

# **Inspector General Department of Defense**

**Semiannual Report to the Congress**

**October 1, 2001 – March 31, 2002**



## *Mission Statement*

*The Department of Defense Inspector General promotes national security and integrity and credibility in Government by conducting objective and independent audits, investigations, evaluations, and other activities to prevent, detect, and help correct problems in DoD programs and to identify opportunities for improving efficiency and effectiveness.*



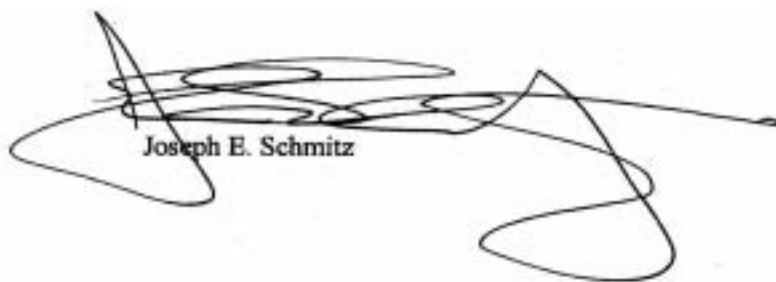
## FOREWORD

The Inspector General of the Department of Defense has both a traditional and a modern statutory mission. The former traces to General George Washington's Inspector General during the Revolutionary War, General Frederick Wilhelm Baron von Steuben, whose monument graces the Northwest corner of Lafayette Park, across from the White House. The latter is codified in the Inspector General Act of 1978, as amended.

Since the Revolutionary War, the military inspector general in America has served as "an extension of the eyes, ears, and conscience of the Commander." Consistent with this traditional mission, the Inspector General Act of 1978, as amended, requires that the Inspector General of the Department of Defense serve as "the principal adviser to the Secretary of Defense for matters relating to the prevention of fraud, waste, and abuse in the programs and operations of the Department." The Inspector General Act also requires that the Inspector General of the Department of Defense, like every other statutory inspector general, keep his agency head and the Congress "fully and currently informed . . . concerning fraud and other serious problems, abuses, and deficiencies relating to the administration of programs and operations administered or financed by" the Department of Defense. The 1982 amendments to the Inspector General Act impose upon the Office of the Inspector General of the Department of Defense a number of military-specific "additional duties," including a duty to "give particular regard to the activities of the internal audit, inspection, and investigative units of the military departments with a view towards avoiding duplication and insuring effective coordination and cooperation."

Chapter One reviews significant activities of the Office of the Inspector General during the reporting period, which have resulted in \$3.1 billion in potential monetary benefits from audits; \$863 million in investigative recoveries; and 349 felony convictions. Chapter Two focuses on one of the most publicized challenges facing the Department of Defense, the pervasive abuse of government charge cards. The classified annex to this report details intelligence review activities of the Office of Inspector General.

I hope that this report helps promote a culture of both accountability and intelligent risk-taking throughout the Department of Defense, so that the Department of Defense may better satisfy its constitutionally-based mission to "provide for the common defense" while also satisfying the requirement in Article I of the Constitution that "a regular Statement and Account of the Receipts and Expenditures of all public Money shall be published from time to time."



Joseph E. Schmitz

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## CHAPTER ONE - SIGNIFICANT ACTIVITIES

### INTRODUCTION

This chapter summarizes the significant activities of the Office of the Inspector General of the Department of Defense (OIG DoD) components and their work with other members of the DoD oversight and federal law enforcement communities.

### CRIMINAL INVESTIGATIONS

The four Defense Criminal Investigative Organizations (DCIOs) continue to combat crime affecting the DoD. The Defense Criminal Investigative Service (DCIS) focuses on procurement fraud, health care fraud, computer crimes, major thefts, and significant crimes impacting Defense Agencies. The U.S. Army Criminal Investigation Command, the Naval Criminal Investigative Service (NCIS), and the Air Force Office of Special Investigations (AFOSI) also investigate procurement fraud, but focus mostly on other crimes against persons and property within their respective Military Departments, as well as force protection. The AFOSI and NCIS also conduct counterintelligence investigations and operations.

Monetary recoveries and fines related to all criminal investigations throughout DoD totaled more than \$863 million. Figure 1 (page 2) displays other statistical results achieved by the four investigative organizations during the semiannual period. The following are examples of significant fraud cases.

#### Financial Crimes

Offenses considered to be financial crimes generally involve contract mischarging or defrauding DoD pay systems.

A major defense contractor in Indiana paid \$4 million in a civil settlement to resolve an issue that was brought forward to the DoD as a voluntary disclosure. The contractor discovered that a company it recently purchased failed to comply with federal statutory and regulatory requirements involving commission payments to sales representatives in connection with foreign military financed contracts. The prior company improperly included commission payments to numerous foreign agents in 30 contracts financed by the Defense Security Cooperation Agency between 1984 and 1996.

Two brothers, owners of a moving and storage company from the Bronx, New York, pled guilty to mail fraud in connection with a false billing scheme associated with moves made for the DoD and other customers. The scheme resulted in overcharging the DoD and the other customers approximately \$200,000. The moving company, a subcontractor to a major van lines company, created false weight scale invoices that inflated the actual load weights and resulted in increased payments. One of the brothers was sentenced to 5 years unsupervised probation, ordered to pay

## Judicial and Administrative Actions

As a Result of Investigations by All Four DCIOs  
(October 2001 – March 2002)

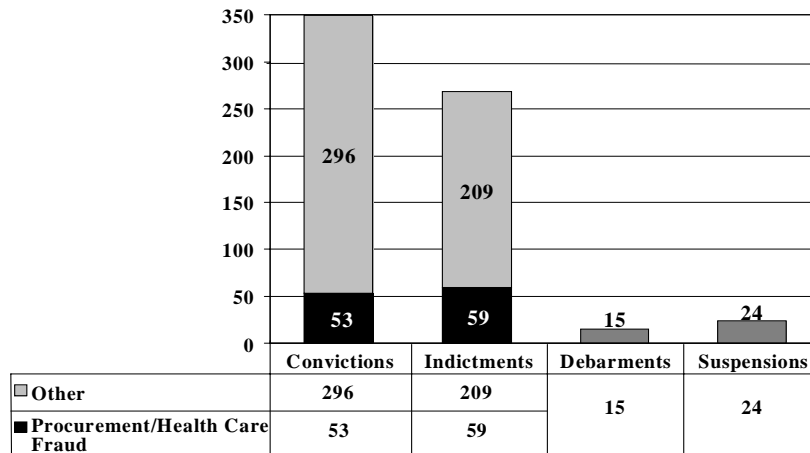


Figure 1

a \$100 special assessment, and restitution of \$18,550. The other is awaiting sentencing.

The president of a janitorial and maintenance services company pled guilty to impersonating a contracting officer, wire fraud, and mail fraud. While portraying herself as a contracting officer, the president awarded contracts to various companies to supply goods to the DoD on contracts that had actually been awarded to her firm. The DoD made payment to her while the companies providing the goods made separate requests for payment. The president defrauded the DoD and other companies in excess of \$364,000. She was sentenced to 18 months confinement, 36 months supervised release, and was ordered to pay a \$457,715 fine.

The caretaker for a military retiree pled guilty to embezzlement and conversion of public money associated with military retirement benefits deposited into an account held jointly with the military retiree. The account continued to accumulate military retirement payments after the retiree's death, and the caretaker withdrew funds for her own use. She was sentenced to 5 years probation, which included 6 months home detention and restitution of \$42,330.

An investigation based on information from the Air Force Center for Environmental Excellence (AFCEE), revealed that a company pressured analysts to falsify data concerning test equipment so AFCEE standards



would be met. The investigation revealed that the alleged falsification of laboratory results occurred over long periods of time and impacted several military installations. The company pled guilty in federal district court to conspiracy to defraud the United States and was fined \$9 million, sentenced to probation for 3 years and 6 months; and paid a \$400 special assessment fee. The company entered into a civil settlement with the Department of Justice for \$8.7 million. One company employee pled guilty to making fraudulent demands against the United States and was sentenced to 3 years probation. A second employee pled guilty to conspiracy to defraud the United States and was sentenced to 5 years probation and 180 days home confinement. Three additional employees pled guilty to making fraudulent demands against the United States and were sentenced to 2 years probation.

The owner of a travel service company was convicted on 11 counts of mail fraud and sentenced to 21 months in federal prison, 3 years probation, and was ordered to pay \$80,405 in restitution to the affected military service. The travel service was awarded a contract for unofficial travel services for two Florida military installations. The contract required that the company report and pay commissions to the government on all on-base leisure travel sales. Federal search warrants were executed at the company's three business locations, and computer hard drives and business documents were seized. Former and current employees confirmed that the owner instructed his on-base agents to neglect to report certain vacation cruise and tour packages to the base, resulting in the loss of commissions to the government.

An investigation arising from a DoD Hotline referral resulted in the conviction of three men on charges of conspiracy to defraud the U.S. Government, false statements, false claims, and obstruction of justice. A contractor program manager on an Air Force contract and a contractor consultant assisted the president of a corporation in fraudulently obtaining small disadvantaged business (SDB) status from the Small Business Administration. The SDB status enabled the corporation to receive contracts outside the usual competitive business process. Arrangements were made for the Air Force to purchase computer storage devices and memory units from the corporation. In turn, the president of the corporation would ensure the other two individuals received kickbacks for each storage device sold. The contractor program manager was ordered to pay \$3.2 million in restitution, sentenced to 5 years in prison with 2 years supervised probation, and assessed an additional \$2,400. The contractor consultant was ordered to pay \$2.8 million in restitution, sentenced to 20 months imprisonment with 2 years supervised probation, and assessed \$1,600. The president of the corporation was ordered to pay \$350,000 in restitution, sentenced to 3 years probation, and fined \$25,000. The corporation was sentenced to 2 years probation and ordered to pay restitution in

the amount of \$3.75 million. Administratively, the corporation, the program manager, and contractor consultant were suspended from contracting with the government, and the corporation has been proposed for debarment.

## **Medical Fraud**

Efforts to combat fraud against TRICARE and other government health care programs resulted in many successes during this 6-month period. The following sample cases were jointly investigated by multiple federal law enforcement agencies, and the recovered amounts will be apportioned among the agencies' programs that were victimized, including DoD.

A pharmaceutical products company was sentenced in December 2001 to 5 years probation and was ordered to pay \$290 million in criminal fines and a \$585 million civil settlement in connection with its fraudulent drug pricing and marketing conduct with regard to Lupron, a drug sold primarily for treatment of advanced prostate cancer. The settlement resolved allegations that the company set the average wholesale price of Lupron at a much higher level than the price for which wholesalers or distributors actually sold the drug, resulting in submission of falsely inflated claims for reimbursement. The settlement also resolved allegations of illegal incentives and free samples of Lupron provided to physicians in return for their exclusive use of the drug. The loss to TRICARE and other federal health care programs was \$145 million.

A civil settlement of \$16 million was reached between the U.S. Government and an integrated health care provider that operates hospitals, clinics, nursing homes, and other health care facilities in Minnesota. The settlement was a result of an investigation into allegations that the health care provider violated the False Claims Act by knowingly seeking reimbursement from government health care programs, including TRICARE, through improper billing, such as upcoding and double billing. The settlement also resolved three whistleblower lawsuits, which contained allegations that the health care provider knowingly retained overpayments after its own audit identified submission of erroneous claims.

A TRICARE provider was sentenced to 755 months imprisonment after being convicted of 4 counts of manslaughter, 5 counts of drug trafficking, and 1 count of racketeering in connection with the death of five patients who overdosed on drugs such as Oxycontin. The investigation disclosed that the provider issued more prescriptions for Oxycontin than any other Florida provider and was known to pharmacists for prescribing a potentially lethal mix of medicines they called "Graves Cocktail."

Healthwise Medical Rehabilitation Centers (Healthwise) of Chesapeake and Virginia Beach, Virginia and their owner were found guilty on 24 counts of false claims related to health care fraud. The owner was

sentenced to 30 months in prison, 3 years supervised probation, 500 hours of community service, and was ordered to pay a \$25,000 fine, \$87,379 in restitution, and a \$2,400 special assessment fee. Healthwise was sentenced to 3 years probation and ordered to pay a \$158,000 fine and a \$9,600 special assessment. Healthwise fraudulently billed for chiropractic services that were not covered under TRICARE by using provider identification numbers of medical doctors who were employed by Healthwise to perform initial exams on patients before receiving chiropractic services.

## **Product Substitution**

Counterfeit material and other forms of unauthorized substitution of products into DoD inventories are one of our highest priorities for deterrence, investigation, and prosecution.

An aircraft parts company and its president were found guilty of one count of mail fraud for substituting commercial o-rings for use in aircraft fuel systems and falsely representing that the parts met contractual requirements. On December 21, 2001, the president was sentenced to 30 months incarceration, 3 years supervised probation, and ordered to pay a \$100 special assessment. Both defendants were also ordered to pay restitution of \$421,606. The problem with o-rings was discovered on August 6, 1999, when a U.S. Air Force B-1B bomber declared an in-flight emergency. After its safe landing, the ground crew traced the jet fuel leak to the defective o-ring purchased from the company. The defective part caused over \$87,000 damage to the aircraft. Both the Federal Aviation Administration and the Government and Industry Data Exchange Program issued safety notices.

The vice president of another aircraft parts company in Florida was sentenced to 200 hours of community service, 3 years probation, and ordered to pay a \$3,000 fine, \$20,000 in restitution, and a \$100 special assessment for falsifying and concealing material facts concerning aircraft parts. The investigation disclosed that the company sold counterfeit or unapproved gas turbine engine thermocouple probes, which are used to control the temperature of C-130 aircraft engines.

Two former managers of a power supply company in California were sentenced each to 3 years probation, 4 months confinement in a community center, 4 months home detention, and ordered to pay a \$300 special assessments and a total restitution of \$199,134 for falsifying or not performing a contractually required test on power supplies provided to the DoD.

## **Environmental Crimes**

Investigations in this area address matters such as the removal, transport, and disposal of hazardous material from DoD installations or contractors.

A supplier of shopping carts to the Defense Commissary Agency pled guilty to two counts of violating the Federal Clean Water Act and was sentenced to 18 months probation, ordered to pay a \$200,000 fine for each count, and a \$250 special assessment. The company was also ordered to upgrade the pollution control equipment at its plant and to make charitable donations in the amount of \$10,000. The investigation disclosed that the company failed to properly operate and maintain its wastewater treatment system by allowing concentrations of chrome and nickel to exceed its permit limit.

### **Bribery and Kickbacks**

The Anti-Kickback Act of 1986 addresses government employees and contractors who engage in bribery and kickbacks in exchange for government contracts and subcontracts.

An individual formerly employed by the Federal Data Corporation (FDC) in Maryland received kickbacks in exchange for preferential treatment given to an FDC supplier relative to several DoD contracts. The individual, who was employed as FDC's director of naval programs, issued four purchase orders to Marshall Resources, Incorporated (MRI), Durham, North Carolina, totaling approximately \$241,500. In return for directing the business to MRI, the individual received \$72,350. He pled guilty to conspiracy to commit mail fraud and was sentenced to 10 months confinement, 2 years supervised release, and was ordered to pay \$72,350 in restitution, as well as a fine of \$3,000 and a special assessment of \$100.

A former buyer employed by Science Applications International Corporation (SAIC), a DoD contractor, and two former employees of AM-AR International (AM-AR) were convicted and sentenced for their roles in a complex kickback scheme. The scheme involved the issuance of several SAIC purchase orders to AM-AR International totaling more than \$6 million. The buyer received over \$107,000 in exchange for directing the business to AM-AR. In turn, AM-AR sold SAIC parts kits at grossly inflated prices totaling \$1.5 million more than the actual cost. The buyer subsequently laundered the proceeds of the scheme through offshore bank accounts. He was sentenced to 6 months home detention, 5 years supervised probation, and was ordered to pay restitution in the amount of \$107,384, as well as a special assessment of \$1,900. One former AM-AR employee was sentenced to 2 years supervised probation and was ordered to pay restitution of \$8,000 and a special assessment of \$100. The other former employee was sentenced to 12 months home detention, 5 years supervised probation, and was ordered to pay restitution in the amount of \$189,691, a \$2,000 fine, and a special assessment of \$3,000.

### **Theft**

Theft of DoD material and munitions from the supply system and at the base level has a direct effect on military operational readiness. Another

vulnerability is theft of funds and property using government charge cards, as discussed in Chapter Two.

On February 6, 2002, a former vice president of marketing for Boliden Metech in Rhode Island was sentenced to 21 months incarceration, followed by 3 years supervised release. He was ordered to pay a \$60,000 fine, as well as \$799,950 in restitution and a special assessment of \$100 for conspiracy to commit mail fraud. The former vice president participated in various schemes related to the theft of precious metals from Metech International, a DoD contractor, and its customers. The theft and diversion of these metals generated cash that was used to pay kickbacks to a DoD contractor employee in return for favorable settlements relative to the processing of precious scrap metal. The DoD contractor employee was sentenced to 5 years probation.

On November 5, 2001, a Petty Officer Second Class in the U.S. Navy, Atlantic Ordnance Command (AOC) Detachment, Naval Air Station Oceana, Virginia Beach, Virginia, was sentenced under the Uniform Code of Military Justice to 19 months confinement, reduction in grade to an E-1, forfeiture of all pay and allowances, and a bad conduct discharge. He and other members of the AOC Detachment engaged in the theft of government property from local Defense Reutilization and Marketing Offices (DRMOs). The Petty Officer and others signed for the property, including high performance marine engines and related items, under the guise of being reused by the command, when in fact, the property was stolen for personal use and resale in the local community. Approximately \$625,607 in stolen property has been recovered to date.

On November 6, 2001, an individual was sentenced to 21 months imprisonment, 3 years supervised release, and was ordered to pay restitution of \$36,655, as well as a \$100 special assessment in connection with his involvement in thefts of government property from the DRMO at Fort Jackson, South Carolina. The individual was formerly employed as the chief of the Tactical Special Equipment Repair Branch at Fort Jackson. The investigation resulted in the recovery of engines, torque converters, a transmission, a lathe, a surface grinder, a bulldozer, a front-end bucket loader, and a generator valued at more than \$200,000, much of which was stolen from Fort Jackson.

## **Computer Crimes**

Criminal activity in the cyber environment continues to grow with viruses, denial of service attacks, and hacker attacks being the most notorious computer crimes. Easy access to the Internet led to another type of computer crime – accessing child pornography using DoD computers. Such pornography is often discovered while examining DoD computers for evidence in other criminal matters or is detected and reported by network administrators.

A program analyst with the Department of the Army, Adelphi, Maryland, pled guilty to downloading child pornography to his government computer. The analyst was sentenced to 10 months incarceration, 3 years of supervised release, and ordered to pay a \$10,000 fine and a \$100 special assessment.

A GS-14 engineer with the U.S. Army Redstone Arsenal pled guilty to one count of transporting and shipping child pornography in interstate commerce by means of a computer. He was sentenced to 38 months incarceration, 2 years probation, and ordered to pay a \$100 special assessment.

An Electronic Crimes Task Force, New York, New York, discovered a credit card scheme. Several high ranking DoD officers' identification information was stolen via the Internet. One individual pled guilty to one count of use of an unauthorized access device and was sentenced to 3 years probation, 6 months of which shall be spent in home confinement, 200 hours of community service for each year of probation, and was ordered to pay \$15,825 in restitution and a \$100 special assessment.

## **Technology Transfer**

Technology transfer cases involve the illegal export or acquisition of sensitive DoD technologies, weapons systems, parts, and intellectual property.

An aviation parts company and its general manager were indicted on three counts of fraud and conspiracy. The company and the manager pled guilty to committing fraud and an export violation regarding suspected diversion of guidance missile and aircraft components. The company was ordered to pay a \$150,000 fine, serve 5 years probation, and pay a \$200 special assessment. The manager was sentenced to serve 6 months home-electronic detention, 3 years probation, and was ordered to pay a \$5,000 fine and a \$50 special assessment.

A retired Air Force colonel assigned to the National Reconnaissance Office (NRO) allegedly negotiated for employment with the Science Applications International Corporation (SAIC) while he was participating in NRO contracts with SAIC. In addition, he was alleged to have represented SAIC to the NRO on matters for which he was personally and substantially responsible while assigned to the NRO while in the Air Force. The retired colonel pled guilty to a one-count misdemeanor of conflict of interest and was fined \$1,000.

## **CRIMINAL INVESTIGATIVE POLICY AND OVERSIGHT**

The Office of Criminal Investigative Policy and Oversight (CIPO) issued one evaluation report during this period: *Evaluation of Military Criminal Investigative Organizations' Policies, Practices, and Procedures for Investigations Involving Child Sexual Abuse*, January 11, 2002.

The child sexual abuse report indicated that the rates of child sexual abuse in the military are significantly lower than in the United States generally, and DoD policy and training appear adequate to address the primary challenges unique to child sexual abuse investigations. The CIPO found that DoD increased its emphasis on child sexual abuse investigations in the last few years. The report made several recommendations concerning oversight and Service-specific issues, and management generally concurred with the report.

On October 10, 2001, the OIG DoD reported on the Department's policy concerning titling and indexing of individuals in the Defense Clearance and Investigations Index (DCII). This report culminated a CIPO project to assess compliance with DoD Instruction 5505.7, "Titling and Indexing of Subjects of Criminal Investigations in the Department of Defense." The CIPO recommended several changes to DCII procedures to ensure that all users are initially and periodically thereafter informed of the DCII's purpose as well as the limitations concerning the content and use of criminal investigative data contained in the DCII. The review of titling and indexing policy and procedures resulted in improvements that will enhance the effectiveness and fairness of this system and help prevent misuse. Formal coordination of the revised DoD Instruction has been accomplished.

On October 26, 2001, the Deputy Inspector General forwarded to the Deputy Secretary of Defense a report prepared by CIPO, *Department of Defense Process for Decision-Making in Cases of False Claims*. The report was in response to the Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001, which required the Department to provide a report to Congress describing the policies and procedures for DoD decision-making on issues arising under the Civil False Claims Act. The report describes how, specifically, the Military Departments and DoD Agencies pursue False Claims Act matters.

In addition to these reports, in conjunction with the Office of Intelligence Review, CIPO conducted an oversight review of the OIG, National Imagery and Mapping Agency (NIMA). During this review, CIPO assessed the management and effectiveness of the OIG NIMA investigative program. The CIPO made specific recommendations to enhance the organization, mission, policies, procedures, training, and staffing of this investigative program.

### **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 the Federal Acquisition Regulation. During this reporting period, the government recovered \$4.2 million from prior disclosures. Additionally, five new

disclosures were received in this reporting period. These disclosures are being reviewed.

## **ADMINISTRATIVE INVESTIGATIONS**

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

- Allegations of reprisal against military members, Defense contractor employees and nonappropriated fund 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 OIG DoD and the Military Department Inspectors General received 245 complaints of whistleblower reprisal. We closed 227 cases during this period. Of those, 156 were closed after preliminary analysis determined further investigation was not warranted, and 71 were closed after full investigation.

Of the 71 cases closed after full investigation, 12 (17 percent) contained one or more substantiated allegations of whistleblower reprisal. These cases were referred to commanders and supervisors for corrective action.

## **Examples of Substantiated Whistleblower Reprisal Cases**

An Army Reserve staff sergeant was removed from her work team, denied a Joint Service Commendation Award, given two letters of reprimand and an adverse noncommissioned officer evaluation report, and was separated from the Army Reserves in reprisal for reporting sexual harassment by her supervisor to her chain of command and an equal opportunity advisor, while deployed to Bosnia. Corrective action is pending.

An Army major attached to a Defense agency received an unfavorable officer evaluation report in reprisal for reporting to a Member of Congress and an IG that he was improperly investigated for forging a financial document. A responsible official received an oral admonishment. The major successfully petitioned the Army Board for Correction of Military Records to remove the evaluation report from his record.

A Navy lieutenant junior grade was threatened with a relief for cause and reassignment in reprisal for reporting to her chain of command that an order to disburse funds was illegal. Corrective action is pending.



Punishment was initiated under Article 15 of the Uniformed Code of Military Justice against an Air Force Reserve senior airman in reprisal for reporting to an IG and the Security Police a physical assault by a chief master sergeant. Corrective action is pending.

**Referrals for Mental Health Evaluations**

Eighteen cases closed during the reporting period contained allegations of improper referrals of military members for mental health evaluations. In 12 of those cases, it was substantiated that 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." We continue our efforts with Military Department inspectors general to improve commanders' knowledge of the Directive's requirements.

**Senior Official Inquiries**

Figures 2 and 3 (page 12) show results of activity on senior official cases during the period. On March 31, 2002, there were 195 ongoing investigations into senior official misconduct throughout the Department, which represented a moderate increase from October 1, 2001, when we reported 166 open investigations. Over the past 6 months, the Department closed 220 senior official cases, of which 36 (16 percent) contained substantiated allegations. The results of these cases were provided to cognizant management officials for consideration of corrective action.

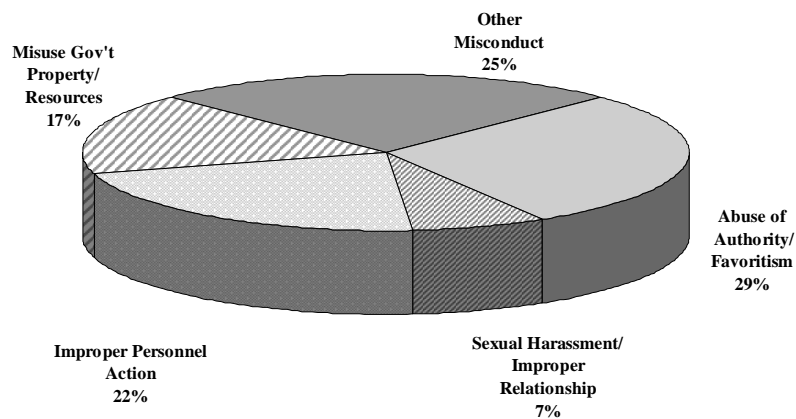
**Examples Of Cases Involving Senior Officials**

In a case that attracted significant media interest and an inquiry from a Member of Congress, we investigated numerous allegations of misconduct involving senior officials at a unified command. The allegations included harassment, fraternization, improper hiring, violation of security regulations, travel improprieties, and conducting a command physical fitness run in a manner that resulted in gender discrimination. Most of the allegations--including harassment, fraternization, improper hiring and gender discrimination--were not substantiated. However, we found that certain senior officials ignored DoD security regulations by obtaining the services of a non-citizen translator, failed to properly investigate a resultant security violation, failed to comply with DoD regulations pertaining to testimony in civil trials, and did not properly document justification for the use of premium-class air travel.

In another investigation, we substantiated allegations that senior DoD officials reprised against a Service member for making protected communications. The Service member was issued an unfavorable performance evaluation and his orders to a preferred duty assignment were cancelled after he alleged that his supervisor engaged in mismanagement.

In a third case, we concluded that a senior Defense agency official caused the Government to incur additional expense by unnecessarily extending

### Nature of Substantiated Allegations Against Senior Officials During 1st Half FY 02

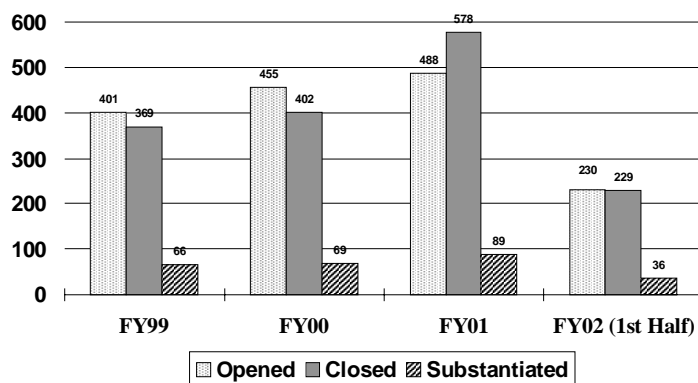


**Cases Closed: 229**

**Substantiated: 36**

Figure 2

### DoD Total Senior Official Cases FY 99 - FY 02 (1<sup>st</sup> Half)



This chart shows the total number of senior official investigations conducted in the DoD over the past 4 fiscal years.

Figure 3

her official travel. She also provided testimony during our investigation that was inconsistent with DoD guidelines concerning honesty.

## **AUDITING**

The central internal audit offices of the DoD are the OIG DoD, the Army Audit Agency, the Naval Audit Service, and the Air Force Audit Agency. These organizations all together issued 172 reports, identifying opportunities for \$3.1 billion in monetary benefits. Appendix A lists internal audit reports by major subject area. Appendices B and C list OIG DoD reports with potential monetary benefits and statistically summarize internal audit follow-up activity, respectively.

The Defense Contract Audit Agency (DCAA) provided financial advice to contracting officers in 17,352 reports issued during the period. Contract auditing resulted in approximately \$1,858.3 billion in savings and cost avoidance. Further details are at Appendix D.

## **Successful Innovation**

Obtaining spare parts at reasonable prices frequently has been difficult for the DoD because of unstable demand patterns, price gouging by suppliers, and inadequate market research by overworked DoD buyers. Over the past few years, the OIG DoD has worked closely with other DoD organizations, especially the Defense Logistics Agency (DLA), to develop more effective contracting approaches for sole source purchases. In March 2002, we reported the results of a particularly innovative initiative, the Strategic Supplier Alliance with Honeywell International, Incorporated.

Honeywell, a major supplier of aviation parts, and a cross-agency DoD team implemented a multi-year pricing arrangement based on separate contracts and pricing agreements for catalog, build-to-order, and replenishment spares. As of December 2001, over 1,000 parts had been priced using an innovative cost-based process that indicates a high level of mutual trust. The goal is to price another 1,500 to 2,000 parts over the next year using this method.

The new contracts provide better logistics support at lower cost. The DLA has been able to fill requisitions faster and reduce inventory in DoD warehouses. Prices will be reduced by \$59 million for the first 594 items on the alliance contracts over a 12-year period, and administrative costs will be cut for both DoD and Honeywell.

## **Significant Open Recommendations**

Managers accepted or proposed acceptable alternatives for 759 (97 percent) of the 782 OIG DoD audit recommendations made during fiscal year 2001, and similarly high levels of agreement are expected for fiscal year 2002. Many recommendations require complex and time-consuming actions, but managers are expected to make reasonable efforts to comply with agreed-upon implementation schedules. Although most of the 1,522 open actions being tracked in the OIG DoD follow-up system are on

schedule, some delays occur, generally because of unforeseen complications, such as resource reductions or difficulty in coordinating new guidance before it can be issued. Significant open recommendations whose implementation has slipped include the following:

- Recommendations made in 1996 for the Defense Finance and Accounting Service to reduce the backlog of contract fiscal records needing reconciliation and correction. Although the backlog of unreconciled contracts has dropped from 15,000 to 8,000, recently the backlog has been fluctuating instead of moving consistently downward. Unreconciled contracts increase the risk of accounting errors and erroneous payments.
- Recommendations made in 1997 and 2000 to improve policy guidance on handling potentially dangerous munitions residue on training and test ranges. The applicable policy documents are still in draft.
- Recommendations made in 1998 to improve management of the electromagnetic frequency spectrum are partially accomplished, but further action is awaiting the results of a study.
- Recommendations made in 2000 to improve controls over the release of technical information ("deemed exports") to foreign governments and individuals.
- A recommendation made in 2000 to establish centers of excellence for contracting for services.
- A recommendation made in 2001 for closer monitoring of the accuracy of input to the Defense Contract Action Data System, which is crucial for analyzing DoD contracting operations.

## **OIG DOD TESTIMONY**

During this reporting period, the OIG DoD was without a Senate-confirmed Inspector General.

The Deputy Inspector General testified on February 7, 2002, before the Subcommittee on National Security, Veterans Affairs and International Relations, House Committee on Government Reform, on the Standard Procurement System (SPS). The SPS is a replacement for various non-standard systems used to perform most facets of contracting and contract administration. Currently it has over 28,000 users. Unfortunately, an OIG DoD survey of user satisfaction showed widespread disappointment with the new system. The Deputy Inspector General testified that the Depart-

ment needed to reconsider the advisability of expanding SPS into weapon system procurement and inventory control point contracting.

On March 6, 2002, the Deputy Inspector General provided written testimony on Defense financial management to the Subcommittee on Readiness and Management Support, Senate Armed Services Committee. The Deputy Inspector General summarized recent financial audit results and strongly endorsed the new DoD initiatives.

On March 12, 2002, the Deputy Inspector General submitted a written statement for the record of a hearing by the Subcommittee on Technology and Procurement Policy, House Committee on Government Reform, on the Services Acquisition Reform Act of 2002. The statement acknowledged that contracting for services had received insufficient emphasis in government acquisition reform efforts, but questioned the need for legislation because audits indicated that the problems in this area were caused chiefly by staffing shortages and inadequate training.

The Deputy Inspector General testified on Defense financial management on March 20, 2002, before the Subcommittee on Government Efficiency, Financial Management and Intergovernmental Relations. This testimony was similar to the March 6, 2002, statement, except that the Deputy Inspector General provided additional information on successful criminal investigations of charge card abuse, a topic of particular interest to the Subcommittee. He stressed that it was perilous to abuse the public's trust by misusing government charge cards because criminal sanctions frequently result.

## **INTELLIGENCE REVIEW**

See the Classified Annex to this report for intelligence review activities during the period, as well as summaries of classified reports on other matters.

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## CHAPTER TWO - CHARGE CARD ABUSE

### INTRODUCTION

This chapter focuses on the risk of fraud and other abuse in the DoD charge card programs. These programs are a key component of acquisition improvement because they greatly reduce the administrative burden on contracting and finance offices, speed up purchasing, and reduce paperwork. The challenges to DoD are to maintain sound management controls that are not overly burdensome and to enforce the accountability of cardholders.

The DoD uses charge cards for a multitude of small purchases. About 94 percent of DoD dollars for buying goods and services was placed on contracts or similar instruments in fiscal year 2001. The 6 percent placed on credit cards was spread over 37 million transactions, an average of 117,000 transactions daily. Each of the four DoD charge card programs is discussed below.

### PURCHASE CARDS

The DoD Purchase Card Program is used for purchasing supplies and services. Examples are tools, training, computer equipment, office supplies, landscape services, and construction materials. About 232,000 cards were issued as of early 2002. During fiscal year 2001, there were 10.9 million DoD purchase card transactions worth \$6.1 billion.

Executive Order 12931, Federal Procurement Reform, October 13, 1994, mandated the increased use of purchase cards by government agencies. DoD use gradually expanded during the 1990's. Between 1996 and late 2001, DoD internal auditors issued 382 reports on purchase card program implementation, with by far the heaviest coverage provided by the Air Force Audit Agency. In December 2001, the OIG DoD issued a summary of those reports, which indicated a widespread lack of training, poor management oversight, and some misuse of cards. Numerous recommendations were made, mostly at base or installation level.

In March 2002, the OIG DoD reported the results of a comprehensive audit that used data mining techniques to identify questionable transactions from purchase card bank records. The audit indicated problems in selecting officials to review the cardholders' transactions, assigning spending ceilings, enforcing contract provisions for the blocking of certain transactions by the banks, identifying purchases made from closed accounts, limiting the number of cards issued, and avoiding abuse of convenience checks. For example:

- At an Air Force wing with an annual budget of \$130 million, the cardholders had a combined spending limit of \$6.6 billion;
- The banks with the purchase card contracts had not blocked \$4 million in transactions with unauthorized merchant codes like escort services, bail bondsmen, and jewelry stores; however, further analysis showed the codes were wrong and nearly all of those transactions were appropriate; and
- 390 purchases were made from closed accounts in one month.

Since 1999, the DCIS has investigated 17 cases involving misuse of purchase cards. Those cases resulted in 16 convictions and over \$953,000 in court ordered restitution. Another 17 cases are ongoing. Successful investigations by the Military Criminal Investigative Organizations also have shown that abusers of DoD purchase cards run high risk.

### Case Examples

A GS-14 manager at the Defense Automated Printing Service (DAPS), New Orleans, Louisiana, established Diversified Automated Printing Service (Diversified), a private company. Using Diversified, the DAPS employee fraudulently charged over \$300,000 on his purchase card. He also enlisted other companies in the New Orleans area to make fraudulent charges to the DoD purchase card. At his direction, these companies issued checks to Diversified. In return, he allowed the companies to make fraudulent charges to the DAPS card for the amount of the check, plus a fee, defrauding the DoD of more than \$100,000. Likewise, in his official capacity he received checks from the charge card bank for reimbursement of excessive interest and penalties paid on purchase card charges made by DAPS. These checks, payable to "DAPS," were diverted into the Diversified account, which had the same four-letter abbreviation, defrauding the DoD of more than \$53,000.

A proactive project generated two cases in the Washington, D.C., area. To date, 10 individuals, including 7 who were either military members or DoD civilian employees, have been convicted. The schemes involved four companies that were actually or ostensibly in the business of supplying office products to the DoD. The schemes involved DoD personnel funneling business to specific small office supply companies that inflated the price of the products bought by their accomplices with DoD charge cards. These companies provided kickback payments to the DoD personnel. In some cases DoD personnel also set up their own businesses, acted as "silent partners," and shared in the profit resulting from fraudulent or inflated-cost transactions using the card. To date, DoD fraud losses



exceeding \$910,000 have been identified. These investigations and 15 others are ongoing.

A Navy civilian employee was convicted of theft of government property and sentenced to 3 years probation, 4 months of home confinement, and ordered to pay a \$1,000 fine. An anonymous tip and subsequent command audit of purchases made with his card revealed an abnormally large amount of questionable purchases. The employee admitted to stealing a large part of the equipment and supplies he purchased using his DoD charge card. The dollar loss to the Government totaled \$20,000.

A Navy military member received 18 months confinement, forfeiture of all pay and allowances, reduction in rank, a \$5,000 fine, and a bad conduct discharge, after being convicted at a general court-martial of larceny, wrongful appropriation, and possession of controlled substances. The Service member used a DoD charge card to buy computer equipment for his personal use. The member admitted that the computers were subsequently sold to pay for illegal drugs and to pay off debts.

A Navy military member used his card to purchase \$138,000 worth of merchandise that was neither delivered to nor used by his command. He used the equipment himself or sold it. The member pled guilty to absence without leave and failure to obey order or regulation, and was sentenced to 36 months confinement, reduced to 24 months in exchange for a guilty plea, reduction in rank, and a bad conduct discharge.

A Navy enlisted person used his card to make purchases for personal use. Two additional Navy members assigned to the same command admitted to having knowledge of a scheme in which false documents were routinely submitted through the supply system, resulting in the purchase of power tools and other equipment for resale. At a general court-martial, the cardholder was convicted of conspiracy, wrongful disposal of military property, and given a bad conduct discharge. The second member was convicted at a special court-martial of impeding an investigation by receiving or delivering stolen military property and conspiracy, and received 30 days confinement, reduction in rank, and restriction to base for 60 days. The third member was convicted at a special court-martial of wrongfully receiving military property and impeding an investigation, and received 45 days confinement, reduction in rank, and a bad conduct discharge.

An Air Force noncommissioned officer was convicted of wrongful appropriation of government property and larceny at a general court-

marital. She received 4 months confinement, forfeiture of \$4,000, and reduction of rank by three grades. The sergeant received gift certificates from a local vendor after returning items purchased with a purchase card. She subsequently used the certificates for herself. The sergeant also purchased items to be used in a dormitory at the base and had them installed instead in her home.

## **TRAVEL CARDS**

The DoD Travel Card Program is used for transportation, lodging, and other travel expenses for DoD civilian and military personnel. About 1.4 million cards are in circulation. During fiscal year 2001, there were 26 million travel card transactions costing \$3.4 billion.

In March 2002, the OIG DoD issued a summary report on travel card program coverage by DoD auditors. From fiscal year 1999 through 2001, there were 31 applicable reports. The Air Force Audit Agency issued 27 reports, the Army Internal Review Office issued 2 reports, and the OIG Defense Intelligence Agency issued 2 reports. All of the reports addressed one or more of the following systemic issues:

- Management Oversight (27 reports);
- Card Use (23 reports);
- Account Reconciliation (16 reports); and
- Training (16 reports).

In general, the purchase card and travel card programs pose similar challenges because of the huge numbers of cardholders and transactions. Travel cards are somewhat easier to monitor because their use is limited to a much more narrow range of goods and services than purchase cards, and generally there is clear documentation of what travel was authorized.

## **AIR CARD PROGRAM**

The DoD Air Card Program facilitates purchases of fuel and other support for military aircraft at civilian airports. About 20,000 cards were used to make 210,000 transactions worth \$211 million during fiscal year 2001.

Fraud was detected in this program several years ago, and its current vulnerability is being assessed by an ongoing OIG DoD audit.

## **FLEET CARD PROGRAM**

The Fleet Card Program is the smallest of the DoD charge card programs. Its purpose is to purchase fuel and other support for government fleet

**RECENT  
MANAGEMENT  
ACTIONS**

vehicles. Fleet card purchases were about \$15 million in fiscal year 2001. The OIG DoD plans to audit this program within the next 2 years.

On June 14, 2001, the Under Secretary of Defense (Comptroller) issued a memorandum, "Implementation of Changes to the Department of Defense (DoD) Travel Card Policies to Reduce Delinquency Rates," to address travel card delinquency. The memorandum stated that the Defense Finance and Accounting Service and the travel card contractor signed a task order modification on April 11, 2001, to address the delinquency problem. The task order implemented new policies that encourage DoD members to pay account bills in a timely manner and reduce the financial risk to the travel card contractor.

On August 14, 2001, the Director, Defense Procurement, requested that the Inspector General of the DoD, provide central coordination of future purchase card audits. In response, the Inspector General of the DoD established a new audit planning subgroup on credit cards to provide centralized oversight of audit coverage.

On September 21, 2001, the Under Secretary of Defense (Comptroller) issued the memorandum, "Management of the Department of Defense Travel Card," to provide new procedures and to remind travel cardholders of existing procedures to reduce delinquent accounts and card misuse. The memorandum acknowledged congressional and media criticism of poor travel card controls and stated that the levels of unpaid debt and unauthorized travel card use were unacceptable.

On November 6, 2001, the Under Secretary of Defense (Comptroller) informally issued a set of financial management metrics for evaluation. Travel card delinquency metrics are part of the financial management metrics. These metrics currently are being refined.

In December 2001, the Defense Finance and Accounting Service, Defense Manpower Data Center, and OIG DoD agreed to develop a prototype analytical program, using data mining technology to identify purchase card transactions having an increased probability of fraud or abuse. Subsequently, this joint project has expanded to include the Army, Navy, and Air Force audit and criminal investigative organizations.

On March 12, 2002, the Under Secretaries of Defense (Comptroller) and (Acquisition, Technology, and Logistics) issued a joint memorandum about the need for improved internal controls over the use of purchase cards to preclude fraud, waste, and abuse. A working group, which

includes OIG DoD advisors, was established to recommend improved policies, procedures, and controls, and to lead efforts to inform cardholders and their supervisors of their responsibilities. This group will also facilitate implementation of the numerous DoD audit and General Accounting Office recommendations on how to improve these programs.

## **SUMMARY**

The DoD is well aware of the need to improve management controls to reduce risk in its charge card programs. The weak state of those controls left numerous opportunities for fraud and other abuse. The fact that misuse of the cards was not rampant is a tribute to the honesty of the vast majority of cardholders. Implementing more meaningful controls will be challenging because of the huge volume of transactions made with charge cards; however, vulnerabilities can be greatly reduced if sufficient management emphasis is applied. We plan to continue audit and investigative coverage in this area to assist in identifying vulnerabilities and needed improvements.

## APPENDIX A\*

### REPORTS ISSUED BY CENTRAL DOD INTERNAL AUDIT ORGANIZATIONS

Excludes base level reports issued by the Air Force Audit Agency and memorandum reports and consulting reports issued by the Army Audit Agency. Includes evaluation reports issued by the OIG DoD.

For copies of reports that are not classified or otherwise sensitive from a national security or legal standpoint, contact:

OIG DoD  
(703) 604-8937  
www.dodig.osd.mil

Army Audit Agency  
(703) 681-9863

Naval Audit Service

Air Force Audit Agency

### Summary of Number of Reports by Issue Area October 1, 2001- March 31, 2002

	OIG DoD	Military Depts.	Total
Readiness	2	6	8
Information Technology Management	7	6	13
Information Security	7	1	8
Other Security Concerns	1	2	3
Acquisition	20	14	34
Financial Management	19	33	52
Health Care	3	3	6
Logistics	8	17	25
Infrastructure and Environment	5	10	15
Human Capital	-	8	8
<b>Total**</b>	<b>72</b>	<b>100</b>	<b>172</b>
The OIG DoD also issued 3 reports and the Military Department audit agencies issued 6 reports on audit oversight reviews. For further information on intelligence-related reports, including those issued by other Defense agencies, refer to the classified annex to this report.			

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

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## READINESS

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### IG, DoD

**D-2002-006** Management of Chemical and Biological Defense Resources in the National Guard and Reserves (CLASSIFIED) (10/16/01)

**D-2002-052** Meteorological and Oceanographic Support From Continental United States-Based Support Centers (2/19/02)

### Naval Audit Service

**N2002-0008** Navy F/A-18 Readiness Reporting (11/15/01)

**N2002-0011** Marine Corps Infantry/Armor Readiness Reporting (11/21/01)

**N2002-0020** Institutional Training Readiness Reporting (12/21/01)

**N2002-0030** Installation Readiness Reporting (2/20/02)

**N2002-0031** Assault Craft Unit Operational Readiness (2/25/02)

### Air Force Audit Agency

**F2002-0002-B05800** Air National Guard Command Posts (1/17/02)

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## INFORMATION TECHNOLOGY MANAGEMENT

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### IG, DoD

**D-2002-005** Management of the Joint Simulation System (10/12/01)

**D-2002-014** Development of the Defense Finance and Accounting Service Corporate Database and Other Financial Management Systems (11/7/01)

**D-2002-018** Development and Implementation of Wide Area Workflow-Receipts and Acceptance (11/28/01)

**D-2002-039** Automation of the DoD Export License Application Review (1/15/02)

**D-2002-044** DoD Financial and Feeder Systems Compliance Process (1/29/02)

**D-2002-046** Acquisition Management of the Defense Counterintelligence Information System (2/6/02)

**D-2002-062** Air Force Web Site Administration, Policies, and Practices (3/13/02)

### Naval Audit Service

**N2002-0013** Auditor General Advisory on the Navy Marine Corps Intranet Assist (11/30/01)

**N2002-0024** Department of the Navy Implementation of Enterprise Resource Planning Solutions (1/25/02)

**N2002-0034** Department of the Navy Publicly Accessible Web Sites (3/1/02)

**N2002-0036** Marine Corps Implementation of the Defense Property Accountability System (3/13/02)

### Air Force Audit Agency

**F2002-0003-B05800** Satellite Operations and Training (2/27/02)

**F2002-0004-B05800** System Telecommunication Engineering Management (2/27/02)

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## INFORMATION SECURITY

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### IG, DoD

**D-2002-008** Controls Over the Computerized Accounts Payable System at Defense Finance and Accounting Service Kansas City (10/19/01)

**D-2002-015** Summary of Security Control Audits of DoD Finance and Accounting Systems (11/7/01)

**D-2002-030** Implementation of DoD Public Key Infrastructure Policy and Procedures (12/28/01)

**D-2002-037** Data Processing Control Issues for the FY 2000 Military Retirement Fund (FOR OFFICIAL USE ONLY) (1/14/02)

**D-2002-056** Controls Over Vendor Payments Made for the Army and Defense Agencies Using the Computerized Accounts Payable System (3/6/02)

**D-2002-067** Security Controls Over the Defense Finance and Accounting Service Corporate Database (FOR OFFICIAL USE ONLY) (3/20/02)

**D-2002-072** Information Assurance Controls for the Source Data Collection System Used for Purchased Care Data (3/26/02)

**Air Force Audit Agency**

**F2002-0001-C06600** Security Controls Over Air Force Medical Treatment Facility Systems (FOR OFFICIAL USE ONLY) (3/22/02)

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**OTHER SECURITY CONCERNS**


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**IG, DoD**

**D-2002-074** Interagency Review of Federal Automated Export Licensing Systems (3/29/02)

**Army Audit Agency**

**A-2002-0001-AMI** Technology Transfers of Classified and Sensitive Information (10/9/01)

**A-2002-0234-AMI** Technology Transfers of Classified and Sensitive Information (02/25/02)

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**ACQUISITION**


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**IG, DoD**

**D-2002-001** Audit of the Titan Program Contracts (FOR OFFICIAL USE ONLY) (10/2/01)

**D-2002-011** Acquisition of the Wide Area Munition (10/24/01)

**D-2002-012** Acquisition of the Firefinder (AN/TPQ-47) Radar (10/31/01)

**D-2002-021** Maintenance and Repair Type Contracts Awarded by the U.S. Army Corps of Engineers Europe (12/5/01)

**D-2002-022** Contract Closeout at the National Security Agency (CLASSIFIED) (12/6/01)

**D-2002-023** Independent Review of the Administrative Appeal Authority Adjustments for Transition Costs to the Military Retired and Annuitant Pay Functions Cost Comparison Study (12/11/01)

**D-2002-026** Acquisition of the Vertical Take-Off and Landing Tactical Unmanned Aerial Vehicle (12/14/01)

**D-2002-029** Summary of DoD Purchase Card Program Audit Coverage (12/27/01)

**D-2002-032** Audit of Major Defense Acquisition Programs Cycle Time (12/28/01)

**D-2002-035** Protection of Strategic Systems Against Radio Frequency Threats (CLASSIFIED) (1/4/02)

**D-2002-036** Acquisition of the Naval Fires Control System (1/8/02)

**D-2002-043** Defense Reutilization And Marketing Service Public/Private Competition (1/25/02)

**D-2002-053** The National Security Agency Contract Management System (CLASSIFIED) (2/19/02)

**D-2002-054** Reporting of Cost Growth of Major Defense Acquisition Programs (2/26/02)

**D-2002-058** Defining Overarching Requirements for the Joint Service Lightweight Standoff Chemical Agent Detector and Other Chemical Detectors (3/11/02)

**D-2002-059** Results of the Defense Logistics Agency Strategic Supplier Alliance With Honeywell International, Incorporated (3/13/02)

**D-2002-061** Pilot Program to Treat Procurements of Certain Commercial Services as Commercial Items (3/13/02)

**D-2002-065** Summary of DoD Travel Card Program Audit Coverage (3/18/02)

**D-2002-066** Buy American Act Issues on Procurements of Military Clothing (3/20/02)

**D-2002-075** Controls Over the DoD Purchase Card Program (3/29/02)

**Army Audit Agency**

**A-2002-0004-AMA** Contract Administration at Army Ammunition Plants (11/5/01)

**A-2002-0052-AMA** Rechargeable Batteries for Communications and Electronic Systems (11/9/01)

**A-2002-0067-IME** Support for Nonmedical Chemical and Biological Defensive Equipment (11/9/01)

**A-2002-0066-AMA** Administering Service Contracts (11/20/01)

**A-2002-0114-AMA** Weapon System Requirements--Thermal Sight (1/23/02)

**A-2002-0115-AMA** Weapon System Requirements--Gimbal Assembly (1/23/02)

**Naval Audit Service**

**N2002-0012** Non-Acquisition Programs (11/23/01)

**N2002-0014** Effectiveness of System and Equipment Warranties at Selected Department of the Navy Activities (12/4/01)

**N2002-0015** Contracting and Related Functions at Naval Security Group Activity, Sugar Grove, WV (12/13/01)

**N2002-0023** Management of the Purchase Card Program at Public Works Center, San Diego, CA (1/10/02)

**N2002-0032** Management of Purchase Cards at Naval Support Activity Washington (2/25/02)

### **Air Force Audit Agency**

**F2002-0001-C06400** C-17 Integrated Product Team Participation, Phase III (12/7/01)

**F2002-0004-B05100** Most Efficient Organization Performance Reviews (12/27/01)

**F2002-0002-C06400** C-17 Integrated Product Team Participation, Phase IV (2/6/02)

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## **FINANCIAL MANAGEMENT**

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### **IG, DoD**

**D-2002-002** Reporting the Cost of Military Personnel Assigned to Defense Agencies (10/2/01)

**D-2002-007** Promptness of FY 2002 First Quarter DoD Payments to the U.S. Treasury for District of Columbia Water and Sewer Services (10/15/01)

**D-2002-009** Valuation of Inventories in the Defense Logistics Agency Standard Automated Materiel Management System (10/22/01)

**D-2002-017** Advanced Sensor Applications Program Joint Project (11/23/01)

**D-2002-019** Checks Issued Differences for Deactivated Disbursing Stations (11/28/01)

**D-2002-027** Closing Overage Contracts Prior to Fielding a New DoD Contractor Payment System (12/19/01)

**D-2002-031** Air Force Military Equipment Reporting During FY 2000 (FOR OFFICIAL USE ONLY) (12/28/01)

**D-2002-033** Management Costs Associated With the Defense Enterprise Fund (12/31/01)

**D-2002-038** Financial Reporting for the Other Defense Organizations-General Funds at the Defense Finance and Accounting Service San Antonio (1/14/02)

**D-2002-040** Promptness of FY 2002 Second Quarter DoD Payments to the U.S. Treasury for District of Columbia Water and Sewer Services (1/15/02)

**D-2002-041** Financial Reporting for the Defense Logistics Agency-General Funds at Defense Finance and Accounting Service Columbus (1/18/02)

**D-2002-042** U.S. Special Operations Command Military Equipment Reporting During FY 2000 (FOR OFFICIAL USE ONLY) (1/22/02)

**D-2002-045** Abnormal Inventory Balances for the Navy Working Capital Fund (1/30/02)

**D-2002-050** Army Military Equipment Reporting During FY 2000 (FOR OFFICIAL USE ONLY) (2/15/02)

**D-2002-055** Independent Auditor's Report on the DoD FY 2001 Agency-Wide Financial Statements (2/26/02)

**D-2002-070** DoD Payroll Withholding Data for FY 2000 (3/25/02)

**D-2002-071** DoD Management of the North Atlantic Treaty Organization Security Investment Program (3/26/02)

**D-2002-073** Ending Balance Adjustments to General Ledger Data for the Army General Fund (3/27/02)

**D-2002-076** Funding Invoices to Expedite the Closure of Contracts Before Transitioning to a New DoD Payment System (3/29/02)

### **Army Audit Agency**

**A-2002-0040-IMH** Financial Controls--Golf Course Operations (11/1/01)

**A-2002-0041-IMH** Morale Welfare and Recreation Activities--Financial Controls (11/1/01)

**A-2002-0053-AMA** Funding for Command and Control Systems (11/8/01)

**A-2002-0068-AMW** Inventory and Related Property Net (11/19/01)



**A-2002-0080-AMW** Accounts Receivable and Other Assets--Supply Management Army Wholesale Division--Army Working Capital Fund (11/26/01)

**A-2002-0007-FFG** Army's General Fund Principal Financial Statements for Fiscal Year 2000--Financial Reporting of Civilian Accrued Annual Leave (11/28/01)

**A-2002-0096-AMW** Accounts Receivable Bills--Supply Management Army Wholesale Division--Army Working Capital Fund (12/19/01)

**A-2002-0122-AMW** Worker's Compensation--Army Working Capital Fund (1/24/02)

**A-2002-0103-AMW** Worker's Compensation (1/28/02)

**A-2002-0246-FFC** Fiscal Year 2001 Financial Statements (2/8/02)

**A-2002-0260-AML** Causes for Financial Discrepancies (3/29/02)

### Naval Audit Service

**N2002-0004** Fiscal Year 2000 Reporting and Visibility of Air Launched Decoys (10/25/01)

**N2002-0010** Naval Audit Service Opinion on Proposed Fiscal Year 2001 Annual Statement of Assurance (11/28/01)

**N2002-0018** Military Sealift Command Financial Management System (12/18/01)

**N2002-0025** Followup Audit: Financial Audit Recommendations to Naval Activities (1/28/02)

**N2002-0028** Fiscal Year 2001 and 2000 Department of the Navy General Fund Financial Statements (2/13/02)

**N2002-0029** Fiscal Year 2001 and 2000 Department of the Navy Working Capital Fund Financial Statements (2/13/02)

**N2002-0033** Navy Implementation of the Federal Managers' Financial Integrity Act (2/28/02)

**N2002-0035** Fiscal Year 2000 National Defense Property, Plant, and Equipment Deferred Maintenance (3/13/02)

**N2002-0037** Validation of Selected Unliquidated Base Realignment and Closure Obligations (3/18/02)

### Air Force Audit Agency

**F2002-0001-B05300** General Fund Disbursements, Fiscal Year 2000 (10/4/01)

**F2002-0002-B05300** Revenue and Other Financing Sources - Journal Vouchers and Adjustments, Fiscal Year 2000 (10/4/01)

**F2002-0003-B05300** Opinion on Fiscal Year 2001 Air Force Consolidated Financial Statements (2/8/02)

**F2002-0001-B05400** Memorandum Report, Duplicate Airfare Payments (12/28/01)

**F2002-0002-B05400** Controls Over the Integrated Automated Travel System (2/15/02)

**F2002-0003-B05400** Controls Over Duplicate Payments (3/5/02)

**F2002-0004-B05400** Basic Allowance for Housing Procedures (3/20/02)

**F2002-0005-B05800** Commercial Space Launch Support Costs (3/5/02)

**F2002-0001-C06800** Air Force Working Capital Fund, Fiscal Year 2000 Statement of Budgetary Resources - Selected Information Services Activities Group General Ledger Accounts (10/25/01)

**F2002-0002-C06800** Air Force Working Capital Fund, Fiscal Year 2000 Statement of Budgetary Resources - Selected Retail Supply General Ledger Accounts (10/26/01)

**F2002-0003-C06800** Internal Controls Related to the Fiscal Year 2001 Air Force Working Capital Fund Financial Statements (1/30/02)

**F2002-0004-C06800** Air Force Working Capital Fund, Fiscal Year 2001 Fund Balance With Treasury (1/30/02)

**F2002-0005-C06800** Opinion on Fiscal Year 2001 Air Force Working Capital Fund Financial Statements (2/8/02)

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## HEALTH CARE

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### IG, DoD

**D-2002-010** Armed Services Blood Program Defense Blood Standard System (10/22/01)

**D-2002-024** Navy Fleet Hospital Requirements (CLASSIFIED) (12/12/01)

**D-2002-034** Military Health System Optimization Plan (12/31/01)

### Army Audit Agency

A-2002-0125-IMH Pharmaceutical Management (1/25/02)

**Air Force Audit Agency**

**F2002-0001-B05100** Medical Facility Cleaning and Equipment Management (10/26/01)

**F2002-0005-B05100** Mental Health Services (2/6/02)

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**LOGISTICS**


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**IG, DoD**

**D-2002-003** Accountability and Control of Materiel at the Tobyhanna Army Depot (10/4/01)

**D-2002-004** Import Processing of DoD Cargo Arriving in the Republic of Korea (10/4/01)

**D-2002-013** The Defense Supply Center Richmond Qualified Products List Program (11/2/01)

**D-2002-016** Government Performance and Results Act Performance Measure for DoD Total Asset Visibility (11/21/01)

**D-2002-025** Allegations Concerning Defense Reutilization and Marketing Service Business Practices (12/17/01)

**D-2002-057** Effectiveness of the Joint Total Asset Visibility Program (3/11/02)

**D-2002-060** Management of Terminal Items at the Defense Logistics Agency (3/13/02)

**D-2002-068** DoD International Personal Property Shipment Rates (3/22/02)

**Army Audit Agency**

**A-2002-0134-AMA** Reusing And Disposing of Missile Munitions Phase II (2/25/02)

**A-2002-0205-AMM** Army Oil Analysis Program (3/6/02)

**A-2002-0213-AMM** Maintenance Management Systems (3/11/02)

**A-2002-0210-AMA** Wholesale Level Spare Parts With Zero Balances (3/12/02)

**A-2002-0224-AMM** Staffing and Capacity of Tables of Distribution and Allowances Maintenance Activities, U.S. Training and Doctrine Command (3/18/02)

**A-2002-0255-AMM** U.S. Army Aviation Hydraulic System Contamination Program (3/26/02)

**Naval Audit Service**

**N2002-0021** Ordnance Inventory Accuracy Processes (12/21/01)

**N2002-0022** Department of the Navy's Fleet Modernization Program (1/8/02)

**N2002-0027** Government Performance and Results Act Fiscal Year 2000 Overseas Measures for the Navy and Marine Corps (2/6/02)

**Air Force Audit Agency**

**F2002-0001-B05800** War Materiel Requirements for Tanks, Racks, Adapters, and Pylons (U) (CLASSIFIED) (10/1/01)

**F2002-0001-C06100** Air Force Reserve Small Arms Management (1/2/02)

**F2002-0002-C06100** Memorandum Report, Readiness Spares Package Requirements (1/16/02)

**F2002-0003-C06100** C-5 Aircraft Engine Replacement Requirements (3/22/02)

**F2002-0004-C06100** Base-Level Repairable Item Transactions (3/22/02)

**F2002-0001-C06200** Intercontinental Ballistic Missile Maintenance (10/25/01)

**F2002-0002-C06200** Unserviceable Secondary Item Control Activity Assets (11/9/01)

**F2002-0003-C06200** Followup Audit, Air Mobility Command En Route Maintenance Operations (2/20/02)

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**INFRASTRUCTURE AND ENVIRONMENT**


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**IG, DoD**

**D-2002-020** General Officer Quarters at Kaneohe Bay, Hawaii; Camp Pendleton, California; and Albany, Georgia (12/5/01)

**D-2002-028** Report on Foreign Country Environmental Program (CLASSIFIED) (12/28/01)

**D-2002-048** General and Flag Officer Quarters at Fort Shafter, Hawaii; and Fort McPherson, Georgia (2/12/02)

**D-2002-049** Report on Foreign Country Environmental Program (CLASSIFIED) (2/14/02)

**D-2002-051** Summary Report on the Joint Audit of DoD Wastewater Treatment Systems (2/15/02)

**Army Audit Agency**

**A-2002-0045-IME** Army  
Wastewater Systems (11/9/01)

**A-2002-0098-IMO** Energy  
Savings Performance Contracts  
(12/14/01)

**A-2002-0099-IME** The Army  
Installation Conservation  
Program--Outleasing (12/19/01)

**A-2002-0221-IME** Remedial  
Activities at the St. Louis Area  
Sites (2/19/02)

**A-2002-0138-IME** Overhead  
and General and Administrative  
Costs on Environmental Sub-  
contracts (2/21/02)

**Naval Audit Service**

**N2002-0003** Military Construc-  
tion Project Development for  
Fiscal Year 2003 Program  
(10/26/01)

**Air Force Audit Agency**

**F2002-0001-B05200** Brooks  
City-Base Project (12/24/01)

**F2002-0002-B05200**  
Environmental Compliance  
Cleanup Liabilities (3/8/02)

**F2002-0003-B05200**  
Memorandum Report, Los  
Angeles AFB Land Conveyance  
(3/21/02)

**F2002-0004-B05200** Military  
Construction Project Changes  
(3/20/02)

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**HUMAN CAPITAL**

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**Army Audit Agency**

**A-2002-0016-AMI** Army  
Foreign Language Program  
Requirements Followup  
(10/15/01)

**A-2002-0002-FFF** Delayed  
Entry Program Management  
(10/31/01)

**A-2002-0021-FFF** U.S. Army  
Reserve Full-Time Support  
Program (11/19/01)

**A-2002-0109-FFF** Civilian  
Personnel Regionalization  
(1/10/02)

**Naval Audit Service**

**N2002-0009** Use of Navy  
Recruiters to Make Initial Calls  
to Prospective Recruits  
(11/16/01)

**Air Force Audit Agency**

**F2002-0002-B05100** Foreign  
Language Proficiency Pay  
(10/26/01)

**F2002-0003-B05100** Special  
Retirement Program (12/4/01)

**F2002-0006-B05100** Core  
Menu Program (3/18/02)

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**AUDIT OVERSIGHT  
REVIEWS**

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**IG, DoD**

**D-2002-6-001** Defense  
Contract Audit Agency Quality  
Assurance Program (12/6/02)

**D-2002-6-002** Quality Control  
Review of Deloitte & Touche  
LLP Office of Management and  
Budget Circular A-133 Audit  
Report of Carnegie Mellon  
University, Fiscal Year Ended  
June 30, 1999 (12/11/01)

**D-2002-6-003** Quality Control  
Review of Defense Contract  
Audit Agency and KPMG LLP  
Office of Management and  
Budget Circular A-133 Audit  
Report of SRI International,  
Fiscal Year Ended December  
25, 1999 (1/14/02)

**Naval Audit Service**

**N2002-0002** Quality Control  
Review of Audit 2001-0007:  
"Marine Corps Total Ownership  
Cost-Reduction Plans" (10/5/01)

**N2002-0005** Independent  
Review of the Northeast Region  
Personal Property Services  
Function at the Fleet and  
Industrial Supply Center,  
Norfolk, VA (10/26/01)

**N2002-0006** Independent  
Review: Naval Supply Systems  
Command Southeast Region  
Household Goods Function,  
Jacksonville, FL (11/2/01)

**N2002-0007** Independent  
Review: Administrative and  
Clerical Functions at Naval Sea  
Systems Command,  
Washington, DC (11/2/01)

**N2002-0017** Independent  
Review: Tools and Parts  
Attendant Services Function at  
the Naval Aviation Depot,  
Cherry Point, NC (12/18/01)

**N2002-0026** Independent  
Review: Environmental  
Services Function at Navy  
Public Works Center, Norfolk,  
VA (2/5/02)

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

<b>Audit Reports Issued</b>	<b>Potential Monetary Benefits</b>	
	<b>Disallowed Costs<sup>1</sup></b>	<b>Funds Put to Better Use</b>
<b>D-2002-003</b> Accountability and Control of Materiel at the Tobyhanna Army Depot (10/4/01)	N/A	\$23,500,000
<b>D-2002-009</b> Valuation of Inventories in the Defense Logistics Agency Standard Automated Materiel Management System (10/22/01)	N/A	65,900,000
<b>D-2002-011</b> Acquisition of the Wide Area Munition (10/24/01)	N/A	268,300,000
<b>D-2002-024</b> Navy Fleet Hospital Requirements (12/12/01)	N/A	4,400,000
<b>D-2002-026</b> Acquisition of the Vertical Take-Off and Landing Tactical Unmanned Aerial Vehicle (12/14/01)	N/A	232,600,000
<b>D-2002-036</b> Acquisition of the Naval Fires Control System (1/8/02)	N/A	150,300,000
<b>D-2002-059</b> Results of the Defense Logistics Agency Strategic Supplier Alliance with Honeywell International, Incorporated (3/13/02)	N/A	23,634,719
<b>D-2002-071</b> DoD Management of the North Atlantic Treaty Organization Security Investment Program (3/26/02)	N/A	38,600,000
<b>Totals</b>	<b>0</b>	<b>\$807,234,719</b>
*Fulfills the requirement of the Inspector General Act of 1978, as amended, 5 U.S.C., Appendix 3, Section 5(a)(6)		
<sup>1</sup> There were no OIG audit reports during the period involving disallowed costs.		

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## APPENDIX C\*

### FOLLOWUP ACTIVITIES

<b>DECISION STATUS OF INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE (\$ in thousands)</b>		
<b>Status</b>	<b>Number</b>	<b>Funds Put to Better Use<sup>1</sup></b>
A. For which no management decision had been made by the beginning of the reporting period.	36	\$87,367 <sup>2</sup>
B. Which were issued during the reporting period.	72	807,450
Subtotals (A+B)	108	894,817
C. For which a management decision was made during the reporting period.	80	851,602
(i) dollar value of recommendations that were agreed to by management		
- based on proposed management action		312,438
- based on proposed legislative action		
(ii) dollar value of recommendations that were not agreed to by management		539,164 <sup>3</sup>
D. For which no management decision has been made by the end of the reporting period.	28	43,215
Reports for which no management decision was made within 6 months of issue (as of March 31, 2002). <sup>3</sup>	3 <sup>4</sup>	0
<sup>1</sup> There were no OIG DoD audit reports issued during the period involving questioned costs. <sup>2</sup> Claimed potential monetary benefits of \$12.9 million had been omitted from the previous schedule. <sup>3</sup> On 8 audit reports with a total of potential funds put to better use of \$538.8 million, management has agreed to take the recommended actions, but the amount of agreed monetary benefits cannot be determined until those actions are completed. <sup>4</sup> OIG DoD Report No. D-2001-109, "DoD Payroll Withholding Data for FY 2000," issued April 27, 2001, had no management decision made within 6 months of issuance and was still being mediated as of July 1, 2002. Additional information from management that may result in a decision is expected in July. OIG DoD Report No. D-2001-163, "Accounting Entries Made in Compiling the FY 2000 Financial Statements for the Working Capital Funds of the Air Force and Other Defense Organizations," issued July 26, 2001, and OIG DoD Report No. D-2001-185, "FY 2000 U.S. Army Corps of Engineers Obligations for DoD Component Contracts," issued September 21, 2001, had no management decision as of March 31, 2002, but were decided on April 25, 2002, and April 29, 2002, respectively.		

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

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**APPENDIX D**  
**CONTRACT AUDIT REPORTS ISSUED<sup>1</sup>**  
**(\$ in millions)**

Type of Audit <sup>2</sup>	Reports Issued	Amounts Examined	Questioned Costs <sup>3</sup>	Funds Put to Better Use
Incurred Costs	11,703	\$45,082.3	\$364.6	\$63.4 <sup>4</sup>
Forward Pricing Proposals	4,431	46,132.9	--	1,384.2 <sup>5</sup>
Cost Accounting Standards	1,021	120.1	38.6	--
Defective Pricing	197	(Note 6)	7.5	--
<b>Totals</b>	<b>17,352</b>	<b>\$91,335.3</b>	<b>\$410.7</b>	<b>\$1,447.6</b>

<sup>1</sup>This schedule represents Defense Contract Audit Agency (DCAA) contract audit reports issued during the 6 months ended March 31, 2002. Both "Questioned Costs" and "Funds Put to Better Use" represent potential cost savings. Because of limited time between availability of management information system data and legislative reporting requirements, there is minimal opportunity for the DCAA to verify the accuracy of reported data. Accordingly, submitted data is subject to change based on subsequent DCAA authentication.

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

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

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

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

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

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

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

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

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

**Waivers of Advisory and Assistance Service Contracts**

**A review is made of each waiver granted by the Department for advisory and assistance services contracts related to testing support. This review is required by Section 802, Defense Authorization Act for Fiscal Year 1990.**

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

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