

FOREWORD

It is my pleasure to report on the accomplishments of the Office of the Inspector General, Department of Defense, for the period April 1, 1998, through September 30, 1998. This report summarizes significant audit and investigative efforts during that period while oversight projects related to the intelligence community are discussed in a separate Classified Annex.

The Highlights section provides a brief overview of the most significant issues discussed in the report. Chapter One provides brief updates on what we consider to be the Department's principal high-risk areas. We have also included more detailed discussions of two special emphasis areas-- Financial Management and Year 2000 Conversion. Chapter Two contains discussions of other important audit and investigative efforts that took place during the period.

This past year marked the twentieth anniversary of the Inspector General Act and, as such, generated some reexamination of the inspector general concept. Our work at Defense, as this report so clearly shows, underscores what has been proven time and again during the last 20 years throughout government: that the inspector general community has been an excellent investment for both the departments it serves and the American taxpayer. The costs of operation for our organization have consistently been far outweighed by the billions of dollars that have been returned to the Department as a direct result of our audit and investigative work. It is true that there have been dramatic changes in the challenges facing inspectors general over the years--the rapid emergence of computer crime and the year 2000 conversion problem are but two fairly recent examples. What has not changed, however, is that the work of the inspector general community remains critical to maintaining integrity and credibility in government. The work described in this and many prior reports has been an important and, we believe, extremely productive part of that effort.

Eleanor Hill
Inspector General

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HIGHLIGHTS

INTRODUCTION

During the 6-month period ending September 30, 1998, the Office of Inspector General, Department of Defense (OIG, DoD), continued to place considerable emphasis on the principal high risk areas in the Department: Acquisition, Infrastructure, Information Technology Management and Financial Management.

Acquisition

The DoD administers \$810 billion of open contracts and plans to award \$135 billion of new contracts in fiscal year 1999. More can be done to improve acquisition efficiency, reduce support costs and restructure the acquisition programs to affordable levels. A systematic, thorough regimen of audits of all major weapon system projects at regular intervals, plus equivalent audit coverage of all support areas and effective, risk based contract auditing would contribute significantly toward achieving those goals. However, because of increasingly constrained internal and contract audit resources, complex acquisition issues were not reviewed at a level that could be considered prudent.

Infrastructure

Logistics costs for fiscal year 1999 are estimated at \$83.5 billion, which is several billion higher than affordable levels. Despite the wide range of ongoing reform activities, more needs to be done to reduce support costs without degrading readiness or losing the ability to control risk. We believe additional base closure and realignment authority is needed, since the Department cannot afford to carry excess infrastructure indefinitely.

Information Technology

Although the Year 2000 Conversion problem is clearly the most pressing current challenge in the information technology area, our continuing deep concerns related to computer system security and acquisition have not abated. Recent audits confirm the seriousness of computer system vulnerabilities and the insufficient priority placed on information assurance. Time-sensitive incidents or threats to the DoD information infrastructure continue to create investigative challenges.

FINANCIAL MANAGEMENT

The DoD was unprepared to comply with the statutory requirements for audited financial statements. Its accounting systems were designed for funds control, not financial statement reporting. The challenges for DoD system designers, financial statement preparers, accounting policy makers and auditors have increased with each increment of additional law or policy. It is unlikely that the DoD will achieve its current goal of attaining favorable audit opinions on its financial statements for fiscal years 1999 or 2000.

Numerous factors contribute to the vulnerability of DoD finance operations to fraud, such as a weak internal control environment, staff turbulence and lack of sufficient fraud awareness training for finance personnel. Congressional hearings in September 1998 graphically identified control weaknesses and the damage done by a few unscrupulous individuals who exploited those weaknesses.

YEAR 2000 CONVERSION

The most fundamental obstacle to an efficient and timely Year 2000 (Y2K) conversion effort is its magnitude: in August 1998 the DoD estimated it had 2,965 mission-critical information systems and about 25,000 others. Decades of laxity in configuration management and system documentation have exponentially compounded the conversion challenge.

Under the prescribed Y2K conversion approach, all managers were to be fully aware of the potential threat to their operations by December 1996 and actively mobilizing resources to deal with it. The DoD belatedly turned full management attention to the problem, and, therefore, the risk of significant disruptions is much greater than initially foreseen. Over 100 audits and inspections have found numerous problems, ranging from inaccurate status reports to a lack of executable contingency plans. Those reviews support the August 1998 assessment by the Secretary of Defense that the Department's Y2K progress has been insufficient.

OTHER ACTIVITIES

The DoD investigative community continued to emphasize a wide range of critical investigative areas, such as procurement fraud and major health care fraud. Investigations in these areas resulted in 98 indictments and over \$134 million in monetary recoveries.

Other significant investigations of bribery, pay and allowance fraud, Defense Resources Management Office fraud, theft/larceny/embezzlement, environmental fraud, computer intrusion, commissary/subsistence fraud, nonappropriated funds fraud, gratuities, customs violations, forgery, terrorism, drugs and general crimes produced 147 indictments and monetary recoveries of over \$45 million.

In addition, 99 suspensions and 150 debarments of companies and individuals resulted from criminal investigations.

The DoD audit community issued 292 internal audit reports and 28,399 contract audit reports, identifying nearly \$6.1 billion in potential monetary benefits.

CHAPTER ONE - REDUCE HIGH RISK VULNERABILITIES

INTRODUCTION

The Department of Defense (DoD) audit, inspection and investigative communities act as agents of positive change in identifying better ways to accomplish the DoD mission by controlling risk, fighting fraud and reducing costs. By closely linking our oversight activities with the Department's strategic goals and management improvement plans, as well as extensively participating in DoD team problem solving efforts, we provide objective, relevant, practical and timely advice to policy makers, managers and commanders.

HIGH RISK AND SPECIAL EMPHASIS AREAS

In previous semiannual reports, we discussed the principal high risk areas in the Department—Acquisition, Financial Management, Infrastructure and Information Technology Management. In addition, we addressed certain focus areas where there are numerous significant audits and investigations—Acquisition Reform, Health Care Fraud, Readiness, Property Disposal and Official Misconduct. In this report, we provide updates on the main high risk areas, with additional detail on Financial Management. We also discuss another focus area—Year 2000 Conversion.

ACQUISITION

The DoD is administering \$810 billion of open contracts and plans to award \$135 billion of new contracts in fiscal year 1999. Reforming acquisition practices to cut costs and lead times remains a principal priority for the Department. Reforms to date have not generated across-the-board savings of sufficient magnitude to revitalize the overall system modernization effort, nor have infrastructure reductions and reforms in other areas enabled significant funding shifts to the modernization programs. As a result, the Under Secretary of Defense (Acquisition and Technology) asserted in September 1998 that DoD weapon programs were “in a death spiral.” He called for further acquisition reform and for infrastructure cuts and warned that program terminations were likely.

“Reforms...have not generated across-the-board savings...to revitalize the overall modernization effort...”

We agree that more can be done to improve acquisition efficiency, reduce support costs and restructure the acquisition programs to affordable levels. A systematic, thorough regimen of audits of all major weapon system projects at regular intervals, plus equivalent audit coverage of all support areas and effective, risk based contract auditing would contribute significantly toward achieving those goals. Findings during this period included the need for further improvements to

requirements determination processes, a more systematic approach to radio frequency weapon vulnerability and acquisition planning. Unfortunately, due to continuing manpower reductions, both internal and contract audit resources are increasingly constrained. As a result, only a handful of the 146 major weapon systems and a few dozen of the many hundred smaller system programs were comprehensively audited in fiscal year 1998. Internal audit coverage of acquisition issues, such as product quality assurance, program status reports, property administration, requirements determination models and service contracting, is no longer adequate. During the period, only 39 internal audit reports addressed this complex area, and many of these responded to relatively narrowly focused requests that did not address major risks or reform objectives. This is about half of what would be prudent, if resources permitted.

We continue to support acquisition reform and are participating in numerous efforts to refine previous initiatives or develop new ones. The DoD has responded aggressively, for example, to audit findings on excessive prices paid for aviation spare parts purchased from commercial catalogues. Excellent training initiatives have been taken and improved guidance issued. We remain concerned, however, about broad attacks on the Cost Accounting Standards, False Claims Act, Truth in Negotiations Act, Defense Contract Audit Agency (DCAA) and other elements that are critical to maintaining the Government's ability to protect its interests. Generally, such initiatives are related to the otherwise commendable goal of reducing differences between governmental and private sector contracting practices. Although improvement is possible and desirable in many additional areas, it is important to avoid counterproductive measures. Specifically, we oppose any far-reaching curtailment of Cost Accounting Standards coverage or impingement on the independence of the Cost Accounting Standards Board. We further oppose continued downsizing of the DCAA or other impairments to vital contract audit coverage. We do not believe that industry critics of the False Claims Act have brought forward a convincing case that the standard of proof and the penalties prescribed in that statute should be changed.

INFRASTRUCTURE AND SUPPORT COSTS

During the reporting period, the Deputy Secretary of Defense issued over a dozen additional Defense Reform Initiative Directives to implement cost cutting reforms across a wide range of support activities. Examples of directed measures include disposal or demolition of 8,000 excess buildings with 80 million square feet, a team to develop streamlined contract closeout procedures, realignment of electronic commerce management into a Joint Electronic Commerce Program Office,

expanded use of a prime vendor program for facility maintenance supplies and mandatory use of purchase cards for various categories of payments. After a series of audit reports on duplicate management of thousands of supply items by DoD and other Federal agencies, the Defense Logistics Agency agreed to initiate a comprehensive review of outdated agreements with the General Services Administration (GSA). Similar progress is still needed to address commodities bought by the DoD and the Department of Veterans Affairs. In addition, the DoD agreed to our recommendation to plan a pilot effort for joint contracting for depot maintenance of secondary items. Additional action is required to address previous audit findings on demilitarization coding and materiel disposal practices. For example, the DoD continued deferring decisions on how to correct longstanding weaknesses in those areas, pending Defense Science Board advice on disposal policy.

“...more needs to be done to reduce support costs without degrading readiness...”

Despite the wide range of ongoing reform activities, more needs to be done to reduce support costs without degrading readiness or losing the ability to control risk. Logistics costs for fiscal year 1999 are estimated at \$83.5 billion, which is still several billion higher than affordable levels.

We issued 85 audit and evaluation reports covering logistics, health care management, environment, facility construction and other support areas. The Joint Logistics Commanders (JLC) and other managers continued relying on the oversight community to help them implement initiatives efficiently. For example, most DoD internal audit agencies were actively involved in verifying data being used for outsourcing decisions. An audit requested by the JLC indicated widespread noncompliance with requirements for designating a single source of repair for equipment; nearly 109,000 items (27 percent of nonconsumable items in the DoD database) had wrong codes and there were duplicative repair source assignments for 38 of 145 items sampled. Those errors hamper efforts to identify excess capacity and reduce maintenance costs. Another audit indicated that fuel war reserve requirements in Europe were considerably overstated. The DoD agreed with our recommendations to reduce purchases and cut fuel costs for the operating commands by \$430 million, thus freeing up those funds in the vital readiness accounts.

In the facilities area, audits done in response to statutory requirements for reviews of military construction projects for previously approved base realignments and closures continued to help DoD avoid considerable waste. The planning for 71 of 115 projects audited was questionable.

Implementing the recommendations in 63 related audit reports would avoid at least \$168 million in unnecessary expenditures.

“We believe this issue [BRAC authority] needs to be revisited...”

Previously, the Congress disapproved the DoD request for additional base closure and realignment (BRAC) authority. We believe this issue needs to be revisited in the future, since the Department cannot afford to carry excess infrastructure indefinitely. At DoD request, we audited the cost and savings experience from the 1993 and 1995 BRAC rounds. Although records were fragmented and incomplete, we were able to ascertain that the positive fiscal impact of BRAC 93, for example, had been underestimated by \$3.2 billion. The Department agreed with our recommendations for improved controls to track future results more efficiently.

INFORMATION TECHNOLOGY

Although the “Millenium Bug” (Year 2000 Conversion) is clearly the most pressing current challenge in the information technology area, the continuing deep concerns related to computer system security and acquisition have in no way abated. In this high-risk area, as in the others discussed above, DoD audit coverage is inadequate. The relatively few audits performed on other than Year 2000 topics confirmed that DoD computer systems remain easily penetrable by hackers, general and

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application controls are lax for systems containing sensitive financial and personnel data and processes for managing acquisition investments need improvement. Presidential Decision Directives 62 and 63, issued in May 1998, levied extensive new requirements on DoD and other agencies to improve the national anti-terrorism posture in general and information security in particular. The Department is also still working to develop an effective alternative to the defunct Major Automated Information System Review Council to control its investment projects and \$10 billion annual information technology budget.

During the period, 44 information technology audit and evaluation reports were issued, over half of which were Year 2000 related. Key systems addressed by the reports included the Standard Procurement System, Defense Civilian Data Personnel System, Defense Property Accountability System and the Foreign Disclosure and Technical Information System. Virtually all system acquisition and security audits identified significant problems, which suggests that information assurance is not being given sufficient priority. Computer security vulnerabilities also constitute an investigative challenge. To meet this

challenge, the Inspector General, DoD, continued building up the Defense Criminal Investigative Service (DCIS) Information Infrastructure Team, which provides immediate criminal investigative resources to address time-sensitive incidents involving attempted penetration of the DoD information infrastructure. The DCIS also provides information gathering and dissemination activities to assist in the protection of that infrastructure, including assistance in assessing, reporting and correcting vulnerabilities. Additionally, the DCIS has a special agent assigned full time to the National Infrastructure Protection Center in support of Presidential Directive 63.

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FINANCIAL MANAGEMENT

In this report, we discuss this high risk area of DoD finance and accounting in particular detail.

CHALLENGES

When the DoD Planning, Programming and Budgeting System was being widely applied in State governments and other Federal agencies during the 1960's, DoD financial management was considered to be exemplary. Unfortunately, this has not been the case for quite some time. The decentralized management practices and thousands of automated systems used to manage DoD support functions, such as acquisition or logistics, were not integrated with the Department's finance and accounting systems, or their interfaces were created through very complicated and generally inefficient arrangements. By the end of the 1980's, the Department realized that incrementally improving each of its decentralized and duplicative finance and accounting operations was impossible. Therefore the controversial decision was made to centralize those operations and systems in the Defense Finance and Accounting Service (DFAS), which was activated in January 1991.

The creation of the DFAS coincided with, and was in part motivated by, the beginning of intensive DoD efforts to reduce administrative overhead and support costs. Consolidating hundreds of offices into five centers and 16 operating locations, eliminating several thousand manpower positions in the process, has been a paramount goal, and DFAS has succeeded in

"...the DoD financial management community must...better integrate its operations and systems with DoD acquisition, logistics and personnel management activities."

meeting it. As with any restructuring of this magnitude, however, the evolution of DFAS has brought its own problems in terms of workforce skills loss, mixed relations with customers and distractions from other challenges. The most visible of these challenges is attaining the capability to provide audited annual financial statements for its

major funds and for the Department as a whole. In addition, the DoD financial management community must break with deeply ingrained past habits and better integrate its operations and systems with DoD acquisition, logistics and personnel management activities. It must also deal with the problems and opportunities posed by the ongoing revolution in information technology, fix internal control weaknesses that leave DoD finance activities vulnerable to fraud and mismanagement and reexamine the processes and requirements that necessitate having a tremendously complicated chart of accounts. Finally, efforts must address the longstanding conviction of many DoD program managers

that the official accounting systems do not provide the financial data they need or report it late, with too many errors.

MAGNITUDE OF OPERATIONS

Paradoxically, the scale of DoD financial operations illustrates the compelling need for financial management reform and the difficulty of reengineering quickly and efficiently.

The DoD is the largest holder of U.S. Government physical assets (\$1.3 trillion), has the most employees (2.2 million), owns the most automated systems (28,000), administers the most complicated chart of accounts and manages the most diverse mix of operating and business functions of any Government agency. In fiscal year 1997, the DoD reported revenue of \$270 billion and liabilities of \$1.3 trillion.

The average monthly DFAS workload includes making 9 million personnel payments, processing 2 million commercial invoices, paying 675,000 travel settlements, issuing 550,000 savings bonds, handling 340,000 transportation bills of lading, disbursing \$22.2 billion and reporting commitments, obligations, expenditures and other data for thousands of accounts.

FINANCIAL REPORTING

The OIG, DoD, and the Military Department audit organizations devoted over 600 auditor workyears to reviews of financial statements in fiscal year 1998. This is an unprecedented amount of auditing on a single DoD topic, and nearly 300 internal audit reports have been issued over the last 3 years alone on financial reporting and accounting problems. Despite that intensive audit effort and a relatively good record in implementing audit recommendations, DoD progress toward attaining favorable audit opinions on its statements has been painfully slow. The Military Retirement Trust Fund received an unqualified audit opinion on its financial statements for fiscal year 1997; however, no other major DoD component or fund attained other than a disclaimer of opinion. Likewise,

“DoD progress toward attaining favorable audit opinions on its [financial] statements has been painfully slow.”

the OIG disclaimed an audit opinion on the DoD Consolidated Financial Statements. Those statements and the audit opinions are available on the Internet at <http://www.dtic.mil/comptroller/97afs/>.

The DoD was unprepared to comply with the requirements for audited financial statements levied by the Chief Financial Officers (CFO) Act of 1990, the Government Management Reform Act of 1994 and the Federal Financial Management Improvement Act of 1996. Its accounting systems were designed mostly for funds control, not financial statement reporting.

Those systems lack integrated, double-entry, transaction-driven general ledgers and cannot produce an audit trail from occurrence of a transaction through recognition in accounting records and, ultimately, incorporation into financial statement data. There are numerous internal control problems in the accounting systems and the non-financial “feeder” systems, which are operated by the acquisition, logistics and other program management communities and provide 80 percent of the financial statement data. These and other fundamental problems have been candidly acknowledged in DoD management representation letters, annual management control assessments and testimony to Congress.

The challenges for DoD system designers, financial statement preparers, accounting policy makers and auditors include the steady stream of expanded statutory requirements, new Federal Accounting Standards Advisory Board (FASAB) principles, the Administration’s goal of unqualified audit opinions on the Government-wide Consolidated Statements for fiscal year 1999, DoD management preferences for separate and additional audited financial statements for certain other Defense Agencies and portions of the Military Departments and Office of Management and Budget (OMB) guidance. Each of these has generated significant new audit workload, with no resource augmentation. The DoD must now prepare and audit up to 8 fiscal year 1998 statements (formerly 3) for each of 11 reporting entities to meet OMB requirements. Managers seek audit opinions for at least 4 other reporting entities, for a potential total of 15 entities (and 120 statements). Because separate audit opinions require additional audit steps and tests, the OIG recommended that audit opinions be sought for no more than 9 DoD reporting entities. No other Federal agency has more than 4 reporting entities. Without additional resources or relief from significant portions of the expanding requirements, auditors will have no choice but to cite audit scope limitations as an additional qualification or reason for disclaimer on many DoD financial statements, including the consolidated DoD statements for fiscal year 1998.

The DoD plans to have the next generation of accounting systems, which are intended to be CFO Act-compliant, fully fielded in fiscal year 2003. Until then, financial statements will be prepared using alternative sources for data. The bulk of the data will continue coming from non-financial feeder systems, which have numerous internal control problems and whose replacement, modernization or improvement are vulnerable to the usual slippage and the disruptions caused by Year 2000 conversion. The Department is simultaneously attempting to achieve system modernization, improve security, make the Year 2000 conversion and

achieve CFO Act compliance. This is a very high risk strategy, yet most DoD system managers have no choice but to adopt it.

Beginning in mid-1998, senior personnel from the OMB, the General Accounting Office (GAO), OIG and DoD CFO began intensive discussions on how to implement the new FASAB standards and achieve favorable audit opinions on DoD and Government-wide financial statements. This dialogue has been highly constructive, and many issues have been resolved. However, the DoD was unable to provide its Biennial Financial Management Improvement Plan to the OIG, DoD, in

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time for our evaluation of it to be included in this report, as prescribed by the Federal Financial Management Improvement Act of 1996. We will send the results of that evaluation to the Congress separately.

In addition to the joint effort to map a sound strategy for accelerating progress toward auditable financial reports, the most hopeful sign of progress has been the recently expanded participation of DoD managers from outside the finance and accounting community in the CFO Act compliance effort. This is largely driven by the Secretary of Defense memorandum of May 15, 1998, which clearly set a high priority on improvement. It is especially vital that DoD logistics managers recognize the need to improve systems and inventory management practices so that reliable information on property, plant, equipment and inventory can be generated for financial reporting purposes.

FINANCE OPERATIONS ISSUES

The extensive audit requirements driven by the CFO Act and related guidance have caused major adjustments to DoD internal audit priorities. Those changes necessarily include, perhaps ironically, drastic cutbacks in audits of finance operations themselves. These operations include debt collection, vendor payment and payroll. Although financial statement audits identify some internal control weaknesses that relate to operations and accounting reports, they do not provide the direct coverage and sharp focus needed to control risks in day-to-day finance operations, especially vendor pay. Audit coverage to address chronic DoD problems, such as duplicate and erroneous payments, declined steadily as CFO Act-related requirements have grown. Minimal coverage is planned during fiscal year 1999. The situation is further aggravated by lack of assurance that DFAS self-assessments are effective. As in most DoD high risk areas, management depends heavily on audit to identify control weaknesses.

The DFAS has been a leader within the DoD in dealing with the Year 2000 conversion problem and continues to pursue an ambitious agenda of process reforms. New initiatives include implementing lower thresholds for prevalidating disbursements to obligations and revised progress payment practices. The latter action entails contracting officers providing detailed payment instructions. It will not fully correct the longstanding problem of inadequate safeguards for appropriation integrity in allocating progress payment shares among accounts because the new procedure will apply only to new contracts that are not firm fixed price. Nevertheless, we regard the new procedures as a significant step forward. The population of progress payments covered is the one at highest risk, and the experience gained with the new practices will hopefully resolve a 5-year long debate on the cost, workload and processing time impact of departing from complete reliance on automated processes. Eventually, systems now under development will obviate the need for manual processing.

Other financial management problems facing the Department include an overly complicated chart of accounts, continuing difficulties in matching disbursements to proper obligations, chronic underestimating or underbudgeting of operations and support costs, a costly and paperwork-intensive budget justification process and vulnerability to fraud and waste in vendor pay.

FRAUD IN DOD FINANCE OPERATIONS

Numerous factors are contributing to the vulnerability to fraud of DoD finance operations. Those factors include a weak internal control environment, staff turbulence and lack of sufficient fraud awareness training for finance personnel. Congressional hearings in September 1998 before the Senate Committee on the Judiciary graphically identified control weaknesses and the damage done by a few unscrupulous individuals who exploited those weaknesses.

INVESTIGATIVE RESPONSIBILITIES

The DCIS has primary investigative jurisdiction concerning allegations of fraud that directly impact the DFAS, including fraudulent conduct by DoD contractors and DFAS employees. The Military Criminal Investigative Organizations (MCIOs) have primary investigative jurisdiction concerning allegations of fraud pertaining to DFAS services provided at a single military installation, as well as pay and allowance

Operation Mongoose

and travel fraud committed by a civilian employee or Service member of a Military Department.

OPERATION MONGOOSE

Since 1994, OIG, DoD, auditors and investigators have supported "Operation Mongoose," a DFAS initiative involving the use of computer matching techniques to detect fraud, primarily in the area of pay and allowances. Many of the referrals in these cases resulted from matches of active employees to Social Security Administration death files. The OIG personnel have participated in verifications of eligibility of DoD annuitants in the Philippines, Guam and Puerto Rico. Referrals emanating from these verification projects have, for the most part, been referred to the MCIOs for investigation. During fiscal year 1998, the DFAS reported that Operation Mongoose saved \$7 million. Problems with database accuracy have been an inhibiting factor; however, the project has been a useful laboratory for determining the viability of various matches as internal controls and fraud detection tools.

PROACTIVE EFFORTS

The DCIS initiated proactive efforts focusing on fraud affecting DFAS operations. One such initiative by the DCIS Columbus office addresses duplicate payments and other erroneous payments made to contractors and vendors by the DFAS Columbus, Ohio, Center. The project, which is directed by the Affirmative Civil Enforcement Office, United States Attorney's Office, Southern District of Ohio, targets for civil prosecution contractors throughout the United States who are unwilling to return improper payments. To date, the project has resulted in the initiation of

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over 40 separate investigations and the recovery of more than \$3.5 million. Another focus area involves 129 contractors who have been identified by DFAS as having submitted duplicate invoices on a repetitive basis. An examination of the duplicate payment requests is currently underway, and separate investigations will be initiated in cases in which the submissions appear fraudulent.

The DCIS Indianapolis, Indiana, Post of Duty initiated a proactive project in June 1998 to target transportation carriers who have received duplicate payments from the Directorate for Transportation Payments (DTP), DFAS. The project, patterned after the Columbus project, is using computer data matching provided by Operation Mongoose to detect Government bills of lading with the same number and the same billed amount that had been paid more than once. After reviewing the potential duplicate payment list, the DTP confirmed a total of 1,083 duplicate

payments for personal property totaling approximately \$1.5 million and 590 duplicate payments for freight totaling \$160,055.

The DCIS Western Field Office initiated a project in March 1998 based on the successful prosecution of an individual who continued to receive Federal retirement benefits intended for her father for 10 years following his death. The project is using computer matching by the Defense Manpower Data Center and the Social Security Administration to identify monies erroneously remitted by DFAS to persons who are deceased. This project is being coordinated with the Operation Mongoose staff.

In 1993, the Army Criminal Investigation Command began a task force effort to determine whether soldiers in a "separated and absent without leave" or "dropped from rolls" status were still receiving full pay and allowances. To date, the task force initiated over 600 investigations that resulted in \$13 million returned to the Government in fines, forfeitures and restitution.

The Naval Criminal Investigative Service (NCIS) initiated efforts in Japan, California and aboard an aircraft carrier to identify fraudulent receipt of Variable Housing Allowance, Basic Allowance for Quarters and Basic Allowance for Housing by Navy members who submitted falsified marriage certifications or failed to report divorces. The NCIS opened 68 investigations to date that resulted in recoveries exceeding \$500,000.

The Air Force Office of Special Investigations (AFOSI) is formalizing a procedure for timely reporting of systemic program deficiencies discovered during the course of investigations. Where a weakness is discovered, data will be tracked to identify trends and will be shared with all affected agencies. The AFOSI is also taking an aggressive stance on fraudulent employee workers' compensation claims. Employee Compensation Act investigators at three Air Force Materiel Command installations are now collocated at AFOSI detachments to improve cross-flow of information and timeliness and efficiency of employee compensation fraud investigations.

FRAUD AWARENESS TRAINING

The DCIS conducts fraud awareness training for DFAS employees throughout the country. Since 1995, the DCIS has conducted briefings for approximately 4,820 DFAS employees. The DCIS offices that are collocated with DFAS paying centers maintain close coordination and communicate regularly on matters of mutual interest. Further, the DCIS

was invited by DFAS management to provide fraud awareness training at 5 DFAS centers and 18 operating locations across the country during a nationwide DFAS stand-down for ethics training.

INVESTIGATIONS OF DFAS MATTERS

From fiscal years 1993 to 1998, the DCIS recovered \$21.2 million as a result of DFAS-related cases. Additionally, these cases resulted in 75 criminal convictions, 23 civil judgments or settlements and 56 administrative actions.

The following are examples of recent criminal and civil prosecutions relative to the DFAS.

Air Force Staff Sergeant Robert L. Miller, Jr., was convicted and sentenced by a general courts-martial to 12 years in prison, a dishonorable discharge, reduction in rank to E-1 and forfeiture of all pay and allowances. This was a result of Miller's theft of 17 U.S. Treasury checks totaling \$436,684 and attempted theft of two checks totaling \$501,851, from the DFAS, Dayton, Ohio, where he was assigned. Miller caused bogus U.S. Treasury checks to be issued to Payling Scott, of Atwater, California, a co-conspirator, who cashed the checks, kept a portion of the funds for herself and sent the remainder to Miller. Scott pled guilty to conspiracy and was sentenced to 3 years probation and ordered to make restitution for his portion of the stolen funds. This investigation was conducted jointly by DCIS and AFOSI.

Teasa Hutchins, Jr., Fort Myer, Virginia, pled guilty to theft of Government funds and was sentenced to 21 months incarceration and ordered to pay \$168,772 restitution. Hutchins, a former pay supervisor in the Finance and Accounting Office, Military District of Washington, embezzled nearly \$169,000 by establishing an account in the name of a fictitious military member. Hutchins used the ghost account to effect electronic funds transfers to bank accounts owned or controlled by Hutchins and a civilian acquaintance. This investigation was conducted jointly by DCIS and the Army Criminal Investigation Command.

Argent Research & Recovery, Limited (Argent), Weymouth, Massachusetts, was sentenced to 12 months probation. Mathew M. Drohan, executive vice president, was sentenced to 48 months incarceration. Argent and Drohan were jointly ordered to make restitution in the amount of \$2,127,481. Raymond J. Keegan, Plymouth, Massachusetts, former president and co-owner of Argent, pled guilty to two counts of Federal income tax evasion

and was sentenced to 11 months incarceration, 24 months probation and ordered to pay a \$3,100 fine. Argent had been engaged in the business of identifying Federal, state and local government funds that had not been received by the payees and collected the funds for a percentage of the proceeds. Both Argent and Drohan were embezzling funds collected from DFAS on behalf of payees. Keegan failed to report income derived from this criminal activity.

Investigation disclosed that checks stolen from DFAS, Columbus, Ohio, by a former employee were deposited into fraudulent business accounts at several banks. Funds were then withdrawn by co-conspirators using false identification. To date, nine subjects have been convicted and sentenced to incarceration totaling over 103 months, with monetary recoveries of \$246,000. The longest sentence was meted out to Richard E. Watkins, Columbus, Ohio, who pled guilty to conspiracy to commit bank fraud and was sentenced to 37 months incarceration and ordered to pay \$10,000 restitution.

Sonya R. Fernandez, Santa Ana, California, pled guilty to theft, embezzlement and submitting false statements and was sentenced to 24 months confinement and ordered to pay \$269,488 restitution. Investigation disclosed that Fernandez failed to notify the Government for 10 years of the 1987 death of her adoptive father and continued to receive Federal retirement benefits destined for him. The DFAS paid over \$97,000 in retirement benefits that Fernandez illegally converted to her own use.

Mark J. Krenik, an Air Force Contracting Officer's Technical Representative at Reese Air Force Base, Texas, created false invoices for automated data processing equipment. Due to downsizing of his office, he became responsible for generating the requirements, placing the orders, certifying delivery and authorizing payments. He opened two accounts at a local bank under a fictitious business name and placed himself as sole signature authority on the accounts. Eleven Government checks totaling \$505,941 were deposited to the accounts. The bank notified Federal authorities. Krenik was found guilty of three counts of filing false claims, received 3 years probation, and was fined and ordered

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to pay restitution. The entire \$505,941 deposited to the accounts was recovered. Krenik was able to accomplish his crime because of little or no oversight on the contracts in which he was involved. Consolidation of responsibilities of

three staff positions into one allowed the opportunity for Krenik to develop the scheme to defraud the Government.

SUMMARY

The DoD is confronted by formidable management challenges, and it is unlikely that Financial Management will cease to be a high risk area for several years. Mitigating the risk will require strong management commitment and continued support from the audit and investigative communities. If resources permit, that support should be intensified to eliminate the current vulnerabilities as quickly as possible.

YEAR 2000 CONVERSION

The dependence on information technology for conducting military operations and support functions makes any potentially widespread disruption or degradation of service a major concern. Therefore the Secretary of Defense and Chairman, Joint Chiefs of Staff, appropriately termed the “Millenium Bug” a major threat to military readiness. In previous semiannual reports to the Congress, we underscored the

“Decades long laxity in configuration management and system documentation have exponentially compounded the Y2K conversion challenge.”

enormity of the management challenges posed by the “Y2K” problem. The most fundamental obstacle to an efficient and timely Y2K conversion effort is its sheer magnitude: in August 1998 the DoD estimated it had 2,965 mission-critical systems and about 25,000 others, in addition to millions of microchips and processors embedded in hundreds of thousands of pieces of equipment. Decades long laxity in configuration management and system documentation have exponentially compounded the Y2K conversion challenge. Over 200 audit and inspection reports have highlighted specific Y2K program shortfalls related to:

- Management oversight and awareness
- Assessing Y2K vulnerability
- System interfaces
- Testing
- Reporting
- Contingency planning
- Prioritizing efforts
- Resource management
- Infrastructure

Findings in each of these areas and other concerns are discussed below.

**MANAGEMENT
OVERSIGHT AND
AWARENESS**

Under the phased Y2K conversion approach prescribed in OMB and DoD guidance, all managers were to be fully aware of the potential threat to their operations by December 1996 and actively mobilizing resources to deal with it. Although the Office of the Secretary of Defense began issuing directions and advisories on this subject during 1996, auditors and inspectors found significant awareness gaps as late as September 1998. The dispersed ownership of DoD systems and the persistent tendency to regard the problem as a purely technical matter to be handled by computer technicians and not a management or operational consideration, led to belated involvement by many key commanders and managers. The Office of the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) and many other headquarters throughout the Department did not initially recognize the necessity for fairly large, full-time staffs to coordinate Y2K conversion. The pace of the remediation effort has been uneven, and senior managers have not been able to rely on subordinates taking proactive action. There has also been great frustration at the system user and operating command level about the lack of information and guidance flowing down the chain of command and out of the support structure to operators.

The Joint Staff and Office of the Assistant Secretary reorganized and expanded their Y2K program offices late in fiscal year 1998. Hopefully,

this will enable management to do a better job in analyzing status reports, intervening in areas where progress is unsatisfactory and quickly filling remaining gaps in guidance. There is also a need to determine when and how to apply more aggressive measures, such as funding cutoffs and configuration change freezes.

Two August 1998 memoranda from the Secretary and Deputy Secretary of Defense were especially noteworthy. On August 7, Secretary Cohen declared that “The Department of Defense...is making insufficient progress in its efforts to solve its Y2K computer problem.” He directed a number of significant actions that, for the first time, made the Chairman of the Joint Chiefs of Staff and the Unified Commanders-in-Chief accountable for significant aspects of the Y2K conversion effort, including operational evaluations and readiness assessments. In response to audit findings that many weapon system managers were not assessing the Y2K vulnerability of their systems, the Secretary instituted reporting to him on the Y2K compliance status of every major system. Likewise, he directed funds be cut off to any users of Defense computer megacenters that did not have test agreements with those megacenters by October 1998. Again, this responded to audit findings that main frame computer users and megacenter managers generally lacked test plans and agreements.

On August 26, 1998, the Deputy Secretary of Defense ordered senior Office of the Secretary of Defense officials to verify that all functions under their purviews “will continue unaffected by Y2K issues.” Particular emphasis was put on end-to-end testing for logistics, personnel, health/medical, communications and intelligence functions. The Chiefs of Staff for the Military Services and the Directors of Defense Agencies must also certify that they have completed testing their systems by November 1998.

“It is disappointing that inadequacies in management oversight and awareness were identified in 98 audits and inspections during fiscal year 1998.”

The strong leadership evinced by those memoranda was a very constructive influence.

However, the need for such direction after almost two years of Y2K conversion effort also indicated the previous lack of responsiveness to the problem by most functional area heads and many senior commanders. It is disappointing that inadequacies in management oversight and awareness were identified in 98 audits and inspections during fiscal year 1998.

ASSESSING Y2K VULNERABILITY

The process of determining the Y2K vulnerability of individual systems and initiating contingency plans for vulnerable systems was to have been completed by June 1997. Audits continued to identify organizations and multiple system users, such as some Navy ships, that were still in the assessment phase in September 1998. Relatively few DoD components made diligent efforts to prepare contingency plans during the assessment phase. Most of the 98 audit and inspection reports with findings related to assessment identified gaps and errors in the evaluation of Y2K vulnerabilities, often because of poor inventory data, lack of understanding of system interfaces and confusion over responsibilities.

SYSTEM INTERFACES

About 74 audit reports addressed problems encountered by managers as they tried to cope with the lack of adequate documentation or system interfaces and the unwillingness or inability of data interchange partners to develop sound agreements for Y2K remediation and testing. If interfacing systems do not have compatible and complete Y2K corrections, one noncompliant data exchange partner may cause failures throughout an entire web of systems. The DoD has properly stressed the need for interface memoranda of agreement; however, we frequently found that such agreements were incomplete or not meaningful. The Air Force Audit Agency reported that many Air Force activities did not properly evaluate system interfaces because:

- managers did not dedicate the necessary resources to effectively progress beyond identifying systems;
- system managers often considered coordinating interfaces the sole responsibility of the activity receiving their data and, therefore, did not initiate contact; and
- some activities planned to postpone identifying interfaces until after initiating system renovations, even though such procedures could result in costly reworks.

We found the same situations in numerous other DoD organizations. Any inadequate agreements that have not yet been identified by auditors may cause problems during upcoming testing.

TESTING

The number of systems and devices that need testing to ensure Y2K compliance, the multiplicity of interfaces, the late fielding of many new systems and Y2K patches, and other factors make Y2K testing one of the most complicated testing challenges ever confronted. The relatively short time left for testing after the belated start of Y2K conversion is forcing

“It remains to be seen if this level of complexity will simply overwhelm the Department’s ability to organize a systematic and efficient testing regimen.”

nearly simultaneous system tests, functional tests and operational evaluations. It remains to be seen if this level of complexity will simply overwhelm the Department’s ability to organize a systematic and efficient testing regimen.

To date, 86 audits have identified gaps in test plans and other problems. The DoD and Congress have been very responsive, however, to our advocacy of an aggressive joint exercise (operational evaluation) program to provide realistic testing of both systems and contingency plans, starting in early 1999.

REPORTING

Until late fiscal year 1998, DoD Y2K compliance status reporting was driven almost entirely by the requirements and formats specified by the OMB for quarterly agency status reports. The DoD initially attempted to collect status information in a central database, which served the dual purposes of facilitating consolidated DoD reporting to the OMB and offering a single source for information needed by testers, users and data exchange partners. Unfortunately, in early 1998 it was determined that the detailed data in the repository could be useful to hackers because it could possibly be used to identify ways to penetrate systems or to mask sabotage as a Y2K disruption. The idea of a freely accessible database was dropped, and the DoD has been searching ever since for substitutes. This problem remained unresolved at the end of fiscal year 1998, but a

“The most serious problem relating to reporting...has been the lack of data quality control...”

Data Base Task Force had been formed to address it.

The most serious problem related to reporting, however, has been the lack of data quality control by the Military Departments and Defense Agencies. Inaccurate status reporting was identified in 74 audits and inspections. In virtually all cases, the reporting was overly optimistic and misleading. For example, of the 430 DoD mission-critical systems reported as Y2K compliant in November 1997, the OIG, DoD, estimated that only 109 systems (25 percent) were appropriately certified as compliant. It is not yet clear that the management controls in the Military Departments and Defense Agencies have improved to the point where the status reports have credibility.

CONTINGENCY PLANNING

Contingency planning at the system level and continuity of operations planning at the mission level are essential for Y2K preparedness. Sixty-six audit and inspection reports discussed inadequacies in this area. Causes include confusion over responsibilities, conflicting priorities and

misconceptions concerning the need for contingency plans even when systems are deemed Y2K compliant.

PRIORITIZING EFFORTS

Twelve audits and inspections indicated failures to establish priorities for system conversion. Assessments regarding the mission criticality of systems by the system owners are often different from assessments by the system users, and those differences remain unreconciled. In a broader sense, the Y2K conversion effort has had to compete for management attention and resources with other significant priorities like business process reform, automated system modernization and information assurance. This has resulted in a lack of active leadership in several functional areas and failure to decrease risk by realigning resources to accelerate Y2K remediation. For example, several DoD components postponed procuring Y2K compliant communications switches to replace non-compliant switches until fiscal year 1999, thus risking problems due to delivery slippage and late testing. The strong messages from the Secretary and Deputy Secretary of Defense in late fiscal year 1998 should eliminate any ambiguity about the relative priority of Y2K conversion.

RESOURCE MANAGEMENT

The DoD components estimate the total Y2K conversion effort cost to be \$2.5 billion. It is likely that the actual cost will be considerably higher. Twenty-seven audit reports discussed the need for better cost estimating. Unfortunately, the opportunity to budget for anticipated costs is essentially past. However, the DoD components will be making fund allocation decisions throughout 1999, and it is important that valid Y2K requirements be promptly identified and funded. It is particularly important that the Y2K operational evaluations be adequately resourced. This includes ensuring that technical experts are made available to the unified commands to support their tests and exercises. The compressed schedules will significantly stress the available pool of system experts, both contractors and Government employees.

INFRASTRUCTURE

Over 40 audit and inspection reports addressed support facilities and devices. The DoD components need to continue addressing Y2K vulnerabilities related to electrical power generation, the telecommunications infrastructure, base and building security systems, military air traffic control systems, water and sewage treatment facilities, manufacturing and materiel handling equipment and numerous other support considerations. This is a particularly difficult area because of the dispersion of DoD installations and the fact that the DoD does not own many of the facilities and devices that it uses. Owners include foreign governments, public utilities and private firms. The problem must be

worked intensively at the base level, for the most part. We believe that particular risk exists with respect to ensuring that host nation support for U.S. forces abroad is not disrupted or, if disruptions occur, sound contingency plans are in place. It is important that the unified commands overseas take the lead in addressing this problem.

OTHER AREA OF CONCERN

The Department's outreach efforts to its suppliers had no central direction or focus until late fiscal year 1998. Although some organizations, such as the Army Tank and Automotive Command and the Defense Logistics Agency, initiated proactive efforts, most of the DoD did not do so and the 1997 DoD Y2K Management Plan essentially ignored this aspect. The OIG, DoD, has worked closely with the Office of the Deputy Assistant Secretary of Defense (Logistics) during September 1998 to put an accelerated, systematic process into place. It remains to be seen if the DoD can catch up with and emulate the effective actions taken in some parts of the private sector, such as certain automobile manufacturers.

CONCLUSION

Until extensive testing and operational evaluations have taken place, it will be impossible to gauge the likelihood of significant mission impairment caused by Y2K computing failures. Indeed, any assessment will necessarily be speculative even at that point, for a variety of reasons. For example, we cannot predict exactly what scenarios will confront U.S. forces in early 2000. Therefore we cannot know precisely what systems will be in use, in what modes and with what data exchange partners. We do not know to what extent those interfacing systems, especially foreign

“With so many unknowns, we agree with Deputy Secretary Hamre’s assertion that surprises are inevitable.”

systems, will be compliant. With so many unknowns, we agree with Deputy Secretary Hamre's assertion that surprises are inevitable. The challenge is to ensure that those disruptions are no more than temporary annoyances. By delaying its

Y2K conversion effort, the DoD has allowed considerably increased risk to develop.

The Secretary of Defense's acknowledgement that DoD progress has been insufficient indicates the Department's intention not to let that risk grow further.

To avoid additional slippage and risk, the DoD needs to:

- finalize its revised Y2K management plan,
- establish firm guidelines for freezing system changes,

- enforce the provisions of the August 1998 memoranda,
- accelerate outreach efforts to other governments and DoD suppliers,
- improve the accuracy of status reports,
- give high priority to sufficient resources for Y2K operational evaluations,
- emphasize contingency planning, and
- resolve the problem of how to disseminate Y2K status information efficiently without creating security risks.

The DoD audit and inspection organizations will continue to be heavily involved in Y2K conversion throughout 1999 and probably well into 2000. The chief areas of emphasis will be on ensuring realistic testing and contingency planning. The heavy reliance by DoD managers and commanders on the oversight community for assistance in meeting the Y2K challenge has caused considerable disruption in coverage of other high risk areas. Nevertheless, we agree with the need to give top priority to this very difficult challenge and are generally pleased with the responsiveness to our findings. We will continue keeping the DoD, Congress, OMB and the President's Special Advisor on Year 2000 Conversion informed of our results.

CHAPTER TWO - SIGNIFICANT ACTIVITIES

INTRODUCTION

This chapter summarizes the significant activities of the Office of the Inspector General components and their work with other members of the DoD oversight community.

CRIMINAL INVESTIGATIONS

The four Defense Criminal Investigative Organizations (DCIOs) continue to combat crime affecting the DoD and the Military Departments. The Defense Criminal Investigative Service (DCIS), the criminal investigative arm of the OIG, focuses the bulk of its 344 civilian criminal investigators on the investigation of procurement fraud by Defense contractors and health care fraud by health care providers. The three Military Department criminal investigative organizations, the Army Criminal Investigation Command (CIDC), the Naval Criminal Investigative Service (NCIS) and the Air Force Office of Special Investigations (AFOSI), also investigate procurement fraud, but focus the majority of their resources on other crimes against persons and property affecting their respective Military Departments. The AFOSI and NCIS also conduct counterintelligence investigations and operations. This section focuses on the procurement, health care and other major fraud investigations accomplished by the DCIOs.

Procurement and Health Care Fraud Investigative Results

Figure 1 (page 27) displays the investigative results achieved by the four organizations during the period in the areas of procurement fraud and health care provider fraud.

Examples of Major Procurement Fraud

The following are examples of some of the more significant fraud cases occurring during this semiannual period. It should be noted that in virtually all instances, the Defense Contract Audit Agency (DCAA) played a critical role in supplying needed audit support.

“Hercules agreed to pay \$26.4 million to settle allegations that it illegally overcharged the Navy for labor costs on contracts implementing the Intermediate-Range Nuclear Forces (INF) Treaty.”

Hercules, Incorporated, Wilmington, Delaware, entered into a civil settlement agreement with the Government. Hercules agreed to pay \$26.4 million to settle allegations that it illegally overcharged the Navy for labor costs on contracts implementing the Intermediate-Range Nuclear Forces (INF) Treaty. Alliant Techsystems, Incorporated, Hopkins, Minnesota, purchased Hercules in 1995. An investigation disclosed that managers at Alliant and Hercules regularly directed employees to mischarge labor time to the INF

Treaty Program, even though management knew the employees did not devote as much time to the contract as was charged to the Government. A

“A former employee included the mischarging allegations against the companies in a qui tam complaint. The relator will receive \$7.91 million from the settlement.”

former employee included the mischarging allegations against the companies in a qui tam complaint. The relator will receive \$7.91 million from the settlement. (DCIS/NCIS)

In an administrative action, Lockheed Martin Corporation (LMC) agreed to remove \$5 million in disallowed costs from its incurred cost submissions to the Government for 1992-1997. A qui tam complainant alleged that LMC mischarged the Government by directing costs incurred in a commercial venture to the Government. In the ensuing investigation and audit, DCAA found that the Government’s agreement allowed LMC to charge commercial business expenses for the development of training courses to the Government overhead pool, but that the commercial business being charged to the Government was well beyond the scope of the agreement. The DoD and Department of Justice (DoJ) attorneys determined, however, that LMC acted in good faith in its interpretation of the cost accounting standard involved; therefore, no criminal prosecution was pursued. (DCIS/Federal Bureau of Investigation (FBI))

Raytheon Company agreed to pay the Government \$2.7 million in a civil settlement. The agreement settled allegations that Raytheon charged the Government for costs incurred in marketing products to foreign governments. Since 1986, Raytheon’s cost accounting procedures have provided for separate accounting treatment of foreign and domestic

“Raytheon Company agreed to pay the Government \$2.7 million in a civil settlement.”

marketing costs. These procedures, and the Cost Accounting Standards of the Federal Acquisition Regulation, require the allocation of Raytheon’s foreign marketing costs to contracts between Raytheon and its foreign customers, and allocation of its domestic marketing costs to U.S. Government contracts. The Government asserted that most of the activities of the Raytheon international development function were foreign marketing activities and that Raytheon improperly classified the costs as “division administration” costs allocable to Government contracts. (DCIS)

PROCUREMENT FRAUD AND MAJOR HEALTH CARE FRAUD INVESTIGATIVE CASE RESULTS						
	DCIS	CIDC	NCIS	OSI	Joint DCIO	Total
Litigation Results - DoJ Only						
Indictments	62	8	6	2	20	98
Convictions	38	1	10	1	18	68
Civil Settlements/Judgments	74	2	5	1	22	104
Monetary Outcomes						
DoJ Only	\$73,935,203	\$564,264	\$1,579,499	\$441,153	\$35,879,893	\$112,400,012
DoD Administrative Recoveries ¹	16,999,998	62,658	3,637,916	305,095	864,969	21,870,636
Investigative Recoveries ²	450,900	15,000	7,715	0	0	473,615
Total	\$91,386,101	\$641,922	\$5,225,130	\$746,248	\$36,744,862	\$134,744,263
¹ Includes the results of military courts-martial. ² Includes Government properties seized or otherwise recovered during investigations. Those properties may include items previously transferred to a Defense Reutilization and Marketing Office. Government property recovered by investigation is valued at original acquisition price, which may exceed the current fair market value.						

Figure 1

CTX International, Incorporated, paid \$10 million to resolve penalties and duties resulting from U.S. Customs violations. In an earlier agreement, CTX pled guilty to making false statements to the DoD and paid \$2 million in fines. An investigation showed that CTX improperly changed country of origin tags on computer monitors purchased by prime contractors for ultimate sale to the DoD and other Government agencies. The monitors, some new and some refurbished, were actually manufactured in Taiwan, but made to appear as though they came from an approved source and were not refurbished. This violated provisions of the Buy American Act/Trade Agreement Act. (DCIS/U.S. Customs Service[USCS])

Spire Corporation, Bedford, Massachusetts, agreed to pay the Government \$547,000 in a civil settlement resulting from an investigation of contracts and grants awarded to Spire. Contracts included those awarded by the Defense Advanced Research Projects Agency (DARPA) through the Small Business Innovation Research Program (SBIRP). In its proposal submission to DARPA, Spire certified that it had not submitted the proposal to any other U.S. Government agency. However, Spire had submitted a nearly identical proposal to the

National Science Foundation two weeks earlier. Both agencies awarded a Phase I grant to Spire. Spire allegedly performed one scientific research effort and received duplicate funding, a violation of SBIRP regulations. (DCIS/National Aeronautics and Space Administration/Department of Health and Human Services [HHS]/National Science Foundation)

MSM Security Services, Incorporated, Greenbelt, Maryland, agreed to pay a \$1.2 million civil settlement to resolve false claims allegations regarding MSM's contracts to conduct security background investigations for the DoD and the USCS. The investigation focused on a "less than arms length" transaction between MSM and a related company in April 1989. In that transaction, MSM purportedly paid \$550,000 to acquire exclusive use and control of an accounting software product the Government had already leased in 1987 for 20 years. The cost of the source code was depreciated by MSM over 5 years and billed on a bimonthly basis to the DoD contract as a certified allowable cost. In 1989, MSM and two of its principal officers allegedly billed for the 1989 source code transaction. This duplicated the 1987 software licensing agreement, in essence charging the Government twice for the same product. It was further alleged that the 1989 source code purchase was not allowable, beneficial or demonstrably related to the performance of MSM's contracts with the DoD and USCS. (DCIS)

Frequency Electronics Incorporated (FEI), Uniondale, New York, a defense contractor, and leading manufacturer of electronic timing devices for Government and commercial use, pled guilty to falsifying costs on a DoD contract. Pursuant to a plea agreement, FEI paid a criminal fine of \$400,000 and reimbursed the Federal Government \$1.1 million for the cost of its investigation. FEI also paid the Federal Government \$6.5 million to settle two civil suits charging FEI with engaging in fraud on defense contracts. (DCIS/NCIS/AFOSI/FBI)

Hess Environmental Laboratories (Hess) and Mr. Michael L. Klusaritz, former laboratory director, submitted false test results to Tobyhanna Army Depot, Pennsylvania, pertaining to effluent discharge from its Industrial Wastewater Treatment Plant and Sewage Treatment Plant. Hess submitted fraudulent analytical reports, which included test results that were not performed using required equipment, not performed in accordance with the required Environmental Protection Agency (EPA) methods or were not performed at all. Investigation disclosed that Mr. Klusaritz resigned from Hess and started PHASE II Laboratories, where he continued his fraudulent scheme. After individual and company guilty pleas to multiple felonies, sentences imposed included restitution

in the amount of \$5.9 million, special assessments of \$4,750, 12 months confinement and 3 years probation. Additional sentences for other individuals are pending. (CIDC/EPA)

Microwave Communications Associates, Incorporated (MCA), agreed to pay \$3 million in a civil settlement agreement to resolve issues brought in a qui tam complaint; the relator will receive \$600,000 of this amount. MCA allegedly failed to perform required critical testing on components for the Advanced Self-Protection Jammer (ASPJ) program. The ASPJ program is an advanced radar jamming system used in Navy and Air Force combat aircraft. The system protects aircraft and crew from enemy radar guided air-to-air and surface-to-air missiles by “jamming” the enemy's radar signals. From 1991 to 1992, MCA manufactured critical components, including integrated microwave assembly components, for the system and provided them to ASPJ prime contractors. (DCIS/FBI/NCIS/AFOSI)

Surveillance of a DoD contractor sandblasting equipment and creating environmental waste.

Stephen J. Schrang, former president and majority shareholder of Neese Coated Fabrics, Incorporated, St. Louis, Missouri, was sentenced to 3 years incarceration, 3 years supervised release and a \$200 special assessment. Schrang pled guilty to submitting false test certifications to the

Government and improperly generating, transporting, treating, storing or disposing of hazardous waste. The investigation determined that Neese delivered more than 40,000 pieces of defective fabric, valued at over \$2 million, to the DoD for the manufacturing of tents. Schrang initially fled the United States to avoid prosecution. Following a 5-year extradition effort, Schrang was returned to the United States in August 1997. (DCIS/U.S. Marshals Service)

An investigation of a qui tam complaint of the alleged bribery of an Israeli businessman in conjunction with the Government of Israel's (GOI) purchase of American-made helicopters, also led to the discovery of violations by various other entities. Aerospatiale General Aviation (AGA) was ordered to pay \$17 million for violations of the False Claims Act. The GOI, through its Ministry of Defense offices in New York, contracted with AGA to purchase 22 Trinidad fixed wing aircraft. The contract was partially funded by the Foreign Military Financing (FMF)

program administered by the Defense Security Assistance Agency (DSAA). Under DSAA rules, AGA was required to certify the portion of the contract price associated with the foreign content of the aircraft. The FMF program will only pay for the portion of the contract price associated with the U.S. content (goods and services of U.S. origin) of the aircraft. AGA falsely certified to DSAA that only \$1.8 million of the contract price came from foreign content, with the remaining \$6.1 million being of U.S. content. Based on AGA's certification, the DSAA reimbursed the GOI \$6.1 million for the U.S. content of the contract price. However, investigation determined that AGA could only verify \$343,342 of the \$6.1 million claimed. As another result of this investigation, Telephonics Corporation agreed to pay a \$1.085 million civil settlement to resolve issues concerning its nondisclosure to DSAA of a commission agent in conjunction with a subcontract with American Eurocopter Corporation. Telephonics allegedly used in-country support services purchase order(s) to pay an agent's commission once they realized that commissions were not authorized under the contract. (DCIS/FBI)

Levi Jacob Carey, the president of Computer Software Analysts, Incorporated, a computer and software support contractor for the Air Force, embezzled in excess of \$1 million from the company's 401K fund. As stipulated in the contract, the Air Force matched funds invested by the company and its employees. The president of the company withdrew the funds for personal gain. The company president was found guilty on one count of embezzlement and was sentenced to 1 year in prison and 4 years of probation upon release, with the first 90 days of probation being home confinement. He was also ordered to repay \$1 million to the 401K fund in restitution. (NCIS/AFOSI)

“Dr. Howard M. Addis was found guilty of soliciting and receiving kickbacks...for providing patient referrals...and was sentenced to 37 months imprisonment, 3 years supervised release and ordered to pay a \$40,000 fine.”

Dr. Howard M. Addis was found guilty of soliciting and receiving kickbacks in exchange for providing patient referrals to St. Joseph's Medical Center, South Bend, Indiana, and was sentenced to 37 months imprisonment, 3 years supervised release and ordered to pay a \$40,000 fine. Some of the patient referrals

included Civilian Health and Medical Program of the Uniformed Services (CHAMPUS)/TRICARE beneficiaries. At the Government's request, Addis' sentencing included consideration of his perjury during the first part of the sentencing hearing and during his testimony before the Federal grand jury that eventually indicted him and another physician, Peter D. Farr. St. Joseph's (doing business as Home Group

Enterprises, Incorporated) pled guilty to paying kickbacks to Farr and Addis, and was sentenced to 1 year probation and fined \$686,263. (DCIS/FBI/HHS/Indiana Medicaid Fraud Unit)

Dowty Woodville Polymer Limited, Staffordshire, England, agreed to pay the DoD \$12.4 million to settle a civil suit. Dowty allegedly violated the False Claims and the Truth in Negotiations Acts in connection with the sale of wing slot seals for F-111 and B-1B aircraft to the U.S. Air Force. The investigation alleged that labor hours were defectively priced on the initial contract in the early 1980's, then were defectively priced in subsequent contracts. Material requirements were also inflated and not disclosed in negotiations. (AFOSI/DCIS)

The Lockheed Martin Control Systems Division, Johnson City, New York, formerly known as General Electric Aircraft Control Systems Division, agreed to pay the Federal Government approximately \$7.9 million to settle defective pricing claims relating to Navy contracts for Flight Control Systems for the F/A-18 aircraft. General Electric allegedly submitted inflated claims while a subcontractor to McDonnell Douglas Aircraft Corporation, the prime contractor for the F/A-18 aircraft. (DCIS/NCIS)

Examples of Health Care Fraud

A \$15 million civil settlement was reached with Quest Diagnostics, Incorporated, successor to Damon Clinical Laboratories, Incorporated. Damon was suspected of submitting false claims to the CHAMPUS and Medicare. Damon allegedly conspired with other medical facilities to manipulate the normal blood tests of patients suffering from end stage renal disease solely to increase billings. Instead of conducting the normal 19 blood tests a month, the blood tests were allegedly split into two tests on two separate days, resulting in unnecessary blood draws for each patient and inflated profits. Medically unnecessary tests were also allegedly added to the patients' bills to obtain additional revenue. (DCIS/HHS/FBI)

A qui tam complaint brought by an accounting assistant led to a \$5.6 million civil settlement with Yale University School of Medicine (YSM) with regard to its handling of credit balances. Credit balances are accounting entries that reflect receipt of monies collected by YSM from insurance carriers, Government agencies and individuals. The balances represented amounts owed by YSM to patients, health benefit programs (including CHAMPUS) and/or clinical departments within the school. Inasmuch as the balances were not matched to specific medical charges, the amounts were posted as unidentified credit balances and retained by

YSM. While credit balances are acceptable on a short-term basis, the Government contends that YSM improperly handled a significant number of credit balances. YSM acknowledged that it failed to adequately manage and supervise the handling of certain credit balances. (DCIS/FBI)

Edward Lee Harvey, DMD, pled guilty to submitting fraudulent health care claims to a TRICARE contractor and was sentenced to 1 year and 1 day imprisonment, 3 years supervised probation, 300 hours community service, a \$3,000 fine, a \$100 special assessment and ordered not to practice dentistry during probation. Under a separate civil settlement agreement, Harvey paid \$527,086 in restitution and agreed to be permanently debarred as a DoD health care provider. Harvey, a pediatric dentist, participated in the TRICARE Active Duty Family Member

“Harvey paid \$527,086 in restitution and agreed to be permanently debarred as a DoD health care provider.”

Dental Plan, a comprehensive dental benefit program available nationwide to families of active duty military personnel. An investigation disclosed that Harvey submitted fraudulent claims to United Concordia Companies, Incorporated, Camp Hill, Pennsylvania, which administered the dental plan under a TRICARE contract. From February 2, 1996 through August 14, 1997, Harvey submitted false claims for procedures that were not medically necessary and for reimbursement for services in which Harvey had improperly waived beneficiaries' co-payments. (DCIS)

Home Pharmacy Service (HPS), a supplier of pharmaceuticals to nursing homes, allegedly repackaged and resold medications that were returned to HPS by the nursing homes, without crediting Medicaid, Medicare, TRICARE and the Illinois Department of Public Aid (IDPA) for the cost of the returned medicines. HPS agreed to pay a \$5.3 million civil settlement to resolve the allegations. The settlement marks the first time in Illinois that a company agreed to pay fines and restitution for failing to reimburse the IDPA for returned medications. David Yociss, HPS's former owner and manager, devised the resale scheme. Yociss pled guilty to making false statements and was sentenced to 2 years imprisonment, 3 years supervised release, a \$250,000 fine and \$500,000 in restitution. (DCIS/FBI/Drug Enforcement Administration/Illinois State Police, Medicaid Fraud Unit)

Dr. David E. Sternberg, who operated a psychiatric practice in the Kansas City area, was sentenced to 60 months incarceration, 3 years supervised release, \$926,940 restitution and a \$1,750 special assessment.

“Dr. David E. Sternberg...was sentenced to 60 months incarceration, 3 years supervised release, \$926,940 restitution and a \$1,750 special assessment.”

Sternberg was found guilty by Federal jury of 13 counts of mail fraud, 1 count of interstate transportation in aid of racketeering and 21 counts of money laundering. Since 1990, Sternberg submitted false and fraudulent claims to maximize reimbursements from Federal and private insurance programs. The investigation also disclosed that Sternberg paid as kickbacks 15 percent of the amount he collected for treating patients referred to him by a psychologist. Sternberg laundered money and promoted the kickback scheme by depositing the proceeds collected from the scheme and then withdrawing the proceeds to pay the kickback. Sternberg also solicited a \$250,000 bribe and the referral of 25 new patients per month from a psychiatric hospital in return for referring patients for hospitalization. His wife, Frances Sternberg, pled guilty to one count of witness tampering and was sentenced to a \$2,000 fine and 1 year probation. (DCIS/FBI)

A qui tam complaint led to a \$17.2 million civil settlement with the University of Texas Health Science Center (UTHSC). The UT Medical School and UTHSC allegedly claimed and received monies for services the relator believed were actually performed by resident physicians of the county hospital system, but which were billed as having been performed by faculty physicians. The claims did not contain sufficient documentary evidence, as required by Medicare and CHAMPUS regulations, that faculty physicians were personally and identifiably involved in the performance of those services. (DCIS/HHS)

North Louisiana Rehabilitation Hospital (NLRH) and its medical director, Dr. Joseph Mitchell Smith, agreed to pay civil penalties of \$4.2 million and \$250,000, respectively, to settle allegations that they submitted false claims to the Government, including CHAMPUS. Alleged schemes to increase NLRH's revenues included charging for physician rather than actual consultant services, admitting patients whose medical condition did not warrant or could not benefit from inpatient rehabilitation and keeping patients for unreasonable and excessive periods of time. (DCIS/HHS)

An investigation found that Muttaiya Darmarajah, M.D., of Panama City, Florida, billed CHAMPUS and Medicare for full, hour-long psychotherapy sessions when he actually provided only limited services. He billed for therapy sessions that were never performed or were performed by lesser-qualified providers. Darmarajah also filed a false 1993 tax return by failing to report income related to his psychiatry

practice. Darmarajah agreed to pay a \$1.8 million civil settlement to resolve a qui tam False Claims Act lawsuit; the relator will receive \$270,000 of that amount, and Darmarajah will pay an additional \$40,059 in fees and costs to the relator's attorneys. Darmarajah pled guilty to one count each of filing false claims and income tax evasion. He was sentenced to 30 months imprisonment, 3 years probation and ordered to pay \$929,599 in restitution. (DCIS/FBI/Internal Revenue Service/audit support: HHS & OPM)

Charter Hospital, Orlando South, Kissimmee, Florida, agreed to pay the Government \$4.7 million in a civil settlement agreement relating to the provision of treatment that was purportedly not medically necessary and to the alleged falsification of patient medical records. Two former employees of Charter Hospital originally filed the qui tam complaint and will receive \$903,900 of the settlement amount. An investigation disclosed that Charter Hospital improperly admitted and retained patients for psychiatric treatment who were actually suffering from dementia, organic brain disorders and symptoms of Alzheimer's disease. Personnel at Charter Hospital allegedly knew such treatment was not medically necessary for those patients, yet falsified patient medical records in order to receive Government reimbursement. (DCIS)

A former employee of Emergency Physicians Billing Service (EPBS), Oklahoma City, filed a qui tam suit alleging that EPBS and others submitted fraudulent claims to CHAMPUS, Medicare, Medicaid and private insurers by billing twice for services, "upcoding" to more expensive services than those that were performed or billing for unrendered services. Emergency services performed by Spectrum, Incorporated, were billed by EPBS and allegedly contained fraudulent claims. Spectrum agreed to pay a civil settlement of \$3.1 million plus \$125,000 in fees to the relator's attorneys. Other companies named in the qui tam suit paid separate settlements to resolve issues in the complaint. (DCIS/FBI/HHS/Oklahoma Attorney General's Medical Fraud Control Unit)

Suspensions and Debarments Resulting from Investigations

The number of contractors and individuals suspended and debarred as a result of DoD criminal investigations are shown in Figure 2, page 35.

SUSPENSIONS AND DEBARMENTS RESULTING FROM INVESTIGATIONS						
	Defense Criminal Investigative Organization (DCIO)					
	DCIS	CIDC	NCIS	OSI	Joint DCIO	Total
DoD CONTRACTOR ACTIONS						
Suspensions						
Companies	18	1	5	0	18	42
Individuals	23	3	12	7	12	57
Total	41	4	17	7	30	99
Debarments						
Companies	14	1	6	4	19	44
Individuals	32	1	47	10	16	106
Total	46	2	53	14	35	150

Figure 2

Other Criminal Investigative Results

In addition to the matters listed above, the DCIOs conducted various other significant investigations involving large-scale thefts and non-procurement related fraud. The results of those investigations are presented in Figure 3, page 36. As in previous reports, the statistics shown in the table do not include general crime investigations (other than large-scale thefts) or counterintelligence activities.

OTHER CRIMINAL INVESTIGATIVE RESULTS			
	Totals for Period		
	DOJ	State/Local/Foreign	Total
LITIGATION RESULTS			
Indictments			
DCIS	40	12	52
CIDC	18	5	23
NCIS	39	17	56
OSI	8	3	11
Joint DCIO	5	0	5
Total	110	37	147
Convictions			
DCIS	28	5	46
CIDC	41	12	34
NCIS	41	19	60
OSI	13	4	17
Joint DCIO	6	0	6
Total	129	38	167

	DoJ	DoD		State/Local/Foreign	Total
		1	2		
MONETARY OUTCOMES					
DCIS	\$22,650,000	\$396,000	\$7,079,000	\$603,000	\$30,728,000
CIDC	201,000	820,000	1,335,000	3,811,000	6,166,000
NCIS	414,000	2,147,000	2,101,000	59,000	4,721,000
OSI	146,000	294,000	260,000	440,000	1,139,000
Joint DCIO	47,000	0	2,711,000	0	2,758,000
Total	\$23,458,000	\$3,656,000	\$13,485,000	\$4,913,000	\$45,513,000

¹Administrative settlements and recoveries, and results of military courts-martial.

²Investigative seizures and recoveries. Includes Government properties seized or otherwise recovered during investigations and may include items previously transferred to a Defense Reutilization and Marketing Office. Government property recovered by investigation is valued at the original acquisition price, which may exceed the current fair market value.

Figure 3

Examples of Other Criminal Investigations

Theft

Fred A. Fuchs and Roy D. Reagan were each found guilty on one count of conspiracy to commit mail fraud, wire fraud, bribery, false statements and theft. Fuchs, the former assistant director for Fire and Aviation Management, U.S. Forest Service, was sentenced to 24 months confinement, 3 years supervised release and a \$50 special assessment. Reagan, who purported to be a consultant to the Forest Service, was sentenced to 30 months confinement, 3 years supervised release and a \$50 special assessment. Fuchs and Reagan conspired to steal excess

military aircraft (22 C-130As and 6 P-3As).

The theft included converting to their own or others' use a C-130A aircraft valued between \$1 million and \$3 million. Fuchs and Reagan convinced Air Force and General Services Administration (GSA) officials to transfer the aircraft from the DoD to the Forest Service, claiming that the aircraft would be used as Government-furnished property on contracts between the Forest Service and its contractors who operate fire fighting aircraft. Reagan's "consultant" role allowed him access to DoD facilities to identify, inspect and acquire the aircraft on behalf of the Forest Service. On receipt of the aircraft into

Forest Service inventory, Fuchs traded them to air tanker operators for so-called "historic" aircraft under provisions of the Federal Property Management Regulations (FPMR). The provisions of the FPMR that allow for historic trades, however, do not apply to the Forest Service or to the specific kind of trading executed by Fuchs. The estimated value of the aircraft traded away by Fuchs is \$28 million. Reagan received over \$1.2 million for his role in the trades, and Fuchs received enhancements valued at \$40,000 to his airline transport pilot's license. (DCIS/NCIS/GSA/U.S. Department of Agriculture)

A stolen M-114 Armored Reconnaissance Vehicle seized during a DCIS investigation.

Redistribution and Marketing Fraud

Investigating agents seized military equipment and armament, valued at \$5.6 million, from the Armed Forces Museum of St. Louis, Granite City, Illinois. The deeds of gift for these items were revoked when it was determined that Museum members certified military equipment had been demilitarized when, in fact, it had not been demilitarized and the

individuals were involved in bartering and trading various pieces of the military equipment. Under a deed of gift, the Government provides an item of military equipment to display for public view, but retains title. Helicopters, rocket launchers and an M60A1 tank were among the more than 80 items recovered. (DCIS/FBI)

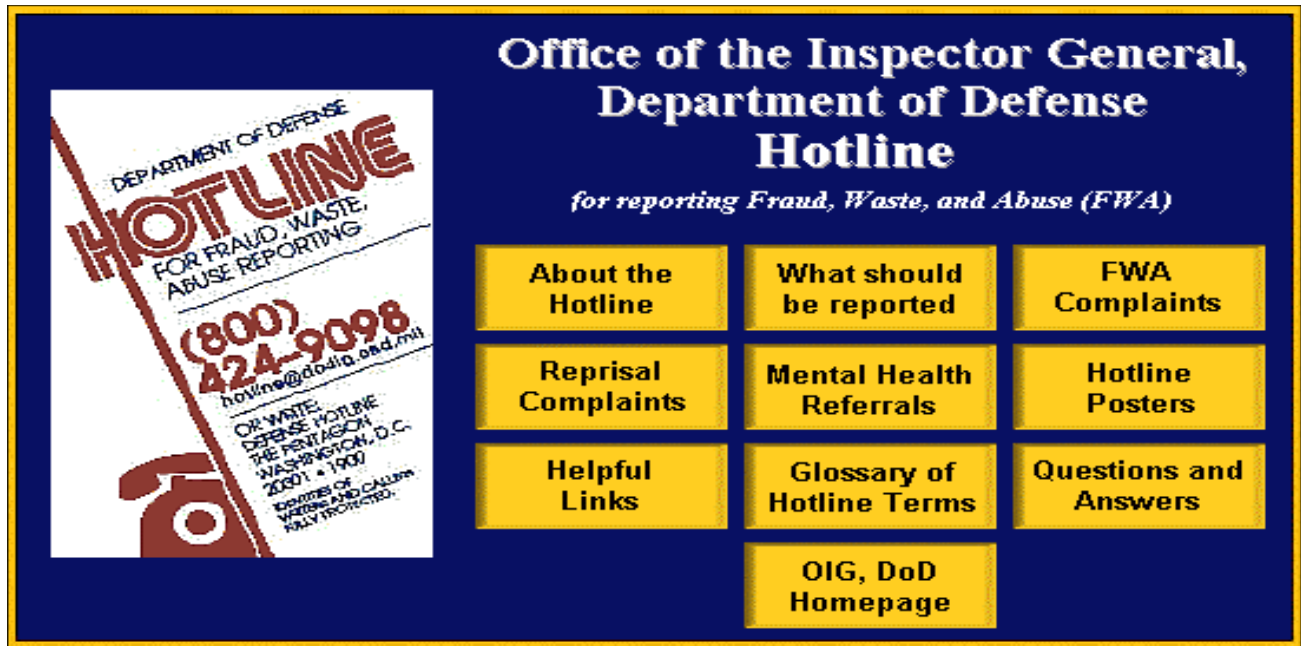
An M60A1 Main Battle Tank is recovered during a theft investigation.

HOTLINE

The OIG, DoD, continues to encourage military members, DoD employees, DoD contractor employees and the public to contact the DoD Hotline to report allegations of fraud, waste and mismanagement.

During this reporting period, the Hotline received 7,254 telephone calls and letters resulting in the initiation of 1,041 cases. During the same period, the Hotline closed 1,275 cases. The Hotline distributed 7,127 Hotline posters and other Hotline informational materials to various DoD activities and DoD contractors in a continuing effort to promote use of the DoD Hotline. Since 1982, over \$408 million has been recovered as a direct result of inquiries initiated in response to information provided to the Hotline.

In July 1998, the DoD Hotline activated an interactive Internet website. The website (www.dodig.osd.mil/hotline) contains information about the Hotline's mission and operations; the various types of information and suspected violations that should be reported to the Hotline; information about filing complaints of violations of the Military Whistleblower Protection Act and improper mental health referrals; information about obtaining Defense Hotline posters and other advertising materials; and helpful hypertext links to other DoD agency websites, such as the DFAS and the Defenselink. The website also features an on-line form allowing complainants to submit fraud, waste and mismanagement complaints directly from the website. Future plans are to link the website with the Military Service Inspectors General and other DoD component inspectors general.



OIG, DoD Hotline Website Homepage

Significant Hotline Complaints

As a result of a confidential Hotline complaint, DCIS special agents substantiated allegations that a dining facility service provider intentionally falsified Government documents to hide mismanagement and theft. The complainant alleged the food service provider formed a “team” whose function was to destroy the original records and then recreate them using fictitious data. The plea bargain settlement consisted of a \$570,200 fine and corporate probation.

As a result of a Hotline complaint, a joint DCIS and FBI investigation substantiated allegations that three individuals were involved in the improper diversion and sale of Government property. The defendants stole approximately 150 pieces of equipment, including a missile launcher, a Sheridan tank, armored personnel carriers, heavy and light vehicles and heavy construction equipment. In addition to receiving between 36 and 97 months confinement, the codefendants were ordered to pay \$687,084 in restitution to the U.S. Government.

ADMINISTRATIVE INVESTIGATIONS

The Departmental Inquiries Office conducts investigations and also performs oversight of investigations conducted by the Military Departments. Those investigations pertain to:

- Allegations of reprisal against military members, Defense contractor employees and nonappropriated fund employee whistleblowers.
- Allegations that military members were referred for mental health evaluations without being afforded the rights prescribed in the DoD Directive and Instruction pertaining to mental health evaluations of members of the armed forces.
- Noncriminal misconduct allegations against senior military and civilian officials within the DoD.

Whistleblower Reprisal Activity

During the reporting period, the Special Inquiries Directorate received 164 complaints of whistleblower reprisal. Of these complaints, 75 did not meet the statutory criteria for investigation; an additional 26 were closed after preliminary analysis determined further investigation was not warranted. The remaining 63 cases were investigated by Special Inquiries staff or referred to Military Department Inspectors General for investigation. We closed 171 cases during the reporting period. Approximately 6 percent of the cases contained one or more substantiated allegations. Thirty-two cases included alleged violations of the DoD Directive on referrals for mental health evaluation. We substantiated procedural violations in four of these cases. Figures 4 and 5 (page 41) illustrate results of whistleblower reprisal activity during the period.

Stolen DoD equipment being searched for explosives or drugs.

Amendments to Title 10, United States Code, Section 1034

The Report of the Committee on National Security that accompanied the Fiscal Year 1998 National Defense Authorization Act directed the OIG, DoD, to submit a report examining the statutory framework for the protection of military whistleblower activity, assessing the effectiveness of the implementation of the law and recommending appropriate statutory changes. As a result of that report, the Strom Thurmond National Defense Authorization Act for Fiscal Year 1999 includes amendments to 10 U.S.C. 1034 that will improve the timeliness of processing military whistleblower reprisal cases. The statutory change that will have the greatest impact on timeliness provides that Inspectors General of the Military Departments have the authority to grant coverage under the law to reprisal allegations they receive directly (previously

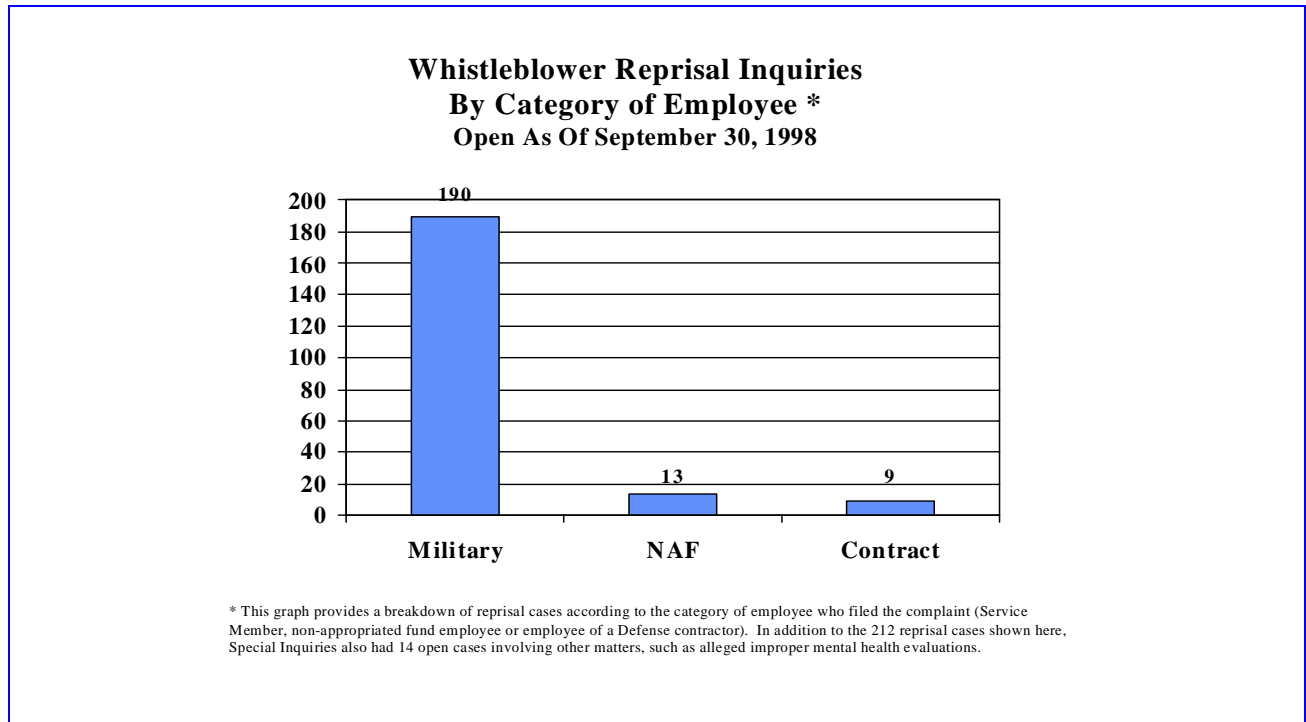


Figure 4

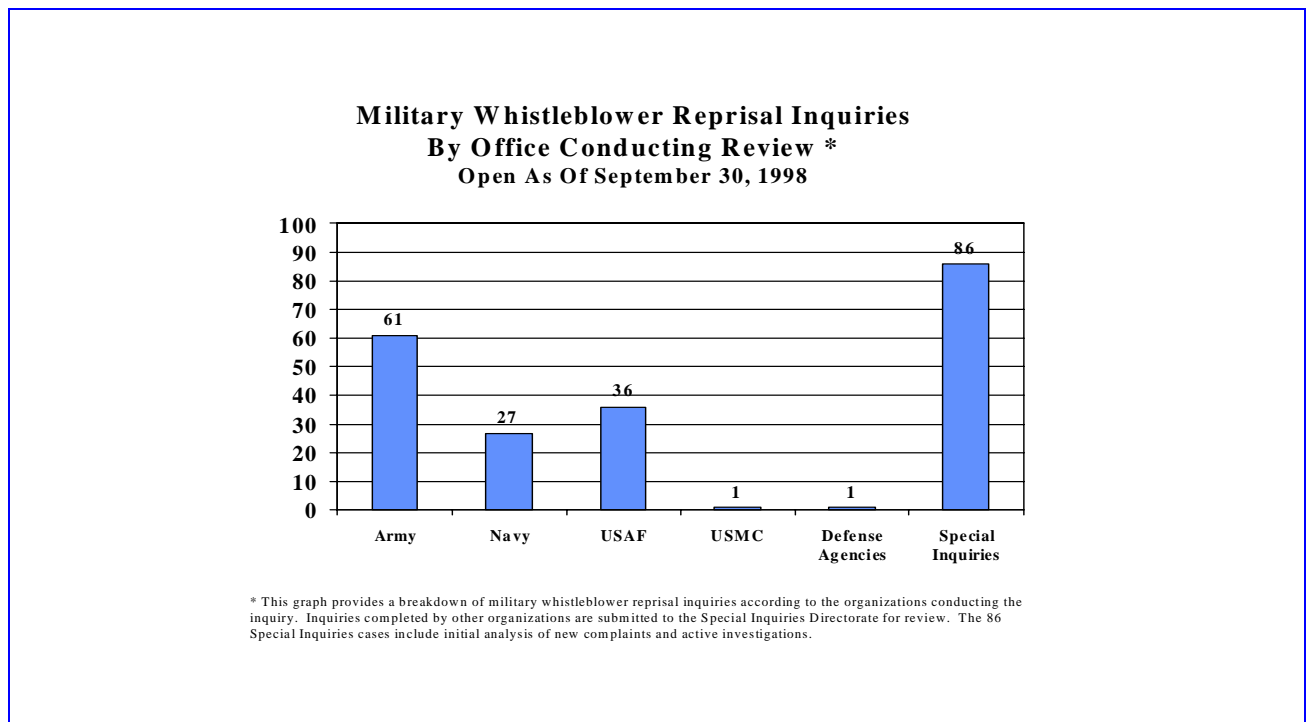


Figure 5

only those allegations submitted to the OIG, DoD, were covered, and a member submitting reprisal allegations to his Service IG would have to resubmit, or have the Service IG submit on his or her behalf, the allegations to the OIG, DoD).

**Protections for
Classified
Whistleblowers**

In response to direction in the Conference Report for the FY 1998 DoD Authorization Act, Special Inquiries staff compiled a report on existing mechanisms for making classified fraud, waste and abuse disclosures; awareness of these mechanisms; and protections for those who use the mechanisms. We consulted with the Inspectors General of the Military Departments and Defense intelligence agencies and researched relevant statutes, executive orders and regulations.

**Examples of
Substantiated
Military
Whistleblower
Reprisal Cases**

An Army Reserve command sergeant major received an adverse rating, and his right to make a protected communication was restricted, in reprisal for making complaints regarding mismanagement and regulatory violations to an Inspector General.

A Navy lieutenant received an adverse fitness report in reprisal for her father's Hotline complaint regarding misconduct on the part of the lieutenant's commanding officer. The commanding officer received a nonpunitive letter of caution, and the adverse fitness report was removed from the lieutenant's official record.

An Air Force master sergeant was removed as First Sergeant and received an adverse enlisted performance report and letter of reprimand with an unfavorable information file entry in reprisal for his communications to Inspectors General regarding improprieties by his superiors.

An Army sergeant was reassigned because she made an equal opportunity complaint and complained of unfair treatment to an Inspector General. The individual responsible for initiating her reassignment received a general officer letter of reprimand and was relieved of leadership responsibilities.

An Army National Guard lieutenant colonel received a general officer letter of reprimand in reprisal for his protected communications to the State Adjutant General and to an Inspector General regarding alleged violations of regulations and abuse of authority on the part of the senior official.

**Senior Official
Inquiries**

Figures 6 and 7 (page 44) show results of activity on senior official cases during the period. The number of open cases continued to decline as the Department made significant progress in completing aged investigations. On September 30, 1998 there were 233 ongoing investigations, down from the 264 cases that we reported open on March 31, 1998. In the ensuing 6 months, 152 cases were opened, 212 senior official cases were closed; 54 (25 percent) of the closed cases contained substantiated allegations.

**Examples of
Substantiated
Senior Official
Cases**

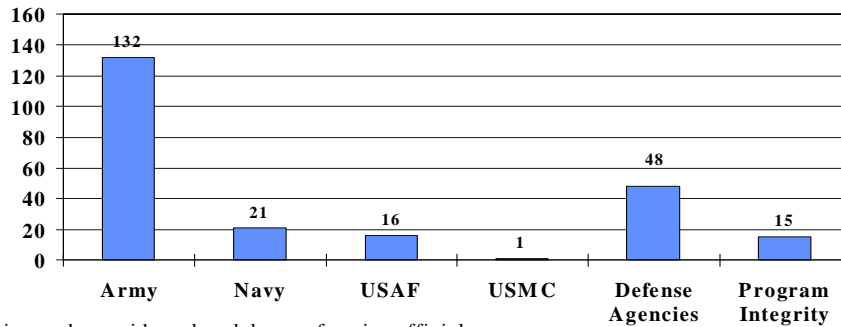
In an investigation that attracted significant departmental, congressional and media attention, allegations were substantiated that a senior official engaged in a pattern of inappropriate conduct during an overseas assignment that included adultery with the spouse of one subordinate and improper relationships with three other spouses of subordinate officers. In addition, the senior official sanctioned the misuse of Government funds for travel by one of those spouses and made false and misleading statements in an effort to deceive others concerning his conduct. The results of this investigation were provided to the cognizant Military Department, which is currently evaluating alternatives for corrective action.

Another investigation concluded that a DoD official, who served as a director of an overseas facility, engaged in a pattern of behavior which ignored ethics regulations, displayed a lack of cost consciousness and demonstrated a propensity for obtaining personal benefits at Government expense. In that regard, the investigation found that the senior official misused Official Representation Funds that were entrusted to him, used a foreign flag air carrier for official travel on one occasion in violation of regulations, obtained a variety of personal services from his Government secretary and charged the Government for personal long distance calls. Corrective action, to include reimbursement to the Government, has been proposed.

**Review of Senior
Official
Investigations
Conducted by the
Military
Departments**

In addition to investigative work conducted during this period, a comprehensive review was completed of administrative investigations into allegations against senior officers conducted by the Military Department IGs. The review was initiated at the direction of the Senate Committee on Armed Services, which observed that investigations involving senior officers in the reserve components apparently take more time to complete than investigations involving active component officers. The Committee expressed concern with the perception that Military Service IGs were giving preferential treatment to active component investigations. 1/

**Program Integrity
Senior Official Inquiries Open**
As of September 30, 1998

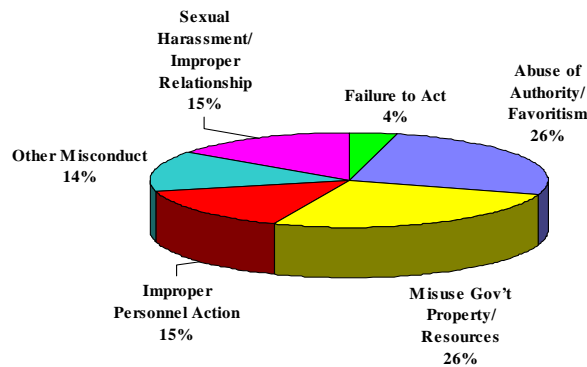


This graph provides a breakdown of senior official cases according to the organization which is conducting the inquiry. Inquiries completed by other organizations are submitted to the Program Integrity Directorate for review.

Total Open Cases: 233

Figure 6

**Program Integrity
Nature of Substantiated Allegations Against Senior Officials
During 2nd Half FY1998**



Total Cases: 212 Substantiated: 54

Figure 7

The report was provided to the Congress in May 1998. On an overall basis, the report concluded that senior officer investigations conducted by the Service IGs were, with few exceptions, of high quality, impartial, thorough and satisfactorily addressed matters at issue. Although investigations of allegations against National Guard senior officers took longer to complete than those involving active component officers, the report concluded that Military Service IGs did not accord active component investigations greater priority or otherwise handle them on a preferential basis. Rather, the report determined that the primary cause for the additional time required for National Guard cases involved factors unique to National Guard organizations that generally did not exist in active component units. We did note several process problems that inhibited timely investigation on the part of the Department of the Army Inspector General.

AUDITING

The OIG, DoD auditors and those of the Military Departments issued 292 reports during the period, identifying over \$1.9 billion in potential monetary benefits and recommending potential improvements across a wide spectrum of DoD management areas. See Appendix A for a list of reports, sorted by major subject area. Appendices B and C list OIG reports identifying potential monetary benefits and overall DoD internal audit followup activities, respectively. The DCAA also continued providing essential support to DoD contracting officers, as summarized in Appendix D.

IG, DoD, Testimony

The Inspector General testified before the House Subcommittee on Government Management, Information and Technology regarding DoD financial management on April 16, 1998. That testimony addressed many of the issues included in the discussion of the Financial Management focus area in Chapter One.

Single Audit Program

The Inspector General Act of 1978, as amended, requires that the OIG, DoD take steps to assure that work performed by non-Federal auditors in support of Government programs complies with the standards established by the Comptroller General. The overall objective of the Single Audit Program is to reduce the audit burden while ensuring that Government funds are properly accounted for and expended. During this 6-month period, the OIG, DoD issued 7 quality control review reports and completed 12 desk reviews on a sample of reports. Although quality was

¹ U.S. Senate. Committee on Armed Services. National Defense-Authorization Act for Fiscal Year 1999 (to accompany S. 924). (S.Rept. 105-29, pp. 279-280).

generally good, deficiencies were found in supervisory review, working paper documentation and engagement letters.

The OIG, DoD is participating in a President's Council on Integrity and Efficiency (PCIE) Audit Committee effort to develop revised guidelines for reviews of an independent auditor's reports and working papers. The guidelines are being revised to reflect the 1996 Amendments to the Single Audit Act of 1984, the revised OMB Circular A-133 and its Compliance Supplement. The OIG, DoD also established a DoD Single Audit website, which lists DoD cognizant organizations, results of the desk and quality control reviews, a periodic download of the Department of Commerce's Clearinghouse database of information about Federal award recipients that receive DoD funds and links to related sites on the internet. The website is www.dodig.osd.mil/aud/apo/main.html.

Readiness Related Issues

Many of the logistics issues and virtually all of the Year 2000 conversion findings discussed in Chapter One have direct readiness connotations. In addition, DoD auditors and inspectors continued reporting during the period on the impact of high operating tempo and funding constraints on personnel and equipment readiness, as well as other readiness issues not generally considered to pertain to DoD high-risk management areas. If resources permit, the DoD audit and inspection community can continue providing highly relevant, independent assessments of force readiness. Such feedback is particularly needed in light of widespread concern about readiness shortfalls.

One readiness area of particular concern is chemical/biological (CB) warfare defense. The OIG, DoD is conducting a series of audits at the request of the Assistant to the Secretary of Defense for Counterproliferation and Chemical/Biological Defense. The first of our planned half dozen reports was issued in September 1997 and discussed CB survivability shortfalls in mission-essential military equipment. The second report, completed during this reporting period, focused on unit-level CB training. The audit indicated that, except for Navy ships, realistic training was generally lacking. At 187 of 232 units reviewed, CB defense had not been fully integrated into unit mission training. As a result, commanders could not reliably assess and report unit readiness to conduct wartime missions under contaminated conditions. The Department agreed with all audit recommendations or responsive alternatives to address those problems.

We plan to issue four more reports on this subject during the reporting period, starting October 1, 1998. In the next semiannual report to the

Congress, we will address the entire series of reports in detail in a separate focus area discussion.

Safety

In June 1997, the Boston Globe reported that more than 29,000 military personnel had died in accidents since 1979. Senator John Kerry requested the DoD to consider the implications of that statistic, and the Secretary of Defense tasked the OIG, DoD to assess DoD safety performance. To avoid duplication with an ongoing GAO review of accidental fatalities during duty hours, the review focused on 4,698 accidental deaths that occurred during off-duty hours from 1988 through 1996.

The review indicated that the accidental off-duty death rate in DoD per 100,000 individuals was not disproportionate in comparison to the U.S. civilian population and declined 31 percent from 1988 through 1996. The motor vehicle death rate, the largest category of accidental off-duty deaths, declined by 34 percent for the same period. While the DoD had made progress in reducing the off-duty accidental fatality rate, the rate plateaued from 1993 through 1996. In June 1998, the Secretary of Defense implemented the report's recommendation to issue additional guidance reaffirming the Department's commitment to safe working and living conditions for all personnel.

**INTELLIGENCE
REVIEW**

For information regarding specific work performed, see the Classified Annex to this report.

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APPENDIX A*
REPORTS ISSUED BY CENTRAL DOD INTERNAL AUDIT ORGANIZATIONS

Excludes base level reports issued by the Air Force Audit Agency. Includes evaluation reports issued by the IG, DoD.

Copies of reports may be obtained from the appropriate issuing office by calling:

OIG, DoD
(703) 604-8937

Army Audit Agency
(703) 681-9863

Naval Audit Service
(703) 681-9126

Air Force Audit Agency
(703) 696-8027

Summary of Number of Reports by Issue Area
April 1, 1998, through September 30, 1998

	IG, DoD	Military Depts.	Total
Finance and Accounting	40	62	102
Logistics	16	30	46
Information Technology	24	20	44
Acquisition Oversight	21	18	39
Construction and Installation	7	15	22
Quality of Life	4	14	18
Health Care	3	7	10
Environment	2	5	7
Intelligence	1	3	4
Total	118	174	292

The IG, DoD, also issued two reports on audit and criminal investigative oversight reviews and two testimony reports.

*Fulfills requirements of 5 U.S.C., Appendix 3, Section 5(a)(6).

ACQUISITION PROGRAM AND CONTRACTOR OVERSIGHT

IG, DoD

98-099 Continued Use of a Single Contractor for Contract Reconciliation Work (4/2/98)

98-101 Evaluation on the Hellfire Missile System Remote Control Circuit Breakers on the AH-64 Apache Attack Helicopter (4/3/98)

98-109 Relocation of the System Program Office and Logistics Support for the F-117A Stealth Fighter (4/10/98)

98-115 Acquisition of the A3 Upgrade to the Bradley Fighting Vehicle (FOR OFFICIAL USE ONLY) (4/17/98)

98-119 Allegation of Cost Mischarging by Defense Telecommunications Service -- Washington (4/22/98)

98-121 International Cooperative Research and Development Program (4/27/98)

98-122 Hotline Allegations Involving Contracts for Programmed Depot Maintenance of KC-135 Aircraft (4/24/98)

98-125 Protection of the Comanche Helicopter Against Radio Frequency Weapons (CLASSIFIED) (4/28/98)

98-128 Contract Support Services for the Office of the Assistant to the Secretary of Defense (Nuclear and Chemical and Biological Defense Programs) (5/6/98)

98-131 Food Service Contracts at DoD Dining Facilities (5/7/98)

98-132 Procurement Practices and Procedures for Obtaining Contractor Support at Defense Finance and Accounting Service -- Denver (5/8/98)

98-133 Foreign Comparative Testing Program (5/13/98)

98-138 Management of Resources at the DoD Electronic Commerce Office (5/27/98)

98-149 Defense Special Weapons Agency Advisory Panel on the Nuclear Weapon Effect Program (6/8/98)

98-152 Contracting Practices for the Installation Restoration Program at Massachusetts Military Reservation (6/15/98)

98-160 Management Oversight of the Capabilities-Based Munitions Requirements Process (CLASSIFIED) (6/22/98)

98-167 Army Quantitative Requirements for Munitions (CLASSIFIED) (6/26/98)

98-172 Contract Terminations at Defense Supply Center Columbus and Defense Supply Center Richmond (7/2/98)

98-189 Procuring Fuel and Ground Handling Services at Commercial Airports (8/18/98)

98-197 Management of Contract Waivers and Deviations for the Trident II Missile System (9/2/98)

98-214 Implementation of the DoD Technology Transfer Program (9/28/98)

Army Audit Agency

AA 98-145 Rotary Wing Aircraft Flight Simulators Army (4/17/98)

AA 98-162 Acquisition Planning -- Phase III (CLASSIFIED) (4/7/98)

AA 98-193 Using Tank Weapon Gunnery Simulation System/Precision Gunnery System for Force-on-Force Training (5/11/98)

AA 98-207 Service Contracts, U.S. Army Recruiting Command, Fort Knox, Kentucky (5/29/98)

AA 98-209 Funding for Sensitive Contracts (CLASSIFIED) (5/29/98)

AA 98-210 Contract Termination Process, U.S. Army Aviation and Missile Command, Redstone Arsenal, Alabama (6/10/98)

AA 98-239 Acquisition Planning -- Phase IV (CLASSIFIED) (5/27/98)

AA 98-243 Implementing Acquisition Reform Initiatives in Base Operations Contracting, III Corps and Fort Hood, Texas (6/19/98)

AA 98-253 Planning for Software Support, U.S. Army Tank-Automotive and Armaments Command, Warren, Michigan (6/30/98)

AA 98-261 Followup Audit Savings from Acquisition Reform (7/31/98)

AA 98-273 Combining Armor Simulator Capability, Fort Monroe, Virginia (7/23/98)

AA 98-282 Contract Termination Process (8/11/98)

Naval Audit Service

035-98 Navy Tugboat Requirements (4/24/98)

038-98 Administering Contracting Actions without Final Prices at Supervisors of Shipbuilding, Conversion, and Repair (6/2/98)

043-98 Major Acquisition Budget Process (8/31/98)

048-98 Program Executive Office (Mine Warfare) Financial Management Process and the Surface Mine Warfare Systems Program Office (9/28/98)

Air Force Audit Agency

96064002 Joint Direct Attack Munition Acquisition and Logistics Planning (9/14/98)

97064027 Government-Furnished Material Provided to the Boeing Guidance Repair Center (8/14/98)

CONSTRUCTION AND INSTALLATION SUPPORT

IG, DoD

98-130 Costs and Savings for 1993 Defense Base Realignments and Closures (5/6/98)

98-137 Unaccompanied Enlisted Personnel Housing Requirements for Fort Lewis, Washington (5/26/98)

98-159 Defense Information Systems Agency Megacenter Consolidation (6/22/98)

98-175 Summary Report on the Audit of Defense Base Realignment and Closure Construction Budget Data for FYs 1997 and 1998 (7/2/98)

98-176 Base Realignment and Closure Transfer of the Common-Use Ground Communications Electronics Maintenance Mission from the Sacramento Air Logistics Center to the Tobyhanna Army Depot (7/6/98)

98-198 Allegations on the Gulf States Initiative Program (9/9/98)

98-199 Defense Base Realignment and Closure Budget Data for Modernization of Building 196, Washington Navy Yard, Washington, D.C. (9/11/98)

Army Audit Agency

AA 98-048 Base Realignment and Closure 1995 Construction Requirements, Tobyhanna Army Depot, Tobyhanna, Pennsylvania (4/2/98)

AA 98-149 Base Realignment and Closure 1995 Construction Requirements, Fitzsimmons Army Medical Center, Aurora, Colorado (4/16/98)

AA 98-153 Eliminating Hazardous Material in Weapon Systems (4/15/98)

AA 98-160 Base Realignment and Closure 1995 Construction Requirements, Fort Pickett, Blackstone, Virginia (4/16/98)

AA 98-205 Base Realignment and Closure 1995 Construction Requirements, U.S. Army Tank-Automotive and Armaments Command, Warren, Michigan (5/29/98)

AA 98-251 Reusing Tank-Automotive Items (6/19/98)

AA 98-269 Base Realignment and Closure 1995 Construction Requirements, Defense Investigative Service Administrative Facility, Fort Meade, Maryland (6/30/98)

AA 98-270 Base Realignment and Closure 1995 Construction Requirements, Hawthorne Army Depot, Hawthorne, Nevada (6/30/98)

AA 98-290 Power Generations Operations, Northwestern Division, U.S. Army Corps of Engineers, Portland, Oregon (8/11/98)

AA 98-293 Closeout Plans -- Republic of Panama (8/24/98)

AA 98-295 Barracks Requirements, U.S. Army, Europe and Seventh Army, Heidelberg, Germany (9/10/98)

AA 98-323 Family Housing Requirements, Camps Humphreys and Carroll, Republic of Korea (9/22/98)

Air Force Audit Agency

97052001 Base Comprehensive Plan Development and Use (5/1/98)

97052033 Advisory Report, Base Realignment and Closure Lessons Learned, 1993 and 1995 (4/7/98)

98052010 Outgrant Program (8/18/98)

ENVIRONMENT

IG, DoD

98-113 State Certification of Underground Storage Tanks (4/15/98)

98-213 Evaluation Report on Allegations of Environmental Contamination and Hazards Affecting the Inupiat Community of the Arctic Slope, Alaska (9/28/98)

Army Audit Agency

AA 98-166 Environmental Remediation, Camp Bonneville, Vancouver, Washington (4/30/98)

AA 98-224 Environmental Remediation, Fort Sheridan, Fort Sheridan, Illinois (5/29/98)

Naval Audit Service

045-98 Budgeting for Fiscal Year 1997 Environmental Compliance Projects at the Commander in Chief, U.S. Atlantic Fleet (9/18/98)

Air Force Audit Agency

98052008 Environmental Compliance Assessment and Management Program (8/7/98)

98052012 Followup Audit, Natural and Cultural Resources (8/5/98)

FINANCE AND ACCOUNTING

IG, DoD

98-100 Fund Balance with Treasury Account in the FY 1996 Financial Statements of the Defense Business Operations Fund (4/2/98)

98-102 Inspector General, DoD, Oversight of the Army Audit Agency Audit of the Army General Fund Financial Statements for FYs 1997 and 1996 (4/7/98)

98-103 Inspector General, DoD, Oversight of the Army Audit Agency Audit of the FYs 1997 and 1996 Financial Statements of the U.S. Army Corps of Engineers, Civil Works Program (4/7/98)

98-104 Inspector General, DoD, Oversight of the Naval Audit Service Audit of the Navy General Fund Financial Statements for FYs 1997 and 1996 (4/7/98)

98-105 Inspector General, DoD, Oversight of the Army Audit Agency Audit of the FY 1997 Army Working Capital Fund Financial Statements (4/7/98)

98-106 Inspector General, DoD, Oversight of the Naval Audit Service Audit of the Navy Working Capital Fund Financial Statements for FYs 1997 and 1996 (4/7/98)

98-107 Inspector General, DoD, Oversight of the Air Force Audit Agency Audit of the FY 1997 Air Force General Fund Financial Statements (4/7/98)

98-108 Inspector General, DoD, Oversight of the Air Force Audit Agency Audit of the FY 1997 Air Force Working Capital Fund Financial Statements (4/7/98)

98-110 Financial Accounting for the Defense Contract Audit Agency (4/10/98)

98-116 Accounting for Defense Logistics Agency Supply Management Receivables (4/20/98)

98-120 Compilation of the FY 1996 Army Financial Statements at the Defense Finance and Accounting Service Indianapolis Center (4/23/98)

98-134 Payroll Expenses Reported by the Defense Finance and Accounting Service Columbus Center (5/14/98)

98-139 Financial Statements Presentation of DoD Progress Payments (5/27/98)

98-146 Internal Controls and Compliance with Laws and Regulations for the FY 1997 Financial Statements of the Joint Logistics Systems Center Working Capital Fund (6/5/98)

98-148 Internal Controls and Compliance with Laws and Regulations for the FY 1997 Financial Statements of the Defense Logistics Agency Working Capital Fund (6/5/98)

98-151 Internal Controls and Compliance with Laws and Regulations for the Defense Finance and Accounting Service Working Capital Fund Financial Statements for FY 1997 (6/12/98)

- 98-158** Internal Controls and Compliance with Laws and Regulations for the Defense Commissary Agency Financial Statements for FY 1997 (6/17/98)
- 98-161** Internal Controls and Compliance with Laws and Regulations for the DoD Consolidated Financial Statements for FY 1997 (6/22/98)
- 98-162** Internal Controls and Compliance with Laws and Regulations for the FY 1997 Defense Information Systems Agency Working Capital Fund Financial Statements (6/24/98)
- 98-164** Internal Controls and Compliance with Laws and Regulations for the Defense Security Assistance Agency Financial Statements for FY 1997 (6/25/98)
- 98-166** Internal Controls and Compliance with Laws and Regulations for the FY 1997 National Defense Stockpile Transaction Fund Financial Statements (6/25/98)
- 98-171** Internal Controls and Compliance with Laws and Regulations for the DoD Military Retirement Trust Fund Financial Statements for FY 1997 (6/30/98)
- 98-177** Payroll Expenses Reported by the Defense Finance and Accounting Service Cleveland Center (7/9/98)
- 98-178** Internal Controls and Compliance with Laws and Regulations for the FY 1997 Financial Statements of Other Defense Organizations (7/13/98)
- 98-181** FY 1997 Financial Statements for the National Security Agency (CLASSIFIED) (7/22/98)
- 98-185** Financial Management of the RAH-66 Comanche Helicopter Program (8/6/98)
- 98-186** Statement of Accountability Reconciliation Procedures for Defense Finance and Accounting Service Columbus Center, Disbursing Station 6551 (8/14/98)
- 98-191** Financial and Cost Aspects of Other Transactions (8/24/98)
- 98-192** Accounting Procedures at Defense Finance and Accounting Service Operating Location Norfolk and the Norfolk Naval Shipyard (8/25/98)
- 98-200** FY 1997 DoD Superfund Financial Transactions (9/16/98)
- 98-201** FY 1997 Financial Reporting by the Defense Automated Printing Service (9/23/98)
- 98-204** Reporting and Disclosing Intragovernmental Transactions for the FY 1997 DoD Consolidated Financial Statements (9/21/98)
- 98-205** Financial Management Practices in the Military Sealift Command (9/25/98)
- 98-208** Major Deficiencies Preventing Favorable Audit Opinions on the FY 1997 DoD Financial Statements (9/23/98)
- 98-209** FY 1997 Financial Statements for the Defense Intelligence Agency (CLASSIFIED) (9/24/98)
- 98-210** Compilation Process for the DoD Consolidated Financial Statements for FY 1997 (9/24/98)
- 98-212** Compilation of the FY 1997 Army General Fund Financial Statements at the Defense Finance and Accounting Service Indianapolis Center (9/24/98)
- 98-215** The Inventory Revaluation Method and General Ledger Accounting Treatment Used in Compiling the FY 1997 Air Force Working Capital Fund Financial Statements (9/28/98)
- 98-216** Compilation of the FY 1997 Army Working Capital Fund Financial Statements (9/29/98)
- 98-217** Compilation of the FY 1997 Navy General Fund Financial Statements at the Defense Finance and Accounting Service Cleveland Center (9/30/98)
- Army Audit Agency**
- AA 98-147** Army Working Capital Fund FY 97 Financial Statements -- Fund Balance with Treasury (5/1/98)
- AA 98-151** Army Working Capital Fund FY 97 Financial Statements -- Accounts Receivable, Federal (4/10/98)
- AA 98-163** Army Working Capital Fund FY 97 Financial Statements -- Unearned Revenue (5/1/98)

AA 98-171 Army's Principal Financial Statements for Fiscal Years 1997 and 1996 -- Report on Internal Controls and Compliance with Laws and Regulations (4/9/98)

AA 98-172 Army's Principal Financial Statements for Fiscal Years 1997 and 1996 -- Accountability for Army Mission Equipment (5/4/98)

AA 98-173 Army's Principal Financial Statements for Fiscal Years 1997 and 1996 -- Financial Reporting of Environmental Liabilities (5/11/98)

AA 98-174 Army's Principal Financial Statements for Fiscal Years 1997 and 1996 -- Financial Reporting of Real Property, Natural Resources, and Leases (5/11/98)

AA 98-196 FY 97 Financial Statements, U.S. Army Corps of Engineers, Southwestern Division, Civil Works, Dallas, Texas (5/1/98)

AA 98-198 Army Working Capital Fund FY 97 Financial Statements -- Inventory, Net - Process of Assembly/Disassembly (5/8/98)

AA 98-211 Army Working Capital Fund FY 97 Financial Statements -- Advances and Prepayments, Non-Federal (6/30/98)

AA 98-229 Army Working Capital Fund FY 97 Financial Statements -- Allowance for Unrealized Holding Gains and Losses (6/12/98)

AA 98-232 Use of Activity-Based Costing in Developing Reimbursable Rates (6/16/98)

AA 98-248 FY 97 Financial Statements Report on Internal Controls and Compliance with Laws and Regulations, U.S. Army Corps of Engineers, Civil Works, Washington, DC (6/29/98)

AA 98-249 Audit of Corps of Engineers FY 97 Financial Statements, Lessons Learned from the Audit of the Southwestern Division (6/12/98)

AA 98-256 Army Working Capital Fund FY 97 Financial Statements -- Accounts Payable, Federal and Non-Federal (6/30/98)

AA 98-257 Army Working Capital Fund FY 97 Financial Statements -- Followup Issues (6/30/98)

AA 98-259 Army Working Capital Fund FY 97 Financial Statements -- Inventory - Government-Furnished Material (6/30/98)

AA 98-264 Corps of Engineers Financial Management System (6/30/98)

AA 98-278 Program Objective Memorandum 98-03 Efficiencies -- Consolidating Contracting Offices (7/31/98)

AA 98-284 Program Objective Memorandum Efficiency for Debt Avoidance (8/18/98)

AA 98-302 Tracking Efficiencies -- Power Projection Platforms (9/2/98)

AA 98-308 Tracking Efficiencies -- Paid Parachutist Authorizations (8/28/98)

AA 98-357 Program Objective Memorandum 98-03 Efficiencies -- Workload Benchmarking and Electronics Contracting (9/18/98)

AA 98-358 Program Objective Memorandum 98-03 Efficiencies -- Using Credit Cards (9/18/98)

Naval Audit Service

031-98 Department of the Navy Principal Statements for Fiscal Years 1997 and 1996: Reports on Internal Controls and Compliance with Laws and Regulations (3/31/98)

033-98 Obligation of Funds for Commercial Emulation Equipment at Shore-Based Activities (4/7/98)

036-98 Auditor General Advisory: Trends in Department of the Navy Financial Audits (5/8/98)

039-98 Followup on the Validity of Selected Unliquidated Operation and Maintenance, Marine Corps Obligations (7/13/98)

040-98 Department of the Navy Principal Statements for Fiscal Years 1997 and 1996: Plant Property (7/23/98)

041-98 Duplicate and Erroneous Payments (8/7/98)

042-98 Quality Control Review: "Joint Contracting for Depot Maintenance of Secondary Items" (8/20/98)

044-98 Department of the Navy Principal Statements for Fiscal Years 1997 and 1996: War Reserves (9/3/98)

- 046-98** Department of the Navy Principal Statements for Fiscal Years 1997 and 1996: Financial Statement Preparation, Presentation, and Disclosure (9/28/98)
- 047-98** Department of the Navy Principal Statements for Fiscal Years 1997 and 1996: Accounts Receivable (9/18/98)
- 049-98** Fiscal Years 1997 and 1996 Consolidated Financial Statements of the Department of the Navy Working Capital Fund: Reportable Conditions (9/28/98)
- 051-98** Department of the Navy Principal Statements for Fiscal Years 1997 and 1996: Invested Capital (9/28/98)
- 052-98** Department of the Navy Principal Statements for Fiscal Years 1997 and 1996: Fund Balance with Treasury (9/30/98)
- 053-98** Deobligation and Reobligation of Operation and Maintenance, Navy Funds (9/30/98)
- Air Force Audit Agency**
- 96054040** Civilian Overtime Management (6/15/98)
- 96062025** Depot Overtime and Leave Use (6/15/98)
- 97053001** Accounting for Selected Assets and Liabilities, Fiscal Year 1997 Air Force Consolidated Financial Statements (9/3/98)
- 97053003** Inventory and Related Property, Fiscal Year 1997 Air Force Consolidated Financial Statements (8/20/98)
- 97053004** Managerial Cost Accounting, Fiscal Year 1997 Air Force Consolidated Financial Statements (7/9/98)
- 97053007** Revenue and Other Financing Sources, Fiscal Year 1997 Air Force Consolidated Financial Statements (7/10/98)
- 97053008** Supplementary Stewardship Reporting, Fiscal Year 1997 Air Force Consolidated Financial Statements (7/22/98)
- 97053014** Military Pay, Fiscal Year 1997 Air Force Consolidated Financial Statements (6/26/98)
- 97053015** Civilian Pay, Fiscal Year 1997 Air Force Consolidated Financial Statements (8/27/98)
- 97054038** Payroll Payee Verification (7/15/98)
- 97068001** Selected Revenue Accounts, Depot Maintenance Activity Group, Air Force Working Capital Fund, Fiscal Year 1997 (5/27/98)
- 97068002** Selected Supply Management Activity Group Accounts, Air Force Working Capital Fund, Fiscal Year 1997 (9/15/98)
- 97068003** Selected Revenue, Accounts Receivable, and Fund Balance Accounts, Airlift Services Division, Defense Working Capital Fund, Fiscal Year 1997 (7/6/98)
- 97068017** Compliance with Federal Financial Accounting Standards Numbers 1 and 3 (9/15/98)
- 97068019** Selected Accounts Supporting the Air Force Report on Budget Execution, Air Force Working Capital Fund (6/29/98)
- 97068021** Selected Expense Accounts, Depot Maintenance Activity Group, Fiscal Year 1997 (6/29/98)
- 97068040** Budgetary Accounting for the Air Force Working Capital Fund and the Transportation Services Activity Group (5/27/98)
- 97068042** Selected Revenue Accounts and General Ledger Reporting, Airlift Services Division, Transportation Services Activity Group, Fiscal Year 1997 (4/29/98)
- 98053011** Advisory Report, Federal Accounting Standards Compliance (7/27/98)
- 98054001** Official Representation Contingency Funds, Fiscal Year 1997 (8/19/98)
- 98054002** Confidential Investigative Contingency Funds, Fiscal Year 1997 (9/18/98)
- 98054006** Equipment Inventory, Multiple Status, Utilization Reporting Subsystem Financial Controls (9/9/98)
- 98054010** Audit Assessment for the Fiscal Year 1998 Annual Statement of Assurance on the Status of Internal Controls (9/8/98)
- 98066011** Application Controls within the Defense Material Utilization and Disposition Program Management System (8/4/98)

HEALTH CARE

IG, DoD

98-136 Military Health System Utilization Management Program at Medical Centers (5/26/98)

98-163 Accountability and Inventory Levels of Air Force Medical War Reserve Material at Fort Worth, Texas (6/24/98)

98-168 DoD Implementation of the National Practitioner Data Bank Guidelines (6/26/98)

Army Audit Agency

AA 98-238 Audit of Military Health System Utilization Management Program at Medical Centers (5/22/98)

AA 98-252 Followup Audit of Psychiatry Services Contract, William Beaumont Army Medical Centers (6/19/98)

AA 98-287 Emergency Room Operations, Ireland Army Community Hospital, Fort Knox, Kentucky (8/10/98)

AA 98-288 Emergency Room Operations, Moncrief Army Community Hospital, Fort Jackson, South Carolina (8/10/98)

AA 98-294 Emergency Room Operations, Evans Army Community Hospital, Fort Carson, Colorado (8/10/98)

Air Force Audit Agency

97051037 Air Force Reserve Command Hearing Conservation Program (9/3/98)

98051017 Risk Assessment Codes (8/31/98)

INFORMATION TECHNOLOGY RESOURCES

IG, DoD

98-111 Year 2000 Initiatives at the Defense Finance and Accounting Service Cleveland Center (4/16/98)

98-112 Year 2000 Reporting for Defense Finance and Accounting Service Cleveland Center Systems (4/17/98)

98-127 Information Assurance of the Defense Civilian Personnel Data System -- Navy (4/29/98)

98-129 U.S. Special Operations Command Year 2000 Issues (5/8/98)

98-135 Implementation of the Defense Property Accountability System (5/18/98)

98-143 Information Assurance for the Defense Civilian Personnel Data System -- Washington Headquarters Services (6/3/98)

98-147 Year 2000 Certification of Mission-Critical DoD Information Technology Systems (6/5/98)

98-150 Readiness of the Defense Message System to Replace the Automatic Digital Network (6/11/98)

98-157 Updating the Foreign Disclosure and Technical Information System (6/17/98)

98-169 DoD Year 2000 Computing Problem Reports: Lessons Learned from the Defense Integration Support Tools Database (6/29/98)

98-173 U.S. Central Command Year 2000 Issues (7/2/98)

98-180 Ballistic Missile Defense Organization Year 2000 Initiatives (7/16/98)

98-182 Year 2000 Program at the Defense Advanced Research Projects Agency (7/31/98)

98-184 Management of the Defense Information Systems Agency Year 2000 Program (8/4/98)

98-187 Year 2000 Computing Problems at Air Force Major Range and Test Facilities (8/14/98)

98-188 U.S. Space Command Year 2000 Issues (8/18/98)

98-193 Evaluation of the Defense Megacenters Year 2000 Program (8/25/98)

98-194 U.S. Atlantic Command Year 2000 Issues (8/27/98)

98-196 Navy Special Access Program Community Preparation for Year 2000 Compliance (FOR OFFICIAL USE ONLY) (8/28/98)

98-203 Naval Research Laboratory Preparation for Year 2000 (9/18/98)

98-206 Air Force Special Access Program Community Preparations for Year 2000 Conversion (CLASSIFIED) (9/22/98)

98-207 Year 2000 Contract Language for Weapon Systems (9/22/98)

98-211 Communications Capability for Patriot Missile Battalions (CLASSIFIED) (9/24/98)

98-218 Year 2000 Initiatives at the Naval Air Warfare Center -- Aircraft and Weapons Divisions, and the Atlantic Undersea Test and Evaluation Center (9/30/98)

Army Audit Agency

AA 98-165 Year 2000 Compliance for Special Programs (CLASSIFIED) (4/2/98)

AA 98-199 Year 2000 Compliance for Special Programs (CLASSIFIED) (5/6/98)

AA 98-200 Year 2000 Compliance for Special Programs (CLASSIFIED) (6/24/98)

AA 98-201 Year 2000 Compliance for Special Programs (CLASSIFIED) (6/15/98)

AA 98-208 Year 2000 Compliance for Special Programs (CLASSIFIED) (5/19/98)

AA 98-225 Requirements for Unit-Level Logistics System (6/1/98)

AA 98-265 Security of Total Asset Visibility (6/30/98)

AA 98-274 Information Systems Security, Yuma Proving Ground, Yuma, Arizona (7/16/98)

AA 98-313 Year 2000 Compliance for Special Programs (CLASSIFIED) (8/25/98)

Air Force Audit Agency

97054015 Followup Audit, Emergency Telephone and Response Centers (4/21/98)

97058040 Video Teleconferencing Systems (9/15/98)

97066028 Information Protection Metrics and Measures Program (6/22/98)

97066030 Information Assurance for the Defense Civilian Personnel Data System at Air Force Locations (6/22/98)

97066033 Information Protection -- Implementing Controls Over Known Vulnerabilities in Air Combat Command Computers (5/19/98)

97066036 System Assessments for the Year 2000 Program (5/21/98)

98066012 Information Protection Over Air Force Satellite Control Network Computers (CLASSIFIED) (4/16/98)

98066015 Air Force Workstation Program (9/9/98)

98066022 Operating Systems Security Over Air Force Satellite Control Network Computers -- Onizuka Air Station (CLASSIFIED) (9/30/98)

98066032 United States Transportation Command Year 2000 Issues (9/25/98)

98066033 United States Strategic Command Year 2000 Issues (9/29/98)

INTELLIGENCE

IG, DoD

98-124 Department of Defense Adjudication Program (4/27/98)

Army Audit Agency

AA 98-206 Foreign Military Sales, U.S. Army Aviation and Missile Command, Redstone Arsenal, Alabama (9/10/98)

AA 98-272 Utilization of Secure Facilities (7/13/98)

Naval Audit Service

034-98 Special Operations Fund (CLASSIFIED) (5/1/98)

LOGISTICS

IG, DoD

98-114 Fuel War Reserves for the European Theater (CLASSIFIED) (4/16/98)

98-117 Ammunition War Reserves for U.S. Forces, Korea (CLASSIFIED) (4/23/98)

98-126 Economic Distribution of Distilled Spirits within DoD (4/30/98)

98-140 Defense Hotline Allegation on Bunker Fuel Purchases at Naples, Italy (5/28/98)

98-141 DoD Contract Ship Fuels (Bunker Fuels) Acquisition Process (5/29/98)

98-144 Dual Management of Commercially Available Items - Information and Imaging Solutions (6/3/98)

98-154 Acquisition of Medical Items (6/15/98)

98-155 Depot Source of Repair Code (6/16/98)

98-165 Modifications to the Tube-Launched, Optically Tracked, Wire-Command Missile Launcher for the Bradley Fighting Vehicle (6/25/98)

98-170 Army National Guard and U.S. Army Reserve Command Small Arms Indoor Firing Ranges (6/30/98)

98-174 Unit Chemical and Biological Defense Readiness Training (7/17/98)

98-179 Audit of Military Department Materiel Returns to the Defense Logistics Agency Distribution Depots (7/13/98)

98-183 Training and Doctrine Command Services and Support Provided to Members and Employees of Congress (8/7/98)

98-190 Property Management Controls at Defense Reutilization and Marketing Office, Vandenberg, California (8/19/98)

98-195 Valuation and Presentation of Inactive Inventory on the FY 1997 Defense Logistics Agency Working Capital Fund Financial Statements (8/27/98)

98-202 Dual Management of Commercially Available Items - Construction, Material Handling, and Related Equipment (9/18/98)

Army Audit Agency

AA 98-161 Logistical Systems in Support of Special Programs (CLASSIFIED) (4/1/98)

AA 98-168 Ammunition Management, 75th Ranger Regiment (Airborne), Fort Benning, Georgia (4/17/98)

AA 98-170 Unit-Level Logistics System -- Ground (4/29/98)

AA 98-185 Aviation Maintenance, 25th Infantry Division (Light) and U.S. Army Hawaii, Schofield Barracks, Hawaii (5/4/98)

AA 98-187 Project Manger-Owned Assets, U.S. Army Communications-Electronics Command, Fort Monmouth, New Jersey (4/27/98)

AA 98-202 Depot-Level Maintenance Workload Reporting (6/1/98)

AA 98-250 Initial Spares (7/30/98)

AA 98-285 Reforming Ammunition Procurement -- Phase II (8/27/98)

AA 98-319 Ammunition Management (CLASSIFIED) (8/27/98)

AA 98-320 Ammunition Management, 160th Special Operations Aviation Regiment (Airborne), Fort Campbell, Kentucky (9/8/98)

Naval Audit Service

032-98 Business Practices at Naval Aviation Depots (4/3/98)

037-98 Management of Sponsor Material at Naval Air Systems Command Warfare Centers (6/2/98)

050-98 Interim Supply Support (9/25/98)

Air Force Audit Agency

96062004 Acquisition Strategy for Aircraft Maintenance Contractor Logistics Support Operations (9/10/98)

96062029 Financial Management of Aircraft Maintenance Contractor Logistics Support Operations (6/29/98)

97051001 Aircraft Battle Damage Repair Training Aircraft (4/7/98)

97051005 Airman Leadership Training (7/15/98)

97058044 Unit Type Code Deployment Planning (4/6/98)

97061009 Laboratory Equipment Loaned to Nongovernment Activities (7/5/98)

97061011 Fighter Aircraft Spare Engine Computations (8/5/98)

97061025 Standard Repair Cycle Times and Stock Level Days in Support of Lean Logistics (9/30/98)

97061032 Beddown Locations Used in Fighter Aircraft Spare Engine Computations (6/4/98)

97062003 Depot Maintenance Laboratory Operations (6/24/98)

97062004 Air Mobility Command En Route Maintenance Operations (6/26/98)

97062005 Aircraft Modification Budgeting Process (9/15/98)

97062018 Foreign Military Sales Dedicated Training Program Costs (8/28/98)

97062020 Maintenance Analysis Program (7/31/98)

98058023 Airlift and Air Refueling Aircraft Flying Hour Programs (8/31/98)

98062007 Followup Audit, Maintenance of J69 and J85 Jet Engines in Air Education and Training Command (7/1/98)

98062008 Followup Audit, Implementation of the Aircraft Programmed Depot Maintenance Fixed Price Concept (4/13/98)

QUALITY OF LIFE

IG, DoD

98-142 Nondeployable Reserve Component Personnel (6/1/98)

98-145 U.S. Military Entrance Processing Command (6/3/98)

98-153 Accidental Off-Duty Deaths in DoD (6/15/98)

98-156 Joint Professional Military Education Phase II (6/16/98)

Army Audit Agency

AA 98-156 Review of Title XI Support to the Total Army School System, U.S. Army Training and Doctrine Command, Fort Monroe, Virginia (4/22/98)

AA 98-188 Army and Air Force Civilian Welfare Fund -- Auditor's Report (4/27/98)

AA 98-223 Farming Operation, 101st Airborne Division (Air Assault) and Fort Campbell, Fort Campbell, Kentucky (5/22/98)

AA 98-246 Reengineering Overhead Support for Morale, Welfare, and Recreation Activities, Aberdeen Proving Ground, Aberdeen, Maryland (6/12/98)

AA 98-247 Management Controls Dragon Hill Lodge, Seoul, Korea (6/16/98)

AA 98-255 FY 97 Validation -- Demonstration Project for Uniform Funding of Morale Welfare and Recreation Activities (6/26/98)

AA 98-258 Army Workload and Performance System in Maintenance Depots (7/31/98)

AA 98-263 The Army Ten-Miler, U.S. Army Military District of Washington, Fort Lesley J. McNair, Washington, DC (6/24/98)

AA 98-266 Army and Air Force Civilian Welfare Fund -- Auditor's Report (6/30/98)

AA 98-281 Tables of Organization and Equipment (8/26/98)

AA 98-305 Reengineering Overhead Support for Morale, Welfare, and Recreation Activities, Fort Stewart, Georgia (8/25/98)

Air Force Audit Agency

97051010 Equal Opportunity Compliant Programs (8/28/98)

97051011 Prime Readiness in Base Services Training (8/18/98)

98051029 Base Capital Improvement Fund Facility Investments (8/25/98)

AUDIT OVERSIGHT REVIEWS

IG, DoD

PO 98-6-013 Defense Contract Audit Agency Reviews of Price Proposals (6/18/98)

PO 98-6-016 Defense Contract Audit Agency Audits of Indirect Costs at Major Contractors (8/6/98)

Our report on the status of OIG, DoD reports over 12 months old in which management decisions have been made but final action has not been taken has been provided to the Department and is available upon request.

APPENDIX B*		
INSPECTOR GENERAL, DoD, AUDIT REPORTS ISSUED CONTAINING QUANTIFIABLE POTENTIAL MONETARY BENEFITS		
	Potential Monetary Benefits (\$ In thousands)	
Audit Reports Issued	Disallowed Costs¹	Funds Put to Better Use
98-109 Relocation of the System Program Office and Logistics Support for the F-117A Stealth Fighter (4/10/98)	N/A	\$28,600
98-114 Fuel War Reserves for the European Theater (U) (4/16/98)	N/A	248,700
98-128 Contract Support Services for the Office of the Assistant to the Secretary of Defense (Nuclear and Chemical and Biological Defense Programs (5/6/98)	N/A	588
98-138 Management of Resources at the DoD Electronic Commerce Office (5/27/98)	N/A	1,540
98-145 U.S. Military Entrance Processing Command (6/3/98)	N/A	27,400
98-154 Acquisition of Medical Items (6/15/98)	N/A	48,000
98-155 Depot Source of Repair Code (6/15/98)	N/A	500
98-156 Joint Professional Military Education Phase II (6/16/98)	N/A	3,600
98-163 Accountability and Inventory Levels of Air Force Medical War Reserve Material at Fort Worth, Texas (6/24/98)	N/A	1,600
98-172 Contract Terminations at Defense Supply Center Columbus and Defense Supply Center Richmond (7/2/98)	N/A	36,400
98-179 Audit of Military Department Materiel Returns to the Defense Logistics Agency Distribution Depots(7/13/98)	N/A	13,200
98-199 Defense Base Realignment and Closure Budget Data for Modernization of Building 196, Washington Navy Yard, Washington, DC (9/11/98)	N/A	7,400
Totals	0	\$417,528
*Fulfills the requirement of 5 U.S.C., Appendix 3, Section 5(a)(6).		
¹ There were no OIG audit reports during the period involving disallowed costs.		

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APPENDIX C*
FOLLOWUP ACTIVITIES

DECISION STATUS OF INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE¹ (\$ in thousands)		
Status	Number	Funds Put to Better Use
A. For which no management decision had been made by the beginning of the reporting period.	35	\$2,125,700
B. Which were issued during the reporting period.	118	417,528
Subtotals (A+B)	153	2,543,228
C. For which a management decision was made during the reporting period.	112	2,272,328
(i) dollar value of recommendations that were agreed to by management		1,805,265
- based on proposed management action		1,805,265
- based on proposed legislative action		0
(ii) dollar value of recommendations that were not agreed to by management		467,063
D. For which no management decision has been made by the end of the reporting period.	41	270,900
Reports for which no management decision was made within 6 months of issue (as of March 31, 1998). ²	1	0
<p>¹There were no OIG audit reports during the period involving questioned costs.</p> <p>²OIG Report No. 98-073, "DFAS Work on the Navy General Fund 1996 Financial Statements," February 2, 1998. Also, one Army Audit Agency report (No. 97-188, "Audit of the FY 1996 Army Defense Business Operations Fund Statements Summary Report," May 16, 1997) and two Navy Audit Service Reports (No. 006-98, "Department of the Navy Fiscal Year 1996 Annual Financial Report Accounts Payable and Accrued Payroll and Benefits," November 14, 1997; and No. 015-98, "Department of the Navy Fiscal Year 1996 Annual Financial Report: Department of Defense Issues," December 12, 1997) have been issued for which no management decision was made within 6 months of issuance. These four reports are being mediated.</p>		

*Fulfills requirements of 5 U.S.C., Appendix 3, Section 5(a)(8)(9) and Section 5(b)(2)(3).

STATUS OF ACTION ON CENTRAL INTERNAL AUDITS (\$ in thousands)			
Status of Action	Number of Reports	Questioned Costs	Funds Put to Better Use
IG, DoD			
Action in Progress - Beginning of Period	263		\$221,579
Action Initiated - During Period	112		1,805,265
Action Completed - During Period	103		2,017,981
Action in Progress - End of Period	272		167,412 ¹
Military Departments			
Action in Progress - Beginning of Period	356		7,881,883
Action Initiated - During Period	175		1,330,961
Action Completed - During Period	158		797,981
Action in Progress - End of Period	373		8,358,114
¹ On certain reports (primarily from prior periods) with audit estimated monetary benefits of \$286 million, it has been agreed that the resulting monetary benefits can only be estimated after completion of management action, which is ongoing.			

APPENDIX D CONTRACT AUDIT REPORTS ISSUED¹ (\$000 in millions)				
Type of Audit	Reports Issued	Examined	Audit Exceptions	Funds Put to Better Use
Incurring Costs	19,403	\$57,423.4	\$1,197.6	\$424.7 ²
Forward Pricing Proposals	5,558	45,667.9	--	2,327.5
Cost Accounting Standards	2,519	66.6	74.2	--
Defective Pricing ³	917	0	80.9	--
Other ⁴	2	0	--	--
Totals	28,399	\$103,157.9	\$1,352.7	\$2,752.2

¹Because of limited time between availability of management information system data and legislative reporting requirements, there is minimal opportunity for the DCAA to verify the accuracy of reported data. Accordingly, submitted data is subject to change based on subsequent DCAA authentication.

²Incurred cost funds put to better use are from the cost avoidance recommended in operations audits.

³Defective pricing dollars examined are not reported because they are considered a duplication of forward pricing dollars reported as examined.

⁴Relates to suspected irregular conduct cases.

Waivers of Advisory and Assistance Service Contracts

A review of each waiver made by the Department to any person for contracts for advisory and assistance services with regard to the test and evaluation of a system if that person participated in (or is participating in) the development, production or testing of such system for a Military Department or Defense Agency (or for another contractor of the Department of Defense). This review is required by Section 802, Defense Authorization Act for Fiscal Year 1990.

The Department made no waivers during the period and therefore, no reviews were made by the OIG.

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The Joseph H. Sherick Award

The Joseph H. Sherick Award, named after the first DoD Inspector General, is presented annually. The award recognizes the actions and accomplishments of an individual that most strongly support and foster the mission and functions of the OIG. Mr. Robert M. Bryant, Deputy Director, Federal Bureau of Investigation, received the award from the Inspector General on October 29, 1998. The citation for the award follows:

Mr. Robert M. Bryant is awarded The Joseph H. Sherick Award for his dedication to the ideals of law enforcement. He is an effective proponent of the Inspector General system and is instrumental in supporting the OIG in our mission to combat fraud, waste and abuse in the DoD. Mr. Bryant is a strong proponent of Inspector General involvement in joint law enforcement investigations. While a Special Agent in Charge of the Salt Lake City and Washington Metropolitan Field Offices, He was in the forefront of the Federal, state and local law enforcement community and, as such, took the lead in initiating numerous successful joint FBI–DCIS investigations and projects. For over 18 years, Mr. Bryant has also been instrumental in the sharing of FBI expertise and facilities in the training of DCIS members of the Inspector General, DoD community. He fostered active joint FBI–DCIS working relationships that successfully targeted and stopped the illegal diversion of DoD property, resources and technology and resulted in hundreds of criminal indictments and the recovery of millions of dollars in Government funds, material and property.

Mr. Robert M. Bryant

Mr. Bryant earned a Bachelor of Science Degree in Business Administration in 1965 and a law degree in 1968 from the University of Arkansas. Mr. Bryant received an appointment as a Special Agent of the FBI in 1969, and was later assigned to the Seattle, Washington office. He was transferred to the Dallas, Texas office where he remained until 1975, when he was ordered to FBI Headquarters in Washington, D.C., where he served as a supervisor in the Criminal Investigative and Records Management Division until his assignment to the Planning and Inspection Division in 1977. In 1978, he assumed supervisory responsibilities in the Los Vegas, Nevada, office.

Mr. Bryant was designated Assistant Special Agent in Charge of the Kansas City, Missouri, office in 1980, and became a Permanent Inspector in 1984. He was later designated Acting Chief Inspector. In 1985, He was transferred to the Salt Lake City office as Special Agent in Charge and, in 1989, was appointed Deputy Assistant Director of the Criminal Investigative Division in Washington, D.C. In 1991, Mr. Bryant was named Special Agent in Charge of the Washington Metropolitan Field Office. He was designated Assistant Director of the National Security Division in 1993, and in 1997 assumed the position of Assistant Director of the Criminal Investigative Division. Director Freeh appointed him Deputy Director of the FBI in October 1997.

Mr. Bryant is widely recognized as a distinguished law enforcement leader who serves as a mentor to both FBI members and Special Agents working within the OIG, DoD organization. Mr. Bryant's courage, honor and commitment to fostering cooperative and successful joint relationships between the DCIS and the FBI bring great credit upon himself, the FBI and the Department of Justice.