

**IG-99-059**

**AUDIT  
REPORT**

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**MATCHING DISBURSEMENTS  
TO OBLIGATIONS**

**September 30, 1999**

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**National Aeronautics and  
Space Administration**

**OFFICE OF INSPECTOR GENERAL**

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## **Acronyms**

CFO	Chief Financial Officer
DFARS	Defense Federal Acquisition Regulation Supplement
DoD	Department of Defense
FMM	Financial Management Manual
FMR	Financial Management Regulation
NPG	NASA Procedures and Guidelines
OMB	Office of Management and Budget

W

September 30, 1999

TO: B/Chief Financial Officer  
H/Associate Administrator for Procurement

FROM: W/Assistant Inspector General for Auditing

SUBJECT: Final Report on Matching Disbursements to Obligations  
Assignment Number A-HA-98-045  
Report Number IG-99-059

The subject final report is provided for your use and comments. Please refer to the Executive Summary for the overall audit results. Our evaluation of your response is incorporated into the body of the report and into Appendix F. With respect to management's nonconurrence with the recommendations, we request that management reconsider its position and submit additional comments by November 1, 1999. We also request that the response address the potential material management control weakness related to the need to ensure the proper matching of disbursements to the underlying obligations as described in the finding. The recommendations will remain open for reporting purposes.

If you have questions concerning the report, please contact Mr. Chester Sipsock, Program Director for Environmental and Financial Management Audits, at (216) 433-8960, or Mr. Gene Griffith, Auditor-in-Charge, at (757) 864-3266. We appreciate the courtesies extended to the audit staff. The report distribution is in Appendix G.

**[original signed by]**  
Russell A. Rau

Enclosure

cc:  
B/Comptroller  
BF/Director, Financial Management Division  
G/General Counsel  
JM/Director, Management Assessment Division

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# NASA Office of the Inspector General

IG-99-059  
AHA98045

September 30, 1999

## Matching Disbursements to Obligations

### Executive Summary

**Background.** To comply with fiscal law, NASA is responsible for ensuring that its appropriated funds are used for the purposes authorized by the Congress. This requirement necessitates implementation of sound management controls over obligations<sup>1</sup> and disbursements<sup>2</sup> in order to maintain appropriation integrity. Obligations are established within the accounting system to control NASA's appropriated funds. Disbursements should be properly matched to, and recorded against, the applicable obligations to ensure that only authorized funds are disbursed and that contractor payments are accurately recorded in the financial statements. A disbursement is properly matched to an obligation if the obligation cites the correct appropriation and program year<sup>3</sup> authorized to make the payment. Properly matching disbursements to obligations is particularly important in procurement actions involving multiple appropriations or multiple program years. NASA costs its obligations by recording contractor-incurred cost information against obligations in order to estimate accrued expenditures and associated liabilities.

**Objective.** The objective of the audit was to determine whether NASA organizational components were properly matching disbursements to the appropriate obligations. To accomplish this, we reviewed a total of 36 contract disbursements at NASA Headquarters and three Centers that involved multiple appropriations or multiple program years. Details on our scope and methodology are in Appendix A.

**Results of Audit.** NASA management has not ensured that authorized funds have been used for their intended purposes. Of the 36 reviewed disbursements totaling about \$44.8 million, about \$44.7 million may have been charged to the incorrect appropriation, which may have resulted in violations of fiscal law.

**Recommendations.** The Agency should revise NASA policy to establish procedures that enable financial management activities to properly match disbursements to obligations in the correct appropriation and program year.

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<sup>1</sup> Obligations are the amount of orders placed or contracts awarded that will require the disbursement of funds and represent a contractual agreement of NASA to pay for the items or services when they are received.

<sup>2</sup> A disbursement is an outlay of public moneys and the rendering of accounts in accordance with laws and regulations governing the distribution of public moneys.

<sup>3</sup> The program year is the fiscal year in which a program is authorized.

**Management's Response.** Management did not concur with the recommendations. Management stated that the finding and recommendations were without legal or practical foundation or merit. NASA management, supported by a legal opinion from the NASA General Counsel, stated that its disbursing practices, including making disbursements against the oldest costed obligations for contracts funded with multiple appropriations, is an accepted method of charging appropriations and that the cost accrual process ensures disbursements are properly matched to obligations.

**Evaluation of Management's Response.** Management's comments are nonresponsive. We disagree that fiscal statutes permit the charging of the oldest obligations first on contracts funded with multiple appropriations. The Comptroller General stated in 17 Comp. Gen. 748 (1938) that an incorrect appropriation cannot be charged for administrative expediency. Doing so would violate the provisions of Title 31, United States Code Section 1301(a), which requires that appropriations be applied only to the objects for which the appropriations were authorized. We continue to hold that this decision is applicable to the NASA situation. Disbursements should be made only from appropriations available to pay for the work performed. Matching disbursements to underlying obligations ensures the correct appropriations are charged. We further disagree that NASA's costing process results in disbursements being matched to the correct obligations. Matching is a sound accounting practice and a key part of an effective internal control structure. We maintain our position on this issue and, therefore, request that management reconsider its position based on our evaluation and provide additional comments.

## **Introduction**

Congress enacted fiscal law, Title 31, United States Code, Section 1301(a), to govern the availability and use of Federal funds. Congress determines the purposes for which the funds may be used, the length of time the funds may remain available for those purposes, and the maximum amount that may be spent on a particular program. Appropriations are generally made available for obligation and disbursement of their specified purpose for a specific time. For example, a 2-year appropriation requires that obligations be incurred during the 2-year period the appropriation is available. Subsequent payments made from the appropriation must be matched to the obligations made during that period.

NASA often enters into contracts that receive funds from more than one appropriation over a number of program years. Obligations are recorded in financial management systems throughout the period of the contract as funds are required and indicate the appropriation and the program year providing the funds.



## **Finding and Recommendations**

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### **Matching Disbursements to Obligations**

NASA management did not ensure that authorized funds were used for their intended purposes by properly matching<sup>4</sup> disbursements to obligations. This condition exists because (1) Agency financial management systems match disbursements to the oldest recorded obligation regardless of the correct appropriation and program year, (2) financial management officials incorrectly believe that proper cost accrual procedures ensure the correct appropriation is used, (3) financial management personnel are not provided specific accounting information to allow them to determine which obligations to charge, and (4) NASA policy does not require that obligations and disbursements be properly matched. Consequently, in our sample, \$44.7 million out of \$44.8 million in disbursements could have been charged to incorrect appropriations, which may have resulted in the violation of fiscal statutes.

### **Federal Requirements and Processes Related to Recording Disbursements**

Title 31, United States Code, Section 1301(a), requires that appropriations be applied only for the purposes for which the appropriations were made. In addition, the Comptroller General<sup>5</sup> has stated that the wrong appropriation cannot be charged for the sake of administrative expediency, noting that such a practice results in “. . . the rendition of false accounts and being violative of the provision of [31 U. S. C. 1301(a)].” Additionally, Office of Management and Budget (OMB) Circular A-34,<sup>6</sup> requires agencies to maintain systems of accounting and internal control to facilitate effective management of Federal programs. OMB Circular A-127<sup>7</sup> and a Joint Financial Management Improvement Program publication<sup>8</sup> require a system of internal controls to ensure compliance with laws, regulations, and policies and require that reliable data are obtained and reported. The Federal publications also require agency systems to be designed to identify conditions and transactions not in conformance with the requirements of fiscal law. Appendix B provides details on the statutes and regulations.

The NASA Office of Inspector General Attorney Advisor provided an opinion on the requirements of 31 U. S. C. Section 1301(a) and the Comptroller General decision (see Appendix C). On June 8, 1999, the NASA Chief Financial Officer (CFO) requested a legal opinion from the NASA General Counsel on the applicability of 31 U. S. C. 1301(a) and of the Comptroller General decision to NASA’s policy of matching disbursements to the oldest obligations.

The NASA Financial Management Manual (FMM) requires that costs be accurately accrued in the period in which they occur but does not address matching disbursements to obligations. The

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<sup>4</sup> Properly matching disbursements to obligations requires the disbursement and obligation’s appropriation data agree.

<sup>5</sup> 17 Comptroller General Decision 748 (1938).

<sup>6</sup> “Instructions on Budget Execution,” dated November 7, 1997.

<sup>7</sup> “Financial Management Systems,” dated July 23, 1993.

<sup>8</sup> “Framework for Federal Financial Management Systems,” dated January 1995.

FMM also requires contractors to periodically report costs incurred on the contract. NASA financial management personnel use the contractor's cost report to determine the cost accruals and to determine which obligations should be matched to the cost accruals. The matched obligation should cite the appropriation and program year(s) for which the funds are authorized and available to expend.

In addition to submitting the cost reports, the contractor submits invoices to the financial management office. Financial management personnel are responsible for disbursing the correct appropriated funds to pay the invoice. To accomplish this, financial management personnel must determine which obligation(s) relate to the invoice. Once obligations are determined, personnel must ensure that costs have been accrued against the obligation(s) in an amount equal to or greater than the invoice. Once these conditions are satisfied, the invoice can be paid.

### **Matching Disbursements**

Of the 36 reviewed disbursements totaling about \$44.8 million, financial management activities properly matched only 2 disbursements to obligations, totaling \$71,592. One of the two disbursements involved a delivery order contract. Delivery orders are assigned unique numbers, which the contractor includes on the invoice, allowing the automated financial system to locate and match the disbursement to the obligation. The other disbursement was properly matched because the obligation was in the appropriation authorized to fund the expenditure and cited the program year in which the services were required and performed.

For the 34 disbursements totaling about \$44.7 million, financial management activities matched them to obligations without regard to the correct appropriation or to the affected program year.

- For 18 contract disbursements, financial management personnel charged single disbursements to obligations involving multiple appropriations or to program years other than those in which services had been performed. For example, a disbursement totaling \$104,605 for services performed in 1997 had been charged against obligations involving two appropriations and program years 1992, 1994, and 1995. Although previously obligated funds can be disbursed at a later date, there was no evidence to support that the obligations matched were established to provide funds for the payment. The 18 disbursements totaled \$29.4 million (about 66 percent of total disbursements reviewed).
- Financial management personnel matched four disbursements to the oldest costed obligation even though many obligations within the accounting system cited the same appropriation and program year as the four disbursements. Information on the contractor invoices was insufficient to enable matching the disbursements to the specific obligation within the correct appropriation and program year. The four disbursements totaled \$363,956 (about 1 percent of total disbursements reviewed).
- We could not determine the obligations charged for 11 contract disbursements reviewed at Kennedy Space Center (Kennedy) because the financial management system totals all disbursements made every month against a single contract and automatically

distributes them to the oldest costed obligations at month's end, whether or not those obligations are in the correct appropriation and program year. The 11 disbursements totaled \$14.8 million (about 33 percent of total disbursements reviewed).

- For one disbursement totaling \$166,853, financial management personnel properly matched the obligations that cited the correct appropriation and program year; however, financial management personnel recorded incorrect dollar amounts as shown in the table below.

**Disbursement Distribution**

Funds Charged	Amount Recorded	Correct Amount
Carrier account*	\$ 5,402	\$ 45,409
Science, Aeronautics and Technology	161,451	121,444
Total	\$166,853	\$166,853

\*Financial management personnel charged a portion of this disbursement to a carrier account. Although carrier accounts are not appropriations, the accounts accumulate obligations, costs, and disbursements when the benefiting programs are not known at the time the transactions are recorded. Financial management personnel subsequently distribute the obligations, costs, and disbursements when the benefiting programs are identified.

**Matching Costs**

Officials within NASA's Office of the CFO stated that it is unnecessary to properly match disbursements to obligations if costs are properly matched to obligations. CFO officials incorrectly believe that the proper accrual of costs is a substitute for proper matching of disbursements to obligations on the basis that accurate cost accrual ensures that the correct appropriation is used. However, the costing process is not a substitute for proper matching of disbursements. Proper cost accrual does not provide an adequate internal control to reduce the likelihood that funds could be disbursed for a purpose other than that for which they were appropriated.

We performed a limited review of the cost process in order to verify the CFO officials' position that costs were properly matched to obligations. We focused on a total of five contracts at three Centers<sup>9</sup> and NASA Headquarters. Our analysis showed that costs were not always properly matched to obligations for three of the contracts reviewed. For one contract, we determined that the contractor had submitted the cost report but that Agency personnel elected not to use it. Instead they inappropriately matched the costs to the oldest obligations. We were unable to determine whether costs were properly matched on the remaining two contracts due to financial system constraints.<sup>10</sup>

<sup>9</sup> Goddard Space Flight Center, Kennedy Space Center, and Langley Research Center.

<sup>10</sup> Individual cost transactions were not available because the financial systems reported cost data cumulatively.

## **Sufficient Data Required**

Contractors do not submit sufficient data on their invoices to allow Agency personnel to identify which obligation to charge. During the contract negotiation process, procurement personnel do not require contractors to identify complete obligation data, including the appropriation and program year, on their invoices. NASA financial management personnel indicated that this requirement would increase the contract cost, although they provided no justification for their assertion. Our review of contracts at Goddard Space Flight Center (Goddard) and Kennedy showed that several contractors had provided NASA detailed accounting information, including the appropriation and program year, in addition to the information provided on the invoice and cost reports. It is our opinion that contractors can provide this type of information on their invoices at little or no impact to contract costs to facilitate proper matching of disbursements to obligations.

When NASA programs require the purchase of goods or services, the procurement office is responsible for establishing a contract with a vendor to complete the necessary services or to provide the required goods. The financial management office is responsible for ensuring that funds are available and for committing those funds for the specific purpose stated on the Purchase Request. Once the contract is established, the procurement office forwards a copy to the financial management office to obligate the previously committed funds. However, the procurement offices do not provide the Agency's paying offices the specific payment instructions, which may be unique to each contract, to allow financial management personnel to identify the correct obligation to charge.

The NASA Associate Administrator for Procurement should revise the NASA Federal Acquisition Regulation Supplement to ensure that contractors submit the specific accounting data described above and to require the procurement office to provide payment instructions when it is not possible for contractors to provide all the needed information.

## **Ensuring Appropriation Integrity**

The Agency's inappropriate practice of matching disbursements to the oldest obligations impairs administrative control of appropriations and could result in violations of fiscal law (see Appendix B). Approximately \$29.6 million (66 percent) of the disbursements reviewed were not properly matched to obligations. Although we were unable to determine whether obligations were properly matched for \$15.2 million (34 percent) of disbursements reviewed, the practice of charging disbursements to the oldest obligations may result in inaccurate charging of appropriations. For example, a contract disbursement totaling about \$2.3 million was recorded against obligations that cited the Mission Support and Science, Aeronautics, and Technology appropriations. NASA documents showed that the disbursement should have been apportioned between those two appropriations and the Human Space Flight appropriation. The Mission Support and Science, Aeronautics, and Technology appropriations provided funds for services that should have been funded by all three appropriations.

Although fiscal law requires that appropriations be used only for their intended purpose, the FMM does not address the specific procedures for matching disbursements to obligations. The proper matching of disbursements and obligations ensures that obligated funds are used for their intended purposes and that reported disbursement data on the Agency's Statement of Budgetary Resources<sup>11</sup> is accurate.

The Department of Defense (DoD) recently addressed the proper matching of disbursements to relevant appropriations. On July 15, 1998, the DoD directed that disbursements be properly matched to obligations within the authorized appropriation. Appendix D provides DoD initiatives to implement the matching requirement. The initiatives may aid NASA in establishing similar policy to ensure disbursements are properly matched to obligations.

## **Recommendations, Management's Response, and Evaluation of Response**

**The Associate Administrator for Procurement should modify the NASA Federal Acquisition Regulation Supplement to require:**

- 1. The contractors to submit specific obligation data, including the appropriation and program year, with their invoices to enable financial management personnel to properly match disbursements to the appropriate obligations on contracts involving multiple appropriations.**
- 2. The procurement offices to provide payment instructions to NASA financial management activities to enable them to charge disbursements to obligations consistent with the performance of work on the contract when contractors are unable to provide this data on their invoices.**
- 3. The Chief Financial Officer should revise the NASA FMM to require financial management activities to properly match disbursements to obligations and to identify the obligation before payment is made.**

**Management's Response.** Nonconcur. Management stated that the finding is without legal or practical foundation, the recommendations are not required, and the conclusions are not supported by adequate audit work. Based on an opinion by the NASA General Counsel, management stated there is no legal requirement to match disbursements to obligations and that NASA's current practices related to charging disbursements and obligations are an accepted method of charging appropriations. The NASA General Counsel issued an opinion supporting NASA's practice of matching disbursements to the oldest costed obligations and stating that the 17 Comp. Gen. 748 (1938) has no connection because the costing process ensures funds come from the correct appropriation for the work performed. Additionally, management stated that the report recommends following accounting practices implemented by DoD even though NASA's

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<sup>11</sup> The Statement of Budgetary Resources provides information about how budgetary resources were made available as well as their status at the end of the period.

financial management policies and practices differ substantially from those of DoD. Management also provided general comments related to the finding. The complete text of management's comments is in Appendix E.

**Evaluation of Management's Response.** Management's comments are not responsive to the recommendations. The statutory requirement to ensure appropriations are used for their intended purposes is in 31 U. S. C. 1301(a). Additionally, 17 Comp. Gen. 748 (1938) states that incorrect appropriations cannot be charged for administrative expediency because doing so violates 31 U. S. C. 1301(a). The costing process does not ensure that disbursements are made from only the appropriations available to pay for the work performed in theory and definitely not in practice as demonstrated by this audit. Costing in theory is a means to estimate expenditures for accrual accounting purposes, but the actual disbursement must still be made from the correct appropriation. To ensure this occurs, disbursements should be matched to corresponding obligations regardless of the costing process. Costing can complement, but is not a substitute for, proper charging of the correct appropriation. The NASA FMM states specifically that the cost accrual process does not apply to controls over appropriations. Matching disbursements to the oldest costed obligations does not ensure the correct appropriations are charged. We maintain that the recommended corrective actions would help to ensure disbursements are properly matched to obligations and that the correct appropriations are charged. Additionally, we believe that such matching is an inherent part of a sound internal control structure and fundamental good accounting. We consider this to be a potential material internal control weakness<sup>12</sup> and will report it as such to NASA management. Finally, our audit work fully supports our conclusions and recommendations. In fact, we expanded the scope of the audit to ensure our results were representative on a NASA-wide basis. The recommendations are unresolved and will remain undispositioned and open for reporting purposes. We address management's general comments in Appendix F.

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<sup>12</sup> NASA Procedures and Guidelines 1200.1 entitled "Management Accountability and Control, Audit Liaison, and Audit Followup" defines a material weakness as a deficiency that the Administrator determines to be significant enough to be reported outside the Agency. This designation requires a judgment by Agency managers as to the relative risk and significance of deficiencies. In identifying and assessing the relative importance of deficiencies, particular attention should be paid to the views of the Agency's Inspector General.

## Appendix A. Objectives, Scope, and Methodology

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### Objective

The objective of the audit was to determine whether disbursements were properly matched to obligations. Additionally, we performed limited tests to determine whether costs were properly matched to obligations. However, due to the limited work and the limitation to the audit scope, this report does not express an opinion as to whether or not costs were properly matched to obligations.

### Scope

**Work Performed.** To accomplish the objective, we judgmentally selected 36 contract disbursements that covered multiple years or that were funded by more than one appropriation. We determined the methodology that financial management personnel used to match disbursements to obligations. From 36 contracts judgmentally selected for review, we selected one disbursement from each contract and traced the disbursement to the specific obligation it was recorded against. We examined invoices to determine whether they provided sufficient information to ensure the invoiced amount was recorded against the proper obligation. In addition, we selected five contracts to determine whether contract costs had been accurately matched to obligations.

We conducted interviews from August 12, 1998, through July 13, 1999, at Goddard, Kennedy, Langley Research Center (Langley), and NASA Headquarters. We reviewed purchase requests, contract modifications, contractor invoices, disbursement vouchers, financial management transaction histories, and contract cost reports dated from July 1996 to April 1999.

**Limitations.** To accomplish the objective, we attempted to trace the selected transactions through the accounting systems at each Center reviewed. We were unable to trace the selected disbursements to the matched obligations at one Center due to system constraints.<sup>13</sup> However, our review of the automated program that automatically distributes disbursements to obligations at the end of each month indicated the system matches disbursements to the oldest obligations. Additionally, we were unable to trace recorded cost accruals to the matched obligations at two<sup>14</sup> of the Centers reviewed due to system constraints.<sup>15</sup> At the third Center we were unable to trace costs to obligations because there was no method to determine when the cost transaction occurred. For the disbursements we traced to obligations, we found that a single disbursement had been matched to as many as 52 recorded obligations. Due to the amount of resources necessary to trace disbursements to each line of accounting or obligation and since each Center uses its own unique system to process and record financial transactions, we were unable to select a large number of contracts and related disbursements to review in a timely manner.

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<sup>13</sup> Individual disbursement transactions were not available because the financial system reported disbursement data cumulatively.

<sup>14</sup> Goddard Space Flight Center and Kennedy Space Center.

<sup>15</sup> Individual cost transactions were not available because the financial systems reported cost data cumulatively.

**Methodology**

**Use of Computer-Processed Data.** We did not rely on computer-generated data during our audit. Instead, we performed audit tests and procedures of computer-processed data sufficient to validate its reliability.

**Audit Universe and Sample**

We judgmentally selected for review 36 multiple year contract disbursements funded by more than one appropriation. The number and value of the contracts and the value of disbursements reviewed at the three Centers and NASA Headquarters are shown below.

**Sampled Contracts and Disbursements**

Installation	Number of Contract Disbursements Reviewed	Value of Contracts Reviewed (in thousands)*	Value of Disbursements Reviewed (in thousands)
Goddard	11	\$ 321,096	\$18,906
Kennedy	11	2,734,630	14,841
Langley	12	440,076	5,218
Headquarters	2	136,333	5,865
Total	36	\$3,632,135	\$44,830

\*Multiyear contracts (available for review) that were funded by more than one appropriation totaled about \$29.8 billion.

**Management Controls Reviewed**

We reviewed management controls related to recording disbursements and costs in the accounting system. Specifically, we reviewed procedures for matching disbursements and costs to previously recorded obligations. We considered management controls to be inadequate as discussed in the finding.

**Audit Field Work**

We conducted field work from August 1998 through June 1999 at Goddard, Kennedy, Langley, and NASA Headquarters. The audit was performed in accordance with generally accepted government auditing standards.



## **Appendix B. Laws and Regulations Related to Matching Disbursements to Obligations and Associated Internal Controls**

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### **Requirement to Match Disbursements to Obligations**

The following statutes and criteria require Government agencies to match disbursements to the correct originating obligations.

**31 U. S. C. § 1301(a).**<sup>16</sup> The statute stipulates that “appropriations shall be applied only to the objects for which the appropriations were made except as otherwise provided by law.”

**31 U. S. C. § 1517(a).**<sup>17</sup> The statute stipulates that “an officer or employee of the United States Government or of the District of Columbia government may not make or authorize an expenditure or obligation exceeding – (1) an apportionment; or (2) the amount permitted by regulations prescribed under section 1514(a) of this title.”

**17 Comptroller General Decision 748 (1938).** The Comptroller General Decision stated that “. . . an administrative officer may not, for the sake of an administrative expediency, deliberately charge the wrong appropriation . . . such practice resulting in the rendition of false accounts and being violative of the provision of [31 U. S. C. 1301(a)].”

**General Accounting Office/Office of the General Counsel-91-5 Appropriations Law.**<sup>18</sup> In enacting appropriations, Congress determines the purposes for which the funds may be used, the length of time the funds may remain available for those purposes, and the maximum amount that may be spent on a particular program. Appropriations are generally made available for obligation and disbursement of their specified purpose for a specific period of time. For example, a 2-year appropriation requires that obligations be incurred during the 2-year period the appropriation is available. The General Accounting Office stated that 31 U. S. C. § 1301(a) is:

. . . one of the cornerstones of congressional control over the federal purse. . . . Simply stated, 31 U.S.C. § 1301(a) says that public funds may be used only for the purpose or purposes for which they were appropriated. It prohibits charging authorized items to the wrong appropriation, and unauthorized items to any appropriation. Anything less would render congressional control largely meaningless. . . . In an 1898 decision captioned ‘Misapplication of Appropriations,’ the Comptroller of the Treasury talked about 31 U.S.C. § 1301(a) in these terms: It is difficult to see how a legislative prohibition could be expressed in stronger terms. The law is plain, and any disbursing officer disregards it at his peril. 4 Comp. Dec. 569, 570 (1898).

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<sup>16</sup> Title 31, “Money and Finance”; Chapter 13, “Appropriations.”

<sup>17</sup> Title 31, “Money and Finance”; Chapter 15, “Appropriation Accounting.”

<sup>18</sup> GAO/OGC-91-5, “Appropriations Law – Volume I”; Chapter 4, “Availability of Appropriations: Purpose.”

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## Requirement for Internal Controls

The following describe requirements for agencies to establish systems of internal controls for financial management systems. The requirements also apply to the cost accrual process.

**31 U. S. C. § 1514(a).** The statute states that, “The official having administrative control of an appropriation . . . shall prescribe by regulation a system of administrative control not inconsistent with accounting procedures prescribed under law.”

**OMB Circular A-34.**<sup>19</sup> The circular, dated November 7, 1997, mandates that “. . . the head of each agency shall establish and maintain systems of accounting and internal controls that provide reliable accounting. . . .” The systems must provide reasonable assurance that transactions are properly recorded and accounted for to permit the preparation of reliable financial reports. All financial transactions must be executed in compliance with laws and regulations.

**OMB Circular A-127.**<sup>20</sup> The circular, dated July 23, 1993, states:

. . . financial management systems must be in place to process and record financial events effectively and efficiently, and to provide complete, timely, reliable and consistent information for decision makers and the public. . . . each agency shall establish and maintain a single, integrated financial management system that complies with: . . . internal control standards as defined in Circular A-123 and/or successor documents; . . .

**Joint Financial Management Improvement Program Publication, “Framework for Federal Financial Management Systems.”**<sup>21</sup> This publication, dated January 1995, states:

Internal control is an integral part of the federal government’s basic management processes. Internal control promotes efficiency, reduces risk of asset loss, and helps ensure the reliability of financial statements and compliance with laws and regulations.

**NASA Financial Management Manual (FMM) 9060, “Accrual Accounting,” March 1999.**

The FMM requires that costs be accurately accrued in the period in which they occur, in the appropriate accounts. Additionally, the FMM<sup>22</sup> states:

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<sup>19</sup> Office of Management and Budget (OMB) Circular No. A-34, “Instructions on Budget Execution”; “Agency Accounting and Fund Control Systems”; “General Requirements”; “Accounting and Internal Control Systems.”

<sup>20</sup> Office of Management and Budget (OMB) Circular No. A-127, “Financial Management Systems”; Transmittal Memorandum No.1, “Policy.”

<sup>21</sup> Joint Financial Management Improvement Program (JFMIP), “Framework for Federal Financial Management Systems”; Chapter VII, “Internal Control.”

<sup>22</sup> NASA FMM 9061-5A, “Accrual of Contracts, Purchase Orders and Grants”; “Background.”

## Appendix B

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Use of the accrual method is mandated by 31 U. S. C. 3512(d) and is intended to provide NASA management with more accurate financial data related to project performance and a more realistic picture of the Agency's financial position so that sound budgets can be developed and informed decisions may be made and NASA's financial statements properly reflect its financial status.

The FMM also discusses the contractor's cost report, stating that it should be structured to facilitate accrual accounting and that costs should be accrued in accordance with the instructions contained in the FMM and comply with generally accepted accounting principles.

**NASA Procedures and Guidelines (NPG) 9501.2C, "Procedures for Contractor Reporting of Correlated Cost," April 23, 1996.** The NPG describes the use of the contractor cost reports as providing data necessary for:

. . . accruing cost in NASA's accounting system, providing program and functional management information, and resulting in liabilities reflected on the financial statements. Cost is a financial measurement of resources used in accomplishing a specified purpose, such as performing a service, carrying out an activity, acquiring an asset, or completing a unit of work or project. NASA is required by law to maintain accrual accounting, which requires cost to be reported in the period in which benefits are received, without regard to time of payment.

## Appendix C. Legal Opinion of the Attorney Advisor, NASA Office of the Inspector General

National Aeronautics and  
Space Administration  
**Headquarters**  
Washington, DC 20546-0001



JAN 7 1999

Re: W/LARC/

W

TO: W/LARC/Gene Griffith & Linda Wagner Anderson  
FROM: W/Beth Richardson  
SUBJECT: Matching Disbursements to Obligations (A-HA-98-045)

I agree with the DOD General Counsel's opinion about the Air Force's practice in making progress payments on the Titan IV contract. The proposition that appropriations may be applied only to the objects for which the appropriations were made except as otherwise provided by law, 31 U.S.C. 1301(a), is a basic fiscal law principle. The statute was originally enacted in 1809. See also General Accounting Office (GAO), *Principles of Federal Appropriations Law* Chap. 4, Sec. A (2d ed. 1992)(hereinafter "Red Book"). The 1938 Comptroller General decision addresses this concept and applies here.

The 1938 Comptroller General decision also cites an earlier decision to the effect that a Government officer cannot purposely charge the wrong appropriation with the expectation that adjustments will be made. This does not appear to be the situation you are encountering because, even though the wrong appropriations are charged, no adjustments are contemplated. NASA appears to be charging appropriation accounts on a "first in first out" basis, with no thought to which accounts are the proper ones to charge, as to purpose.

An Anti-Deficiency Act violation can occur at NASA at the allotment level. Another fiscal statute, 31 U.S.C. § 1517, prohibits obligations and expenditures exceeding an apportionment or other subdivision set forth in agency regulations required to administratively control obligations and expenditures. An apportionment is OMB's distribution of amounts available for obligation in an appropriation or fund account. OMB distributes appropriation amounts to executive agencies on a quarterly basis. OMB also sets out guidance for agencies' fund control regulations in Part II of Circular A-34, Instructions on Budget Execution. NPD 9050.3D, Administrative Control of Appropriations and Funds, sets forth the applicable procedures for NASA.

Under NPD 9050.3D, an obligation or expenditure in excess of the amounts contained in the allotment established for control of apportionments constitutes a violation of the Anti-Deficiency Act. This is in accord with OMB Circular A-34

## Appendix C

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which states, at section 22.2(7), that overobligation or overexpenditure of an allotment or suballotment is always a reportable Anti-Deficiency Act violation "Overobligation or overexpenditure of other administrative divisions of funds are violations of the Act only when so specified in the agency's fund control regulations or when the overobligation results in the overobligation of an apportionment, allotment, or suballotment." A-34, sec. 22.2. Allotments are the NASA subdivisions of apportionments. NASA Headquarters issues allotment authorizations to each NASA center on NASA Form 504. See NASA Financial Management Manual 9231-4.

In short, NASA can violate the Anti-Deficiency Act by exceeding an appropriation, an apportionment or an allotment. NASA can also violate the Act by not observing limitations or restrictions in appropriation acts or other statutes.

Please feel free to contact me if you have any other questions.



Beth Richardson

## **Appendix D. DoD Requires Matching Disbursements to Obligations**

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The Department of Defense (DoD) took action to require matching disbursements to obligations effective July 15, 1998. The decision to match was based on a DoD Office of General Counsel opinion stating that wrong appropriations may never be charged for the sake of expediency. The DoD is implementing this requirement in the Defense Federal Acquisition Regulation Supplement (DFARS) and the DoD Financial Management Regulation (DoD FMR).

### **DFARS Requirements**

The DFARS specifies that contracting officers must establish contract line items at a level of detail needed to maintain appropriation integrity. The DFARS also requires contracting officers to furnish payment instructions to allow the payment office to charge the correct obligation.

The DFARS, Part 204,<sup>23</sup> dated September 30, 1999, states:<sup>24</sup>

Payment instructions. (i) When a contract line item is funded by multiple accounting classification citations, the contracting officer shall provide adequate instructions in section G (Contract Administration Data), under the heading 'Payment Instructions for Multiple Accounting Classifications Citations,' to permit the paying office to charge the accounting classification citations assigned to that contract line item (see 204.7104-1(a)) in a manner that reflects the performance of work on the contract. If additional accounting classification citations are subsequently added, the payment instructions must be modified to include the additional accounting classification citations.

(ii) Payment instructions shall provide a methodology for the paying office to assign payments to the appropriate accounting classification citation(s), based on anticipated contract work performance. The method established should be consistent with the reasons for the establishment of line items. The payment method may be based upon a unique distribution profile devised to reflect how the funds represented by each of the accounting classification citations support contract performance. Payment methods that direct that payments be made from the earliest available fiscal year funding sources, or that provide for proration across accounting classification citations assigned to the line item, or a combination thereof, may be used if that methodology reasonably reflects how each of the accounting classification citations supports contract performance.

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<sup>23</sup> Complete regulatory citation is DFARS, Part 204, "Administrative Matters," Subpart 204.71 – "Uniform Contract Line Item Numbering System," 204.7107 "Contract Accounting Classification Reference Number (ACRN)," (e) "Showing the ACRN in the Contract."

<sup>24</sup> DFARS, Part 204, "Contract Line Items," was changed July 3, 1995, to require procurement personnel and contractors to provide the necessary data to allow accounting personnel to match disbursements to obligations. The entire DFARS was subsequently reissued on September 30, 1999.

## Appendix D

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The DFARS, Part 204, requires that informational subline items be established when multiple lines of accounting are authorized for a contract line item. Subline items are described as a means to provide performance tracking or to simplify administration on a contract. DoD uses subline items to provide more information or to maintain appropriation integrity by requiring separate identification of the specific accounting line.

The DFARS, Part 204,<sup>25</sup> states:

Informational subline items shall be used to identify each accounting classification citation assigned to a single contract line item number when use of multiple citations is authorized . . . Subline items will be used instead of contract line items to facilitate payment, delivery tracking, contract funds accounting, or other management purposes. Such subline items shall be used when items bought under one contract line item number- (i) Are to be paid for from more than one accounting classification. A subline item shall be established for the quantity associated with the single accounting classification citation. Establish a line item rather than a subline item if it is likely that a subline item may be assigned additional accounting classification citations at a later date. Identify the funding as described in 204.7104-1(a)(3) . . .

### **FMR Requirements**

The DoD FMR requires personnel to identify the specific obligation for each payment before the payment is made and to code all charges to an appropriation with the complete accounting classification. The FMR also defines the disbursement voucher as the source document for liquidating obligations.

The DoD FMR, Volume 10, Chapter 1,<sup>26</sup> dated June 1997, requires:

. . . The specific obligations directly related to each payment request must be identified before the requested payment is made. Also, the undisbursed balance of each applicable obligation must be sufficient to cover that obligation's share of the requested payment before the payment is made. . . . To enable the paying office to match payments to the applicable obligations, requests for payment must identify amounts by contract line items (CLINs) or subline items (SLINs), as specified . . . For delivery payments, distributions of the requested amount to CLINs or SLINs should be based on actual deliveries or performance. For financing payments, the distribution to CLINs or SLINs can be made on best estimates based on available information.

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<sup>25</sup> DFARS, 204.7104, "Contract Subline Items"; 204.7104-1, "Criteria for Establishing."

<sup>26</sup> DoD FMR, Volume 10, Chapter 1, "General Provisions Covering Financial Authorizations for Contract Payments and Collections."

The DoD FMR, Volume 5, Chapter 11,<sup>27</sup> dated August 1999, requires:

The disbursement voucher is the authority for DOs [Director of Operations] to make payments of government obligations and are the source documents for liquidation of obligations. It is imperative that disbursement vouchers contain complete and accurate data . . . Each charge to an appropriation or fund shall be coded with a complete accounting classification . . . .

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<sup>27</sup> DoD FMR, Volume 5, Chapter 11, “Disbursements.”



## Appendix E. Management's Response

National Aeronautics and  
Space Administration  
**Headquarters**  
Washington, DC 20546-0001



SEP 21 1999

Reply to Attn of

BF

TO: W/Assistant Inspector General for Auditing  
FROM: BF/Director, Financial Management Division  
SUBJECT: Draft Audit Report on Matching Disbursements to Obligations (A-HA-98-045)

This memorandum provides comments on the subject Office of the Inspector General (OIG) draft report. The draft postulates that appropriated funds may have been inappropriately used and recommends that contractor billing and National Aeronautics and Space Administration (NASA) payment practices should be modified. We disagree with the draft report premise and do not plan to implement the recommended changes. Details follow.

The draft report concludes that, "NASA management did not ensure that authorized funds were used for their intended purposes by properly matching disbursements to obligations." The draft also notes that, "...disbursements... may have been charged to the incorrect appropriation, which may have resulted in violations of fiscal law." The draft recommends that the Associate Administrator (AA) for Procurement and the Chief Financial Officer (CFO) should obtain additional billing information from contractors and modify the agency acquisition regulations and the financial management manual to change Agency disbursement practices. NASA considers the OIG's noted conclusion and recommendations without legal or practical foundation or merit. The CFO and AA of Procurement do not concur with the draft recommendations.

### **Draft Recommendations**

The draft report recommends the following.

1. The Associate Administrator for Procurement should modify the NASA Federal Acquisition Regulation Supplement to require the contractors to submit specific obligation data, including the appropriation and program year, with their invoices to enable financial management personnel to properly match disbursements to the appropriate obligations on contracts involving multiple appropriations.

We do not concur with this recommendation.

Recommen-  
dation 1

2. The Associate Administrator for Procurement should modify the NASA Federal Acquisition Regulation Supplement to require the procurement office to provide instructions to NASA financial management activities to enable them to charge disbursements to obligations consistent with the performance of work on the contract when contractors are unable to provide this data on their invoices.

Recommendation 2

We do not concur with this recommendation.

Recommendation 3

3. The Chief Financial Officer should revise the NASA Financial Management Manual to require financial management activities to properly match disbursements to obligations and to identify the obligation before payment is made.

We do not concur with this recommendation.

We do not concur with the draft recommendations because the related OIG conclusion is without legal or practical foundation, the recommendations are not required or prudent, and the draft conclusion and recommendations are not supported by adequate audit work or evidence. The OIG suggests that NASA's practices may not be compliant with appropriation law. The NASA General Counsel has concluded that NASA's disbursing practices, including its estimating techniques and related practice of making certain disbursements against the oldest costed obligations for contracts funded with multiple appropriations, is an accepted method of charging appropriations. In addition, the draft report, in essence, recommends that NASA follow accounting practices of the Department of Defense (DoD), even though circumstances are significantly different between NASA and DoD. Finally, the audit work performed, as described in the draft report, does not support the conclusions and recommendations. This memorandum highlights the noted legal, DoD, and audit support areas.

Appropriations Law

See Appendix F, OIG Comment 1

The draft report is based on a hypothesis proffered by the Office of Inspector General (OIG) that NASA practices regarding the matching of disbursement to obligations do not comply with appropriation law and that financial management officials improperly continued these practices. First, and foremost, NASA's current practices related to the charging of disbursements and obligations comply with applicable law. Therefore, the OIG's hypothesis is without merit. In this regard, the Chief Financial Officer asked the General Counsel for a legal opinion on whether:

In the case of a multi-year contract funded by more than one appropriation, does NASA's practice of (1) matching commitments, obligations, and costs to specific appropriations, and (2) matching disbursements to the oldest costed obligations of the contract, comply with appropriation law?

In a September 17, 1999, memorandum to the Chief Financial Officer (see Enclosure 1), the General Counsel concluded:

NASA's practice of disbursing against the oldest obligation for contracts funded with multiple appropriations is an accepted method of charging appropriations. There appears no basis for a conclusion that payment of an invoice out of already costed amounts could result in deliberately charging the wrong appropriation. Moreover, agencies are permitted to make accounting adjustments to reflect actual expenses. We find no legal requirement for absolute certainty regarding matching specific disbursements to individual invoices.

Based on the foregoing, the actions recommended in the draft are not relevant to the circumstances in NASA and will not be implemented.

#### DoD Practices

The draft OIG audit report draws heavily from a Department of Defense (DoD) audit of disbursements to contractors that resulted in recommendations regarding the matching of disbursements to obligations. After several years, DoD took what DoD officials have described as interim action to require matching disbursements to obligations. The OIG has chosen to make similar recommendations to NASA, despite the fact that NASA financial management policies/practices differ substantially from those of DoD. Simply stated, NASA practices accrual accounting; DoD practices cash accounting.

Consistent with legislation, NASA maintains its financial records on an accrual basis. NASA commits, obligates, costs, and disburses funds. The costing process, or the accruing of costs, is the recording of incurred expenses in the financial records, even though funds will be disbursed at a subsequent date. NASA accrues cost data in its financial records based upon data submitted periodically by a contractor. NASA financial management personnel match contractor cost data to obligation data at the time contractor cost data are entered into the NASA financial systems. When an invoice is received from a contractor, the disbursement is based upon the detailed cost accruals in the NASA system, thereby enabling NASA to align its disbursements with the commitments and obligations on a contract. Simply stated, NASA matches accrued costs to obligations, then matches disbursements to accrued costs (costed obligations). In this fashion, disbursements are matched to obligations.

The draft report fails to recognize the important distinction between NASA's accrual accounting practices and DoD's cash accounting practices. As a result, the draft report attempts to "force-fit" the DoD findings and recommendations into the NASA circumstances. Further, in recent discussions with DoD financial management officials we were advised that DOD plans to pursue cost accrual practices, similar to those of NASA, as means to improve its financial practices, including the practice for matching disbursements to obligations.

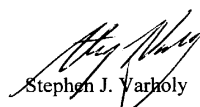
See Appendix F,  
OIG Comments 1  
and 2

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Audit Support

As described in more detail in Enclosure 2, the draft report contains factual and technical errors. As a result, the audit work performed, taken as a whole, does not support the conclusions and recommendations in the draft report.

If you have any questions, or need additional information, please do not hesitate to call me on 202-358-2262.



Stephen J. Varholo

Enclosures

cc:

B/Mr. K. Winter

See Appendix  
F, OIG  
Comment 2

National Aeronautics and  
Space Administration  
**Headquarters**  
Washington, DC 20546-0001

Enclosure 1



Reply to Attn of G

SEP 17 1999

TO: B/Chief Financial Officer  
FROM: G/General Counsel  
SUBJECT: Requirement to Match Disbursements to Appropriations

As part of its review of how NASA matches disbursements to obligations, the Office of Inspector General (OIG) questioned the legal authority behind NASA's practice of matching disbursements to the oldest costed obligations. In its incoming memorandum to Code B, the OIG expressed concern that "disbursements are charged to the oldest obligations regardless of fund source or appropriation." According to the OIG, this practice may violate 17 Comp. Gen. 748 (1938) which holds that "an administrative officer may not, for the sake of expediency, deliberately charge the wrong appropriation." Based on the OIG's concerns, you have asked this office for a legal opinion on whether:

In the case of a multi-year contract funded by more than one appropriation, does NASA's practice of (1) matching commitments, obligations, and costs to specific appropriations, and (2) matching disbursements to the oldest costed obligations of the contract, comply with appropriation law?

Because of the concern noted by the OIG, this memorandum focuses on agency disbursements. In this regard, the Office of the General Counsel did not focus on other elements of the financial cycle and, instead, assumes NASA is following all applicable appropriations statutes when it commits and obligates funding on contracts.

BACKGROUND

31 U.S.C § 3512(e) provides that agencies shall maintain the accounts of the agency on an accrual basis and this statutory direction is reflected in the NASA Financial Management Manual (FMM). "Costing" is another way to describe accruing costs, i.e., recording incurred expenses in the accounts, even though the cash involved in a transaction is disbursed at a later date. The FMM states that the accrual method of accounting is intended to provide NASA management with accurate financial data related to project performance and a realistic picture of the Agency's financial position so that sound budgets can be developed.

The NASA Contractor Financial Management Reports, usually referred to as “533 reports,” are the primary mechanism NASA uses for collecting cost data from contractors to accrue cost on contracts, including multi-year, multi-appropriation funded contracts. These NASA accruals are also used to evaluate when and how much money to disburse to contractors. When required by the contract,<sup>1</sup> 533 reports are submitted on a monthly basis and are due ten days after the close of the contractor’s accounting period or as negotiated.

The 533 reporting process is designed to provide NASA management with current, comprehensive information on the costs the contractor has incurred and expects to incur in the next month. Contractors’ 533 reports are structured so that the costs are reported in categories that directly relate to the proper funding appropriation. The specific reporting categories are tailored to each contract and are determined in concert with the contractor. Upon award of the contract, NASA and the contractor agree on the 533 reporting structure, which provides data on costs incurred, by work breakdown structure and elements of cost, from the contractor’s accounting system, and is reported in categories that align as closely as possible to NASA’s accounting classification structure. The accounting classification structure identifies the unique project number (UPN), the funding source or appropriation, and the program year.

The contractor reports its actual costs for the month completed and its estimated costs for the following month on the 533. NASA accrues cost in its accounting system based upon this data. Each month, NASA makes an adjustment for the difference between the estimated amount accrued and the subsequently reported actual cost for the prior month. For example, prior to contract performance, the contractor may estimate that it will incur \$100 of cost in the first month. Because no costs have been incurred yet, no actual costs are reported. At that time, the contractor has \$100 of accrued costs. Additionally, the contractor is required to report this \$100 against the appropriate categories on the 533 - categories that relate back to NASA’s accounting classification structure.

During the second month of the contract, the contractor may report it actually incurred \$80 in the first month and that it anticipates incurring \$100 in the second month of performance. The estimated costs for the first month are adjusted to reflect \$80 in actual costs. The total amount of accrued costs for the first two months under this example is \$180. This process of reporting costs continues until contract completion.

In contrast with “costing,” which represents the accrual of expenses, a disbursement is a payment to a contractor based upon a contract financing request or invoice. Often, these disbursements represent a form of contract financing that NASA is required to provide under the contract. These payments are based upon submission of valid contract financing requests, in accordance with FAR 52.216-7 Allowable Cost and Payment. The

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<sup>1</sup> NPG 9501.2C requires contractors to submit 533 reports on a monthly basis for all cost type, price determination, and fixed-price incentive contracts that are \$500,000 or more. If the performance of the contract is less than one year, 533 reports are required for contracts that are \$1,000,000 or more. When 533 reports are not required, monthly accruals are based upon the most appropriate, reliable data available, such as recent statements of costs, contractor billings, cost curves, or other reasonable projections.

Allowable Cost and Payment clause only permits contractors to submit invoices for incurred costs.

Consequently, invoices submitted to NASA are for actual costs incurred rather than estimated costs to be incurred. When the agency makes a disbursement, it charges against costs that have been accrued based on the costs previously reported on the contractor's 533 report. The 533 report contains detailed categories that relate to NASA's accounting classification structure. Because disbursements are based on these detailed accruals, the agency can align its disbursements with the funding on the contract.

As indicated above, the accrual process involves estimates. Specifically, paragraph 3 a of FMM 9061-5A provides that

Since the 533 reports are not normally received in time to permit recording of the contractor's actual costs for the current month, the [NASA's] accrual is based upon the contractor's estimate for the month, as shown on the prior month's 533 report. The amount accrued for the current month shall also take into consideration an adjustment for the difference between the prior month's accrual and the subsequently [contractor] reported actual cost.

....

Usually, the contractor's 533 estimate will be used without change for the monthly cost accrual. If, however, there is reason to believe a contractor's cost estimate is significantly inaccurate, documented adjustments shall be made in developing the accrual. Such adjustments shall be treated as an exception and must be explained to the DFCO's [Deputy Chief Financial Officer's] satisfaction and documented prior to entry of the accrual in the accounting system.

Normally there is at least a two-month time lag between the time a contractor submits its 533 report and the time NASA disburses money to the contractor. Due to their internal accounting systems, contractors usually do not submit invoices for reimbursement of costs incurred until one and a half to two months after the costs were incurred. Then, in accordance with Treasury regulations on cash management, NASA ages invoices for approximately one month before the disbursement is made. This time lag, therefore, should ensure that when NASA makes disbursements from costed obligations, those costed obligations represent actual costs reported on previous 533's and not the estimated accrued costs reported on the most recent one.

NASA employs an accrual method of accounting to maintain its accounts. Information derived from this accounting method provides NASA with its basis for charging appropriations. This practice allows NASA to charge the oldest costed obligations, which represents accrued contractor performance on the contract when the agency makes a payment to the contractor. Although the accrual method of accounting in part relies on estimates, this is a standard method of accounting and is required by statute. Moreover,

as discussed below, Congress does not require the exactitude reflected in NASA's accrual method of accounting when agencies have contracts that are funded with more than one appropriation.

#### 31 U.S.C. § 1534

When it passed 31 U.S.C. § 1534, Congress recognized the administrative burden associated with contracts funded with multiple appropriations. 31 U.S.C. § 1534 authorizes agencies to make appropriate accounting adjustments or reimbursements between respective appropriations available to such departments or establishments. The legislative history reveals that the enactment of this legislation was intended to eliminate the need for certain estimating and precharging various accounts and appropriations. Specifically, Congress stated that:

Often bureaus or offices administer more than one appropriation and may purchase or utilize for example a computer or common service items used by more than one bureau that should be charged to two or more appropriations. At the present time, for a multiple-use item or service, estimates must be made for charging the proper appropriation in the first instance with the value of the product or service being provided.

S. Rep. No. 1284, 89<sup>th</sup> Cong., 2<sup>nd</sup> Sess. 2 (1965) (emphasis added).

31 U.S.C. § 1534 allows an available appropriation to be used for the original procurement of materials or services required by several bureaus within an agency. After the service is performed or the product furnished, this statute permits the agency to make an accounting adjustment charging various other appropriations legally obligated for the cost of the services or materials. Consequently, 31 U.S.C. § 1534 allows agencies to charge only one available appropriation even though the contract is required to be funded with multi-appropriations and then make subsequent adjustments to those other appropriations. 31 U.S.C. § 1534 was intended to provide greater flexibility and efficiency in the accounting offices of departments. As the representative for the Bureau of Budget stated

This legislation [31 U.S.C. § 1534] is primarily a bookkeeping convenience. It does not authorize the augmentation of funds to any bureau or agency beyond that contained in its respective appropriation.

#### DISCUSSION

The OIG is challenging the practice of recording disbursements against the oldest costed obligations as being contrary to appropriation law. Apparently, the OIG believes that each invoice or contract financing request must include information that would allow for a specific matching back to each benefiting appropriation at the time the invoice is paid. Having this type of data, according to the OIG, would ensure that disbursements are always made from the correct appropriation. The OIG alleges that NASA might be



charging the wrong appropriation when it makes disbursements based upon the oldest costed obligations.

NASA, however, controls the matching of disbursements with appropriations through its costing process. Contractors' 533 reports are structured so that the costs are reported in categories that directly relate to the proper funding appropriation. When disbursements are subsequently made, they are charged against costs that have been accrued based on costs previously reported on the contractor's 533 reports. Each 533 report requires the contractor to report its costs by category. These categories track NASA's accounting classification structure – a structure that identifies the UPN, the funding source, and the program year. The discipline imposed in the combined costing and disbursing processes ensures that disbursements are not charged to the wrong appropriation. In addition, there is no chance of disbursing greater funds than have been obligated because disbursements are against costed obligations.

NASA accrues cost for a month from the 533 reports using the actual cost through the prior month and the contractor's estimate for the current month. These costs are reported by categories that relate to an agency-wide coding structure, thus facilitating the matching of costs to appropriations. The 533 accrual process also has a self-correcting feature since the amount accrued for the current month includes an adjustment for any difference between the amount accrued for the prior month and the actual costs subsequently incurred by the contractor. Any temporary inaccuracies in matching costs/expenses to appropriations due to the inclusion of a month's estimated costs in the accrual are, therefore, subsequently reconciled, corrected and adjusted in the following month.

The OIG's legal opinion regarding matching disbursements to appropriations appears to be based upon the Comptroller General's decision in 17 Comp. Gen. 748 (1938). In this decision, the Comptroller General held that "an administrative officer may not, for the sake of expediency, deliberately charge the wrong appropriation." While the holding in 17 Comp. Gen. 748 states an accurate premise, there is no connection between that holding and the 533 process. The 533 form allows the agency properly to align costs incurred with the relevant appropriations structure. The costing process itself ensures that the funds costed come from the correct appropriation for the work performed. Once those costs are accrued, they become a rolling debt the agency owes the contractor. Payment is made after receipt of the invoice out of those properly allocated funds. Thus, there is no basis for a conclusion that the agency could, under the 533 process, "deliberately charge the wrong appropriation."

To the extent necessary, 31 U.S.C. § 1534 and its legislative history provide, agencies can charge appropriations based upon estimates, and later make accounting adjustments among their accounts to reflect actual expenses. The ability to make adjustments is also reflected in 31 U.S.C. §§ 1551-1557, the statutes that abolished the merged account.

CONCLUSION

NASA's practice of disbursing against the oldest costed obligation for contracts funded with multiple appropriations is an accepted method of charging appropriations. There appears no basis for a conclusion that payment of an invoice out of already costed amounts could result in deliberately charging the wrong appropriation. Moreover, agencies are permitted to make accounting adjustments to reflect actual expenses. We find no legal requirement for absolute certainty regarding matching specific disbursements to individual invoices.



Edward A. Frankle

## Appendix F

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Enclosure 2

Technical Comments on OIG Draft Report  
“Matching Disbursements to Obligations” (A-HA-98-045)

This enclosure highlights several inaccuracies/misrepresentations in the draft report. The number and seriousness suggest that the OIG did not perform sufficient audit work to support the conclusions and recommendations in the draft report.

See Appendix  
F, OIG  
Comment 2

The draft report (page 4) concludes, “Consequently, in our sample, \$44.7 million out of \$44.8 million **may have been charged to** incorrect appropriations, which **may have resulted** in the violation of fiscal statutes.” (Emphasis added.) The wording of this statement is a de facto admission that insufficient work was performed to reach a valid conclusion.

See Appendix  
F, OIG  
Comment 2

The findings in the draft report are based, not on a statistical sample, but on a judgment sample of only three NASA contracts. Six contracts were selected for review, but three of the contracts in the sample were eventually excluded from the scope of the audit. The report does not address satisfactorily why, since a judgment sampling technique had previously been chosen, the sample size was not increased. The draft report (page 7) states that, “Due to the amount of resources necessary to trace disbursements to each line of accounting or obligation and since each Center uses its own unique system to process and record financial transactions, we were unable to select a large number of contracts and related disbursements to review in a timely manner.” It is noteworthy that the audit was conducted over an 11-month period. It is our view that the results of a review of three NASA contracts are not a sufficient basis for the conclusions and recommendations in the draft report.

See Appendix  
F, OIG  
Comment 2

On several places in the draft report (Executive Summary, page 2, etc.) it is stated that, “NASA management has not ensured that authorized funds have been used for their intended purposes by properly matching disbursements to obligations.” The draft report fails to recognize the importance of NASA’s cost accrual practices. As discussed earlier, NASA matches accrued costs to obligations, then matches disbursements to accrued costs (costed obligations) in the NASA system. In this manner, disbursements are matched to obligations.

See Appendix  
F, OIG  
Comment 2

On page 3 of draft report it is noted that if NASA is billed for services in 1997, NASA cannot use 1992, 1994, or 1995 appropriations to pay the invoice. This statement appears inaccurate. GAO’s Principles of Appropriations Law states, “the general rule is that the availability relates to the authority to obligate the appropriation, and does not necessarily prohibit payments after the expiration date for obligations”. Further, the draft report (page 1) states that, “For example a 2-year appropriation requires that obligations be incurred during the 2-year period the appropriation is available. Subsequent payments made from the appropriation must be matched to the obligations made during the period.” This statement seems misleading or unclear, at best. Subsequent payments from the appropriation must be made during the period of availability for obligation (i.e., 2 years) plus 5 years, in accordance with Public Law 101-510.

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The draft report (Executive Summary) states that, "Disbursements should be properly matched to, and recorded against, the applicable obligations to ensure that only authorized funds are disbursed and that contractor payments are accurately recorded in the financial statements." This statement suggests an apparent misunderstanding by the OIG with regard to financial statement reporting. Contractor payments are not recorded in the financial statements by obligation, while payments would affect the accounts payable and cash balances in the financial statements. The identification of disbursements with a specific appropriation is not a financial statement matter.

See Appendix F,  
OIG Comment 2

The draft report (page 5) states that, "NASA financial management personnel indicated that this requirement (requiring contractors to identify complete obligation data, including the appropriation and program year, on their invoices) would increase the contract cost, although they provided no justification for their assertion." It stands to reason that contract modifications requiring contractors to revise their accounting and billing systems to provide NASA with invoices such as those contemplated in the OIG draft report would cost money. The draft report (page 5) further states, "It is our opinion that contractors can provide this type of information on their invoices at little or no impact to contract costs to facilitate proper matching of disbursements to obligations." We subsequently learned that OIG staff visited a single contractor at Langley Research Center (the contractor had a new contract of limited dollar value) and were told that appropriation and program year data could be provided. Considering the large number of NASA contractors, the significant value of many contracts, and the costs associated with modifications to contractors financial management systems, a discussion with a single, small contractor does not support a conclusion that contractors could provide the data envisioned in the OIG report with "little or no impact to contract costs".

See Appendix F,  
OIG Comment 2

## Appendix F. OIG Comments on Management's Response

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Headquarters management provided the following comments in its response to our draft report. Our responses to the comments are also presented.

**Overall OIG Comment.** Management's response on the one hand argues that the costing process results in disbursements being matched to the corresponding obligations and on the other hand that disbursing from the oldest obligations on contracts funded with multiple appropriations is acceptable for charging appropriations. In our opinion, these points are both incorrect and fundamentally inconsistent. If matching occurs, then disbursements are not being charged to the oldest obligations first. Conversely, if the oldest obligations are being charged, matching is not taking place. This inconsistency makes responding to the management comments difficult because the first premise recognizes that matching is needed while the second argues against the need for matching.

Aside from the statutory requirements, there are fundamental accounting reasons for matching disbursements to obligations as a part of an overall internal control structure. The internal control structure is the policies and procedures established to provide reasonable assurance that specific entity objectives will be achieved. First, matching helps ensure that individual and cumulative disbursements made based on a valid obligation do not exceed the amount obligated. This control is particularly important in avoiding overpayments and executing programs in accordance with funding profiles established by NASA management. Second, matching permits the prompt deobligation of funds that then can typically be applied to other valid requirements, including upward adjustments to obligations, for which the appropriation was provided. This control helps in making full use of the appropriated funds as intended. Third, matching facilitates accurate internal and external financial reporting, including the early detection and correction of accounting errors. For example, internal reports on unobligated balances and unliquidated obligations are useful for resource management, while external reports on the status of appropriated funds highlight NASA accountability for the resources provided to accomplish its mission. Finally, an inherent part of an internal control structure is an audit trail for transactions. Without matching, the audit trail is incomplete.

NASA is presently implementing a new financial management system that, in our opinion, should rely on matching as the means to ensure sound appropriation accounting. Therefore, resolution of the need for matching in a timely manner is vitally important.

**Management's Comment.** NASA management stated that the reported finding is without legal or practical foundation and that the recommendations are not required or prudent. Management believes that the costing process ensures that disbursements are properly matched to obligations. The NASA Office of General Counsel provided an opinion in support of management's comments and stated that matching disbursements to the oldest costed obligations is an accepted method of charging appropriations.

**1. OIG Comments.** We agree that an accrual basis of accounting is required, beneficial, and can compliment sound appropriation accounting. However, management's assertions are inconsistent and contrary to what is stated in the Agency's Financial Management Manual. FMM 9061-3 states, "The accrual basis of accounting does not apply to controls over appropriated funds. Allotment ledgers are not maintained on an accrual basis; obligations are liquidated by disbursements, not by accrued expenditures." Matching disbursements to the oldest costed obligations cannot be an accepted method of charging appropriations because it does not ensure an obligation is liquidated by the correct disbursements.

Appropriated funds may be obligated or expended only when "legally available" as stated in the General Accounting Office's Principles of Federal Appropriations Law. Availability of appropriations requires that the purpose, time period, and amount are those that Congress has authorized. In particular, Congress must be assured that agencies are spending appropriated funds the way Congress intended. Our position that disbursements should be properly matched to obligations is supported by fiscal statute 31 U.S.C. § 1301(a), which states, "Appropriations shall be applied only to the objects for which the appropriations were made except as otherwise provided by law." Further, 17 Comptroller General Decision 748 (1938) is grounded in the principle set forth in 31 U.S.C. § 1301(a). The Office of General Counsel (OGC) opinion recognizes that the Comptroller General decision states an "accurate premise" but adds, "there is no connection between that holding and the 533 process." The 533 process is the means whereby NASA keeps track of contract costs and feeds information into the Agency's accounting system. To the extent that NASA uses the 533 process to determine how to disburse appropriated funds, there is a connection to the Comptroller General decision. OGC's statement to the contrary rests on the premise that the 533 process ensures that the correct appropriations are charged when disbursements are made. However, the audit has shown that this is not the case.

An accounting system is no more than a tool. It does not by itself ensure that disbursements are properly matched to obligations. Adjusting a contractor's estimated costs monthly to reflect actual costs in no way guarantees that the proper appropriations are charged when payments are made. The disbursement occurs separately from the accrual, when the contractor submits an invoice or other request for payment. In fact, as stated in the NASA FMM, accrued expenditures do not liquidate obligations. Disbursements liquidate obligations.

The OGC assertion that there is no connection between the Comptroller General holding and the 533 process may mean that the 533 process itself does not lead NASA to "deliberately charge the wrong appropriation." The assertion is accurate in the sense that the 533 process does not cause charges to the wrong appropriation. It is NASA's practice of simply charging the oldest costed obligation that causes the incorrect charging. For example, if the oldest costed obligation is in the

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Human Space Flight appropriation but the invoice is for work funded from the Science, Aeronautics and Technology appropriation, the practice results in a disbursement from the wrong appropriation. Because there is no check on the financial management system or subsequent adjustment of accounts, this type of situation could occur repeatedly and go undetected.

**Management's Comment.** NASA management stated that the report conclusion and recommendations are not supported by adequate audit work or evidence. Specifically, management stated the following:

a. The draft report concludes that “. . . \$44.7 million out of \$44.8 million may have been charged to incorrect appropriations, which may have resulted in the violation of fiscal statutes.” This uncertainty is an admission that insufficient audit work was performed.

b. The findings were based on a judgmental sample, rather than a statistical sample, of only three contracts. Six contracts were selected for review, but three were excluded from the audit.

c. The report does not recognize NASA's cost accrual process. NASA matches accrued costs to obligations and subsequently matches disbursements to accrued costs. Therefore, disbursements are matched to obligations.

d. The example provided in the finding discussion of the report is in error because payments may be made against prior year obligations. Therefore, obligations recorded in 1992, 1994, and 1995 may be disbursed.

e. The statement that disbursements should be properly matched to the applicable obligations to ensure that only authorized funds are disbursed and that contractor payments are accurately recorded in the financial statements suggests a misunderstanding by the auditors. Contractor payments are not recorded in the financial statements by obligation and the identification of disbursements with a specific appropriation is not a financial statement matter.

f. Requiring contractors to revise their accounting system to provide invoices such as those recommended by the report would cost money. Therefore, contract costs would increase.

**2. OIG Comments.** We believe the audit work supports the finding and recommendations.

a. The uncertainty alluded to by NASA management is a direct result of the inadequacy in financial management audit trails that prevented us from tracing most transactions through the accounting systems. Therefore, we reviewed accounting policies and methods to determine how transactions were processed. For example, at Kennedy we could not determine the specific obligations matched by the disbursements selected for review and, therefore, relied on the methodology used by the automated system to process disbursement transactions. Consequently,

we were unable to determine whether disbursements were charged to correct appropriations at that location and had to qualify our conclusion by stating that incorrect appropriations may have been charged. Additionally, management had no assurance that obligations were charged to the correct appropriations. Arbitrarily charging disbursements could result in the wrong appropriation being charged in some cases. The available audit trail and the methodologies employed lead a reasonable person to conclude that the risk of charging incorrect appropriations is high.

b. The finding was based on a judgmental sample of 36 disbursements from 34 contracts. The judgmental sampling technique is an accepted auditing procedure if results are not projected to the population of the items sampled. We made no such projection. However, the contract disbursements selected for review were drawn from three NASA Centers and NASA Headquarters. Consequently, we believe this coverage is more than adequate and provides a reasonable basis for concluding that the disbursements selected are representative of all contract disbursements processed by NASA. More importantly, however, the internal control structure at each location was so seriously deficient such that additional testing to further demonstrate our position was not required. NASA policies called for matching disbursements to the oldest costed obligations, and these policies were being implemented and had been for many years.

c. Although recognized in the report, NASA's cost accrual policy is not considered in the finding because it does not ensure the correct appropriations are charged. NASA FMM 9061-3 states that accrual accounting is not a control over appropriated funds. Furthermore, the FMM states that disbursements, not accrued costs, liquidate obligations. NASA's policy to match disbursements to the oldest costed obligations appears to be based on the incorrect premise that costing has the effect of liquidating disbursements. To ensure that correct appropriations are charged, disbursements must be properly matched to obligations. However, we reviewed the NASA cost process to determine whether costs were accurately matched to obligations. The results indicated that costs were not properly matched to obligations in all contracts reviewed, rather, the oldest obligation was costed. Therefore, management's statement that NASA's cost accrual process ensures disbursements are properly matched to obligations is incorrect in theory, and the process is not being implemented as intended.

d. The example provided in the finding discussion of the report shows that a disbursement made for services received in 1997 was matched to obligations recorded in program years 1992, 1994, and 1995. This implies that the matched obligations recorded in program years 1992, 1994, and 1995 were established to provide funds for the payment made in 1997. We could find no evidence of this.

e. The statement that disbursements should be properly matched to the applicable obligations to ensure that only authorized funds are disbursed and that contractor payments are accurately recorded in the financial statements is correct. Disbursements are reported on the Statement of Budgetary Resources by budget accounts. OMB Circular No. A-11 states that a



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budget account is “. . . based on appropriations and funds accounts established by the Treasury Department to account for the budget authority provided by Congress for a particular purpose or under a particular appropriation title.” Therefore, the Statement of Budgetary Resources reports disbursements by appropriation. If disbursements are recorded against the incorrect appropriation, the Statement of Budgetary Resources would be affected.

f. Management’s position is that contract costs would increase if contractors were required to provide appropriation data on their invoices. We have two concerns with that position. First, 31 U. S. C. 1301(a) and 17 Comp. Gen. 748 (1938) are legally binding on NASA to ensure appropriations are used as authorized. Thus, it is incumbent on management to ensure that contractors implement accounting systems to provide the data necessary to ensure compliance with the law as it relates to the matching of disbursements to obligations. To the extent that this is not being done, then contractors should be required to incur the costs needed to correct the problem. Second, management’s assumption may not be valid, at least in every case. During our review of NASA contracts to determine whether costs were properly matched to obligations, we noted that several contractors were providing the data that would allow NASA financial management personnel to properly match disbursements to obligations. This data was already being made available through the accounting systems for these contractors and would not result in additional costs being incurred under the contracts.

## **Appendix G. Report Distribution**

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### **National Aeronautics and Space Administration (NASA) Headquarters**

A/Administrator  
AI/Associate Deputy Administrator  
B/Chief Financial Officer  
B/Comptroller  
BF/Director, Financial Management Division  
C/Associate Administrator for Headquarters Operations  
G/General Counsel  
H/Associate Administrator for Procurement  
J/Associate Administrator for Management Systems  
JM/Director, Management Assessment Division

### **NASA Centers**

Director, John H. Glenn Research Center at Lewis Field  
Chief Financial Officer, John H. Glenn Research Center at Lewis Field  
Director, Goddard Space Flight Center  
Chief Financial Officer, Goddard Space Flight Center  
Director, Kennedy Space Center  
Chief Financial Officer, Kennedy Space Center  
Chief Counsel, Kennedy Space Center  
Director, Langley Research Center  
Chief Financial Officer, Langley Research Center

### **Non-NASA Federal Organizations and Individuals**

Assistant to the President for Science and Technology Policy  
Deputy Associate Director, Energy and Science Division, Office of Management and Budget  
Branch Chief, Science and Space Programs Branch, Energy and Science Division, Office  
of Management and Budget  
Associate Director, National Security and International Affairs Division, Defense  
Acquisition Issues, General Accounting Office  
Professional Assistant, Senate Subcommittee on Science, Technology, and Space

### **Chairman and Ranking Minority Member – Congressional Committees and Subcommittees**

Senate Committee on Appropriations  
Senate Subcommittee on VA, HUD, and Independent Agencies  
Senate Committee on Commerce, Science, and Transportation  
Senate Subcommittee on Science, Technology, and Space  
Senate Committee on Governmental Affairs

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### **Chairman and Ranking Minority Member – Congressional Committees and Subcommittees (Cont.)**

House Committee on Appropriations

House Subcommittee on VA, HUD, and Independent Agencies

House Committee on Government Reform and Oversight

House Subcommittee on National Security, Veterans Affairs, and International Relations

House Committee on Science

House Subcommittee on Space and Aeronautics

### **Congressional Member**

Honorable Pete Sessions, U.S. House of Representatives

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