



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

October 31, 1989

**MEMORANDUM FOR COMPTROLLER OF THE DEPARTMENT OF DEFENSE
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL
MANAGEMENT)**

**SUBJECT: Report on the Audit of a Hotline Allegation on the
Misappropriation and Augmentation of Funds by the
U.S. Army Corps of Engineers (Report No. 90-007)**

We are providing this final report on the Audit of a Hotline Allegation on the Misappropriation and Augmentation of Funds by the U.S. Army Corps of Engineers for your information and use. The audit was made from March through May 1989 to determine whether the U.S. Army Corps of Engineers (USACE) followed Engineer Regulation (ER) 37-2-10, "Financial Administration, Accounting, and Reporting - Civil Works Activities," which specifies how funds for civil and military projects are to be separated and accounted for against congressional appropriations. The audit also evaluated compliance with applicable internal controls.

The audit concentrated on the acquisition of data processing equipment as part of the Standard Army Automated Contracting System (SAACONS). From FY 1986 through FY 1989, the Department of the Army spent about \$30.2 million to automate the contracting function at its procurement offices worldwide. The Army used about \$5.9 million of the \$30.2 million to procure equipment for USACE offices.

The hotline allegation had merit, and during the procurement of the SAACONS, the Army violated United States Code, title 31, sec. 1301, which requires that appropriations be expended for intended purposes. The procurement also violated the policy established in ER 37-2-10. The results of the audit are summarized in the following paragraphs, and the details, recommendations, and management comments are contained in Part II of this report.

The Army improperly obligated about \$5.5 million of Operation and Maintenance, Army (OMA), and Other Procurement, Army (OPA), appropriations for SAACONS equipment to be used for civil works projects; used a civil revolving fund to purchase about \$45,000 of SAACONS equipment to be used for military purposes; and purchased about \$58,000 of SAACONS equipment with expense funds from the civil revolving fund instead of with investment funds. As a result, these procurements were in violation of U.S.C., title 31, sec. 1301, and ER 37-2-10. We recommended that the Assistant Secretary of the Army (Financial Management) issue a memorandum notifying Army contracting

activities that the use of OMA and OPA funds to procure items that the USACE will use in performing civil works functions violates of United States Code, title 31, section 1301. We also recommended that the Chief, U.S. Army Corps of Engineers, require that all plant, property, and equipment purchased to serve more than one civil works project or multiple appropriations for civil works projects be acquired through the Civil Revolving Fund Plant Replacement and Improvement Program in accordance with ER 37-2-10. We recommended that the Chief, U.S. Army Corps of Engineers, in conjunction with the Assistant Secretary of the Army (Financial Management), determine and make the appropriate accounting adjustments to reimburse the \$4.3 million of OMA funds and the \$1.2 million of OPA funds that were used to procure SAACONS equipment for USACE offices that support civil works projects with the Revolving Fund Plant Replacement Improvement Program funds; reimburse the \$45,000 from the Revolving Fund that was used to procure SAACONS equipment at the Fort Drum Area Office with funds from the OPA appropriation; reimburse the \$58,000 of civil expense funds that was used to buy investment equipment for USACE offices with Plant Replacement and Improvement Program funds; and monitor required reimbursements to the accounts to determine if they cause overobligations (page 3).

The audit also showed that about \$3.8 million of OMA funds was used to acquire investment items that should have been procured with OPA funds. Details on these procurements are provided in Appendix A. If Recommendations 3.a., 3.b., and 3.c. are implemented to reimburse the OMA and OPA appropriations from the Revolving Fund, this condition will no longer exist.

The audit identified internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Controls were not effectively implemented to ensure that the correct funds were used to procure equipment for USACE offices. Recommendations 1. and 2. in this report, if implemented, will correct the weaknesses. We have determined that monetary benefits will not be realized by implementing Recommendations 1. and 2. A copy of this report will be provided to the senior officials responsible for internal controls within the Army.

On August 7, 1989, a draft of this report was provided to the Assistant Secretary of the Army (Financial Management) and the Chief, U.S. Army Corps of Engineers, for comments. The Deputy Director of Finance and Accounting for Operations Management provided comments on September 29, 1989. The comments did not fully comply with the requirements of DoD Directive 7650.3. The Deputy Director concurred with the Finding

and with Recommendations 1. and 3. and began corrective actions. The complete text of management's response is in Appendix D. However, the Deputy Director of Finance and Accounting for Operations Management comments did not include completion dates for the corrective actions being taken. We request that the Army provide completion dates for the actions being taken on Recommendations 1. and 3. Also, the comments did not address Recommendations 2. and 4. We also ask that management provide comments on Recommendations 2. and 4. indicating concurrence or nonconcurrence. If you concur, describe the corrective actions taken or planned, the completion dates for actions already taken, and the estimated completion dates of planned actions. If you nonconcur, please state your specific reasons. If appropriate, you may propose alternative methods for accomplishing desired improvements. We also ask that your comments indicate concurrence or nonconcurrence with the internal control weaknesses described above.

DoD Directive 7650.3 requires that audit recommendations be resolved within 6 months of the date of the final report. Accordingly, comments on unresolved issues in the report should be provided within 60 days of this memorandum. This report identifies no potential monetary benefits.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Thomas Gimble on (202) 694-6227 (AUTOVON 224-6227) or Mr. James Kornides on (202) 693-6223 (AUTOVON 223-6223). A list of the Audit Team Members is in Appendix F. Copies of the final report are being distributed to the activities listed in Appendix G.


Stephen A. Trodden
Assistant Inspector General
for Auditing

Enclosure

cc:
Secretary of the Army

REPORT ON THE AUDIT OF A HOTLINE ALLEGATION ON THE
MISAPPROPRIATION AND AUGMENTATION OF FUNDS BY THE
U.S. ARMY CORPS OF ENGINEERS

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Prepared by:
Logistics Support Directorate
Project No. 9SA-8006

REPORT ON THE AUDIT OF A HOTLINE ALLEGATION ON
THE MISAPPROPRIATION AND AUGMENTATION OF FUNDS BY THE
U.S. ARMY CORPS OF ENGINEERS

PART I - INTRODUCTION

Background

The audit was performed in response to a General Accounting Office Hotline allegation that the U.S. Army Corps of Engineers (USACE) was not following applicable laws and regulations in acquiring Standard Army Automated Contracting System (SAACONS) equipment.

SAACONS is a computer system that the Department of the Army developed to be used by all of its contracting offices. SAACONS was designed to assist contracting personnel in performing daily repetitive contracting functions, including preparing contractual documents, maintaining bidders' lists, generating mandatory reports, and tracking contract milestones. SAACONS is also a management information system that accumulates, and provides management with, information necessary to effectively manage the contracting process.

From FY 1986 through FY 1989, the Army spent \$30.2 million for SAACONS equipment. As of May 1989, the Army had used about \$5.9 million of the \$30.2 million to purchase SAACONS equipment for USACE offices.

Objective and Scope

The objective of the audit was to determine whether the USACE followed Engineer Regulation 37-2-10, "Financial Administration, Accounting, and Reporting - Civil Works," which specifies how funds for civil and military projects are to be separated and accounted for against congressional appropriations. The audit also evaluated compliance with applicable internal controls.

We reviewed all FY 1986 through FY 1989 purchase requests and delivery orders, and other pertinent documentation at the U.S. Army Contracting Support Agency; the USACE Headquarters; and the Ohio River Division of the USACE. We also evaluated internal controls over the use of OMA, OPA, and the Civil Revolving Fund. The principles of internal control were violated when operating personnel did not comply with the appropriate regulations and laws when purchasing the computer systems to support the civil operations of USACE. Activities visited or contacted during the audit are shown in Appendix E. This financial audit was made from March 1, 1989, through May 30, 1989, in accordance with auditing standards issued by the

Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly, included such tests of compliance with applicable laws, regulations and internal controls as were considered necessary.

Prior Audit Coverage

There were no prior audits of the subject area during the last 5 years.

PART II - FINDING AND RECOMMENDATIONS

Procurement of the Standard Army Automated Contracting System for the U.S. Army Corps of Engineers

FINDING

The Army improperly obligated Operation and Maintenance, Army (OMA), and Other Procurement, Army (OPA), appropriations to acquire about \$5.5 million of Standard Army Automated Contracting System (SAACONS) equipment to be used for civil works projects. In addition, the Army used a civil revolving fund to purchase about \$45,000 of SAACONS equipment to be used for military purposes and purchased about \$58,000 of SAACONS equipment using expense funds from the civil revolving fund instead of using investment funds. These conditions occurred because the Army did not follow the laws, policies, and procedures on the use of OMA, OPA, and the civil revolving fund. As a result, these procurements were in violation of United States Code, title 31, sec. 1301, and Engineer Regulation (ER) 37-2-10.

DISCUSSION OF DETAILS

Background. United States Code, title 31, sec. 1301, states that appropriations will be applied only to the items for which the appropriations were made, except as otherwise provided by law. OMA funds are appropriated for expenses, not otherwise provided for, that are necessary for the operation and maintenance of the Army. OPA funds are appropriated for the procurement of vehicles, communications and electronic equipment, other support equipment, and specialized equipment. Funds are also appropriated for the expansion of public and private plants and related expenses.

Congress provides funds to be expended under the supervision of the Secretary of the Army and the Chief of Engineers for authorized civil works functions of the Department of the Army pertaining to rivers and harbors, flood control, beach erosion, and other related projects. United States Code, title 33, sec. 576, requires that a revolving fund be available without fiscal year limitation for expenses necessary for the maintenance and operation of plants and for equipment of the U.S. Army Corps of Engineers (USACE) that is used in civil works functions, including the acquisition of plants and equipment.

In November 1988, the Chief of Engineers issued a memorandum expressing concern for cost management by the District and Laboratories Commanders within USACE. The memorandum emphasized that capital assets needed for the exclusive support of civil works projects must be funded as part of the Annual Plant Replacement Improvement Program (PRIP), that capital assets needed for the exclusive support of military projects must be acquired with OPA funds, and that expense accounts will not be

used to acquire capital assets. The use of expense accounts for capital assets results in a violation of public law, which is subject to administrative and disciplinary action.

SAACONS Equipment Purchased for Civil Works Projects. From September 1986 to May 1989, the Army obligated approximately \$5.5 million, consisting of \$4.3 million of OMA funds and \$1.2 million of OPA funds, to acquire SAACONS for USACE contracting offices that support civil works projects. The funds were obtained through the SAACONS Project Management Office's budget and the USACE budget for military projects. The USACE offices that obtained the SAACONS are shown in Appendix B.

ER 37-2-10, "Financial Administration, Accounting, and Reporting - Civil Works Activities," provides the Army policy that implements United States Code, title 33, sec. 576. ER 37-2-10, paragraph 2-23a(4), requires that all plant, property, and equipment purchased to serve more than civil works projects or multiple appropriations for civil works projects will be acquired through the PRIP. Using these criteria, the \$5.5 million for SAACONS equipment should have been obligated from PRIP funds. Because the SAACONS supports civil works projects at the 51 USACE offices, buying the SAACONS with OMA and OPA funds was a misappropriation of funds.

SAACONS Equipment Purchased for Military Purposes. The Army used about \$45,000 of civil funds from the Revolving Fund to procure SAACONS equipment for USACE's Fort Drum Area Office even though that office supported no civil works projects. The Army's use of civil funds to purchase equipment to support military projects at USACE's Fort Drum Area Office violated Congress' intent to fund military projects from OMA and OPA appropriations and was contrary to the Army's policy in ER 37-2-10 on the use of the Revolving Fund.

The Fort Drum Area Office obtained approval from personnel in USACE's New York District to procure SAACONS with civil funds. New York District personnel indicated that the error was caused by a lack of experienced accounting personnel.

SAACONS Equipment Purchased with Expense Funds. ER 37-2-10 provides the Army's policy for procuring equipment through the civil Revolving Fund. Paragraph 1-13 d(1) requires that an item that has a useful service life of 1 year or more and has a unit acquisition cost of \$5,000 or more will be capitalized (considered an investment or capital item). According to USACE's determination, the purchase of like items of property will be capitalized, even though the unit value of the item is less than \$5,000, if the like items are either for the initial outfitting of a USACE office or for the replacement of substantial quantities of such items. ER 1125-2-301, "Plant Revolving Fund," paragraph 10(c), requires that items that exceed the capitalization threshold established by ER 37-2-10 be funded from the PRIP.

The Army used about \$58,000 of expense funds from the civil Revolving Fund to procure SAACONS components that were investment items that should have been bought through the Revolving Fund's PRIP account and capitalized. The Army procured the Standard Army Contracting System components at the U.S. Army Corps of Engineers locations shown in Appendix C using expense funds from the revolving fund even though the components were like items of parts of the SAACONS system. All of the equipment in Appendix C was part of the initial SAACONS configuration and should have been purchased through the PRIP.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Assistant Secretary of the Army (Financial Management) issue a memorandum notifying Army contracting activities that use of Operation and Maintenance, Army, and Other Procurement, Army, funds to procure items that the U.S. Army Corps of Engineers will use in performing civil works functions results in a violation of United States Code, title 31, sec. 1301.

2. We recommend that the Chief, U.S. Army Corps of Engineers, enforce the policy established by Engineer Regulation 37-2-10, that all plant, property, and equipment purchased that serve one or more civil works projects be acquired through the Civil Revolving Fund's Plant Replacement and Improvement Program.

3. We recommend the Chief, U.S. Army Corps of Engineers, in conjunction with the Assistant Secretary of the Army (Financial Management), determine and make the appropriate accounting adjustments that will:

a. Reimburse the \$4.3 million of Operation and Maintenance, Army, funds and the \$1.2 million of Other Procurement, Army, funds that were used to procure Standard Army Automated Contracting System equipment for the 51 U.S. Army Corps of Engineers contracting offices shown in Appendix B with Plant Replacement Improvement Program funds.

b. Reimburse the \$45,000 of funds from the Revolving Fund that was used to procure Standard Army Contracting System equipment at the Fort Drum Area Office with funds from the Other Procurement, Army, appropriation.

c. Reimburse the \$58,000 of civil expense funds that was used to buy investment items at the U.S. Army Corps of Engineers offices listed in Appendix C with Plant Replacement Improvement Program funds.

4. We recommend the Chief, U.S. Army Corps of Engineers, in conjunction with the Assistant Secretary of the Army (Financial Management), monitor the reimbursements in Recommendations 3.a., 3.b., and 3.c. to determine if they cause an overobligation in the appropriate accounts. If overobligations occur, follow Army

Regulation 37-1, "Army Accounting Guidance," paragraph 29-9, which provides procedures for reporting alleged antideficiency violations.

MANAGEMENT COMMENTS

The Deputy Director of Finance and Accounting for Operations Management concurred with the Finding and Recommendations 1. and 3. and has begun corrective action. The complete response is included at Appendix D.

AUDIT RESPONSE TO MANAGEMENT COMMENTS

The corrective actions for Recommendations 1. and 3. are responsive. Management did not address Recommendations 2. and 4. and did not include completion dates for the actions being taken on Recommendations 1. and 3. We request that the Army provide comments on Recommendations 2. and 4. as a part of its response to the final report and provide completion dates for the actions being taken on Recommendations 1. and 3.

USE OF OPERATION AND MAINTENANCE FUNDS TO BUY THE
STANDARD ARMY AUTOMATED CONTRACTING SYSTEM

The Army obligated \$4.3 million of Operation and Maintenance, Army (OMA), funds to acquire the Standard Army Automated Contracting System (SAACONS) for U.S. Army Corps of Engineers (USACE) offices. About \$3.8 million of the \$4.3 million was used for investment items that should have been procured with Other Procurement, Army (OPA), funds. This condition occurred because the Army did not follow DoD's expense and investment criteria. The use of expense funds for procurement of investment items is a misappropriation of funds.

Background. DoD Instruction 7040.5, "Definitions of Expenses and Investment Costs," paragraphs III.B.1. and III.B.2., state that expenses are costs of resources consumed in use. Investment costs are the costs of real property and equipment. Paragraph V.A.1. further defines investment costs as costs associated with the acquisition of major end items of equipment that are long-lived, of high-dollar unit value, repairable, and routinely reported to the cognizant inventory manager.

During the period that SAACONS was being procured for USACE offices, the Army policy on expense and investment items was that items having a unit value of \$5,000 were considered investment items and were to be acquired with OPA funds. Items having a unit value less than \$5,000 were considered expense items, and were to be acquired with appropriate consumer funds. An item that was connected or plugged into another item was treated separately for fund determination.

In September 1987, the Army asked the Comptroller of the Department of Defense to advise whether its policy conformed to the provisions of Department of Defense Instruction 7040.5. The Comptroller stated that the criteria for the expense and investment policy extend beyond the single action of unplugging or disconnecting components. The concept of a "system" must be considered in evaluating procurements. A "system" exists if a number of components will be interconnected, will be purchased at the same time, and will operate together.

In November 1988, the Army included policy on expense and investment costs in Army Regulation 25-1, "The Army Information Resources Management Program." Paragraph 2-8 states that the use of expense funds for Information Mission Area equipment (which includes SAACONS) will be based on the cost of the complete configuration being procured, not on the cost of individual components.

USE OF OPERATION AND MAINTENANCE FUNDS
TO BUY THE STANDARD ARMY AUTOMATED CONTRACTING SYSTEM
(CONTINUED)

Use of OMA funds for System Components. The Army did not follow DoD's system concept when procuring SAACONS for USACE offices. For example, during FY's 1987 and 1988, the Army obligated about \$211,000 of OMA funds and \$30,000 of OPA funds to acquire a SAACONS for the USACE's New Orleans District. About \$60,000 of the OMA funds was used for expense items such as training and the cost of installing the system. The remaining \$151,000 was used to procure system components, such as the system's central processing unit, disk controller, and printer.

Similar conditions existed at 46 other USACE locations. We concluded that about \$3.8 million of the \$4.3 million of OMA funds that was obligated during the procurement of SAACONS for the USACE offices was for items that were integral components of the system and should have been funded with investment funds.

In seven instances, the Army did not follow its policy of capitalizing items costing more than the minimum threshold. From FY 1986 through FY 1989 the Army procured SAACONS using OMA funds that exceeded the thresholds (\$5,000 in FY's 1986 and 1987 and \$15,000 in FY's 1988 and 1989) for those years. The equipment procured and the unit cost of each item are shown below.

USE OF OPERATION AND MAINTENANCE FUNDS
TO BUY THE STANDARD ARMY AUTOMATED CONTRACTING SYSTEM
(CONTINUED)

Items Purchased With Operation and Maintenance Funds

<u>Fiscal Year</u>	<u>O&M ^{1/} Threshold</u>	<u>USACE ^{2/} Office Receiving Equipment</u>	<u>Items of Equipment Procured with O&M ^{1/}</u>	<u>Unit Price</u>
1986	\$5,000	Huntington District	144 Megabite Winchester	\$ 5,297
1987	\$5,000	New England District	Random Access Memory Board	5,994
1988	\$15,000	Fort Worth District	Central Processing Unit	32,695
1988	\$15,000	Kansas City District	Central Processing Unit	32,695
1988	\$15,000	Portland District	Central Processing Unit	32,695
1988	\$15,000	Sacramento District	Central Processing Unit	30,009
1988	\$15,000	Seattle District	Central Processing Unit	32,695
Total				<u>\$172,080</u>

Conclusions. The Army had not followed the expense and investment policy implemented by DoD during the procurement of SAACONS for USACE. However, we reported in the finding section of the report that the SAACONS equipment acquired for USACE offices with OMA and OPA funds should have been procured with civil funds, because the equipment was purchased to support civil works projects. If Recommendation 3. to obligate PRIP^{1/} funds for equipment to support civil works projects and to adjust the OMA and OPA appropriations is implemented, the above condition will no longer exist.

^{1/} Operation and Maintenance.

^{2/} U.S. Army Corps of Engineers.

^{3/} Plant Replacement and Improvement Program.

ARMY FUNDS USED TO PROCURE THE
STANDARD ARMY AUTOMATED CONTRACTING SYSTEM
FOR U.S. ARMY CORPS OF ENGINEERS

<u>U.S. Army Corps of Engineer Offices</u>	<u>Other Procurement Army Funds</u>	<u>Operation and Maintenance Army Funds</u>	<u>Total</u>
Baltimore District	\$ 47,923.00	\$351,360.92	\$399,283.92
New Orleans District	29,941.00	211,053.65	240,994.65
Vicksburg District	29,941.00	167,866.22	197,807.22
Waterway Experiment Lab	29,941.00	165,861.82	195,802.82
Louisville District	9,000.00	173,996.13	182,996.13
Huntington District	9,000.00	159,467.36	168,467.36
New York District	23,947.00	137,600.00	161,547.00
Huntsville Division	23,947.00	137,492.80	161,439.80
St. Louis District	23,947.00	128,206.66	152,153.66
New England Division	16,999.60	133,058.83	150,058.43
Philadelphia District	11,988.00	137,489.83	149,477.83
Savannah District	140,141.60	210.00	140,351.60
Middle East/Africa District	61,902.00	73,238.60	135,140.60
St. Paul District	11,986.02	120,895.78	132,881.80
Walla Walla District	47,331.00	83,584.60	130,915.60
Buffalo District	11,988.00	116,524.66	128,512.66
Alaska District	127,019.50	0	127,019.50
Kansas District	0	124,826.90	124,826.90
Humphrey Engineer Center	\$87,475.63	\$36,936.42	\$124,412.05
Fort Worth District	0	122,808.60	122,808.60
Jacksonville District	115,885.95	1,081.00	116,966.95

ARMY FUNDS USED TO PROCURE THE
STANDARD ARMY AUTOMATED CONTRACTING SYSTEM FOR
U.S. ARMY CORPS OF ENGINEERS (CONTINUED)

<u>U.S. Army Corps of Engineer Offices</u>	<u>Other Procurement Army Funds</u>	<u>Operation and Maintenance Army Funds</u>	<u>Total</u>
Seattle District	\$ 0	\$115,804.10	\$115,804.10
Sacramento District	0	114,326.30	114,326.30
Wilmington District	111,994.15	178.00	112,172.15
Atlanta District	105,426.50	1,521.00	106,947.50
Memphis District	11,988.00	94,354.00	106,342.00
Portland District	0	105,711.00	105,711.00
Rock Island District	11,988.00	93,618.24	105,606.24
Norfolk District	11,988.00	90,227.98	102,215.98
Engineer Topographic Lab	5,994.00	96,097.23	102,091.23
Detroit District	11,988.00	84,203.00	96,191.00
Construction Engineer Lab	17,878.20	78,312.80	96,191.00
Nashville District	0	95,999.99	95,999.99
Pittsburgh District	0	86,028.08	86,028.08
Los Angeles District	0	79,873.00	79,873.00
Tulsa District	0	79,015.00	79,015.00
San Francisco District	0	78,443.00	78,443.00
Little Rock District	0	78,157.00	78,157.00
Cold Region Research Lab	5,994.00	67,814.57	73,808.57
Galveston District	0	73,635.70	73,635.70
Cincinnati District	11,526.00	53,620.85	65,146.85

ARMY FUNDS USED TO PROCURE THE
STANDARD ARMY AUTOMATED CONTRACTING SYSTEM FOR
U.S. ARMY CORPS OF ENGINEERS (CONTINUED)

<u>U.S. Army Corps of Engineer Offices</u>	<u>Other Procurement Army Funds</u>	<u>Operation and Maintenance Army Funds</u>	<u>Total</u>
Omaha District	\$ 0	\$ 64,985.31	\$ 64,985.31
Albuquerque District	0	56,360.70	56,360.70
Charleston District	0	19,771.25	19,771.25
North Atlanta Division	0	5,747.26	5,747.26
North Central Division	0	5,747.26	5,747.26
South Pacific Division	0	5,747.26	5,747.26
Southwestern Division	0	5,747.26	5,747.26
Lower Miss. Valley Division	0	5,747.26	5,747.26
Pacific Ocean Division	0	5,747.26	5,747.26
Headquarter USACE	<u>0</u>	<u>5,747.26</u>	<u>5,747.26</u>
Total	<u>\$1,167,069.15</u>	<u>\$4,331,849.70</u>	<u>\$5,498,918.85</u>

CIVIL EXPENSE FUNDS USED TO ACQUIRE THE
STANDARD ARMY AUTOMATED CONTRACTING SYSTEM

<u>USACE Offices</u> ^{1/}	<u>SAACONS Equipments Purchased</u> ^{2/}	<u>Cost</u>
Louisville District	Cable Connector	\$ 312
Kansas District	Miscellaneous Computer Equipment	40,091
Mobile District	PC Interface and Computer Upgrade	14,925
Cincinnati District	HI Tech Graphics	255
Pittsburgh District	Printer	1,738
Omaha District	Graphics and Hardware Price Increase	158 ^{3/}
Sacramento District	Hardware Price Increase	267 ^{3/}
Memphis District	Hardware and Software Price Increase	96 ^{3/}
Seattle District	Hardware Price Increase	54 ^{3/}
Rock Island District	Software Price Increase	10 ^{3/}
		<hr/>
Total		<u>\$57,906</u>

^{1/} U.S. Army Corps of Engineers.

^{2/} Standard Army Automated Contracting System.

^{3/} The basic order was procured with Operation and Maintenance, Army (OMA) funds. The use of OMA funds was discussed in Appendix A.



DEPARTMENT OF THE ARMY
OFFICE OF THE DIRECTOR OF FINANCE AND ACCOUNTING
INDIANAPOLIS, INDIANA 46249-0001



REPLY TO
ATTENTION OF

SAFM-FAP-A

8 SEP 1989

MEMORANDUM FOR OFFICE OF THE INSPECTOR GENERAL, DOD, ATTN: AFU

SUBJECT: IG DOD Draft Report on the Audit of a Hotline Allegation
on the Misappropriation and Augmentation of Funds by the
U.S. Army Corps of Engineers (9SA-8006)

We concur with Recommendation 1 on page 7 of the report. 5

The recommendation is to have the Assistant Secretary of the Army (Financial Management) issue a memorandum notifying Army contracting activities that use of Operations and Maintenance, Army and Other Procurement, Army funds to procure items that the U.S. Army Corps of Engineers will use in performing civil works functions is a violation of United States Code, Title 31, Section 1301.

We consider the Army Corps of Engineers to be primarily responsible for ensuring proper use of their funds. However, we also agree that sending the Army contracting offices notification of the statutory prohibition may improve controls.

We will also coordinate with the Chief, U.S. Army Corps of Engineers to ensure the appropriate accounting adjustments are made.

Point of contact is John O'Banion, AUTOVON 699-6662.

B. W. HALL
 Brigadier General, USA
 Deputy Director of Finance and Accounting
 for Operations Management

Copy Furnished:

Office of the Inspector General, ATTN: SAIG-PA

ACTIVITIES VISITED OR CONTACTED

Department Of The Army

Office of the General Counsel, Office of the Secretary of the
Army, Washington, DC
Director of Information Systems for Command, Control,
Communications and Computers, Office of the Secretary of the
Army, Washington, DC
Assistant Secretary of the Army (Financial Management)
Washington, DC
Headquarters, U.S. Army Corps of Engineers, Washington, DC
Ohio River Division, U.S. Army Corps of Engineers, Cincinnati, OH
Missouri River Division, U.S. Army Corps of Engineers, Omaha, NE
New York District, U.S. Army Corps of Engineers, New York, NY
Mobile District, U.S. Army Corps of Engineers, Mobile, AL
Omaha District, U.S. Army Corps of Engineers, Omaha, NE
Baltimore District, U.S. Army Corps of Engineers, Baltimore, MD
Fort Drum Area Office, U.S. Army Corps of Engineers, NY
U.S. Army Contracting Support Activity, Washington, DC

Non-DoD Activities

Office of General Counsel, U.S. General Accounting Office,
Washington, DC

AUDIT TEAM MEMBERS

Donald E. Reed, Director, Logistics Support
Thomas F. Gimble, Program Director
James Kornides, Project Manager
Vickie Nguyen, Auditor

FINAL REPORT DISTRIBUTION

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JAN 18 1990

AUDITING

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR ANALYSIS
AND FOLLOWUP

THROUGH OAIG-AUDIT FOLLOWUP COORDINATOR *LMJ 1/19/90*

SUBJECT: Transmittal of the Audit Report No. 90-007,
"Report on the Audit of a Hotline Allegation
on the Misappropriation and Augmentation of
Funds by the U.S. Army Corps of Engineers,"
October 31, 1989 for Followup and Mediation

Pursuant to the provisions of DoD Directive 7650.3, we are forwarding the subject report (Enclosure 1) and comments from the Department of the Army (Enclosure 2). Management comments were responsive to Recommendations 1., 3., and 4., and we request followup on them.

Management did not provide comments on Recommendation 2. in its responses to the draft or final report. Therefore, we request your assistance in obtaining comments from the Chief, U.S. Army Corps of Engineers on Recommendation 2. If you have any questions on this report please call Mr. Thomas Gimble on (202) 694-6227 or Mr. James Kornides on (202) 694-6223.

SIGNATURE
Stephen A. ...
Assistant Inspector General
for ...

Enclosures

LS:REED;Gimble;30622,CAM
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