should be knowledgeable about Anti-Deficiency Act violations and the administrative control of funds, and supervisors of DOD personnel who have responsibility for control and use of DOD funds should ensure that their personnel are provided with proper training to help prevent violations," we believe that the availability of a specific course on the Anti-Deficiency Act with case examples like those discussed in this letter and the creation of a required curriculum for financial managers will help assure that this requirement is met.

We noted that Navy has several positive efforts in place regarding the Anti-Deficiency Act. For example, persons involved in Anti-Deficiency Act violations often receive additional training or counseling related to the Anti-Deficiency Act and we recognize that Navy has made recent attempts to highlight key Anti-Deficiency Act issues through more informal communication channels. For example, a January 1996 seminar addressed Anti-Deficiency Act provisions and an October 1995 article in the Navy Comptroller journal entitled, "Keep It Legal!" focused on several requirements of the Anti-Deficiency Act. Also, in February 1996, the DOD Training Division Chief advised us that DOD's Chief Financial Officer/Comptroller requested that a course be developed to focus specifically on the Anti-Deficiency Act. Development of this nonmandatory course is expected to take about 1 year and will be available to Navy personnel. In addition, Volume 14 of the Financial Management Regulation, dated August 1995, contains very comprehensive information about the administrative control of funds, and criteria regarding causes, prevention, and correction of Anti-Deficiency Act violations. We commend these efforts. Such efforts, however, could be enhanced by requiring specific courses; including detailed examples of violations in training courses; highlighting the types of cases described in this letter; and by sharing information about violations, disciplinary actions, and relevant regulations with the entire DOD financial management community. Existing informal communications such as newsletters, journals, and other publications are valuable to keep funds administrators informed of current Navy or DOD-wide issues involving application of Anti-Deficiency Act provisions.

RECOMMENDATIONS

To help minimize misinterpretations of financial management regulations which have resulted in violations of the Purpose Statute and the Anti-Deficiency Act, we recommend that you direct your Office of Financial Operations, Director to

- work with the DOD Financial Management Education and Training Division to incorporate specific examples of Anti-Deficiency Act violations experienced by the Navy into the DOD Anti-Deficiency Act course that is currently under development.
- establish a curriculum or other minimum training requirements either in concert with the DOD Financial Management Education and Training Division for DOD-wide application or at the Navy level to provide Navy financial managers and fund control officials with the knowledge required to avoid Anti-Deficiency Act violations. Any curriculum should at a minimum include the DOD course under development along with a

comprehensive overview of the associated requirements in the new DOD Financial Management Regulation. Examples of Anti-Deficiency Act violation cases, including ADP-related examples, should be cited to highlight types of improper procurement actions and to illustrate the serious nature of the violations and the disciplinary actions that can be imposed on responsible parties.

AGENCY COMMENTS

DOD concurred with our findings and recommendations. Your staff agreed that more training is needed to minimize any misunderstanding of the regulations and reduce the number of Anti-Deficiency Act violations. Recently, Navy staff, along with representatives from the Marine Corp, have started to assist DOD staff in the development of DOD's training course on the Anti-Deficiency Act. Your staff stated that the DOD course will include specific case examples and the corresponding disciplinary actions and will be available to all military services.

SCOPE AND METHODOLOGY

We reviewed Navy's investigative reports, the attachments, and related supplemental data for 15 reported violations to identify any specific patterns or common elements. We did not assess the accuracy of the investigators' conclusions. We interviewed DOD and Navy Comptroller officials to obtain their perspectives and any additional documents and explanations about these cases, responsible parties, and the disciplinary actions the responsible parties received.

We requested the training materials related to the Anti-Deficiency Act from the Navy Financial Management Career Center and the DOD Financial Management Education and Training Division. We discussed the available courses and whether any structured process existed for ensuring that staff were trained. Additionally, we inquired about the existence of other less structured or informal sources of training available to Navy financial managers and fund administrators. We assessed the training materials provided to determine how thoroughly the Anti-Deficiency Act requirements, violation cases, responsible parties, disciplinary actions, and specific prohibited practices that would constitute Anti-Deficiency violations were addressed within the materials provided to us.

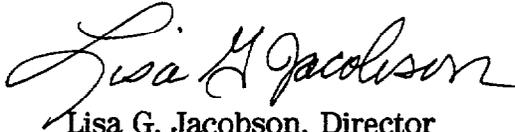
We performed our work at the Office of the DOD Comptroller and the Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) in Washington, D.C. We performed our review from November 1995 through March 1996 based on information obtained from our earlier fiscal year 1994 review of

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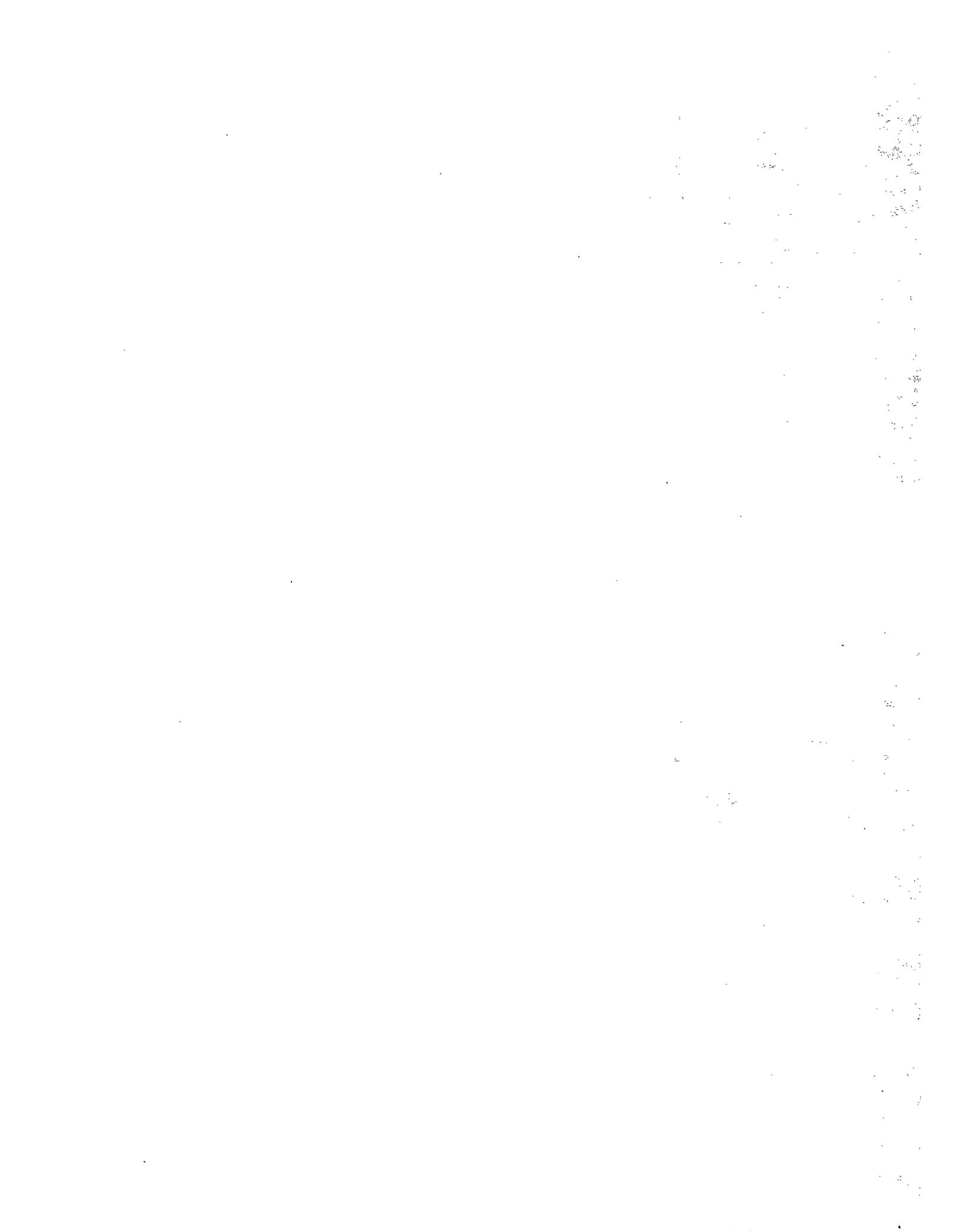
Navy financial operations. Our work was conducted in accordance with generally accepted governmental auditing standards. We discussed our work with cognizant Navy and DOD officials and have incorporated their views where appropriate.

We are sending copies of this letter to the Under Secretary of Defense (Comptroller), the Secretary of the Navy and to other interested congressional committees upon request. Please call me at (202) 512-9095 if you have any questions concerning this report.

Sincerely yours,



Lisa G. Jacobson, Director
Defense Financial Audits



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