

# SUSPENSIONS AND DEBARMENTS

As the world's largest purchaser of goods and services, one of the responsibilities of the U.S. government to the American people is to avoid fraud, waste and abuse. Fraud can constitute any intentional deception designed to obtain money or property by means of false or fraudulent pretenses, representations, or promises, in any grant or contract. When fraud is identified, DoD and other federal agencies use all legal actions available to the government to combat fraud, including: 1) criminal

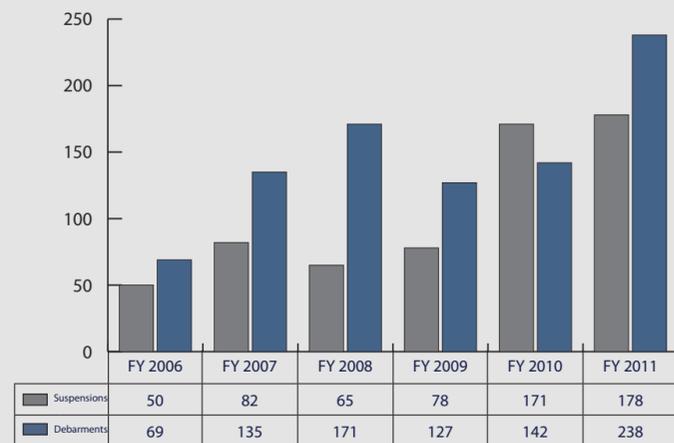
**"Contractors who are suspended, proposed for debarment, or debarred are excluded from receiving any new contracts..."**

penalties; 2) civil remedies; 3) administrative actions; and 4) contractual remedies stemming from investigation.

Administrative actions, including suspensions and debarments, may be used by federal agencies to ensure the government does business only with

responsible contractors. Renewed emphasis on the use of administrative remedies was highlighted by the inclusion of a provision in the Consolidated Appropriations Act of 2012, which imposed a 24-month statutory debarment on contractors under certain circumstances. Even with these more restrictive re-

## Suspensions and Debarments from Investigations (Joint and DCIS-Only)



## DEFENSE CRIMINAL INVESTIGATIVE SERVICE

The Defense Criminal Investigative Service protects America's warfighters by preventing the illegal transfer of sensitive defense technologies; investigating defective parts and equipment utilized by the military; stopping cyber crimes and computer intrusions; and investigating cases of fraud, bribery, and corruption to ensure taxpayer dollars are better spent defending our Nation.

quirements and regulations, it is important to note suspensions and debarments are not used to punish contractors for misconduct or contract failures. Rather, suspensions and debarments serve to protect the integrity of the government procurement process, our taxpayer dollars, and most importantly, to ensure members of the DoD receive reliable goods and services.



Contractors who are suspended, proposed for debarment, or debarred are excluded from receiving any new contracts throughout the executive branch of the federal government unless the agency head makes a written determination of compelling reasons to continue business dealings with the contractor.

The contractor is also debarred or suspended from all future subcontracts. An example would be Roger Day, who was convicted for major fraud against the United States, sentenced to 105 years in prison, and subsequently debarred from government contracts for 30 years. The debarment action protects the government from fraud from other companies that Day may have established prior to his conviction.

Several years ago, DCIS placed a renewed emphasis on appropriate information sharing with the responsible suspension and debarment officials, the results of those efforts are reflected in the chart to the left. Suspensions and debarments are powerful administrative remedies, and their appropriate use along with criminal and civil prosecutions ensures DoD IG is fully protecting the interests of the government and the American taxpayer.

## INVESTIGATIVE ACTIVITIES\*



# DEPARTMENT OF DEFENSE

Total Force: **Over 3 Million**



Army: 557,780



Marines: 198,427



Reserve: 382,200

Civilians: 783,702



Navy: 320,961



Air Force: 332,709

National Guard: 464,900

## Whistleblower Rights and Protections

Whistleblowers perform an important public service – often at great professional and personal risk – by exposing fraud, waste and abuse within the programs and operations of the Department. DoD IG is committed to promoting a culture that encourages the reporting of fraud, waste and abuse by protecting whistleblowers from reprisal. **For more information** on whistleblower protections, service member and employee rights, implementing directives and details on how to file a complaint, visit the Defense Hotline internet site at: [www.dodig.mil/hotline/reprisal\\_complaint.htm](http://www.dodig.mil/hotline/reprisal_complaint.htm)

10 USC 2409 protects employees of DoD contractors from reprisal for reporting to certain government officials, including members of Congress or an inspector general, information that the employee reasonably believes is evidence of gross mismanagement of or a violation of law related to a DoD contract or grant, gross waste of DoD funds, or a substantial and specific danger to public health or safety. Further, 10 USC 1553 provides protections related to Recovery Act funds.

## Defense Hotline

The Defense Hotline is the primary portal for reporting fraud, waste, abuse and mismanagement regarding programs and personnel under the purview of the Department. The primary mission of the Defense Hotline is providing a confidential and reliable vehicle for military service members, DoD civilians, contractors and the public to report fraud, waste, mismanagement and abuse of authority.

## Fraud, Waste and Abuse

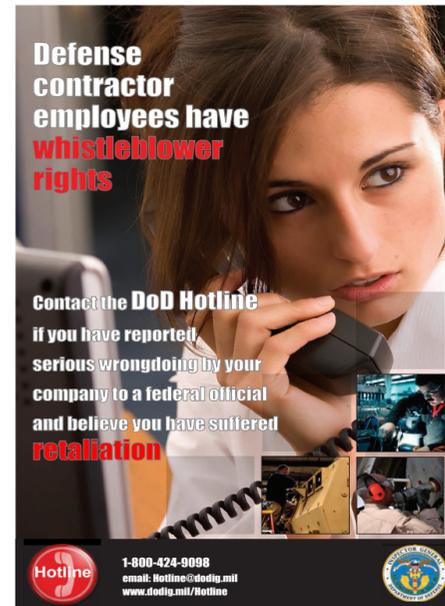
# HOTLINE

1.800.424.9098 • [www.dodig.mil/hotline](http://www.dodig.mil/hotline)



For more information about DoD IG reports or activities, please contact us:

[www.dodig.mil](http://www.dodig.mil) • [Public.Affairs@dodig.mil](mailto:Public.Affairs@dodig.mil) • 703.604.8324



DoD Contractors

# Department of Defense INSPECTOR GENERAL

Acting Inspector General Lynne M. Halbrooks

APRIL 2012



DoD IG focuses its efforts on detecting and preventing fraud, waste and abuse, while improving efficiency and effectiveness. For more information, visit us on the Web at [www.dodig.mil](http://www.dodig.mil). Below are highlights of DoD IG oversight.



## Improved Medical Programs for Wounded Warriors

DoD established more than 30 warrior care and transition programs to facilitate the recovery of seriously wounded, ill and injured personnel from overseas contingency operations. During assessments of the programs, DoD IG identified systemic problems including insufficient policies and procedures for medication reconciliation practices, lack of support for warriors preparing to transition to civilian life and impeded access to specialty medical services, specifically behavioral health care.

## "America's Most Wanted" Fugitive Sentenced to 105 Years for Leading International Conspiracy to Defraud the Military

DCIS investigated Roger Day and his co-conspirators for forming at least 18 companies based in the United States, Canada, Mexico and Belize. They fraudulently used the Defense Logistics Agency automated bid system to win nearly 1,000 contracts. Day and his co-conspirators knowingly provided defective parts to DoD on more than 300 of the 1,000 contracts. After being featured on "America's Most Wanted," Day was arrested and subsequently extradited from Mexico. As a result, Day was sentenced to 105 years imprisonment and ordered to pay more than \$3.6 million in fines and restitution.



## Audit Reveals Non-Qualified Firms Received Awards Meant for Service Disabled Veterans

Controls over the DoD Service-Disabled Veteran-Owned Small Business set-aside program were not adequate to ensure that only eligible businesses obtained set-aside and sole-source contracts. DoD awarded approximately \$342.2 million in funds set aside for the Service-Disabled Veteran-Owned Small Business Program to potentially ineligible contractors. (DODIG-2012-059)

## DoD IG Oversight Violent Crime Investigations

The DoD IG Violent Crime Division is committed to improving the quality of the Department's violent crime investigations. It is currently focused on sexual assault, reviewing a sampling of completed investigations, as well as evaluating investigative training. The division works closely with the military criminal investigative organizations through a program of recurring oversight to achieve improved quality and to leverage resources to attain more effective and efficient investigative operations.



## Core Values

Accountability · Integrity · Efficiency · Excellence

# Improving the Efficiency and Effectiveness of the Department

The mission of DoD IG is to recommend improvements to the programs and operations of the Department. We impact crucial DoD operations by protecting the health, safety and welfare of our troops. Our audits, investigations and inspections protect American interests and taxpayer dollars and reduce fraud, waste and abuse in the Department. We also actively identify recurring oversight areas to better focus our efforts to improve financial management, achieve audit readiness and protect the DoD supply chain.

## IMPROVING FINANCIAL MANAGEMENT

Without a significant base budget increase since FY 2010, the Department recognizes the need to “do more without more” and has continued to introduce reform initiatives aimed at improving its business operations. Financial management weaknesses within DoD impact the efficiency and effectiveness of its business operations, including the ability to obtain the supplies and services our military needs to remain the world’s premier fighting force. DoD continues to face financial management challenges that adversely affect its ability to provide reliable financial and managerial data needed to support operating, budgeting and policy decisions. DoD IG continues to provide oversight of DoD efforts to improve its financial management and reporting.

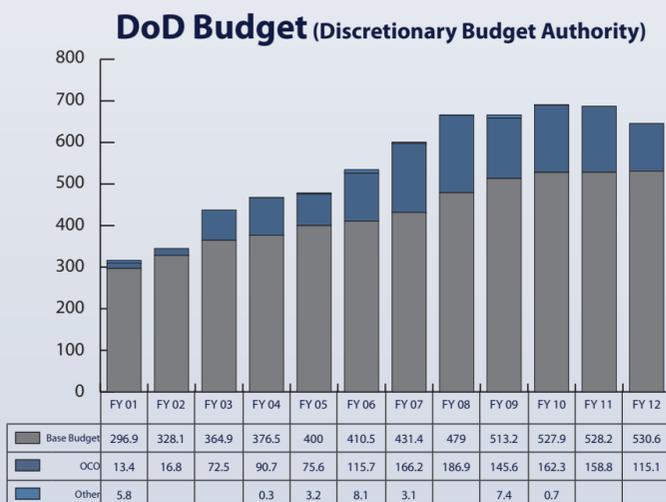
In another example, DoD IG determined that some Army government purchase card transactions, identified as high-risk transactions, did not comply with laws and regulations governing GPC usage. The Purchase Card On-Line System identified 112 Army transactions, valued at \$3.6 million, as high risk for being noncompliant. DoD IG determined 17 noncompliant transactions totaling \$1.2 million made on GPCs issued by eight Army contracting commands did not comply with laws and regulations. The Army detected only one of the transactions. Two of the transactions alone totaled more than \$1 million in potential Antideficiency Act violations. The Army did not use a data mining program and missed the opportunity to identify noncompliant transactions and prevent misuse.

**“DoD continues to face financial management challenges that adversely affect its ability to provide reliable financial and managerial data needed to support operating, budgeting and policy decisions.”**

The under secretary of defense (comptroller)/chief financial officer met the requirements of the Improper Payments Elimination and Recovery Act of 2010. However, the Department acknowledged that DoD is continuing to struggle with the completeness and accuracy of their review and reporting of improper payments. The DoD USD(C)/CFO made significant disclosures about the limited completeness and accuracy of the Department’s ability to identify and report on improper payments.

The Department needs accurate and timely financial information on a daily basis to ensure that every dollar supports the warfighters, improves military readiness and is readily available to key decision makers. Sound financial management is critical to providing effective stewardship over the billions of dollars the Department receives annually. The current fiscal constraints make resolving these weaknesses critically important.

Weaknesses in financial management may impede the Department’s ability to detect, prevent and recoup inappropriate, inefficient or misused funds. One example is the Commander’s Emergency Response Program in Afghanistan. As of February 2011, the Department had allocated about \$3.2 billion to CERP, of which about \$2 billion had been obligated with disbursements of \$1.5 billion. The Department’s controls over the program’s contract payments and reporting were not adequate. U.S. Forces Afghanistan had potentially as much as \$38.4 million in outstanding unliquidated obligations, improper payments and high risk CERP advance payments and a high risk for currency exchange rate fraud and overpayment or under payment to Afghanistan vendors.



## ACHIEVING AUDIT READINESS

In October 2011, the secretary of defense renewed the Department’s focus on improving financial information with a specific goal to achieve audit readiness for the statement of budgetary resources by the end of 2014, and in addition, to improve Department accountability of assets. DoD is devoting significant resources to address this challenge and the ultimate goal of achieving full audit readiness by 2017.



For the FY 2011 DoD agency-wide financial statements, DoD IG issued a disclaimer of opinion and did not express an opinion on the related internal control and compliance with laws and regulations due to limitations on the scope of work. DoD IG has reported numerous material internal control weaknesses that impact the Department’s ability to achieve an unqualified financial statement opinion. In the most recent disclaimer of opinion, DoD IG reported the same previously identified 13 material internal control weaknesses. Until the Department resolves these pervasive weaknesses, it will be very difficult for DoD to reliably assert that it is ready for audit by 2017.

Material Weaknesses	
Financial management systems	
Fund balance with treasury	
Accounts receivable	
Inventory	
Operating materials and supplies	
General property, plant, and equipment	
Government property in possession of contractors	
Accounts payable	
Environmental liabilities	
Statement of net cost	
Intergovernmental eliminations	
Other accounting entries	
Reconciliation of net cost of operations to budget	

**“I will engage in this effort personally - auditability is a goal that every commander, every manager and every functional specialist must understand and embrace to improve efficiency and accountability at the DoD.”**

-Secretary Panetta  
Improving Financial Information and Achieving Audit Readiness  
October 13, 2011

To support its efforts to achieve and sustain the financial improvement and audit readiness goals, the Department is modernizing its financial systems with the deployment of various Enterprise Resource Planning Systems throughout the military departments and defense agencies. The development and implementation of these systems is a key effort to ensure the Department meets the 2017 deadline. DoD IG has been performing reviews of the development and implementation of the ERPs throughout the Department. The goal of the reviews is to determine whether the systems can provide DoD management with timely, accurate and reliable financial information. These audits determine compliance with federal guidance that will ensure DoD managers make informed financial decisions in support of the warfighter and provide insight and recommendations to managers as they focus and prepare for audit readiness.

Despite costing the Army \$630.4 million as of October 2011, the General Fund Enterprise Business System did not provide DoD management with required financial information. GFEBS did not contain accurate and complete information as required by the Federal Financial Management Improvement Act of 1996 and DoD comptroller guidance. GFEBS may not resolve the Army General Fund’s long-standing financial management systems and intragovernmental eliminations material weaknesses.

The Navy approved deployment of the Navy Enterprise Resource Planning System without ensuring it complied with the Standard Financial Information Structure and U.S. Government Standard General Ledger. The Navy spent \$870 million to develop and implement a system that might not produce accurate and reliable financial information.

Although, the Department faces daunting financial management challenges that must be resolved, it continues to make progress in improving its financial management. There is much more to do to overcome the pervasive, long-standing financial management problems. It is important to note that obtaining an unqualified opinion is a means to a more important end. The real benefit of the financial statement audit comes from the improved data quality, internal controls and systems that make financial data reliable.

## PROTECTING THE DOD SUPPLY CHAIN

The DoD logistics mission is to provide globally responsive, operationally precise and cost effective joint logistics support for the projection and sustainment of America’s warfighters. DoD IG protects the supply chain by detecting and preventing fraud, waste and abuse and promoting effectiveness in DoD programs and operations.



One of the ways the Defense Criminal Investigative Service supports this mission is by investigating allegations related to non-conforming, substandard and defective products; product substitutions; and counterfeit materials. As of March 2012, DCIS has 37 open cases and one undercover operation involving counterfeit parts. These investigations are conducted jointly with such organizations as the FBI, Air Force Office of Special Investigations and Immigration and Customs Enforcement.

A recent joint investigation revealed the Zylon bulletproof vests worn by U.S. warfighters and law enforcement agencies were defective. The zylon materials degraded quickly over time and were not suitable for ballistic use. Ultimately these defective vests were removed from the DoD supply chain. Another joint investigation revealed a company substituted an incorrect motor in the FMU-143 fuse. The FM-143 fuse is used in penetration guided or unguided high-explosive bombs used by the Air Force. Air Force technical experts determined that if the incorrect motor was used in the fuse, there was a 50 percent chance of premature detonation endangering the lives of warfighters. DCIS is also involved in cases related to counterfeit CISCO computer network components to include routers and network cards. In one case, the CISCO parts were critical for military communications in Southwest Asia.

DCIS participates as a member of Operation Chain Reaction, which is a collaborative approach between 15 federal OIGs and investigative agencies to target counterfeit, nonconforming and substandard materials entering the supply chains of DoD and other U.S. government agencies. Combining the resources of the member agencies allows for more effective detection and removal of inferior goods that threaten the safety of America’s soldiers, sailors, airmen and Marines.

Protecting the supply chain is not always a criminal issue. Recently, DoD IG identified a systemic issue related to the utilization of government-owned inventory in contractor logistics support that involves hundreds of millions of dollars. The Air Force awarded one contract to provide logistics service and depot maintenance support of aircraft. The Army awarded two contracts to provide logistical services and material parts support of weapon systems. Neither the Air Force nor Army was

aware the parts they purchased from the contractor were already available in DLA government-owned inventory. DoD IG calculated that DLA had about \$360 million of government-owned inventory that would not be used due to the Air Force and Army contracts. In response to the audits, the Air Force and Army are taking aggressive action to draw down excess DoD inventory and the assistant secretary of defense, logistics and materiel readiness issued a memorandum that highlighted the need to review inventories and use government-owned repair parts before procuring the same parts from contractors.

DoD IG has also assessed the accountability and control over U.S.-purchased weapons, ammunition and night vision devices used for equipping the Iraqi and Afghan Security Forces. DoD IG teams assessed the respective supply chains from port of entry, through transportation, storage, distribution and formal turnover to the Iraqi and Afghan Security Forces, to issuance to individual military and police personnel. Accountability and control policies and procedures were written and distributed to the responsible commands, inventory systems tested and supply chain processes improved. This effort has contributed to the development and independent operating capability of the Iraqi and Afghan Security Forces.

DoD IG supports its mission to thwart the proliferation of non-conforming, substandard and defective products; product substitutions; and counterfeit materials into the defense and industrial supply chains. It accomplishes this mission by aggressive oversight of all segments of the U.S. supply chain.

**DOD IG IDENTIFIED**  
**\$360 million**  
of government inventory that was not going to be used