DEPARTMENT OF DEFENSE

AUDIT REPORT

FOLLOW-UP REVIEW OF CLUB
OPERATIONS AT RAMSTEIN AIR BASE

No. 91-004

October 5 , 1990

Office of the
Inspector General

REPORT
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MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Follow-up Review of Club Operations at Ramstein Air Base (Project No. 0RC-5013)

Introduction

This report is on a follow-up review of Club Operations at Ramstein Air Base that was requested by the Deputy Inspector General, DoD. The overall objectives of the review were to assess actions taken by the Air Force to implement recommendations in Inspector General Audit Report No. 89-117, "Club Operations at Ramstein Air Base, Federal Republic of Germany," September 27, 1989; to determine the status of actions taken on investigative issues referred to the Inspector General, Department of the Air Force, as a result of the audit; and to assess other actions taken on issues raised by the Morale, Welfare and Recreation Panel, Subcommittee on Readiness, House Armed Services Committee on November 16, 1989, during its inquiry into activities at Ramstein Air Base.

Results of Review

We found that the Air Force had aggressively implemented the recommendations in audit Report No. 89-117 at Ramstein Air Base and Air Force-wide; that the Officers' Open Mess (Officers' Club) and the Noncomissioned Officers' Open Mess (NCO Club) are operating profitably; and that U.S. Air Forces, Europe (USAFE) has implemented a thorough and effective morale, welfare, and recreation (MWR) management oversight system within its command. In addition, the Air Force conducted comprehensive and effective investigations into specific issues referred by the Deputy Inspector General, DoD, and actions were taken to resolve the issues raised at the congressional hearing on Ramstein. During this follow-up review, we identified no new material internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38.

Scope of Review

We examined corrective actions taken by the Department of the Air Force and its subordinate elements in response to recommendations in Report No. 89-117. We reviewed the financial statements and operations of the Ramstein Officers' Club and the NCO Club for the period October 1, 1988, to April 30, 1990. In addition, we analyzed investigations and inquiries conducted by the Air Force Office of Special Investigations (AFOSI) and audits conducted by the Air Force Audit Agency (AFAA) into various activities involving the management and operation of the MWR program at Ramstein Air Base. We did not use statistical sampling techniques during the review. However, we selectively tested financial records, accounting procedures and entries, internal controls, and pertinent documentation to establish the reliability of both the available information and the data used by the Air Force for external reporting. We also examined applicable DoD and Service regulations regarding the pecuniary liability of MWR employees.

The items we tested were in compliance with applicable DoD directives and Air Force regulations, and there was no indication that items we did not test were not in compliance. This review was conducted from June through August 1990 at the activities listed in Enclosure 1.

Background

The Ramstein Officers' Club and the NCO Club are separate activities within the MWR program at Ramstein Air Base, Federal Republic of Germany. Both clubs are authorized membership associations as defined in DoD Instruction 1015.1, "Establishment, Management, and Control of Nonappropriated Fund Instrumentalities," August 19, 1981; and DoD Instruction 1015.2, "Operational Policies for Morale, Welfare and Recreation (MWR) Activities," May 17, 1985. In addition, both clubs were established by the Commander in Chief, U.S. Air Forces in Europe on November 6, 1975, and operate under Air Force mess rules, including Air Force Regulation 215-11, "Air Force Open Mess Program," June 20, 1985, and other Air Force regulations.

As part of the MWR program, the Officers' and NCO Clubs were established to promote and maintain the mental and physical well-being of DoD personnel in the local area. They provide dining, social, and recreational facilities; encourage personnel to participate in activities that develop and maintain a high level of esprit de corps; aid in personnel recruitment and retention; and offer community support. Although DoD Instruction 1015.6,

"Funding of Morale, Welfare, and Recreation Programs," August 3, 1984, authorizes the use of some appropriated funds to support MWR operations, the Officers' and the NCO Clubs operations are supported mainly with nonappropriated funds.

Prior Audit Coverage

The Office of the Inspector General, DoD, issued Report No. 89-117, "Club Operations at Ramstein Air Base, Federal Republic of Germany," on September 27, 1989. Subsequently, the Air Force Audit Agency performed four audits that either directly or indirectly involved the Ramstein MWR operations and two audits that addressed Air Force-wide MWR operations. Enclosure 2 provides a synopsis of the results of each audit report.

Discussion

Implementation of Audit Recommendations. Audit Report No. 89-117, September 27, 1989, on the Ramstein club operations contained 2 findings and 22 recommendations. Using the Air Force reply to the report, we reviewed the appropriateness of actions cited to correct the conditions. We also conducted limited tests to ensure that the cited procedures and controls had been implemented. We found that all recommended corrective actions had been implemented. In addition, as a result of the audit, the following actions were taken to improve MWR operations Air Force-wide:

- On September 9, 1989, Headquarters, U.S. Air Force, issued new facility project programming, design, and contracting guidance.

- The Air Force developed a new training program that incorporates the revised guidance contained in Air Force Regulations 86-1 and 89-1 pertaining to programming, approval, and execution of real property facility projects using appropriated and nonappropriated funds, as well as lessons learned from the Ramstein audit. The training program was given to all base commanders and engineering and contract personnel.

- On October 6, 1989, Headquarters, Air Force Military Personnel Center (AFMPC), issued new guidance regarding the use of bar scales or other similar devices when conducting inventories.

- On December 4, 1989, Headquarters, AFMPC, issued interim changes to Air Force Regulation 176-1, "Basic

Responsibilities, Policies, and Practices," clarifying how sales prices were to be determined for the sale of assets between nonappropriated fund activities.

- On April 23, 1990, Headquarters, AFMPC, issued clarification guidance pertaining to management agreements between MWR activities.

Other Issues. In addition to the findings and recommendations in Report No. 89-117, our follow-up review encompassed several other issues.

Loans. Before our audit, several nonappropriated fund (NAF) loans had been arranged to help finance club operations at Ramstein ($3.5 million for Officers' Club construction; $700,000 for Officers' Club interior design work; and $700,000 for NCO Club debt relief). During our audit, Ramstein MWR management personnel told us that they were not concerned with repayment plans for these loans because they would eventually be converted to grants. The conversions have not occurred, and during our follow-up review, we found no indication that they would occur. Loan balances were maintained in the financial accounting records of the MWR offices, payments were being made, and a loan repayment plan had been developed for the Officers' Club.

Management Oversight. A major contributing factor to the NCO Club financial losses during 1984 through 1987 was a lack of aggressive management oversight. During our follow-up review, we found that the financial performance evaluation system, implemented during the audit, provides in-depth and current reports of the financial operations and trends within all base-level MWR operations. Furthermore, these reports (Financial Performance Management System Report, Cost Effectiveness Team Report, Peer Competition Report, and Command Management Review Report) are used monthly to brief the Vice Commander in Chief, USAFE, on USAFE-wide MWR operations. Activities with problems receive immediate management attention.

Financial Performance. As a final assessment of operations, we reviewed the Officers' and the NCO Clubs' financial performance. For the period October 1, 1988, through April 30, 1990, both Clubs showed a profit. Unadjusted net profits (including depreciation expenses) totaled $229,000 for the Officers' Club and $577,000 for the NCO Club; while adjusted figures (eliminating depreciation expenses) were $405,000 and $675,000, respectively.

Results of Issues Turned Over for Investigation. On July 26, 1989, the Deputy Inspector General, DoD, requested the Office of the Inspector General, Department of the Air Force to investigate several issues related to the MWR operations at Ramstein. The results of the investigations initiated by AFOSI are discussed below.

Issue - On March 22, 1988, AFOSI conducted an investigation (File No. 8770D60-956) into the loss of $1,400 from the cashier's cage at the Ramstein NCO Club. Unrelated testimony by the Club Manager implicated four senior Command personnel in activities that may have been improper or illegal. However, no further follow-up into the specifics discussed during the Club Manager's interview had been made by AFOSI.

Result - On January 31, 1990, an investigation (File No. 89HQD60-3653) conducted by AFOSI disclosed that the Club Manager had admitted to covering up the $1,400 loss, with the knowledge and assistance of the Nonappropriated Fund Financial Management Officer (NAFFMO). The individuals involved, except for the NAFFMO, and the individuals responsible for management oversight were reprimanded.

Issue - Two investigations were conducted by the 377th Combat Support Wing (377CSW) in 1988 regarding inventory shortages at the NCO Club and the NAF Central Warehouse. The investigations concluded that the former Club Manager and the NAFFMO were directly responsible, and recommended that both be held pecuniarily liable and barred from holding another NAF position. However, no action was taken by 377CSW officials regarding either investigation.

Result - An investigation conducted by AFOSI on January 31, 1990, disclosed additional activities by the former Club Manager and the NAFFMO to hide the true financial status of MWR activities at Ramstein. Individuals in management oversight positions who did not follow through with the actions recommended by the 377CSW investigations were reprimanded.

Issue - During our audit, the 377CSW's Staff Judge Advocate made a statement that may have misled the audit team regarding the existence of the two inventory shortage investigations conducted by the 377CSW in 1988.

Result - An investigation conducted by AFOSI did not substantiate that the Staff Judge Advocate knowingly misled the audit team.

Issue - The inventory loss investigations conducted by the 377CSW in 1988 cited poor internal controls and management oversight procedures. However, the investigations were not pursued to determine if anyone else within the Command might be involved.

Result - An investigation conducted by AFOSI revealed that several management oversight personnel did not perform their assigned functions. Individuals in management oversight positions who did not follow through with corrective actions were reprimanded.

Issue - In 1986, at the request of Congresswoman Patricia Schroeder, USAFE investigated allegations of financial mismanagement at the Ramstein NCO Club. One of the investigators cited significant problem areas including poor internal controls, useless "get-well" plans, and financial losses caused by external Command influence. USAFE's subsequent report stated that there were no problems.

Result - An investigation conducted by AFOSI on February 13, 1990, did not reveal any undue Command influence.

Issue - Training flights were allegedly scheduled into Ramstein specifically to pick up and return party equipment.

Result - An investigation conducted by AFOSI on February 1, 1990, revealed that training flights were used to move party equipment. AFOSI reported that the general officer involved stated that the equipment had been moved using scheduled training flights and had not caused the flights to be initiated.

Issue - A general officer's wife dictated the use of both appropriated and nonappropriated funds in the renovation of a Teen Center.

Result - An investigation (File No. 8970D95-72) conducted by AFOSI on January 31, 1990, substantiated the allegation and disclosed that the individuals involved knowingly constructed the facility without proper approvals, entered into unauthorized contractual agreements, solicited donations in violation of regulations, and did not obtain proper approvals nor properly account for the donations. In addition, $128,000 of appropriated funds and $40,000 of nonappropriated funds were obligated without proper approval authority. Individuals involved, with the exception of the NAFFMO, were reprimanded.

Issue - During our audit, critical documents were missing and important records had been destroyed. Ramstein personnel responsible for the documents alleged that the documents had been removed by a Command-organized task force before the audit team arrived. Additionally, one officer admitted destroying design files because they were no longer necessary, even though the building in question had not been accepted by base facility personnel from the contractor.

Result - AFOSI could not find evidence of intentional removal of documents to prevent access by the auditors and determined that the officer who destroyed the design files was not aware of the impending Inspector General, DoD, audit.

Issue - Justification documents for Building 300, signed on March 7, 1984, called for the construction of a housing supply facility. However, planning documents and design blueprints clearly indicated that the facility was to include a laundry for the Officers' Club.

Result - AFOSI reported that the facility was originally programmed in 1984 for the specific purpose of relocating housing supply and administrative functions. However, when requirements for the relocation were eliminated, management decided to use the building for a satellite accounting and finance function and a laundry. AFOSI concluded that management had not updated programming documents to accurately reflect the purpose of the facility.

Issue - A snooker table was procured for the Officer's Club using appropriated funds.

Result - The AFOSI investigation revealed that the table had been improperly procured. The individuals involved received verbal counseling.

Overall, our follow-up review disclosed that the Air Force actively pursued the investigative issues resulting from the audit of Ramstein club operations. The AFOSI investigations indicated that actions had been taken against those individuals who did not perform their duties.

Results of Issues Raised at Congressional Hearing. On November 16, 1989, the Deputy Inspector General, DoD, testified before the House Armed Services Committee's MWR Panel on the results of the audit on Ramstein club operations. During testimony, the House Armed Services Committee requested that additional information relating to the following issues be pursued.

Influence on Selection of Officers' Club Design Firm. During the audit, members of the Staatsbauamt (StBA), a German quasi-governmental organization that administers construction projects, stated that the Officers' Club design firm did not have a good reputation but had been selected based on the insistence of USAFE representatives. USAFE engineering personnel indicated that there were rumors that a former USAFE colonel had been employed by the design contractor and had influenced the contract award.

The auditors were unable to verify the rumor. An investigation conducted by AFOSI did not identify any former Air Force personnel employed by the contractor.

Possible Recovery of Losses at Ramstein. AFR 176-2, "Financial Operations and Control of Assets," states that "custodians will be held pecuniarily liable for excess obligations from which the NAF instrumentality suffers a loss and for unauthorized obligations not later sanctioned by proper authority." Members of the MWR Panel at the congressional hearing were interested in pursuing the recovery of losses from the Ramstein NAFFMO.

Although AFR 176-2 holds the NAFFMO pecuniarily liable for specific losses within the Ramstein MWR system, enforcing this liability was a problem. The former NAFFMO had transferred to a civilian MWR position in the Army and was no longer under the jurisdiction of the Air Force. The 377CSW's Staff Judge Advocate determined that the guidance in AFR 176-2 was established only "under the general authority of the Secretary of the Air Force" and was not based on "any specific statute." Therefore, no monies could be recovered.

Help for Whistle Blower. Most of the allegations in Congresswoman Patricia Schroeder's 1986 request for an investigation into the financial management of the Ramstein NCO were proven to be true. If proper action had been taken at that time, significant NCO Club resources could have been saved. Furthermore, the individual that "raised the flag" that something was wrong eventually was downgraded and transferred. Congresswoman Schroeder requested that protection of this individual be pursued.

As a result of this request, the Office of Congressional and Interagency Coordination, Assistant Inspector General for Analysis and Followup, made inquiries with the individual and his legal counsel. The legal counsel for the individual advised that

the matter was being pursued through the Merit Systems Protection Board and that the assistance of the Office of the Inspector General, DoD, was not required or desired.

Because this report contains no recommendations, management comments are not required. The courtesies extended to the audit staff during the review are appreciated. If you have any questions about this report, please contact Mr. Charles M. Santoni or Mr. Harlan M. Geyer at (703) 693-0114 (AUTOVON 223-0114). Audit team members are listed in Enclosure 3. Copies of this report are being provided to the activities listed in Enclosure 4.

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Enclosures

cc:
Secretary of the Air Force
Commander in Chief, U.S. European Command
Assistant Secretary of Defense (Force Management and Personnel)
Commander in Chief, U.S. Air Forces in Europe
Inspector General, Department of the Air Force

ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Assistant Secretary of Defense (Force Management and Personnel), Washington, DC

Unified and Specified Commands

Headquarters, U.S. European Command, Stuttgart, Federal Republic of Germany (FRG)

Department of the Air Force

Headquarters, Department of the Air Force, Washington, DC
Headquarters, U.S. Air Force Office of Special Investigations, Bolling Air Force Base, DC
Headquarters, U.S. Air Forces in Europe, Ramstein Air Base, FRG
Headquarters, 316th Air Division, Ramstein Air Base, FRG
Headquarters, 377th Combat Support Wing, Ramstein Air Base, FRG
Headquarters, U.S. Air Force Audit Agency, Norton Air Force Base, CA
U.S. Air Force Audit Agency Ramstein Area Audit Office, Ramstein Air Base, FRG

PRIOR AUDIT COVERAGE

Inspector General, DoD, Audit Report

The Office of the Inspector General, DoD, issued Report No. 89-117, "Club Operations at Ramstein Air Base, Federal Republic of Germany," on September 27, 1989. That report stated that the audit could not determine whether the allegations of theft or misappropriation were true because of a breakdown of internal controls within the Ramstein club system during the period FY 1984 through FY 1987. The audit did, however, determine that cost proposals for construction of the Officers' Club and related projects included incomplete and misleading data and that management had not operated the club system, especially the Nonmcommissioned Officers' (NCO) Club, efficiently, effectively, or profitably during that period. Furthermore, the audit determined that these problems occurred because personnel at all levels of command did not exercise appropriate oversight during this period.

Air Force Audit Agency Reports

Since issuance of Report No. 89-117, the Air Force Audit Agency (AFAA) performed four audits involving, either directly or indirectly, Ramstein morale, welfare, and recreation (MWR) operations, and two audits on Air Force-wide MWR operations.

AFAA Report No. 600-9-69, "Followup of Management of the Ramstein NCO Open Mess," August 28, 1989, evaluated the corrective actions taken to correct deficiencies identified in AFAA Report Number 600-8-39, "Management of Ramstein NCO Open Mess," August 26, 1988 (discussed in Report No. 89-117). The report stated that management had implemented effective procedures and corrected the previous conditions.

AFAA Report No. 600-0-03, "Followup of Management of NCO Open Mess Operations," November 6, 1989, evaluated the corrective actions taken to correct deficiencies identified in AFAA Report Number 600-8-37, "Report on the Management of NCO Open Mess Operations," September 9, 1988 (also discussed in our Report No. 89-117). The AFAA report stated that management had implemented the majority of the recommendations cited in the prior Air Force report, but that 11 recommendations required additional management action.

AFAA Report No. 600-0-05, "Management of Host Nation Support--Creek Sweep Credits," November 8, 1989, indicated that

some credits were improperly used on one nonappropriated fund facility (which was a Ramstein MWR activity).

AFAA Project 7285315, "Management of Open Mess Operations," November 13, 1989, reported that sufficient oversight policies had not been established by the Air Force Military Personnel Center and that effective procedures had not been implemented by the various major commands within the Air Force to monitor financially-troubled open messes. As a result, base-level nonappropriated fund activities, USAFE in particular, were able to continually overdraw funds credited to their individual accounts in the Central Bank Fund. The report also discussed instances of noncompliance with established internal controls over cash and financial analyses, inventories, and overtime.

AFAA Report No. 600-0-12, "Management of Air Force Special Morale and Welfare (SM&W) and Contingency Funds," December 4, 1989, evaluated the effectiveness of procedures used to manage Air Force SM&W and contingency funds within USAFE. The report concluded that, overall, procedures were generally effective; however, there was a need to strengthen compliance with regulatory procedures in fund expenditure approvals, souvenir stock controls, and disbursement supporting documentation.

AFAA Project 9285110, "Management of the Morale, Welfare, and Recreation (MWR) Construction Program," May 25, 1990, stated that the Air Force had not implemented controls and procedures to encourage effective and economic use of nonappropriated funds in constructing MWR facilities. Specifically, the planning process was not sufficient to ensure that facility construction was based on consumer demand or patronage. Furthermore, facility planning lacked central control and oversight by major commands and the Air Force MWR Board. Consequently, the Air Force had no assurance that proposed facilities were those most needed or desired by the consumers. Additionally, project justifications were not adequate and financial projections were overstated or erroneous. The report indicated that construction of such projects may result in the inability of MWR activities to repay construction loans or generate sufficient profit to support other worthwhile activities.

AUDIT TEAM MEMBERS

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