

# Inspector General

United States  
Department of Defense



Financial Management of International  
Military Education and Training Funds

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## Acronyms and Abbreviations

DFAS	Defense Finance and Accounting Service
DOD FMR	DOD Financial Management Regulation
DOS	Department of State
DSAMS-T	Defense Security Assistance Management System-Training Module
DSCA	Defense Security Cooperation Agency
IMET	International Military Education and Training
JSAT	Joint Security Assistance Training
SF	Standard Form



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September 29, 2009

MEMORANDUM FOR DIRECTOR, DEFENSE SECURITY COOPERATION AGENCY

SUBJECT: Financial Management of International Military Education and Training Funds  
(Report No. D-2009-116)

We are providing this report for your information and use. We considered management's comments on our draft of this report in preparing the final report. They conformed to the requirements of DOD Directive 7650.3 and left no unresolved issues. Therefore, we do not require any additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5868 (DSN 329-5868).

*Patricia A. Marsh*  
Patricia A. Marsh, CPA  
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# Results in Brief: Financial Management of International Military Education and Training Funds

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## What We Did

The International Military Education and Training (IMET) program is an assistance program that provides training to students from more than 108 allied and friendly nations.

We evaluated the financial management controls over the IMET program funds. Specifically, we reviewed whether training and related costs were properly funded, accounted for, and reported; and whether the Defense Security Cooperation Agency (DSCA) and Military Departments consistently applied policies and regulations.

## What We Found

DSCA did not properly manage the IMET program to ensure that training was consistently funded, recorded, and reported. Specifically, manuals and regulations were inconsistent with requirements for operating grant programs and contained conflicting guidance for processing training funds. DSCA did not require a review of funding when training programs changed, did not require the Military Departments to clearly define and document the purpose of student training, and included scheduling requirements that are not necessary for grants. In addition, DSCA did not ensure that the Military Departments consistently applied regulations for student reporting requirements, documenting changes to student training programs, and recording and reviewing obligations.

DSCA internal controls were not adequate. We identified internal control weaknesses in the management of the IMET program. DSCA did not ensure that IMET funds were properly controlled and may have violated the Antideficiency Act.

## What We Recommend

We recommend that DSCA:

- Review and revise current IMET guidance to comply with legal and departmental requirements for controlling grants.
- Request a preliminary review of the two student training programs identified in the report to determine whether their funding violated the Antideficiency Act.
- Establish controls to effectively monitor and report IMET program status.
- Establish consistent accounting practices that each Military Department should adopt for recording and processing IMET transactions.

## Management Comments and Our Response

DSCA management provided responsive comments on our draft report and has taken actions to implement our recommendations. They are revising IMET policies and procedures to address the internal control weaknesses we identified. Additionally, DSCA has implemented a procedure to ensure that any changes to training are properly documented and funded. DSCA is also initiating a review of the codes used to identify training classes to provide a clear link to the purpose of the training. DSCA is requiring the Services to submit certified copies of their triannual reviews. DSCA performed a review of the two cases we identified in our report and provided additional information to determine they are not potential Antideficiency Act violations under applicable grant principles.

## Recommendations Table

<b>Management</b>	<b>Recommendations Requiring Comment</b>	<b>No Additional Comments Required</b>
Defense Security Cooperation Agency	None	1.a, 1.b, 2, 3.a, 3.b, 3.c, 4

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# Introduction

## Objectives

Our overall audit objective was to determine whether International Military Education and Training (IMET) funds were being properly managed, utilized, and accounted for by Defense Security Cooperation Agency (DSCA). Specifically, we reviewed the funding, recording, accounting, and reporting of tuition, travel, living allowances, and medical expenses of foreign students. We also reviewed the consistency of operations among the Military Departments' organizations that implement the training: the Army Security Assistance Training Field Activity, the Navy Education Training Security Assistance Field Activity, and the Air Force Security Assistance Training Squadron.

## Background

The Foreign Assistance Act of 1961 authorized the IMET program to:

- (i) contribute to responsible defense resource management, (ii) foster greater respect for and understanding of the principle of civilian control of the military, (iii) contribute to cooperation between military and law enforcement personnel with respect to counternarcotics law enforcement efforts, or (iv) improve military justice systems and procedures in accordance with internationally recognized human rights.

The Department of State (DOS) has overall responsibility for the program and provides guidance to DSCA, which manages the program. The IMET program provides training to students from more than 108 allied and friendly nations. Congress appropriates IMET funds each year under appropriation symbol 11x1081 . In FY 2006, Congress appropriated \$86 million for the IMET program. DSCA manages and issues these funds to the Military Departments that are responsible for scheduling and providing training to the foreign students.

Students usually come to the United States to receive training at a military facility. The IMET program emphasizes:

- the proper role of the military in a civilian-led, democratic Government;
- effective military justice systems and an understanding of internationally recognized human rights;
- effective defense resource management;
- military professionalism; and
- exposing the students to the American way of life.

At the time of our audit, DSCA was revising some of its processes. The Army and Navy field activities were implementing a new computer system (the Defense Security Assistance Management System-Training Module) to manage the security assistance training programs, including IMET. The Air Force field activity is scheduled to implement the system at a later date.

The Foreign Assistance Act of 1961 authorized the President to provide military education and training to military and civilian personnel from allied and friendly countries. Although the law authorizing IMET funds does not specifically state that IMET is a grant program, the annual DOS Congressional Budget Justification, which funds it, and DOD Financial Management Regulation (DOD FMR), volume 15, chapter 1, state that IMET provides training to students on a grant basis. The DOS guidance also states that IMET is a grant aid program, and the annual Report on U.S. Overseas Loans and Grants, compiled by the U.S. Agency for International Development, reports the status of the IMET program to Congress. However, DOS does not require a representative of the foreign government to sign a grant agreement, because DOS never transfers IMET funds to the foreign government. This is based on section 541 of the Foreign Assistance Act, which authorizes the President to furnish “on such terms and conditions consistent with this Act as the President may determine...military education and training to military and related civilian personnel of foreign countries.” The Foreign Assistance Act provides that the education and training may be furnished on an in-kind basis rather than providing funds to a foreign government under a grant agreement.

DSCA is the fundholder and is responsible for managing the IMET program. The Joint Security Assistance Training (JSAT) regulation states that DSCA is responsible for establishing policy and for directing and supervising the administration and implementation of security assistance training, which includes the IMET program. DSCA issues IMET policies to the security assistance community through the Security Assistance Management Manual.

## **Review of Internal Controls**

DOD Instruction 5010.40, “Managers’ Internal Control (MIC) Program Procedures,” January 4, 2006, requires DOD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses at DSCA. The organization did not have the following controls over the IMET program: procedures requiring a review to determine whether changes to training are charged against the correct appropriation, and requiring that the purpose of the training be documented; reviews to ensure that Military Departments are following existing policies; and periodic reviews of IMET obligations. Implementing the recommendations in the Finding will improve DSCA IMET program management. A copy of the final report will be provided to the senior official responsible for internal controls in DSCA.

# **Finding. DSCA Management of the International Military Education and Training Program**

DSCA did not provide clear and accurate guidance to the Military Departments and did not properly oversee the International Military Education and Training program operations to ensure that training was accurately and consistently funded, reported, and recorded. Manuals and regulations were inconsistent with requirements for operating grant programs and contained conflicting guidance for processing training funds. Additionally, DSCA did not ensure that Military Departments consistently applied existing regulations for student reporting requirements, documenting changes to student training programs, recording obligations, and the periodic review of obligations. The lack of oversight allowed these issues to continue and may have caused violations of the Antideficiency Act.

## **Criteria**

Guidance for managing IMET funds can be found in the Government Accountability Office (GAO) Principles of Appropriations Law, the DOD FMR, and the JSAT.

### ***GAO Principles of Appropriations Law (GAO Red Book)***

The GAO Red Book states that a Federal grant is a form of assistance authorized by statute in which a Federal agency (the grantor) transfers something of value to a party (the grantee) for a purpose, undertaking, or activity of the grantee that the Government has chosen to assist. It states that the “thing of value” is usually money, but may, depending on the program legislation, also include property or services.

Volume II, chapter 7, states that there must be documentary evidence of the grant award. The agency awarding the grant must take more action than reserving the funding in the accounting system. Chapter 10 of the GAO Red Book cites Comptroller General Decision B-289801, which states, “...we have routinely permitted agencies to award grants using fiscal year funds irrespective of the fact that the funds would not be expended until some time after the end of the fiscal year.”

When grants are changed after the period the funds are available, there are three areas of concern that must be satisfied before a change to a grant may be viewed as a “replacement grant,” which would not require a new obligation:

- bona fide need for the project must continue,
- the purpose of the grant must remain the same, and
- the revised grant must have the same scope.

Agencies may not charge the original appropriation if a grant amendment changes the scope of the grant, or if it makes the award to a different grantee after the appropriation

funding the original grant has expired. If the agency does not recognize that the change creates a new obligation when the change is made, there is a potential Antideficiency Act violation. However, there are certain situations where the change is a replacement grant, because it is substantially identical in scope and purpose to the original grant, and the original appropriation remains chargeable.

### ***DOD Financial Management Regulation***

The DOD FMR requires obligations to be recorded in the financial accounting systems within 10 days of the event that created a legal obligation (volume 3, chapter 8). Volume 12, chapter 5 further specifies that an obligation for a grant program should be recorded when the agreement is signed and outlines the DOD regulations related to grants and cooperative agreements. Volume 15, chapter 1 identifies IMET as a program that provides military training on a grant basis and outlines the procedures for processing security assistance programs.

### ***Joint Security Assistance Training Regulation***

The JSAT states that DSCA is responsible for establishing security assistance training program policy and for directing and supervising the administration and implementation of the security assistance training program (which includes IMET) within the policies developed by the Under Secretary of Defense for Policy.

## **Program Guidance and Grant Requirements**

DSCA guidance for IMET was not consistent with the legal requirements for processing grants. Guidance did not require grants to be reviewed when training programs changed, and it did not require the purpose of student training to be clearly defined and documented. In addition, regulations unnecessarily required training courses to start by the end of the first quarter of the next fiscal year to allow the use of prior-year funds.

### ***Program Changes***

DSCA did not require a review of the grants when training programs changed to determine whether the change affected the grant's purpose, scope, or bona fide need. The GAO Red Book states that if there is a change to the scope or purpose of the award after the original agreement's appropriation has expired, the new agreement may not charge the original appropriation. There were 20 of 135 samples where the student's training was changed, but the Military Departments did not document whether the changes affected the agreement. In one example, a student's original agreement was for a 10-week international defense management course. While the student was in training, the Navy expanded the student's agreement by adding a 21-month program for a master's degree in systems acquisition at the Naval Post Graduate School.<sup>1</sup> In another instance, a student's original agreement was for a language course, a basic officer course, an observation course, and an infantry officer course. After the student completed the language training, the Navy reduced the student's remaining training to only one course: the Expeditionary Warfare School.<sup>2</sup>

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<sup>1</sup> Student number 2004-EZ-2406.

<sup>2</sup> Student number 2005-AM-1501.

In both of these instances, the Military Department changed the training program during the fiscal year after the year it approved the original agreement. If the changes to these training programs affected the scope or purpose of the original agreement, the Military Department should have approved a new agreement using funds available at the time of the change.

Both of these changes to the students' training programs may have caused a violation of the Antideficiency Act. During our discussions with Military Department personnel, they stated that DSCA must approve all training tracks. However, in our discussions with DSCA personnel, they stated that the Military Departments are in a better position to verify the training programs than DSCA. As demonstrated by our discussions, there was a lack of guidance about the organization's responsibilities for the specific training programs offered to foreign countries. The Military Departments and DSCA each considered the review of training to be the other's responsibility.

### ***Purpose of Training***

DSCA did not require the Military Departments to clearly define and document the purpose of student training when awarding the grants. Section 31, title 1501, paragraph (a) (1), United States Code requires that agreement obligations be supported by documentation and be proper in purpose, time, and amount. Neither DSCA nor the Military Departments provided any documentation clearly stating the overall purpose of the training for our sampled students. For example, there were two instances in our sample where the Military Department scheduled the student for training at the Florida Institute of Technology but did not identify specific courses. Without this documentation, there is no way to show the purpose for the agreement or to determine whether subsequent changes to the training should be funded with the original appropriation or with the appropriation available at the time of the change.

### ***Training Start Dates***

DSCA policy includes requirements for scheduling student training that are not required for grants. Based on DSCA policy, both the Defense Finance and Accounting Service (DFAS) 7000.4-R and the JSAT regulations require the student's initial training course to begin prior to the beginning of the second quarter of the fiscal year after the end of the year that funded the training. However, the GAO Red Book states that the time availability of the appropriation governs the grantor's obligation and expenditure of funds and does not limit the time in which the grantee must use the funds. It cites Comptroller General Decision B-289801, which states that agencies are permitted to award agreements using current-year funds even though they will not be expended until the following year. Therefore, the requirement for students to start classes within the first quarter of the following fiscal year adds an apparently unnecessary restriction to the Military Departments that schedule the training.

### ***Application of Existing Guidance***

DSCA did not ensure that Military Departments consistently applied existing regulations. The Military Departments did not consistently apply existing regulations for student reporting requirements, documenting changes to student training programs, recording obligations, and the periodic review of obligations.

### ***Student Reporting Dates***

DSCA did not provide clear guidance regarding when it officially considered students to have started class. Both DFAS 7000.4-R and JSAT section 4-9(5)(c) require the student's initial training course to begin prior to January 1 of the fiscal year after the end of the year that funded the training. JSAT section 5-4(d) has slightly different instructions, stating that the student must report to training prior to January 1 to use the funds. The student's report date is usually one or more days before the start of training. This caused confusion for the Military Departments as to what funds were available to pay for some of the training programs. There were 16 out of 135 judgmentally selected student-training programs where the student reported for training prior to January 1, but the first training class did not begin prior to January 1 of the fiscal year after the end of the year that funded the training. Although this did not result in a legal violation, it illustrates DSCA's lack of management of this program.

### ***Documented Training Changes***

DSCA did not ensure that the Military Departments maintained all necessary documentation required to authorize training adjustments. IMET training schedules occasionally need to be adjusted, depending on the student's progress. This causes the need for classes to be extended or rescheduled. In rare situations the student is sent home, and the remainder of the training cancelled. The JSAT requires the Military Departments to document all amendments and endorsements to the students' invitational travel orders in writing, have them signed by an authorized representative, and distribute them in the same manner as the original invitational travel order. We found two cases where there was no documentation available authorizing the change in the training. In two additional cases the Military Department created the amendments during our review, even though the change had occurred months earlier. The Military Departments' failure to promptly document program changes could create a problem for students if they need to prove they are still authorized to be in training.

### ***Recording of Obligations***

DSCA also did not require the Military Departments to follow a standard operating procedure in recording IMET obligations. The Military Departments did not record obligations at the time the legal liability arose and were inconsistent in the way they recorded the obligations.

Funds for grants should be obligated when the grantor and grantee reach the agreement. Because the Military Departments usually agreed to and scheduled the training during the

annual Training Program Management Review, they should have recorded the obligation at that time.

Because the legal obligation arises at the time the U.S. Government enters into a grant to provide training to personnel from a foreign country, organizations should record obligations at that point. The DOD FMR, volume 3, chapter 8 requires that obligations be recorded in the financial accounting records within 10 days of the incurrence of a legal obligation. In addition, the DOD FMR, volume 12, chapter 5 states:

Accounting for a DOD grant or cooperative award begins with the execution of an agreement or the approval of an application or similar document which sets out the amount and purpose of the award, the performance period, the obligations of the parties to the award, and other terms.

The Military Departments' practice was to record the obligation once they received confirmation from the school that a space was available for the student. This can occur months after reaching an agreement with the foreign country. When the agreement is signed, the U.S. Government is legally obligated to provide the training, and the obligation should be recorded in the financial records to comply with the DOD FMR. Failure to record obligations on time can lead to inaccurate financial reports. We found 14 out of 135 sampled student training programs, valued at almost \$300,000, where the Military Departments agreed to the training at the Training Program Management Review in one fiscal year, but did not obligate the funds until the next fiscal year.

Each of the Military Departments recorded obligations differently. The Navy recorded IMET transactions directly against the allotment. This practice eliminated the recording of commitments in its system. The Army relied on the installation that provided the training to record the obligation. The Air Force recorded each IMET obligation directly as an accrued expenditure unpaid. The inconsistent recording of obligations by the Military Departments misrepresented the status of these obligations when DSCA consolidated the financial transactions on the Standard Form (SF) 133, "Report of Budget Execution and Budgetary Resources" for the entire IMET program.

The Army's procedures for recording the obligations resulted in additional posting irregularities. In our sample of 45 students in IMET training at the start of FY 2006, we had 13 Army bases represented. Some of the bases recorded the training as commitments, some as obligations, and in one case, the base did not record an obligation until it had posted the disbursement from IMET funds and made a collection into its operating appropriation.

Because of the implementation of the Defense Security Assistance Management System-Training Module (DSAMS-T), the Army's processes have changed significantly since we reviewed our sample. The new system will enable the Army to better control obligations for the majority of the IMET program. However, student training provided directly through Army major commands will continue to use the old process of transferring the

funds for obligation by the command, so they still will not be able to record the obligation when the agreement is signed.

Changing to the DSAMS-T system did not affect Navy obligation practices. The Air Force has not converted to DSAMS-T, but it has begun to revise its practices in anticipation of conversion. The Air Force has also changed its procedures to record IMET obligations as unliquidated obligations outstanding in the financial accounting system.

### ***Reviewing Obligations***

DSCA did not require the Military Departments to follow a standard operating procedure in reviewing IMET obligations. The DOD FMR, volume 3, chapter 8 requires DOD fundholders to review all commitments and obligations three times a year for the appropriations for which they are responsible. This clearly requires the IMET appropriation to be included as part of the DOD triannual review process. However, DSCA personnel stated that the IMET obligations are only reviewed at the request of the DOS.

We received evidence that two of the three Military Departments performed a full review of IMET unliquidated obligations as required by the DOD FMR. The other Military Department stated it had not been required to perform a triannual review. Furthermore, its review of obligations and disbursements entailed comparing its operational records to its financial records to identify inconsistencies. The SF 133 report on the status of budgetary requirements created at the end of FY 2006 still reflected more than \$4.3 million in unpaid obligations for the expired FYs 2002 and 2003, even though there were no students funded by these appropriations who were still in the IMET program. Triannual reviews are required to make sure that fundholders accurately and completely record obligations and deobligate funds as necessary. The amounts obligated in these appropriations should have been deobligated after all student training funded from the fiscal years had been completed.

### **Conclusion**

DSCA is responsible for the management of the IMET program, which includes establishing policy, and directing and supervising the administration and implementation of the security assistance training program, including IMET. However, there were inconsistencies among DSCA guidance and departmental regulations and the legal requirements for processing grants. There were also areas where DSCA did not properly direct the Military Departments' implementation of existing guidance and regulations. DSCA should provide better guidance and oversight of the IMET program to ensure that IMET funds are used properly.



## **Management Comments on the Finding and Our Response**

DSCA management provided general comments to the finding, in addition to specific comments on our recommendations (discussed below). These comments were responsive to the intent of our audit finding and recommendations. DSCA recognized the importance of internal controls in managing the IMET program and stated that the implementation of DSAMS-T will strengthen the programmatic and financial controls over IMET by automating them. DSCA also recognized that such controls need to be part of each assessable unit's annual review and vulnerability assessment. DSCA stated that it plans to update its guidance through changes to the Security Assistance Management Manual and DOD FMR. DSCA further provided an extensive overview of the IMET funding process.

DSCA recognized several weaknesses that existed in the IMET program and addressed how they will be corrected. One weakness was maintaining adequate documentation for changes to student training. This will be corrected through the use of DSAMS-T, which keeps a record of all changes made. DSCA also recognized that generic course descriptions, which prevent the true purpose of training from being easily determined, had been used. DSCA stated that it will review the training description codes and try to reduce the use of generic descriptions by adding specific course descriptors where possible. DSCA stated that it will also require Military Departments that use a generic course descriptor to provide additional information about the purpose and intent of the training. DSCA also provided a thorough review of the two students' training programs we identified in our finding.

DSCA agreed that obligations must be in writing and described the process for IMET obligations. An obligation occurs when the SAO accepts training on behalf of a country. At the time the offer of training is made, the funding should be committed. Once the training has been accepted, the commitment becomes an obligation. DSCA is working on a standard policy to direct all the Military Departments to record obligations in the same manner. DSCA also agreed that IMET obligations should be reviewed as part of the triannual review. All IMET fundholders will now be required to submit certified copies of their reviews to DSCA.

### ***Our Response***

We agree with management's review of the IMET program. The actions that DSCA has already initiated, along with those which management plans to take in the future, are consistent with our recommendations and should improve the oversight and internal controls of the IMET program.

# Recommendations, Management Comments, and Our Response

We recommend that the Director, Defense Security Cooperation Agency:

**1. Provide guidance to revise regulations and manuals to reflect the legal requirements of processing International Military Education and Training funds as grants. Specifically, the Director should:**

**a. Require agreements to be reviewed when training programs change, to determine whether that change affected the grant's purpose, scope, or bona fide need, and to determine whether a new grant using current-year funds is required.**

**b. Review the student reporting sections of the Joint Security Assistance Training to determine whether they are necessary.**

## ***DSCA Management Comments***

Management agreed with our specific recommendations and has made or is in the process of making the following improvements. The first is the implementation of a new system, DSAMS-T. The system requires appropriate approvals when changes are made to country/student programs and provides a report highlighting those changes. The second improvement was to reiterate and improve existing policy to require that all changes to country/student programs be approved in writing. DSCA reviewed the student reporting sections of the JSAT (specifically, paragraph 4-9(5)(c) and determined that the section is a necessary policy for good programmatic control. Management recognized that its policy is more restrictive than DOS guidance.

## ***Our Response***

Management's comments are fully responsive to our recommendation and the improvements will help ensure that proper consideration is given to the time and purpose requirements for IMET funds.

**2. As required by the DOD Financial Management Regulation, volume 14, chapter 3, request a preliminary review of the funding of the student training programs identified in the report (Navy students 2005-AM-1501 and 2004-EZ-2406) to determine whether they violated the Antideficiency Act.**

## ***DSCA Management Comments***

Management agreed with the need to review these cases for possible Antideficiency Act violations. It reviewed these two cases, provided a detailed analysis of the facts and circumstances, and determined that no Antideficiency Act violations exist. In the first case, a country dropped one of its two scheduled students and added an additional class for the remaining student. These changes occurred within the fiscal year of the

appropriation providing the funding. In the other case, subsequent to the expiration of the IMET appropriation funding the original curriculum, classes were deleted and replaced by different classes, based on the qualifications of the student. Management has requested that the Navy process a change to use the appropriation for the fiscal year in which the changes occurred to be consistent with guidance it provides to the Military Departments.

### ***Our Response***

We have further reviewed these two cases and agree that they did not involve potential violations of the Antideficiency Act based on applicable grant principles. As a result, there is no requirement that management request a preliminary review in accordance with the DODFMR. Management's actions in response to this recommendation, combined with the actions taken with respect to our other recommendations, are fully responsive.

#### **3. Monitor the execution of the International Military Education and Training program. Specifically, the Director should:**

**a. Verify that, if the policy requiring student training to begin within the first quarter of the following fiscal year is necessary (refer to Recommendation 1.b.), the policy is clarified and the applicable regulations are revised.**

**b. Verify that the Military Departments are documenting all changes to students' training programs.**

**c. Verify that the Military Departments are reviewing all unliquidated obligations, as required by the DOD Financial Management Regulation.**

### ***DSCA Management Comments***

Management agreed with our recommendations and has taken the following actions. As stated above, management believes the policy requiring student training to begin within the first quarter of the following fiscal year is necessary and will include this policy in a revision of its Security Assistance Management Manual financial policy guidance. Management previously discussed that implementation of the DSAMS-T program will ensure that all changes to students' training programs are documented and reviewed. In addition, it prepared a memorandum to all fundholders directing that triannual reviews of all funds issued by DSCA must be completed and certified, with copies provided to the appropriate DSCA budget analyst.

### ***Our Response***

Management's comments and the actions it has taken with regard to monitoring execution of the IMET program are fully responsive to our recommendations. The

improvements implemented or in process will be an important part of the overall management process to ensure that funding for the IMET program is utilized properly.

**4. Establish consistent accounting practices in accordance with generally accepted accounting principles that each Military Department should adopt for recording and processing International Military Education and Training transactions. Require the Military Departments to record all obligations when the legal liability arises and within the time frames required in the DOD Financial Management Regulation.**

### ***DSCA Management Comments***

Management agreed with our recommendation and is issuing policy to emphasize the proper recognition of an obligation in accordance with generally accepted accounting principles. It plans to utilize the newly implemented DSAMS-T system to manage the Military Departments' obligations on a timely basis.

### ***Our Response***

Management's comments are fully responsive. DSCA's publication of a formal policy and enforcement of that policy, along with the use of the DSAMS-T system, will implement the intent of our recommendation with regard to recognizing obligations on a timely basis.

## Appendix A. Scope and Methodology

We conducted this financial audit from July 2006 through March 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We reviewed the International Military Education and Training (IMET) program to determine whether funds were being properly managed, utilized, and accounted for. We reviewed the guidance, procedures, and processes used to execute the IMET program. We interviewed personnel and gathered data from the following: Security Assistance Training Field Activity, Fort Monroe, Virginia; Naval Education and Training Security Assistance Field Activity, Naval Air Station, Pensacola, Florida; Air Force Security Assistance Training Squadron, Randolph Air Force Base, Texas; Defense Security Cooperation Agency Headquarters, Arlington, Virginia; and Defense Finance and Accounting Service, Denver, Colorado. The testing phase of our audit was delayed because we encountered significant legal issues related to the regulatory framework for the use of IMET funds. Various Offices of General Counsel were involved to make a final determination that IMET funds were properly executed in accordance with financial grant principles before we could proceed in testing.

We selected a judgmental sample of 135 students from a universe of 1932 students (45 from the Army, the Navy, and the Air Force), that were active IMET students as of September 1, 2006. We examined the Invitational Travel Orders, accounting and disbursing records, and other supporting documentation for our sample. We validated the data in each Military Department's training management systems and identified training costs, course dates, and obligation and disbursing dates for all courses of the sampled students. Because this was a test of procedures and controls, we are not projecting the results of our sample across the universe.

We compared existing regulations and departmental policies to the actual practices the Military Departments used to execute the program. We further compared the consistency of operations among the Military Departments and reviewed disbursements made by the DOS on behalf of the IMET program to verify the timing of the disbursements. We evaluated and confirmed the procedures used to fund training with no-year funds (those funds permitted to be carried until expended) by tracing selected sample items. We also reviewed the financial reporting of the IMET funds on the SF 133, Report on Budget Execution and Budgetary Resources.

### **Use of Computer-Processed Data**

To perform this audit, we used data that originated in the Air Force Training Control System, Navy Student Training Analysis & Tracking Information System, and the DSCA Defense Security Assistance Management System-Training (DSAMS-T). These are the systems used to track international students being trained by the United States. We used the data to select a sample for our review. To determine the validity of the 135 sample items we selected, we compared the system data to source materials such as the invitational travel order, forms evidencing funding, and financial obligation and disbursement documents. We also compared applicable data in the tracking systems to the data in the Army (Accounting Transaction Ledger Archival System and Operational Data Store), Navy (Standard Accounting and Reporting System-Field Level), and Air Force (General Accounting and Finance System) financial systems which were used to verify the costs charged to the IMET program. This assessment indicated the data was sufficiently reliable to accurately reflect the recorded obligations and disbursement amounts for the purpose of our review.

### **Use of Technical Assistance**

The Office of Legal Counsel, Office of the Inspector General, assisted in the review of the various legal issues regarding the funding of the training for IMET students.

### **Prior Coverage**

No prior coverage has been conducted on IMET funds during the last 5 years.

# Defense Security Cooperation Agency Comments



DEFENSE SECURITY COOPERATION AGENCY  
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APR 21 2009

MEMORANDUM FOR DEPUTY ASSISTANT INSPECTOR GENERAL, DEFENSE  
BUSINESS OPERATIONS

SUBJECT: Financial Management of International Military Education and Training  
Funds

Reference: DoD Office of Inspector General, Draft Report for Financial Management of  
International Military Education and Training Funds (Project No. D2006-  
D00FD-0224.00), dated March 4, 2009

Thank you for the opportunity to review and provide comments on the draft report.

My comments follow a thorough examination of the report and are attached.

*Beth M. McCormick*  
**Beth M. McCormick**  
Deputy Director

**DoDIG, Draft Report, Project No. D2006-D00FD-224.000**  
**Financial Management of International Military Education and Training Funds**

**SECTION A – General Comments**

**Internal Controls:** The Defense Security Cooperation Agency (DSCA) has a strong internal management control program with two assessable units covering the International Military Education and Training (IMET) Program – one specifically addressing the implementation and execution of the IMET Program, and another covering the execution of all budgetary funds controlled by DSCA. Based on your findings, we plan to strengthen those two assessable units to better define programmatic and financial controls and reviews outlined throughout the report. DSCA recognized that additional automation of the financial controls for a program of this size was necessary, and began work on the Defense Security Assistance Management System – Training Module (DSAMS-TM) in October 2000. The implementation of DSAMS-TM provides a significant improvement in automating programmatic and financial controls, which need to be included as part of the assessable unit's review and vulnerability assessment. The DSAMS-TM was implemented in the Army and Maritime (Navy, Marine Corps, and Coast Guard) training organizations in October 2006, providing many necessary controls. The vast majority of work required to implement DSAMS-TM for the Air Force is complete and work on the remaining outstanding requirements continues. The Air Force process will realize similar benefits as Army and Maritime once DSAMS-TM is fully implemented.

**DSCA Management of the International Military Education and Training Program:** During the audit period, DSCA implemented a number of improvements to the oversight, management, and execution of the IMET program. Of most importance was the implementation of the DSAMS-TM. The system automates a number of process checks and validations that are critical to ensure appropriate controls are in place to enforce regulatory requirements. Also, DSCA is updating the Security Assistance Management Manual (SAMM), DoD 5105.38-M, and appropriate sections of the Financial Management Regulation (FMR), DoD 7000.14R, to incorporate unique IMET financial procedures.

Although the management and execution of the IMET program is assistance provided on a grant basis, it is not handled pursuant to grants or cooperative agreements under 31 U.S.C. §§ 6301-6308. IMET funds are appropriated annually under the Foreign



Operations, Export Financing, and Related Programs, for necessary expenses to carry out provisions of section 541 of the Foreign Assistance Act of 1961, as amended. IMET funds are used to provide training to recipient countries on a grant basis as defined by the Department of State. Our Associate General Counsel, Mr. Ronald Todd provided information to the DoDIG via email, 23 December 2008, and it is provided as follows:

On 3 March 1988, the Office of Management and Budget (OMB) issued Circular A-102 to the Heads of Executive Departments and Establishments creating guidelines for managing grants and cooperative agreements under the provisions of 31 U.S.C. §§ 6301-6308. Circular A-102 was later amended 7 October 1994 (59 FR 52224) and again on 29 August 1997 (62 FR 45934). Under paragraph 4 of the guidelines, the OMB stated if the enabling legislation for a specific grant program prescribes policies or requirements that differ from those in the Circular, the provisions of the enabling legislation shall govern.

The State Department's Uniform Administrative Requirements published in 22 Code of Federal Regulations (CFR) Parts 135 and 145 is where the State Department established its own requirements for carrying out the OMB guidelines for grants and cooperative agreements pursuant to 31 U.S.C §§ 6301-6308. Under Part 145.1(ee) (2) (i), the State Department's definition of recipient does not include, "(f)oreign organizations (governmental or nongovernmental)." Rather, the U.S. Department of State Foreign Affairs Handbook (FAH), Volume 4, Handbook 3, Financial Management Procedures Handbook, at 4 FAH-3H-612.1(2) holds,

"(2) Cost Directed Assistance. This category includes a range of assistance vehicles to which OMB uniform guidelines on grants and cooperative agreements do not apply, but involve more control than is associated with contributions and fees. These vehicles include letters of agreement with host nations where goods or services are procured by a Department organization and then transferred to the recipient. They also include bilateral agreements, which may be documented by a purchase agreement; where funds are disbursed to the participating nation and the issuing Bureau has latitude in the nature of documentation to be provided by the recipient nation."

Further, at subsection 4-FAH-3H-612.3(7)(a)-(c), the Department of State defines "Bilateral Agreement" as:

“(a) An agreement between the U.S. Government and a foreign government under the terms of which a specific project is carried out and reflects the commitments made by both parties to accomplish the project objectives;

(b) The instrument that legally obligates Executive agency funds to finance the activity; and

(c) A summary of the total project and its expected results as agreed upon by the U.S. Government and a foreign government (also see Letter of Agreement).”

Thus, the Department of State has determined that Bilateral Agreements, rather than grants or cooperative agreements, shall be used to execute the IMET program under the provisions of the Foreign Assistance Act of 1961, as amended. The Department of State signed numerous treaties and agreements with foreign governments to execute the provisions of Part II of the Foreign Assistance Act of 1961, as amended, for both military assistance and training, including specific bilateral agreements to execute the provisions of the IMET program. Examples of such Bilateral Agreements can be found on the State Department’s website (<http://www.state.gov/s/l/treaty/caseact>). DSCA’s use of IMET funds is in accordance with Department of State guidelines, and further, the Department of State has consistently reported to Congress on the use of IMET funds through the Congressional Budget Justification and annual IMET Training Report.

**Inconsistencies between Program Guidance and Grant Requirements:** As provided above, DSCA has consistently implemented and executed the IMET program based on Department of State guidance and definitions. In some cases, our processes and guidance to the field are more restrictive. As an example, our requirement for training courses to start prior to the end of the first quarter of the next fiscal year in order to use funds from a current fiscal year will remain in place. We believe the policy provides a good programmatic control and sets appropriate boundaries for the use IMET funds.

In terms of program changes, we agree that in the past the potential existed for student programs to change without appropriate documentation. There are two on-going improvements that DSCA believes enhance and provide better controls for program changes. The first is the implementation of the DSAMS-TM. The system requires appropriate approvals when changes are made to country/student programs and provides a report highlighting those changes to scheduled student training. The second is to

reiterate and improve existing policy to require all changes to country/student programs be approved in writing (email or system) and otherwise be well documented.

The Military Articles and Services List (MASL) provides a listing and short description for training courses available to eligible foreign countries. Moreover, there are multiple, regularly scheduled interactions, conferences, and reviews among the countries, the Security Assistance Officers (SAOs), the Military Department security assistance training offices, the Combatant Commands, and DSCA to develop detailed training requirements. We understand some MASLs exist with generic descriptions. However, we believe those were used on an exception basis. The audit highlighted the use of a generic MASL with the two Greek students. For this specific case, the Navy and DSCA performed extensive research to secure appropriate documentation to demonstrate the overall purpose of the training – provide the student with a Master’s Degree. The use of a generic MASL and description – in this case, just the Florida Institute of Technology (FIT) – does not provide enough detail to readily or easily provide the purpose of the training. As such, DSCA will perform a review of generic MASLs, with a goal of establishing additional MASLs, and/or a requirement for the MILDEPs to provide more descriptive information when a generic MASL is the only option to record the training.

Regarding other cases listed in the report, for student number 2004-EZ-2406, DSCA determined the changes were in line with existing guidelines and within the same fiscal year. The Czech Republic initially planned on sending two students to the U.S. for training – one student to the International Defense Management Course (IDMC) and one student to the Systems Acquisition Course. However, the Czech Republic decided not to send two students to the U.S. for training, opting instead to send the student already stateside attending IDMC to the Systems Acquisition Course. Since the course was on the end-of-year approval list and the Czech Republic approved the student’s attendance, the change was processed. DSCA’s research further indicates all changes were made within the same fiscal year; therefore, no Anti-deficiency Act (ADA) violation exists. Our understanding of the application of an ADA violation for the IMET Program would occur at the level of the first administrative division of funds. The first administrative division of funds takes place when the State Department apportions IMET funds, appropriated by Congress, to each country. Therefore, while an ADA violation would not occur at the student level, it may occur at the country level. In terms of student number 2005-AM-1501, our research indicates that the course changes were not well documented, and based on existing guidance, should have been funded with FY2006 funds. In preparation for the Basic Officer’s Course, and while the officer attended language training, the schoolhouse determined the student (an O-4) to be too senior for

the training track established. The established training track is intended for junior officers – typically an O-1/O-2. Coincidentally, a slot became available in the Expeditionary Warfare School and was offered to and accepted by the Armenians. The Navy processed the change outside existing guidance. Our research shows that FY 2006 funds were and continue to be available and, as such, DSCA is taking appropriate action to instruct the Navy to process corrective transactions to bill the appropriate year's funds. Sufficient FY2006 X-year funds are/were available to fund the training; therefore, an ADA violation does not exist for this student.

**Inconsistent Application of Existing Guidance:** As stated above, DSCA plans to continue its policy requiring training courses to begin prior to the end of the first quarter of the next fiscal year to fund requirements using current fiscal year authority. However, the audit did highlight some inconsistencies among the Military Departments regarding start date versus report date and which applied in terms of using current fiscal year funding. The guidance to be standardized and clarified will state that the start date determines whether current fiscal year funds can be used to finance training.

As previously acknowledged, DSCA is working to improve and enhance policy and guidance to address the documentation of training changes. The implementation of the DSAMS-TM provides a good basis for all future improvements.

DSCA agrees that an obligation occurs when a binding written agreement for goods or services is created – 31 U.S.C. § 1501(a). For IMET, the binding agreement occurs when the SAO accepts, on behalf of the country, and in writing, the training offered. To further expand, the training organization will commit funds when offering any course to the country – essentially we provide funded offers of training. It would not be politically prudent or appropriate fiscal management to offer a course the country cannot fund within their apportionment. However, to reiterate, the actual obligation occurs once the offer is accepted in writing. Any reviews or discussions with countries and/or SAOs of training desires are planning in nature and not a firm commitment by the U.S. Government to provide the training. As an example, Professional Military Education (PME) courses are highly sought after. However, PME courses have limited capacity. There may be a world-wide requirement to send 100 students to fill 30 slots in a particular War College. Until all the requests are racked, stacked, coordinated, approved, offered (funds are committed at this point), and accepted by the country (through the SAO in writing), a binding agreement has not occurred nor should funds be obligated – they are committed, but not obligated. DSCA also agrees that the report highlights significant differences among the Military Departments when they obligate funds. DSCA

is working to issue policy to standardize the obligation of funds for all Military Departments to occur when an SAO accepts, on behalf of the country, and in writing, any offered training.

DSCA agrees with the report that all commitments and obligations must be reviewed in accordance with the Financial Management Regulation (FMR), Volume 3, Chapter 8, Section 0804. DSCA is preparing a memorandum to all fund holders, and not just IMET fund holders, that Triannual Reviews of all funds issued by DSCA must be completed and certified, with copies provided to the appropriate DSCA budget analyst. These reports will also be used as a method of review for our internal control.

#### **SECTION B – Responses to the Recommendations**

##### **RECOMMENDATION:**

- 1. Provide guidance to revise regulations and manuals to reflect the legal requirements of processing International Military Education and Training funds as grants.*

**COMMENT:** DSCA implements and executes the IMET Program in accordance with guidance and definitions within the Department of State Foreign Affairs Handbook, Volume 4, Handbook 3, as further discussed above in our general comments.

##### **RECOMMENDATION:**

- 1.a. Require agreements to be reviewed when training programs change, to determine whether that change affected the grant's purpose, scope, or bona fide need, and to determine whether a new grant using current-year funds is required.*

**COMMENT:** DSCA agrees with the recommendation and has taken steps to improve the review process, specifically the documentation required to support the means of decision-making. The implementation of the DSAMS-TM is a major step toward that goal.

##### **RECOMMENDATION:**

*1.b. Review the student reporting sections of the Joint Security Assistance Training (JSAT) regulation to determine whether they are necessary.*

**COMMENT:** DSCA believes the language in JSAT Para 4.9.c is consistent with the DSCA policy that IMET training must be obligated before 30 September of current fiscal year and start before 1 January although the report date may be prior to 1 January.

**RECOMMENDATION:**

- 2. As required by the DoD Financial Management Regulation, Volume 14, Chapter 3, request a preliminary review of the funding of the student training programs identified in the report (Navy students 2005-AM-1501 and 204-EZ-2406) to determine whether they violated the Anti-deficiency Act.*

**COMMENT:** DSCA reviewed and provided details above on the two Navy students. After significant research, neither of the two examples triggers an Anti-deficiency Act (ADA) violation. Our understanding of the application of an ADA violation for the IMET Program would occur at the level of the first administrative division of funds. We believe the first administrative division of funds takes place when the OMB apportions IMET funds, appropriated by Congress, to each country. Therefore, while an ADA violation would not occur at the student level, it may occur at the country level.

**RECOMMENDATION:**

- 3. Monitor the execution of the International Military Education and Training program.*

**COMMENT:** DSCA understands the importance and impact of the IMET Program as a security assistance and diplomatic tool for the U.S. The dollars spent for the IMET Program foster the principle of civilian control of the military, contribute to greater cooperation between the military and local law enforcement, and generally improve military justice and procedures to conform to internationally recognized human rights. Consequently, DSCA takes its monitoring and oversight role of the IMET Program seriously. As with all our programs, we continually strive to improve processes and procedures through a variety of means.

**RECOMMENDATION:**

- 3.a. Verify that, if the policy requiring student training to begin within the first quarter of the following fiscal year is necessary (refer to recommendation 1.b.), the policy is clarified and the applicable regulations are revised.*

**COMMENT:** As stated above in our general comments, DSCA intends to enforce a standardized policy that requires student training to begin within the first quarter of the following fiscal year. This will be included and issued in SAMM financial policy guidance.

**RECOMMENDATION:**

- 3.b. Verify that the Military Departments are documenting all changes to students' training programs.*

**COMMENT:** As stated above in our general comments, DSCA will issue guidance to standardize the approval process and the requirement for written document of all changes to a student's training program. This will be included and issued in SAMM financial policy guidance.

**RECOMMENDATION:**

- 3.c. Verify that the Military Departments are reviewing all unliquidated obligations, as required by the DoD Financial Management Regulation.*

**COMMENT:** As stated above in our general comments, DSCA agrees with the report that all commitments and obligations must be reviewed in accordance with the Financial Management Regulation (FMR), Volume 3, Chapter 8, Section 0804. DSCA is preparing a memorandum to all fund holders, and not just IMET, that Triannual Reviews of all funds issued by DSCA must be completed and certified, with copies provided to the appropriate DSCA budget analyst.

**RECOMMENDATION:**

- 4. Establish consistent accounting practices in accordance with generally accepted accounting principles that each Military Department should adapt for recording and processing International Military Education and training transactions.*

*Require the Military Departments to record all obligations when the legal liability arises and within the time frames required in the DoD Financial Management Regulation.*

**COMMENT:** DSCA agrees that consistent accounting practices in accordance with accepted principles are an important part of the management of the IMET Program. DSCA is in the process of issuing policy emphasizing that an obligation occurs when a binding written agreement for goods or services is created – 31 U.S.C. § 1501(a). For IMET, the binding agreement occurs when the SAO accepts, on behalf of the country, and in writing, the training offered. To further expand, the training organization will commit funds when offering any course to the country. It would not be politically prudent or appropriate fiscal management to offer a course the country cannot fund within their apportionment. However, to reiterate, the actual obligation occurs once the offer is accepted in writing. DSCA recognizes there are differences among the Military Departments at what point they obligate funds. DSCA is working to issue policy to standardize the obligation of funds for all Military Departments to occur when an SAO accepts, on behalf of the country, and in writing, any offered training. The DSAMS-TM will interface obligations recorded to the accounting system of record for the Army and Maritime, and will for the Air Force as well.







# Inspector General Department of Defense

