

**REPORT TO THE CONGRESS  
ON THE  
DEPARTMENT OF DEFENSE AUDIT,  
INSPECTION AND INVESTIGATIVE  
ORGANIZATIONS**

**April 1, 1979 — September 30, 1979**



Pursuant to Section 8(a)(1)  
Public Law 95-452

November 29, 1979

68782

REPORT  
OF  
THE DEPARTMENT OF DEFENSE  
UNDER P.L. 95-452

FOREWORD

In accordance with Section 8(a)(1) of Public Law 95-452, the Inspector General Act of 1978, this is the semiannual report summarizing the activities of the audit, inspection and investigative units of the Department of Defense during the 6-month period ended September 30, 1979.

This report presents a comprehensive summary of the Department's efforts to prevent and detect the incidence of fraud, waste and abuse in Department of Defense programs and to take prompt and appropriate action when such matters are disclosed. Since many of our audit and inspection reports make recommendations for improvements in the economy, efficiency or effectiveness of Department of Defense operations, we have included descriptions of significant findings of this nature as well, although they do not constitute waste or abuse as defined in this report.

As discussed in our initial semiannual report dated May 30, 1979, the Secretary of Defense established a Steering Group on Oversight of Defense Activities, chaired by the Deputy Secretary of Defense, to monitor new initiatives to combat fraud and waste in Department of Defense programs. This current report updates progress made on these initiatives. During this reporting period, we have continued to emphasize the need to direct appropriate attention at all levels within the Department to the prevention and detection of fraud and waste, as part of our overall objective of efficient and effective management of Defense programs.

NCJRS

JUN 13 1980

ACQUISITIONS

REPORT TO THE CONGRESS  
ON THE DEPARTMENT OF DEFENSE  
AUDIT, INSPECTION AND INVESTIGATIVE ORGANIZATIONS  
FOR THE SIX MONTHS ENDED SEPTEMBER 30, 1979

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## PART I

### INTRODUCTION

The Inspector General Act of 1978, Public Law 95-452, requires the Secretary of Defense to submit to the Congress semiannual reports summarizing the activities of the audit, inspection and investigative units of the Department of Defense. The Act specifies that the reports shall be submitted within sixty days of the close of the reporting periods ending March 31 and September 30 each year, through October 1, 1982.

This report covers the activities of audit, internal review, inspection and investigative organizations of the Department of Defense during the period April 1, 1979 through September 30, 1979. As required by the legislation, the report includes a description of significant instances or patterns of fraud, waste, or abuse disclosed by these activities during the reporting period, and a description of recommendations for corrective action made with respect to such instances or patterns; a summary of matters referred for prosecution and of the results of such prosecutions; and a statistical summary, by categories of subject matter, of audit and inspection reports completed during the reporting period.

In order to present Department of Defense audit, inspection, and investigative activities in proper perspective, we have included the following supplemental information in this report:

- o A statistical summary of all instances of potential fraud found by audit, internal review and inspection organizations and referred for criminal investigation, and descriptions of the more significant instances.

- o An updating to show the current status or disposition of incidents of fraud reported in our initial semiannual report to the Congress.

- o Descriptions of the more significant audit and inspection findings that point out ways for management and operating officials to improve the economy, efficiency or effectiveness of Department of Defense operations.

- o A summary of progress made on new initiatives to combat fraud and waste in the Department.

## PART II

### SUMMARY

#### A. OPERATIONAL SUMMARY

In our initial report to the Congress under the Inspector General Act of 1978, we reported that as of March 31, 1979, the Department of Defense audit, inspection and investigative functions were authorized 12,364 personnel who were involved to some degree with the detection and prevention of fraud, waste and abuse. We furnished tabulations at that time which displayed these totals by function and category. The totals presented in the earlier report have remained substantially unchanged during this reporting period.

##### 1. AUDIT ORGANIZATIONS

###### a. INTERNAL AUDIT

There are four principal internal audit organizations in the Department of Defense, one in each of the three Military Departments and one at the Office of the Secretary of Defense level. Each of the three Military Department audit organizations, the Army Audit Agency, the Naval Audit Service, and the Air Force Audit Agency, provides internal audit services for all levels within its own department. They report to the Secretary or Under Secretary of their respective departments. The fourth internal audit organization, the Defense Audit Service, which reports to the Assistant Secretary of Defense (Comptroller), performs internal audits within the Office of the Secretary of Defense, the organization of the Joint Chiefs of Staff, the Unified and Specified Commands, and the Defense Agencies. The Defense Audit Service also conducts internal audits involving more than one Military Service, and audits requested by the Secretary of Defense or the Assistant Secretaries of Defense. All efforts of the internal audit organizations are pertinent to this report, either in detecting and reporting on potential fraud and waste, or in identifying opportunities for achieving greater economy, efficiency, and effectiveness in managing Department of Defense resources.

During the 6-month period ended September 30, 1979, the internal audit organizations issued a total of 2,165 audit reports. A statistical summary of these reports, by category of subject matter, is presented in Exhibit B.

###### b. INTERNAL REVIEW AND MILITARY EXCHANGE SYSTEM AUDIT ORGANIZATIONS

Internal review activities supplement the work of the central audit organizations by providing to management at subordinate

levels a capability to identify and correct operational deficiencies. Internal review activities exist within the Army, Navy, and Marine Corps. The three Military Exchange Systems have separate audit organizations similar in nature to internal review groups. Generally these groups operate as part of the comptroller organization of their respective departments or agencies. As with internal audit, all internal review and Military Exchange System audit efforts are considered pertinent to this report. During the reporting period, the internal review activities issued 11,601 reports and the Military Exchange System audit organizations issued 77 reports as shown in Exhibit B.

### c. CONTRACT AUDIT

Audits of outside contractors are functionally distinct from the audits of internal operations of the Department of Defense. The Defense Contract Audit Agency, which reports to the Assistant Secretary of Defense (Comptroller), performs audits of costs proposed or incurred on Department of Defense contracts. The Agency has auditors in residence at the larger contractors' plants, and audits smaller contractors on a mobile basis from geographically dispersed branch offices. Any instances of potential fraud or opportunities for improving operations disclosed at contractor locations would be includable in this report. DoD contract audit activities during the reporting period are summarized below:

#### Contract Audit Reports Issued

<u>Type of Audit Activity</u>	<u>Number of Reports</u>	<u>Percent of Total</u>
Incurred Costs	13,378	41.2
Forward Pricing Proposals	16,892	52.1
Cost Accounting Standards	939	2.9
Defective Pricing	760	2.3
Other	<u>489</u>	<u>1.5</u>
TOTALS	<u>32,458</u>	<u>100.0</u>

### 2. INSPECTION ORGANIZATIONS

Inspection functions exist in the Military Services and in four of the Defense Agencies. Inspection functions complement the work of the audit and investigative activities in evaluating mission capability and management of the military components. To the extent

that the activities of the inspection organizations are directed towards evaluating operational economy, efficiency and effectiveness, in preventing fraud and waste and in detecting and reporting incidents involving potential fraud, they are also covered by this report. However, such traditional Military Service Inspector General efforts as performing operational readiness inspections and the hearing of individual complaints have been excluded.

The eight inspection organizations in the Department of Defense issued 6,353 inspection reports during the reporting period. A statistical summary of these reports, by type of inspection, is presented in Exhibit C.

### 3. INVESTIGATIVE ORGANIZATIONS

Each military department has its own criminal investigative organization - the Army Criminal Investigation Command, the Naval Investigative Service, and the Air Force Office of Special Investigations. The Defense Investigative Service performs a similar function for the Office of the Secretary of Defense and the Defense Agencies. The activities of these DoD investigative organizations are included in this report only to the extent of their participation in investigating incidents or patterns of potential fraud and in reporting them to the Justice Department for prosecutive action or to DoD officials for administrative remedy. Other efforts by investigative personnel which involve military intelligence, counterintelligence, and background investigations, or efforts not related to the investigation of fraud or other unlawful criminal acts against the Government are specifically excluded.

Exhibit D presents a statistical summary, by category of subject matter, of the 6,785 criminal investigation cases completed during the 6-month period covered by this report.

Many of the criminal investigative activities are initiated either by specific requests from DoD officials at all levels or by leads from individuals. However, the audit and inspection organizations also report a substantial number of incidents or patterns of potential fraud to the investigative organizations. As shown on Exhibit E by category of subject matter, 520 incidents or patterns of potential fraud were referred to investigators during the 6 months ended September 30, 1979.

#### B. DOD REPORTING CATEGORIES

##### 1. REPORTING POTENTIAL FRAUD INCIDENTS TO INVESTIGATORS

As required by Section 8 of P.L. 95-452, the significant instances or patterns of potential fraud disclosed by audit, investigative, and inspection activities during the reporting period have been



tabulated. The statistical data in Exhibit E show that 520 suspected fraud incidents were referred to investigative authorities by audit, internal review and inspection organizations during the reporting period. Synopses of significant referrals are described briefly, with referral dates and identification of investigating organizations, in Exhibit F.

## 2. REPORTING MATTERS FOR PROSECUTION OR OTHER ACTION

Of the 6,785 criminal investigation cases completed during the reporting period, 19 of the more significant cases referred to prosecutive agencies by Department of Defense investigative organizations are described in Exhibit G. These 19 cases involved estimated monetary losses of more than \$16 million.

A number of criminal investigation cases handled by the investigative organizations are resolved by means of administrative action within the Department of Defense. Usually these are cases of nominal value. Exhibit H contains descriptions of several of the relatively more material cases referred to military commanders during the reporting period.

## 3. REPORTING SIGNIFICANT INSTANCES OF WASTE

Although an important concern of auditors and inspectors is waste prevention, their function also requires that they detect and report waste and errors which occurred in the past. Exhibit I contains descriptions of 10 significant instances or patterns of waste disclosed by Department of Defense audit and inspection organizations in the 6 months ended September 30, 1979. The auditors' or inspectors' recommendations and related management actions, where appropriate, are also shown in the Exhibit.

## 4. REPORTING OPPORTUNITIES FOR IMPROVING OPERATIONS

All of the audit and inspection groups provide objective and constructive evaluations of the organizations, programs, systems, and functions they examine. The primary objective of their examinations of operational economy, efficiency, and effectiveness is to highlight actions which are needed to improve some aspect of Department of Defense operations. These audit and inspection activities are thus directed toward identifying and making appropriate recommendations in reports on conditions that cause or contribute to inefficient operations.

Exhibit J presents, by category of subject matter, descriptions of some of the more significant opportunities for improving the economy and efficiency of operations based on selected internal audits and inspections completed during the reporting period. The 67 findings discussed involved potential cost avoidances of an estimated \$381 million. Exhibit K discusses uneconomical or inefficient contractor practices

disclosed by Defense Contract Audit Agency auditors which if corrected would result in decreased costs to the Department of Defense. During the reporting period DCAA issued 350 reports dealing with the economy and efficiency of contractor operations with potential cost avoidances of about \$234 million. Cases listed in Exhibits J and K do not fall within the definition of waste as embodied in this report. Instead, they are considered to be "cost avoidance" findings, and are shown to illustrate the range of audit and inspection findings.

## 5. STATUS OF PREVIOUSLY REPORTED INCIDENTS

In our initial report to the Congress for the period ended March 31, 1979, we reported instances of potential fraud referred to investigative organizations, significant fraud cases referred for prosecution and significant fraud cases being resolved through command action. The current status of these previously reported cases is shown in Exhibits L, M and N.

### C. PROGRAMS TO PREVENT AND DETECT FRAUD AND WASTE

#### 1. ONGOING PROGRAMS

Over a period of many years the Department of Defense has built a substantial core program to prevent and detect fraud and waste. This program consists primarily of the continuing day-to-day activities of the various audit, internal review, inspection, and investigative groups which have been referred to earlier in this report.

##### a. AUDIT

All reviews by the centralized internal audit agencies, the local internal review groups, and the Military Exchange Systems audit groups involve evaluations of economy, efficiency, and effectiveness of Department of Defense operations. The Defense Contract Audit Agency, in its reviews of costs proposed or incurred by contractors, is also concerned with the economy, efficiency, and effectiveness of contractor operations to the extent that they would impact on contractual costs. Inherent in all reviews by DoD auditors is a consideration of areas susceptible to fraud or waste and of internal controls which would deter such fraud and waste. Where internal controls are lacking or appear inadequate, the auditors adjust the scope and depth of their audits to determine whether procedural inadequacies may have resulted in wasteful or potentially fraudulent practices. Where findings indicate potential fraud, referrals are made to the appropriate investigative agencies.

Increased emphasis on the detection and prevention of fraud and waste has resulted in the identification by auditors of more than twice the number of potential fraud cases as were identified during the previous

reporting period. This increased emphasis is exemplified by the expansion of auditor training courses to include fraud and waste detection; special emphasis by auditors on areas susceptible to fraud, such as overtime compensation, local procurement, commissaries, and nonappropriated fund instrumentalities; increased coordination with inspection and investigative organizations; and performance of followup reviews to evaluate management action taken to correct fraud or waste-related deficiencies.

#### b. INSPECTION

The Department of Defense has an extensive inspection program that reaches into all levels of its operations. Inspection activities range from evaluations of the economy, efficiency, and effectiveness of systems and functions to the traditional military Inspector General roles of inspecting and testing the operational readiness of combat and combat support units, and hearing individual complaints by military personnel. Although this latter military inspection role is not directly related to the prevention of fraud or waste, most of the inspection resources would be considered at least indirectly applicable to such efforts. As with audit, any findings by the inspectors which indicate potential fraud are referred to the appropriate investigative agencies.

Inspection organizations also provided increased attention to the detection and prevention of fraud, waste and inefficient practices during the reporting period. Actions taken included development of fraud and waste detection programs featuring increased coordination with investigative organizations; initiation of programs to enhance management and public awareness of fraud and waste; identification of special areas of interest to ensure inspection coverage of areas susceptible to fraud and waste. As an example of a fraud-oriented inspection, an Air Force inspection team conducted a management inspection of morale, welfare and recreation activities giving particular emphasis to fund handling procedures and the potential for embezzlement.

#### c. INVESTIGATIVE

Investigative activities are responsible for inquiries into allegations with respect to conduct that is illegal or that violates Department of Defense regulations governing standards of conduct. The activities of the investigative organizations range from crime prevention surveys and criminal investigations, which are fraud prevention and detection activities, to the military intelligence and counterintelligence activities and personnel background investigations, which are operational tasks and not directly related to investigation of alleged fraudulent acts.

During the reporting period the investigative organizations improved their fraud investigation capabilities through various internal programs

and by participating with other federal agencies in a variety of joint projects and studies. As an example, 179 fraud investigations completed by the Naval Investigative Service (NIS) were a direct result of NIS criminal intelligence operations designed to surface fraudulent activity within naval commands. These investigations resulted in actual or potential recoveries to the Government of \$1.5 million.

The Air Force Audit, Inspection and Investigation Council exemplifies joint efforts within the Department. The Council, which was formed to inhibit the potential for fraud, waste and mismanagement, assesses problem areas in major Air Force systems. For example, Council members recently completed fraud prevention surveys of the household goods moving program and base-level services contracts. Additional projects currently underway include preparation of a Fraud Indicators Special Report for distribution to resource managers and an Inventory Management project to eliminate inefficient practices and identify supply activities susceptible to fraud.

## 2. NEW INITIATIVES

In order to ensure that high level management attention is focused on fraud and waste problems, the Secretary of Defense established a Steering Group on Oversight of Defense Activities in November 1978. This group, chaired by the Deputy Secretary of Defense and composed of key departmental officials, is charged with overall coordination of programs that comprise the Department's efforts to combat fraud and waste. Several projects were initiated by the steering group to increase awareness on the part of commanders and other resource managers of fraud and waste issues and to encourage early reporting of suspected irregularities. A discussion of the status of some of the significant projects follows:

a. FRAUD PREVENTION SURVEY. This project was established to develop a pilot program for fraud prevention surveys to be conducted by interdisciplinary teams of auditors, inspectors and investigators. During the first phase of the project, standardized policy guidance was developed for use in conducting the surveys. Subsequently, a survey outline was prepared and fraud prevention surveys were conducted at four locations to test the newly developed policy guidance. After evaluating the results of four surveys, the project team will make recommendations regarding the continued use of interdisciplinary teams of auditors and investigators to conduct fraud prevention surveys.

b. PROSECUTION FOLLOWUP. The purpose of this project is to develop an automated system to monitor the status of DoD investigative cases referred to other agencies for further investigation or prosecution. A draft reporting format of information to be stored in the computer has been prepared and is undergoing review by the project team. Present

plans provide for tracking each case from the time it is initially referred to agencies outside DoD until the reviewing agency either returns the case without action or files a criminal or civil complaint, and provides the results of the court case. The information will be used to monitor agency actions, allocate resources and identify problem areas.

c. IMPROVED FOLLOWUP SYSTEM. This project was established to improve monitorship by DoD Components of management actions to correct reported deficiencies concerning fraud and waste. The proposed followup system is intended to ensure implementation of recommendations made by Independent Review Groups (audit, inspection, internal review and investigative organizations). The project team prepared a draft DoD directive that is currently being staffed with the DoD Components. The directive provides for periodic reports to top managers at each appropriate management level on the status of corrective actions taken on recommendations made by Independent Review Groups and the reasons for any delays. Independent Review Groups also will review the status reports to determine if corrective actions are responsive to their findings and recommendations. In addition, the Independent Review Groups will take appropriate followup action on a selective basis to reinforce the management followup system and to advise appropriate management levels of any deficiencies that remain uncorrected.

d. MANAGEMENT INFORMATION SYSTEM. In order to effectively combat fraud and waste within the Department of Defense, management needs current and complete information about the nature and scope of the problem. To provide this information a project was established to develop a pilot management information system to track the status of audit, internal review, inspection, investigation, prosecution and administrative recommendations and actions relating to fraud and waste. The pilot project is being conducted in the Air Force. During the first phase of the project, existing management information systems were reviewed and a design was developed for an overall management information system for the Air Force. During the second phase, the system will be implemented, tested and evaluated within the Air Force and analyzed for its applicability and use by other DoD Components.

### 3. DOD HOTLINE ACTIVITIES

A DoD hotline was established on April 2, 1979 for the reporting of any fraud or waste incidents involving the Department. The Defense Investigative Service (DIS) operates the hotline and refers reported incidents to the appropriate Military Departments and Defense agencies. From inception of the DoD hotline through September 30, 1979, DIS received 273 calls of which 154 were considered substantive and referred to DoD Components. DIS also serves as the DoD focal point for hotline referrals of incidents involving DoD activities from the General Accounting Office (GAO). During the 6-month period ended September 30, 1979, DIS received 333 referrals from GAO.

EXHIBIT A

DEPARTMENT OF DEFENSE AUDIT, INSPECTION  
AND INVESTIGATIVE UNITS INCLUDED IN THIS REPORT\*

	Applicable Functions				
	<u>Internal Audit</u>	<u>Internal Review</u>	<u>Contract Audit</u>	<u>Inspection</u>	<u>Investiga- tion</u>
<u>Military Services</u>					
Army	X	X		X	X
Navy	X	X		X	X
Marine Corps		X		X	
Air Force	X			X	X
<u>Defense Agencies</u>					
Defense Audit Service	X				
Defense Communications Agency				X	
Defense Contract Audit Agency			X		
Defense Intelligence Agency				X	
Defense Investigative Service					X
Defense Logistics Agency				X	
National Security Agency				X	
<u>Other DoD Organizations</u>					
Army/Air Force Exchange Service		X			
Navy Exchange System		X			
Marine Corps Exchange System		X			

\* Four other Defense agencies have no audit, internal review, inspection or investigative units and were not listed.

EXHIBIT B

REPORTS ISSUED BY DOD INTERNAL AUDIT, INTERNAL REVIEW,  
AND MILITARY EXCHANGE SYSTEM AUDIT ORGANIZATIONS  
DURING THE REPORTING PERIOD

<u>Program or Function</u>	<u>Number of Reports Issued</u>			<u>Total</u>	<u>Percent of Total</u>
	<u>Internal Audit</u>	<u>Internal Review</u>	<u>Mil Exch Audit</u>		
Comptroller Functions	413	3,574		3,987	28.8
Nonappropriated Fund Instrumentalities	105	2,200	77	2,382	17.2
Supply Functions	348	1,758		2,106	15.2
Support Services	202	704		906	6.6
Personnel Management	194	559		753	5.5
Procurement Functions	158	528		686	5.0
Manufacturing, Maintenance and Repair Functions	199	209		408	2.9
Transportation Functions	92	182		274	2.0
Automatic Data Processing Systems	54	183		237	1.7
Real Property Programs	97	130		227	1.6
Communications and Intelligence Programs	47	146		193	1.4
Energy Conservation Programs	23	144		167	1.2
Force Readiness Programs	66	60		126	.9
Security Assistance Program	14	101		115	.8
Research and Development	12	28		40	.3
Other	<u>141</u>	<u>1,095</u>	<u>—</u>	<u>1,236</u>	<u>8.9</u>
TOTALS	<u>2,165</u>	<u>11,601*</u>	<u>77</u>	<u>13,843</u>	<u>100.0%</u>

\* The increase in number of reports issued this period is primarily due to reporting by Navy Internal Review activities. Comparable data was not available for the previous reporting period.

EXHIBIT C

REPORTS ISSUED BY DOD INSPECTION ORGANIZATIONS  
DURING THE REPORTING PERIOD

<u>Inspector General Organizations</u>	<u>Number of Reports Issued</u>			
	<u>General</u> <u>Inspections</u>	<u>Special</u> <u>Inspections</u>	<u>Other</u>	<u>Total</u>
Army (1)	3,944	585	990	5,519
Navy (2)	9	20	9	38
Marine Corps (2)	91	0	0	91
Air Force (1)	340	164	49	553
Defense Communications Agency	0	0	0	0
Defense Intelligence Agency	8	0	0	8
Defense Logistics Agency	125	0	14	139
National Security Agency	<u>5</u>	<u>0</u>	<u>0</u>	<u>5</u>
TOTALS	<u>4,522</u>	<u>769</u>	<u>1,062</u>	<u>6,353</u>
Percentage of Totals	<u>71.2%</u>	<u>12.1%</u>	<u>16.7%</u>	<u>100.0%</u>

Footnotes:

(1) The disparity in the number of inspection reports issued is due to differences in methods of operation among the Military Services. The Army prepares a separate report for each unit inspected whereas each Air Force inspection report typically covers a base or wing and includes a number of inspected units.

(2) The Navy and Marine Corps do not have separate organizations with total responsibility for inspection. Instead, each commander is responsible for inspecting his immediate subordinates. Data reported herein are largely confined to the Naval and Marine Corps Inspector Generals' inspections of their immediate subordinates. Inspections conducted by all other commands in those two services are not included.



EXHIBIT D

DOD CRIMINAL INVESTIGATION CASES COMPLETED  
DURING THE REPORTING PERIOD

<u>Fraud Category</u>	<u>Army</u> Criminal Investiga- tion Command	<u>Navy</u> Naval Inves- tigative Service	<u>Air Force</u> Office of Special Investi- gation	Defense Investi- gative Service	<u>Total</u>	Percent of <u>Total</u>
Pay and Allowances	143	394	445	2	984	14.5
Nonappropriated Fund Instrumentalities	18	0*	128	0	146	2.2
Commissaries	3	0*	38	0	41	.6
Procurement	6	83	102	20	211	3.1
Property Disposal	14	0*	7	0	21	.3
Other Diversions or Improper Use of Government Property	1,321	2,262	416	24	4,023	59.3
Other**	<u>797</u>	<u>521</u>	<u>50</u>	<u>1</u>	<u>1,359</u>	<u>20.0</u>
TOTALS	<u>2,292</u>	<u>3,260</u>	<u>1,186</u>	<u>47</u>	<u>6,785</u>	<u>100.0</u>

\* The Navy does not maintain separate data for these categories of investigations, but includes them in the category "other".

\*\* Includes categories of investigations such as fraudulent personnel actions, bribery, forgery, counterfeiting, and black market activities.

EXHIBIT EPOTENTIAL FRAUD CASES REFERRED TO INVESTIGATORS  
DURING THE REPORTING PERIOD

<u>Potential Fraud Category</u>	<u>Number of Referrals to Investigators by:</u>						<u>Total</u>	<u>Percent of Total</u>
	<u>Internal Audit</u>	<u>Internal Review</u>	<u>Mil Exch Audit</u>	<u>Contract Audit</u>	<u>Inspec- tion Groups</u>	<u>Other Groups</u>		
Pay and Allowances	14	9	0	0	8	13	44	8.5
Nonappropriated Fund Instrumentalities	13	6	107	0	2	1	129	24.8
Commissaries	2	0	0	0	4	0	6	1.2
Procurement	23	2	0	17	2	129	173	33.2
Property Disposal	3	2	0	0	0	93	98	18.8
Other Diversion or Improper Use of Government Property	10	16	0	0	24	1	51	9.8
Other	<u>9</u>	<u>5</u>	<u>0</u>	<u>0</u>	<u>5</u>	<u>0</u>	<u>19</u>	<u>3.7</u>
TOTALS	<u>74</u>	<u>40</u>	<u>107</u>	<u>17</u>	<u>45</u>	<u>237</u>	<u>520</u>	<u>100.0</u>

EXHIBIT FSIGNIFICANT INSTANCES OF POTENTIAL FRAUD  
REFERRED TO INVESTIGATIVE ORGANIZATIONS  
DURING THE REPORTING PERIOD

<u>Line Item</u>	<u>Synopsis of Incident</u>	<u>Date Referred</u>	<u>Investigative Organization</u>
<u>PAY AND ALLOWANCES</u>			
1.	Two instances of improper overtime payments totaling approximately \$20,000 due to failure to administer overtime properly. (USAAA)	Mar 79 Apr 79	CID/FBI
2.	Potential fraudulent certification and payment of overtime (four separately reported instances). (NAVAUDSVC)	Jun 79 Jun 79 Jul 79 Sep 79	NIS
3.	Employees received disability compensation from Department of Labor during period they earned wages not reported to Department of Labor. (NAVAUDSVC)	Sep 79	NIS
4.	Unauthorized use of space available travel on military aircraft. (AFAA)	(a)	OSI
5.	Two cases involved suspected filing of false/erroneous reserve pay and travel vouchers, value over \$45,000. (AFAA)	(a)	OSI
6.	Suspected abuses of the Injury Compensation Program by civilian Air Force employees. (AFAA)	(a)	OSI
7.	Improper drawing of Basic Allowance for Quarters totalling \$1,966. (AIR)	Aug 79	FBI
8.	Indications of misuse of personnel resources and possible fraud in pay and allowances were found at an Air Force base. The monetary impact has not been determined. (AFIG)	May 79	OSI
9.	Questionable travel claims by DLA employees are under investigation for possible fraud. (DLA IG)	Aug 79	DIS

<u>Line Item</u>	<u>Synopsis of Incident</u>	<u>Date Referred</u>	<u>Investigative Organization</u>
<u>NONAPPROPRIATED FUND INSTRUMENTALITIES</u>			
10.	Cash shortages in club systems due to poor accounting practices, improper security procedures, and discrepancies between food items sold and proceeds (three separately reported instances). Overall monetary impact less than \$10,000. (USAAA)	Apr 79 Apr 79 Jun 79	CID/FBI
11.	Two NCO's allegedly received salaries from morale, welfare and recreation funds as well as appropriated funds for work during normal duty hours. (AFAA)	(a)	OSI
12.	Incomplete or non-existent accounting records and source documents. Estimated loss of \$2,063. (AFAA)	(a)	Base Commander
13.	Alleged \$1,700 embezzlement from NCO Wives Club. (AFAA)	(a)	Base Commander OSI
14.	Shortage of \$4,700 in sales revenue at a Consolidated Package Store. (AFAA)	Jul 79	Base Commander OSI
15.	Inventory and procurement irregularities in open mess. (AFAA)	(a)	OSI
16.	Welfare activity receipts exceeded bank deposits. (AFAA)	(a)	OSI
17.	Custodian of nonappropriated fund allegedly falsified or destroyed cash receipt documents. Monetary impact has not been determined. (AIR)	Jul 79	CID
18.	Foreign police seized \$8,700 of merchandise stolen from a PX. The PX Manager, and 4 employees, all foreign nationals, were allegedly involved. A subsequent total inventory of the PX revealed an inventory shortage of nearly \$67,000. (AAFES)	Apr 79	CID/Local Police

<u>Line Item</u>	<u>Synopsis of Incident</u>	<u>Date Referred</u>	<u>Investigative Organization</u>
19.	A concession operator abandoned four Air Force Base Exchange optical concessions owing a total of \$29,500 in fees. (AAFES)	Jun 79	OSI/FBI
20.	Alleged falsification of refund vouchers at a PX totalled \$3,550. (AAFES)	Sep 79	CID/FBI
21.	A concession employee allegedly absconded with \$2,830 in deposits for new cars. The employee has not been apprehended. (AAFES)	May 79	CID
22.	Slot machine manipulation. (MCIR)	Jun 79	NIS
23.	Inventory shortages in a nonappropriated fund instrumentality. (MCIR)	Apr 79	NIS
24.	Manipulation and shortages in inventory (several reports during reporting period). (MCES)	Various	NIS
25.	Refund manipulation. (MCES)	Jul 79	NIS
26.	Arbitrary overpricing. (MCES)	May 79	NIS

#### COMMISSARIES

27.	Audits disclosed a pattern of losses in commissaries attributed to possible theft and inadequate records management (five separately reported instances). (USAAA)	Various	CID
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#### PROCUREMENT MATTERS

28.	Audits disclosed a pattern of potential fraud in procurement matters (eight separately reported instances). The most frequently detected problems involved improper contract administration, lack of inspection, and improper certification of performance by Government or contractor personnel. (USAAA)	Various	CID/FBI
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<u>Line Item</u>	<u>Synopsis of Incident</u>	<u>Date Referred</u>	<u>Investigative Organization</u>
29.	Improper procurement practices involving alleged fraudulent payments to contractors and unauthorized direction of work not covered by contract (five separately reported instances). (NAVAUDSVC)	Various	NIS
30.	Alleged improper payments to contractor performing base housing maintenance. (AFAA)	(a)	OSI
31.	Suspected contractor overbillings of \$8,000 for removing septic, oil, and grease waste. (AFAA)	Jun 79	OSI
32.	Contractor allegedly gained excessive profits by substituting cheaper materials than specified, and using lesser quantities than proposed in contract pricing. DCAA questioned approximately \$350,000. (DCAA)	Jun 79	DIS
33.	Questionable accounting practices resulted in overstatement of cost data for estimating new contracts. Due to the condition of the accounting system and lack of access to records, auditors were unable to establish dollar impact. (DCAA)	Jun 79	DIS
34.	A review disclosed that a contractor's policy guidance and control of labor charging were inadequate and ineffective. Preliminary findings show as much as \$2 million of Bid and Proposal work improperly classified. (DCAA)	Jun 79	NIS/ FBI
35.	Contractor improperly charged \$150,000 to Government contracts. Investigative effort is continuing. (DCAA)	Jul 79	OSI
36.	Auditors noted numerous irregularities of labor charges to a Government time and material contract. Preliminary questioned costs exceed \$250,000. (DCAA)	Jul 79	DIS

<u>Line Item</u>	<u>Synopsis of Incident</u>	<u>Date Referred</u>	<u>Investigative Organization</u>
37.	During a labor floorcheck some employees said they had been directed by management to charge overhead accounts for time spent working on overrun contracts. Potential adverse impact to the Government is approximately \$700,000. (DCAA)	Sep 79	Counsel DLA
38.	Inspection of procurement practices at an Army installation disclosed instances of possible criminal activity including: false statements on procurement documents, collusive bidding, falsified bids, favoritism, nepotism and fraud. (AIG)	Mar 79	CID
39.	Contractor shipments may have been deliberately mismarked to hide the fact that items supplied did not meet contract requirements. (DLA IG)	Aug 79	DIS
<u>PROPERTY DISPOSAL</u>			
40.	Shortage of contaminated fuel valued at \$3,500. (AFAA)	Jul 79	Base Commander OSI
<u>IMPROPER USE OR DIVERSION OF GOVERNMENT PROPERTY</u>			
41.	Misuse of Government personnel, materials and facilities. (NAVAUDSVC)	May 79	NIS
42.	Adjustments to cash accountability could not be verified due to missing documents and obvious errors (two separately reported incidents). (AFAA)	Sep 79 (a)	OSI
43.	Alleged diversion of telephone toll and user charges of approximately \$9,600 for personal use. (AFAA)	Apr 79	OSI
44.	At a Navy installation, subsistence losses of about \$16,000 during a one-month period allegedly were disguised by recording unearned food credits. (DAS)	Sep 79	NIS

<u>Line Item</u>	<u>Synopsis of Incident</u>	<u>Date Referred</u>	<u>Investigative Organization</u>
45.	Headcount for one dining facility (during period April 22-25, 1979) was overstated by 4,369 meals, valued at \$5,649 in monetary credits. Fictitious headcount records allegedly were prepared for meals that were supposedly served in the field. (AIR)	Jun 79	Provost Marshal
46.	Suspected fraudulent gas credit card purchases of about \$2,000 involving 246 transactions was discovered. (AIR)	Apr 79	FBI
47.	Dining facility personnel allegedly falsified dining facility records to unlawfully obtain additional rations valued at \$17,979. (AIR)	Apr 79	CID
48.	Dining facility personnel allegedly substituted old signature headcount sheets, falsified transient headcount sheets and records of meals served in the field to unlawfully obtain additional rations valued at \$6,363. (AIR)	May 79	CID
49.	A shortage of rations was discovered at two dining facilities during the period April through June 1979. The dining facility headcount record showed field feedings for more military service members than were actually in the field. Monetary impact was estimated at \$20,000. (AIR)	Sep 79	CID
50.	Apparent misuse of credit cards. (MCIR)	Aug 79	NIS
51.	Supervisory personnel in a dining facility allegedly manipulated the Army Ration Accountability System to cover theft of subsistence from the dining facility. It was determined that at least \$28,000 worth of subsistence items was unaccounted for during a 4-month period. (AIG)	Jul 79	CID



<u>Line Item</u>	<u>Synopsis of Incident</u>	<u>Date Referred</u>	<u>Investigative Organization</u>
52.	Investigation of complaints that the quantity of food in a unit's mess hall was insufficient for the demand revealed unexplainable loss of large quantities of meat and vegetables. (AIG)	Jul 79	CID

OTHER MATTERS

53.	Civilian employees allegedly worked for and received compensation from a Government contractor while on official duty. Monetary impact has not been determined. (AIR)	May 79	CID
54.	Possible conflict of interest. Various base personnel had formed a construction company and were subcontracting to prime contractors for off-base work. These same individuals were responsible for monitoring the contract performance of the same prime contractors for on-base, government contracts. (AFIG)	Aug 79	OSI

Footnote:

- (a) Case was referred to investigative agency by Commander. Audit was conducted to assist investigation, confirm existence of alleged conditions and evaluate controls.

EXHIBIT G

SYNOPSIS OF SIGNIFICANT CASES OF POTENTIAL FRAUD  
REFERRED TO CIVILIAN PROSECUTIVE AGENCIES  
DURING THE REPORTING PERIOD

<u>Line Item</u>	<u>Nature of Incident</u>	<u>Estimated Monetary Loss</u>
1.	Four employees, acting jointly, used fraudulent transfer vouchers to steal assorted merchandise from various Exchange outlets in an overseas area. One offender is at large; three are confined by civil authorities pending judicial proceedings: \$7,706 worth of stolen cosmetics was recovered. (CID-1)	\$ 79,984
2.	A civilian subject stole a truck, trailer and other equipment from a motor pool. The major pieces of equipment, valued at approximately \$30,971, were recovered. The case was referred to the FBI on August 22, 1979, and judicial action is pending. (CID-2)	38,193
3.	Five foreign nationals, four of whom were employed at a U.S. Naval Station were involved in a scheme whereby the Navy paid for tires and inner tubes which were not delivered. The four employees were terminated. Action against all five is pending in the foreign criminal courts. (NIS-1)	159,762
4.	NIS and FBI investigations confirmed that a local oil company's employees loaded more waste oil than was paid for under a disposal contract at a Naval shipyard. The total value of stolen oil has not been determined, but was estimated at \$40,000 during a recent one-week interval. Two company employees, including a vice president, were arrested by the FBI. Adverse civilian personnel action against two shipyard employees who allegedly took part in the scheme has been deferred temporarily because of their cooperation with the investigation, which is continuing. (NIS-2)	Undetermined

<u>Line Item</u>	<u>Nature of Incident</u>	<u>Estimated Monetary Loss</u>
5.	An audit disclosed that a civilian employee received \$57,524 in overtime pay in addition to his regular \$28,311 salary. NIS investigation confirmed extensive overtime worked, but also identified overtime payments not earned. Employee was terminated and the case was referred to U.S. Attorney on March 16, 1979. Subject was acquitted by jury trial on September 4, 1979. Additional internal controls were implemented. (NIS-3)	\$ 25,000
6.	Thirty blank U.S. Government checks were reported missing from a ship's disbursing office in mid 1978. The exact amount of loss cannot be determined since some checks are still missing. Twelve recovered checks totalled \$45,000. Two enlisted men identified as conspirators were tried in April 1979. One was sentenced to five years and the other acquitted. (NIS-4)	45,000
7.	An Air Force civilian employee diverted computer components for his own use. Subsequent search of his home resulted in recovery of \$26,743 of Government property. Referred to Department of Justice. Action pending. (OSI-1)	28,500
8.	An Air Force commissary manager conspired with the manager of a produce company to defraud the Government by paying for goods not received. Commissary manager admitted receiving bribes of \$17,000 over a 2-year period. Referred to Department of Justice. Action pending. (OSI-2)	51,000
9.	The manager of a base Contractor Operated Civil Engineering Supply Store and owner of a supply firm conspired to defraud the Government by falsifying documents to show more merchandise was received than was actually delivered. Referred to Department of Justice. The manager was allowed to plead guilty to one count of false statements to the Government provided he cooperate in identifying others involved. Sentencing has been delayed pending evaluation of subject's cooperation. (OSI-3)	6,915

<u>Line Item</u>	<u>Nature of Incident</u>	<u>Estimated Monetary Loss</u>
10.	The president and vice-president of a contracting firm submitted falsified inflated cost data to Government procurement agencies for use in contract negotiations. The president pleaded guilty to evasion of personal income tax and was fined \$10,000, sentenced to a four year prison term plus four years probation, and ordered to pay back taxes of about \$750,000. The vice-president pleaded guilty to submitting false labor costs to U.S. Air Force and was fined \$5,000, sentenced to a 6-month prison term and 3 years probation. The contracting firm agreed to a \$2,250,000 civil settlement and was fined an additional \$21,500. (OSI-4)	\$ 4,500,000
11.	Contractor received \$142,220 in progress payments for eight contracts. Except for partial deliveries on the first contract, he has failed to deliver any items on subsequent contracts. Contractor has no material or documentation to support use of progress payments. In March 1979 case was referred to Assistant U.S. Attorney who declined prosecution. Case was referred to CID at request of Commander, Defense Contract Administration Service Region. (OSI-5)	142,220
12.	Contractor substituted nonconforming electronic parts. Case referred to Assistant U.S. Attorney in March 1979. Investigation continuing. (DIS-1)	Undetermined
13.	Trucking firms overcharged Government for services rendered. Referred to Assistant U.S. Attorney in September 1979. Action pending. (DIS-2)	Undetermined
14.	Nonconformance to contract requirements, false certification and billing involving multi-million dollar contracts. Referred to Assistant U.S. Attorney in April 1979. Action pending. (DIS-3)	Undetermined
15.	Fraudulent substitution of nonconforming, defective and previously rejected material. Referred to U.S. Attorney in April 1979. Grand Jury action pending. (DIS-4)	743,681

<u>Line Item</u>	<u>Nature of Incident</u>	<u>Estimated Monetary Loss</u>
16.	Pattern of theft and sale of flight jackets and suits and other items over a long period. Case is being coordinated with U.S. Attorney. Investigation is continuing. (DIS-5)	\$ 3,000
17.	Substitution of nonconforming meat products, false statements and concealment. Referred to U.S. Attorney in July 1979. Action pending. (DIS-6)	Undetermined
18.	Fraudulent practices including conspiracy and false statements in submitting progress payments. Referred to U.S. Attorney in August 1979. Action pending. (DIS-7)	7,000,000
19.	Introduction of defective or previously rejected ordnance material could result in scrapping a \$25 million weapon system. Referred to U.S. Attorney and Fraud Section, Department of Justice in July 1979. Investigation continuing. (DIS-8)	4,000,000

EXHIBIT H

SYNOPSIS OF SIGNIFICANT CASES OF POTENTIAL FRAUD  
REFERRED TO MILITARY COMMANDERS  
DURING THE REPORTING PERIOD

<u>Line Item</u>	<u>Nature of Incident</u>	<u>Estimated Monetary Loss</u>	<u>Results of Action or Current Status</u>
1.	A noncommissioned officer in a finance and accounting office conspired with one or more different military members on eight separate occasions to submit fraudulent temporary duty travel vouchers containing false claims for mileage and lodging totalling \$25,594. (CID-1)	\$25,594	\$24,291 was recovered. The noncommissioned officer was convicted by a court-martial and sentenced to confinement for five years, reduction to Private, forfeiture of all pay and allowances and a Dishonorable Discharge. Judicial action is pending against 15 other subjects.
2.	Eight service members systematically stole food from an installation dining facility. (CID-2)	32,599	Investigation still in progress.
3.	An Air Force maintenance activity prepared work orders indicating that spare parts were used for vehicle repairs when in fact the parts were placed in storage. There was no accountability or documentation on any of the parts. (OSI-1)	25,000	Action pending.

SIGNIFICANT INSTANCES OF WASTE DISCLOSED BY AUDIT,  
INTERNAL REVIEW AND INSPECTION ORGANIZATIONS  
DURING THE REPORTING PERIOD

SUPPLY FUNCTIONS

Depot Storage Operations. About \$3.8 million of material that should have been stored in general purpose warehouses was improperly stored outdoors or in sheds at an Army depot. Army auditors noted that over 100 items, valued at about \$600,000, showed signs of deterioration. Management agreed to rewarehouse the stock, to the extent that funds are available. (USAAA WE 79-23)

Control and Storage of Material. During a management effectiveness inspection, approximately 200 reels of coaxial cable and 250 lengths of reinforced concrete pipe were discovered near an explosive ordnance range. Inspectors found that the material, which was deteriorating, was not properly accounted for or programmed for use. The value of the cable and concrete pipe was estimated to be in excess of \$500,000. The inspectors recommended that like items be controlled and properly stored in accordance with supply directives. (AFIG)

Accountability of Industrial Plant Equipment. A DLA inspection of a CONUS depot revealed that a number of contractors and other activities that had Industrial Plant Equipment (IPE) were failing to return or otherwise account for IPE component parts, attachments, accessories, and technical information supplied by DoD. One sample of 2,500 line items revealed that seven percent or 191 items valued at almost \$300,000 were unaccounted for. While some items were subsequently located, items valued at over \$220,000 are still missing or unaccounted for. Immediate action was taken to establish accountability and improve scrutiny of discrepancy reports. (DLA IG)

Loss of Pilferable Items. An inspection of a CONUS depot by a DLA Inspector General team focusing on Inventory Adjustment Vouchers, Reports of Survey, Warehouse Denials and Security/Criminal Incident Reports indicated unusually large losses of highly pilferable items. A cursory review of one group of items revealed a loss of over \$200,000. Based on IG findings, improvements in facility security (lighting, area checks, access control), aggressive action by the depot loss prevention council and emphasis on crime prevention surveys have been directed. (DLA IG)

Storage of Industrial Plant Equipment. Improper storage of Industrial Plant Equipment (IPE) exposed over \$2.5 million of expensive, precision type IPE items to damage. One sample of 300 IPE items indicated a minimum of 2,500 man-hours was required to repair damage caused by improper storage. Proper storage facilities and procedures are now being emphasized and closely monitored. (DLA IG)

Loss of Perishable Items. During a recent 8-month period, an overseas Subsistence Region lost 738,000 pounds of lettuce due to spoilage in storage or in the commissary. Based on prevailing commissary retail prices this reflects a \$37,000 monthly loss. Pursuant to IG findings of the need to study and implement alternatives (e.g., off-shore lettuce procurement), DLA is now reviewing the problem to determine necessary actions. (DLA IG)

#### PROCUREMENT AND CONTRACT ADMINISTRATION FUNCTIONS

Furniture and Furnishings. Furniture and furnishings valued at \$790,000 which belonged to twelve commands were stored in a warehouse and in the Pentagon. Over 90 percent of this material was excess to the Navy's standard stockage level and therefore should not have been procured. Review of FY 78 procurements for five commands showed that 60 percent of the items were ordered during the last 60 days of the fiscal year. Many of the items ordered duplicated items already in storage. Navy auditors recommended that controls be established to preclude unwarranted procurements of this nature, and that proper disposition be made of excess stocks. The controlling activity concurred and stated that appropriate controls would be instituted. (NAVAUDSVC T30249)

#### TRANSPORTATION FUNCTIONS

Loss or Damage of Personal Property. Unearned transportation charges were not being recovered at many locations. When personal property shipped at Government expense is lost or irreparably damaged during shipment or while in storage, the carrier is not entitled to transportation charges on that part of the shipment. If these funds are recovered, estimated savings up to \$1 million per year will accrue to the Air Force. (AFIG)

#### REAL AND INSTALLED PROPERTY PROGRAMS

Preventive Maintenance. An effective preventive maintenance program was needed to prevent deterioration of the Army's investment in facilities at an Army arsenal. Preventive maintenance was not planned, scheduled, or performed on a regular recurring basis. The lack of preventive maintenance contributed to deterioration of facilities



that is estimated to cost \$17 million to repair. According to consulting engineers, the number and magnitude of the deficiencies could have been reduced significantly under an effective preventive maintenance program. Command agreed to establish a comprehensive preventive maintenance program by October 1, 1979. (USAAA SO 79-24)

Real Property Construction, Maintenance, and Repair. Procedures for processing real property construction, maintenance, and repair projects did not provide adequate internal controls, and the project approval process was only perfunctory. As a result, the program was susceptible to fraud, and projects that should not have been performed were approved. The auditors concluded that the need for \$3 million of the \$6.5 million in projects examined was highly questionable. The Defense Logistics Agency concurred with most of the audit recommendations. (DAS 79-134)

EXHIBIT J

OPPORTUNITIES FOR IMPROVING ECONOMY, EFFICIENCY  
AND EFFECTIVENESS OF OPERATIONS IDENTIFIED  
DURING THE REPORTING PERIOD

SUPPLY FUNCTIONS

Ammunition Stockage Levels. An audit disclosed that the \$4 million authorized stockage level of ammunition maintained at ammunition supply points in Europe could be reduced without decreasing supply support to training units. Also, over \$13 million of ammunition that was excess to current requirements had accumulated at the supply points. Management agreed with the finding and stated that stockage levels will be reviewed periodically to ensure that only essential stockage levels are maintained. (USAAA EU 79-204)

Supply Management. Over \$1.3 million of the total stock on hand at an overseas Army logistics support activity was excess to requirements. In addition, excess materiel due-in was valued at over \$1 million. Army auditors estimated that \$500,000 of the excess could be eliminated through redistribution. Management agreed to report excess items for disposition and cancel requisitions for certain items. (USAAA EU 79-9)

Medical Equipment Requirements. Medical equipment valued at about \$4 million had not been considered for possible transfer to a new hospital currently under construction. Army auditors identified 186 items of equipment with a replacement cost of over \$500,000 that should be considered for use in the new hospital rather than purchasing all new equipment. Management agreed to use existing serviceable equipment in the new hospital facility where possible. (USAAA SO 79-15)

Aviation Gasoline Support. An audit disclosed that a Navy activity could better utilize its integrated pipeline and storage facilities and release a 5,000-gallon aviation gasoline (AVGAS) refueler valued at about \$40,000 for use elsewhere in the Navy by terminating logistic support for AVGAS which was used only occasionally. By terminating AVGAS support, estimated installation cost of \$250,000 for a motor gasoline (MOGAS) pipeline could be avoided and unsatisfactory and hazardous conditions eliminated from its existing MOGAS system. Management concurred and initiated corrective actions. (NAVAUDSVC A10469)

Excess Shop Stores Material. Shop stores inventories at a Naval shipyard exceeded authorized stockage levels by about \$5.2 million. Although a similar condition was noted in a prior audit, the amount of potentially excess material in shop stores had increased. The activity only partially concurred in the recommendations; however, higher authority directed that a more aggressive plan be implemented to reduce inventory levels. (NAVAUDSVC C63747)

Management of Test Equipment. The lack of periodic standard review processes and consistent authorization methods for test equipment contributed to improper authorizations of \$5 million which included \$1.8 million in unreported excess equipment and invalid orders totaling \$345,000. Air Force auditors recommended that management amend supply directives to require periodic, standard reviews of test equipment authorizations and requirements. During the course of the audit, redistribution action was initiated and the invalid orders were cancelled. (AFAA 95441)

Safety Level Change Program. Management had not determined the total impact of the standard Air Force C-factor program on increased safety levels. The C-factor is the standard deviation in the safety level which affects support effectiveness. The auditors found that reduction of safety levels could result in potential cost avoidances of approximately \$620,000. AFAA recommended that management analyze the C-factor program criteria to determine whether changes are needed to ensure full coverage of required items and to exclude items not requiring increased safety levels. Management concurred and requested the Air Force Data System Design Center to modify the program to exclude assignment of a C-factor greater than one to federal supply classes 6910, 6920, 6930 and 6940. Management reduced safety levels by \$521,398. (AFAA 99578)

Logistics Support for CREEK REALIGN III. The automatic requisitioning of F-4 repair cycle assets, coupled with 5-week delay in cancelling established dues-in, caused the unnecessary expenditure of funds for unneeded assets. Excess material due-in totaled \$1,580,000 at the start of audit of which \$1,391,000 was cancelled during the audit. Management agreed with AFAA recommendations to continue to cancel requisitions for unneeded F-4 aircraft assets and to request guidance regarding resolution of the problem of automatic requisitioning of F-4 repair cycle assets. (AFAA 390-28)

Management of the Air Force Ground Generator Program. Regulations governing the use and funding of mobile emergency power generators needed refinement. At least 18 percent of the 2,079 generators used in this capacity were not justified; release of these assets would satisfy \$4 million in unfilled procurement requirements. Also, the lack of policy guidance resulted in generators valued at \$1.5 million being held in unreported excess status for periods up to 4 years. Management

concurrent with audit recommendations to return excess generators to the supply system, clarify policies and procedures covering the use and funding of generators, and establish recurring physical inventory procedures for all generators controlled by the base civil engineer. (AFAA SRA 97461)

Selected Modernization and Logistics Programs in Support of the B-52 Weapon System. Shortcomings in the implementation of procedures to remove, ship, and receive B-52 bombing/navigation system subassemblies from operational aircraft resulted in the loss of accountability of approximately \$4 million in assets. The location and recovery of these assets could reduce future parts acquisition by a significant amount. AFAA recommended that action be initiated to locate, remove and accurately account for all components from appropriate aircraft. Management concurred and stated that a plan was being developed to locate, remove, and account for these assets. (AFAA 960-21)

Management of Ready Team Conversion. Requisitions totaling \$1,331,828 for F-4 War Readiness Spares Kit items had not been cancelled even though the mobility tasking requirement for the remaining F-4 squadron was deleted on April 1, 1979. Cancellation of requisitions should free those items to fill other Air Force requirements and save the associated transportation and handling costs. Management initiated actions during the audit to cancel the requisitions. (AFAA 915-20)

Management of the F-15 Activation, Initial Spares Support Lists. Adjustments of Initial Spares Support List (ISSL) quantities outside of the standard ISSL edit program were not documented and may result in acquisition of higher than authorized quantities. As a result, the potential existed for premature acquisition of spares at the expense of other F-15 bases. Potential cost avoidance was estimated at \$1.6 million. Management requested a specific policy be provided on the loading of ISSLs and initiated action to delete unauthorized repair cycle special levels. (AFAA 438-26)

Review of DoD Medical Material Support Program. Medical material was purchased locally by six Army and Navy medical activities although the material was available at a lower cost through the DoD supply system. Annual savings of about \$1.25 million could have been realized if the DoD supply system had been used. The Military Departments concurred in the findings and recommendations. (DAS 79-081)

Requisitions for Nonstandard and Nonstocked Items. Defense Logistics Agency procedures did not provide for special validation of requisitions for nonstandard or nonstocked items. A DAS review showed that, if questioned, about 23 percent of the requisitions would be cancelled because the requirements were invalid. At the Defense Electronics

Supply Center, auditors estimated that about \$5.6 million could be saved annually by suspending requisitions pending the validation of requirements for nonstandard and nonstocked items. The Defense Logistics Agency agreed with the general intent of the recommendations and expressed the belief that special validations against selected requisitions could prevent considerable unnecessary expenditures. (DAS 79-082)

Selected Aspects of Inventory Management at the Defense General Supply Center. Improved procedures were needed for determining whether continuing centralized management was required for supply items with little or no demand. About 39,000 supply items with little or no demand were erroneously classified as centrally procured and were stocked on a recurring basis. Increased costs to the Government amounted to at least \$2.4 million for interest on investment in unnecessary inventory. The Defense Logistics Agency concurred in principle, but felt that it was not feasible to manually review the approximately 118,000 items involved. The Defense Logistics Agency agreed to take interim measures until automated reclassification can be accomplished. (DAS 79-097)

Accountability of Equipment and Supplies. Excess equipment and supplies were found stored in buildings at a remote forward operating base. Stored items included lumber, doors, plywood, metal fittings, cable, carpet, carpet pads, motors, and emergency lights. Inventory accountability was not maintained and disposition had not been requested for the excess equipment and supplies which were valued at \$500,000. (AFIG)

Inventory Losses. An inspection of a Depot revealed an upward trend of reported average monthly losses in inventory intransit to customers and inventories on hand: \$179,000 monthly in FY 77; \$463,000 monthly in FY 78; and \$842,000 for the first quarter of FY 79. As a result of IG recommendations, remedial action is underway to improve warehouse denial rates, location survey accuracy, location reconciliation accuracy at depot level, and to emphasize training in the physical inventory program. (DLA IG)

#### COMPTROLLER FUNCTIONS

Expired Work Orders. Expired customer orders were not reviewed to assure that unused funds were promptly returned to customers. Navy auditors identified 22 customer work requests or project orders representing fund authorizations totaling about \$1.1 million that were not reviewed for proper funding disposition. Of this amount, about \$807,000 was no longer available for use by the audited activity because the reimbursable orders had expired. Management agreed to review funding documents and return funds to customers in the future. (NAVAUDSVC A21678)

Design of Retired Pay System. Contracting out the remaining portion of the design of the New Retired Pay System could cost the Navy as much as \$5 million more than would be required to perform the work in-house. The audited activity agreed that the least costly method would be used for system development, and stated that in the future contracting will only be accomplished based upon a favorable economic cost analysis. (NAVAUDSVC C27418)

Accountability Verification. Unconfirmed deposits at the date of audit amounted to \$6,239,801. Credit to the general account of the Treasury of the United States and confirmation of these deposits were delayed from 1 to 8 days because the deposits were mailed to an off-base depository. Assuming the Treasury of the United States borrowed funds in the amount of the unconfirmed deposits and for the period outstanding, interest charges applicable to the funds would be \$22,278. Prompt deposits could result in potential cost avoidance estimated at \$485,651 annually. Management initiated a direct deposit program to on-base banking facilities. (AFAA 910-14)

Retired Military Pay. Although about 96 percent of the pay transactions that involved retired military personnel and survivors were accurate, a DAS review indicated that the exchange of data between the Military Services and the Veterans Administration could be improved. Our review disclosed payment errors amounting to \$9.6 million. The Deputy Assistant Secretary of Defense (Military Personnel Policy) and the Director for Management Services, Veterans Administration, agreed that procedures for paying military retirees and survivors needed improvement. (DAS 79-093)

Another audit disclosed annual overpayments of approximately \$3.3 million and underpayments of \$.5 million occurred because the amount of Social Security offset was incorrectly computed by the Military Services. Also, retirees were overpaid about \$2.6 million and underpaid about \$.1 million because of clerical computation errors and weaknesses in internal controls. Management agreed to improve payment procedures and strengthen internal controls. (DAS 79-124)

#### MANUFACTURING, MAINTENANCE AND REPAIR FUNCTIONS

Ship Overhaul Schedules. During FYs 77 and 78, more than \$582,000 in design costs were incurred for ships whose overhaul schedules and/or locations were subsequently changed. Since funds spent on design work for ships rescheduled for overhaul represent, for the most part, unrecoverable costs, it is important that changes in overhaul schedules be reduced to a minimum. The Chief of Naval Operations stated applicable instructions were being revised to establish more realistic planning factors and to stabilize the overhaul planning process. (NAVAUDSVC C13519)

## PROCUREMENT AND CONTRACT ADMINISTRATION FUNCTIONS

Lease Versus Purchase Analyses. Lease versus purchase analyses were not always performed for major equipment requirements. A Navy audit disclosed that purchase of selected items could save in excess of \$450,000 over the remaining useful life of the equipment. Navy auditors recommended that lease versus purchase analyses be performed for all major items of equipment and action be initiated to procure selected items where advantageous. Management plans to add an ADP module to perform lease versus purchase analyses and will analyze all major equipment items currently being rented. (NAVAUDSVC A31069)

Support of the C5A Aircraft. Two TF-39 engines and a core module valued at \$4.5 million were not recorded as assets on loan to a contractor or carried in the TF-39 engine inventory. AFAA recommended that management determine the need for retaining the two engines and a core module in the component improvement program and the potential value and utility of the engines as complete engines or spare parts. Management concurred with the audit recommendation. (AFAA 930-35)

Logistics Programs in Support of the B-52 Weapon System. Management had not established a component breakout program (component breakout is the process of identifying contractor furnished equipment items, which a contractor obtains from a subcontract manufacturer, and buying them for future procurements directly from that manufacturer if the overall cost is lower) for B-52 Offensive Avionics System Group B components. At least \$20.7 million of combined cost avoidances could be achieved by breakout of five Group B components. AFAA recommended that a component breakout program be conducted. Management concurred and stated that component breakout would be completed at the earliest possible time in the program. (AFAA 87350)

Government-Owned Special Test Equipment Retained by Defense Contractors. A review of Government-owned special test equipment in the possession of Defense contractors showed that improper classification of equipment resulted in additional procurement costs of about \$13 million and provided competitive advantage to certain contractors. The Deputy Under Secretary of Defense for Research and Engineering (Acquisition Policy) requested that the Military Departments and Defense Logistics Agency take action to assure close adherence to the guidelines for classification, justification, and acquisition of special test equipment and that procedures to provide for review of classifications during property surveys be established and followed. (DAS 79-091)

Excessive Fuel Oil Cost. At a Navy shipyard the source of #6 fuel oil was removed from Standard Stock and awarded to small business contractors under Section 8 of the Small Business Act. Resulting contract prices were higher than local commercial sources. The Internal Review

Office obtained fair market prices from the Defense Fuel Supply Center (DFSC) to determine if a claim against the contractor was warranted. Analysis indicated that the shipyard was overcharged a total of \$403,732. DFSC was formally requested to take appropriate action to recover the overpayment. The shipyard received \$54,000 during May through July 1979, and requested the Navy Finance Center to submit billings for the remainder plus interest. (NIR)

Termination of a Contract for Convenience. A contract was terminated for convenience when it should have been terminated for default by the contractor. Failure to insure that the Government's rights were protected resulted in a termination settlement to the contractor of \$1.6 million. Authority for making decisions in similar circumstances has been elevated to the headquarters within the command. Contracting officers have been directed to refrain from acting without this approval. (AIG)

Contract Administration. At five installations, unauthorized direction was given to contractors resulting in several claims against the Government. One claim was settled for \$197,000. Personnel in base contracting offices had not properly counseled technical personnel on the proper procedure for initiating contract changes and for providing direction to contractors. (AFIG)

#### PERSONNEL MANAGEMENT AND TRAINING FUNCTIONS

Personnel Assignments. A review of the assignment and use of Army combat support personnel at 3 battalions showed that 246, or about 11 percent of the enlisted personnel, including 9 bonus recipients, were either assigned to positions outside of their primary skills or to positions in their primary skills already filled by other individuals. Personnel malassignments result in the loss of the Army's investment in training and recruiting for these specialized skills. The cost to train the 246 personnel was about \$2.8 million, which included \$42,000 paid to bonus recipients. At least 103 of these individuals could have been reassigned to other combat engineer battalions requiring their primary skills. Command agreed and stated that the regulatory requirements concerning the reporting of surplus personnel and assignment policies governing their reassignment will be reemphasized. (USAAA EU 79-4)

Training Requirements. LAMPS MK III manpower requirements shown in the Navy Training Plan were substantially overstated. Manning requirements were predicated on aircraft deliveries and did not consider availability of LAMPS MK III ships. Consideration of these needs could result in reducing requirements by as many as 352 officer and 1,414 enlisted man-years through 1994. This would reduce total program costs by \$111 million, including \$1.1 million now programmed for FY 84 in the Five Year Defense Plan. The Chief of Naval Operations agreed that LAMPS MK III program manpower requirements need to be aligned with ship availability. Appropriate planning documents will be adjusted as required. (NAVAUDSVC K30019)



Staffing Level. Navy auditors determined that automatic data processing branches at a Navy regional data automation center were overstaffed by at least 11 personnel. Overstaffing might actually be greater, but the auditors were unable to evaluate staffing in some functional areas because they were inadequately defined. Also, inefficient shift scheduling resulted in excessive overtime costs. Annual savings of at least \$277,000 are projected. The audited activity plans corrective action. (NAVAUDSVC A31069)

Training of B-52 Crewmembers. Consolidation of navigator-bombardier training currently provided by the Air Training Command at one location with combat crew training provided by the Strategic Air Command at two other locations would reduce costs approximately \$63 million. AFSA recommended that navigator-bombardier training be integrated into combat crew training courses at the Strategic Air Command. Management concurred contingent upon full funding and procurement of the B52G/H weapon system trainer. A programming plan is being developed to provide a smooth transition of the training function. (AFSA 89926)

Tactical Air Command Blue Flag Exercises. Elimination of live sorties would enhance Blue Flag training and avoid the expenditure of approximately \$658,000 in operation and maintenance funds annually. Management took appropriate action to eliminate live flying during Blue Flag training. (AFSA 99579)

Field Training Detachment Operations. All six F-4 Field Training Detachment trainers were apparently excess to requirements since they had not been utilized to support training since they were received in June 1977. In addition, related support and test equipment may also be excess to needs. Cost avoidance benefits of approximately \$2.5 million can be achieved if the trainers and related equipment can be redistributed to fill other valid requirements. Management concurred with audit recommendation and reported identified excesses for redistribution. (AFSA 456-19)

Tactical Air Command Flying Hour Program and Aircrew Scheduling Procedures. The FY 79 flying hour program was overstated 1,798 hours which were valued at \$5.6 million. AFSA recommended that management reduce the average sortie duration and reduce the flying hours allocated to each unit. Management revised the average sortie duration and requested that flying units revise their flying hour programs for reallocation or turn in as necessary. (AFSA 99590)

The audit also disclosed that improved planning and scheduling of KC-135 tanker sorties required to support Tactical Air Command air-to-air refueling could reduce flying hours approximately 15 percent for FYs 79-81 avoiding nearly \$25 million in unnecessary expenditures. Management agreed with recommendations to reevaluate total KC-135 tanker requirements and adjust future requirements as necessary throughout the command. (AFSA 99590)

Navy Plans for Gas Turbine Propulsion System Training Facility.

The use of a training facility equipped with fully operational propulsion systems rather than simulators could result in the unnecessary expenditure of about \$61 million. The Navy had not properly determined whether the required training could be achieved by using simulators in the training facility. Had an effective analysis been performed, it would have shown that about 63 percent of the skills involved were already being taught with simulated training devices. Management concurred and initiated corrective action on each of the audit recommendations. (DAS 79-141)

RESEARCH AND DEVELOPMENT FUNCTIONS

Antenna Masts. An Army audit identified antenna mast acquisition programs that may not satisfy Army requirements and could duplicate other antenna mast programs. Additionally, many of the antenna mast development and acquisition programs were about to begin at the same time that requirements for a new family of quick erectable antenna masts were being prepared. About \$9.7 million could be saved by eliminating unneeded programs. Management agreed and tasked a working group to develop procedures to preclude recurrences of problems in this area. (USAAA NE 79-16)

Work Program Development. An Army research activity did not actively pursue the DoD-sponsored concept of interdependency--the practice of avoiding unwarranted duplication of research through improved coordination with other DoD components. Although the Army activity received copies of the annual work programs for other DoD components, a determination was not made regarding research efforts which overlapped or duplicated its own scheduled research. Army auditors reviewed projects of three Army activities involving a total of 40 separate research efforts and identified 6 research efforts totaling \$440,000 which apparently overlapped or duplicated other activities' research. Management agreed and stated that laboratory directors will now meet quarterly with the primary objective to ensure interdependency of research within DoD. (USAAA EC 79-11)

Management of Electronic Warfare Systems. Erroneous orders for \$4.5 million of war reserve materiel were cancelled as a result of an audit. In addition, spares requirements for the AN/ALR-69 system were found to have been overstated by \$175,000; requirements were reduced and the funds used for other valid requirements. (AFAA 960-26)

#### TRANSPORTATION FUNCTIONS

Use of Helicopters at SAC Missile Sites. Helicopter flying hours allocated to 37 Air Force Rescue and Recovery Squadron detachments exceeded training and high priority mission requirements. Helicopters were being used for low priority missions when ground transportation would have been more cost effective. Potential cost avoidance of \$597,000 could be realized by limiting use of flying hours to training and high priority requirements. Management stated that flying time will be used for the highest priority and flying hours allocated in excess of training and required operational flying would be turned back to Headquarters, Air Force Rescue and Recovery Squadron. (AFAA 99544)

Cost of Busing DoD Dependent School Students. Full-time civilian bus drivers in Germany, hired by the military communities to operate DoD-owned buses spent an average of 35 percent of their time in an idle or nonproductive capacity during FY 79. This condition occurred because drivers are only needed for limited periods during the school year and there are insufficient community activities to keep the drivers gainfully employed full time. The use of contract busing in lieu of in-house busing, whenever feasible, could reduce costs by \$7.8 million. The Deputy Assistant Secretary of Defense (Program Management) concurred with the recommendations. (DAS 79-126)

Management of Commercial Sea Containers. Ineffective management of commercial sea containers resulted in detention costs of \$2.5 million at an overseas theater in FY 78. Actions have been initiated to reduce detention costs. (AIG)

Shipment of Personal Property. Inspectors noted significant differences between storage weight and line haul weight of personal property. When line haul weight is lower than storage weight, the Government may reclaim a portion of storage charges paid for the entire period of storage. Estimated potential savings of \$500,000 per year are possible by determining correct storage weights and recovering overpayment of storage charges. (AFIG)

In-transit Storage. Some Air Force installations did not effectively apply Air Force directives requiring specific reasons from the military member before extending storage-in-transit periods for personal property. Most extensions examined were for a 3-month period. The Air Force could save an estimated \$2.5 million annually if the provisions of Air Force Regulation 75-25 were applied uniformly. (AFIG)

#### SUPPORT SERVICES

Defense Motion Picture Activities. DoD motion picture production and film processing facilities were not operated in the most economical and efficient manner. The combined capacity was greater than the workload. The transfer of functions to a single facility would save about \$600,000 annually. The Office of the Assistant Secretary of Defense (Public Affairs) concurred, provided approval for establishment of a Defense Audiovisual Agency is obtained. (DAS 79-100)

Runway Foaming Concept. Inspectors questioned the benefits of runway foaming at Air Force bases. Runway foaming vehicles and their prime movers represent \$11 million in capital investment and annual operating costs of approximately \$41 million. The inspector recommended reevaluation of the runway foaming concept and the need for the equipment. (AFIG)

#### NONAPPROPRIATED FUND INSTRUMENTALITIES

Navy Exchange Inventory Investment. Nine Navy Exchange audit reports identified large installations having significantly more inventory than necessary for projected sales volumes. The audit reports made recommendations for procurement, receiving, displaying, and disposition actions. Thereafter, these activities were able to reduce their excessive inventory positions by \$6,947,000. (NAVRESO)

#### REAL AND INSTALLED PROPERTY PROGRAMS

Rail Facility Construction. The planned expenditure of over \$5 million for the construction of a rail facility was not warranted. Required analyses were not performed, project costs had increased more than threefold, and project justification was not adequately supported. Prior to a commitment of funds, a thorough reevaluation of the requirement for the facility should be made. Management agreed and stated that the requirement for the rail facility has been reevaluated and the decision has been made to delete the project. A message was sent to Department of Army on March 28, 1979, requesting deletion of the project from the FY 80 program. (USAAA EU 79-208)

Ammunition Storage Facilities. As currently designed, construction of an overseas basic load ammunition storage area would not be cost effective. The design does not reflect minimum storage requirements needed to support the using units. As much as \$3.5 million could be expended for about 28 magazines which are not needed. Command agreed to reduce storage requirements to the minimum number of magazines needed to support using units. (USAAA EU 79-204)

The audit also disclosed that not all ammunition storage space in Europe was being reported and some storage space that was reported was not being effectively utilized. At least \$2.5 million in construction costs could be avoided by considering all existing storage space, adhering to storage criteria that considers both magazine size and explosive safety limits, and consolidating identical lots stored in separate magazines. Also, consistent application of regulatory guidelines by storage managers when computing capacities could reduce construction requirements by an additional \$4.3 million. Management agreed and stated that a new storage capacity report was developed to include all storage structures. The Ammunition Facilities Construction Program will be updated to adjust for changes in requirements for storage capacity as they are identified. (USAAA EU 79-204)

Reducing Military Land Exchange Requirements. About \$3.6 million in land exchange costs could be saved by obtaining the use of about 200 acres of real property located within one mile of a circular disposed antenna array by means of restrictive easements rather than purchase. Management concurred and plans to take necessary action. (NAVAUDSVC A10459)

#### AUTOMATIC DATA PROCESSING PROGRAMS

Acquisition of ADP Equipment. Effective controls were not exercised over the noncompetitive acquisition of specified ADP equipment. In FY 77, the Army estimated that about 60 percent of the contracts awarded for ADP equipment were noncompetitive acquisitions. A current audit of FY 78 ADP contract awards indicates a similar high percentage of noncompetitive acquisitions. The auditors estimated that the Army paid about \$53 million to acquire ADP equipment on a noncompetitive basis. According to a report issued by the General Accounting Office in May 1974, the General Services Administration (GSA) reduced costs by about 50 percent through competitive procurement of ADP equipment. If GSA's experience is representative, the Army could save an estimated \$26.5 million through competitive procurement. The savings are realizable because most of \$53 million in noncompetitive acquisitions involved 1 year leases for ADP equipment and maintenance services. (USAAA HQ 79-210)

The Army used operating funds to lease ADP equipment because procurement funds were not available although studies showed it was more economical to purchase the equipment. As a result, the Army paid millions of dollars more to lease equipment than it would have cost to purchase the equipment. Procedural changes are needed to include total procurement fund requirements in future ADP budget submissions. Management agreed with the thrust of the finding but stated that the manner in which the audit recommendations are implemented will not be decided until after the US Army Computer Systems Command has had the opportunity to study the matter and develop a plan of execution. (USAAA HQ 79-210)

Procurement of Standard Word Processing Equipment. The Source Data System (SDS) is not scheduled for full implementation until FY 85. In the interim period word processing equipment is to be installed in about 100 Personnel Administrative Support Systems offices. Separate procurements will cost about \$3.7 million, or double the centralized procurement cost. Equipment now installed in these offices is leased, but purchase of this equipment would provide full payback in three years. There will be a continuing need for word processing equipment in these personnel offices even beyond full implementation of SDS. As a result of the audit, the Chief of Naval Operations agreed to fully consider procurement of standard word processing equipment within 6 to 9 months. The current lease agreement includes an option to buy, which could be exercised. (NAVAUDSVC D30079)

Mechanization of Reports. Elimination of manually prepared delinquency reports on DLA and Army Inventory Control Point delinquent contracts at a Defense Contract Administration Services Region and use of mechanized Military Standard Contract Administration Procedures (MILSCAP) would provide over \$4 million annual savings. The IG recommendation to institute mechanized MILSCAP procedures is under review and evaluation by DLA. (DLA IG)

#### SECURITY ASSISTANCE

Sale of Excess Major items. Foreign military sales customers were not billed for about \$3.7 million of major items of equipment excess to Army needs which had been shipped as long as 15 months earlier. Management agreed with audit recommendations and initiated off-line billing requests for excess major items that had not been billed. (USAAA NE 79-14)

Management of F-4 Operational Capability Enhancement Program. The audit disclosed instances of underbillings to Foreign Military Sales countries. Management agreed with AFSA recommendations and initiated positive action during the audit to recoup all Foreign Military Sales underbillings. Validated cost avoidances totaled \$1,722,216 to date. (AFSA 960-20)

Recoupment of Nonrecurring Costs. A review of the recoupment of nonrecurring research, development, test and evaluation, and production costs revealed that an estimated \$1 million had not been collected from contractors operating on export licenses. The export licenses permit contractors to sell munitions directly to foreign customers, and require them to collect the nonrecurring costs. Management agreed to implement policies which will ensure collection of nonrecurring costs. (AIR)

Munitions Control. An investigation of an overseas Disposal Region disclosed that the inventory status of \$30 million (11,000 metric tons) of Military Assistance Program ammunition, explosives, and dangerous articles at a host country depot was unknown. As a result of the inspection, management initiated action to confirm inventory status and to dispose of items through sales, demilitarization, and removal. (DLA IG)

#### COMMUNICATIONS AND INTELLIGENCE PROGRAMS

Operational Readiness of Combat Communications Activities. Selective inventory of mobile communications-electronics facilities revealed excess items valued at \$4.3 million and invalid requirements on order totaling \$.5 million. As a result of the audit, management cancelled unneeded requisitions and redistributed excess assets. Audit followup confirmed actual cost avoidances totaling approximately \$5 million. (AFAA 89548)

In addition, Air Force auditors questioned the need for 15 members assigned to a caretaker unit. AFAA recommended that management determine the need for personnel assigned to the caretaker unit and initiate reassignment action if assigned personnel exceed requirements. Management took immediate action to delete the personnel authorizations and deactivate the caretaker unit. Validated cost avoidance totaled approximately \$504,000. (AFAA 89548)

#### ENERGY PROGRAMS

Energy Conservation Management and Control Systems. Techniques were available which, if applied at only the locations audited, would have saved the Air Force at least 3.5 million gallons of JP-4 fuel during CY 78. Potential cost avoidances exist for future years. Management concurred with audit recommendations and took specific action to reemphasize to major commands the need for fuel conservation techniques and to establish a fuel consumption baseline to measure improvements and meet DoD goals without impacting readiness. (AFAA 95443)

The audit also disclosed a need for improved management of contaminated fuels and oils. In CY 78, over 1.7 million gallons of JP-4 were disposed of without being considered for recycling for other uses within the Air Force. AFAA recommended that Headquarters, U.S. Air Force provide additional guidance to all fuel users prescribing procedures for controlling and disposing of contaminated fuels and oils. Management concurred and stated that Air Force Regulation 10-XX on Recovery of Contaminated/Used Liquid Petroleum Products will provide the guidance needed. (AFAA 95443)

Reduced Power Usage on Department of Defense Aircraft. Substantial savings in fuel and engine maintenance could be achieved by developing and implementing a DoD policy promoting wider use of reduced engine power in operation of DoD aircraft similar to practices used by commercial airlines. Airlines have experienced a 10 percent reduction in engine maintenance and fuel savings of 2 to 5 percent. DoD could save about \$196 million annually if the reduced power concept were fully exploited. The Navy and Air Force will support a reduced power policy to save fuel and engine operating costs if operational and safety needs for each weapon system are carefully considered. (DAS 79-086)



OPPORTUNITIES FOR REDUCING COSTS THROUGH  
IMPROVED CONTRACTOR OPERATIONS IDENTIFIED  
DURING THE REPORTING PERIOD

The Defense Contract Audit Agency has an active program to identify costs that can be avoided by defense contractors due to uneconomical or inefficient operations. These audits represent a review and evaluation of contractor policies, procedures, internal controls and practices for the purpose of determining whether contractor operations are performed in a reasonably efficient and economical manner.

For the 6-month period ended September 30, 1979, DCAA completed 350 economy/efficiency audits with a total recommended cost avoidance of approximately \$234 million. Synopses of typical findings follow.

Material Handling Equipment. During a review of a contractor's material handling operations, the auditor observed inefficient practices relative to the storage and intraplant movement of raw materials. DCAA recommended that the contractor consolidate all storage sites into a centrally located storeroom through the acquisition of an Automated Storage/Retrieval System. The contractor is studying the recommendation, which if implemented would free up 115,000 square feet of floor space and result in an annual cost avoidance of \$1 million.

Word Processing. An evaluation of a contractor's administrative functions disclosed that the preponderance of effort involved typing of repetitive material and revisions to original documents. Most of the typing effort was performed on standard typewriters. Utilization of modern word processing equipment can, and has, resulted in savings of 15 to 30 percent of applicable secretarial/ clerical payroll costs. In this instance, DCAA recommended that the contractor establish word processing centers and equip them with automated systems, including an Optical Character Reader, to perform the administrative/clerical workload. The contractor agreed with the auditor's recommendation, resulting in an annual cost avoidance of \$546,000.

Micrographics. Micrographics represents the technology of recording information on microfilm and subsequently reproducing this information to a readable viewer format. In a recently completed audit, a review of the contractor's computer center disclosed that almost all of the computer reports were printed on paper in lieu of microfilm. DCAA recommended that the contractor review its operations to determine which paper reports should be produced on microfilm and then acquire approximate computer output microfilm equipment. The contractor concurred and has started implementation of the recommendation, which DCAA estimates could result in savings of \$464,000 annually.

Direct Production Labor and Related Supervision. An audit of a contractor's numerical-controlled (N/C) machine shop department disclosed a high degree of employee idleness caused by low utilization of available N/C machines. DCAA recommended that the contractor correct this situation by increasing the use of N/C machines and by establishing an employee work measurement system. It was estimated that the resultant increase in worker productivity will save \$1.1 million annually. The contractor initiated corrective action.

Production Scheduling and Control. During an audit of a ship-building contractor, observations of the assembly labor area indicated that one group of pipefitters was using grinding machines to cut large diameter pipe while another group of pipefitters used circular saws. Since the circular saws cut pipe in one-fourth the time required by grinding machines, the auditors recommended that all pipe be cut with saws. The contractor concurred with the recommendation and took corrective action. Annual cost avoidance is about \$175,000.

Transportation Functions. Most of the reported cost avoidance actions in this functional area involved the use of company-owned aircraft in lieu of generally more economical commercial service. For example, one DCAA review disclosed that the cost of operating a fleet of company aircraft exceeded the cost of using commercial airlines by 78 percent. DCAA recommended that regularly scheduled commercial airlines be used for normal business travel needs, thus limiting the use of company aircraft to those occasions when commercial service was not practicable. The contractor is studying DCAA's recommendation. Implementation of the recommendation would result in an annual cost avoidance of \$4.5 million.

Automatic Data Processing Programs. A review of a contractor's computer operations disclosed that several minicomputers had been obtained and were being used on a rental basis while the contractor-owned mainframe computer was utilized less than 45 percent of the time. DCAA recommended more effective use of the mainframe computer in such areas as interactive computer graphics, sale of computer services to outside customers, and elimination of the unneeded leased minicomputers. The contractor is taking corrective action which should result in an annual cost avoidance of \$615,000.

Telecommunications. The majority of telecommunication reviews disclosed that contractor electro-mechanical telephone systems are outdated and uneconomical when compared to the more modern electronic equipment. As an example, an evaluation of an electronics firm's telecommunication system disclosed that the present equipment did not contain features such as automatic route selection, automatic call back and call forwarding, night station service, and detailed recording of outgoing calls. Because of the restricted capabilities of the present system, cost-effective telecommunication traffic management opportunities were

limited. By taking advantage of the technology breakthrough offered by electronic telecommunications systems, \$1.1 million annually could be saved through reduced maintenance, personnel and other costs. The contractor agreed with DCAA's recommendation and is in the process of upgrading the telephone system.

Energy Programs. Rapid increases in the cost of energy and the nation's energy shortage have made this an area of special importance. Specific areas of audit evaluation are: heating, ventilating and air conditioning, lighting, and water heating and cooling. A typical review disclosed an inconsistent level of lighting within the same facility. In addition, the contractor's minimal implementation of energy efficient fluorescent lighting equipment indicated a potential reduction in lighting costs of 25 percent. Air conditioning temperatures were maintained without regard to actual temperatures and boiler plant equipment was operating in an inefficient manner. The contractor has taken corrective action on most of the DCAA recommendations, which when fully implemented, will produce an annual cost avoidance of \$627,000.

Interactive Computer Graphics. Rapid advances in computer technology are enabling engineers, designers and draftsmen to use the computer as a tool to greatly increase their productivity. The objective of these audits is to determine whether the contractor performs design, drafting and other applicable effort in an economical and efficient manner consistent with the extent of computer aided design/computer aided manufacturing technology. A recent DCAA review of a shipyard contractor disclosed that while some computerized systems were being implemented as an aid for ship design effort, none of the systems had interactive graphic capability (i.e., instantaneous man-machine interface). It was determined that the acquisition of inter-active computer graphic equipment would enable considerable labor savings in each of the following applications: piping design, interface analysis, machinery design, hull design and analysis, parts/tool design, numerical control tape preparation, and electric wiring schematics. The contractor is studying the DCAA recommendation which could reduce Government contract costs \$11 million per year.

Engineering Labor. A preliminary review of one contractor's engineering operations indicated an excessive amount of overtime effort. Further, analysis of U.S. Department of Labor publications, and an internal study indicated that extensive overtime significantly impairs productivity, quantitatively as well as qualitatively. These studies showed individual productivity will deteriorate until production of the longer day (with overtime) was less than that of a standard 8-hour day. Application of these deterioration parameters to estimated overtime hours showed a potential annual cost avoidance of \$1.7 million. DCAA recommended more uniform and equitable distribution of necessary overtime work to avoid the inevitable down time in productivity. Following the audit review, significant reductions in overtime hours and costs were realized.

Other. Other DCAA economy and efficiency audits involved a review of the following contractor operations: facilities management, maintenance and calibration of test equipment, material receiving, inspection, storage and issue, quality assurance, shipyard welding, and repair, rework, and replacement of nonconforming material.

EXHIBIT L

CURRENT STATUS OF PREVIOUSLY REPORTED  
INCIDENTS OF POTENTIAL FRAUD REFERRED TO  
INVESTIGATIVE ORGANIZATIONS

This exhibit shows the current status or disposition of those incidents reported in Exhibit F of the prior DoD Report to the Congress for the period October 1, 1978 - March 31, 1979. (References shown are to line items in Exhibit F of that report.)

<u>Line</u> <u>Item</u>	<u>Incident</u>	<u>Investigative Organization/</u> <u>Action</u>
A.	<u>INVESTIGATION COMPLETED:</u> <u>NO FRAUD OR CRIMINAL ACTIVITY DISCLOSED:</u>	
F 2.	Claims for out-of-pocket expenses	NIS
11.	Shortage in sales income	CID
15.	Possible misappropriation of funds and property	CID
24.	Irregularities in open mess records	OSI
26.	Contractor performance	CID
30.	Contractor performance	NIS
43.	Irregularities in contractual performance	CID
45.	Procurement procedures, standards of conduct	CID
47.	Irregularities in award of contracts	OSI
49.	Bidding practices	CID
56.	Medical equipment unaccounted for	CID
57.	Ammunition stocks unaccounted for	CID
58.	Machine guns unaccounted for	CID
59.	Possible misappropriation of tires and batteries	NIS
64.	Subsistence loss	Provost Marshal
67.	Irregularities in supply account	OSI
B.	<u>INVESTIGATION COMPLETED:</u> <u>DISCIPLINARY ACTION TAKEN:</u>	
F 1.	Fraudulent overtime claims	NIS
4.	Falsification of pay records	CID
5.	Altered travel advance vouchers	CID
7.	Falsification of time records	Provost Marshal
9.	Irregularities in sick leave claims	OSI
12.	Unsupported payments	CID
16.	Cash shortage - billeting fund	CID
36.	Fraudulent writing of checks	Department of Justice

<u>Line Item</u>	<u>Incident</u>	<u>Investigative Organization/ Action</u>
61.	Diversion of supplies (Case 1)	OSI
62.	Diversion of food	CID
66.	Alteration of time cards and misuse of Government vehicles and equipment	CID
69.	Diversion of Government property	OSI/NIS
71.	Cash shortages	NIS
C. <u>INVESTIGATION COMPLETED:</u> <u>CASE REFERRED FOR PROSECUTION:</u>		
F 6.	Suspected fraudulent travel voucher	CID/U.S. Attorney
10.	Diversion of food items	CID - Judicial action pending against 3 subjects.
28.	Irregularities in contract administration	CID - Referred to Department of Justice.
40.	Stolen checks and forged travel vouchers	Pending action by Department of Justice.
54.	Contractor items not meeting specifications	See item G-30, Exhibit M.
D. <u>INVESTIGATION COMPLETED:</u> <u>OTHER DISPOSITION:</u>		
F 8.	Suspected falsification of leave balance	CID - Criminal prosecution declined by U.S. Attorney. Funds recovered. Employee retired.
13.	Loss of cash (2 cases)	OSI - One case closed with partial restitution. In second case, individual admitted guilt but failed to show for sentencing.
14.	Shortage of cash and merchandise	CID - U.S. Attorney declined prosecution. One subject allowed to resign.
17.	Irregularities in cash accountability	NIS - Cash shortage confirmed but no identification of party responsible.
20.	Alleged acceptance of gifts from vendor	CID/FBI - U.S. Attorney declined prosecution.
23.	Diversion of funds	OSI/Korean National Police - Korean National convicted.
25.	Theft by commissary personnel	OSI - Case turned over to Commissary Service for action against individuals.

<u>Line Item</u>	<u>Incident</u>	<u>Investigative Organization/ Action</u>
29.	Payments for work not completed	CID - U.S. Attorney declined prosecution because subject has a terminal illness.
31.	Payment for services not received (2 cases)	OSI - Government declined prosecution in one case. Second case awaiting OSI action.
42.	Overstated progress payments	DLA Counsel - U.S. Attorney declined prosecution. Administrative action taken to recover funds.
46.	Alleged bribe	CID - Witness declined to cooperate in investigation.
53.	Suspected forgery	NIS - U.S. Attorney declined prosecution.
55.	Unaccounted for parts and assemblies	CID - Subject identified but insufficient evidence for prosecution.
60.	Theft of watches	NIS - Investigation did not identify perpetrator.
65.	Misuse of Government property and alleged bribe	CID - U.S. Attorney declined prosecution. Subject resigned.
68.	Receiving and converting Government property to personal use	DIS - Subject resigned to avoid removal action.
73.	Misappropriation of funds	NIS - Individual made full restitution.
76.	Fraud involving telephone credit cards	Provost Marshal - Perpetrators not identified. Telephone company agreed to credit the Government for the calls.
77.	Alleged gratuities	Provost Marshal - Contractor declined to submit written statement.

E. INVESTIGATION STILL IN PROGRESS:

F 3.	Falsification of pay documents	OSI
18.	Inventory shortages	NIS
19.	Diamond merchandise unaccounted for	Local Police and Asst. U.S. Attorney.
21.	Concessionaire failed to report receipts	OSI/FBI
22.	Payments received for false certification	CID/FBI
27.	Irregularities in contract administration	CID/FBI
31.	Payments for services not received	OSI
32.	Contractor performance	OSI
33.	Alleged falsification of records	OSI

<u>Line</u> <u>Item</u>	<u>Incident</u>	<u>Investigative Organization/</u> <u>Action</u>
34.	Irregularities in contracting practices	DIS
35.	Suspected kickbacks involving contractor	Chief of Engineers U.S. Army
37.	Mischarging costs to Government contracts	DLA Counsel
38.	Possible inflated claim by contractor	Counsel, Architect of the Capitol.
39.	Possible inflated claim by contractor	Counsel, Architect of the Capitol.
41.	Mischarging of costs to Government contracts	DIS
44.	Suspected fraud in painting contract	CID/Small Business Administration
48.	Possible falsification of documents and collusion	DIS
50.	Suspected alteration of financial records	DIS
51.	Alleged unauthorized sale of assets	OSI
52.	Alleged preparation of fraudulent bills	NIS/FBI
61.	Alleged diversion of supplies	OSI
63.	Alleged misappropriation of funds	CID
70.	Alleged theft of food	OSI
72.	Possible conflict of interest	NIS
74.	Possible unauthorized tuition payments	OSI
75.	Unauthorized medical treatment	DIS



EXHIBIT MCURRENT STATUS OF PREVIOUSLY REPORTED SIGNIFICANT CASES  
OF POTENTIAL FRAUD REFERRED FOR PROSECUTION OR OTHER ACTION

This exhibit shows the current status or disposition of those incidents reported in Exhibit G of the prior DoD report to the Congress for the period October 1, 1978 - March 31, 1979. (References shown are to line items in Exhibit G of that report.)

<u>Line Item</u>	<u>Nature of Incident</u>	<u>Estimated Monetary Loss</u>	<u>Current Status or Disposition</u>
G 1.	A civilian employee inflated vouchers for medical services provided by civilian hospitals overseas, and retained inflated portion of payments to hospitals. Referred to Department of Justice in December 1978. Federal Grand Jury pending. (CID)	\$2,252,782	Case still pending at Department of Justice; offender at large.
G 2.	Contractor substituted dairy products that did not meet contractor specifications.	310,700	CID investigation completed; case referred to FBI on July 11, 1979.
G 3.	A contracting officer's representative altered and certified documents submitted for "unauthorized" work performed, resulting in overpayments to the contractor. (CID)	50,732	Investigation still in progress.
G 4.	Numerous irregularities at a finance and accounting office resulted in unauthorized advance payments. (CID)	37,000	Investigation still in progress.
G 5.	Two civilians and one military member illegally sold and/or held Government property. Referred to Department of Justice in December 1978. (CID)	21,133	The civilian subjects were convicted of this offense. One was placed on probation for 2 years and required to make restitution. The second was sentenced to 6 months' confinement, 18 months probation and required to make restitution. The military subject received punishment under Article 15, Uniform Code of Military Justice.
G 6.	An Army Reserve member fraudulently received Government property for personal gain. Referred to Department of Justice in January 1979. Awaiting trial date. (CID)	31,432	Case still pending at Department of Justice.
G 7.	President of contracting firm and three former and one present Navy employees indicted on charges of conspiracy to defraud, submit false claims, and bribery. Referred to U.S. Attorney, San Diego, California. (NIS)	662,000	President of contracting firm convicted of fraud and sentenced to 9 years and a \$50,000 fine. Three former Navy employees received sentences of 5, 2 and 2 years, respectively. The fourth Navy employee pleaded guilty, received a suspended sentence of 2 years and was terminated.

<u>Line Item</u>	<u>Nature of Incident</u>	<u>Estimated Monetary Loss</u>	<u>Current Status or Disposition</u>
G 10.	Navy audit of disbursing activity disclosed a cash shortage. Referred to U.S. Attorney, San Francisco, California in February 1979. Accountable officer returned \$204,673 and was relieved of all disbursing duties. (NIS)	\$ 218,848	Pending before Federal Grand Jury.
G 12.	Fourteen Marine Corps reservists filed fraudulent lodging receipts and falsified other expenses. U.S. Attorney declined prosecution. U.S. Marine Corps handled subsequent actions. Of the six members recalled to active duty, three officers resigned under less than honorable conditions, one officer is awaiting court-martial, one officer sentenced to loss of seniority and forfeiture of pay, and a senior NCO who cooperated with the investigation was allowed to retire. The remaining eight individuals may be subject to further proceedings. (NIS)	28,000	Funds are being recouped; administrative and disciplinary action essentially complete.
G 13.	Contractor overstated costs in support of \$1.5 million in progress payments. Referred to Naval Investigative Service in January 1979 for further investigation. (OSI)	298,000	Both U.S. Attorney and Fraud Section, Criminal Division, Department of Justice declined prosecution. Administrative action initiated to recover money due to Government.
G 16.	Air Force commissary employees and patrons conspired to defraud the Government by underringing purchases made at one store over a five-month period. Referred to British police. (OSI)	12,000	One subject was convicted in British Court, fined \$266 and received a 9-month suspended prison sentence. Two subjects were allowed to resign with no court action taken. Action is still pending against two subjects.
G 19.	Alleged substitution of Rebranded Semi-Conductors (Case #1). Referred to U.S. Attorney, Dayton, Ohio, in October 1978. (DIS)	Undetermined	DIS Investigation continues for U.S. Attorney
G 20.	Alleged mischarging of costs of DoD contracts. Referred to Department of Justice in August 1978. (DIS)	\$1.5 million	Grand Jury action in progress.
G 21.	Alleged substitution of Rebranded Semi-Conductors (Case #2). Referred to U.S. Attorney, Dayton, Ohio, in October 1978. (DIS)	Undetermined	DIS investigation continues for U.S. Attorney

<u>Line Item</u>	<u>Nature of Incident</u>	<u>Estimated Monetary Loss</u>	<u>Current Status or Disposition</u>
G 22.	Alleged mischarging of labor costs on contract. Referred to U.S. Attorney, Los Angeles, California, in November 1978. (DIS)	Unknown	DIS investigation continues for U.S. Attorney.
G 23.	Contractor from early 1960's to 1973 supplied nonconforming, substandard, often unwholesome meat under DoD contracts through schemes to circumvent inspection and contract requirements by offering gratuities and falsifying documents. Referred to Department of Justice in March 1978. (DIS)	Excess of \$1 million	Owner and two managers pleaded guilty. One manager sentenced to 3 years in prison concurrent with prior convictions. One manager sentenced to 2 years and \$5,000 fine. Owner pleaded guilty to 2 counts, fined \$20,000 and sentenced to 2 years probation.
G 24.	Contractor allegedly mischarging costs to DoD. Referred to Department of Justice in August 1978. (DIS)	\$2.9 million	Grand Jury in progress.
G 25.	False claims; illegal sale of Government-furnished material. Referred to U.S. Attorney, Memphis, Tennessee, in November 1978. Joint investigation with FBI. (DIS)	Undetermined	Investigation continues. Search/seize warrants produced approximately \$135,000 in Government material to date.
G 26.	Alleged product substitution and false certification. Referred to U.S. Attorney, Los Angeles, California, in November 1978. (DIS)	Undetermined	DIS investigation continues for U.S. Attorney.
G 27.	Contractor submitted false certifications while providing nonconforming, often unwholesome meat by circumventing inspection and compromising inspectors through gratuities. Referred to U.S. Attorney, Tyler, Texas. Trial November 1978. Firm, owner and six managers found guilty and fined a total of \$125,000; owner sentenced to five years in prison; managers received suspended sentences. (DIS)	\$ 500,000	Further action - Inspector sentenced to 2 years confinement; company, president and 26 employees debarred by DLA. Civil suit by Department of Justice settled for \$250,000 plus interest.
G 28.	Alleged false claims CHAMPUS Program. Referred to U.S. Attorney, Sacramento, California, in October 1978. Joint DIS/FBI investigation. (DIS)	Undetermined	Grand Jury action in progress.
G 29.	Alleged mischarging of costs to DoD contracts. Referred to U.S. Attorney, New York, New York, in March 1979. (DIS)	\$ 500,000	Grand Jury action in progress.
G 30.	Product substitution, false statement. Referred to Department of Justice in November 1978. (DIS)	Undetermined	Company and its president convicted of making false statements. President found guilty of one count and fined \$10,000. Company pleaded guilty to 8 counts, fined \$80,000. Possible civil action under consideration. Debarment proceedings have been initiated.

EXHIBIT N

CURRENT STATUS OF PREVIOUSLY REPORTED SIGNIFICANT CASES  
OF POTENTIAL FRAUD BEING RESOLVED THROUGH COMMAND ACTION

This exhibit shows the current status or disposition of those incidents reported in Exhibit H of the prior DoD report to the Congress for the period October 1, 1978 - March 31, 1979. (References shown are to line items in Exhibit H of that report.)

<u>Line Item</u>	<u>Nature of Offense</u>	<u>Estimated Monetary Loss</u>	<u>Action Organization</u>	<u>Current Status Or Disposition</u>
H 1.	Subject received stolen U.S. Government property. U.S. Attorney declined prosecution Case is pending action by command. (OSI)	\$16,504	60th Air Base Group, Travis AFB, CA	Report of command action has not been received.
H 2.	Contractor failed to perform maintenance on equipment as required and submitted a false claim for repair. U.S. Attorney declined prosecution. (OSI)	19,840	National Guard Bureau, Washington, D.C.	Command determined that further action was not warranted.
H 3.	Contractor made unauthorized modification to a contract in exchange for surplus Government parts and equipment (circumventing established disposal procedures). Air Force employees have also been implicated in this investigation. Foreign contractor not under jurisdiction of U.S. courts. (OSI)	30,000	Osan Air Base, Korea	Command determined that further action was not warranted.

EXHIBIT O

ABBREVIATIONS USED IN THIS REPORT

AAFES	Army and Air Force Exchange Service
AFAA	Air Force Audit Agency
AFIG	Air Force Inspector General
AIG	Army Inspector General
AIR	Army Internal Review
CID	Army Criminal Investigation Command
DAS	Defense Audit Service
DCAA	Defense Contract Audit Agency
DCASR	Defense Contract Administration Services Region
DFSC	Defense Fuel Supply Center
DIS	Defense Investigative Service
DLA	Defense Logistics Agency
DLA IG	Defense Logistics Agency Inspector General
DPDO	Defense Property Disposal Office
FBI	Federal Bureau of Investigation
MCES	Marine Corps Exchange System
MCIR	Marine Corps Internal Review
NASA	National Aeronautics and Space Administration
NAVAUDSVC	Naval Audit Service
NAVRESO	Navy Retail System Office
NIR	Navy Internal Review
NIS	Naval Investigative Service
OSI	Air Force Office of Special Investigations
USAAA	Army Audit Agency

**END**