

FOREWORD

It is my pleasure to report on the accomplishments of the Office of the Inspector General, Department of Defense, for the period April 1, 2000, through September 30, 2000. This Semiannual Report summarizes significant Department-wide audit and investigative efforts. Oversight projects relating to the intelligence community are discussed in a separate classified annex.

The Highlights section provides an overview of the most significant issues discussed in the report. Chapter One contains brief updates on what we consider to be the Department's principal high-risk areas. We have also included a more detailed discussion of a special emphasis area, Environmental Programs. Chapter Two includes discussions of other important audit and investigative efforts that took place during the period, resulting in significant criminal prosecutions and the identification of large dollar savings and recoveries.

Throughout the reporting period, the Office of the Inspector General was active in reporting to Congress on its activities and in responding to requests from Members and committees. At the request of congressional committees of the House and Senate, we testified on a wide variety of audit and investigative efforts.

In our last two reports I indicated that although the Department budgeted for urgently needed additional resources, the Congress reduced our fiscal year 2000 appropriation. We requested that our resource requirements as forwarded in the fiscal year 2001 President's Budget be supported. I would like to express my thanks to the Congress for fully funding our fiscal year 2001 request. This support will enable us to restore much needed coverage to many of the high-risk areas discussed in this edition of our Semiannual Report.

In consonance with the emphasis being placed on the Government Performance Results Act, we are making every effort to achieve performance oriented, measurable results, based on the investment the American taxpayer makes in our agency. I believe the following results speak for themselves. Over the period April 1, 2000, to September 30, 2000, our auditors caused the Department to realize \$201.8 million in monetary benefits, and provided over 639 recommendations that were agreed to by Departmental managers, with a 96 percent recommendation success rate. During this same period the special agents of the Defense Criminal Investigative Service, our investigative arm, were responsible for 191 indictments and 152 convictions, while returning \$348.5 million in fines, restitution and recoveries to the U.S. Treasury. When one considers the size of our annual operating budget for fiscal year 2000, it becomes quite clear that we are one of a very few Government agencies that "pays its own way," and then some.

The men and women of the Office of the Inspector General are committed to providing a level of oversight to the Department of Defense that materially contributes to the safety, efficiency, and effectiveness of our Nation's Armed Forces.

Donald Mancuso
Acting Inspector General

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HIGHLIGHTS

INTRODUCTION

During the 6-month period ending September 30, 2000, the Office of the Inspector General, Department of Defense, (OIG, DoD), continued to place emphasis on reducing vulnerabilities and improving controls in the principal high risk areas in the Department: Acquisition, Financial Management, Information Technology, and Infrastructure. In this report, we also give emphasis to issues involving Environmental Programs.

Acquisition

The scope, complexity, variety, and frequent instability of Defense acquisition programs pose particularly daunting management challenges. Twenty-two audit reports issued during the reporting period continued to indicate a lack of effective means for identifying best commercial practices and adapting them to the public sector; poor oversight of the several hundred medium and small acquisition programs; testing issues on vital weapons systems; and adverse consequences from cutting the acquisition workforce in half without a proportional decrease in workload. Of 17 major weapon acquisition programs approved at key development milestones between March 1996 and July 1999, 14 lacked clearly defined open system design objectives or a strategy for achieving such objectives. We believe the Department needs to put more acquisition reform emphasis on ensuring the quality, serviceability, and safety of purchased equipment, parts, and supplies.

Financial Management

During this period, 88 of 224 internal audit reports addressed finance and accounting issues. Nearly all of those 88 reports concerned financial statements or systems. Despite the massive audit effort, the DoD could not overcome the fundamental inadequacy of its financial reporting systems and produce reliable data through the patchwork of processes needed to compile financial statements. Numerous statements and testimony to Congress by the Office of Management and Budget, the General Accounting Office, and DoD officials have stressed that the ultimate goal of financial management reform legislation is to ensure useful financial information for sound decision-making, not merely clean audit opinions on annual financial statements.

Information Technology

It is difficult to see substantive improvement since 1996 with respect to improving risk management in information system acquisition. Recent audits continued to identify numerous projects that have failed or are at risk. Successfully completing the implementation of the Clinger-Cohen Act and achieving drastically improved results from information system investments must be top DoD priorities. There were 20 audit reports on

information technology issued in the reporting period. The most frequently identified management weakness was poorly defined requirements for new or modified systems.

Infrastructure

Several hundred initiatives are ongoing in the overall support area, most involving the participation of the DoD acquisition, finance, or information technology communities. During the reporting period, the central DoD internal audit agencies issued 71 reports on a wide variety of DoD support activity issues. Despite these efforts, oversight coverage of support programs remains inadequate, especially in broad areas like health care management and inventory control. There are significant concerns regarding the readiness of military forces; civilian and military personnel recruiting, retention, and training; military personnel quality of life issues, such as housing and health care; and the effectiveness of administrative processes.

ENVIRONMENTAL PROGRAMS

The DoD is responsible for 639 major installations and 25 million acres of land. Specific activities at defense installations include industrial operations, storage and use of chemicals, firing ranges, large-scale vehicle and aircraft maintenance, fuels handling, and other functions that can pose environmental challenges. There is a need for expert oversight and investigative support in the Environmental Security Program and we are taking measures to enhance related training. The DoD must comply with a wide range of legal and regulatory environmental requirements, most of which apply to several facets of the handling of hazardous substances, not just cleanup after pollution or contamination occurs. Recent audits have indicated steady improvement in the sophistication and effectiveness of DoD approaches to cleanup challenges. All four Defense Criminal Investigative Organizations have been active over the past several years in combating the fraud perpetuated primarily by contractors involved in waste cleanup and disposal. Numerous audit reports have indicated the need to do more to motivate the acquisition community to minimize the use of toxic materials when designing and procuring weapon systems, munitions, and other material.

OTHER ACTIVITIES

The investigative community was highly successful with 263 indictments, 262 convictions, and over \$182 million in monetary outcomes in procurement and health care fraud investigations. The DoD Hotline received 6,032 telephone calls and letters resulting in the initiation of 1,531 cases. Since 1982, over \$420 million has been recovered as a direct result of information provided to the Hotline. During this period, the OIG, DoD, and the Military Department Inspectors General received 260 complaints of whistleblower reprisal.

CHAPTER ONE – REDUCE HIGH RISK VULNERABILITIES

INTRODUCTION

The decade of the 1990's brought the post-Cold War downsizing and repositioning of U.S. military forces, as well as the advent of information technology driven revolutions in military capabilities and management practices. The Department of Defense (DoD) was challenged by budget constraints, statutory mandates for reform, the enormous difficulty of having to reengineer virtually all of its processes and organizations simultaneously, and the emergence of radically new threats and potential vulnerabilities. It was a decade of many successes, ranging from battle-field victory in the Gulf War to avoiding large-scale Y2K conversion problems. Nevertheless, considerable work needs to be done to institutionalize, evaluate, supplement, and build upon the reforms of the 1990's in all DoD high-risk management areas. In this Chapter, we discuss oversight results and challenges related to Acquisition, Financial Management, Information Technology, and Infrastructure. We also discuss a Special Emphasis Area—Environmental Programs.

ACQUISITION

Although the DoD has been continuously working on acquisition reform for at least 20 years, the Federal Acquisition Streamlining Act of 1994 and other legislation provided forceful impetus during the 1990's. In response, the Department adopted the goal of becoming a world-class buyer of best value goods and services from a globally competitive industrial base. The DoD hopes to achieve this transformation through rapid insertion of commercial practices and technology, business process improvements, creating a workforce that is continuously retrained to operate in new environments, and heavily emphasizing faster delivery of material and services to users. To fulfill these objectives, the DoD initiated an unprecedented number of major improvement efforts, including at least 40 significant acquisition reform initiatives.

"...[T]he DoD initiated an unprecedented number of major improvement efforts, including at least 40 significant acquisition reform initiatives."

The Department has made notable progress in acquisition reform and also set several commendable goals. Examples include:

- De-emphasizing overly detailed military specifications and standards.
- Using credit cards for over 9 million small purchases by 2000.

- Pushing for public and private sector implementation of public key infrastructure technology to enable secure electronic commerce.
- Replacing multiple, inconsistent Government-unique requirements imposed on contractors holding more than one Defense contract with common, best, facility-wide processes.
- Establishing aggressive weapon system unit cost and total ownership cost targets, which are 20 to 50 percent below historical norms.

“No major acquisition cost reduction goals have yet been achieved...the results of most of the specific initiatives are still to be determined.”

Despite the previous successes and continued promise of reforms, the business of creating and sustaining the world’s most powerful military force remains expensive and vulnerable to fraud, waste, and mismanagement. In fiscal year 1999, the DoD purchased about \$140 billion in goods and services, in 14.8 million purchasing actions, which translates to 57,000 purchasing actions on an average working day. Statistics for fiscal year 2000 are not yet available, but will be similar. The scope, complexity, variety, and frequent instability of Defense acquisition programs pose particularly daunting management challenges. No major acquisition cost reduction goals have yet been achieved, and the results of most of the specific initiatives are still to be determined.

In the rush to streamline and incorporate commercial practices and products, the Department cannot compromise its insistence on quality products and services at fair and reasonable prices. An inherent challenge throughout the Department’s acquisition reform effort is ensuring that critically needed controls remain in place and there is proper oversight and feedback on new processes.



V-22 Osprey

The 22 audit reports issued during the reporting period and follow-up on previous audits continued to indicate a lack of effective means for identifying best commercial practices and adapting them to the public sector. They also indicate poor oversight of the several hundred medium and small acquisition programs, testing issues on vital weapon systems like the V-22 Osprey and Joint Biological Point Detection

System, and adverse consequences from cutting the acquisition workforce in half without a proportional decrease in workload.

It is clear that each reform initiative needs periodic evaluation, based on quantifiable performance measures, and fine tuning. There is a tendency, however, for initiatives to be put into place without explicit provision for periodic and objective review. For example, in 1994 the Under Secretary of Defense for Acquisition, Technology, and Logistics mandated the use of an “open systems” approach in the acquisition process to reduce the cost of ownership of weapons systems while increasing competition, interoperability, and useful life. The OIG, DoD, reported in June 2000 that, of 17 major weapon acquisition programs approved at key development milestones between March 1996 and July 1999, 14 programs lacked clearly defined open system design objectives or a strategy for achieving such objectives. In addition, DoD guidance did not require program managers to assess the impact of a given level of design openness on the long-term viability and affordability of systems. Without a means to measure the progress and the impact of implementing an open systems approach, acquisition decision makers cannot readily gauge how well program managers are achieving the advantages of using an open systems design approach or assessing the susceptibility of a weapon systems design to obsolescence or costly upgrades to counter foreign military threats. The problems in implementing this particular initiative are typical of those to be expected in mandated reforms that may not be adequately understood, fully supported, or enforced over time.

“...quality should be the most important attribute for DoD purchases, especially for materiel used by the warfighters.”

Although the DoD must continue to address the challenge of how to control the cost of purchased goods and services, the most fundamental acquisition issues confronting the Department relate to requirements and funding. The expanding national dialogue on military missions, the pending Quadrennial Defense Review, and the ideas of a new administration and Congress could significantly alter DoD missions, military force structure, and acquisition requirements. Whether changes in requirements are major or minor, funding levels are also likely to change, and there needs to be a far reaching rebalancing of acquisition programs to match available funding.

Finally, we believe that the Department needs to put more acquisition reform emphasis on ensuring the quality, serviceability, and safety of purchased equipment, parts, and supplies. Concentrating on prices and timely delivery is vital, but quality should be the most important attribute for DoD purchases, especially for materiel used by the warfighters. The

OIG, DoD, plans to issue at least two reports per year on product quality for the indefinite future. We will also continue to make product substitution a top criminal investigative priority.

FINANCIAL MANAGEMENT

The impact of the Chief Financial Officers Act and related legislation on the DoD audit community was graphically illustrated during the reporting period, when 88 of 224 internal audit reports (39 percent) addressed finance and accounting issues. Nearly all of those 88 reports concerned financial statements or systems, as opposed to financial management issues like cost estimating, contract payments, or debt collection.

Despite the massive audit effort, the DoD could not overcome the fundamental inadequacy of its financial reporting systems and produce reliable data through the patchwork of processes needed to compile financial statements. As reported in our previous Semiannual Report, only one of DoD's reporting entities, the Military Retirement Fund, received a clean audit opinion for fiscal year 1999 financial statements.

The DoD now estimates that all finance and accounting systems will comply with the new Federal accounting standards and related requirements in fiscal year 2003. The forecast for the feeder systems that provide up to 80 percent of the data for the financial statements is less certain. During the past 6 months, the Under Secretary of Defense (Comptroller) took additional steps to apply the lessons learned from the successful DoD Y2K conversion program to the financial system compliance effort. The DoD Senior Financial Management Council, which had not met for several years, is being reconstituted to ensure senior management involvement and coordination. Unfortunately, the initial milestone to identify the critical systems for financial reporting, March 2000, was unattainable and efforts to define criticality and identify systems continue.

The OIG, DoD, General Accounting Office (GAO), and Military Department auditors are developing a standard audit approach for validating the progress of the critical systems toward full compliance. Resources

“One of the benefits of using the structured Y2K management approach...is that it provides good metrics for...the DoD financial management improvement effort.”

permitting, we will seek to provide the same kind of strong support that helped the Y2K conversion to succeed, but the system remediation and validation workload will require considerable contractor support to the components, including the Defense Finance and Accounting Service.

One of the benefits of using the structured Y2K management approach for financial systems compliance is that it provides good metrics for that particular aspect of the DoD financial management improvement effort.

As welcome as those metrics will be for measuring system compliance status, however, they will not measure the financial data's usefulness to managers and appropriators. Numerous recent statements and testimony to Congress by the Office of Management and Budget (OMB), GAO, and DoD officials stressed that the ultimate goal of financial management reform legislation is to ensure useful financial information for sound decision-making, not merely clean audit opinions on annual financial statements. We strongly agree. Unfortunately, while audit opinions are a simple and readily understandable metric, judging the usefulness of financial information is far more difficult. The challenge of determining additional ways to measure financial management improvement will carry over into the next administration.

We also urge the new administration and Congress to work closely with the Federal Accounting Standards Advisory Board to ensure that the still evolving Federal accounting rules are focused on making Federal accounting practices relevant to day-to-day financial management and oversight in DoD and other agencies.

Lastly, we urge that mandatory audit requirements, especially for financial audits, be reconsidered to ensure they remain necessary and cost effective. For example, the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), 42 U.S.C. 9611(k), requires annual financial audits of all transactions of the Superfund, the trust fund for response to hazardous waste emergencies and cleanup. The Army

“The 20-year-old requirement for a separate annual audit of Superfund transactions is outdated and not cost effective.”

Corps of Engineers manages the design and construction of cleanup paid for by the Environmental Protection Agency from the Superfund. In fiscal year 1999, the Corps recorded obligations and disbursements of \$647 million.

The 20-year-old requirement for a separate annual audit of Superfund transactions is outdated and not cost effective. It overlaps the broader annual financial statement audit requirements of the Chief Financial Officers Act and related legislation. Superfund transactions are processed and reported in the same system used for overall Corps financial management, and the overall financial statements of the Corps are audited annually. Recent separate Superfund audits found no material discrepancies. Risk in this particular category of transactions is low. The fiscal years 1998 and 1999 audits indicated accounting report accuracy rates of 99.8 and 99.9 percent, respectively.

The OIG, DoD, does not believe that the disproportionate audit coverage currently required for this one relatively small portion of DoD financial

reporting makes sense, given the absence of identifiable problems in Corps Superfund reporting and the need to devote more audit resources to the high risk areas discussed elsewhere in Chapter One, which include other finance and environmental program areas. We proposed a legislative change in December 1999 to delete the annual Superfund audit requirement. However, the Environmental Protection Agency objected to amending the CERCLA, and the proposal was not forwarded to the Congress. We plan to again attempt to have this change included in this year's DoD legislative proposals.

INFORMATION TECHNOLOGY

Designing and implementing large information systems on schedule, within acceptable cost parameters and with full user satisfaction are among the most difficult undertakings in both the public and private sectors. The majority of such projects fail to meet at least one key goal. In an attempt to instill discipline in Government information systems investments, Congress passed the Information Management Technology Reform Act, subsequently renamed the Clinger-Cohen Act, in 1996. The Act required agencies to establish Chief Information Officers and vested considerable authority in those positions, with the explicit expectation that Government information management would improve in key areas, such as return on investment, system interoperability, and security.

“After nearly 5 years, the DoD record on implementing the sound principles of the Clinger-Cohen Act and related OMB guidance is somewhat disappointing.”

After nearly 5 years, the DoD record on implementing the sound principles of the Clinger-Cohen Act and related OMB guidance is somewhat disappointing. However, there has been notable success in developing the concept of the Global Information Grid, fielding certain key systems like the Global Command and Control System, overcoming the Y2K con-version problem, and eliminating redundant in-house data processing capacity.

With respect to improving risk management in information system acquisitions, however, it is difficult to see substantive improvement since 1996. The separate and ineffective information systems acquisition rules were merged with the standard DoD weapon systems acquisition guidelines. New information system oversight procedures were drafted and issued, but have not yet been finalized. The Department has compiled the central registry of systems required by Section 8121 of the Defense Appropriations Act for FY 2000 and has made the initial Clinger-Cohen Act compliance certifications required under Section 8121 for major systems at acquisition milestones. The OIG, DoD, will issue a series of reports over the next several months on the effectiveness of the certification process.

“Recent audits continued to identify numerous [information technology] projects that have failed or are at risk.”

Recent audits continued to identify numerous projects that have failed or are at risk. Examples include the Defense Joint Accounting System, Defense Security Service Case Control Management System, Defense Commissary Information System, Defense Environmental Security Corporate Information Management Program, and Joint Ammunition System. Successfully completing the implementation of the Clinger-Cohen Act and achieving drastically improved results from information system investments must be top DoD priorities.

Our last Semiannual Report to the Congress discussed the growing threat to DoD, other Government, and commercial information networks from criminals, vandals, hostile states, and terrorists. We reported that, while much effort was being made, the Government and DoD responses remained disjointed. As of late 2000, there are still numerous policy gaps and much work remains to develop effective coordination mechanisms, especially for national infrastructure protection.

Virtually all DoD command, control, intelligence, and business functions depend heavily on networked based information technologies. This dependence is not bad in itself, since these technologies have enabled dramatic increases in efficiency and capability, but the vulnerabilities created by this dependence must be addressed. In addition to ensuring that new systems are sufficiently capable, secure, and interoperable, the DoD must focus over the next several years on the growing problems created by under investment in information technology infrastructure; increased competition for use of the radio frequency spectrum; and severe recruiting, retention, and skills maintenance problems in the DoD information technology workforce.

“The most frequently identified management weakness has been poorly defined requirements for new or modified systems.”

There were 20 audit reports on information technology issued in the reporting period, including a July 13, 2000, summary of audit findings on information system acquisition projects since 1996. The most frequently identified management weakness has been poorly defined requirements for new or modified systems. Current audit efforts are emphasizing Clinger-Cohen Act and Section 8121 implementation, information assurance, long haul and base level communications management, and accountability for information technology equipment.

INFRASTRUCTURE

Throughout the past decade, the DoD has worked to cut costs across the spectrum of support activities, which include supply, maintenance, transportation, facilities, environmental security, health care,

telecommunications, and administrative operations. Modern information technology offers opportunities to solve longstanding problems. In the area of supply management, for example, the Department is using web-based concepts through the Joint Total Asset Visibility Program to enable logisticians to make more efficient procurement, redistribution, and disposal choices. Likewise, adopting successful private sector management concepts, such as direct vendor delivery, just-in-time availability of materiel in the supply chain, and prime vendors, offers ways to reduce inventory holding and distribution costs.

“The sheer number of initiatives creates a daunting change management problem in its own right....”

Several hundred initiatives are ongoing in the overall support area. Most of those initiatives involve the participation of the DoD acquisition, finance, or information technology communities, adding complexity and coordination challenges.

The sheer number of initiatives creates a daunting change management problem in its own right, as does the chronic lack of accurate cost baselines for analyzing proposed process changes and measuring the results of new initiatives. In addition, Congress has not always supported DoD attempts to reduce support costs. For example, DoD requests for additional base realignment and closure authority have not been approved, nor have previous initiatives to reduce the costs of moving household goods been supported.

Despite extensive reform efforts, DoD has not been able to reduce support costs significantly. In turn, hopes that reduced support costs would free up enough funds to solve shortages in weapon modernization programs have proven unrealistic. In fact, the most serious support activities problems confronting the Department no longer relate primarily to what costs can be reduced. Instead, there are significant concerns in both the DoD and Congress regarding the readiness of military forces; civilian and military personnel recruiting, retention and training; military personnel quality of life issues, such as housing and health care; and the effectiveness of administrative processes, such as the Defense Personnel Security Program. Addressing concerns of those types likely will require more spending on support programs, not less.

Audit, inspection, and investigative support can help measure the results of new processes; verify that data used for cost comparisons or other decision making are accurate; ascertain the causes of readiness problems; provide objective feedback on workforce morale issues; prevent and detect fraud that detracts from efficiency in areas like property disposal and health care; and help identify and spread best practices. During the reporting period, the central DoD internal audit agencies issued 71 reports

“...[O]versight coverage of support programs remains inadequate, especially in broad areas like health care management and inventory control.”

on a wide variety of DoD support activity issues. Despite these efforts, oversight coverage of support programs remains inadequate, especially in broad areas like health care management and inventory control.

Future challenges facing the Department in this area likely will be driven by conflicting priorities for resources, continued dependence on new or improved information management systems and, perhaps most of all, the realities of military and civilian workforce management in an era of intense competition for talented workers.

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ENVIRONMENTAL PROGRAMS

“...[P]rudent environmental management is considered to be sound business practice.”

Environmental security has become an integral part of national security policy, and prudent environmental management is considered to be sound business practice. In the 1990's, the DoD spent over \$40 billion on environmental programs, mostly to clean up hazardous waste at closed or closing bases. About \$3.7 billion was budgeted in fiscal year 2000 and \$4.1 billion for fiscal year 2001.

The DoD is responsible for 639 major installations, many of which are comparable to counties or cities, and 25 million acres of land. In addition to the normal environmental concerns related to air, water, noise, and refuse, the specific activities at defense installations include industrial operations, storage and use of chemicals, firing ranges, large scale vehicle and aircraft maintenance, fuels handling, and other functions that can pose major environmental challenges. In most cases, the sites have been in military use for many decades and the nature, extent, and severity of previous problems may be very difficult to determine.

To address DoD environmental responsibility, the Environmental Security Program has the following objectives:

- Ensure compliance with environmental, health and safety laws and regulations.
- Prevent pollution and minimize hazardous waste generation.
- Conserve natural resources entrusted to DoD stewardship.
- Cleanup and reduce risk from contaminated sites.
- Protect the health and safety of military personnel, civilian employees and populations living near military installations.
- Support U.S. international environmental security policies and initiatives.

The need for expert oversight and investigative support in this complex area continues to be evident and we are taking measures to enhance related training. For example, the Defense Criminal Investigative Service (DCIS) developed a course and certification program, in conjunction with the Navy Civil Engineer Corps Officer School, focused on fraud investi-

gative techniques at hazardous waste sites. Similarly, the DoD central audit agencies have elements that specialize in environmental issues and coordinate oversight coverage through the Joint Audit Planning Group on Environment.

Over 50 reviews and several dozen investigations have been completed in this area during the two and a half years since we last discussed Environment as a focus topic in a semiannual report. The results of those efforts give a fairly good indication of the nature of persisting vulnerabilities and issues in DoD environmental programs, as well as an insight into progress that has been made in some aspects.

The general challenges in this area include competing for resources; achieving cost containment; assuring accurate risk assessments; coping with constantly evolving standards and rules; countering fraud; and meeting complex coordination requirements with host nations overseas, other allies, U.S. state and local governments, and other Federal agencies.

In varying degrees, those general challenges pervade three specific facets of the program: Cleanup, Compliance, and Prevention.

CLEANUP

The DoD must focus simultaneously on removing hazardous waste and other pollutants from active defense sites, cleaning up the dozens of sites from the four base closure rounds between 1989 and 1995, and dealing with known or potential cleanup requirements at 8,700 formerly used defense sites, many of which are no longer Federal property. No two sites are alike in terms of the nature and scope of the contamination, risk, and cleanup cost. Each site may engender controversy with the local community, among scientific experts, and between Government agencies on the appropriate cleanup approach and risk mitigation goal. For example, we reported on issues involving the Arctic Slope of Alaska in September 1998 and the Massachusetts Military Reservation in October 1998. Both of these reports discussed especially contentious issues.

“Recent audits have indicated steady improvement in the sophistication and effectiveness of DoD approaches to cleanup challenges....”

Recent audits have indicated steady improvement in the sophistication and effectiveness of DoD approaches to cleanup challenges, although cleanup at many closed locations remains behind initial schedules and much needs to be done to accelerate progress or reassess the goals of those efforts. In March 1998, we reported that groundwater “pump and treat” approaches were being overused and the results were poor in terms of effectiveness and cost. Recent followup indicates that the Army alone has identified about \$70 million in cost avoidance by modifying its approach

at 8 installations. We believe that even greater savings are possible throughout DoD by reconsidering the widely used, but now outmoded, pump and treat methodology. In September 1999, we reported that the Environmental Security Technology Certification Program was achieving worthwhile breakthroughs in adopting new technologies for military site cleanup requirements. We made several recommendations for further program enhancements, and DoD formed an Environmental Security Technology Implementation Committee to implement them.

Although cleanup of contamination caused by chemicals, fuels, paints, and solvents is the principal challenge at most active or closed defense sites, dealing with residue created by live firing for testing or training is a continuing major concern that has received much less attention. In August 1999, we reported that lead contamination was a problem in hundreds of National Guard and Reserve facilities with indoor small arms ranges. Half a dozen audit reports since 1994 identified the lack of a coherent program for dealing with munitions scrap on the extensive DoD outdoor testing



Destroyed targets stockpiled on a range at Eglin Air Force Base

and training ranges. The issue is acute because of the safety hazards posed by unexploded ordnance, the possibility of dangerous usable munitions falling into the wrong hands, and the environmental contamination caused by range residue, which may include numerous toxic substances such as depleted uranium and chromium.

The results of the most recent OIG, DoD, review, reported in August 2000, were disappointing because the Department made limited progress in carrying out numerous agreed-upon recommendations from

our September 1997 report. At the installation level, commanders were making reasonable efforts to collect and segregate potentially hazardous material, but overall DoD guidance and funding to complete disposal were still lacking. The full cost of cleaning up the ranges has not yet been identified by the Department.

In September 2000, the Air Force Audit Agency reported on that Service's Environmental Restoration Program. The auditors concluded that managers were effectively identifying potentially contaminated sites, but

improvements were needed in reporting cost estimates and eliminating administrative inefficiencies. Similar improvements are probably possible throughout DoD.

COMPLIANCE

The DoD must comply with a wide range of legal and regulatory environmental requirements, most of which apply to several facets of the handling of hazardous substances, not just cleanup after pollution or contamination occurs. Likewise, contractors hired by DoD to treat, transport, collect, dispose of, and otherwise handle environmentally sensitive substances must comply with both environmental laws and regulations and the requirements related to Government contracting, such as the False Claims Act. Because the handling of sensitive substances takes place at thousands of locations, and contractor self-certification is a common practice, this is an area where a significant risk of fraud exists.

All four Defense Criminal Investigative Organizations have been active over the past several years in combating the fraud perpetuated primarily by contractors involved in waste cleanup and disposal. As discussed regularly in our semiannual reports, typical criminal schemes in this area have involved false certifications that work such as removal of hazardous waste or repair of storage facilities has been completed, illegal dumping and the use of improperly trained and equipped workers.

To prevent fraud and achieve better program results, environmental contract management needs improvement. For example, in June 2000 we reported that contractors were not providing adequate waste management and removal services at 10 of 14 U.S. military installations in Europe. Although there were numerous indications of poor performance, managers failed to take corrective action. As a result, those 10 bases had an increased risk of safety and environmental compliance violations, criminal and civil liability, and friction with host countries.

“A somewhat different type of...compliance issue...is the rapid growth of foreign government environmental laws and regulations.”

A somewhat different type of growing compliance issue overseas is the rapid growth of foreign government environmental laws and regulations. In September 1999, we reported that the Army environmental program in Germany was facing a serious challenge. The 1993 amendment to the Status Of Forces Agreement expanded Army environmental compliance obligations. As a result, threats of actions by local authorities against Army officials were increasing. The Army had not, however, assessed the 1993 changes, developed a strategy dealing with them, and provided guidance to commanders and managers.

PREVENTION

The best way to avoid excessive costs for handling and cleaning up environmentally sensitive substances is to eliminate or minimize their use. Reducing the use of toxic substances makes sense both to enable better compliance with environmental standards and to reduce the life-cycle costs of military equipment and systems. Numerous audit reports have indicated that more needs to be done to motivate the acquisition community to minimize the use of toxic materials when designing and procuring weapon systems, munitions, and other materiel. In May 2000, we reported progress in terms of demonstrable effort in nine acquisition programs to avoid hazardous materials; however, the cost of demilitarizing and disposing of the hazardous materials in the systems were not factored into life-cycle cost estimates. Full assessment and disclosure of the handling and disposal costs for hazardous materials would generate additional support for minimalization efforts, including investing more during acquisition if the eventual return on investment warranted.

Other audits have indicated that most of the specific DoD pollution prevention projects are well managed. For example, we reviewed 22 of 265 pollution prevention projects initiated in fiscal years 1996 through 1998. We reported in September 1999 that all 22 projects were sound investments. Those projects cost \$5.8 million and would generate a one-time savings of \$27.5 million, with annual recurring savings of about \$4.4 million.

OTHER CONCERNS

Although oversight coverage of the issue has been very limited, it is clear that DoD faces increasing challenges in terms of constraints on testing and training because of growing civilian populations near once remote military installations. Likewise, the Endangered Species Act poses challenges at many bases. Similarly, the Navy must take seriously the recent allegations that sonar can harm marine mammals, in order not to alienate public support for military presence.

SUMMARY

The DoD must continue to give its environmental objectives high priority, but consistently seek ways to contain cost, improve effectiveness, and avoid impediments to readiness. We intend to maintain a robust oversight effort in this area.

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CHAPTER TWO - SIGNIFICANT ACTIVITIES

INTRODUCTION

This chapter summarizes the significant activities of the OIG, DoD, components and their work with other members of the DoD oversight community.

CRIMINAL INVESTIGATIONS

The four Defense Criminal Investigative Organizations (DCIOs) continue to combat crime affecting the DoD and the Military Departments. The Defense Criminal Investigative Service (DCIS), the criminal investigative arm of the OIG, DoD, focuses the bulk of its 321 civilian criminal investigators on the investigation of procurement fraud by Defense contractors and health care fraud by health care providers. The Army Criminal Investigation Command (CIDC), the Naval Criminal Investigative Service (NCIS) and the Air Force Office of Special Investigations (AFOSI) also investigate procurement fraud, but focus the majority of their resources on other crimes against persons and property affecting their respective Military Departments. The AFOSI and NCIS also conduct counterintelligence investigations and operations. This section focuses on the procurement, health care and other major fraud investigations accomplished by the DCIOs.

Figure 1 (page 18) displays the investigative results achieved by the four investigative organizations during the period in areas of procurement and health care fraud.

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

Product Substitution

The introduction of counterfeit material and other forms of unauthorized substitution of products in the DoD procurement system has been and continues to be our highest priority for deterrence, investigation, and prosecution. Product substitution investigations comprise a major part of the DCIO fraud investigation inventory. An area of increased emphasis is readiness enhancement through vigorous detection and investigation of defective or substandard products that involve either safety of flight issues or have a critical application to our National Defense. The following are examples of product substitution cases:

- An investigation of a manufacturer of chemical biological suits worn by the military, revealed that the garments failed quality

DEFENSE CRIMINAL INVESTIGATIVE ORGANIZATIONS CASE RESULTS			
	Procurement Fraud and Major Health Care Fraud Investigative Case Results	Other Criminal Investigative Results	Total
LITIGATION RESULTS			
Indictments - DoJ	90	144	234
Convictions - DoJ	78	130	208
Indictments - State/Local/Foreign	1	28	29
Convictions - State/Local/Foreign	5	49	54
MONETARY OUTCOMES			
DoJ Only	\$143,283,366	\$53,075,245	\$196,358,611
DoD Administrative Recoveries	39,564,331	7,100,478	46,664,809
DoD Investigative Recoveries	124,811	2,096,418	2,221,229
State/Local/Foreign	20,350	8,419,086	8,439,436
Total Monetary Outcomes	\$182,992,858	\$70,691,227	\$253,684,085
SUSPENSIONS AND DEBARMENTS RESULTING FROM INVESTIGATIONS			
Suspensions			
Individual	41		
Companies	15		
Debarments			
Individual	21		
Companies	14		

Figure 1

testing and were intentionally defectively produced. The company manufactured various military uniforms and other types of military apparel under five contracts awarded by the Defense Supply Center, Philadelphia, Pennsylvania. As a result of this investigation, six individuals and two entities pled guilty to conspiring to defraud the Government and were sentenced.

- A large tire and rubber company agreed to pay \$453,000 in civil restitution and deliver 5,000 alternative track shoe assemblies to the U.S. Army to settle allegations that the company manufactured T-107 track shoe assemblies that did not conform to contractual specifications. This investigation was initiated after an anonymous caller contacted the DoD Hotline to report production deficiencies involving the track shoe assemblies, which are used on the M-88 armored recovery vehicle.

- The investigation of a California company disclosed that it improperly heat-treated and falsified quality testing on parts used on numerous DoD aircraft, for the NASA Space Shuttle and Space Station Programs, as well as on commercial aircraft. Following a 2-week trial, the company and its corporate officers were convicted of conspiracy to make false statements and six counts of making false statements to the DoD.



- A Washington company agreed to pay \$42,395,000 in civil restitution to settle two lawsuits that alleged that they placed defective flight-critical transmission gears into CH-47D Chinook helicopters. The lawsuits were filed by a former employee under the *qui tam* provisions of the False Claims Act, and were subsequently enjoined by the U.S. Government. Subcontractors were used to manufacture gears for the Chinook helicopters.

The transmission gears supplied by these subcontractors were suspected of having caused several in-flight incidents, accidents, and crashes resulting in injuries, at least five deaths, and the destruction of several helicopters. Due to additional defects found in the gears, the Army partially grounded the Chinook fleet in January 2000.

Product Substitution (Environmental)

This category concerns fraudulent activities of those who abuse DoD environmental programs and contracts, with regard to the delivery, removal, transport, and disposal of hazardous material and hazardous waste from DoD installations. The following are examples of some of the more significant environmental cases occurring during this semiannual period.

- A Missouri waste management company entered a guilty plea to one count of violating permit specifications for waste disposal under Federal waste disposal regulations. Additionally, the company paid a \$230,850 civil penalty to the State of Missouri to settle violations of the Missouri Hazardous Waste Management Law, Missouri Solid Waste Law, and Missouri Clean Water Law, for illegally disposing of DoD waste products.
- An environmental services company was subcontracted to remove underground storage tanks and the associated petroleum-impacted wastewater from various military facilities. The president of the company arranged for a trucking company

to transport and illegally dispose of the wastewater into underground wells, thereby endangering drinking water resources. The parties were found guilty of conspiring to inject liquid waste into a Class II disposal well without a permit, transporting hazardous waste without a manifest, mail fraud, wire fraud and interfering with the lawful function of the Environmental Protection Agency (EPA) or the DoD. The owner of the trucking company was also found guilty of violating the Clean Water Act, Resources Conservation and Recovery Act, and making false statements to Government officials.

- The president and owner of two metal finishing companies pled guilty to violating the requirements of conditions of permits issued by the State of Ohio and requirements imposed in a pretreatment program. They were found to have dumped hazardous waste, which was manufactured during work on DoD contracts, into the municipal sewage treatment system of Columbus, Ohio.

Medical Fraud

The DoD Military Health Services System (MHSS) is the health care program administered by the Assistant Secretary of Defense (Health Affairs), which provides health care to active duty and retired military personnel, their dependents and survivors. Two distinct but related missions of the MHSS are the “readiness mission,” which provides medical services and support to the Armed Forces during military operations, and the “benefit mission,” which provides medical services and support to members of the Armed Forces, their dependents and others entitled to DoD medical care. The missions are accomplished through direct care provided by a military medical treatment facility and civilian care provided through TRICARE.



Our investigations found an increase in fraud in the delivery of health care services. The following are examples of some of the more significant health care fraud investigations occurring during this semiannual period.

- A provider of nutritional counseling and weight loss management services was found to have submitted numerous fraudulent health care claims to TRICARE, Medicare, and Trigon Healthcare, Incorporated. The claims misrepresented provider information and falsified the services provided, which otherwise would not have been reimbursed.

“...a retired U.S. Navy veteran conspired with physicians...in the Republic of the Philippines to submit false claims to the DoD TRICARE Program.

- The investigation of an ambulance service disclosed that it submitted false claims to TRICARE, Medicare, and Medicaid for ambulance transport of patients who were purported to be bedridden or bed-confined when, in fact, they were not. The paramedics and emergency medical technicians at the company were instructed to omit certain words from their transport records that would accurately describe the patient’s physical condition at the time of transport.
- An investigation disclosed that a retired U.S. Navy veteran conspired with physicians and other retired veterans in the Republic of the Philippines to submit false claims to the DoD TRICARE Program. The claims were submitted for medical services that were never rendered. The claims were received by Wisconsin Physicians Service, Madison, Wisconsin, a fiscal intermediary for the TRICARE program. Portions of the money paid to the physicians for these false claims were returned to the retired veterans as payment for their participation in the scheme.
- An investigation disclosed that a dialysis laboratory services company defrauded TRICARE, Medicare, and Medicaid by double billing and billing for laboratory services that were not medically necessary.
- A Fort Lauderdale, Florida, company defrauded TRICARE, Medicare, and Medicaid by billing for laboratory services that were not medically necessary and “unbundling” automated blood chemistry tests. Unbundling is a fraudulent billing scheme that involves separately billing the component parts of a procedure instead of billing only the single procedure code, which represents the entire comprehensive procedure.

Financial Crimes

The investigation of financial crimes focuses on cases where financial gain is a primary motivation. These crimes are often accomplished by defrauding or abusing pay systems, such as the systems at the Defense Finance and Accounting Service (DFAS). The following are examples of some of the more significant financial fraud cases occurring during this semiannual period.

- A general supply specialist at the Defense Logistics Information Service, Defense Logistics Agency (DLA), Battle Creek, Michigan, was determined to have submitted a claim for reim-

bursement of moving expenses. He falsely claimed reimbursement for misrepresentations he made that his family had accompanied him on various dates, and that he was paying rent and breach of lease payments on an apartment, when none of these claims were true.

- An investigation disclosed that the daughter of a former U.S. Marine Corps veteran continued to receive Federal retirement benefits destined for her father for 8 years after his death. The funds were electronically transmitted by DFAS into a bank account established as a trust for her father, which was held jointly by the daughter. By intentionally failing to notify the

“A \$15.5 million settlement was reached with a Florida company. This brought closure to a lawsuit, which alleged that the Federal Government was overcharged for books....”

Government of her father’s death, she illegally received, and converted to her own use, over \$100,000.

- A \$15.5 million settlement was reached with a Florida company. This brought closure to a lawsuit, which alleged that the

Federal Government was overcharged for books purchased from a nationwide book wholesaler and distributor who had contracts with the DoD to provide books for use overseas in DoD libraries, schools, and for DoD educational supplies. The company also supplied books to other Federal agencies, State schools and public libraries.

- A \$4.25 million settlement agreement was reached with a large Ohio corporation, which admitted it had improperly used Foreign Military Sales (FMS) funds while performing on an FMS contract with the Arab Republic of Egypt to upgrade four sonar systems used by the Egyptian military. Under the FMS program, which is administered by the Defense Security Assistance Agency, a prime contractor cannot hire unapproved foreign companies to work on FMS contracts. An investigation determined that the Ohio corporation paid another U.S. company over \$3.2 million for work purportedly performed on the FMS contract, when the actual work was performed by a foreign company. The U.S. company only handled the administrative aspects of the subcontract, while the foreign company’s engineers performed all the actual sonar work. The U.S. company, which designed, engineered, and constructed industrial cement manufacturing plants, had no expertise in sonar.

- An investigation disclosed that an individual submitted invoices to a Minnesota-based lender, TransCentral, Incorporated, for cash advances that the Air Force had already made payment on or for false invoices on which the Air Force would never make payment. Eleven transactions were completed and monies were received totaling \$1,080,194.
- An investigation disclosed that a DFAS employee fraudulently issued 53 U.S. Treasury checks totaling \$187,000 from the DFAS facility in Cleveland, Ohio. The checks were issued to various individuals, including several of his relatives. During a search of his Government computer, images of child pornography were found. The employee pled guilty to possession of pornographic images of children and mail fraud.

“A Milford, New Hampshire, company entered into a \$2.5 million civil settlement with the Government... Various costs claimed [by the company] were alleged to be false.”

- A Milford, New Hampshire, company entered into a \$2.5 million civil settlement with the Government to settle claims arising out of an investigation by the DoD and the Department of Justice. The DoD contractor manufactures antenna couplers and test sets used to test defense systems on combat aircraft. The investigation disclosed that the company negotiated several delivery orders for two Navy contracts. Various costs claimed on those delivery orders were alleged to be false.

Bribery and Kickbacks

Since the passage of the Anti-Kickback Act of 1986, the number of subcontractor kickback investigations in the DCIS inventory has been fairly consistent. The use of informants and undercover operations has been particularly successful in this area and has uncovered culpable DoD and contractor employees. The following are examples of some of the more significant bribery and kickback cases occurring during this semi-annual period:

- The owner of a Massachusetts machine shop that sells electro-mechanical components to defense contractors, conspired to pay kickbacks to employees of two larger defense contractors in exchange for favorable consideration in the award of sub-contracts. The kickback payments were disguised to allow him to claim some or all of the kickbacks as business deductions or as personal expenses on his corporate tax return. The owner pled guilty and was sentenced for conspiracy and violations of the Anti-Kickback Act.

- A \$3,692,804 settlement agreement was reached with an Alabama ship repair company as a result of a 3-year undercover investigation into fraud and corruption within the Maritime Industry. In exchange for the kickback payments, the Alabama company received numerous subcontracts from a prime contractor who held contracts with the Navy Military Sealift Command valued in excess of \$200 million. This settlement agreement follows the filing of criminal informations and guilty pleas of multiple employees on charges of soliciting and accepting kickbacks.
- A former project engineer for the Directorate of Public Works and Logistics Division, Fort Bliss Army Base, El Paso, Texas, was sentenced for bribery and submitting false claims against the United States. On numerous occasions, the project engineer demanded and accepted cash and checks from a Government contractor in return for being influenced in the performance of his official duties. He also falsified delivery orders with the contractor by increasing the value of the delivery orders and allowing the submission of invoices that were inflated by over \$100,000. The project engineer expected to be paid a portion of the inflated billings after the contractor received payment from DFAS.
- Several owners of various trucking and construction companies and messenger services were sentenced for conspiring to defraud the Internal Revenue Service through corporate tax evasion. These businessmen conspired with the former president of a DoD subcontractor to cash corporate checks through their corporate bank accounts. The DoD subcontractor provided raw materials, such as aluminum and titanium, to prime DoD contractors. The businessmen returned the cash to the former president, who in turn used the cash to pay kickbacks to secure subcontracts for his business from various individuals who contracted with the DoD.
- The president of a DoD subcontractor in New York was sentenced for paying kickbacks. This individual was provided with pricing information from a DoD prime contractor that enabled him to be the low bidder as a subcontractor on numerous DoD contracts. In return he paid kickbacks in the amount of 5 percent of the subcontract value for the pricing information.

HOTLINE

During this reporting period, the Hotline received 6,032 telephone calls and letters resulting in the initiation of 1,531 cases. During the same period, the Hotline closed 1,080 cases. The Hotline responded to 134 requests for posters and other marketing material from DoD activities and DoD contractors in our continuing effort to identify fraud and waste within the DoD. Since 1982, over \$420 million has been recovered as a direct result of inquiries initiated in response to information provided to the Hotline.



Significant Hotline Complaints

A joint investigation was conducted by the DCIS and the CIDC as a result of a Hotline complaint. The allegations concerned were that the Surprenant Cable Corporation sold certified cables to contractors constructing Government vessels. The cables did not meet the specifications for watertightness. This matter was declined for criminal prosecution, however, it was accepted for civil prosecution. Surprenant Cable Corporation agreed to pay the U.S. Government the principal sum of \$120,000 in full satisfaction of the Government civil claim against the company.

ADMINISTRATIVE INVESTIGATIONS

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

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

Whistleblower Reprisal Activity

During the reporting period, the Special Inquiries Directorate and the Military Department Inspectors General received 260 complaints of whistleblower reprisal. We closed 252 cases. Of the 252 cases closed, 172

were closed after preliminary analysis determined further investigation was not warranted, and 80 were closed after full investigation.

Of the cases closed after full investigation, 15 (or 19 percent) contained one or more substantiated allegations of whistleblower reprisal.

Figures 2 and 3 (page 27) show the types and distribution of whistleblower reprisal cases as of September 30, 2000.

Referrals for Mental Health Evaluations

Twenty cases closed during the reporting period contained allegations of improper referrals for mental health evaluations. We did not substantiate that any mental health referrals were used to reprise against Service members for whistleblowing. However, we concluded that in 9 of the 20 cases, commanders failed to follow the proper procedures for referring a Service member for a mental health evaluation under DoD Directive 6490.1, "Mental Health Evaluations of Members of the Armed Forces."

Examples of Substantiated Whistleblower Reprisal Cases

An Army National Guard colonel received a letter of reprimand and an unfavorable Officer Evaluation Report in reprisal for making protected communications to his chain of command and Inspectors General. The colonel alleged mismanagement, fraud and reprisal by senior officials to his chain of command and Inspectors General. The colonel also provided testimony to investigators during an Inspector General, Department of the Army, investigation. Based on the findings in the Army investigation, the colonel was returned to his position.

A non-appropriated fund employee at a Marine Corps base was terminated from employment in reprisal for making protected disclosures. The employee expressed his opinion to the Commanding General that the decision to open a new club on the base was a bad business decision. As a result of the investigation, the employee was returned to work.

Senior Official Inquiries

Figures 4 and 5 (page 28) show results of activity on senior official cases during the period. On September 30, 2000, there were 253 ongoing investigations into senior official misconduct throughout the Department, up slightly since April 1, 2000, when we reported 235 open investigations. Over the past 6 months, we closed 152 senior official cases, of which 39 (26 percent) contained substantiated allegations.

Examples of Cases Involving Senior Officials

In a case that attracted significant media and congressional interest, we substantiated allegations that senior DoD officials violated the Privacy Act by releasing information from the security files of a DoD employee. We concluded that the DoD officials, by virtue of their positions,

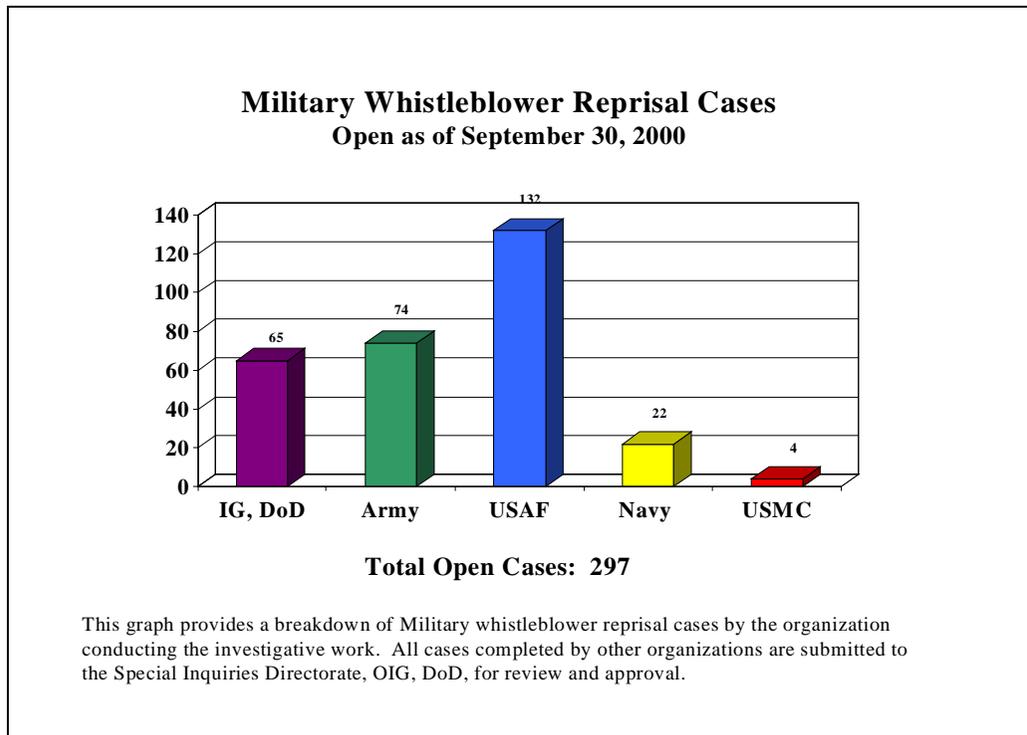


Figure 2

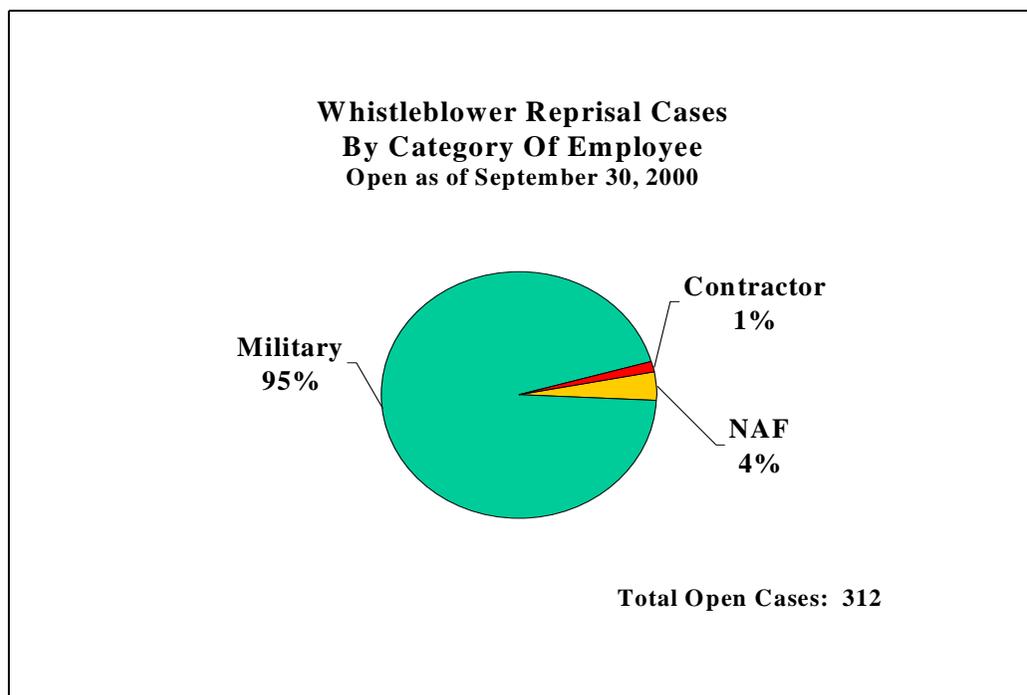


Figure 3

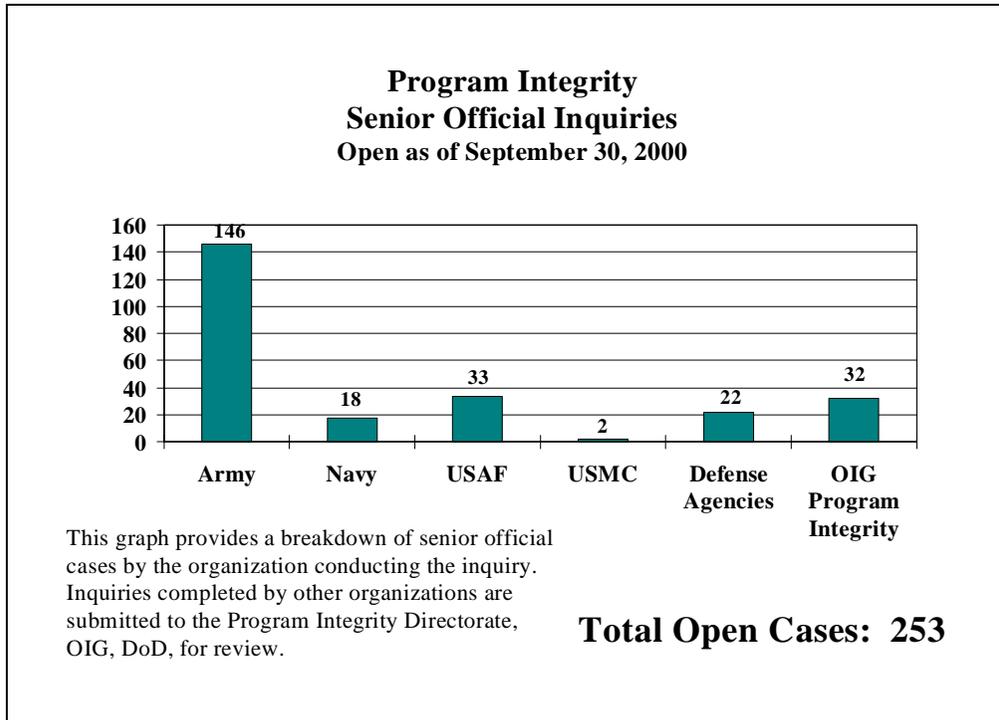


Figure 4

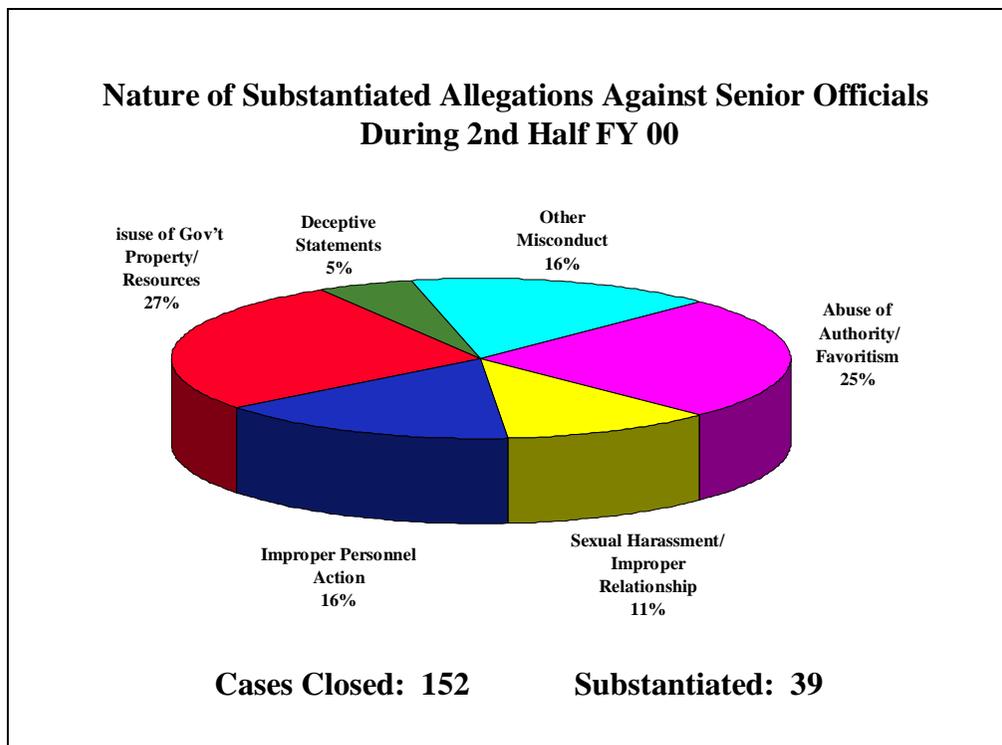


Figure 5

reasonably should have known that the release was improper at the time it was made and that they failed to follow procedures they had established for releases of certain information. The officials were subsequently cautioned by the Secretary of Defense.

In another investigation, we substantiated allegations that a senior DoD official redeemed frequent flyer miles that were the property of the Government to purchase airline tickets for his personal use. In this case, the senior official established frequent flyer accounts where he commingled mileage credits earned on official travel with mileage credits that he obtained from personal travel. Because the senior official was unable to identify credits earned on personal travel, all credits in the account were considered property of the Government under applicable DoD travel and ethics regulations. Further, we concluded that the senior official was not candid and forthright in his statements to investigators concerning his use of frequent flyer mileage credits. The results of the investigation were provided to cognizant management officials for consideration of corrective action.

CRIMINAL INVESTIGATIVE POLICY AND OVERSIGHT

The Office of Criminal Investigative Policy and Oversight (CIPO) published “Evaluation of the Implementation of Department of Defense Instruction 5505.7, ‘Titling and Indexing of Subjects of Criminal Investigations in the DoD.’” The report assessed the level of compliance by the Defense Criminal Investigative Organizations with the instruction that establishes the standards by which subjects are entered in the Defense Clearance and Investigations Index. The evaluation found substantial compliance with the instruction.

The CIPO reviewed complaints of IG investigator impropriety at two Defense intelligence agencies. Exhaustive investigations in each case failed to establish that either complaint had merit. These evaluations did much to enhance the credibility of the offices involved and verified that the investigators complied with internal and departmental regulations and followed acceptable investigative standards and practices.

The CIPO also reviewed a criminal investigation conducted by a military criminal investigative organization and concluded that the decision to initiate an investigation was contrary to DoD and Service guidance on investigating consensual adult sexual misconduct. The review of this single incident resulted in recommendations that the investigative organization reinforce the provisions of the regulatory guidance regarding these crimes and that it reconsider the titling and indexing decision regarding the subject of the investigation.

Voluntary Disclosure Program

The Voluntary Disclosure Program encourages contractors to disclose potential criminal or civil fraud that may affect their contractual relationship with the DoD or the contractor's responsibility under Federal Acquisition Regulations.

The Voluntary Disclosure Program has received 419 disclosures since its inception in 1986. The Government recouped \$413.7 million in criminal, civil, and administrative recoveries as a result of the Program. During the reporting period, nine new disclosures were received, six disclosures were accepted, with the other three pending, and the Government received \$8.9 million in recoveries. The following are examples of voluntary disclosures that resulted in monetary payments and contract adjustments during this reporting period.

- A contractor reported that it had mischarged the DoD \$250,000 in connection with a contract for the installation of internet equipment. Investigation and auditing work disclosed that damages were far in excess of the original estimate. The Government and the contractor settled the matter for \$4.5 million.
- In another matter, a contractor settled with the Government for \$1.1 million. This settlement represented losses to the Government attributed to the failure to test equipment intended for use in electronic jamming devices. The company fired 17 employees responsible for the misconduct.
- A contractor who failed to properly test portable fuel storage tanks supplied to the Marine Corps settled a voluntary disclosure matter for a total value of \$1,255,000. As a part of the settlement, the contractor agreed to provide replacement equipment, valued at \$520,000, at no cost to the Government. The balance of the settlement, \$735,000, was paid in cash.

AUDITING

The OIG, DoD, and Military Department central audit organizations issued 224 reports during the reporting period, identifying nearly \$1.5 billion in quantifiable monetary benefits and assisting the Department's efforts to address the high risk areas discussed in Chapter One. Appendix A lists internal audit reports by major subject area. Appendices B and C list OIG, DoD, reports with potential monetary benefits and summarize internal audit followup activity, respectively.

The DCAA issued 26,598 contract audit reports and questioned over \$1 billion in costs, as summarized in Appendix D.

**Auditor
Independence**

The Advisory Council on Government Auditing Standards issued a Preliminary Views document in April 2000, concerning possible changes to the existing standard on auditor independence and related reporting standards for financial and performance audits. In a joint reply, the Deputy Inspector General and the heads of the DoD internal audit agencies stated that the proposed revisions were unnecessary and could impair the effectiveness of internal auditing in the Department. The DoD internal audit community has worked out an efficient division of labor across the spectrum of DoD functional areas between the OIG, DoD, and the Military Department audit services. Although the proposed changes may be intended to address independence issues related primarily to states and Federal agencies without statutory IGs, they would have unintended adverse consequences in the DoD.

If the proposed changes were enacted, the Military Department audit organizations would have to qualify all audit results and could not issue opinions on financial statements. Undermining the credibility of three-fourths of the Department's internal auditors to comply with questionably necessary and inflexible provisions in revised audit standards would be severely counterproductive. We are continuing to work with the Advisory Council and the Federal audit community to resolve this problem.

**DCAA Customer
Feedback**

The specialized role of the DCAA is to provide financial advice to DoD contracting officers. Our semiannual report for the period ended September 30, 1999, discussed how DCAA was working to improve coordination with DoD buying commands and contract administration offices, develop risk assessment methodologies, and participate constructively in proactive efforts like the Single Process Initiative. The success of those efforts is indicated by the continued impressive amounts of costs questioned by DCAA auditors, as well as the positive feedback from DoD contracting officers.

The 1999 Biennial Review of Defense Agencies and DoD Field Activities by the Office of the Secretary of Defense, completed in May 2000, surveyed the degree of customer satisfaction with DCAA performance. About 93 percent of 135 responses indicated overall satisfaction, which is excellent in comparison with the 74 percent average for the survey.

**OIG, DoD,
Testimony**

The Deputy Inspector General testified before the Senate Armed Services Committee on April 6, 2000, regarding DoD personnel security clearance

investigations. He stressed the need for the Department to take aggressive action to recover from the Defense Security Service's failed reinvention efforts and to improve the timeliness, quality, and responsiveness of the personnel security investigation program.

On April 26, 2000, the Deputy Inspector General testified on Defense acquisition issues before the Subcommittee on Readiness and Management Support, Senate Armed Services Committee. He emphasized concerns related to prices in sole-source spare parts contracts, the impact of downsizing on the acquisition workforce, practices used in contracting for various types of services and the use of non-contractual agreements called Other Transactions.

On May 9, 2000, the Assistant Inspector General for Auditing testified before the Subcommittee on Government Management and Information Technology, House Government Reform Committee, on Defense financial management. He summarized the results of the DoD financial statement audits for fiscal year 1999 and emphasized the need to implement automated systems that could compile data in accordance with Federal audit standards. To accelerate the implementation of compliant systems, he recommended using the same management approach that was applied to the Year 2000 conversion challenge.

The Assistant Inspector General for Auditing discussed duplication in the procurement of pharmaceuticals at a May 25, 2000, hearing of the Subcommittee on Oversight and Investigations, House Veterans Affairs Committee. He testified that the Departments of Defense and Veterans Affairs had made progress in implementing unified purchasing approaches for a few products, but opportunities remain to achieve significant savings by eliminating separate contracts for numerous other items.

On May 26, 2000, the Assistant Inspector General for Auditing testified before the Senate Governmental Affairs Committee on export controls. He reiterated the recommendation by the IG community that the Congress enact a new Export Administration Act and the suggestions made by the Deputy Inspector General in March 2000 testimony to the Senate Armed Services Committee on S. 1712, the Export Administration Act of 1999.

The Deputy Inspector General, Assistant Inspector General for Auditing, and Deputy Assistant Inspector General for Investigations testified on June 21, 2000, before the Subcommittee on National Security, Veterans Affairs and International Relations, House Government Reform Com-

mittee, on chemical protective equipment. The testimony covered the problems with the maintainability and testing of protective masks and poor inventory management of protective suits.

The Assistant Inspector General for Auditing testified on July 12, 2000, on anthrax vaccine contracting before the Senate Armed Services Committee. He described the financial problems of the sole-source contractor and the measures taken by the DoD to provide extraordinary relief on the principal vaccine production contract. He recommended that the DoD consider alternatives to private sector production of vaccines that have limited commercial markets.

On July 20, 2000, the Assistant Inspector General for Auditing testified before the Task Force on Defense and International Relations, House Budget Committee, on Defense financial management. This testimony was similar to the May 9, 2000, testimony and the discussion of financial management issues in Chapter One, with emphasis on the \$7.6 trillion of accounting entries made in the vain attempt to formulate accurate DoD financial statements for fiscal year 1999.

The Acting Inspector General testified at a September 20, 2000, hearing by the Subcommittee on National Security, Veterans Affairs and International Relations, House Government Reform Committee, on Defense Security Service Oversight. He reiterated the recommendations made in the April 2000 testimony on the Defense Personnel Security Program and summarized the results of additional audit coverage through September 2000. The April 2000 IG, DoD, prediction that the Defense Security Service would average no more than 1,500 closed cases per day in fiscal year 2000, despite goals of 2,300 to 2,500 closures per day, was accurate. The closure rate exceeded 2,500 per day for the first time in August 2000, which was a positive sign. Nevertheless, the backlog of clearance requests remains a serious problem.

The full texts of the written testimony for these hearings are available at www.dodig.osd.mil.

INTELLIGENCE REVIEW

Figure 6, page 34, is a statistical summary of reports issued dealing with intelligence oversight. For information regarding specific work performed, see the Classified Annex to this report.

Intelligence Oversight				
Organizations	OIG, DoD	Military Depts	Defense Agencies	Totals
Intelligence Programs and Operations				
Operations and Support	8	0	6	14
Financial Management	0	3	1	4
Acquisition and Contract Management	1	1	9	11
Computer Management/Information Technology	1	2	2	5
Management Oversight	3	1	10	14
Management/Criminal Investigations	0	2	6	8
Total	13	9	34	56

Figure 6

APPENDIX A*

REPORTS ISSUED BY CENTRAL DOD INTERNAL AUDIT ORGANIZATIONS

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

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

OIG, DoD
(703) 604-8937

Army Audit Agency
(703) 681-9863

Naval Audit Service
(202) 433-5737

Air Force Audit Agency
(703) 696-8027

Summary of Number of Reports by Issue Area April 1 through September 30, 2000

	OIG, DoD	Military Depts.	Total
Acquisition Oversight	12	10	22
Construction and Installation Support	3	8	11
Environment	4	9	13
Finance and Accounting	33	55	88
Health Care	1	3	4
Information Technology	8	12	20
Intelligence**	13	9	22
Logistics	5	23	28
Quality of Life	0	12	12
International Security	1	2	3
Other	2	2	4
Total	82	145	227

The OIG, DoD, also issued 7 reports on audit oversight reviews (D2000-6-004, D2000-6-005, D2000-6-006, D2000-6-007, D2000-6-008, D2000-6-009, and D2000-6-0010).

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

** For further information on intelligence-related reports, including those issued by other Defense agencies, refer to the classified annex to this report.

ACQUISITION PROGRAM AND CONTRACTOR OVERSIGHT

(Includes issues relating to acquisition management, industrial base, contract administration and oversight, and product quality assurance.)

IG, DoD

D2000-115 Protection of the V-22 Osprey Against RF Weapons (CLASSIFIED) (4/24/00)

D-2000-117 Independent Review of the Defense Finance and Accounting Service Competitive Sourcing Study of the Depot Maintenance Accounting Function (4/28/00)

D-2000-129 Air Force Contract for Installation of Radios and Antennae (5/22/00)

D2000-135 Protection of the M1A2 Tank 2000 Against RF Weapons (CLASSIFIED) (5/31/00)

D-2000-149 Use of an Open Systems Approach for Weapon Systems (6/14/00)

D2000-152 Protection of GPS Against RF Weapons (6/19/00) (CLASSIFIED)

D-2000-163 Ground Control Approach-2000 Radar System Test Plan and Test Results (7/20/00)

D-2000-174 V-22 Osprey Joint Advanced Vertical Aircraft (8/15/00)

D-2000-180 Commercial Contract for Total Logistics Support of Aircraft Auxiliary Power Units (8/31/00)

D-2000-187 The Low-Rate Initial Production Decision for the Joint Biological Point Detection System (9/11/00)

D-2000-188 Contract Management for the National Defense Center for Environmental Excellence (9/14/00)

D-2000-192 Results of the Defense Logistics Agency Strategic Supplier Alliance for Catalog Items (9/26/00)

Army Audit Agency

AA00-204 Foreign Military Sales (4/6/00)

AA00-235 Home Station Instrumented Training System (5/5/00)

AA00-301 Reforming Ammunition Procurement--Phase III (6/28/00)

AA00-341 High Level Architecture (8/14/00)

Naval Audit Service

N2000-0027 Independent Logistics Assessment Process (6/27/00)

N2000-0040 Predator Short Range Assault Weapon: Acquisition Planning and Contractor Merger (8/28/00)

Air Force Audit Agency

97064003 F-22 Life-Cycle Planning During Engineering and Manufacturing Development (4/10/00)

99064007 International Merchant Purchase Authorization Card Usage (6/16/00)

99064023 C-17 Integrated Product Team Participation (Phase II) (9/14/00)

99064028 Sensor Fuzed Weapon Pre-Planned Product Improvement (4/10/00)

CONSTRUCTION AND INSTALLATION SUPPORT

(Includes construction [including base realignment and closure (BRAC)-related projects] and all activities related to maintenance and support of installations.)

IG, DoD

D-2000-155 Recovery of Commissary and Non-appropriated Fund Real Property Investments at Defense Base Realignment and Closure Installations (6/23/00)

D-2000-164 Bulk Fuel Storage and Delivery Systems Infrastructure for Yakima Training Center, Washington (7/20/00)

D-2000-175 Defense Information Systems Agency Right-Sizing Plan for Regional Support Activities (8/15/00)

Army Audit Agency

AA00-221 Base Realignment and Closure 1995 Reserve Component Enclave (4/14/00)

AA00-302 Base Closure 1995 Ammunition Transfer Point/Holding Area at Pelham Range (6/26/00)

AA00-354 Base Closure Account Expenditures to Relocate U.S. Army Aviation and Troop Command (8/21/00)

AA00-356 Base Closure 1995 Construction Requirements for the Alabama Army National Guard Enclave (8/25/00)

Air Force Audit Agency

99052002 Facility Design (9/13/00)

99052024 Selected Aspects of Facility Management (5/24/00)

99052025 Personal Property of Tenant and Support Organizations at Kelly and McClellan Air Force Bases (6/14/00)

99052026 Privatizing Base Utilities - Preliminary Economic Analysis (5/3/00)

ENVIRONMENT

(Includes environmental issues related to cleanup, compliance, conservation, pollution prevention, technology, safety and health.)

IG, DoD

D-2000-121 Hazardous Material Management for Major Defense Systems (5/4/00)

D-2000-127 Program Management of the Materials and Processes Partnership for Pollution Prevention (5/22/00)

D-2000-157 DoD Hazardous Waste Management and Removal Services in the U.S. European Command (6/28/00)

D-2000-170 Disposal of Range Residue (8/4/00)

Army Audit Agency

AA00-310 Environmental Remediation (7/11/00)

AA00-332 Environmental Compliance Assessment System Program (7/24/00)

AA00-346 Engineering Change Process for the Chemical Stockpile Disposal Project (8/14/00)

AA00-360 Hazardous Materials Information System (8/30/00)

AA00-206 Contracts for Chemical Agent Resistant Coating (4/3/00)

Naval Audit Service

N2000-0021 Navy's Drinking Water Systems (5/26/00)

Air Force Audit Agency

00052013 Weapons Range Munitions Safety and Disposal (6/26/00)

99052004 Installation Support of the Environmental Restoration Program (9/13/00)

99052007 Environmental, Safety, and Occupational Health Reviews (4/19/00)

FINANCE AND ACCOUNTING

(Includes finance and accounting issues, including all issues relating to the Chief Financial Officers (CFO) Act.)

IG, DoD

D-2000-123 Disclosure of Differences in Deposits, Interagency Transfers, and Checks Issued in the FY 1999 DoD Agency-Wide Financial Statements (5/18/00)

D-2000-126 Evaluation of Boeing and Rockwell Corporation Pension Assets Transfer (FOR OFFICIAL USE ONLY) (5/19/00)

D-2000-128 Defense Health Program Financial Reporting of General Property, Plant, and Equipment (5/22/00)

D-2000-133 Defense Logistics Agency FY 1999 Property, Plant, and Equipment Financial Reporting (5/30/00)

D-2000-136 Reporting of Performance Measures in the DoD Agency-Wide Financial Statements (5/31/00)

D-2000-137 Accounting Entries and Data Processing for the FY 1999 Department of the Navy General Fund Financial Statements (6/1/00)

D-2000-138 Procedures Used to Test the Dollar Accuracy of Defense Logistics Agency Inventory (6/1/00)

D-2000-139 Controls Over the Integrated Accounts Payable System (6/5/00)

D-2000-140 Compilation of the FY 1999 Department of the Navy Working Capital Fund Financial Statements (6/7/00)

D-2000-141 Reporting of the FY 1999 Military Retirement Health Benefits Liability in DoD Financial Statements (6/9/00)

D-2000-143 Defense Finance and Account Service Denver Center's Accounting Entries Used in Compiling the FY 1999 Air Force General Fund Financial Statements (6/9/00)

D-2000-144 Compiling and Reporting FY 1999 Department of the Navy Working Capital Fund Intragovernmental Transactions (6/9/00)

D-2000-145 Management Controls Over National Drug Control Program Funds Managed Through the DoD Central Transfer Account (6/9/00)

D-2000-146 Compiling and Reporting FY 1999 Navy General Fund Intragovernmental Transactions (6/12/00)

D-2000-150 Management and Use of Director, Operational Test and Evaluation Funds (6/15/00)

D-2000-153 Compilation of the FY 1999 Financial Statements for Other Defense Organizations-General Funds (6/23/00)

D-2000-156 DoD Payroll Withholding Data for FY 1999 (6/29/00)

D2000-158 General PP&E Databases Supporting the NSA (CLASSIFIED) (6/29/00)

D-2000-159 U.S. Joint Forces Command Comptroller Division Operations (7/12/00)

D-2000-160 Compilation of the FY 1999 Army General Fund Financial Statements at the Defense Finance and Accounting Service Indianapolis Center (7/12/00)

D-2000-165 The Prior Period Adjustment to Remove National Defense Property, Plant, and Equipment From the General Fund Balance Sheet (7/21/00)

D-2000-166 Compilation of the FY 1999 Financial Statements for Air Force and Other Defense Organizations Working Capital Funds (7/21/00)

D-2000-168 Data Supporting the Environmental Liability Line Item on the FY 1999 DoD Financial Statements (7/27/00)

D-2000-172 Accuracy of the FY 1999 Additions, Deletions, and Modifications to the Military Departments' Real Property Databases (8/11/00)

D-2000-173 Compilation of the FY 1999 Army Working Capital Fund Financial Statements (8/15/00)

D-2000-176 Defense Enterprise Fund (15/00)

D-2000-177 Revaluation of Inventory for the FY 1999 Department of the Navy Working Capital Fund Financial Statements (8/18/00)

D-2000-179 Department-Level Accounting Entries for FY 1999 (8/18/00)

D-2000-181 Army FY 1999 Financial Reporting of Conventional Ammunition (8/31/00)

D-2000-182 Data Processing Control Issues for the FY 1999 Military Retirement Fund (FOR OFFICIAL USE ONLY) (8/31/00)

D-2000-183 Navy FY 1999 Financial Reporting of Operating Materials and Supplies – Ammunition (9/1/00)

D-2000-184 FY 1999 DoD Superfund Financial Transactions (8/31/00)

D-2000-194 Demographic Data Supporting the DoD Military Retirement Health Benefits Liability Estimate (9/29/00)

Army Audit Agency

AA00-222 Internal Controls Over Obligations, Disbursements, Orders Received, and Collections (4/25/00)

AA00-260 Internal Controls Over Obligations, Disbursements, Orders Received, and Collections (5/26/00)

AA00-270 Internal Controls Over Selected Revenue, Expense, and Equity Accounts (6/1/00)

AA00-281 Internal Controls Over Obligations, Disbursements, Orders Received, and Collections (6/6/00)

AA00-293 Selected Internal Controls and Compliance with Regulations Over Inventory-- Army Working Capital Fund (7/24/00)

AA00-307 Inventory and Financial Management (6/30/00)

AA00-313 Selected Liabilities-- Army Working Capital Fund FY 99 Financial Statements (6/23/00)

AA00-335 Compilation of Army Working Capital Fund FY 99--Statement of Financing (7/31/00)

AA00-348 Recommended Adjustments to the Army Working Capital Fund FY 99 Financial Statements (8/21/00)

AA00-200 Army's General Fund Principal Financial Statements for the Fiscal Year 1999--Financial Reporting of Army General Equipment (4/4/00)

AA00-201 Army's General Fund Principal Financial Statements for Fiscal Year 1999--Selected Controls for Wholesale Munitions (5/4/00)

AA00-213 Army's General Fund Principal Financial Statements for FY 1999--Management of Controls Over Army Corps of Engineers Military Construction in Progress (4/20/00)

AA00-220 Army's General Fund Principal Financial Statements for Fiscal Year 1999--Financial Reporting of Liabilities (4/21/00)

AA00-223 Army's General Fund Principal Financial Statements for Fiscal Year 1999--Financial Reporting of Budgetary Resources (4/28/00)

AA00-275 Army's General Fund Principal Financial Statements for Fiscal Year 1999--Updating Financial Information in Army Real Property Databases (6/9/00)

AA00-422 Conventional Ammunition Working Capital Fund Closeout--Financial Operations (9/29/00)

AA00-361 Internal Controls Over Selected Revenue, Expense, and Equity Accounts--Army Working Capital Fund FY 99 Financial Statements (9/11/00)

AA00-399 Compilation of Selected Army Working Capital Fund FY 99 Financial Statements (9/25/00)

AA00-417 Compilation of Army Working Capital Fund FY 99 Statement of Budgetary Resources (9/25/00)

AA00-418 Property, Plant and Equipment--Army Working Capital Fund FY 99 Financial Statements (9/29/00)

AA00-429 Internal Controls Over Obligations, Disbursements, Orders Received and Collections--Army Working Capital Fund (9/26/00)

AA00-393 Army National Guard Bonus Programs (9/8/00)

AA00-403 Army Working Capital Fund FY 99 Financial Statements--Inventory Controls (9/22/00)

Navy Audit Service

N2000-0022 Assessment of Marine Corps Financial Reporting (4/12/00)

N2000-0023 Department of the Navy Principal Statements for Fiscal Year 1999: Inventory and Related Property, Net (5/15/00)

N2000-0025 Department of the Navy Principal Statements for Fiscal Year 1999: Accrued Payroll and Benefits (5/31/00)

N2000-0030 Department of the Navy Principal Statements for Fiscal Year 1999: Accounts Receivable (7/21/00)

N2000-0031 Department of the Navy Principal Statements for Fiscal Year 1999: Accounts Payable Reporting Process (7/28/00)

N2000-0032 Fiscal Year 1999 Financial and Accounting Internal Controls at Defense Distribution Depot, Norfolk, VA and Fleet Industrial Supply Center, Norfolk, VA (8/7/00)

N2000-0033 Department of the Navy Principal Statements for Fiscal Year 1999: Reporting of Real Property (Buildings, Structures, and Facilities) (7/31/00)

N2000-0034 Department of the Navy Principal Statements for Fiscal Year 1999: Statement of Budgetary Resources (8/10/00)

N2000-0035 Allocation of Depot Maintenance Workload Between Public and Private Sectors (8/10/00)

N2000-0038 Department of the Navy Working Capital Fund Fiscal Year 1999 Real Property (8/28/00)

N2000-0043 Department of the Navy Required Supplementary Stewardship Information Report for Fiscal Year 1999: National Defense Property, Plant, and Equipment (9/25/00)

N2000-0045 Navy Working Capital Fund Financial Management Feeder Systems for Fiscal Year 1999 (9/29/00)

Air Force Audit Agency

00051017 Military Permissive Temporary Duty (7/19/00)

00053010 Military Pay, Fiscal Year 1999 (9/22/00)

00054001 Proportional Per Diem (7/31/00)

00054002 Memorandum Report, Controls Over Contingency Operation Funds (8/31/00)

00054005 Controls Over Cash (8/18/00)

00054009 Confidential Investigative Contingency Funds (9/14/00)

99051008 Most Efficient Organization Performance Reviews (6/21/00)

99053001 Accounting for Selected Assets and Liabilities - Fund Balance With Treasury, Fiscal Year 1999 (8/28/00)

99053003 Inventory and Related Property (9/20/00)

99053006 Accounting for Air Force Real Property, Fiscal Year 1999 (8/24/00)

99053007 Revenue and Other Financing Resources - Resources Provided, Fiscal Year 1999 (7/27/00)

99053008 Supplementary Stewardship Reporting, Fiscal Year 1999 (7/31/00)

99054013 Debt Recoupment - Individual (6/14/00)

99054034 Memorandum Report, Headquarters Air Reserve Command Aviation Fuels Centrally Managed Allotment (4/11/00)

99054038 General Fund Financial System Reviews (8/4/00)

99058011 Reimbursement of Expenses for Commercial Space Launch Support (6/9/00)

99066028 Controls Within the Acquisition and Due-In System (5/1/00)

99068002 Air Force Working Capital Fund Real Property (8/18/00)

99068003 Supply Management Activity Group Sales and Accounts Receivable, Fiscal Year 1999 (5/26/00)

99068018 Air Force Working Capital Fund Fiscal Year 1999 Collections and Disbursements (9/1/00)

HEALTH CARE

(Includes health care issues, such as military treatment facilities and CHAMPUS.)

IG, DoD

D-2000-191 Inventory Management of Navy Fleet Hospitals by the Fleet Hospital Support Office, Cheatham Annex, Virginia (9/22/00)

Army Audit Agency

AA00-345 Joint Support Agreement for Healthcare Services (8/14/00)

Air Force Audit Agency

00051013 Memorandum Report, Air National Guard Injury and Illness Compensation (7/20/00)

99051016 Air National Guard Hearing Conservation Program (6/5/00)

INFORMATION TECHNOLOGY RESOURCES

(Includes automated systems; information technology resources; and command, control and communications (C3) systems.)

IG, DoD

D-2000-116 Configuration Changes to Year 2000 Compliant Mission - Critical and Date-Dependent Systems (4/26/00)

D-2000-119 Fiscal Year 1999 Automated Document Conversion System Program (5/2/00)

D-2000-122 Information Assurance in the Advanced Logistics Program (5/12/00)

D-2000-125 Audit of the Reporting Requirements for Major Automated Information System Programs (5/17/00)

D-2000-142 Defense Information Systems Agency's Acquisition Management of the Global Combat Support System (6/9/00)

D-2000-151 Acquisition and Management of the Defense Joint Accounting System (6/16/00)

D-2000-162 Summary of Audits of Acquisition of Information Technology (7/13/00)

D-2000-190 Year 2000 Windowing Techniques (9/22/00)

Army Audit Agency

AA00-286 Information Assurance Phase IV: Reporting Process and Vulnerability Assessment Results (6/30/00)

AA00-287 Information Assurance Phase V: Reporting Process and Vulnerability Alert IAVA), Process (6/30/00)

AA00-306 Accountability of Computer and Related Technology Equipment (8/9/00)

AA00-336 Total Army Training System Courseware (TATS-C) Development (8/18/00)

AA00-402 Validation of the Automated Requirements Model--Reserve (9/28/00)

Naval Audit Service

N2000-0024 Y2K Lessons Learned (5/01/00)

Air Force Audit Agency

99058017 Base Network Control Center Operations (7/19/00)

99058023 Long Haul Communications Management (7/17/00)

99066017 Information Assurance - Implementing Controls Over Known Vulnerabilities in Air Force Space Command Computers (FOR OFFICIAL USE ONLY) (5/26/00)

99066018 Information Assurance - Implementing Controls Over Known Vulnerabilities in Pacific Air Forces Computer Systems (FOR OFFICIAL USE ONLY) (8/11/00)

99066024 Information Assurance - Implementing Controls Over Known Vulnerabilities in Air Force Reserve Command Computers (FOR OFFICIAL USE ONLY) (7/7/00)

99066064 Followup Audit, Application Controls Within the Defense Material Utilization and Disposition Program Management System (4/14/00)

INTELLIGENCE

See Classified Annex to this report.

LOGISTICS

(Includes issues relating to supply systems; transportation including fuels; and maintenance of weapon systems.)

IG, DoD

D-2000-113 Required Delivery Dates in Requisitions for Secondary Items of Supply Inventory (4/19/00)

D-2000-147 DoD Pilot Program for Shipment of Personal Property – Military Traffic Management Command Reengineering DoD Personal Property Program Pilot (6/12/00)

D-2000-171 Reacquisition of Surplus Materiel by the Defense Logistics Agency (8/9/00)

D-2000-185 Allegations to the Defense Hotline Concerning Management of Obsolete Repairable Items (9/7/00)

D-2000-193 Administration and Management of the Civil Air Patrol-Phase II (9/27/00)

Army Audit Agency

AA00-217 Velocity Management/Standard Army Retail Supply System-Objective Efficiency (4/10/00)

AA00-232 Embedded Training For the Global Combat Support System-Army (5/5/00)

AA00-266 Incorporating Legacy Engineering Change Proposal Requirements into the Global Combat Support System-Army (6/15/00)

AA00-268 Selected Aspects of U.S. Army Forces Command Materiel Management Center Operations (6/6/00)

AA00-112 Process for Determining Source of Depot Level Maintenance (4/24/00)

AA00-362 Depot Maintenance Workload Reporting FY 99 (8/31/00)

AA00-363 Depot Maintenance Workload Reporting FY 00 - FY 04 (9/11/00)

AA00-366 Use of Funds for Maintenance Contracts (9/7/00)

AA00-210 Contracts for Maintenance of Tactical Equipment in the Field (4/4/00)

AA00-368 Requirements for Nontactical Vehicles (9/1/00)

AA00-194 Equipment Purchased Through Contracts (4/28/00)

Naval Audit Service

N2000-0041 Depot Level Overhauls of Technical Training Equipment Used at Surface Training Activities (9/25/00)

N2000-0044 Quality Assurance Review of the Local Audit Function at Naval Submarine Base New London, Groton, CT (9/28/00)

N2000-0042 Readiness of the F-14 Tomcat Strike-Fighter Aircraft (CLASSIFIED) (9/25/00)

Air Force Audit Agency

00062004 Followup Audit, Financial Management of Aircraft Maintenance Contractor Logistics Support Operations (4/25/00)

99061003 Small Arms Management (9/25/00)

99062004 Selected Aspects of Technical Order Management (7/28/00)

99062011 Quality Deficiency Reporting (7/7/00)

99062013 Followup Audit, Embedded Software Maintenance and Modifications (5/30/00)

99062014 T-38 Avionics Upgrade Modification (7/14/00)

99058022 Integration of Space Assets Into Operations/Concept Plans and Force Exercises (8/18/00)

00062006 Prepositioned Aircraft Fuel Drop Tanks (7/24/00)

00062016 Followup Audit, Management of Aircraft Maintenance Training Within the Air Force Reserve (7/26/00)

QUALITY OF LIFE

Army Audit Agency

AA00-285 Interservice Support Costs and Reimbursements (6/12/00)

AA00-355 Quartermaster Laundry Service--Korea (8/23/00)

AA00-228 Improving the Profitability of Golf Course Operations (4/24/00)

AA00-272 Army Civilian Welfare Fund--Auditor's Report (6/2/00)

AA00-274 Healthcare for DA Civilians Stationed Overseas (6/2/00)

AA00-292 Billing and Accounting Practices (6/16/00)

AA00-211 Civilian Personnel Regionalization (4/11/00)

AA00-226 Civilian Personnel Regionalization (5/1/00)

AA00-267 Funding of Aviation Training (6/12/00)

Naval Audit Service

N2000-0026 Timely Administrative Separations of Enlisted Personnel Would Significantly Reduce Cost (6/07/00)

N2000-0029 Location of Navy Advanced Skills Training Courses (7/28/00)

Air Force Audit Agency

00051004 Followup Audit, Active Duty Service Commitments for Advanced Flying Training (8/21/00)

INTERNATIONAL SECURITY ISSUES

(Includes issues relating to foreign military sales, foreign military financing, international military education and training, technology transfers and international military cooperation.)

IG, DoD

D-2000-130 Foreign National Access to Automated Information Systems (5/26/00)

Army Audit Agency

AA00-304 Master Cooperative Agreements (6/28/00)

Air Force Audit Agency

00062003 Followup Audit, Foreign Military Sales Dedicated Training Program Costs (4/10/00)

OTHER

IG, DoD

D-2000-111 Security Clearance Investigative Priorities (4/5/00)

D-2000-134 Tracking Security Clearance Requests (5/30/00)

Air Force Audit Agency

99058019 Followup Audit, Status of Resources and Training System for Security Forces (4/19/00)

Naval Audit Service

N2000-0028 Audit Reporting (7/17/00)

AUDIT OVERSIGHT REVIEWS

IG, DoD

D-2000-6-004 Evaluation of the Defense Contract Audit Agency Audit Coverage of Tricare Contracts (4/17/00)

D-2000-6-005 Naval Audit Service Process for Determining Audit Requirements and Requesting Resources (4/17/00)

D-2000-6-006 Contractor Self-Governance Programs (4/25/00)

D-2000-6-007 Evaluation of Contractor Accounting and Estimating for Postretirement Benefit Costs and Related DoD Oversight (8/4/00)

D-2000-6-008 Quality Control Review of Pricewaterhouse Coopers, LLP, for OMB Circular A-133 Audit Report of Institute for Defense Analysis, Fiscal Year Ended September 25, 1998 (8/14/00)

D-2000-6-009 Performance of External Quality Control Reviews by Military Department Audit Agencies (9/20/00)

D-2000-6-010 External Quality Control Review of the Defense Contract Audit Agency (9/27/00)

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APPENDIX B*
INSPECTOR GENERAL, DoD, AUDIT REPORTS ISSUED CONTAINING
QUANTIFIABLE POTENTIAL MONETARY BENEFITS

Audit Reports Issued	Potential Monetary Benefits	
	Disallowed Costs¹	Funds Put to Better Use
D-2000-127 Program Management of the Materials and Processes Partnership for Pollution Prevention (5/22/00)	N/A	\$3,000,000
D-2000-151 Acquisition of the Defense Joint Accounting System (6/16/00)	N/A	287,900,000
D-2000-155 Recovery of Commissary and Nonappropriated Fund Real Property Investments at Defense Base Realignment and Closure Installations (6/23/00)	N/A	5,800,000
D-2000-164 Bulk Fuel Storage and Delivery Systems Infrastructure Requirements for Yakima Training Center, Washington (7/20/00)	N/A	3,800,000
D-2000-185 Allegations to the Defense Hotline Concerning Management of Obsolete Reparable Items (9/7/00)	N/A	6,800,000
D-2000-188 Contract Management for the National Defense Center for Environmental Excellence (9/14/00)	N/A	5,900,000
D-2000-191 Inventory Management of Navy Fleet Hospitals by the Fleet Hospital Support Office, Cheatham Annex, Virginia (9/22/00)	N/A	13,300,000
D-2000-192 Results of the Defense Logistics Agency Strategic Supplier Alliance for Catalog Items (9/26/00)	N/A	40,000,000
	0	\$366,500,000
*Fulfills the requirement of 5 U.S.C., Appendix 3, Section 5(a)(6)		
¹ There were no OIG audit reports during the period involving disallowed costs.		

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APPENDIX C*
FOLLOWUP ACTIVITIES

DECISION STATUS OF INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE¹ (\$ in thousands)		
Status	Number	Funds Put to Better Use
A. For which no management decision had been made by the beginning of the reporting period.	31	\$572,500
B. Which were issued during the reporting period.	85	366,500
Subtotals (A+B)	116	939,000
C. For which a management decision was made during the reporting period.	85	571,700
(i) dollar value of recommendations that were agreed to by management		
- based on proposed management action		156,000
- based on proposed legislative action		
(ii) dollar value of recommendations that were not agreed to by management		415,700
D. For which no management decision has been made by the end of the reporting period.	31	367,300
Reports for which no management decision was made within 6 months of issue (as of September 30, 2000). ²	8	13,500
<p>¹There were no OIG audit reports during the period involving questioned costs.</p> <p>² OIG Report No. 99-064, "Basis for Recent Policy Changes to the Drug Testing Rate for DoD Civilians," issued December 31, 1998; OIG Report No. D-2000-067, "Protection of the Joint Attack Munitions Against Radio Frequency Weapons," issued December 27, 1999; OIG Report No. D-2000-073, "Protection of the Sensor Fuzed Weapon Against Radio Frequency Weapons," issued February 2, 2000; and OIG Report No. D-2000-099, "Procurement of the Propeller Blade Heaters for the C-130 and P-3 Aircraft," issued March 8, 2000, had no management decisions made within 6 months of issuance and mediation was ongoing as of October 30, 2000. OIG Report No. D-2000-056, "DoD Electronic Mail Implementation Planning," was issued December 15, 1999, and decided October 10, 2000. OIG Report No. D-2000-097, "Accounting Procedures and Controls Over Financial Data Supporting Selected Other Defense Organizations," was issued March 9, 2000, and decided October 11, 2000. OIG Report No. 2000-065, "Costs Charged to Other Transactions," issued December 17, 1999, and OIG Report No. D-2000-070, "Evolved Expendable Launch Vehicle Program Other Transactions," issued December 30, 1999, were decided October 30, 2000.</p>		

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

STATUS OF ACTION ON CENTRAL INTERNAL AUDITS¹ (\$ in thousands)		
Status of Action	Number of Reports	Funds Put to Better Use
IG, DoD		
Action in Progress - Beginning of Period	286	\$7,810
Action Initiated - During Period	85	156,000
Action Completed - During Period	67	201,814
Action in Progress - End of Period ²	304	160,986
Military Departments		
Action in Progress - Beginning of Period	407	\$4,475,732
Action Initiated - During Period	142	898,047
Action Completed - During Period	120	467,079
Action in Progress - End of Period	429	4,811,741
¹ There were no audit reports during the period involving questioned costs. ² On certain reports (primarily from prior periods) with audit estimated monetary benefits of \$366 million, we agreed that the resulting monetary benefits can only be estimated after completion of management action, which is ongoing.		

APPENDIX D
CONTRACT AUDIT REPORTS ISSUED*
(\$ in millions)

Type of Audit	Reports Issued	Examined	Audit Exceptions	Funds Put to Better Use
Incurring Costs ¹	18,479	\$62,217.6	\$708.8	\$612.5
Forward Pricing Proposals	5,686	60,419.9	--	2,846.1
Cost Accounting Standards	1,799	353.7	335.0	--
Defective Pricing ²	630	--	16.0	--
Other ³	4	--	--	--
Totals	26,598	\$122,991.2	\$1,059.8	\$3,458.6

¹Incurring cost funds put to better use are from the cost avoidance recommended in economy and efficiency audits of contractor operations.

²Defective pricing dollars examined are not reported because they are considered a duplication of forward pricing dollars reported as examined.

³Relates to suspected irregular conduct cases.

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

Waivers of Advisory and Assistance Service Contracts

A review is made of each waiver of advisory and assistance services contracts granted by the Department. 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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