

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

PRINCIPAL FINANCIAL STATEMENTS OF THE
NATIONAL SECURITY EDUCATION TRUST FUND -
FY 1993

Report No. 94-153

June 30, 1994

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Department of Defense

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OAIG-AUD (ATTN: APTS Audit Suggestions)
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Acronyms

DFAS	Defense Finance and Accounting Service
DIA	Defense Intelligence Agency
OMB	Office of Management and Budget



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



June 30, 1994

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 1993 (Report No. 94-153)

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

We are expressing an unqualified opinion on the National Security Education Trust Fund Financial Statements for FY 1993 (see Part I, "Auditor's Opinion on the Financial Statements"). Although the National Security Education Trust Fund incorrectly showed operational expenses of \$135,418 in the Notes to the Principal Statements rather than as accounts payable and operating expenses, the effect of that departure from generally accepted accounting principles was not material.

The internal controls related to the administration of the National Security Education Trust Fund were adequate and ensured that the Financial Statements were free of material error. Further, we identified no conditions considered to be reportable under Office of Management and Budget Bulletin No. 93-06. Details are discussed in Part II, "Internal Controls," of the report. The National Security Education Trust Fund was administered in compliance with laws and regulations. However, Government entities providing support did not submit charges for services rendered in a timely manner. Those deficiencies were corrected and are discussed in Part III, "Compliance With Laws and Regulations," of the report.

The courtesies extended to the audit staff are appreciated. If you have questions about this audit, please contact Mr. Harrell D. Spoons, Audit Program Director, at (703) 604-9574 (DSN 664-9574) or Mr. Marvin L. Peek, Audit Project Manager, at (703) 604-9587 (DSN 664-9587). The distribution of this report is shown in Part IV, Appendix C. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Audit Report No. 94-153
(Project No. 4RF-2003)

June 30, 1994

**PRINCIPAL FINANCIAL STATEMENTS OF THE NATIONAL
SECURITY EDUCATION TRUST FUND - FY 1993**

EXECUTIVE SUMMARY

Introduction. The David L. Boren National Security Education Act of 1991 established the National Security Education Trust Fund (the Fund) with a corpus of \$150 million to provide scholarships, fellowships, and grants to support undergraduate and graduate studies in foreign languages and international fields critical to the nation's interest. In January 1992, the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) established the National Security Education Program (the Program) to manage and administer the Fund. In May 1993, the Program was transferred to the Under Secretary of Defense for Policy. The Defense Finance and Accounting Service maintained the FY 1993 accounting records for the Fund.

Objectives. The audit objectives were:

- o to determine whether the FY 1993 Financial Statements for the Fund were presented fairly in accordance with generally accepted accounting principles;

- o to evaluate applicable internal controls over the Fund to determine whether material weaknesses existed;

- o to assess compliance with applicable laws and regulations for transactions and events that have a direct and material effect on the Financial Statements; and

- o to follow up on the conditions noted in our previous audit of the Fund's Financial Statements (Report No. 93-143, "Principal Financial Statements of the National Security Education Trust Fund - FY 1992," June 30, 1993).

Scope and Methodology. We examined the Principal Statements and the Notes to the Principal Statements of the Fund as of and for the year ended September 30, 1993. Principal Statements include the Statement of Financial Position, Statement of Operations, Statement of Cash Flows, and Statement of Budget and Actual Expenses. We also reviewed the Overview and supplemental information supporting the statements. We tested the reliability of computer-processed information and determined that the information was reliable.

Independent Auditor's Opinion. In our opinion, the Principal Statements, including the Notes to the Principal Statements, present fairly, in all material respects the assets, liabilities, and net financial position of the National Security Education Trust Fund as of September 30, 1993, 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.

Internal Controls. We identified no material internal control weaknesses considered to be reportable under standards established by Office of Management and Budget Bulletin No. 93-06, "Audit Requirements for Federal Financial Statements," January 8, 1993. Details on internal controls are in Part II of the report.

Compliance with Laws and Regulations. The results of our tests of compliance with laws and regulations disclosed no instances of noncompliance that materially affected the reliability of the Fund's Principal Statements. However, Government entities providing support did not submit charges for services rendered in a timely manner. As a result, the actual amount of some operating expenses and liabilities was not known when the Defense Finance and Accounting Service first completed the Fund's Principal Statements. When actual expenses and liabilities were determined during the audit, the Defense Finance and Accounting Service decided to show those expenses in Note 6 to the Principal Statements rather than correct the Financial Statements. Although \$135,418 in expenses should have been shown as operating expenses and liabilities, that departure from generally accepted accounting principals was not considered material enough to qualify our opinion on the Principal Statements. Details on compliance with laws and regulations are in Part III, and Appendix A of Part IV lists the laws and regulations reviewed.

Follow-up on Prior Audit Issues. Appropriate actions had been taken by the Program Administrator to correct deficiencies noted during the audit of the Fund's Principal Statements for FY 1992.

Table of Contents

Executive Summary	i
Part I - Auditor's Opinion on the Financial Statements	1
Part II - Internal Controls	5
Part III - Compliance with Laws and Regulations	9
Part IV - Additional Information	13
Appendix A. Laws and Regulations Reviewed	14
Appendix B. Organizations Visited and Contacted	15
Appendix C. Report Distribution	16
Part V - Principal Financial Statements of the National Security Education Trust Fund-FY 1993	19

This report was prepared by the Readiness and Operational Support Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense.

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

Introduction

The National Security Education Trust Fund (the Fund), established in 1991 by Public Law 102-183, provides scholarships, fellowships, and grants to U.S. citizens and educational institutions for studies in foreign and international fields critical to the nation's interest. Congress appropriated \$150 million for awarding scholarships, fellowships, and grants and for the administration of the National Security Education Program (the Program). As of September 30, 1993, the Fund had expended no resources. The Administrator of the Program manages the Fund. As of September 30, 1993, the administrator of the Program had filled 7 of the 10 permanent staff positions and the Fund reported assets of \$156,152,162. In FY 1993, the Secretary of Defense transferred the Program from the Assistant Secretary of Defense (Command, Control, Communication, and Intelligence) to the Under Secretary of Defense for Policy. A National Security Education Board, composed of Federal Government officials and private citizens, develops criteria and establishes qualifications for students and institutions desiring assistance from the Fund.

The Chief Financial Officers Act requires an annual audit of Funds such as the National Security Education Trust Fund. The Defense Finance and Accounting Service (DFAS) is responsible for preparing the Principal Statements of the Fund. Our responsibility is to express an opinion on the Principal Statements based on our audit.

Scope and Methodology

We examined the Principal Statements and the Notes to the Principal Statements of the National Security Education Trust Fund as of and for the year ended September 30, 1993. The Principal Statements include the Statement of Financial Position, Statement of Operations, Statement of Cash Flows, and Statement of Budget and Actual Expenses. We also reviewed the Overview and supplemental information supporting the statements. The statements upon which our opinion is based were dated June 21, 1994.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in Financial Statements, including the accompanying 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 Fund and assessed the internal control structure. We believe that our audit efforts provide a reasonable basis for our results. This financial statement audit was made from January through June 1994. A list of the locations we visited is in Part IV, Appendix B. We evaluated the reliability of computer-processed information used in the reports by comparing amounts to source documents. Based on that comparison, in so far as we could determine, that computer-processed information is reliable.

Auditing Standards

We conducted our audit in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, 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 on 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 Advisory Board). Generally accepted accounting principles for Federal entities are to be promulgated by the Comptroller General of the United States; the Director, Office of Management and Budget; and the Department of the Treasury, based on advice from the Advisory Board. In the interim, Federal agencies are to follow the applicable accounting standards contained in agency accounting policy, procedures manuals, and related guidance. 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 Fund's significant assets, liabilities, net position, results of operations, cash flows, and reconciliation to the budget.

Opinion of the Financial Statements

In our opinion, the Principal Statements, including the Notes to the Principal Statements, present fairly, in all material respects the assets, liabilities, and net financial position of the Fund as of September 30, 1993, and the results of its operations, cash flow, and report on reconciliation for the year ended September 30, 1993, in accordance with DoD accounting policies and procedures and generally accepted accounting principles.

Additional Information

The audit was conducted for the purpose of forming an opinion on the Fund's Principal Statements. During the audit, we reported deficiencies that should be corrected to the Program Administrator in a memorandum dated March 23, 1994. The deficiencies included reporting actual expenses in the

Independent Auditor's Opinion on the Financial Statements

Footnotes to the Principal Statements rather than as liabilities in the Statement of Financial Position. Specifically, operating expenses of \$135,418, shown in Note 6 to the statements, should be shown as a liability and as an operating expense. The Program Administrator agreed with the suggestions and asked DFAS to revise the Financial Statements. However, DFAS did not correct the statements. According to DFAS officials, the Report on Budget Execution and the Year-End Closing Statement had already been certified with the Department of the Treasury and a request to make changes would be more trouble than it was worth. We did not consider the manner of presentation to have a material effect on the financial statements.

Also, we reviewed the financial information in management's "Overview of the National Security Education Program," shown with the statements in Part V. We verified the information to applicable public laws. In our opinion, management's "Overview of the National Security Education Program" presented the financial information fairly, in all material respects.

Part II - Internal Controls

Introduction

We examined the internal control structure of the Fund for the year ended September 30, 1993. The statements upon which our examination was based were dated June 21, 1994. Such tests are required by the Chief Financial Officers Act of 1990. The Administrator of the Program is responsible for establishing and maintaining an internal control structure. In fulfilling that 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 Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, and misappropriation.

- 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 OMB; entity management; or the Inspector General, DoD, 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.

- o Questions are answered as to whether performance measures existed and whether those performance measures were adequate to enable the Fund to fulfill its purpose.

Objectives

The objective of the audit was to evaluate applicable internal controls over the Fund and determine whether material internal control weaknesses existed. In planning and performing our audit of the Fund for the year ended September 30, 1993, we evaluated the Fund's internal control structure, including implementation of the DoD Internal Management Control Program. The purposes of the evaluation were to:

- o determine our auditing procedures for expressing an opinion on the Financial Statements and

o determine whether the internal control structure was established to ensure that the statements were free of material misstatements.

That determination included obtaining an understanding of the internal control policies and procedures, as well as assessing 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: cash, accounts receivable, collections, unearned revenue, capital assets, advances, accounts payable, accrued payroll, and other expenses.

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 that the Principal Statements are free of material misstatements.

Prior Audit Coverage

In addition to the audit of the Principal Financial Statements,¹ the Inspector General, DoD, issued Audit Report No. 94-007, "National Security Education Trust Fund Accounting Records," October 19, 1993. Report No. 94-007 states that a system of controls to record obligations and liabilities in the Fund accounting records had not been established. Management concurred with the recommendation to establish a system of controls. The Washington Headquarters Services agreed to establish an account for operational expenses for the Fund.

Results of Audit

Reportable Conditions. The audit disclosed no material internal control weaknesses as defined in DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. The audit also identified no conditions that we considered to be reportable under OMB Bulletin No. 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

¹Report No. 93-143, "Principal Financial Statements of the National Security Education Trust Fund-FY 1992," June 30, 1993.

Internal Controls

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 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.

Reportable Conditions Not Noted. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

Part III - Compliance with Laws and Regulations

Introduction

We evaluated the Fund for material instances of noncompliance with laws and regulations for the year ended September 30, 1993. The statements on which we based our examination were dated June 21, 1994. Such tests are required by the Chief Financial Officers Act of 1990. The list of laws and regulations we reviewed is in Part IV, Appendix A.

Objectives

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 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 Principal 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 on 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 A).

As part of our audit, we reviewed management's compliance with DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. We also compared management's procedures and systems for documenting and supporting financial, statistical, and other information presented to us in the Overview to the Fund's Principal Statements, as well as supplemental financial and management information. It was not our objective, however, to provide an opinion on overall compliance with such provisions.

We conducted our audit in accordance with generally accepted Government 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 that the Principal Statements are free of material misstatements.

Prior Audit Coverage

In addition to the audit of the Principal Statements, the Inspector General, DoD, issued Audit Report No. 94-007, "National Security Education Trust Fund Accounting Records," October 19, 1993. The report recommended that

preoperational expenses be described in the Notes to the Financial Statements. Management agreed, and preoperational expenses are shown in Note 6 to the Principal Statements for FY 1993.

Results of Audit

Our tests of compliance disclosed no instances of noncompliance that materially affected the reliability of the Fund's Principal Statements. However, the information on preoperational expenses and bills for operational expenses were not submitted in a timely manner.

Funding Administrative Expenses. The David L. Boren National Security Education Act of 1991 mandates that all expenditures necessary for the administration of the Program are to be paid from the Fund. Congress approved expenditures of \$10 million from the Fund on July 2, 1993, in a supplemental appropriation act, Public Law 103-50. Operational expenses incurred from July 2, 1993, through September 30, 1993, should be billed to the Program and reimbursed to the Government agency providing support. Preoperational expenses incurred from October 1, 1992, through July 1, 1993, should be reported in the Notes to the Financial Statements recommended in Report No. 94-007.

Intragovernmental Liabilities. OMB Bulletin No. 93-02 requires the Statements of Financial Position to show as Intragovernmental Liabilities amounts due to a Federal Government entity for items received, services rendered, and expenses incurred. Those amounts are reported as Accounts Payable, Federal. The Defense Intelligence Agency (DIA) provided Program personnel with office space and access to a self-service supply store in FY 1993. DIA also provided personnel administrative support from July 2, 1993, to September 18, 1993. The Under Secretary of Defense for Policy provided personnel administrative support through the Washington Headquarters Services from September 19 through September 30, 1993.

Operational Expenses Incurred. The initial Principal Financial Statements received on March 3, 1994, showed \$209,000 in unpaid obligations for intragovernmental expenses. That amount was based on estimates of expenses incurred but not billed as of September 30, 1993. The Program Deputy Director for Administration asked DIA and the Washington Headquarters Services to submit charges for items received, services rendered, and expenses incurred in FY 1993. DIA submitted charges for salary, small purchases, and travel expenses totaling \$110,007, but did not include office space rental and supply expenses. During the audit, we obtained documentation on a charge for office space rental of \$10,832 from DIA and on charges of \$119 from the self-service supply store.

On February 16, 1994, Washington Headquarters Services agreed to submit charges for salary expenses as part of the correction process for the FY 1992 Principal Financial Statements. On April 11, 1994, Washington Headquarters Services billed the Fund for \$14,460 in salary expenses incurred from

Compliance with Laws and Regulations

September 19 through 30, 1994. As a result, we determined that \$135,418 in liabilities and operating expenses should have been shown in the statements. The Fund Administrator agreed and asked DFAS to change the statements. However, for administrative expediency, DFAS decided to show those expenses in the Footnotes to the Principal Statements.

Preoperational Expenses Incurred. The audit of the Fund accounting records in FY 1992 recommended that preoperational expenses be disclosed in the Notes to the Financial Statements for FY 1993. After the current audit began, the Fund manager requested and DIA submitted charges for preoperational expenses of \$444,563, but office space rental and self-service supply store expenses were not included. During the current audit, we obtained documentation for office space rental of \$32,613 from DIA and determined that supplies totaling \$1,995 were obtained at the self-service supply store. We concluded that \$34,608 in additional preoperational expenses should have been included in the Notes to the Financial Statements dated March 3, 1994. The understatement was corrected in the Footnotes to the Principal Statements shown in Part V of this report.

With respect to items not tested, nothing came to our attention that caused us to believe that the Administrator of the Program had not complied, in all material respects, with laws and regulations.

Part IV - Additional Information

Appendix A. Laws and Regulations Reviewed

Supplemental Appropriations Act of 1993, Public Law 103-50

Chief Financial Officers Act of 1990, Public Law 101-576

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

Amendments to National Security Education Act of 1991, Public Law 102-496

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

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

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

Appendix B. Organizations Visited and Contacted

Office of the Secretary of Defense

Under Secretary of Defense for Policy, Washington, DC
National Security Education Program, Washington, DC
Headquarters, Washington Headquarters Services, Washington, DC

Defense Agencies

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

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Policy
Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)
Comptroller and Chief Financial Officer of the Department of Defense
Assistant to the Secretary of Defense (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

Auditor General, Air Force Audit Agency

Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, National Security Agency
Director, Defense Finance and Accounting Service
Director, Washington Headquarters Services
Inspector General, Central Imagery Office
Inspector General, Defense Intelligence Agency
Inspector General, National Security Agency
Director, Defense Logistics Studies Information Exchange

Non-Defense Federal Organizations

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

Appendix C. Report Distribution

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

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**Part V - Principal Financial Statements
of the National Security
Education Trust Fund-FY 1993**

**Principal Financial Statements of the National Security Education Trust
Fund-FY 1993**



NATIONAL SECURITY EDUCATION PROGRAM
P.O. BOX 47103
WASHINGTON, DC 20050-7103

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

FROM: R CHARLENE KING, DIRECTOR

DATE: JUNE 21, 1994

SUBJECT: CFO REPORTS FROM DFAS

I am forwarding to you, as a courtesy, the *Chief Financial Officer Annual Financial Statement FY 1993* for the National Security Education Trust Fund which we received from the Director for Accounting Applications, Defense Finance and Accounting Service. To the best of my knowledge, these are our official financial statements, the report reflects our records, and we have the background documentation to support the report.

Should you have any questions or wish to discuss this matter further, please do not hesitate to call me at X61991. Thank you.

*National Security
Education Trust Fund*

Chief Financial
Officer
Annual Financial
Statement
FY 1993

**Principal Financial Statements of the National Security Education Trust
Fund-FY 1993**

National Security Education Trust Fund

Table of Contents

Overview	1
Principal Statements	5
Footnotes to the Principal Statements	15

Overview

*National Security
Education Trust Fund*

Overview

Overview

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 education awards to meet these objectives through the awarding of scholarships, fellowships and grants.

The program will 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 and its assets are valued at \$156 Million as of 30 September, 1993.

On July 2, 1993, the first authority to obligate (\$10 Million) from the Trust Fund through an appropriations act was granted when President Clinton signed PL 103-50.

In August 1993, formal letters of invitation were issued to the 28 individuals approved by the Secretary of Defense to be members of the Group of Advisors. In addition to providing advice to the Board and to the Program Office, they will provide an essential communications linkage between the higher education community and the federal government for this Program.

In September 1993, the NSEP sponsored a symposium, "Grants to Institutions: Building Programs in Critical International Fields". Over 90 higher education academics and administrators from across the country participated at a one-day session hosted by the University of Washington. The discussions helped define "other international fields" mandated by the legislation. The symposium was determined to be the most efficient and cost-effective method of collecting this data which is integrated into preliminary guidelines for grants applications.

**Principal Financial Statements of the National Security Education Trust
Fund-FY 1993**

Overview _____

Also in September, all 3,300 institutions of higher education were invited to participate in one of nine introductory workshops conducted by the Program Office and the administrative agents at regional, easily-accessible locations across the country. In October and November, the workshops were hosted by local colleges and universities at these sites, e.g., Denver, Portland, Cincinnati, Atlanta, etc. Over 600 representatives of colleges and universities attended these workshops at their own expense to gain knowledge on how to inform and advise students wishing to pursue scholarship or fellowship awards.

In early December, informational materials and/or application forms were distributed by the Institute of International Education and the Academy for Education Development (the program's administrative agents) to all U.S. colleges and universities for undergraduate scholarships and graduate fellowships. The undergraduate scholarships will be for U.S. students to pursue study of languages and cultures currently underrepresented in study abroad programs and will be available to meritorious freshmen through seniors. The graduate fellowships will be for students to pursue graduate study in professional and other disciplines with an international component as well as for students to pursue doctorates with area and language studies specialization. Dissemination of information on the grant application process began in mid-January 1994.

Current plans are to make pilot program scholarship and fellowship awards in the spring 1994 and pilot program grant awards in the fall 1994. The Program Office estimates that 250-300 scholarship, 150-200 fellowship, and 10-25 grant awards will be made in the first year.

The Program Office is currently drafting the regulation to implement the service agreement mandated by the legislation. The regulation will be coordinated through the Department of Defense and submitted to the Congress for review as required.

Principal Statements

*National Security
Education Trust Fund*

Principal Statements

**Principal Financial Statements of the National Security Education Trust
Fund-FY 1993**

Principal Statements

Department/Agency: National Security Education Trust Fund
Reporting Entity: Principal Statements
Statement of Financial Position
as of September 30, 1993
(Dollars)

ASSETS	1993	1992
1. Financial Resources:		
a Fund Balances with Treasury (Note 2)	\$211	\$2,036
b Cash		
c Foreign Currency		
d Other Monetary Assets		
e Investments, Non-Federal		
f Accounts Receivable, Net - Non-Federal		
g Inventories Held for Sale, Net		
h Loans Receivable, Net - Non-Federal		
i Property Held for Sale		
j Other, Non-Federal		
k Intragovernmental Items:		
(1) Accounts Receivable, Federal	4,364,238	
(2) Loans Receivable, Federal		
(3) Investments, Federal (Note 3)	151,787,713	150,477,771
(4) Other, Federal		
1. Total Financial Resources	<u>\$156,152,162</u>	<u>\$150,479,807</u>
2. Non-Financial Resources:		
a Resources Transferable to Treasury		
b Advances and Prepayments, Non-Federal		
c Inventories Not Held for Sale		
d Property, Plant and Equipment, Net		
e Other		
f. Total Non-Financial Resources	<u>\$0</u>	<u>\$0</u>
3. Total Assets	<u>\$156,152,162</u>	<u>\$150,479,807</u>
 LIABILITIES		
4. Funded Liabilities		
a Accounts Payable, Non-Federal	\$52,124	
b Accrued Interest Payable		
c Accrued Payroll and Benefits		
d Accrued Entitlement Benefits		
e Lease Liabilities		
f Liabilities for Loans Guarantees		
g Deferred Revenue- Non-Federal		
h Pensions and Other Actuarial Liabilities		

The accompanying notes are an integral part of these statements.

7

**Principal Financial Statements of the National Security Education Trust
Fund-FY 1993**

Principal Statements

Department/Agency: National Security Education Trust Fund
Reporting Entity: Principal Statements
Statement of Financial Position
as of September 30, 1993
(Dollars)

LIABILITIES Continued	1993	1992
i Other Funded Liabilities, Non-Federal		
j Intragovernmental Liabilities		
(1) Accounts Payable, Federal		
(2) Debt		
(3) Deferred Revenue		
(4) Other Funded Liabilities, Federal		
k Total Funded Liabilities	<u>\$52,124</u>	<u>\$0</u>
5. Unfunded Liabilities:		
a Accrued Leave		
b Lease Liabilities		
c Debt		
d Pensions and Other Actuarial Liabilities		
e Other Unfunded Liabilities		
f Total Unfunded Liabilities	<u>\$0</u>	<u>\$0</u>
6. TOTAL LIABILITIES	<u>\$52,124</u>	<u>\$0</u>
NET POSITION		
7. Fund Balances:		
a Revolving Fund Balances		
b Trust Fund Balances (Note 4)	\$156,100,038	\$150,479,807
c Appropriated Fund Balances		
d. Total Fund Balances	<u>\$156,100,038</u>	<u>\$150,479,807</u>
8. Less Future Funding Requirements		
9. Net Position	<u>\$156,100,038</u>	<u>\$150,479,807</u>
10. Total Liabilities and Net Position	<u>\$156,152,162</u>	<u>\$150,479,807</u>

The accompanying notes are an integral part of these statements.

8

**Principal Financial Statements of the National Security Education Trust
Fund-FY 1993**

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, 1993
(Dollars)

	1993	1992
REVENUES AND FINANCING SOURCES		
1 Appropriations Expensed		
2 Revenues from Sales of Goods		
a To the Public		
b Intragovernmental		
3 Interest and Penalties, Non-Federal		
4 Interest, Federal	\$5,672,355	\$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	\$5,672,355	\$150,479,807
EXPENSES		
9 Program or Operation Expenses (Note 6)	\$52,124	
10 Cost of Goods or Services Sold		
a To the Public		
b Intragovernmental		
11 Depreciation and Amortization		
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	\$52,124	\$0
16 Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Adjustments	\$5,620,231	\$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	\$5,620,231	\$150,479,807
19 Plus: Unfunded Expenses		
20 Excess (Shortage) of Revenues and Financing Sources Over Funded Expenses	\$5,620,231	\$150,479,807

The accompanying notes are an integral part of these statements.

9

**Principal Financial Statements of the National Security Education Trust
Fund-FY 1993**

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, 1993
(Dollars)

EXPENSES Continued	1993	1992
21. Net Position, Beginning Balance	\$150,479,807	\$0
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	5,620,231	150,479,807
23. Plus (Minus) Equity Transfers		
24. Net Position, Ending Balance	<u>\$156,100,038</u>	<u>\$150,479,807</u>

The accompanying notes are an integral part of these statements.

10

**Principal Financial Statements of the National Security Education Trust
Fund-FY 1993**

Principal Statements

Department/Agency: National Security Education Trust Fund
Reporting Entity: Principal Statements
Statement of Cash Flows (Indirect)
for the Period Ended September 30, 1993
(Dollars)

	1993	1992
Cash Flows from Operating Activities:		
1. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	\$5,620,231	\$150,479,807
Adjustments affecting Cash Flow:		
2 Appropriations Expensed		
3. Decrease (Increase) in Accounts Receivable	(\$4,364,239)	
4. Decrease (Increase) in Loans Receivable		
5 Decrease (Increase) in Other Assets		
6 Increase (Decrease) in Accounts Payable	52,124	
7 Increase (Decrease) in Other Liabilities		
8 Depreciation and Amortization		
9 Other Unfunded Expenses		
10 Other Adjustments		
11. Total Adjustments	(\$4,312,115)	\$0
12. Net Cash Provided (Used) by Operating Activities	\$1,308,116	\$150,479,807
Cash Flows from Non-Operating Activities:		
13. Proceeds from Sales of Investments	(\$1,309,941)	(\$150,477,771)
14 Proceeds from Sales of Property, Plant and Equipment		
15 Purchases of Investments		
16 Purchases of Property, Plant and Equipment		
17. Net Cash Provided (Used) by Non-Operating Activities	(\$1,309,941)	(\$150,477,771)
CASH PROVIDED (USED) BY FINANCIAL ACTIVITIES		
18. Appropriations (Current Warrants)		
19 Add:		
a. Restorations		
b Transfers of Cash from Others		
20. Deduct:		
a. Withdrawals		
b Transfers of Cash to Others		
21 Net Appropriations	\$0	\$0

The accompanying notes are an integral part of these statements.

**Principal Financial Statements of the National Security Education Trust
Fund-FY 1993**

Principal Statements

Department/Agency: National Security Education Trust Fund
Reporting Entity: Principal Statements
Statement of Cash Flows (Indirect)
for the Period Ended September 30, 1993
(Dollars)

	1993	1992
22. Borrowing from the Public		
23. Repayments on Loans to the Public		
24. Borrowing from the Treasury and the Federal Financing Bank		
25. Repayments on Loans from the Treasury and the Federal Financing Bank		
26. Other Borrowings and Repayments		
27. Net Cash Provided (Used) by Financing Activities	<u>\$0</u>	<u>\$0</u>
28. Net Cash Provided (Used) by Operating, Non-Operating and Financing Activities	(\$1,825)	\$2,036
29. Fund Balance with Treasury, Cash, and Foreign Currency, Beginning	2,036	
30. Fund Balance with Treasury, Cash, and Foreign Currency, Ending	<u>\$211</u>	<u>\$2,036</u>

Supplemental Disclosure of Cash Flow Information:

31 Total Interest Paid

Supplemental Schedule of Financing and Investing Activity:

32 Property and Equipment Acquired Under
Capital Lease Obligations

33 Property Acquired Under Long-term
Financing Arrangements

34 Other Exchanges of Noncash Assets or
Liabilities

The accompanying notes are an integral part of these statements.

12

**Principal Financial Statements of the National Security Education Trust
Fund-FY 1993**

Principal Statements

Department/Agency: National Security Education Trust Fund
Reporting Entity: Principal Statements
Statement of Budget and Actual Expenses
for the Period Ended September 30, 1993
(Dollars)

Program Name(s)	Resources	<u>BUDGET</u> <u>OBLIGATIONS</u>		<u>ACTUAL</u>
		Direct	Reimbursed	Expenses
National Security Education Trus	\$142,654,224	\$261,124		\$52,124
Totals	\$142,654,224	\$261,124	\$0	\$52,124

Budget Reconciliation

A	Total Expenses	\$52,124
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	\$52,124
E	Less Reimbursements	
F	Expended Appropriations, Direct	\$52,124

The accompanying notes are an integral part of these statements.

Footnotes

*National Security
Education Trust Fund*

*Footnotes
to the
Principal Statements*

**Principal Financial Statements of the National Security Education Trust
Fund-FY 1993**

Footnotes

**National Security Education Trust Fund
Footnotes to the Principal Statements**

Note 1. Significant Accounting Policies:

The National Security Education Trust Fund was authorized in PL 102-183 for the accumulation of funds in order 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 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	\$211
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Note 3. Investments:

	(1) Cost	(2) Market Value	(3) Amorti- zation Method	(4) Amortized Premium/ (Discount)	(5) Investment Net (Book Value)
B Federal Securities					
Non-Marketable	\$153,713,646	\$152,629,980	Effective	(\$1,925,933)	\$151,787,713
			Interest		

The method used to determine amount amortized, book value of investments currently held and related yield on investments conforms to the prevailing practice in the financial community. The calculated yields match up with yields in published security tables of U. S. Treasury securities.

**Principal Financial Statements of the National Security Education Trust
Fund-FY 1993**

Footnotes _____

Note 4. Fund Balances:

Cumulative Results of Operations (Trust Funds) \$156,100,038

Data does not include unpaid obligation, undelivered orders, of \$9,000 00

Note 5. Other Revenues and Financing Sources:

	<u>1993</u>
(1) Transfer of appropriated funds	\$0

Note 6. Program or Operating Expenses:

	<u>1993</u>
A Operating Expenses by Object Classification	
Travel and Transportation	\$52,124

Does not include FY93 preoperational costs of \$479,171 54 for salaries and non personnel operational costs for the period 10/1/92 through 7/1/93, and does not include operational cost for 7/2/93 through 9/30/93 of \$135,417.79.

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