

# Inspector General

United States  
Department *of* Defense

Semiannual  
Report for Transmission  
to Congress



October 1, 2004 - March 31, 2005

# *Inspector General of the Department of Defense*

## *Vision*

*“One Professional Team of Auditors,  
Inspectors, and Investigators, Inspiring by  
Paradigm a Culture of Integrity,  
Accountability, and Intelligent Risk-Taking  
Throughout the Department of Defense”*



## INSPECTOR GENERAL ACT REPORTING REQUIREMENTS

The table below cross-references the specific pages in this semiannual report to the reporting requirements prescribed by the Inspector General Act of 1978 (Public Law 95-452), as amended.

| IG Act References | Reporting Requirements   | Page      |
|-------------------|--|-----------|
| Section 4(a)(2)   | “review existing and proposed legislation and regulations...make recommendations...”   | 41-43     |
| Section 5(a)(1)   | “description of significant problems, abuses, and deficiencies...”   | 1-28      |
| Section 5(a)(2)   | “description of recommendations for corrective action...with respect to significant problems, abuses, and deficiencies...”   | 1-28      |
| Section 5(a)(3)   | “identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed...”  | 29-31     |
| Section 5(a)(4)   | “a summary of matters referred to prosecutive authorities and the prosecution and convictions which have resulted...”  | 1-28      |
| Section 5(a)(5)   | “a summary of each report made to the [Secretary of Defense] under section 6(b)(2)...” (instances where information requested was refused or not provided)   | N/A       |
| Section 5(a)(6)   | “a listing, subdivided according to subject matter, of each audit report issued...” showing dollar value of questioned costs and recommendations that funds be put to better use.                                | 45-53, 54 |
| Section 5(a)(7)   | “a summary of each particularly significant report...”   | 1-28      |
| Section 5(a)(8)   | “statistical tables showing the total number of audit reports and the total dollar value of questioned costs...”   | 55        |
| Section 5(a)(9)   | “statistical tables showing the total number of audit reports and the dollar value of recommendations that funds be put to better use by management...”  | 55        |
| Section 5(a)(10)  | “a summary of each audit report issued before the commencement of the reporting period for which no management decision has been made by the end of reporting period...”   | 55        |
| Section 5(a)(11)  | “a description and explanation of the reasons for any significant revised management decision...”  | N/A       |
| Section 5(a)(12)  | “information concerning any significant management decision with which the Inspector General is in disagreement...”  | N/A       |
| Section 5(a)(13)  | “information described under Section 804 [sic] of the Federal Financial Management Improvement Act of 1996...” (instances and reasons when an agency has not met target dates established in a remediation plan) | N/A       |
| Section 8(f)(1)   | “information concerning the number and types of contract audits...”  | 56        |

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## FOREWORD

One of the principal duties of an inspector general is to encourage good leadership and to serve as a role model for other leaders. On December 13, 1777, the Continental Congress resolved to establish an Inspector General of the Army and directed that one of his duties is to ensure “that the officers command their soldiers properly, and do them justice.”<sup>1</sup> One of the stated purposes of the Inspector General Act of 1978, as amended, is “to provide leadership.”<sup>2</sup> The crucial role of leadership in maintaining military good order and discipline is highlighted in our recent report addressing sexual assaults at the Service Academies, our review of the accountability of Department of Defense (DoD) and Air Force officials in the structuring and negotiation of the proposed lease contract for the KC767A Tanker aircraft program, and in our investigations of the role of the Former Principal Deputy Assistant Secretary of the Air Force in the acquisition of tanker aircraft and other Air Force contracts.

This report for the period of October 1, 2004 to March 31, 2005 highlights significant results and accomplishments of the Office of the Inspector General (OIG), including:

### ***Public Confidence in the Integrity of DoD Programs and Operations***

- Published the *Report on the Service Academy Sexual Assault and Leadership Survey*, the first-ever survey of all three Service Academies to collect cadet and midshipman feedback on matters of sexual assault, reprisal, and associated leadership challenges. It is intended to assist senior Department and Academy leaders, and Members of the Congress, in identifying changes and adjustments to improve future Academy operations, gender climates, and perceptions;
- Issued an OIG position supporting a DoD IG audit opinion on DoD internal control over financial reporting similar to auditor attestation required over corporate financial internal controls by the Sarbanes-Oxley Act;
- Produced KC-767 tanker lease documents in coordination with the DoD and White House Counsels; performed a completeness review to ensure documents gathered represented all the relevant and responsive documents, and initiated a management accountability review of KC-767 tanker lease decisions;
- Completed an evaluation of the DoD Trafficking In Persons awareness-training package designed to inform and educate Service members on the DoD “Zero Tolerance” Policy;
- Received an unqualified opinion that the FY 2004 OIG financial statements, “present fairly, in all material respects, the financial position, net cost, changes in net position, budgetary resources, and financing of the OIG” (see page 15, and Figure 1 on page 16).

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1. Journals of Congress, December 13, 1777.

2. Inspector General Act of 1978, as amended, 2(2) (“to provide leadership and coordination and recommend policies for activities designed (A) to promote economy, efficiency, and effectiveness in the administration of, and (B) to prevent and detect fraud and abuse in such programs and operations”).

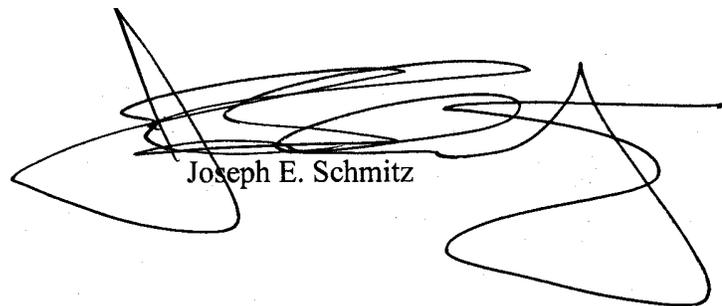
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***Support of the Global War on Terror***

- Completed an evaluation of DoD’s Critical Infrastructure Protection Program and made four recommendations regarding doctrine, priorities, responsibilities, and organizational structure. The Assistant Secretary of Defense for Homeland Defense concurred with our report and recommendations;
- Continued to support the U.S. Government’s effort to create an “Iraqi Academy for Principled Governance” to promote and sustain an anti-corruption culture throughout the Iraqi government. A “rear element” of DoD OIG personnel is coordinating activities in support of a three-part process, with 28 Ministry IGs, a Board of Supreme Audit and a Commission on Public Integrity;
- Completed a “Management Assist” at the request of the Inspector General of the Coalition Provisional Authority, focusing on the quality of CPA-IG (now “Special IG for Iraq Reconstruction”) audits; follow-up still in progress.

***Transformation***

- Selected the first-ever “General Counsel & Assistant Inspector General (Office of Legal Counsel)” for this Office of Inspector General;
- Transferred proponency for the “Commander-in-Chief’s Challenge” initiative to the Director, Joint Staff, for empowering DoD operational commanders to utilize existing fitness tests as a means of inspiring healthy competition, jointness, and character development in support of DoD missions.



Joseph E. Schmitz

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## CHAPTER 1 – SIGNIFICANT ACTIVITIES

The Department of Defense Inspector General (DoD IG) annually assesses the most serious management and performance challenges faced by the Department of Defense (DoD) based on the findings and recommendations of audits, inspections, and investigations conducted during the year. The Inspector General Summary of Management Challenges is included in the Department of Defense Performance and Accountability Report. In the Fiscal Year 2004 Performance and Accountability Report, the following challenges were identified:

Joint Warfighting and Readiness

Homeland Defense

Human Capital

Information Technology Management

Acquisition Processes and Contract Management

Financial Management

Health Care

Logistics

Infrastructure and Environment

This chapter summarizes some of the significant activities of the Department of Defense Office of Inspector General (DoD OIG) and other DoD oversight organizations as they relate to these management challenges.

### **JOINT WARFIGHTING AND READINESS**

U.S. forces continue to transform to meet new and evolving threats, both traditional and asymmetrical. Operations IRAQI FREEDOM and ENDURING FREEDOM reinforced the need for the services to continue to train together in order to fight as a team. The experiences gained in those operations, together with the ongoing efforts aimed at transforming U.S. forces, create a changing environment unlike any experienced in a long time. These experiences and efforts, individually, as well as collectively, challenge the DoD to ensure that U.S. forces are ready to carry out their assigned missions, while addressing their individual immediate needs. Many of the other challenge areas encompass those functions that support joint warfighting and readiness issues.

The DoD OIG organized and supervised workshops and other collaborative activities with inspector general (IG) counterparts of the Joint Staff, Combatant Commands and Military Services. The combined team completed the final version of the DoD Directive 5106.4, “Inspectors General of the Combatant Commands,” and completed the draft version of the associated Instruction. The Directive establishes the policy, guidance, and training to institutionalize the roles, missions, functions, and relationships of Combatant Command Inspectors General. This initiative will standardize procedures and enhance the functions of the respective Inspectors General to support their Combatant Commanders. As a parallel effort, and with cooperation from the staff at the Army Inspector General University (TIGU) and the DoD OIG Dean of Instruction, a task force developed the new Combatant Command and Joint Inspector General Course. This course will be prototyped in May 2005 at TIGU, Fort Belvoir, Virginia.

The DoD OIG concluded a 10-month follow-up review of the DoD fire and emergency services program. Results of this review reinforce the need to revise the DoD Fire and Emergency Services Strategic Plan. The Strategic Plan should establish a long-term approach to resolving human capital and fire and emergency services challenges. The project team is validating data and preparing a Management Letter that will recommend program improvements and suggest management actions.

The DoD OIG supported the U.S. Liaison to the Iraqi Inspector General System in an interagency venture between the DoD IG and the Special Inspector General for Iraq Reconstruction (SIGIR). The purpose of the joint effort is to help the Iraqi government establish an Iraqi IG system as part of the Iraqi Anti-Corruption program. The centerpiece for this initiative is the establishment of the “Academy of Principled Governance.” The vision for this Academy is to provide anti-corruption training and education for Iraqi auditors, investigators, and inspectors. In support of the training program, DoD IG hosted a group of auditors from the Iraqi Board of Supreme Audit during their visit to Washington, D.C. They were briefed at DoD, GAO, DoS, USAID, and at the Army TIGU.

An Army Audit Agency report found that the Army’s process for transferring soldiers separating from active duty to the Individual Ready Reserve was not effective because the information on Individual Ready Reserve soldiers was not transferred between personnel systems. In addition, transition center personnel selected the wrong separation circumstances in the personnel system. The Army also did not have information needed to mobilize 16,589 Individual Ready Reserve

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soldiers because their automated records lacked information, such as a correct address.

An Air Force Audit Agency review found that the Air Force did not effectively manage chemical warfare defense equipment. Personnel did not (a) accurately record mobility bag contents and lot or contract number information for C-1 mobility bags; (b) properly account for chemical warfare defense equipment inventory; (c) identify all chemical warfare defense equipment within the inventory system as “reportable” to higher headquarters; and (d) provide hands-on protective overgarment training to 91 percent of deployable personnel and 94 percent of deployed personnel reviewed.

Agents from the four Defense Criminal Investigative Organizations (DCIOs)<sup>1</sup> provide investigative support to the DoD’s Global War on Terrorism and lend their assistance in humanitarian efforts around the world.

In Iraq, Air Force Office of Special Investigations (AFOSI) technical services trained agents found new venues to employ their skills and equipment by assisting in identifying and tracking Iraqi insurgents that pose a threat to coalition forces. Several operations led to the apprehension of insurgents and eliminated immediate threats.

When the Tsunami hit Southeast Asia, the Air Force quickly responded by creating a path for relief assistance. Within 36 hours, U.S. aircraft launched for Thailand, on a mission to save lives, mitigate suffering and provide relief assistance to the region. On December 28, 2004, the AFOSI deployed the first of eight agents to support Operation Unified Assistance, Tsunami Relief Operations in Southeast Asia. Agents from AFOSI conducted counterintelligence support and force protection for 18,000 deployed DoD personnel and 1,950 aircraft sorties responsible for delivering over 2,000 tons of supplies and 150,000 gallons of drinking water.

Prisoner/detainee abuse allegations continue to receive attention. The task force of investigators and analysts formed by the Deputy Inspector General for Inspections and Policy continues to review closed

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1. The Defense Criminal Investigative Organizations (DCIOs) are the Defense Criminal Investigative Service (DCIS), a component of the DoD OIG; the U.S. Army Criminal Investigation Command (USACIDC); the Naval Criminal Investigative Service (NCIS); and the Air Force Office of Special Investigations (AFOSI).

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investigations conducted by the military criminal investigative organizations into allegations of abuse by U.S. forces against prisoners, detainees, and persons under U.S. control in Iraq, Afghanistan and Guantanamo Bay. The task force is charged with ensuring the investigations are thorough and timely in accordance with DoD and Service policies and procedures.

## **HOMELAND DEFENSE**

The global war on terrorism continues to heighten the level of threat from adversaries of the United States. These adversaries may use weapons of mass destruction, such as chemical or biological weapons, or they may attempt to use information warfare to attack the DoD information structure. As such, homeland security continues to be a priority across the Federal Government.

The DoD established an Assistant Secretary of Defense for Homeland Defense and the U.S. Northern Command as part of an effort to coordinate departmental homeland defense policy and resources. Additional initiatives include working toward better coordination of policy and resources at the Federal level with the Department of Homeland Security.

As requested by the Assistant Secretary of Defense for Homeland Defense (ASD(HD)), the DoD OIG Inspections and Evaluations Directorate completed an evaluation of the Critical Infrastructure Program (CIP). ASD (HD) requested the DOD IG review the CIP organization and policy, validate the efficiency and effectiveness of vulnerability assessment methodologies, and review vulnerability assessment procedures related to data collection and analysis. The report delivered to ASD(HD) on February 17, 2005, identified four major areas for management action: (1) integration of program concepts, (2) completion of assessment standards, (3) geographic rationalization of civilian oversight, and (4) coordination of program responsibilities within OSD. Additionally, the report recommends the establishment of a defense field activity as a means to efficiently unify concepts, integrate standards, coordinate assessments, collate and analyze data, and monitor implementation.

A Naval Audit Service report about the Navy antiterrorism risk assessment management approach for Navy Region Southeast found that criticality, local vulnerability, and threat assessments were not consistently prepared and a system to track and update vulnerabilities until mitigated was not fully implemented. In addition, a centralized

method had not been established that would more efficiently procure Antiterrorism/Force Protection requirements at multiple installations.

The DCIOs participated in worldwide joint terrorism task forces, sharing and acting on information, and relying on the unique skills and investigative specialties of the participating organizations to ensure no potential threat goes unchecked.

Examples of investigative cases involving Homeland Defense issues are highlighted below.

A top 100 Defense contractor, located in Indiana, agreed to pay a \$8 million fine and civil penalty as part of a settlement to resolve allegations of violations of the Arms Export Control Act. A joint investigation discovered that the contractor sent technical data for an interferometer, which is controlled under the International Traffic in Arms Regulations, to a company located in Quebec. This action exceeded the approved Technical Assistance Agreement. The interferometer is used on a joint weather sensing satellite program.

Based on information developed through a joint undercover operation, a California exporting company was fined \$500,000 and sentenced to 5 years of corporate probation following a guilty plea for selling U.S. Munitions List items on the international market. The company was obtaining components for various U.S. military aircraft and surface to air missile systems and knowingly attempting to export them to the People's Republic of China. The company had not applied for, nor received, export licenses for these items.

A DoD contract translator at Guantanamo Bay was sentenced to 20 months in prison and 2 years supervised release after pleading guilty to false statements and unauthorized possession of classified information. After spending time in Egypt, the translator traveled to Boston where a routine customs examination of his luggage found approximately 30 computer diskettes. A subsequent investigation determined that one of the disks contained a large amount of classified DoD and other Government information.

A South Korean national, who was a principal in a Malaysian firm, is awaiting sentencing after pleading guilty to charges of violations of the Arms Export Control Act and conspiracy. A joint investigation found that the company submitted fraudulent end user certificates for the purchase and export certificates for military helicopter engines for use

by the Malaysian and South Korean armies. Instead, the engines were diverted to the People's Republic of China (PRC). The individual was arrested as he attempted to smuggle a military night vision system out of the United States aboard a commercial flight with an ultimate destination of the PRC. Another firm official, also a South Korean national, also was charged but currently is a fugitive from justice.

In Texas, 41 undocumented workers employed by subcontractors of a Defense shipyard contractor were charged with false representation of Social Security numbers to obtain employment. Of the 41 charged, 19 have been convicted, sentenced to 12 months probation and were ordered to be deported. In addition to fraudulent Social Security cards, some of the workers had fraudulent welders' certificates. The subcontractors performed work on a multi-million dollar contract to modify a Defense floatable radar platform.

## **HUMAN CAPITAL**

The challenge in the area of human capital is to ensure that the DoD civilian and military workforces are appropriately sized, well trained and motivated, held to high standards of integrity, and capable of functioning in an integrated work environment and handling the emerging technologies and threats of the 21st century. The DoD employs more than 3.28 million civilian and military personnel. The challenges of managing such a large workforce, including oversight of contractor personnel, highlight the need for the DoD to identify and maintain a balanced level of skills to sustain core defense capabilities and meet the increasing challenges and threats of the 21st century.

The DoD is designing a new civilian human resources management system to better support its critical national security mission. The National Security Personnel System (NSPS) will change how the DoD hires, pays, promotes, disciplines, and removes its civilian workforce in order to more closely resemble personnel practices in the private sector.

In recognition that human capital is a crucial area within DoD, in February 2005, the DoD OIG human capital audit team initiated a top down review of the Enterprise Management of DoD Human Capital. They also initiated a review of the Personnel Security Clearance process in March 2005. Additionally, to ensure coordination among the DoD audit community, the DoD OIG established the Human Capital Joint Audit Planning Group with the Service audit agencies.

The DoD OIG provided comments that addressed our concerns regarding DoD OIG and auditor (GS-511) independence to the Under

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Secretaries of the Comptroller and Personnel and Readiness on Department initiatives to improve the financial management workforce. The initiatives include Draft DoD Policy, “Certification for DoD Professional Accounting Positions” and the DoD Financial Management Workforce Development Working Group. The DoD IG fully supports efforts to improve the competency and career development of the financial management workforce. However, the proposed implementation of the concepts would impinge on IG statutory authority and impair the independence, in both fact and appearance, of approximately 6,500 GS-511 DoD auditors as defined by the Government Auditing Standards issued by the US Comptroller General. In addition to DoD OIG and auditor independence issues, the proposals did not take into consideration the fact that the large proportion of the DoD audits are performance or operational audits rather than financial audits. The DoD OIG and DoD audit community already support the concepts and has active programs for maintaining its auditor competency, including continuing professional education requirements. The comments included a recommendation that the authority and responsibility to implement the concepts be delegated to the DoD IG for the GS-511 auditors in DoD.

In December 2004, the DoD OIG issued “Allegations of Sexual Assault, Reprisal, and Related Leadership Challenges at the United States Air Force Academy.” In response to a congressional request, the DoD OIG conducted a thorough review of the accountability of Academy and Air Force Headquarters leaders for the sexual assault problems at the Air Force Academy over the last decade. The review established that the failure of successive chains of command to acknowledge the severity of the problems was a root cause. The Air Force Academy had created, without approval of the Secretary of the Air Force, a unique sexual assault policy, which differed from the rest of the Air Force. While the policy did not cause the sexual assaults, it contributed to cultural problems; masked the magnitude of problems from the visibility of Air Force leaders; and prevented effective criminal investigations.

In March 2005, DoD OIG released the “Service Academy Sexual Assault and Leadership Survey Report.” The survey, conducted in March and April 2004, gathered information from cadets and midshipmen on (1) their values; (2) their experiences with sexual harassment and sexual assault while at their academy; (3) climate factors at their academy that might cause or contribute to gender problems; (4) the scope of recent sexual assault incidents at their academy; and (5) factors that affect sexual assault reporting at their academy. Of the 5,013

cadets and midshipmen surveyed, over 50 percent of the females and approximately 11 percent of the males indicated experiencing some type of sexual harassment since becoming a cadet or midshipman. A total of 262 of the 1,906 female survey respondents indicated they had experienced 302 incidents of sexual assault behavior, while a total of 54 of the 3,107 male survey respondents identified 55 sexual assault incidents. Of the incidents involving a female respondent, 64 incidents included sexual intercourse. The survey covered the years between 1999 and 2004. Most incidents occurred in a dormitory; the offenders were primarily fellow cadets/midshipmen; and most incidents involved touching, stroking, or fondling private parts. Based on survey data, it appears that most females arrived at the academies perceiving that men and women are treated fairly overall. That perception continued through their senior year. Males also appear to arrive at the academies thinking that men and women are treated fairly overall, but after the first year, they think women are treated more favorably. There were some variations among the academies.

Trafficking in persons (TIP) is a global problem that enslaves thousands of people. The Secretary of Defense's TIP policy memo, September 16, 2004, states "No leader in this Department should turn a blind eye to this issue." TIP activities cannot be tolerated in military organizations, civilian contract organizations, or their subcontractors supporting DoD operations. In accordance with the National Security Presidential Directive 22, the DoD IG is assisting the Under Secretary of Defense for Personnel and Readiness to ensure that DoD personnel are trained and aware of TIP policies. Furthermore, as a continuing effort, Inspections and Evaluations teams will conduct TIP evaluation visits at DoD installations around the world to assess DoD's efforts to combating TIP.

Responding to a request from Senator Charles Schumer, the DoD OIG Inspections and Evaluations Directorate completed an evaluation of the DoD Chaplain Program in November 2004. The evaluation reviewed the military chaplain selection process, and the qualification criteria for religious organizations (ROs) and their endorsing agents (EAs). Overall, the evaluation concluded that the program was administered well and that DoD chaplains promote religious plurality among the Services and contribute to the readiness of our forces. To improve the program, the evaluation team recommended a more rigorous vetting procedure to qualify ROs and EAs.

The DoD IG and the inspectors general of the military services are required to conduct an annual review of the effectiveness and

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compliance of the Voting Assistance Program (VAP). The requirements for this review are specified in Title XVI, Uniformed Services Voting, Section 1566, Chapter 80 of Title 10, United States Code. To comply with this statutory requirement, the Inspections and Evaluations Directorate completed 12 unannounced installation visits, administered a Web-based survey, and conducted interviews with program managers. The final report was sent to Congress on March 31, 2005. The review team concluded that the military services were compliant. However, the report recommends that the overall effectiveness of the program can be improved with a set of management metrics and exploitation of information technologies and automated reporting procedures.

A DoD OIG audit report addressed Navy staffing levels and found that at 4 of the 14 sites visited, senior enlisted manning levels were less than 100 percent when the unit deployed, which exposed personnel in those units to a higher level of risk for mishap or injury.

The Naval Audit Service reported that Department of Navy (DoN) is facing an impending wave of generational retirement. However, a corporate-level DoN workforce-planning program, to include policy, guidance, goals, objectives, or metrics, has yet to be established to guide and to evaluate workforce planning. The 25 Navy and Marine Corps claimants each developed their own approach to civilian workforce planning in absence of policy and guidance. Years of constant downsizing, combined with limited and inconsistent workforce planning across claimants, have left the Navy and Marine Corps with an aging, imbalanced workforce and with an increased risk of loss of experience and key skills.

## **INFORMATION TECHNOLOGY MANAGEMENT**

The DoD Components use information technology (IT) in a wide variety of mission functions including finance, personnel management, computing and communication infrastructure, logistics, intelligence, and command and control. The President's Management Agenda for expanding electronic government has identified effective planning for IT investments as a priority. Improving IT security as part of IT management is one of the highest priorities of the Office of Management and Budget (OMB). The DoD OIG plans to continuously audit and monitor IT security within the DoD.

An October 5, 2004, DoD OIG assessment provided to OMB in response to the requirements of the Federal Information Security Management Act concluded that DoD does not currently have a comprehensive, enterprise-wide inventory of major information systems. As has been

reported in numerous DoD OIG and Government Accountability Office reports, issuances, and testimonies since at least 1997, the DoD cannot accurately respond to congressional and OMB data calls regarding the status of its IT enterprise, to include the security of that enterprise, without this basic tool.

A DoD OIG audit found that DoD has not established a Plan of Action and Milestones Process that complies with OMB guidance for correcting IT security weaknesses. As a result, DoD funded approximately \$2 billion for IT security in FY 2003 without assurance that DoD is making significant progress to overcome security weaknesses in its IT systems.

An Army Audit Agency report stated that the Army has made progress in its efforts to consolidate servers, but more needs to be done to complete the initiative. Installations were using various methods to implement the program, which produced mixed results. Overall guidance was distributed to all Department of the Army Headquarters (HQDA) functional proponents, major commands (MACOMs), and Installation Directors of Information Management that established a goal, an initial milestone, and a database to report server consolidation progress. However, the Army needs to redefine the guidance, implementation process, and procedures for server consolidation.

A Naval Audit Service audit concluded that the Navy's information assurance vulnerability management process was not effective to ensure that system vulnerabilities were eliminated from Centrally Managed Programs (CMPs) as required by laws and regulations. The audit determined that CMPs were not registered primarily because of unclear definitions for a CMP and the low registration was attributed to weak, missing, or incomplete Information Assurance Vulnerability Alert management controls.

The Air Force Audit Agency reported that planned purchases of Secure Terminal Equipment (STE) exceeded requirements by at least \$19.5 million. Although on-hand STE quantities exceeded requirements, unit personnel had not accurately accounted for STE items. Further, procedures needed improvement for procuring, handling, controlling, and protecting STE and the associated cryptographic card (KOV-14). As a result, the Air Force could have avoided \$3.5 million in future STE purchases by redistributing excess STE to units with shortages. Management's corrective action after the audit resulted in a \$44.6 million programming reduction.

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DCIO agents regularly coordinate with other national intelligence and law enforcement representatives through participation in various task forces and groups. DCIO agents participate in the Law Enforcement and Counterintelligence Center at the Joint Task Force, Global Network Operations. The AFOSI serves as executive agent for the Defense Cyber Crime Center (DC3), which consists of the Defense Computer Forensics Laboratory (DCFL), Defense Computer Investigations Training Program (DCITP), and Defense Cyber Crime Institute (DCCI). The DCFL provides counterintelligence, criminal and fraud computer-evidence processing, analysis, and diagnosis for DoD investigations. Through its DCITP, DC3 provides training in computer investigations and computer forensics to DoD investigators. The DCCI completes the computer crimes support effort by meeting the research, development, testing, and evaluation needs of the DCIOs.

Examples of information technology criminal investigative cases follow:

- As a result of a plea agreement, an enlisted military member was convicted, sentenced to 15 months confinement (of which 9 will be served), reduced in grade, and received a dishonorable discharge. An investigation found that the military member stored child pornography on two computers of the White House Communication Agency, where he worked.
- A non-Defense civilian was convicted, sentenced to 1 year home detention and 3 years probation, and ordered to pay \$135,548 in restitution after entering into a plea agreement in lieu of trial on charges of unauthorized access to a computer and access device fraud. A joint investigation found that the individual gained unauthorized access to multiple U.S. Government and commercial computers, made changes to some websites, and used the Internet to traffic in stolen credit cards.
- In Maryland, an enlisted military member was convicted, sentenced to 57 months in prison followed by 3 years of supervised release after entering a plea agreement in lieu of being tried on charges of interstate transportation and shipment of child pornography by computer. A joint investigation found that the member posted images of child pornography on the Internet.

**ACQUISITION  
PROCESSES AND  
CONTRACT  
MANAGEMENT**

The Department of Defense is the world's largest purchaser of goods and services. In FY 2004 alone, DoD spent \$254 billion on acquisition. On an average working day, DoD issues more than 25,000 contract actions, valued at \$923 million, and makes more than 195,000 credit card transactions, valued at \$43.9 million. There are about 1,500 weapon acquisition programs valued at \$2.1 trillion over the collective lives of these programs. Every acquisition dollar that is not prudently managed results in that dollar not being available to fund the Secretary of Defense's top priorities, such as the global war on terrorism and joint warfighting capabilities.

The investigations into violations of the Procurement Integrity Act by DoD and contractor personnel and their impact on acquisition programs highlight the need for continued training for acquisition professionals. As a result of the fraudulent actions taken by senior DoD officials, the DoD OIG continues to conduct investigations and audits of numerous DoD acquisition programs. The adverse actions of a few people can cause delay for major acquisition programs, impede quick delivery of new capabilities to the warfighter, and negatively affect public perception of the integrity of the acquisition process.

To improve the acquisition of weapon system programs, the DoD audit community continues to identify ways in which the DoD could improve:

- Evaluations of contractor proposals, to include appropriately considering past performance (DoD OIG audit of F-15 trainer support contract);
- Controls over program life-cycle costs (DoD OIG audit of Pueblo Chemical-Agent-Destruction Pilot Plant Project, where estimated program life-cycle costs escalated from \$1.5 to \$2.65 billion); and
- Implementation of DoD interoperability and information assurance policies (DoD OIG audits of Air Force and Navy acquisition programs);

The DoD auditing community has significantly contributed to the DoD's aggressive pursuit of savings through use of credit cards and reduced vulnerability to misuse. Efforts of the DoD OIG data mining group and purchase card program office of DoD have increased senior leadership involvement and improved management controls over the purchase card program. This is not just a domestic issue as overseas purchase card transactions are a significant part of the program. During the 6-month

period ending March 31, 2003, DoD cardholders located outside of the United States made about 525,000 transactions totaling about \$350 million. A DoD OIG audit showed that DoD Dependents Schools-Europe did not implement effective controls over the purchase card program before, during, or after purchase for 411 transactions on 22 accounts, valued at \$2.1 million.

An Army Audit Agency report stated that the Army had no assurance that contractor performance was meeting expectations for the Logistics Civil Augmentation Program (LOGCAP) in Kuwait because performance-based contract procedures were not followed, recurring reports and support plans from the contractor sometimes were not prepared, contract administrative authority was not promptly delegated to the Defense Contract Management Agency, and standing operating procedures for the LOGCAP Support Unit were not developed. Additionally, the Army did not adequately account for more than \$77 million worth of government-furnished property the contractor used to support contract task orders for LOGCAP in Southwest Asia, cost estimates for the task order statements of work reviewed were overstated by at least \$40 million, and the contractor incurred about \$1.7 million in value added taxes that did not apply to the Army.

A Naval Audit Service report evaluated the procurement planning and requirements verification process for acquiring Department of the Navy (DON) support equipment. The audit found that the Support Equipment Management System used in the DON Aviation Common Support Equipment procurement planning and verification process did not always provide a reliable basis for budgeting requirements, which may increase the risks of budgeting for quantities other than the approved support equipment requirement. In addition, the internal controls over the Support Equipment Requirements Verification Process at the Naval Air Systems Command (NAVAIR) needed strengthening.

An Air Force Audit Agency report of the F/A-22 Producibility Improvement Program (PIP) concluded that F/A-22 program officials had adequate visibility and control over PIP initiatives and F/A-22 contractors applied PIP investments to reduce manufacturing labor hours, improve process efficiencies, reduce scrap and rework, and enhance competition at the supplier level. However, auditors found that F/A-22 program officials did not readily track projected PIP savings in contractor cost proposals for yearly lot buys to ascertain whether the Air Force was fully realizing estimated returns on PIP investments. Additionally, program officials did not always use consistent F/A-22

aircraft quantities when calculating projected savings for PIP candidates or account for funds received from non-F/A-22 program sources but used specifically for F/A-22 PIP initiatives.

An Air Force Audit Agency report discussing Performance-Based Services Acquisition Management stated that Air Force functional and contracting personnel did not consistently use results-based requirements to ensure that contracts were performance-based. As a result, 12 of 16 locations did not meet the intent of governing legislation and contracting policies regarding use of results-based requirements to ensure that contractors had the flexibility to compete for contracts based on their ability to deliver innovative services solutions. In addition, Air Force service contract reporting was not accurate or complete regarding the implementation of performance-based services acquisition and service contract spending, which distorted the extent of progress toward achieving DoD performance-based contracting goals.

DoD Directive 7640.2, "Policy for Follow-up on Contract Audit Reports," as amended August 16, 1995, prescribes DoD policies and procedures, including the requirement that reports be resolved within 6 months of issuance and closed within 12 months. At the end of this semiannual reporting period, 329 reports with costs questioned of \$975 million exceed the 6 month requirement for resolution and 214 reports with costs questioned of \$416 million exceeded the 12 month requirement and were not closed. However, this does not include the Army's data because they were unable to submit their data by the date required for inclusion in the semiannual report. DoD OIG Audit Policy and Oversight issued a report on the Defense Contract Management Agency (DCMA) Santa Ana Office actions to resolve and close Defense Contract Audit Agency audit reports on incurred cost that showed over \$100,000 in costs questioned (Report No. D-2005-003). Administrative contracting officers at DCMA Santa Ana needed to resolve and close the audit reports in a timely manner, address and collect penalties and interest on expressly unallowable costs, ensure accurate amounts are reported to DCMA headquarters, and include contract audit follow-up in performance standards and rating evaluations. Management agreed to implement the report recommendations.

Recently, the AFOSI renewed its focus on economic crime through a base-level fraud campaign. Over the past few years, world events have shaped operations tempo like no other time in history. Force protection and counterintelligence matters have come to the forefront as increased risks to Air Force assets and personnel have driven a greater need for these types of services. However, well-publicized corporate scandals and

public corruption cases have demonstrated that economic crime is still a threat. A headquarters fraud element, comprised of acquisition advisors, agents and analysts are assisting in target identification, as well as delivering “hands-on” fraud expertise and case support.

## **FINANCIAL MANAGEMENT**

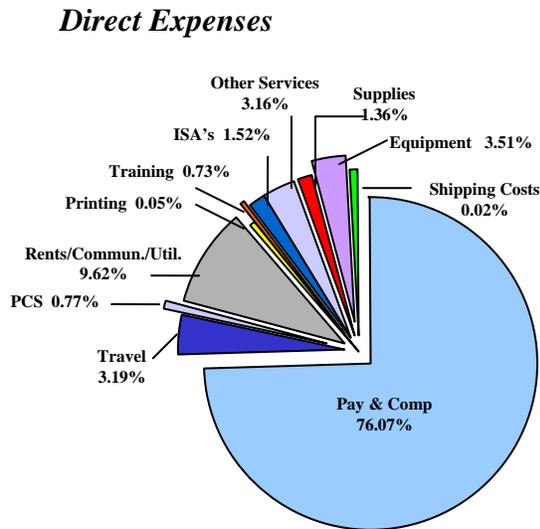
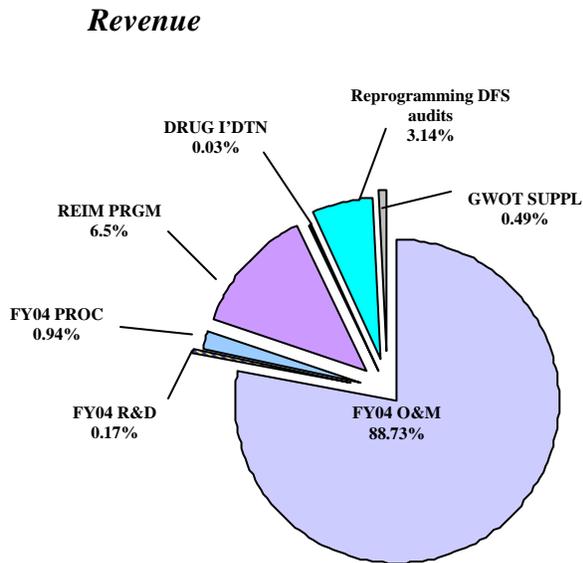
The DoD’s financial statements are the largest, most complex, and most diverse financial statements in the world. The DoD faces financial management problems that are complex, long-standing, pervasive, and deeply rooted in virtually all business operations throughout the DoD. These problems have hindered the ability to provide reliable, timely, and useful financial and managerial data to support operating, budgeting, and policy decisions. Because of these problems, the Department has received a disclaimer of an audit opinion on all but two of its major financial statements. To date, only the Military Retirement Fund has received an unqualified opinion, while the Medicare Eligible Retiree Health Care Fund received a qualified opinion for FY 2004.

The DoD also has numerous smaller entities such as the DoD OIG which are also attempting to obtain opinions. Although not required as part of the DoD Agency-Wide Financial Statements, the DoD OIG has taken steps to ensure its own financial statements are in order and provide a transparent accounting of receipts and expenditures for the agency. An independent accounting firm reviewed the DoD OIG financial statements for FY 2004. The independent auditors gave an unqualified opinion to the DoD OIG financial statements, finding that the financial statements “present fairly, in all material respects, the financial position, net cost, changes in net position, budgetary resources, and financing of the OIG.” Figure 1 (the following page) summarizes the DoD OIG FY 2004 financial position.

The DoD OIG is working closely with the DoD to address long-standing financial management problems and supports the DoD’s goal of achieving a favorable audit opinion for the DoD Agency-Wide financial statements. The Under Secretary of Defense (Comptroller)/Chief Financial Officer has directed an initiative to improve financial management in the DoD with the stated objective of achieving an unqualified audit opinion on the DoD’s financial statements. Also, the DoD OIG continues to support congressional audit requirements for three DoD intelligence agencies and audits of Defense agencies that will help to render a favorable audit opinion on the DoD Agency-Wide financial statements. To accomplish this enormous task, the DoD OIG hired about 100 additional audit personnel during FY 2004 and plans to hire approximately 100 auditors during FY 2005.

**DOD OIG FY 2004 FINANCIAL POSITION**

Performance Period Ending September 30, 2004



**Revenue**

| <u>DIRECT</u>                | <u>\$169,086,000</u> |
|------------------------------|----------------------|
| O&M APPN                     | 160,449,000          |
| R&D APPN                     | 300,000              |
| PROC APPN                    | 1,700,000            |
| Reprogramming for DFS Audits | 5,680,000            |
| Drug Interdiction            | 57,000               |
| <u>GWOT Supplemental</u>     | <u>900,000</u>       |
| <u>REIMBURSABLE</u>          | <u>\$11,747,126</u>  |
| DFS Audit Contracts          | 9,225,392            |
| CPA IG Support               | 2,504,617            |
| <u>Miscellaneous</u>         | <u>17,117</u>        |
| <b>Total Revenue</b>         | <b>\$180,833,126</b> |

**Direct Expenses**

|   |                      |
|---|----------------------|
| Pay & Compensation                      | \$128,238,271        |
| Travel                                  | 5,378,239            |
| Perm. Change of Station (PCS)           | 1,295,127            |
| Shipping Costs                          | 30,000               |
| Rents/Communications/Util.              | 16,226,338           |
| Printing                                | 80,104               |
| Training                                | 1,237,781            |
| Interservice Support (ISAs)             | 2,568,697            |
| Other Services                          | 5,330,880            |
| Supplies                                | 2,286,569            |
| <u>Equipment</u>                        | <u>5,920,233</u>     |
| <b>Total Direct Expenses</b>            | <b>\$168,595,239</b> |
| <b>Reimbursable Expenses</b>            | <b>\$11,747,126</b>  |
| <b>Excess of Revenues Over Expenses</b> | <b>\$190,761</b>     |
| <u>Carryover to FY 2005</u>             | <u>\$300,000</u>     |
| <b>Total</b>                            | <b>\$180,833,126</b> |

Figure 1

The DoD OIG awarded contracts during FY 2004 to audit six DoD financial management systems. Each of these audits will determine the accuracy and reliability of the data, whether general and application controls are adequately designed and effectively operating, whether the system complies with the Federal Financial Management Improvement Act requirements and all other applicable laws and regulations, and whether the system is properly certified and accredited in accordance with the DoD Information Technology Security Certification and Accreditation Process.

The DoD OIG established a Multiple Award, Indefinite Quantity, Indefinite Delivery contract during FY 2005 that will allow the DoD OIG to issue contracts to independent public accounting firms and information technology firms for financial audit work as management asserts that its systems and financial data are reliable and ready for audit. However, in compliance with Section 352 of the FY 2005 National Defense Authorization Act (Public Law 108-375, 10/29/04), the OIG will limit the award of task orders under this contract until the Secretary of Defense submits a required report to Congress.

The DoD OIG issued the opinion report and internal control and compliance report for the FY 2004 DoD Agency-Wide financial statements within the accelerated reporting due dates established by Office of Management and Budget (OMB). The OMB accelerated the reporting date from January 30th for the FY 2003 financial reporting period to November 15th for FY 2004. Also, on November 18, 2004, the DoD OIG issued a report on the FY 2004 DoD Agency-Wide Special-Purpose financial statements. This report was a new requirement for the FY 2004 financial reporting period required by the Department of the Treasury.

In addition, the DoD OIG issued an audit report on the timeliness of the Department's violation reporting and the appropriateness of the discipline administered for Antideficiency Act (ADA) violations. The report found that military departments and the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer did not process ADA cases within 12 months of discovery as required by DoD regulations and did not always render appropriate disciplinary actions. The Department, on average, took 49 months for the Army, 43 months for the Navy, and 63 months for the Air Force to conduct the ADA investigations and report the violations to the President and Congress. Additionally, the Navy did not administer formal, written disciplinary actions in most cases.

Another DoD OIG audit report showed that the Defense Finance and Accounting Service improperly paid military retirement benefits of about \$4.8 million per month to the accounts of as many as 3,100 deceased retirees. Accounts that should have been closed remained suspended, which incurred unnecessary maintenance fees.

### **Significant Financial Crimes**

The DoD loses millions of dollars annually because of financial crime, public corruption, and major thefts. Through the investigative efforts of DCIO agents, abuses in the procurement process, such as the substitution of inferior products, overcharges, bribes, kickbacks, and cost mischarging are exposed. Additionally, the DCIOs have partnered with acquisition and financial agencies to proactively identify areas of vulnerability.

Some investigative cases related to financial management follow.

During this period, a former Principal Deputy Assistant Secretary of the Air Force for Acquisition and Management and the Chief Financial Officer (CFO) of a major Defense contractor were sentenced to prison terms and were ordered to pay fines after entering guilty pleas. The former Air Force executive was sentenced to 9 months in prison, 7 months of community confinement, 3 years supervised release, and 150 hours of community service and was ordered to pay a \$5,000 fine, after pleading guilty to conflict of interest charges. The contractor CFO was ordered to serve 4 months in jail, perform 200 hours of community service, and pay a \$250,000 fine after pleading guilty to charges of aiding and abetting acts affecting a personal financial interest. An investigation found the Air Force executive was in negotiation for prospective employment with the major contractor while she was participating as a government employee overseeing the negotiation of a lease for Defense tanker aircraft. The Air Force executive notified the contractor that she had not disqualified herself from negotiation matters, but the contractor CFO elected to continue employment negotiations in violation of conflict of interest statutes.

A major Defense contractor agreed to pay the U.S. Government \$62 million as a result of a civil settlement to resolve charges of submitting false claims. Based on information from former employees, an investigation found that the contractor fraudulently accounted for materials purportedly used in multiple Defense contracts, inflated the costs, and misrepresented the progress of a radar jamming device for Military bombers.

A major Defense contractor, involved in Foreign Military Sales contracts, was ordered to pay a \$13 million criminal fine and a \$1,200 special assessment fee; serve a 3-year corporate probation; and implement a Foreign Corrupt Practices Act program. Additionally, the company agreed to pay \$15.5 million in disgorgement and prejudgment interest as a result of a civil settlement to resolve allegations of bribing foreign government officials. During a two-year investigation, criminal investigators discovered that the company paid more than \$3.5 million to its agent in Benin, Africa, who was known by the company to be the business advisor to the President of Benin. Additionally, the investigation showed that the company funneled approximately \$2 million towards the election campaign of Benin's then-incumbent President. A former company senior official directed the agent to falsely bill the payments as "consulting services." The company then falsified documents presented to the U.S. Government by under-reporting payments on equipment exported to other countries.

A Virginia –based Defense contractor entered into a civil settlement agreeing to pay \$1.7 million in lieu of being charged with false claims for incorporating a banned substance into the production of military supplies. The corporation also agreed to implement a compliance program to ensure that material produced for the DoD is in compliance with contract specifications. The corporation used lead chromate to formulate military green and desert tan colors in a variety of military products including tents, tarps, and vehicle equipment covers. Lead chromate is a known toxic substance that may cause significant health problems to include allergic reactions, cancer, and other irritations. Actions taken against corporation officials were reported in the last semi-annual report.

As a result of an international joint criminal investigation, two companies were ordered to pay fines of \$4.6 million each and jointly reimburse the U.S. Government \$865,000 after pleading guilty to bid rigging. The companies contracted with the DoD to move Service members' household goods.

An investigation, based on a *qui tam* complaint, found that a Texas company that manufactures, refurbishes, and tests high-pressure compressed gas cylinders and tube trailers was instructing employees to falsify test data. The company agreed to pay a civil settlement of \$2.9 million to resolve allegations of false claims.

A California Defense contractor agreed to pay \$800,000 in criminal and civil fines after pleading guilty to charges of making false statements on behalf of one of its subcontractors. A joint investigation disclosed that the companies had implemented unauthorized heat-treating practices, altered heat-treating records, failed to test 100 percent of the parts as required by contracts, and falsified machine calibrations. The companies, which were suspended from Government contracting, produced and heat-treated Military aircraft parts.

A joint investigation found that two Defense subcontractor employees paid kickbacks to a buyer for a major Defense contractor in exchange for receiving Defense subcontracts. The buyer was sentenced to 1 year confinement and 3 years probation, and ordered to pay \$82,354 in restitution and a special assessment after pleading guilty to wire fraud and conspiracy. One subcontractor employee was sentenced to 3 years probation and ordered to pay a \$500 criminal fine and a special assessment after pleading guilty to conspiracy to defraud the Government and providing a kickback. The second subcontractor pled guilty to wire fraud and conspiracy and was sentenced to 2 years in prison and 3 years probation, and ordered to pay \$49,412 in restitution and a criminal fine of \$15,000. Additionally, he agreed to pay \$110,000 to the U.S. Treasury.

As a result of an investigation based on information from a former employee, a Defense contractor and its former owner agreed to a \$283,000 civil settlement to resolve allegations of product substitution. An investigation found that the company was shipping defective sealed carbon dioxide cylinders that are used in military inflatable life vests. The cylinders, identified by DoD as a safety and survival item, are a critical application item and could result in a malfunction of the life vests.

As part of the DoD's continuing effort to let Defense contractors voluntarily disclose improprieties in their programs, the DoD Voluntary Disclosure Program received 4 requests for admission during this period and recovered \$35,000 in settlement of disclosures. Five voluntary disclosures were closed and one request for admission was denied. Since its inception in 1986, the program has recovered more than \$428.4 million for the U.S. Government.

## HEALTH CARE

The DoD challenge in its military health system is to provide high quality health care, within fiscal constraints, in both peacetime and wartime for approximately 9.1 million eligible beneficiaries. This challenge is especially daunting because of the difficulty in controlling costs in both the public and private sectors. The DoD challenge is magnified because the military health system must also provide health support for the full range of military operations. The system was funded for a total amount of \$31 billion in fiscal year 2005, which included \$18.2 billion in the Defense Health Program appropriation, \$7.3 billion in the Military Departments' military personnel appropriation, \$0.2 billion for military construction, and \$5.3 billion from the DoD Medicare-Eligible Retiree Health Care Fund. This fund covers the costs of health care for Medicare eligible retirees, retiree family members, and survivors.

An Air Force Audit Agency report stated the Air Force could improve pharmaceutical cost-reduction efforts. Pharmacy management did not obtain the most cost-effective pharmaceuticals because approximately 36 percent of purchases were non-contract, brand-named, or higher-priced equivalent pharmaceuticals. As a result, Air Force management spent nearly \$8 million more than necessary for the purchases. Strengthening cost-reduction efforts would reduce pharmaceutical expenditures by \$60 million over the 6-year Future Years Defense Program. In addition, pharmacy and medical logistics officials did not obtain manufacturer backorder credits totaling nearly \$1 million for non-contract pharmaceutical purchases. Obtaining backorder credits would provide Air Force pharmacies an estimated \$10.5 million over the 6-year Future Years Defense Program.

An Air Force Audit Agency review concluded that Air Force medical officer recruiting and retention were not entirely effective. Air Force Recruiting Service accessions fell short of the Medical Service recruiting requirement in Fiscal Years 2001 through 2003 by 26, 38, and 36 percent, respectively. In addition, a medical personnel survey revealed that 24 percent of respondents indicated intentions of leaving the Air Force, 52 percent of respondents currently receiving a retention bonus perceived the bonus amount as insufficient, and non-monetary factors strongly influenced the decision to stay or leave the Air Force.

To ensure that DoD health care funding is utilized in a proper and efficient manner toward providing quality patient care to TRICARE beneficiaries, the DCIS has aggressively pursued health care investigations involving "harm to patient," corruption, kickbacks, and

allegations with significant TRICARE impact. DCIS continues to serve as an active participant in local health care fraud task forces and the National Health Care Anti-Fraud Association.

A TRICARE contractor agreed to pay \$400,000 to the U.S. Government and its medical director agreed to a 5-year voluntary exclusion from TRICARE as part of a non-prosecutive agreement with the U.S. Attorney's Office to resolve allegations of health care fraud and submitting of false claims relating to health care. An investigation found that the contractor, a chain of health care clinics, had filed claims stating that the medical director had performed nearly all its health care services, when in fact, nurse practitioners provided the vast majority of the services. Thus, the contractor was reimbursed by TRICARE at a higher rate than was warranted.

A major rehabilitative medicine services contractor agreed to pay the Government \$325 million as part of a civil settlement to resolve allegations involving health care fraud. A joint investigation, based on information filed in a *qui tam* lawsuit found that the company submitted fraudulent cost reports that included exaggerated and unallowable expenses to TRICARE and other Government entities for payment.

## **LOGISTICS**

Logistics must reliably provide the warfighter with the required materiel when needed to support continuous combat effectiveness of the deployed force. DoD logistics support operations for supplies, transportation, and maintenance cost more than \$90 billion annually. It is a function that involves nearly 700,000 active duty and reserve military personnel and civilian personnel, as well as several thousand private-sector firms. Supported weapon systems include more than 300 ships, 15,000 aircraft and helicopters, 330,000 ground combat and tactical vehicles, and hundreds of thousands of additional mission support assets. In addition, DoD maintains a varied inventory of items such as clothing, engines and repair parts, all to support the warfighter.

DoD OIG logistics audits completed during the period are typical of the broad range of audits recommending improvements to logistics operations. One DoD OIG report addressed the Defense Logistics Agency's processing of Special Program Requirements and determined that over a 6-year period (FYs 2005 through 2010), funds totaling \$95.6 million could be put to better use if the pilot program implemented to minimize inventory to support special program requirements was expanded to include DLA supply centers at Columbus, Ohio, and

Richmond, Virginia. The DLA expanded the program, but nonconcurred with the estimated monetary benefits.

Another DoD OIG report addressing performance-based logistics (PBL) for the Javelin weapon system determined that the PBL strategy was not fully implemented as described in the Army's PBL implementation schedule. The report also stated that the decision to award the life-cycle contractor support contract was based on an economic analysis that was unsupported and incomplete. The Army is taking action to develop a policy on performance-based agreements. In addition, when program requirements require a change, the Army will reevaluate incentives and penalties in the life-cycle contractor support contract. The economic analysis will be updated to a business case analysis when contract situations require. Further, upon receipt of the business case analysis, the Army will fully validate the business case analysis for the weapon system and will formally document the results and conclusion of the validation.

The Air Force Audit Agency issued a report discussing Depot Field Team Operations that concluded Air Force Materiel Command personnel did not coordinate the selection of contract field team delivery order contractors with the appropriate senior personnel, obtain approval before initiating contract field team contract actions, properly administer quality assurance for contract field team delivery orders, and deobligate \$27.3 million of funds after the contract field team delivery orders were complete. As a result, an increased risk existed for faulty source selection, higher maintenance costs, undetected contract performance problems, and funds lost through unliquidated obligations. In addition, contracting officers did not sufficiently evaluate or document the rationale for selecting time-and-material delivery orders. As a result, 34 of the 70 Fiscal Years 2002 and 2003 orders were for repetitive tasks with historical data that the contracting officers could have used to support issuing firm-fixed-price delivery orders. Thus, \$104 million in Air Force contracting funds were committed against time-and-material contracts without reasonable assurance that all pertinent facts were analyzed and considered.

An Air Force Audit Agency report found that Air Force personnel did not adequately manage wholesale spare parts pricing to ensure accurate billing and financial recording. A review of transactions revealed that Air Force logistics personnel did not adequately review and document price changes, use correct prices to calculate financial transactions, or maintain effective controls to prevent or detect invalid prices. As a

result, logistics personnel misstated prices by \$31.1 million causing inaccurate billing and improper reporting of sales and inventory. Also, of the more than 46,000 transactions reviewed, 5 percent did not use correct prices to calculate financial transactions. These incorrect prices caused \$1.2 billion in incorrect inventory valuation.

## **INFRASTRUCTURE AND ENVIRONMENT**

The challenge in managing about 4,700 military installations and other DoD sites is to provide modern, habitable, and well-maintained facilities, which cover a wide spectrum from test ranges to housing. Review of defense and security needs resulted in transformation of a force structure that must be accompanied by a new base structure. There is an obsolescence crisis in the facilities area itself and environmental requirements are continually growing. Furthermore, the Department maintains more facility infrastructure than needed to support its forces; an estimated 25 percent more base capacity. Maintaining those facilities diverts scarce resources from critical areas. However, the Department has been making progress in defining all of the infrastructure problems by working toward recommendations for realignment and closure in the Base Realignment and Closure (BRAC) 2005 process. The oversight and breadth of BRAC 2005 far exceeds prior BRAC efforts in 1989, 1991, 1993, and 1995.

Transformation through BRAC poses a significant challenge and opportunity for DoD. BRAC 2005 should eliminate excess physical capacity and transform the infrastructure in such a way that provides opportunities for more efficient joint activity. As part of the challenge, DoD must meet the timelines established in law and use certified data that are accurate and complete to develop the recommendations.

Relating to BRAC 2005, the DoD OIG is in the process of validating the internal controls and accuracy of the certified data to ensure a fair and accurate process that will withstand scrutiny by the Government Accountability Office, the Base Realignment and Closure Commission, and the public. The DoD OIG is reporting to DoD Components on the quality of their BRAC management controls, data, and processes and has issued more than 270 memorandums reporting these results. BRAC has been the DoD OIG's largest effort this year, engaging 300 staff.

The Army Audit Agency review of the Army Environmental Database – Restoration Requirements showed that the original Army Environmental Database included the majority of applicable financial functional requirements, as required by the Federal Financial Management Improvement Act. The two requirements not included in the original

design were scheduled to be included in the next system upgrade. However, the audit identified an internal control issue concerning the overall reporting of environmental liabilities because the database did not interface with any financial system. The Army Audit Agency review of Environmental and Explosive Safety Requirements for Weapons Systems showed that only one of the five systems reviewed had effectively integrated environmental management into the system development process.

A Naval Audit Service review of Hazardous Material Inventory Requirements Determination and Offloads on Aircraft Carriers and Amphibious Ships looked at the inventory levels of hazardous materials on aircraft carriers and amphibious ships. Results of the audit showed that controls relating to inventory requirements and offloads were not effective, and the inventory of hazardous materials exceeded requisitioning objectives.

An Air Force Audit Agency report on Air Force Center for Environmental Excellence (AFCEE) testing laboratory contracts found that for 96 percent of samples evaluated, AFCEE laboratory contractors provided the required quality, quantity, and timeliness of site-project laboratory services as specified in the AFCEE Quality Assurance Project Plan. In addition, AFCEE project managers properly approved payments for valid testing laboratory services delivered. As a result, AFCEE management can rely on laboratory test results to meet Environmental Protection Agency and installation environmental compliance requirements.

DoD's highest environmental costs are associated with installation restoration (clean-up) practices at active installations and clean-up activities at closing installations. The Defense Global Posture Initiative and the Base Realignment and Closure process will identify potential environmental liabilities both in the United States and overseas. To improve DoD's management of these important considerations and to insure the right procedures and processes are established, the Assistant Deputy Under Secretary of Defense for Environment, Safety, and Occupational Health, requested, in February 2005, the IG's assistance to conduct a series of evaluations of the overseas environmental program. Therefore, the Inspections and Evaluations Directorate has developed plans to review the impact of overseas environmental documentation and remediation policy for potential land transfers. An additional objective is to conduct a follow-up review to determine the impact of

previous Inspector General findings and observations on the environmental program in Korea.

Executive Order 13148 directs that by December 31, 2005, each agency shall implement an environmental management system at all appropriate agency facilities based upon facility size, complexity, and the environmental aspects of facility operations. Environmental management systems protect the environment while ensuring ranges are available for future testing and training. Today, the Department of Defense faces significant challenges to conduct the realistic training necessary to produce combat-ready forces. Hence, the DoD IG is carefully assessing the balance between military requirements and the public's concern for the environment. Because the nation is at war, DoD has increased training and expanded land and air space requirements. The operations tempo correspondingly increases the stress on the testing and training range infrastructure. The Inspections and Evaluations Directorate is exploring how best to achieve mission success while minimizing the impact on the environment.

## **OTHER SIGNIFICANT ACTIVITIES**

The DoD OIG issued a report discussing the effectiveness of the DoD review process for export license applications and the timeliness of updates to Federal export regulations. The report found that DoD had an effective process to review export license applications for chemical and biological items. The DoD management controls over the licensing process were adequate. The report identifies biological agents and toxins that are listed on the Department of Agriculture and Department of Health and Human Services (HHS) lists of items of concern that are not on the Commerce Control List. The Department of Commerce is currently considering whether the items on the Agriculture and HHS lists should be export controlled. The DoD should assist the Department of Commerce in periodically evaluating the need to update the Commerce Control List.

In August 2004, the Deputy Secretary of Defense directed the Secretary of the Air Force and other DoD Officials to direct a search to identify and produce "...all documents, from January 2001 to the present, relating to any program to acquire commercially derivative aerial refueling tanker aircraft [KC-767 Tanker Aircraft Program]...." In September 2004, the Secretary of Defense transferred the responsibility for the ongoing production of KC-767 tanker lease documents to the DoD OIG and directed the DoD OIG to ensure that the documents gathered in response to the Deputy Secretary of Defense's August 2004 memorandum represented all relevant and responsive documents. The

DoD OIG has committed a significant portion of its resources to support the required task. As of March 24, 2005, the DoD OIG has reviewed nearly 1,000,000 unclassified KC-767 Tanker Aircraft Program document pages of DoD and Air Force material provided in response to the Deputy's August 2004 memorandum. The DoD OIG expects to complete the existing review, packaging, and distribution of the KC-767 Tanker Aircraft documentation project by May 2005.

In December 2004, the DoD OIG completed a review of the documents gathered by the Office of the Secretary of Defense and the Air Force relating to the lease of the procurement of the KC-767A aircraft. The DoD OIG examined and summarized the processes and procedures used to ensure that all documents that were generated relating to the lease of procurement of the KC-767 tanker aircraft were produced. The DoD OIG reported that the Office of the Secretary of Defense and the Department of the Air Force made a reasonable attempt to produce available documents, although the existing e-mail record-keeping and retrieval systems do not ensure that all documents that were generated relating to the lease or procurement of the KC-767A tanker aircraft were produced as requested.

The Army Audit Agency review of the Medical Funding for the Global War on Terrorism, U.S. Army Medical Command, found that Army medical activities generally used Global War on Terrorism (GWOT) funds appropriately and properly recorded and accounted for the majority of transactions using these funds. However, operating personnel sometimes did not interpret or follow published U.S. Army Medical Command guidance on a regular basis. As a result, the medical activities were reimbursed about \$4.8 million for unsupported GWOT expenditures while other valid costs were not captured. Additionally, about \$14.3 million in transactions contained errors that needed correction.

The Army Audit Agency review of vested and seized assets related to Operation Iraqi Freedom, concluded that the Army properly secured and accounted for seized cash and metal bars; however, numerous non-cash assets were found to be unaccounted for and in some instances were unprotected. The Comptroller's Office, Coalition Provisional Authority did not perform required reconciliations on its account balances for vested and seized assets with Defense Finance and Accounting Service and Department of Treasury records. Additionally, the Army did not maintain a filing area with reasonable access to the official documents that support disbursements from the vested and seized asset accounts.

Despite these problems, evidence showed transactions using vested and seized assets were for the benefit of the Iraqi people.

In March 2005, the Inspector General signed a memorandum to the DCIOs announcing a new policy to accept requests for IG subpoenas for specified non-fraud related general crime investigations for a one-year trial period. Requests for general crimes subpoenas must satisfy criteria under the “DoD Nexus Test” to determine if the crime at issue is sufficiently relevant to the DoD to warrant the IG’s involvement in the investigation, and a “Particular Crime Test” that specifies the types of crimes for which the non-fraud subpoenas will be issued. During this period, the IG will evaluate (1) the criteria utilized to identify those DoD-related general crime investigations for which the subpoenas are issued; and (2) the overall effectiveness/usefulness of IG subpoenas in the investigation of DoD-related general crimes.

## CHAPTER 2 - OFFICE OF THE INSPECTOR GENERAL

### **DEPUTY INSPECTOR GENERAL FOR AUDITING**

The Office of the Deputy Inspector General for Auditing (ODIG-AUD) conducts audits on all facets of DoD operations. The work results in recommendations for reducing costs, eliminating fraud, waste, and abuse of authority, improving performance, strengthening internal controls, and achieving compliance with laws, regulations, and policies. Audit topics are determined by law, by requests from the Secretary of Defense and other DoD leadership, by Hotline allegations, by congressional requests, and by internal analyses of risk in DoD programs.

The ODIG-AUD serves as the focal point for Government Accountability Office (GAO) activity in the DoD, and continues to perform follow-up on GAO and DoD OIG report recommendations.

### **DoD Audit Community**

The defense audit community consists of the DoD OIG, the Army Audit Agency, the Naval Audit Service, and the Air Force Audit Agency. As a whole, the organizations issued 197 reports, which identified the opportunity for \$908,331,498 in monetary benefits. Appendix A lists reports issued by central DoD internal audit organizations. Appendices B and C, respectively, list DoD OIG reports with potential monetary benefits and statistically summarizes audit follow-up activity.

The Defense Contract Audit Agency (DCAA) provided financial advice to contracting officers in 17,309 reports during the period. The contract audits resulted in almost \$3.9 billion in questioned costs and funds that could be put to better use. Appendix D contains the details of the audits performed. Contracting officers disallowed \$159 million of the \$491 million questioned as a result of significant post-award audits. However, this does not include the Army's data because they were unable to submit its data by the date required for inclusion in the semiannual report. Additional details on the amounts disallowed are found in Appendix E.

### **Significant Open Recommendations**

Managers accepted or proposed acceptable alternatives for 284 (97 percent) of the 293 DoD OIG audit recommendations made in the first 6 months of fiscal year 2005. Many recommendations require complex and time-consuming actions, but managers are expected to make reasonable efforts to comply with agreed-upon implementation schedules. Although most of the 899 open actions being traced in the DoD OIG follow up systems are on track for timely implementation, there were 206 reports more than 12 months old, dating back as far as 1991, for which

management has not completed actions to implement the recommended improvements.<sup>1</sup>

Significant open recommendations that have yet to be implemented include the following:

- Recommendations made in 2002 and 2003 to negotiate amendments to Cooperative Threat Reduction (CTR) Program agreements to use U.S.-provided assistance for intended purposes remain open. Related recommendations made in 2004. Proposed CTR agreement amendments to ensure that the Russian Federation will meet its commitments, and also to provide access to, and visibility over the use of U.S.-funded CTR facilities are being coordinated among Russian Federation Ministries. Actions are being taken to reclaim facility components or utilize remaining assets for CTR purposes, and to avoid the pitfalls that resulted in construction of facilities that were not used as intended.
- Recommendations made in 2002 to develop and implement consistent guidance and a process to measure and assess interoperability and information assurance policies for the acquisition of DoD weapon systems. Applicable DoD policies in process of being revised.
- Recommendations made in 2002 to improve oversight and management controls, and develop training for the DoD purchase card program. A standardized training program for cardholders and billing officials has been developed. DoD policies and guidance on purchase card use and management controls nearing completion.

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1. Section 6009 of the Federal Acquisition Streamlining Act, as amended, provides: "If the head of the agency fails to complete final action with regard to a management decision within the 12-month period, the inspector general concerned shall identify the matter in each of the inspector general's semiannual reports pursuant to section 5(a)(3) of the Inspector General Act of 1978 (5 U.S.C. App.) until final action on the management decision is completed." A list of OIG DoD reports on which management decisions have been made but final action has not been taken is continued in the Secretary of Defense Report issued pursuant to section 5(a) of the Inspector General Act.

- Recommendations made in 2001 and subsequent years addressing financial systems deficiencies and the DoD Financial Management improvement plan. In response to recommendations made in 2003, efforts are underway to establish an integrated repository that will include existing relevant databases and will capture information technology systems and business systems, as well as budget data. Initiatives underway to correct financial systems deficiencies should enable the Department to provide accurate, timely, and reliable financial statements.

**DEPUTY INSPECTOR  
GENERAL FOR  
INVESTIGATIONS**

The Office of the Deputy Inspector General for Investigations (ODIG-INV) comprises the criminal and the administrative investigative components of the DoD OIG. The Defense Criminal Investigative Service (DCIS) is the criminal investigative component of the DoD OIG. The non-criminal investigative units include the Directorate for Investigations of Senior Officials (ISO), the Directorate for Military Reprisal Investigations (MRI), and the Directorate for Civilian Reprisal Investigations (CRI).

**Defense Criminal  
Investigative  
Service**

The Defense Criminal Investigative Service (DCIS) is tasked with the mission to protect America's warfighters by conducting investigations in support of crucial national defense priorities. The DCIS conducts investigations of suspected major criminal violations focusing mainly on terrorism, product substitution/defective parts, cyber crimes/computer intrusion, illegal technology transfer, and other categories of fraud including bribery, corruption, and major theft. The DCIS also promotes training and awareness in all elements of the DoD regarding the impact of fraud on resources and programs by providing fraud awareness presentations.

**Defense Criminal  
Investigative  
Organizations**

The Defense Criminal Investigative Organizations (DCIOs) combat crime affecting the DoD, both domestic and overseas, with highly trained special agents, forensic experts, analysts, and support personnel. The DCIS, a component of the DoD OIG; the U.S. Army Criminal Investigation Command (USACIDC); the Naval Criminal Investigative Service (NCIS); and the Air Force Office of Special Investigations (AFOSI) support the Secretary of Defense management challenges and protect the military and civilian men and women of the Department. Examples of the DCIOs' mission initiatives and investigative accomplishments are detailed in Chapter 1 under the nine management challenges.

Monetary recoveries and fines related to all criminal investigations throughout the DoD totaled more than \$420 million. Figure 2 below displays other statistical results achieved by the investigative organizations during this semiannual reporting period.

| Judicial and Administrative Actions |             |             |            |             |
|-------------------------------------|-------------|-------------|------------|-------------|
|                                     | Convictions | Indictments | Debarments | Suspensions |
| Terrorism                           | 21          | 22          | 81         | 55          |
| Procurement/<br>Health Care Fraud   | 28          | 26          |            |             |
| Other                               | 206         | 215         |            |             |
| Total                               | 255         | 263         |            |             |

Figure 2

### Directorate for Investigations of Senior Officials

The DoD OIG Directorate for Investigations of Senior Officials conducts investigations into allegations against senior military and civilian officials and performs oversight of senior official investigations conducted by the military departments.

Figure 3 (below) and Figure 4 (the following page) show results of activity on senior official cases during the first six months of FY 2005. On March 31, 2005, there were 242 ongoing investigations into senior official misconduct throughout the Department, representing little change from October 1, 2004, when we reported 241 open investigations. Over the past 6 months, the Department closed 255 senior official cases, of which 48 (19 percent) contained substantiated allegations.

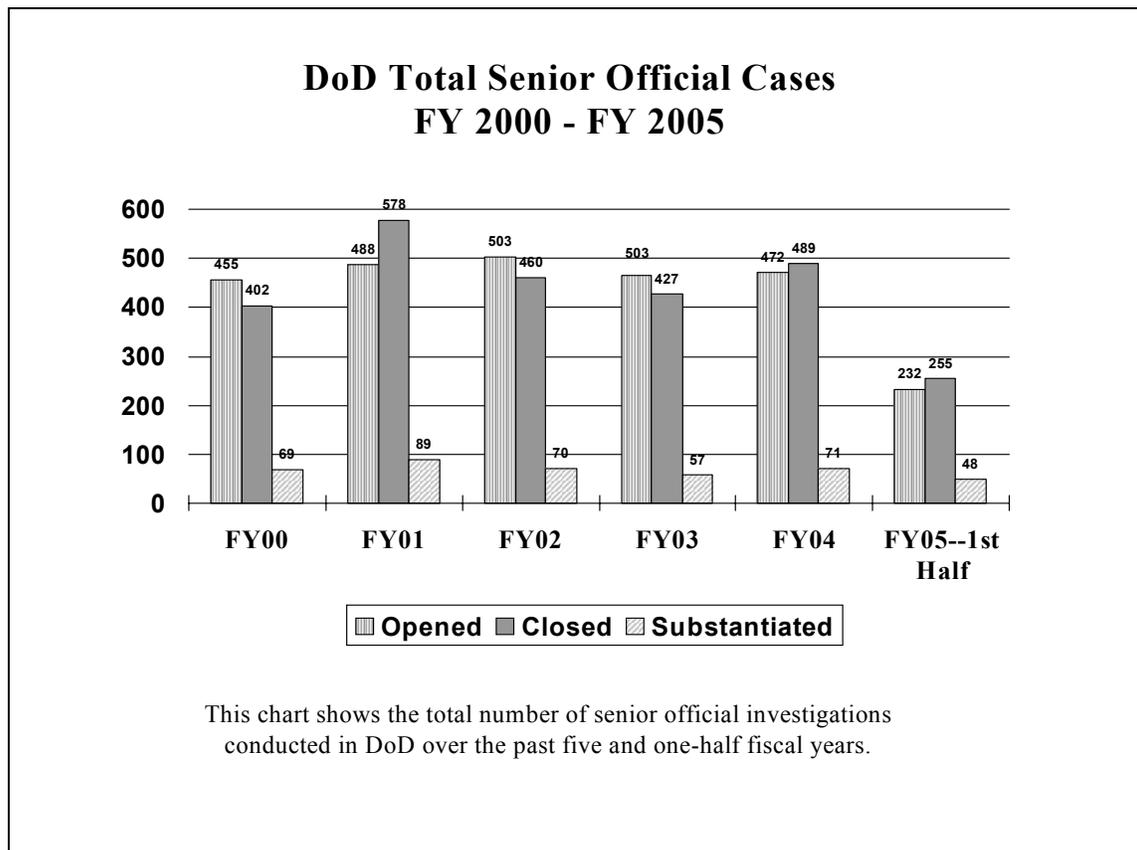


Figure 3

### Nature of Substantiated Allegations Against Senior Officials During 1st Half FY 05

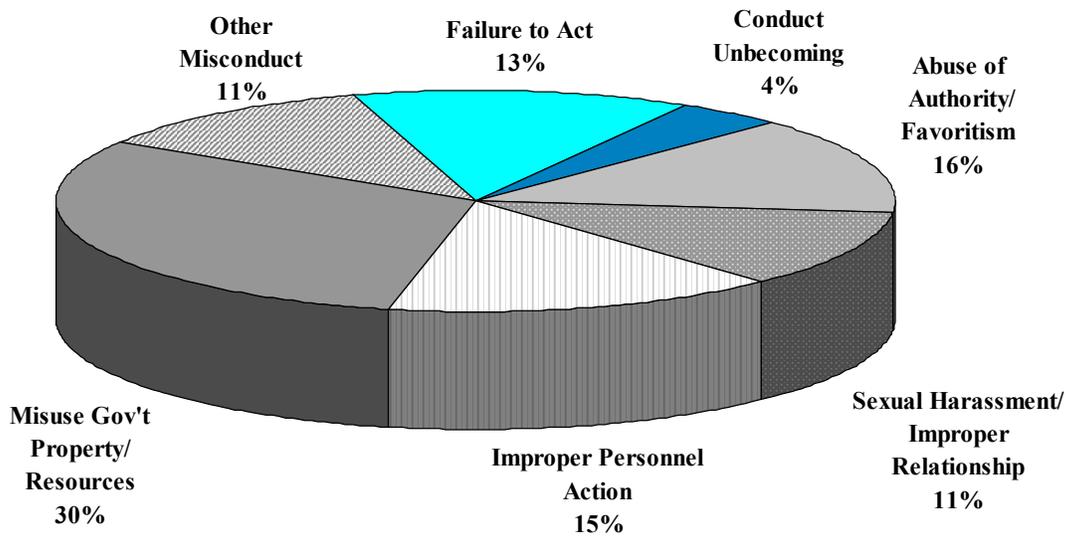


Figure 4

#### Directorate for Military Reprisal Investigations

The DoD OIG Directorate for Military Reprisal Investigations (MRI) conducts investigations and performs oversight of investigations conducted by the military departments. Those investigations pertain to:

- Allegations that unfavorable actions were taken against members of the Armed Forces, DoD non-appropriate fund employees, and Defense contractor employees in reprisal for making protected communications; and
- Allegations that members of the Armed Forces were referred for mental health evaluations without being afforded the procedural rights prescribed in the DoD Directive and Instruction.

**Whistleblower  
Reprisal Activity**

During the reporting period, MRI and the military department IGs received 284 complaints of whistleblower reprisal. We closed 212 reprisal cases during this period. Of those 212 cases, 159 were closed after preliminary analysis determined further investigation was not warranted and 53 were closed after investigation. Of the 53 cases investigated, 11 (21%) contained one or more substantiated allegations of whistleblower reprisal.

The MRI and the military departments currently have 409 open cases involving allegations of whistleblower reprisal.

**Examples of  
Substantiated  
Whistleblower  
Reprisal Cases**

An Army staff sergeant stationed at Fort Hood, Texas, alleged his sergeant major threatened him with denial of reassignment to restrict him from submitting a complaint of assault to the military police. An Army investigation found that the sergeant major restricted, counseled, and threatened the staff sergeant in reprisal for his protected communication. Corrective action is pending against the sergeant major.

A Navy petty officer second class assigned to Guantanamo Bay, Cuba, alleged he was issued written counseling, an unfavorable fitness report, and denied an end of tour award in reprisal for making complaints to an inspector general and his chain of command about medical equipment accountability. A Navy investigation determined that the reporting senior took the adverse personnel actions against the petty officer in reprisal for his protected communications. Corrective action is pending.

An Air Force senior airman at Barksdale Air Force Base, Louisiana, alleged she was issued an unfavorable evaluation in reprisal for her Military Equal Opportunity complaint. An Air Force investigation substantiated reprisal allegations against the squadron commander. Corrective action is pending against the squadron commander.

**Referrals for Mental  
Health Evaluations**

We closed twenty seven (27) cases involving allegations of improper referrals for mental health evaluations during the reporting period. In 15 (56%) of those cases, we substantiated that command officials and mental health care providers failed to follow the procedural requirements for referring Service members for mental health evaluations under DoD Directive 6490.1, "Mental Health Evaluations of Members of the Armed Forces." Although these officials failed to follow procedural guidelines, we did not substantiate these mental health referrals were in reprisal for Service members' protected communications.

**Directorate for  
Civilian Reprisal  
Investigations (CRI)**

The DoD OIG Directorate for Civilian Reprisal Investigations (CRI) was established in January 2004, to serve as “advocate” protecting civilian-employee relaters of fraud, waste, abuse of authority, and mismanagement in the DoD. The CRI conducts investigations, coordinates personnel management remedies and reaches out to federal and non-federal agencies involved with whistleblower affairs.

The primary focus of CRI’s outreach during this period has been directed at increasing communication between those DoD components which conduct investigations into alleged reprisals against members of the DoD intelligence community. The Directorate has a total of 18 active, open cases.

**DEPUTY INSPECTOR  
GENERAL FOR  
INTELLIGENCE**

The Office of the Deputy Inspector General for Intelligence (ODIG-INTEL) audits, reviews, evaluates, and monitors the programs, policies, procedures, and functions of the DoD Intelligence Community and the intelligence-related activities within the DoD Components, primarily at the DoD, Service, and Combatant Command levels, ensuring that intelligence and intelligence-related resources are properly, effectively, and efficiently managed. The ODIG-INTEL also conducts oversight of Service and Defense agency reviews of security and counterintelligence within all DoD test and laboratory facilities.

**Intelligence  
Community**

The DoD OIG, the IGs of the Defense Intelligence Agency, National Geospatial-Intelligence Agency, National Reconnaissance Office, and National Security Agency; the Air Force Audit Agency; and the Defense Contract Audit Agency completed 64 intelligence-related and other classified and sensitive reports. The reports are categorized into the areas shown in Figure 5 on the following page. A listing and highlights of the 64 reports can be found in the Classified Annex to this report.

| <b>IG and Audit Agency Reviews (U)</b>        |                |                         |                             |              |
|---|----------------|-------------------------|-----------------------------|--------------|
| <b>DoD Management Challenge Area</b>          | <b>DoD OIG</b> | <b>Defense Agencies</b> | <b>Military Departments</b> | <b>Total</b> |
| Joint Warfighting and Readiness               | 0              | 22                      | 0                           | 22           |
| Homeland Defense                              | 0              | 0                       | 1                           | 1            |
| Human Capital                                 | 0              | 10                      | 0                           | 10           |
| Information Technology Management             | 1              | 0                       | 0                           | 1            |
| Acquisition Processes and Contract Management | 1              | 7                       | 0                           | 8            |
| Financial Management                          | 0              | 7                       | 0                           | 7            |
| Health Care                                   | 0              | 0                       | 0                           | 0            |
| Logistics                                     | 0              | 1                       | 0                           | 1            |
| Infrastructure and Environment                | 0              | 1                       | 0                           | 1            |
| Other Reports                                 | 0              | 13                      | 0                           | 13           |
|   |                |                         |                             |              |
| <b>TOTAL REPORTS ISSUED</b>                   | <b>2</b>       | <b>61</b>               | <b>1</b>                    | <b>64</b>    |

Figure 5

The Intelligence Community Inspectors and Auditors General continued to coordinate and share information to improve the effectiveness and efficiency of oversight of DoD intelligence activities. The Intelligence Community Inspectors General Forum serves as a mechanism for sharing information among inspectors general whose duties include audit, evaluation, inspection, or investigation of programs and operations of Intelligence Community elements. The Information Assurance Working Group, established by the Intelligence Community Inspectors General Forum in 1999, monitors and evaluates the status of management policies and oversight of efforts to protect the Intelligence Community systems. Within DoD, the Joint Intelligence Oversight Coordination Group comprises senior representatives from the Office of the Secretary of Defense, the inspectors general of the Defense intelligence agencies, and military department audit, evaluation, and inspection organizations. The objectives of this group are to improve the effectiveness and efficiency of DoD oversight of intelligence activities by identifying areas needing more emphasis and deconflicting oversight programs. See the Classified Annex to this report for information on meetings of these groups.

**DEPUTY INSPECTOR  
GENERAL FOR  
INSPECTIONS AND  
POLICY**

The Office of the Deputy Inspector General for Inspections and Policy (ODIG-I&P) conducts inspections and evaluations, manages the DoD Hotline, and provides the oversight and policy for Audit and Investigative activities within DoD, as required by Section 8 of the IG Act.

**Inspections and  
Evaluations  
Directorate**

The Inspections and Evaluations Directorate within the Office of the Deputy Inspector General for Inspections and Policy promotes positive change by identifying opportunities for performance and efficiency improvements in DoD programs and operations. The Directorate conducts objective and independent customer-focused management and program inspections addressing areas of interest to Congress and the Department of Defense.

The Directorate is projected to build to 50 military and civilian personnel by the end of fiscal year 2005. The organizational structure will include six divisions:

Joint Operations, Defense Agencies, and Service Inspectors  
General

Reserve Forces

Homeland Defense

Safety and Operational Health

Engineering and Environment

Special Projects and Technical Assistance

These divisions are designed to provide broad subject area expertise to address the goals of the President's Management Agenda, General Accountability Office High Risk Areas, the Secretary of Defense's List of Top Ten Priorities, the DoD IG's Strategic Plan and requests from Congress, DoD officials, and the Inspector General.

**Audit Policy and  
Oversight  
Directorate**

In accordance with the Inspector General Act of 1978, as amended, the Office of Assistant Inspector General for Audit Policy and Oversight (APO) provides policy direction and oversight for audits performed by over 6,500 DoD auditors in 24 DoD organizations, ensures appropriate use of non-federal auditors and their compliance with auditing standards and ensures that contracting officials comply with statutory and regulatory requirements when resolving contract audit report recommendations in accordance with DoD Directive 7640.2, "Policy for Follow-up on Contract Audit Reports." During the reporting period, APO issued three reports that addressed the quality of audits and auditor

workplace and the effectiveness of contracting officer implementation of contract audit recommendations. The APO also provided an internal management control review of the DoD OIG use of premium travel. The reports are:

- Assist Review of Special Inspector General for Iraqi Reconstruction (D-2005-6-004, March 24, 2005);
- Review of Defense Contract Management Agency Santa Ana Office's Actions on Incurred Cost Audits (D-2005-6-003, March 17, 2005);
- (U//FOUO) Congressional Inquiry in Allegations Concerning an Abusive Work Environment at the Defense Contract Audit Agency New York Branch Office (D-2005-6-002, March 8, 2005); and
- Quality Control Review of Business-Class Airfares Within the Office of the Inspector General of the Department of Defense (D-2005-6-001, November 12, 2004).

The APO has also been instrumental in addressing potential independence issues related to proposed actions the DoD is taking to improve its financial management workforce and has provided and coordinated on a number of significant Federal Acquisition Regulation (FAR) and Defense Federal Acquisition Regulation Supplement (DFARS) cases and other policy issues related to defense acquisition.

- Provided comments that address our concerns regarding DoD OIG and auditor (GS-511) independence to the Under Secretaries of the Comptroller and Personnel and Readiness on three initiatives to improve the financial management workforce. The initiatives were: Draft Management Initiative Decision No, 922, "Consolidate Civilian Financial Management Education and Training," Draft DoD Policy, "Certification for DoD Professional Accounting Positions," and the DoD Financial Management Workforce Development Working Group;
- Commented on proposed changes to FAR/DFARS making recommendations to clarify language and ensuring consistency with legislation; and

- Commented on three DoD FY 2006 Non-Budgetary Proposals that resulted in improved and clarified proposed legislation and withdrawal of a proposal that would have significant issues for the acquisition community to properly implement.

APO also:

- Participated in revising the President’s Council on Integrity and Efficiency (PCIE) “Guide for Conducting External Peer Reviews of the Audit Operations of Offices of Inspector General” and in establishing the plan for the PCIE sponsored National Single Audit Sampling Initiative;
- Provided comments on the Draft GAO Government Auditing Standards Guidance on Requirements for Continuing Professional Education; and
- Gave presentations at conferences and training events such as the Defense Contract Audit Agency Quality Assurance Conference (Atlanta GA); the National Single Audit Sampling Project (Washington D.C.), and the Association of Defence Auditors (Melbourne, Australia).

### **Investigative Policy and Oversight Directorate**

The Investigative Policy and Oversight Directorate (IPO) evaluates the performance and develops/implements policy for the DoD law enforcement community and the non-criminal investigative offices of the DoD. The IPO also manages the IG Subpoena Program for the Defense Criminal Investigative Organizations (DCIOs) and administers the DoD Voluntary Disclosure Program, which allows contractors a means to report potential civil or criminal fraud matters.

### **DoD Hotline**

The DoD OIG Hotline continues its primary mission of providing a confidential and reliable means for DoD civilian and contractor employees, military service members, and the public to report fraud, waste, mismanagement, abuse of authority, trafficking in persons, and leaks of classified information within the Department of Defense. During this reporting period, the DoD OIG Hotline received 6,284 contacts from the public, members of the DoD community, the GAO, and the Congress. The Hotline initiated 995 investigations including; 44 Congressional inquiries, 340 GAO inquiries, 71 reprisal complaints and 49 allegations of senior DoD official misconduct. There were 1,320 cases closed during the reporting period that resulted in \$280,613.00 being returned to the Government.

**OFFICE OF  
COMMUNICATIONS  
AND  
CONGRESSIONAL  
LIAISON**

The Office of Communications and Congressional Liaison (OCCL) is a staff element of the immediate Office of the Inspector General. This office supports the DoD OIG by serving as the contact for communications to and from Congress, and by serving as the DoD OIG Public Affairs Office. The OCCL also includes the Freedom of Information Act/Privacy Act Office and Strategic Planning. In addition, the OCCL provides staff support and serves as the liaison for the DoD OIG to the President's Council on Integrity and Efficiency and the Defense Council on Integrity and Efficiency (DCIE). The DoD IG established the DCIE in 2002 to ensure effective coordination and cooperation between and among the activities of the DoD OIG and Defense agencies.

**Comments on  
Legislation /  
Testimony**

Section 4(a) of the Inspector General Act requires the Inspector General "to review existing and proposed legislation and regulations relating to the program and operations of [the Department of Defense]" and to make recommendations "concerning the impact of such legislation or regulations on the economy and efficiency in the administration of programs and operations administered or financed by [the Department] or the prevention and detection of fraud and abuse in such programs and operations." The DoD OIG routinely receives legislation for review that has been referred to the Department of Defense for comment. The DoD OIG comments provided during the reporting period included the following:

- S. 394, the OPEN Government Act of 2005, which would amend the Freedom of Information Act (FOIA). The DoD OIG commented on Section 6 of the bill which provides that if an agency fails to determine whether it will comply with a request for records within specified time limits, it cannot deny the release of information based on the exemptions provided by FOIA. The DoD OIG comments stated that this provision could result in the disclosure of information the FOIA was intended to protect, including "records or information compiled for law enforcement purposes" (5 USC 552(b)(7)). The release of such information could impede ongoing criminal investigations and interfere with enforcement proceedings.
- The DoD OIG submitted a draft legislative proposal to Congress to strengthen the independence and effectiveness of inspectors general in providing oversight of national security and intelligence programs and operations and in receiving, investigating or otherwise resolving complaints alleging abuses

of civil rights and liberties. The legislative proposal includes provisions to:

- » Clarify that the Inspector General of the Office of the Director for National Intelligence shall be appointed by the President, by and with the advice and consent of the Senate;
- » Establish a Civil Rights/Civil Liberties person in the offices of the National Security Inspectors General (incorporates language from Section 8304 of the Intelligence Reform and Terrorism Prevention Act of 2004);
- » Strengthen IG independence by incorporating provisions of the Sarbanes-Oxley Act;
- » Formalize the oversight exercised by the Intelligence community Inspectors General Forum;
- » Allow Inspectors General to be reimbursed for all costs and expenses incurred, including salaries of officers and employees of the DoD OIG, in conducting investigations, audits, and inspections in support of the Global War on Terrorism; and
- » Require the head of the establishment to submit to the appropriate committees or subcommittees a statement describing the differences between the budget request submitted by the Inspector General and the actual request forwarded by the head of the establishment.

The DoD OIG commented on proposed changes to Federal Acquisition Regulations (FAR), and on proposed FY 2006 Non-Budgetary items. We disagreed with a proposed FAR Case 2004-006, “Accounting for Unallowable Costs,” that would allow sampling to identify unallowable costs, because it will result in confusion, inconsistent practices, and disputes. However, we suggested language to specify what an adequate sampling plan entails and the need to add these to the advance agreements if the proposal is implemented. In response to DoD FY 2006 non-budgetary proposals, we did not concur with proposals for “Authorizing Fixed Material Handling Rates for Commercial Time and Material Contracts,” “Making the Statutory Executive Compensation CAP Prospective from the Date of the Legislation,” and “Eliminate Performance of Research from the Preference for Performance-Based

Contracts and Task Orders.” Based on comments and discussions, the proponent for “Authorizing Fixed Material Handling Rates for Commercial Time and Material Contracts” withdrew the proposals. Based on additional information and modifications to the proposals, we reached agreement on the two other proposals.

The DoD OIG also regularly reviews new and revised regulations proposed by the Department of Defense. During this reporting period the DoD OIG reviewed 167 draft issuances or re-issuances of DoD directives, instructions, manuals and other policy guidance.

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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 and memorandum reports and consulting reports issued by the Army Audit Agency. Includes evaluation reports issued by the OIG DoD.

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

DoD OIG  
(703) 604-8937

Army Audit Agency  
(703) 681-9863

Naval Audit Service  
(202) 433-5525

Air Force Audit Agency  
(703) 696-8014

**Summary of Number of Reports by Management Challenge Area  
 October 1, 2004 - March 31, 2005**

|  | <b>DoD OIG</b> | <b>Military Depts.</b> | <b>Total</b> |
|--|----------------|------------------------|--------------|
| Joint Warfighting and Readiness  | -              | 7                      | 7            |
| Homeland Defense   | -              | 4                      | 4            |
| Human Capital  | 1              | 18                     | 19           |
| Information Technology Management  | 5              | 6                      | 11           |
| Acquisition Processes/Contract Management  | 7              | 38                     | 45           |
| Financial Management   | 24             | 37                     | 61           |
| Health Care  | -              | 6                      | 6            |
| Logistics  | 2              | 16                     | 18           |
| Infrastructure and Environment   | 1              | 18                     | 19           |
| Base Realignment and Closure**   | 3              | -                      | 3            |
| Other  | 1              | 3                      | 4            |
| <b>Total</b>   | <b>44</b>      | <b>153</b>             | <b>197</b>   |
| For information on intelligence-related reports, including those issued by other Defense agencies, refer to the classified annex to this report. |                |                        |              |

\* Partially fulfills requirements of the Inspector General Act of 1978, as amended, 5 U.S.C., Appendix 3, Section 5(a)(6) (See Appendix B).

\*\* In accordance with the Under Secretary of Defense of Acquisition, Technology, and Logistics/Chairman, Infrastructure Steering Group policy memorandum "Transformation Through Base Realignment and Closure (BRAC 2005) Policy Memorandum One--Policy, Responsibilities, and Procedures," April 16, 2003, BRAC-related information will not be released to the public until the Secretary of Defense forwards his recommendations to the 2005 BRAC Commission on May 16, 2005. In addition, BRAC-related reports are exempt from release under section 552 (b) (5), title 5, United States Code, "Freedom of Information Act," and DoD Directive 5400.7, "DoD Freedom of Information Act Program," September 1998, (Exemption Number 5, paragraph C3.2.1.5).

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## JOINT WARFIGHTING AND READINESS

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### Army Audit Agency

**A-2005-0142-FFE** Chemical, Biological and Nuclear Survivability Testing for Army Systems (12/23/04)

**A-2005-0081-FFF** Individual Ready Reserve and Individual Mobilization Augmentee Soldiers, U.S. Army Human Resources Command, Alexandria, Virginia (02/03/05)

**A-2005-0106-FFF** Follow-up Audit of the Use of Rail Cars for Transporting Equipment to Combat Training Centers, Deputy Chief of Staff, G-3/5/7 (02/11/05)

### Naval Audit Service

**N2005-0030** Intergovernmental Personnel Act Mobility Program Assignments (03/02/05)

### Air Force Audit Agency

**F-2005-0001-FD3000** Space Weapons Officer Utilization (11/10/04)

**F-2005-0002-FD3000** Chemical Warfare Defense Equipment (02/03/05)

**F-2005-0002-FD2000** Personnel Support for Contingency Operations (03/15/05)

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## HOMELAND DEFENSE

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### Naval Audit Service

**N2005-0015** Department of the Navy Antiterrorism Risk Assessment Management Approach for Navy Region Northwest (FOR OFFICIAL USE ONLY) (12/20/04)

**N2005-0019** Department of the Navy Antiterrorism Risk Assessment Management Approach for Navy Region Southeast (FOR OFFICIAL USE ONLY) (12/22/04)

**N2005-0034** Staffing of Security Functions at Naval Installations (03/23/05)

### Air Force Audit Agency

**F-2005-0005-FC1000** Foreign Disclosure Program (03/18/05)

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## HUMAN CAPITAL

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### DoD OIG

**D-2005-024** Management of Navy Senior Enlisted Personnel Assignments in Support of Operation Iraqi Freedom (12/15/04)

### Army Audit Agency

**A-2005-0026-FFH** Morale, Welfare and Recreation Club System, Fort Sam Houston, Texas (10/19/04)

**A-2005-0017-ALA FY 04** Follow-up of Combined Arms Tactical Trainer (Audit Report: A-2003-0113-AMA), Office of the Deputy Chief of Staff, G-3 (11/01/04)

**A-2005-0048-FFP** Controls Over Leave, Overtime, and Compensatory Time by Army Commands in Hawaii (11/19/04)

**A-2005-0002-FFF** Follow-up Audit of Recruiter Productivity, U.S. Army Recruiting Command, Fort Knox, Kentucky (11/24/04)

**A-2005-0060-FFE** Requirements for Civilian Pilot and Aircrew Safety, U.S. Army Aviation Center and Fort Rucker (12/09/04)

**A-2005-0050-FFF** Meals and Lodging Contracts (12/10/04)

**A-2005-0101-FFH** Community Club Renovation Project, Fort Buchanan, Puerto Rico (02/23/05)

**A-2005-0112-FFF** Follow-up of Army Modernization Training (New Equipment Training) (03/02/05)

### Naval Audit Service

**N2005-0003** Navy and Marine Corps Recruiter Productivity (10/12/04)

**N2005-0012** Navy High School Graduate Recruiting (12/03/04)

**N2005-0016** Operations at Marine Corps Community Services, Camp Butler (12/22/04)

**N2005-0021** Termination of Basic Allowance for Housing for Personnel Residing in Navy Housing at Pacific Activities (01/06/05)

**N2005-0028** Department of the Navy's Retirement Generational Planning (02/18/05)

**N2005-0029** Sea Pay Entitlement (02/25/05)

**N2005-0036** Verification of the Reliability and Validity of the Navy Enlisted System Data (FOR OFFICIAL USE ONLY) (03/30/05)

### **Air Force Audit Agency**

**F-2005-0001-FD1000** Civil Engineer Civilian Grade Structure (12/13/04)

**F-2005-0001-FD4000** Civilian Equal Employment Opportunity (02/02/05)

**F-2005-0002-FD4000** Advanced 7-Level Technical Schools (03/22/05)

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## **INFORMATION TECHNOLOGY MANAGEMENT**

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### **DoD OIG**

**D-2005-001** Report on Defense Civilian Pay System Controls Placed in Operation and Test of Operating Effectiveness for the Period March 1, 2004 through September 10, 2004 (10/01/04)

**D-2005-002** Reporting of Capital Investments for Technology in Support of the FY 2005 Budget Submission (10/12/04)

**D-2005-023** Assessment of DoD Plan of Action and Milestones Process (FOR OFFICIAL USE ONLY) (12/13/04)

**D-2005-025** DoD FY 2004 Implementation of the Federal Information Security Management Act for Information Technology Training and Awareness (12/17/04)

**D-2005-029** Management of Information Technology Resources Within DoD (01/27/05)

### **Army Audit Agency**

**A-2005-0040-FFI** Server Consolidation (11/05/04)

**A-2005-0110-FFF** Follow-up Audit of Computer Based Training for Information Technology (e-Learning), Army Chief Information Officer/G-6 (02/24/05)

**A-2005-0115-FFF** Revalidation of Material Weaknesses-Automated Mobilization System (03/04/05)

### **Naval Audit Service**

**N2005-0008** Information Assurance Vulnerability Alert Process (10/25/04)

### **Air Force Audit Agency**

**F-2005-0001-FB4000** Accountability and Control of Secure Terminal Equipment (02/02/05)

**F-2005-0002-FB4000** Information Assurance Position Certification Training for Air Force Network Professionals (03/21/05)

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## **ACQUISITION PROCESSES AND**

## **CONTRACT MANAGEMENT**

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### **DoD OIG**

**D-2005-005** Award of the Air Force F-15 Trainer Support Contract (FOR OFFICIAL USE ONLY) (10/21/04)

**D-2005-006** Overseas Purchase Card Transactions by DoD Dependents Schools-Europe (10/20/04)

**D-2005-009** Pueblo Chemical-Agent-Destruction Pilot Plant Project (FOR OFFICIAL USE ONLY) (11/01/04)

**D-2005-021** Contract Award and Administration for Modular Causeway Systems (11/22/04)

**D-2005-027** Contract With Reliant Energy Solutions East (01/28/05)

**D-2005-033** Implementation of the Interoperability and Information Assurance Policies for Acquisition of Navy Systems (02/02/05)

**D-2005-034** Implementation of Interoperability and Information Assurance Policies for Acquisition of Air Force Systems (02/02/05)

### **Army Audit Agency**

**A-2005-0009-ZBI** Coordinating Requirements for Special Access Programs, Site D (FOR OFFICIAL USE ONLY) (10/06/04)

**A-2005-0015-ALA** Theater Support Vessel Program, Office of the Product Manager, Army Watercraft Systems (10/13/04)

**A-2005-0016-ALA** Follow-up on the Audit of Formulating the Army's Recapitalization Program (10/18/04)

**A-2005-0031-ALM** Tactical Software Maintenance, Office of the Program Executive Officer, Aviation; and U.S. Army Aviation and Missile Research, Development and Engineering Center, Redstone Arsenal, Alabama (10/18/04)

**A-2005-032-ALM** Tactical Software Maintenance, Office of the Program Executive Officer, Air, Space & Missile Defense; and U.S. Army Aviation and Missile Research, Development and Engineering Center, Redstone Arsenal, Alabama (10/18/04)

**A-2005-0029-FFH** Selected Acquisition Processes, Office of the The Surgeon General (10/28/04)

**A-2005-0037-ALA** Follow-up Audit of the Risk Management Program – Stryker Vehicle System, Office of the Project Manager, Brigade Combat Team (11/01/04)

**A-2005-0035-ALA** Force XXI Battle Command, Brigade and Below, Fort Monmouth, New Jersey (11/05/04)

**A-2005-0036-ALA** Selected Aspects of Performance Requirements -- Stryker, Office of the Project Manager, Brigade Combat Team (11/05/04)

**A-2005-0054-ZBI** Coordinating Requirements for Special Access Programs, Site C (CLASSIFIED) (11/23/04)

**A-2005-0043-ALE** Logistics Civil Augmentation Program in Kuwait, U.S. Army Field Support Command (11/24/04)

**A-2005-0064-ALT** Performance of the Post-Competition Most Efficient Organizations (12/09/04)

**A-2005-0084-ALA** Earned Value Management, Program Executive Office, Aviation (12/21/04)

**A-2005-0090-ALM** Follow-up on Mobile Subscriber Equipment, U.S. Army Communications-Electronics Command (01/06/05)

**A-2005-0093-FFP** Logistics Cost Sharing Program, U.S. Forces Korea and Eighth U.S. Army (01/12/05)

**A-2005-0102-ALA** The Army's Purchase Card Program, U.S. Army Armor Center, Garrison Command and Partners in Excellence, Fort Knox, Kentucky (2/07/05)

**A-2005-0120-ALA** Data-Mining Technicians for Purchase Card Oversight (FOR OFFICIAL USE ONLY) (02/24/05)

**A-2005-0114-ALA** Army Transformation Team Terms of Reference (02/25/05)

**A-2005-0121-ALS** Follow-up Audit of Global Combat Support System-Army Program Contract, Office of the Program Executive Officer, Enterprise Information Systems (02/28/05)

**A-2005-0123-ALW** Lead the Fleet Program, Office of the Deputy Chief of Staff, G-4 (03/03/05)

**A-2005-0126-FFE** Management of Government-Furnished Property, U.S. Army Garrison, Fort Hood, Texas (03/04/05)

## Naval Audit Service

**N2005-0002** Sea-Navigation Warfare Program (FOR OFFICIAL USE ONLY) (10/07/04)

**N2005-0014** Navy Supply Systems Command Commercial Purchase Card Program (10/07/04)

**N2005-0006** Independent Review of Pacific Northwest Airfield Support, Whidbey Island, WA (10/20/04)

**N2005-0007** Department of the Navy EA-6B Engine Modifications and Phase-out (10/20/04)

**N2005-0009** Independent Review of Department of Defense Optical Fabrication Enterprise Production Cost Study at Department of the Navy Continental U.S. Sites (FOR OFFICIAL USE ONLY) (11/03/04)

**N2005-0017** Independent Review of the Navy Region Northwest Seaport Services Operations (12/22/04)

**N2005-0018** Marine Corps Systems Command Contracts Supporting Operation Iraqi Freedom (12/22/04)

**N2005-0022** Independent Review of Design Engineering Function, Puget Sound Naval Shipyard and Intermediate Maintenance Facility Detachment Boston, MA (01/25/05)

**N2005-0023** Independent Review of Mechanicsburg/Philadelphia PA Whole Activity Study (01/31/05)

**N2005-0025** Procurement Planning and Requirements Verifications for Navy Aviation Common Support Equipment (FOR OFFICIAL USE ONLY) (02/07/05)

**N2005-0026** The Pioneer Unmanned Aerial Vehicle Sustainment Program (02/15/05)

### **Air Force Audit Agency**

**F-2005-0001-FC1000** United States Air Forces in Europe Multi-Support Functions, Royal Air Force Croughton and Royal Air Force Molesworth, United Kingdom (A-76 Cost Comparison) (12/13/04)

**F-2005-0002-FC1000** Air Education and Training Command, Foreign Military Sales, F-16 Aircraft Maintenance, 21st Fighter Squadron, Luke AFB Arizona (A-76 Direct Conversion) (12/13/04)

**F-2005-0001-FC3000** B-2 Flexible Acquisition and Sustainment Team Contract (12/13/04)

**F-2005-0002-FC3000** F/A-22 Producibility Improvement Program (12/29/04)

**F-2005-0003-FC3000** Performance-Based Services Acquisition Management (01/05/05)

**F-2005-0003-FC1000** 354th Fighter Wing, Eielson AFB AK, Refuse and Recycling Collection and Disposal Services and Refuse Derived Fuel Program (A-76 Direct Conversion) (02/02/05)

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## **FINANCIAL MANAGEMENT**

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### **DoD OIG**

**D-2005-003** DoD Antideficiency Act Reporting and Disciplinary Process (10/14/03)

**D-2005-004** Promptness of FY 2005 First Quarter DoD Payments to the Department of the Treasury for District of Columbia Water and Sewer Services (10/15/04)

**D-2005-007** Military Retirement Fund Processes Related to Deceased Retirees' Accounts (10/25/04)

**D-2005-008** Assessment of the U.S. Army Corps of Engineers, Civil Works, FY 2004 Beginning Financial Statement Balance of Construction-In-Progress (10/28/04)

**D-2005-010** Independent Auditor's Report on the Fiscal Year 2004 Army Working Capital Fund Financial Statements (11/08/04)

**D-2005-011** Independent Auditor's Report on the Fiscal Year 2004 Army General Fund Financial Statements (11/08/04)

**D-2005-012** Independent Auditor's Report on the Fiscal Year 2004 Department of the Navy Working Capital Fund Financial Statements (11/08/04)

**D-2005-013** Independent Auditor's Report on the Fiscal Year 2004 Department of the Navy General Fund Financial Statements (11/08/04)

**D-2005-014** Independent Auditor's Report on the Air Force General Funds Fiscal Year 2004 Principal Financial Statements (11/08/04)

**D-2005-015** Independent Auditor's Report on the Air Force Working Capital Fund Fiscal Year 2004 Principal Financial Statements (11/08/04)

**D-2005-016** Independent Auditor's Report on the Fiscal Year 2004 U.S. Army Corps of Engineers, Civil Works, Financial Statements (11/08/04)

**D-2005-017** Independent Auditor's Report on the Fiscal Year 2004 DoD Agency-Wide Financial Statements (11/08/04)

**D-2005-018** Endorsement of the Unqualified Opinion on the FY 2004 Military Retirement Fund Financial Statements (11/08/04)

**D-2005-019** Endorsement of the Qualified Opinion on the FY 2004 DoD Medicare-Eligible Retiree Health Care Fund Financial Statements (11/08/04)

**D-2005-022** Contracts Classified as Irreconcilable in the Mechanization of Contract Administration Services System (Contract No. DAAH01-92-C-R399 (12/02/04)

**D-2005-026** Reliability of U.S. Army Corps of Engineers, Civil Works, Fund Balance With Treasury and Unexpected Appropriations (12/28/04)

**D-2005-030** Independent Auditor's Report on the DoD FY 2004 Detailed Accounting Report of the Funds Expended on National Drug Control Program Activities (01/26/05)

**D-2005-031** Endorsement of the Management Letter on Internal Controls Over Financial Reporting for the FY 2004 DoD Medicare Eligible Retiree Health Care Fund Financial Statements (FOR OFFICIAL USE ONLY) (01/31/05)

**D-2005-032** Endorsement of the Deloitte & Touche LLP Management Letter on the FY 2004 Military Retirement Fund Financial Statements Opinion Audit (FOR OFFICIAL USE ONLY) (01/27/05)

**D-2005-035** Independent Examination of the Existence of U.S. Army Corps of Engineers Buildings and Other Structures (02/15/05)

**D-2005-036** DoD Civilian Payroll Withholding Data for FY 2004 (02/17/05)

**D-2005-040** Contracts Classified as Unreconcilable by the Defense Finance and Accounting Service Columbus (Contract No. F30602-81-C-0153) (03/14/05)

**D-2005-044** Report on the Attestation of Active and Closed Emergency and Extraordinary (E&E) Fund Accounts (FOR OFFICIAL USE ONLY) (03/14/05)

**D-2005-046** Independent Examination of the Rights to U.S. Army Corps of Engineers Buildings and Other Structures (03/25/05)

## **Army Audit Agency**

**A-2005-0024-FFH** Army Lodging Overhead Costs, Fort Bliss, Texas (10/28/04)

**A-2005-0025-FFH** Financial Controls—Club Stewart, Fort Stewart, Georgia (10/29/04)

**A-2005-0003-ALA** Realignment Phase 2 Field Operating Agencies, Office of the Administrative Assistant to the Secretary of the Army (11/04/04)

**A-2005-0042-ALO** No-Cost Economic Development Conveyance Financial Statements, Massachusetts Development Finance Agency, Devens, Massachusetts (11/04/04)

**A-2005-0044-FFG** Fund Control Module System, Requirements Review (11/16/04)

**A-2005-0047-FFG** Army Environmental Database – Restoration System Requirements Review (11/18/04)

**A-2005-0055-ALO** Reimbursables for Non-Army Customers (11/30/04)

**A-2005-0039-FFH** Attestation Review--Fort Bragg Golf Course Operations, Fort Bragg, North Carolina (11/30/04)

**A-2005-0061-FFG** Independent Auditor's Report for FY 04 American Red Cross Financial Statements (12/02/04)

**A-2005-0073-FFG** Independent Auditor's Report, Secretary of Defense/Joint Staff Welfare and Recreation Association Fund (12/21/04)

**A-2005-0085-FFC** Selected U.S. Army Corps of Engineers Civil Works Financial Statements, U.S. Army Corps of Engineers (01/07/05)

**A-2005-0089-ALT** Follow-up Audit of Aviation Maintenance Business Practices, Fort Drum, New York (01/11/05)

**A-2005-0067-FFH** Follow-up Audit of Financial Controls—Golf Course Operations, Aberdeen Proving Ground, Maryland (01/13/05)

**A-2005-0096-FFH** Army Lodging Overhead Costs, U.S. Army Community and Family Support Center (01/20/05)

**A-2005-0107-ALO** Audit of Reimbursables for Non-Army Customers, Fort Bragg, North Carolina (02/04/05)

**A-2005-0104-ALW** Disbursing Station Expenditure Operations, DoD Disbursing Station Number 5570 (02/14/05)

**A-2005-0095-FFG** Vested and Seized Assets, Operation Iraqi Freedom (02/16/05)

**A-2005-0108-ZBI** Intelligence Contingency Funds, Summary Report (CLASSIFIED) (02/23/05)

**A-2005-0018-FFG** Validation of Completed Tasks for Loan Guarantees--Army Chief Financial Officer's Strategic Plan (03/02/05)

**A-2005-0078-FFG** Coalition Provisional Authority Travel Process (03/02/05)

**A-2005-0103-FFG** Cargo and Billing System, Requirements Validation (03/03/05)

**A-2005-0020-FFG** Validation of Completed Tasks for Accounts Receivable--Army Chief Financial Officer's Strategic Plan (03/04/05)

**A-2005-0127-ALW** Validation of the Army's Fund Balance With Treasury (03/10/05)

**A-2005-0129-FFG** Follow-up Audit of Stored Value Card (Joint Task Force-Bravo), Soto Cano Airbase, Honduras (03/16/05)

**A-2005-0136-ALW** Attestation Examination of Selected Army Chief Financial Officers Strategic Plan Tasks, Fund Balance With Treasury (03/18/05)

**A-2005-0135-FFG** Review of Army Management Control Process FY 04, Headquarters, Installation Management Agency (03/21/05)

### **Naval Audit Service**

**N2005-0005** Department of the Navy's Fund Balance with Treasury Account (FOR OFFICIAL USE ONLY) (10/19/04)

**N2005-0011** Erroneous Payments Made to Navy Vendors (12/02/04)

**N2005-0013** Travel Pay Procedures at Personnel Support Activity Detachment New London, CT (12/07/04)

**N2005-0024** Alleged Cost Mischarging at Naval Facilities Engineering Service Center, Port Hueneme, CA (01/31/05)

**N2005-0031** Department of the Navy Transportation Incentive Program at Selected Activities (03/08/05)

**N2005-0035** Unliquidated Obligations, Commander, U.S. Atlantic Fleet (03/24/05)

### **Air Force Audit Agency**

**F-2005-0001-FB1000** Follow-up Audit, Civilian Permanent Change of Station Reimbursements (11/24/04)

**F-2005-0003-FB1000** Follow-up Audit, Travel Pay Controls (02/02/05)

**F-2005-0005-FB1000** Air Force Centrally Managed Allotments - First and Second Destination Transportation (02/03/05)

**F-2005-0001-FB2000** Statement of Budgetary Resources (General Fund) Financial Data Systems (02/02/05)

**F-2005-0002-FB2000** General Accounting and Finance Statement - Rehost Controls (03/23/05)

### **HEALTH CARE**

#### **Army Audit Agency**

**A-2005-0092-FFP** Follow-up Audit of Third Party Claims, Tripler Army Medical Center, Honolulu, Hawaii (01/07/05)

**A-2005-0098-FFH** Medical Funding for the Global War on Terrorism, U.S. Army Medical Command (02/02/05)

#### **Naval Audit Service**

**N2005-0020** Medical Personnel Assigned to Nonmedical Functions (12-23-04)

### **Air Force Audit Agency**

**F-2005-0001-FD2000** Medical Personnel Shortages (12/27/04)

**F-2005-0002-FB1000** Selected Financial Aspects of Pharmacy Operations (01/05/05)

**F-2005-0003-FD2000** Health Care Direct Hire Authority (03/23/05)

### **LOGISTICS**

#### **DoD OIG**

**D-2005-020** Defense Logistics Agency Processing of Special Program Requirements (11/17/04)

**D-2005-037** Implementation of Performance-Based Logistics for the Javelin Weapon System (03/07/05)

#### **Army Audit Agency**

**A-2005-0052-ALS** Validation of Material Weakness --In-Transit Visibility Policies and Standards, Office of the Deputy Chief of Staff, G-4 (11/23/04)

**A-2005-0058-ALS** Training Resource Model Inputs (Price and Credit), U.S. Army Material Command (12/14/04)

**A-2005-0088-ALM** Depot Level Maintenance for Secondary Items, Phase I -- Repair Versus Procurement Decisions, U.S. Army Communications-Electronics Command (01/11/05)

**A-2005-0099-FFG** Management Controls of Wholesale Munitions (02/04/05)

**A-2005-0128-ALM** Army Diagnostic Improvement Program, Office of the Product Manager for Test, Measurement and Diagnostic Equipment, Redstone Arsenal, Alabama (03/24/05)

### Naval Audit Service

**N2005-0010** The Department of the Navy's Reporting of Depot Maintenance Workload Allocation Between Public and Private Sectors (11/16/04)

**N2005-0027** Hazardous Material Inventory Requirements Determination and Offloads on Aircraft Carriers and Amphibious Assault Ships (02/17/05)

### Air Force Audit Agency

**F-2005-0001-FC4000** Spare Parts Pricing (11/10/04)

**F-2005-0001-FC2000** Depot Field Team Operations (11/24/04)

**F-2005-0002-FC4000** Repairable Asset Warranty Management (11/24/04)

**F-2005-0003-FC4000** Contractor Inventory Control Points (11/24/04)

**F-2005-0002-FC2000** Aircraft Avionics Maintenance (12/13/04)

**F-2005-0004-FC4000** Repairable Item Requirements - Repair Cycle Times (02/02/05)

**F-2005-0004-FC1000** Royal Netherlands Air Force Foreign Military Sales Aerial Tanker Program (Case NE-D-QBF) (02/22/05)

**F-2005-0005-FC4000** Low Demand Item Requirements Computation Accuracy (03/18/05)

**F-2005-0003-FC2000** Air Force Vehicle Nontaxable Ground Fuel Usage (03/21/05)

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## INFRASTRUCTURE AND ENVIRONMENT

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### DoD OIG

**D-2005-028** DoD Workforce Employed to Conduct Public-Private Competitions Under the DoD Competitive Sourcing Program (02/01/05)

### Army Audit Agency

**A-2005-0027-ALA** Environmental/Explosive Safety Requirements for Weapon Systems, Offices of the Assistant Secretary of the Army (Acquisition, Logistics & Technology) and Assistant Secretary of the Army (Installations & Environment) (10/18/04)

**A-2005-0034-FFE** Land Use Controls and Monitoring at Formerly Used Defense Sites, U.S. Army Corps of Engineers Wilmington District (10/29/04)

**A-2005-0049-ALO** Audit of Services to General and Flag Officer Quarters (11/18/04)

**A-2005-0030-FFC** Operations and Maintenance and Maintenance Backlog, U.S. Army Corps of Engineers, Norfolk District (11/23/04)

**A-2005-0056-ALT** Army Capacity Data, The Army Basing Study 2005 (11/30/04)

**A-2005-0082-ALO** Audit of Enhanced Use Lease Authority (12/16/04)

**A-2005-0083-ALT** Army Military Value Data, The Army Basing Study 2005 (12/21/04)

**A-2005-0113-FFE** Range Inventory (02/22/05)

**A-2005-0117-FFC** Recreation Facility Financial and Contract Management, U.S. Army Corps of Engineers, Fort Worth District (03/02/05)

**A-2005-0124-ALO** Privatization of Family Housing (03/04/05)

**A-2005-0118-FFC** Recreation Facility Financial and Contract Management, U.S. Army Corps of Engineers, Kansas City District (03/08/05)

**A-2005-0116-FFC** Recreation Facility Financial and Contract Management, U.S. Army Corps of Engineers (03/09/05)

**A-2005-0119-FFC** Recreation Facility Financial and Contract Management, U.S. Army Corps of Engineers, Vicksburg District (03/10/05)

**A-2005-0130-ALO** Follow-up Audit of Recommendations in Audit Report AA 01-466, Fort Benning, Georgia (03/10/05)

### Naval Audit Service

**N2005-0001** Military Construction, Navy Projects Proposed for Fiscal Year 2006 (10/07/04)

**N2005-0032** Cost and Management of the Uniform National Discharge Standards for Vessels of the Armed Forces (03/03/05)

**N2005-0033** Late Award of Facilities, Sustainment, Restoration, and Modernization Projects (03/14/05)

### **Air Force Audit Agency**

**F-2005-0002-FD1000** Air Force Center for Environmental Excellence Testing Laboratory Contracts

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### **BASE REALIGNMENT AND CLOSURE**

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#### **DoD OIG**

**D-2005-038** Defense Prisoner of War/Missing Personnel Office Data Call Submissions and Internal Control Processes for Base Realignment and Closure 2005 (EXEMPT FROM RELEASE) (03/25/05)

**D-2005-039** Pentagon Force Protection Agency's Data Call Submissions and Internal Control Processes for Base Realignment and Closure (BRAC) 2005 (EXEMPT FROM RELEASE) (03/11/05)

**D-2005-041** Defense Commissary Agency's Data Call Submissions and Internal Control Processes for Base Realignment and Closure (BRAC) 2005 (EXEMPT FROM RELEASE) (03/15/05)

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#### **OTHER**

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#### **DoD OIG**

**D-2005-042** Controls Over the Export Licensing Process for Chemical and Biological Items (03/30/05)

### **Army Audit Agency**

**A-2005-0028-ZBI** Property Accountability in Special Operations Forces Reserve Units, 305<sup>th</sup> Psychological Operations Company, Upper Marlboro, Maryland (10/25/04)

**A-2005-0051-ZBI** Property Accountability in Special Operations Forces Reserve Units, 312<sup>th</sup> Psychological Operations Company, Upper Marlboro, Maryland (11/17/04)

### **Air Force Audit Agency**

**F-2005-0004-FB1000** Air Force Art Program (02/02/05)

**APPENDIX B\***  
**DOD OIG AUDIT REPORTS ISSUED CONTAINING**  
**QUANTIFIABLE POTENTIAL MONETARY BENEFITS**

| <b>Audit Reports Issued</b>   | <b>Potential Monetary Benefits</b>      |                                    |
|---|---|------------------------------------|
|   | <b>Disallowed<br/>Costs<sup>1</sup></b> | <b>Funds Put to<br/>Better Use</b> |
| <b>D-2005-020</b> Defense Logistics Agency Processing of Special Program Requirements (11/17/2004)  | N/A                                     | 95,600,000                         |
| <b>D-2005-022</b> Contracts Classified as Unreconcilable by the Defense Finance and Accounting Service (Contract No. DAAH01-92-C-R399) (12/02/2004) | N/A                                     | 231,219                            |
| <b>Totals</b>   |   | <b>\$95,831,219</b>                |
| <sup>1</sup> There were no OIG audit reports during the period involving disallowed costs.  |   |                                    |

\* Partially fulfills the requirement of the Inspector General Act of 1978, as amended, 5 U.S.C., Appendix 3, Section 5(a)(6) (See Appendix A).

**APPENDIX C\***  
**FOLLOWUP ACTIVITIES**

| <b>DECISION STATUS OF INSPECTOR GENERAL ISSUED REPORTS WITH<br/>RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE<br/>(\$ in thousands)</b>  |                |  |
|--|----------------|--|
| <b>Status</b>  | <b>Number</b>  | <b>Funds Put<br/>to Better<br/>Use<sup>1</sup></b> |
| A. For which no management decision had been made by the beginning of the reporting period.  | 20             | \$137,424  |
| B. Which were issued during the reporting period.  | 45             | 95,831   |
| Subtotals (A+B)  | 65             | 233,255  |
| C. For which a management decision was made during the reporting period.   | 45             | 137,655  |
| (i) dollar value of recommendations that were agreed to by management<br>- based on proposed management action<br>- based on proposed legislative action   |                |  |
| (ii) dollar value of recommendations that were not agreed to by management   |                | 137,655  |
| D. For which no management decision has been made by the end of the reporting period.  | 20             | 95,600   |
| Reports for which no management decision was made within 6 months of issue (as of September 30, 2004).   | 1 <sup>2</sup> | 0  |
| <sup>1</sup> There were no OIG DoD audit reports issued during the period involving "questioned costs."<br><sup>2</sup> OIG DoD Report No. D-2004-064, "Acquisition of the Boeing KC-767A Tanker Aircraft," issued March 29, 2004, had no management decision as of March 31, 2005. Action to achieve a decision is on hold pending a Secretary of Defense decision on recapitalization of the tanker program. |                |  |

\*Fulfills requirements of the Inspector General Act of 1978, as amended, 5 U.S.C., Appendix 3, Section 5(a)(8)(9)&(10).

**APPENDIX D**  
**CONTRACT AUDIT REPORTS ISSUED<sup>1</sup>**  
**(\$ in millions)**  
**April 1, 2004 through September 30, 2004**

| Type of Audit <sup>2</sup>                  | Reports Issued | Amounts Examined   | Questioned Costs <sup>3</sup> | Funds Put to Better Use |
|---|----------------|--------------------|-------------------------------|-------------------------|
| Incurring Costs, Ops Audits, Special Audits | 11,553         | \$63,201.9         | \$670.7                       | \$57.4 <sup>4</sup>     |
| Forward Pricing Proposals                   | 4,504          | \$68,871.7         | --                            | \$3,112.5 <sup>5</sup>  |
| Cost Accounting Standards                   | 1,077          | \$130.8            | \$22.7                        | --                      |
| Defective Pricing                           | 175            | (Note 6)           | \$17.4                        | --                      |
| <b>Totals</b>                               | <b>17,309</b>  | <b>\$132,204.4</b> | <b>\$710.8</b>                | <b>\$3,169.9</b>        |

<sup>1</sup>This schedule represents Defense Contract Audit Agency (DCAA) contract audit reports issued during the 6 months ended March 31, 2005. Both “**Questioned Costs**” and “**Funds Put to Better Use**” represent potential cost savings. Because of limited time between availability of management information system data and legislative reporting requirements, there is minimal opportunity for DCAA to verify the accuracy of reported data. Accordingly, submitted data is subject to change based on subsequent DCAA authentication.

<sup>2</sup>This schedule represents audits performed by DCAA summarized into four principal categories, which are defined as:

Incurring Costs - Audits of direct and indirect costs charged to Government contracts to determine that the costs are reasonable, allocable, and allowable as prescribed by the Federal Acquisition Regulation, Defense Federal Acquisition Regulation, and provisions of the contract. Also included under incurred cost audits are Operations Audits, which evaluate a contractor’s operations and management practices to identify opportunities for increased efficiency and economy; and Special Audits, which include audits of terminations and claims.

Forward Pricing Proposals - Audits of estimated future costs of proposed contract prices, proposed contract change orders, costs for redeterminable fixed-price contracts, and costs incurred but not yet covered by definitized contracts.

Cost Accounting Standards - A review of a contractor’s cost impact statement required due to changes to disclosed practices, failure to consistently follow a disclosed or established cost accounting practice, or noncompliance with a CAS regulation.

Defective Pricing - A review to determine whether contracts are based on current, complete, and accurate cost or pricing data (the Truth in Negotiations Act).

<sup>3</sup>Questioned costs represent costs that DCAA has questioned because they do not comply with rules, regulations, laws, and/or contractual terms.

<sup>4</sup>Represents recommendations associated with Operations Audits where DCAA has presented to a contractor that funds could be used more effectively if management took action to implement cost reduction recommendations.

<sup>5</sup>Represents potential cost reductions that may be realized during contract negotiations.

<sup>6</sup>Defective pricing dollars examined are not reported because the original value was included in the audits associated with the original forward pricing proposals.

**APPENDIX E**  
**STATUS OF ACTION ON SIGNIFICANT POST-AWARD CONTRACT AUDITS<sup>1</sup>**  
**(\$ in millions)**  
**Period ending March 31, 2005**

|  | Number of Reports | Costs Questioned | Disallowed Costs <sup>6</sup> |
|--|-------------------|------------------|-------------------------------|
| <b>Open Reports:</b>                         |                   |                  |                               |
| Within Guidelines <sup>2</sup>               | 384               | \$674.9          | N/A <sup>7</sup>              |
| Overage, greater than 6 months <sup>3</sup>  | 329               | \$975            | N/A                           |
| Overage, greater than 12 months <sup>4</sup> | 214               | \$416.4          | N/A                           |
| In Litigation <sup>5</sup>                   | 102               | \$1,854.6        | N/A                           |
| <b>Total Open Reports</b>                    | 1,029             | \$3,920.9        | N/A                           |
| <b>Closed Reports</b>                        | 282               | \$491            | \$158.8 (32.34%)              |
| <b>All Reports</b>                           | 1,311             | \$4,411.9        | N/A                           |

<sup>1</sup>This schedule represents the status of Defense Contract Audit Agency reports on incurred costs, defective pricing, and noncompliance with the Cost Accounting Standards as reported by the Army, Navy, Air Force, Defense Contract Management Agency, and TRICARE. The Army was unable to submit its data by the date required for inclusion in the schedule. Contract audit follow-up is reported in accordance with DoD Directive 7640.2, "Policy for Follow-up on Contract Audit Reports." Because of limited time between availability of the data and reporting requirements, there is minimal opportunity to verify the accuracy of the reported data.

<sup>2</sup>These reports are being processed within the time frames established by OMB Circular A-50, "Audit Follow-up," and DoD Directive 7640.2 as described in footnotes 3 and 4 below.

<sup>3</sup>OMB Circular A-50 requires that audit reports be resolved (the contracting officer decides on a course of action) within 6 months after report issuance.

<sup>4</sup>DoD Directive 7640.2 states that audit reports are overage if not dispositioned within 12 months from date of issuance. Disposition is achieved when the contractor implements audit recommendations, the contracting officer negotiates a settlement with contractor, or the report is superseded.

<sup>5</sup>Of the 102 reports in litigation, 11 are under criminal investigation.

<sup>6</sup>Disallowed costs are costs sustained by the contracting officer in negotiations with contractors.

<sup>7</sup>N/A (not applicable)

**Waivers of Advisory and Assistance Service Contracts**

**A review is made of each waiver granted by the Department for advisory and assistance services contracts related to testing support. 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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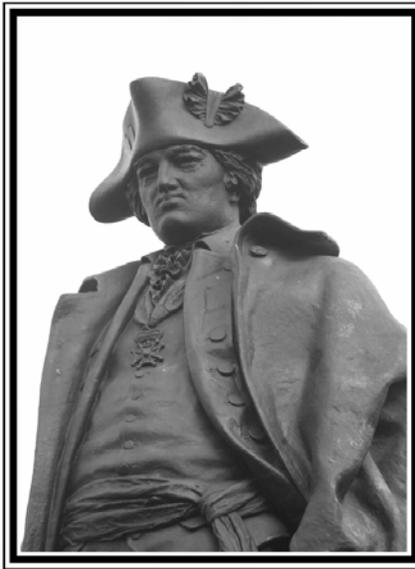


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Friedrich Wilhelm Augustus von Steuben was the Inspector General of the Continental Army and served under General George Washington. He is recognized as the "Father of the Inspector General System" of the United States Military.



## Inspector General Department of Defense



This report, as well as audit report and testimony text, are available on the Internet at: [www.dodig.osd.mil](http://www.dodig.osd.mil)  
Additional information on or copies of this report may be obtained by writing or contacting:

Office of the Inspector General of the Department of Defense  
Office of Communications and Congressional Liaison  
400 Army Navy Drive, Arlington, VA 22202-4704  
Mr. John R. Crane 703-604-8324; DSN 664-8324

NO MONEY SHALL BE DRAWN FROM THE TREASURY, BUT IN CONSEQUENCE OF APPROPRIATIONS MADE BY LAW;  
AND A REGULAR STATEMENT AND ACCOUNT OF THE RECEIPTS AND EXPENDITURES OF ALL PUBLIC MONEY SHALL BE  
PUBLISHED FROM TIME TO TIME. U.S. CONSTITUTION - ARTICLE 1, SECTION 9.