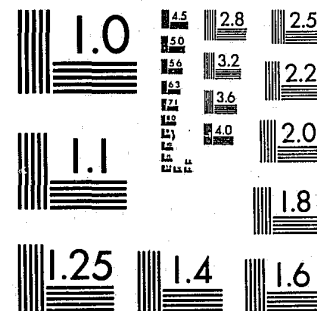


National Criminal Justice Reference Service

**ncjrs**

This microfiche was produced from documents received for inclusion in the NCJRS data base. Since NCJRS cannot exercise control over the physical condition of the documents submitted, the individual frame quality will vary. The resolution chart on this frame may be used to evaluate the document quality.



MICROCOPY RESOLUTION TEST CHART  
NATIONAL BUREAU OF STANDARDS-1963-A

Microfilming procedures used to create this fiche comply with the standards set forth in 41CFR 101-11.504.

Points of view or opinions stated in this document are those of the author(s) and do not represent the official position or policies of the U. S. Department of Justice.

National Institute of Justice  
United States Department of Justice  
Washington, D. C. 20531

Date Filmed

3/25/81

DEPARTMENT OF DEFENSE



# REPORT TO THE CONGRESS ON AUDIT, INSPECTION AND INVESTIGATIVE ORGANIZATIONS

APRIL 1, 1980 - SEPTEMBER 30, 1980



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

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE  
(COMPTROLLER)

November 28, 1980

74661

DEPARTMENT OF DEFENSE  
REPORT TO THE CONGRESS  
ON AUDIT, INSPECTION AND INVESTIGATIVE ORGANIZATIONS  
APRIL 1, 1980 - SEPTEMBER 30, 1980

FOREWORD

This semiannual report, prepared in accordance with Section 8 (a) (1) of Public Law 95-452 (Inspector General Act of 1978), summarizes the activities of the audit, inspection and investigative units of the Department of Defense during the 6-month period ended September 30, 1980.

This report presents a comprehensive summary of our 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 stated in our three previous semiannual reports under this legislation, the Secretary of Defense has established a Steering Group on Oversight of Defense Activities to monitor new initiatives to combat fraud and waste in Department of Defense programs. This report includes an update of the progress made on those initiatives.

NCJRS  
DEC 19 1980  
ACQUISITION

DEPARTMENT OF DEFENSE  
REPORT TO THE CONGRESS  
ON AUDIT, INSPECTION AND INVESTIGATIVE ORGANIZATIONS  
APRIL 1, 1980 - SEPTEMBER 30, 1980

Table of Contents

	Page
PART I: INTRODUCTION . . . . .	1
PART II: SUMMARY . . . . .	3
A. SUMMARY BY TYPE OF ORGANIZATION . . . . .	3
1. Audit Organizations . . . . .	3
2. Inspection Organizations . . . . .	6
3. Investigative Organizations . . . . .	7
B. SUMMARY BY DOD REPORTING CATEGORY . . . . .	8
1. Potential Fraud Incidents Reported to Investigators . . . . .	8
2. Potential Fraud Incidents Reported for Prosecution . . . . .	8
3. Significant Instances of Waste . . . . .	8
4. Opportunities for Improving Operations . . . . .	8
5. Status of Previously Reported Incidents . . . . .	9
C. SPECIAL PROGRAMS TO PREVENT AND DETECT FRAUD AND WASTE . . . . .	9
1. Steering Group on Oversight of Defense Activities . . . . .	9
2. DoD Hotline . . . . .	11
EXHIBITS:	
EXHIBIT A: Audit, Inspection and Investigative Units Contributing to This Report . . . . .	A-1

EXHIBIT B:	Statistics on Reports Issued by Internal Audit, Internal Review and Military Exchange System Audit Organizations During the Reporting Period . . . . .	B-1
EXHIBIT C:	Statistics on Reports Issued by Inspection Organizations During the Reporting Period . . . . .	C-1
EXHIBIT D:	Statistics on Criminal Investigation Cases Completed During the Reporting Period . . . . .	D-1
EXHIBIT E:	Statistics on Potential Fraud Cases Referred to Investigative Organizations During the Reporting Period . . . . .	E-1
EXHIBIT F:	Significant Instances of Potential Fraud Referred to Investigative Organizations During the Reporting Period . . . . .	F-1
EXHIBIT G:	Synopses of Significant Cases of Potential Fraud Referred to Civilian Prosecutive Agencies During the Reporting Period . . . . .	G-1
EXHIBIT H:	Synopses of Significant Cases of Potential Fraud Referred to Military Commanders During the Reporting Period . . . . .	H-1
EXHIBIT I:	Significant Instances of Waste Disclosed by Audit, Internal Review and Inspection Organizations During the Reporting Period . . . . .	I-1
EXHIBIT J:	Opportunities for Improving Economy, Efficiency and Effectiveness of Operations Identified During the Reporting Period . . . . .	J-1
EXHIBIT K:	Opportunities for Reducing Costs Through Improved Contractor Operations Identified During the Reporting Period . . . . .	K-1

EXHIBIT L:	Current Status of Previously Reported Incidents of Potential Fraud Referred to Investigative Organizations . . . . .	L-1
EXHIBIT M:	Current Status of Previously Reported Significant Cases of Potential Fraud Referred for Prosecution or Other Action . . . . .	M-1
EXHIBIT N:	Current Status of Previously Reported Significant Cases of Potential Fraud Being Resolved Through Command Action . . . . .	N-1
EXHIBIT O:	Abbreviations Used in This Report . . . . .	O-1

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

APRIL 1, 1980 - SEPTEMBER 30, 1980

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 60 days of the close of the reporting periods ending March 31 and September 30 each year, through October 1, 1982.

Reports for the first three 6-month periods have been submitted within the required time frames. This report covers the activities of internal and contract audit, internal review, inspection and investigative organizations of the Department of Defense during the period April 1, 1980, through September 30, 1980. This report was prepared from information provided by the various audit, internal review, inspection and investigative organizations listed in Exhibit A. As required by the legislation, the report includes:

- o A description of significant instances or patterns of fraud, waste or abuse disclosed during the reporting period, and a description of recommendations for corrective action made with respect to such instances or patterns.
- o A summary of matters referred for prosecution and of the results of such prosecutions.
- o A statistical summary, by category 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 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 A statistical summary of criminal investigation cases completed during the reporting period.

- o An updating to show the disposition or current status of incidents of fraud reported in our previous semiannual reports under this legislation.

- 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 Descriptions of opportunities found by Department of Defense auditors for reducing costs through improved contractor operations.

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

For purposes of this report, we have broadened the definition of "fraud" to include other unlawful activity against the Government and have combined "waste" and "abuse" into the single category of "waste." "Fraud and Other Unlawful Activity" is defined as any willful or conscious wrongdoing that adversely affects the Government's interest. This includes, but is not limited to, acts of dishonesty that contribute to a loss or injury to the Government. "Waste" is defined as the extravagant, careless or needless expenditure of Government funds or the consumption or misuse of Government property, resulting from deficient practices, systems, controls or decisions. It also includes abuse of authority and other improper practices not involving prosecutable fraud.

A summary of the activities of DoD audit, inspection and investigative organizations is presented in Part II of this report. The summary describes briefly the functions of these organizations and presents highlights of the results of their operations. The summary also shows the status of progress made on special programs to combat fraud and waste in Department of Defense programs. Details regarding specific instances of fraud, waste or abuse are presented in the Exhibits to this report.

## PART II

### SUMMARY

#### A. SUMMARY BY TYPE OF ORGANIZATION

1. AUDIT ORGANIZATIONS. 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 (DoD) 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 and the related 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 or waste. Where internal controls are lacking or appear inadequate, the auditors adjust the scope and depth of their audit coverage to determine whether procedural inadequacies may have resulted in wasteful or potentially fraudulent practices. Where the auditor's findings indicate potential fraud, referrals are made to the appropriate investigative agencies. Comments on each type of audit organization follow.

##### a. INTERNAL AUDIT

(1) There are four principal internal audit organizations in the DoD. The Army Audit Agency, Naval Audit Service, and Air Force Audit Agency provide internal audit services for all levels within the Army, Navy and Air Force, respectively. These Military Department audit organizations 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 DoD Component and audits requested by the Secretary of Defense or other key DoD officials. 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 the management of DoD resources.

(2) During the 6-month period ended September 30, 1980, the internal audit organizations issued a total of 1,758 audit reports. A statistical summary of these reports, by category of subject matter, is presented in Exhibit B.

(3) The audit agencies are constantly alert for new techniques or methods for facilitating their efforts to prevent



and detect the incidence of fraud, waste and abuse in DoD programs. Examples of significant initiatives taken by the audit agencies during the reporting period are:

(a) In May 1980, the Army Audit Agency furnished an advisory report to field commanders highlighting several common problems noted during audits of 15 facilities engineer activities. In each case, correction of the problems was within the means of the local commanders and their facilities engineer staffs. The report noted that increased awareness of possible problems and greater efforts to achieve objectives and comply with prescribed procedures and controls would reduce the likelihood of waste in applying personnel resources, managing supplies and utilities and using overtime in facilities engineering activities.

(b) The Naval Audit Service established a fraud council to aid in the formulation of programs to combat fraud and waste. As a result, reporting procedures were modified and a computerized followup system was developed to track unresolved audit findings.

(c) The Air Force Audit Agency, through its participation in the Air Force Audit, Inspection and Investigative Council established closer working relations with the Air Force Office of Special Investigations and the Air Force Inspection and Safety Center and held planning meetings to coordinate scheduled audits and inspections. Through the Council's efforts, information was provided to the Air Force Times publicizing fraud, waste and abuse detection and prevention procedures.

(d) The Defense Audit Service continued ongoing efforts to establish closer working relationships with investigative agencies, especially with the Defense Investigative Service. These cooperative efforts helped to foster a better understanding among auditors and investigators of their respective roles in the prevention and detection of fraud and waste.

(e) The audit organizations continued to emphasize the importance of prevention and detection of fraud and waste in their auditor training programs to heighten the auditors' awareness of situations where fraud and waste might occur. Examples follow:

1. Selected Defense Audit Service auditors attended a course on fraud and abuse awareness sponsored by the Department of Agriculture Graduate School and a white collar crime seminar conducted by the Department of Treasury.

2. The Air Force Audit Agency addressed fraud detection topics in formal courses for auditor interns and audit supervisors.

3. The Army Audit Agency conducted training sessions on the legal aspects to be considered in the course of fraud-oriented audits.

#### b. INTERNAL REVIEW

(1) Local internal review groups 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 groups exist within the Army, Navy and Marine Corps, and their efforts are considered pertinent to this report.

(2) During the reporting period, the internal review groups issued 10,373 reports as shown in Exhibit B.

#### c. MILITARY EXCHANGE SYSTEM AUDIT

(1) Each of the three military exchange systems (Army and Air Force Exchange Service, Navy Resale and Service Support Office and Marine Corps Exchange Service) has a centralized internal audit organization. The audit efforts of these audit organizations are considered pertinent to this report.

(2) During the reporting period, the military exchange system audit organizations issued 79 reports as shown in Exhibit B.

#### d. CONTRACT AUDIT

(1) Audits of outside contractors are functionally distinct from audits of the 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 by outside contractors. The Agency has auditors in residence at many of the larger contractor plants, and audits other contractors on a mobile basis from geographically dispersed field offices. Any instances of potential fraud disclosed at contractor locations or opportunities for improving contractor operations would be includable in this report.

(2) DoD contract audit activity during this reporting period is summarized below:

<u>Type of Audit Activity</u>	<u>Contract Reports Issued</u>	
	<u>Number of Reports</u>	<u>Percent of Total</u>
Incurring Costs	12,845	39.8
Forward Pricing Proposals	17,558	54.4
Cost Accounting Standards	916	2.8
Defective Pricing	868	2.7
Other	84	.3
Totals	<u>32,271</u>	<u>100.0</u>

(3) Because of the increased attention to fraud and waste, the Defense Contract Audit Agency reexamined and clarified the role of internal control as a deterrent to fraudulent or irregular activities. This increased attention, combined with the operation of the contractor's internal controls and the auditor's normally programmed tests of procedures and transactions, afforded a practical and reasonable degree of assurance for disclosure of material fraud or other unlawful activity. The emphasis on internal controls does not represent a change in audit policy on fraud, but rather a more concentrated focus on a responsibility that has always existed. To this end, the Defense Contract Audit Agency is developing a pamphlet which will provide comprehensive guidance on internal controls.

(4) A self-study course on fraud prevention and detection was developed and will be distributed Agency-wide. This course will heighten the auditor's awareness of the possibility that fraudulent acts may be discovered during the course of a routine audit. After completing this course, the auditor should be better able to recognize fraud or similar irregular activity.

## 2. INSPECTION ORGANIZATIONS

a. Inspection functions exist in the Army, Navy, Air Force and Marine Corps and in six Defense Agencies. Inspection functions complement the work of the audit and investigative activities in evaluating mission capability and management of these DoD Components. Inspection activities range from evaluations of operational economy, efficiency and effectiveness to the traditional Inspector General roles of inspecting and testing the military readiness and hearing individual complaints by military personnel. To the extent that activities of the inspection organizations are directed towards evaluating operational economy, efficiency and effectiveness and preventing fraud and waste, they are also covered by this report. However, details of traditional Inspector General efforts (military readiness inspections and individual complaint sessions) have been excluded.

b. Closer working relations with the audit and investigative activities are being emphasized, as is improved training of inspectors. As an example, during this reporting period 40 inspectors from the Defense Logistics Agency attended the white collar crime seminar conducted by the Department of the Treasury while other inspection personnel from the Agency attended formal courses conducted by the Army Inspector General and the DoD Computer Institute staff.

c. The ten DoD inspection organizations issued 5,556 inspection reports during the reporting period. A statistical summary of these reports, by type of inspection, is presented in Exhibit C.

## 3. INVESTIGATIVE ORGANIZATIONS

a. There are three criminal investigative organizations in the Military Departments - the Army Criminal Investigation Command, the Naval Investigative Service, and the Air Force Office of Special Investigations. In addition, the Defense Investigative Service performs a similar function for the Office of the Secretary of Defense and the Defense Agencies. These investigative organizations are responsible for inquiries into allegations with respect to conduct that is illegal or that violates DoD regulations. The activities of the investigative organizations range from crime prevention surveys and criminal investigations, which are directed to fraud prevention and detection, to military intelligence and counterintelligence activities and personnel background investigations, which are not directly related to investigation of alleged fraudulent acts. 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 prosecution or to DoD officials for administrative remedy.

b. Exhibit D presents a statistical summary, by category of subject matter, of the 7,462 criminal investigation cases completed during the 6-month period covered by this report.

c. 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 refer, or request Command to refer, a substantial number of incidents or patterns of potential fraud to the investigative organizations. As shown in Exhibit E, 373 incidents or patterns of potential fraud were referred to investigative authorities during the 6 months ended September 30, 1980.

d. Examples of significant initiatives taken by DoD investigative agencies during the reporting period are as follows:

(1) The Army Criminal Investigation Command completed 742 crime prevention surveys. This Command is studying the nature and structure of its economic crime investigative efforts. A computer program was developed to analyze and assist in the allocation and management of economic crime investigative resources.

(2) The Naval Investigative Service held a 2-week course for personnel specializing in fraud discovery and investigations. Included were 26 hours of instruction in fraud investigations for students attending the Naval Investigative Service Academy.

(3) The Air Force Office of Special Investigations prepared detailed outlines to guide teams of agents in making in-depth surveys of selected activities. The Workmen's Compensation Program was selected as the first of a series of subjects to be surveyed.

This initial effort, which will serve as a test-bed for future surveys, was coordinated with the Department of Labor and the Federal Bureau of Investigation to insure that individuals fraudulently obtaining compensation can be prosecuted.

(4) The Defense Investigative Service continued to increase its use of the team approach in the investigation of contractor cost-mischarging cases. This concept, developed jointly with the Defense Logistics Agency and the Defense Contract Audit Agency, has been used successfully in 20 current investigations accepted for prosecution by the Department of Justice.

#### B. SUMMARY BY DOD REPORTING CATEGORY

1. POTENTIAL FRAUD INCIDENTS REPORTED TO INVESTIGATORS. Section 8 of P.L. 95-452 requires that significant instances or patterns of potential fraud disclosed by audit, investigative and inspection activities during the reporting period be tabulated. The statistical data in Exhibit E show that 373 suspected fraud incidents were referred to investigative authorities by internal and contract audit, internal review and inspection organizations during the reporting period. Synopses of significant referrals are described briefly, with referral dates and identification of investigative organizations, in Exhibit F.

#### 2. POTENTIAL FRAUD INCIDENTS REPORTED FOR PROSECUTION.

a. Of the 7,462 criminal investigation cases completed during the reporting period, 43 of the more significant cases referred to prosecutive agencies by DoD investigative organizations are described in Exhibit G. These 43 cases involved estimated monetary losses of more than \$36 million.

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

3. 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 have occurred. Exhibit I contains descriptions of 30 of the more significant instances or patterns of waste disclosed by DoD audits and inspections in the 6 months ended September 30, 1980. The auditors' and inspectors' recommendations and related management actions, where appropriate, are also shown in the Exhibit.

#### 4. OPPORTUNITIES FOR IMPROVING OPERATIONS.

a. 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 needed to improve some aspect of DoD operations. These audit and inspection activities are thus directed toward identifying and making appropriate recommendations in reports on conditions that adversely affect operations.

b. 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. 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 the Defense Contract Audit Agency issued 392 reports dealing with the economy and efficiency of contractor operations with potential cost avoidances of about \$198 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 coverage.

5. STATUS OF PREVIOUSLY REPORTED INCIDENTS. In our prior reports to the Congress, 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 resolution or current status of previously reported cases not fully resolved as of March 31, 1980, is shown in Exhibits L, M, and N.

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

1. STEERING GROUP ON OVERSIGHT OF DEFENSE ACTIVITIES. 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 Steering Group, 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 projects follows:

a. FRAUD PREVENTION SURVEYS. This project was established to develop a pilot program for conducting fraud prevention surveys by interdisciplinary teams of auditors and investigators. The pilot program consisted of three phases: (i) development of policy guidance; (ii) performance of four pilot surveys; and (iii) analysis of the survey results. An analysis of the four pilot survey reports showed that improvements in the reporting methods were needed to illustrate the relative significance of conditions found by the surveys. The Steering Group is presently in the process of formulating appropriate DoD policy guidance to improve the coordination of the



various survey efforts conducted within each Military Department and Defense Agency and to ensure succinct reporting of significant results.

b. PROSECUTION FOLLOWUP. The purpose of this project was to develop an automated system for monitoring the status of DoD investigative cases referred to other agencies for further investigation or prosecution. The Project Team developed a reporting format for an automated system to be used by the Military Departments and Defense Agencies with investigative responsibilities. In addition, the format was designed to provide sufficient information to satisfy the reporting requirements of the Department of Justice White Collar Crime Referral Form and the Inspector General Act of 1978. Each DoD Component currently maintains statistical information on every case that it investigates or refers outside of the Department for investigation or prosecution. This information would have to be put into the suggested format for entry into the automated system. With minor exceptions, the recommendations of the Project Team have been approved. The Air Force has been appointed executive agent to develop an appropriate system for use within the DoD.

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 the General Accounting Office and DoD audit, inspection, internal review and investigative organizations. The Project Team's final report, in the form of a proposed DoD Directive:

- o required the establishment of central focal points for followup at each management level;
- o required the designation of high level officials in DoD Components to resolve differences between managers and audit, inspection, internal review and investigative organizations;
- o required that formal records be maintained of management actions taken on reported findings;
- o stipulated that semiannual status reports on followup actions be prepared and provided to top managers;
- o required that the audit, inspection and internal review agencies evaluate status reports to determine whether corrective actions are responsive and adequate;
- o established guidelines for selective followup by audit, inspection and internal review agencies, and by followup focal points to insure that deficiencies have, in fact, been corrected; and

- o provided for biennial evaluation of DoD Component follow-up systems to ensure continuing adequacy.

The Steering Group recommended approval of the proposed DoD Directive. The Directive is in the process of being finalized prior to its publication. Based on the Steering Group's recommendations, a separate DoD Instruction providing more detailed guidance and procedures for following up on contract audit reports will also be developed.

2. DOD HOTLINE. A DoD hotline was established in April 1979 for the reporting of fraud or waste incidents involving the Department. The Defense Investigative Service (DIS) operates the hotline and refers substantive incidents to the appropriate Military Departments and Defense Agencies for investigation. For the 6-month period ended September 30, 1980, DIS received 127 calls of which 101 were considered substantive and were referred to DoD Components. Since the inception of this program, DIS has received 631 calls and referred 364 for additional review. DIS also serves as the DoD focal point for hotline referrals from the General Accounting Office (GAO) of potential fraud incidents involving DoD activities. During this reporting period, DIS received 138 referrals from GAO. The total number of referrals received from GAO since the beginning of the program is 834.

# EXHIBIT A

## AUDIT, INSPECTION AND INVESTIGATIVE UNITS CONTRIBUTING TO THIS REPORT\*

	Function				
	Internal Audit	Internal Review	Contract Audit	Inspection	Investiga- tion
<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 Audiovisual Agency				X	
Defense Audit Service	X				
Defense Communica- tions Agency				X	
Defense Contract Audit Agency			X		
Defense Intelligence Agency				X	
Defense Investigative Service					X
Defense Logistics Agency				X	
Defense Mapping 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				

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

# EXHIBIT B

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

Program or Function	Number of Reports Issued			Total	Percent of Total
	Internal Audit	Internal Review	Mil Exch Audit		
Comptroller Functions	363	3,166		3,529	28.9
Nonappropriated Fund Instrumentalities	231	1,764	79	2,074	17.0
Supply Functions	232	1,839		2,071	17.0
Support Services	173	597		770	6.3
Personnel Management	106	539		645	5.3
Procurement Functions	112	475		587	4.8
Manufacturing, Maintenance and Repair Functions	145	231		376	3.0
Real Property Programs	104	202		306	2.5
Transportation Functions	40	195		235	1.9
Energy Conservation Programs	14	128		142	1.2
Communications and Intelligence Programs	44	103		147	1.2
Automatic Data Processing Systems	33	105		138	1.1
Force Readiness Programs	31	55		86	.7
Security Assistance Program	27	59		86	.7
Research and Development	16	31		47	.4
Other	87	884		971	8.0
TOTALS	1,758	10,373	79	12,210	100.0

# EXHIBIT C

## STATISTICS ON REPORTS ISSUED BY INSPECTION ORGANIZATIONS DURING THE REPORTING PERIOD

Inspector General Organizations	Number of Reports Issued			Total
	General Inspections	Special Inspections	Other	
Army (1)	2,604	518	1,313	4,435
Navy (2)	3	20	11	34
Marine Corps (2)	111	0	0	111
Air Force (1)	573	36	52	661
Defense Communications Agency	0	0	0	0
Defense Intelligence Agency	22	0	0	22
Defense Logistics Agency	190	3	85	278
Defense Mapping Agency	2	3	0	5
National Security Agency	10	0	0	10
TOTALS	3,515	580	1,461	5,556
Percentage of Totals	63.3%	10.4%	26.3%	100%

### 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 General inspections of their immediate subordinates. Inspections conducted by all other commands in those two services are not included.

# EXHIBIT D

## STATISTICS ON CRIMINAL INVESTIGATION CASES COMPLETED DURING THE REPORTING PERIOD

Category	Army Criminal Investiga- tion Command	Navy Naval Investi- gative Service	Air Force Office of Special Investi- gations	Defense Investi- gative Service	Total	Percent of Total
Diversions or Improper Use of Government Property	1,020	1,768	895	20	3,703	49.6
Pay and Allowances	93	536	427	0	1,056	14.2
Nonappropriated Fund Instrumentalities	10	355	336	0	701	9.4
Procurement	26	130	109	46	311	4.2
Property Disposal	35	19	6	0	60	.8
Commissaries	11	16	0	0	27	.4
Other *	592	429	580	3	1,604	21.4
TOTALS	1,787	3,253	2,353	69	7,462	100.0

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

# EXHIBIT E

## STATISTICS ON POTENTIAL FRAUD CASES REFERRED TO INVESTIGATIVE ORGANIZATIONS DURING THE REPORTING PERIOD

Potential Fraud Category	Number of Referrals to Investigators by:					Total	Percent of Total
	Internal Audit	Internal Review	Mil Exch Audit	Contract Audit	Inspec- tion Groups		
Nonappropriated Fund Instrumentalities	7	6	183	0	3	199	53.3
Pay and Allowances	7	4	0	0	43	54	14.5
Other Diversion or Improper Use of Government Property	13	15	0	0	18	46	12.3
Procurement	7	7	0	21	9	44	11.8
Commissaries	4	0	0	0	0	4	1.1
Property Disposal	0	1	2	0	1	4	1.1
Other	9	9	0	0	4	22	5.9
TOTALS	47	42	185	21	78*	373	100.0

\* In addition, 319 incidents of potential fraud were referred to investigative agencies by elements of the Defense Logistics Agency other than the Inspection Group.

EXHIBIT F

SIGNIFICANT 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>NONAPPROPRIATED FUND INSTRUMENTALITIES</u>			
1	A 10-day accountability test at a club lounge disclosed a shortage of about \$37,000 based on the volume of alcoholic beverages used. (AAA)	Sep 80	CID
2	It was alleged that nonappropriated fund records were manipulated and cash was diverted. Monetary impact is not known. (AIR)	Nov 79	CID
3	A former manager of an AAFES facility in Germany allegedly diverted merchandise valued at \$105,000 to the blackmarket. (AAFES)	Feb 80	CID
4	An inventory sheet was apparently altered to reflect an overstatement of \$19,742. (AAFES)	Apr 80	CID
5	AAFES funds in the form of a \$10,000 treasury check were deposited by registered mail. The return receipt reflected receipt of the registered parcel; however, bank records did not reflect the deposit. (AAFES)	Jun 80	CID
6	A woodworker foreman at a major AAFES depot allegedly diverted wooden pallets valued in excess of \$10,000 to a pallet company. (AAFES)	Sep 80	FBI
7	One or more individuals remained concealed inside an exchange and stole merchandise valued at \$32,000. (AAFES)	Jul 80	OSI
8	The loss from a break-in at an AAFES filling station was determined to be \$4,863 in cash and \$11,782 in gasoline coupons. (AAFES)	Aug 80	CID



<u>Line Item</u>	<u>Synopsis of Incident</u>	<u>Date Referred</u>	<u>Investigative Organization</u>
9	Unknown person(s) broke into a remote stockroom and stole merchandise valued at \$10,536. (AAFES)	Aug 80	CID
10	An audit disclosed that \$20,395 in cash register void transactions were not supported by cash register adjustment vouchers. (AAFES)	May 80	OSI
11	A merchandising specialist allegedly accepted cash gratuities. (AAFES)	Jan-Jun 80	OSI FBI IRS
12	AAFES funds in the form of a U.S. Treasury check were deposited by registered mail. The registered parcel was receipted for; however, bank records did not reflect the deposit. (This is separate and distinct from case number 5.) (AAFES)	Jun 80	CID
13	Merchandise valued at \$16,477 was stolen during a break-in at a remote warehouse. (AAFES)	Dec 79	OSI
14	An AAFES division director allegedly accepted cash gratuities. (AAFES)	Jan-Jun 80	OSI FBI IRS
<u>PAY AND ALLOWANCES</u>			
15	United States civilian employees residing overseas allegedly received living quarters allowances of \$20,000 to which they were not entitled because of failure to report dependency changes, failure to deduct income for subletting privately owned quarters, and irregular sales and rental payments to each other. (AFAA)	Mar 80	Base Commander OSI
16	Two travelers submitted questionable lodging receipts. Monetary impact estimated to be \$6,000. (AIR)	Aug 80	CID

<u>Line Item</u>	<u>Synopsis of Incident</u>	<u>Date Referred</u>	<u>Investigative Organization</u>
<u>OTHER DIVERSION OR IMPROPER USE OF GOVERNMENT PROPERTY</u>			
17	There were four separate instances of apparent theft/diversion of items such as automobile tires, batteries, gasoline, bridge toll tickets, maintenance stocks, a video cassette recorder and outboard motors. (NAVAUDSVC)	Aug 80 Aug 80 Apr 80 Mar 80	NIS NIS NIS NIS
18	Audit disclosed inadequate documentation and accounting records, deficient procedures, inventory shortages and alleged misappropriation of Government furniture and appliances for personal use. Monetary impact was about \$100,000. (AFAA)	**	Base Commander OSI
19	Inadequate supply discipline and weak internal controls contributed to an inventory shortage of \$25,000 in linen items. (AFAA)	**	Base Commander OSI
<u>PROCUREMENT MATTERS</u>			
20	Government credit cards were used for the questionable purchases of gasoline, oil and minor vehicle repairs. (AAA)	Apr 80	CID
21	About \$25,000 may have been diverted from an imprest fund during a 3-year period. (AAA)	Sep 80	CID
22	Potential fraudulent payments of \$10,800 were made to contractors for work not performed, work not authorized and work reimbursed under another contract. (NAVAUDSVC)	Apr 80	NIS
23	A contractor allegedly misappropriated Government-owned heating fuel valued at about \$34,700 by manipulating meter readings and using Government fuel in contractor vehicles. (AFAA)	Jun 80	Base Commander OSI
24	Payments of about \$28,000 were made to a contractor for delivery of fuel based on apparent fraudulent supporting documentation. (AFAA)	Jun 80	Base Commander OSI

Line Item	Synopsis of Incident	Date Referred	Investigative Organization
25	Audit disclosed an inordinate number of labor time sheets containing alterations without stating the reasons for the changes. The transfers resulted in increased cost recovery on Government contracts. The contractor was unable to explain the reasons for the alterations. Total dollar impact against Government contracts is estimated to be \$450,000. (DCAA)	Apr 80	DIS
26	A floor check revealed apparent extensive contract mischarging through time card project number erasures and changes. The labor mischarges amounted to \$600,000. (DCAA)	May 80	DIS
27	In evaluating a contractor's equitable adjustment claim the auditor discovered the contractor had apparently inflated rental costs from use of exorbitant tool rental rates for the delay period. The company paid \$560,000 less than the amount claimed to a wholly-owned subsidiary in the business of equipment rentals. (DCAA)	Jun 80	FBI
28	An audit of a progress payment request showed that contractor included unsubstantiated billings from an affiliated company of \$600,000. (DCAA)	Jul 80	DIS
29	A postaward review of contractor cost and pricing data indicated the contractor may have fraudulently represented data on engine prices during the preaward review and contract negotiations. This resulted in the Government negotiating duplicated costs of \$185,000. (DCAA)	Jul 80	OSI
30	A comprehensive labor audit identified about \$200,000 of fixed-price contract labor diverted to indirect expense accounts and to another Government agency's cost reimbursement type contract. (DCAA)	Aug 80	IG NASA

Line Item	Synopsis of Incident	Date Referred	Investigative Organization
31	A Government contract administrator responsible for administering a contract appeared to have a financial interest in the company. (AIR)	Apr 80	Provost Marshal FBI
32	Excessive amounts appear to have been expended on lawn mower repair parts based on the quantity of lawn mowers on hand. (AIR)	Apr 80	CID FBI
33	Review of contractor billings disclosed apparent overcharges of \$31,973 by a contractor. The contractor allegedly was being paid for work not accomplished. (AIR)	Aug 80	CID
34	Allegations were made that Government buyers have accepted bribes from and maintained improper relationships with local suppliers. (DLA IG)	May 80	DIS
35	It was alleged that a Government employee had a financial interest in a firm doing business with his Agency. (DLA IG)	Aug 80	DIS
36	It was alleged that a Government employee was conducting private business transactions using Government facilities and was providing pricing information to a contractor. (DLA IG)	Aug 80	DIS
<u>SUPPLY FUNCTIONS</u>			
37	Over an 11-month period, 4.7 million rounds of ammunition were unaccounted for. There were also weaknesses in security practices. (AAA)	Apr 80	CID
38	At one location, reserve component equipment was improperly used by numerous civilian organizations. The monetary impact exceeded \$20,000. (AIG)	Jun 80	CID

<u>Line Item</u>	<u>Synopsis of Incident</u>	<u>Date Referred</u>	<u>Investigative Organization</u>
	<u>SUPPORT SERVICES</u>		
39	Unaccounted losses of subsistence items amounted to \$422,000 which is \$132,000 above the acceptable one percent loss tolerance. (AAA)	May 80	CID
40	Approximately 13,800 meals were used for only 6,100 people at a dining facility and 3,600 meals were used for 1,250 personnel on field exercises. Monetary impact estimated to be \$12,200. (AAA)	May 80	CID
41	Inadequate management of commissary operations contributed to an apparent shortage of \$199,000 in inventory. (AFAA)	*	Base Commander OSI
42	Audit disclosed problems in determining eligibility of sponsor in connection with CHAMPUS claims and instances of questionable dependency. (DAS)	Sep 80	DIS

Footnote:

- \* 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	Army personnel allegedly conspired with contractors to defraud the Government through rigged contract awards, manipulation of prices, false billing and withholding of information from competing contractors. The CID and FBI are conducting a joint investigation. (CID-1)	\$3.5 million
2	A prime contractor allegedly obtained a contract through collusion and then defaulted in a "front end load" scheme. Investigation continues by the CID and FBI. (CID-2)	\$1.5 million
3	Dependents of deceased retired service members allegedly retained unauthorized retirement checks. Investigation continues by the US Secret Service. (CID-3)	\$108,018
4	Three oil companies allegedly billed the Government for fuel oil not delivered. Investigation continues by the FBI. (CID-4)	\$100,000
5	A Panamanian National allegedly stole and negotiated 96 US Treasury checks while employed by the Army Postal System. Investigation continues by the Republic of Panama Department of National Investigations. (CID-5)	\$36,428
6	A Government employee allegedly awarded a contract to his son, leased equipment to the contractor, and bonded the contractor for a two-percent bonding fee. Investigation continues by the FBI. (CID-6)	\$850,000
7	A Government contractor apparently claimed and received payment for automotive parts but failed to deliver the items. Investigation continues by the FBI. (CID-7)	\$71,000
8	A joint NIS/FBI investigation disclosed that a service contractor billed the Government under several cost contracts far in excess of incurred labor costs. A close and improper business relationship apparently existed between the Government program manager and the company president. Also, former company employees were employed by the Government in contract managerial positions and former Government employees worked for the contractor. A representative of the US Attorney's Office advised that criminal prosecution in this case was not possible; however, the Civil Division of the US Attorney's Office would consider civil litigation. (NIS-1)	\$750,505

<u>Line Item</u>	<u>Nature of Incident</u>	<u>Estimated Monetary Loss</u>
9	A joint NIS/Department of Labor investigation considered allegations that a former Navy employee, who had received total disability payments since 1972, had been employed as a heavy equipment operator, a tenant farmer and an apartment manager. The basic allegations were confirmed. The case is being considered by the US Attorney for presentation to a Federal Grand Jury with a view toward indictment. (NIS-2)	\$61,202
10	A joint NIS/FBI investigation revealed that a maintenance contractor submitted inflated and multiple billings for work accomplished at a military installation. A representative of the US Attorney agreed that the investigation had revealed fraudulent billings but because adequate administrative controls were lacking at the military command, a prosecutable case of fraud could not be established. Adequate controls have now been implemented. (NIS-3)	\$51,827
11	A Government supervisor was assigned to extended temporary duty for a period in excess of four years. Investigation revealed that another Government employee furnished rental receipts used to claim TDY. The supervisor purchased a residence for \$35,000, and at the end of his TDY, sold the residence for \$108,500. Investigation results are under review by the US Attorney for determination regarding prosecutive merit. (NIS-4)	\$22,593
12	Investigation by NIS and FBI revealed that a Government warehouseman unloaded 409 cases of stolen food stuffs at a civilian residence from a Navy vehicle. The warehouseman had used a forged property pass to remove the stolen property from a military installation. In June 1980 he entered a plea of guilty to the larceny charge, and a month later was sentenced to serve one year and one day in prison. (NIS-5)	\$13,464
13	A foreign national allegedly stole aircraft parts from an overseas military installation. The perpetrator is currently being tried in the local country's criminal court. (NIS-6)	\$20,271

<u>Line Item</u>	<u>Nature of Incident</u>	<u>Estimated Monetary Loss</u>
14	A joint NIS/FBI investigation revealed that a maintenance contractor had systematically billed the Government for work not performed. A representative from the US Attorney's Office advised that although the investigation revealed gross irregularities and evidence of fraud, prosecution was not possible because Government employees had acquiesced to allowing the padding of bills for work allegedly performed outside the scope of the contract in order to accomplish other "required" work. Administrative corrections have been initiated. (NIS-7)	\$191,088
15	A military member allegedly conspired with employees of a truck-rental firm in fabricating documentation to allow collection of truck-rental fees from the Air Force. Case was referred to FBI in October 1979. (OSI-1)	\$20,000
16	Vendor allegedly paid bribes to AAFES employee to insure his products were carried. FBI investigation began in August 1980. (OSI-2)	\$50,000
17	A civilian employee allegedly diverted Military Affiliated Radio System equipment for his personal use and manipulated records to indicate equipment was lost or sent to disposal. Federal grand jury returned an 11 count indictment for theft of Government property. Assistant US Attorney agreed to drop all charges if subject would return all the equipment to the Air Force. (OSI-3)	\$55,000
18	Radios and equipment were diverted while en route by commercial carrier from one Air Force base to another. Case was referred to FBI. (OSI-4)	\$20,840
19	A contractor did not deliver operating instructions, a software disc drive and other vital parts which were contracted for. Partial payment was made to the contractor. Complete delivery of software and parts was never made. Contractor subsequently went out of business. US Attorney declined to prosecute. (OSI-5)	\$85,000
20	An Air Force Security Policeman at an overseas base was offered bribes by a local citizen to allow AAFES trucks to leave the base without inspection. A truck was detained by OSI. Search disclosed \$41,000 worth of goods. The driver had in his possession a bogus transfer voucher for the cargo. Two local citizens involved in the theft ring were tried by local court, found guilty and sentenced to eight months confinement and two years probation. (OSI-6)	\$41,000

Line Item	Nature of Incident	Estimated Monetary Loss
21	A contractor printed, kept, and sold valid base exchange food coupons. The same contractor also sold counterfeit meal coupons. Local police raided the contractor's plant and seized \$317,000 worth of counterfeit coupons. A total of \$8,500 worth of bogus coupons had been redeemed through the local base exchange food outlets. Trial date has not been set. (OSI-7)	\$8,500
22	An Air Force member was arrested for theft of meat from a commissary warehouse. A joint OSI/FBI investigation disclosed that subject had established eight delivery points for the stolen meat and had made 40 deliveries between July 1979 and March 1980. Subject was arrested with \$1,062 worth of stolen meat. Subject was indicted by a Federal Grand Jury. A trial date has not been set. (OSI-8)	\$29,000
23	A source alleged that present and former members of the Military Affiliated Radio System were involved in theft, diversion and illegal sale of equipment. Subjects apparently obtained equipment by manipulation of records at Defense Property Disposal Office. Also, heliox cable valued at \$264,000 was allegedly diverted by subjects in 1978. Case referred to FBI in February 1980. (OSI-9)	\$514,000
24	Three Air Force civilian employees recommended base hook-up to local water treatment disposal plant in their official capacity as engineers. Alleged conflict of interest by the three subjects will result in excessive costs to the Air Force. The matter is being pursued by a grand jury. (OSI-10)	\$3.6 million
25	It is alleged that a contractor holding Air Force and Army contracts inflated cost data on work related to the contracts, and did not manufacture items according to specifications. DCAA audit recommended \$219,000 price adjustment on three Army contracts. Case was referred to FBI. Investigation is ongoing. (OSI-11)	\$219,000 on Army contracts. Loss on Air Force contracts not determined at this time.
26	A former Government employee alleged that a contractor did not comply with contract requirements in painting interiors of family quarters at an Air Force Base. The contractor allegedly applied fewer coats of paint than were called for and in some instances left rooms entirely unpainted. The FBI assumed investigation and substantiated allegations. Case is awaiting action in US District Court. (OSI-12)	\$80,473

Line Item	Nature of Incident	Estimated Monetary Loss
27	A preliminary DCAA audit of a major aircraft manufacturer indicated defective pricing on Air Force contracts. Subsequent investigation and audit substantiated the allegation. Civil action by the Department of Justice is pending. (OSI-13)	\$19 million
28	Four local national employees of a contractor responsible for moving merchandise to an overseas commissary bypassed a security seal and removed \$45,901 of goods. (OSI-14)	\$45,901
29	A contractor allegedly submitted fraudulent progress payment claims to the Government and furnished sub-standard goods. Investigation is continuing in coordination with the Department of Justice. (DIS-1)	\$1.2 million
30	Three food brokers were allegedly involved in collusive bidding on Government contracts. (DIS-2)	\$300,000
31	Civilian employees allegedly sold stolen Government property. Investigation is continuing in coordination with the Department of Justice. (DIS-3)	\$24,000
32	A claimant allegedly submitted ten fraudulent CHAMPUS claims for prescription drugs. (DIS-4)	\$14,179
33	A contractor allegedly submitted false invoices on a Government contract. (DIS-5)	\$240,000
34	A contractor allegedly mischarged labor costs on a Government contract. Joint investigation with FBI is continuing in coordination with the Department of Justice. (DIS-6)	\$2 million
35	A contractor allegedly mischarged overhead costs to a Government contract. (DIS-7)	\$300,000
36	A claimant allegedly submitted seven fraudulent claims for medical services provided his spouse. (DIS-8)	\$18,088
37	A contractor allegedly substituted improper materials on a Government contract. (DIS-9)	\$7,770
38	A contractor allegedly substituted counterfeit electronic parts on a Government contract. (DIS-10)	\$13,000
39	A former Government employee was allegedly responsible for the theft and fraudulent conversion of 25 US Treasury checks from a Government facility. (DIS-11)	\$8,000
40	A contractor allegedly mischarged labor hours and billings. (DIS-12)	\$500,000



## EXHIBIT H

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

Line Item	Nature of Incident	Estimated Monetary Loss
41	A DoD contractor engaged in noncompetitive bidding practices. (DIS-13)	Unknown
42	Parts used by a contractor in the manufacture of a product did not meet specifications. Investigation is continuing in coordination with the Department of Justice. (DIS-14)	\$784,000
43	A contractor allegedly mischarged labor costs to a Government contract. (DIS-15)	\$149,000

Line Item	Nature of Incident	Estimated Monetary Loss	Results of Action or Current Status
1	Two military personnel planned and one of them carried out the burglary of an office where endorsed Government payroll checks were stored. (NIS-1)	\$54,901	The perpetrator was convicted by general court-martial and sentenced to five-years confinement at hard labor, forfeiture of pay and allowances and a dishonorable discharge.
2	An OSI source identified a ring involved in thefts from an overseas Air Force base supply system. Investigation resulted in recovery of a computer control component of an F-4 precision target and bombing system valued at \$51,500. (OSI-1)	\$61,500	An Air Force member admitted theft of F-4 part and \$10,000 worth of other aircraft parts. Parts worth \$3,200 were recovered. A retired noncommissioned officer and a local businessman were also identified as being involved in the ring. Command action is pending against the Air Force member.
3	An Air Force Audit Agency review of DoD Civilian Living Quarters Allowance payments at an overseas location disclosed indicators of fraud concerning home ownership and rental expense reimbursement. (OSI-2)	Undetermined	Ten investigations were initiated. Recoupment action has been taken or is anticipated in six cases, amounting to \$29,594. Further command action is pending.
4	A semiannual inventory of a contractor operated Commissary overseas disclosed a significant shortage. Information was developed indicating records had been manipulated to cover the loss. (OSI-3)	\$199,181	The contracting officer has withheld the amount of the loss from payments to the contractor. Investigation is continuing.
5	An Air Force member fraudulently received allowances due to a married individual when he was actually divorced. (OSI-4)	\$20,494	Case is pending command action.
6	A source provided information which foiled the theft of \$22,587 worth of cigarettes from an overseas Air Force commissary warehouse. Subject of investigation is a local national employee of the Army and Air Force Exchange Service. (OSI-5)	\$22,587	Command action is pending.

## EXHIBIT I

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

#### COMPTROLLER FUNCTIONS

Lost Discounts. One Defense Logistics Agency supply center lost over \$348,000 in discounts over a recent 12-month period. Management is establishing procedures to handle payable documents on a more timely basis. Further, Headquarters, Defense Logistics Agency will take follow-up action to ensure that lost discounts are minimized. (DLA-IG)

#### NONAPPROPRIATED FUND ACTIVITIES

Central Accounting Operations. Central accounting support of nonappropriated funds at an overseas location was inadequate. Financial reports were generally late and inaccurate and property records were incomplete. This condition existed because custodians and accounting technicians were not properly trained and nonstandard methods were employed. A potential \$700,000 loss of nonappropriated fund property is currently being investigated. (AIG)

#### SUPPLY FUNCTIONS

Supply Management. Stockage levels had not been established for material stocked at an Army direct exchange activity. Auditors estimated that \$1.7 million of material was excess to the activity's supply requirements. The excesses included an estimated \$143,800 of material that was urgently needed by two material readiness commands. In addition, some local units, not currently supported by the direct exchange activity, were requisitioning material from material readiness commands although excess quantities were on hand at the direct exchange activity. Management agreed and stated that stockage levels had been established for all items stocked at the direct exchange activity. (AAA WE 80-18)

Material Cancellations. Procedures at an Army depot were not adequate to stop shipments after cancellation requests were received. During a 3-month period, material valued at about \$400,000 was shipped by the depot after receipt of cancellation requests. As a result, unnecessary packing and transportation costs were incurred and some customers received unwanted material. Management agreed and stated that the traffic manager was placing maximum emphasis on identifying and cancelling requisitions for unwanted material. (AAA SW 80-219)

Excess Aeronautical Material. A ready supply store, supported by a Naval Air Station, carried an inventory valued at about \$5.5 million. A review showed that excess aeronautical material valued at \$1.2 million was being carried in a rotatable pool inventory. Also, a review of 50 nonpool items valued at \$113,133 showed that 25 valued at \$61,373 were excess to requirements. It was recommended that fixed allowances be established and material held in excess of allowances be turned in. The activity concurred and initiated appropriate actions. (NAVAUDSVC A41369)

Determining Need for End-Use Inventory. A ship repair facility had accumulated over \$8 million in end-use material ordered for specific ship repair jobs but not used. The end-use material was not on the records of an accountable officer and had not been justified based on demands. Additionally, the ship repair facility was collocated with a Naval Supply Depot. It was recommended that higher authority specifically approve or disapprove retention of the material and, if approved, provide material accounting procedures, stocking criteria and requirements for turning in stock. Higher authority agreed that material, unless designated for a particular job, should be turned into stores. (NAVAUDSVC A10549)

Investment Assets. Over \$13 million in excess investment assets had not been identified for redistribution. Supply system interface problems precluded the identification of the excess items and the redistribution to locations where shortages existed and like items were being procured. Management concurred in the recommendation to elevate the system problems to higher Air Force management levels and to periodically request redistribution action on all excess investment assets. Audit followup confirmed that management had implemented the audit recommendation and redistributed over \$3 million in excess assets. (AFAA 376-9)

Modernization and Logistics Programs in Support of the C-5A Aircraft and TF-39 Engine. C-5A aircraft items permanently removed or inactivated by system modifications were not identified or effectively managed. Items valued at over \$20 million for which requirements had decreased were not clearly identified to reduce acquisition and repair actions. Also, approximately \$7 million of Air Force assets in the hands of contractors had not been identified and recorded as Air Force property, and recoverable items were repaired at a depot while \$9.2 million of serviceable long-supply assets were available for immediate use in the depot supply activity. Management concurred in the recommendations and (i) issued policy guidance to require recognition of reclaimed assets in material requirements projections, (ii) amended directives to require periodic reconciliation of contractor-held assets with program requirements, and (iii) established policy requiring the use of long-supply items in lieu of unwarranted repair of like items. (AFAA 97427)

Permanent Mission Support Kits. Authorizations for permanent mission support kits were overstated by \$308,669 because the authorizations were not properly maintained and controlled. Thus, support kit quantities were duplicated in determining special and war readiness material levels, and requisitions transmitted to the prime inventory control point were for excessive quantities. Management concurred in the recommendation to delete all special levels for support kit items to avoid duplication of stock levels. (AFAA 925-28)

Authorizations for Aircraft Refueling Trucks. Authorizations for eight aircraft refueling trucks at one base were not sufficiently supported. Redistribution of the eight vehicles may avoid up to \$700,000 in procurement and maintenance costs. Management concurred in the recommendations and responded by initiating action to review authorizations, allowances and requirements. Management also directed that the base hydrant system be used whenever it is the most feasible refueling method. (AFAA 458-24)

Financial and Logistics Management of Aviation Fuels. Aircraft refueling truck requirements for peacetime flying operations were overstated by approximately \$2.6 million. The projected procurement of at least 180 refueling trucks was based on inadequate justifications and erroneous requirements computations. Management initiated action to review and properly certify all requirements. (AFAA 97533)

High Dollar Value Items. High dollar value items stored outside without being covered resulted in accelerated deterioration. The activity agreed with the recommendation and is now warehousing the items and acquiring additional storage buildings. (AIR)

#### SUPPORT SERVICES

Medical Care Support Equipment. The Medical Care Support Equipment Program was not administered adequately at an Army medical activity. About \$1.1 million was programmed to buy new equipment for a new dental clinic under construction without considering the availability of equipment from existing dental clinics. An additional \$363,000 was programmed for replacement of existing equipment, although existing equipment was serviceable and had considerable time remaining in its expected useful life. Also, about \$125,000 worth of serviceable equipment acquired under the program was in storage, although additional identical items were programmed for acquisition. Management agreed and stated that a review of current requirements and equipment availability will be made. (AAA SO-80-12)

Repairs to Bachelor Enlisted Quarters. Repairs to bachelor enlisted quarters (BEQs) necessitated by negligence, abuse and acts of vandalism were estimated to be about \$410,000 for FY 1979; this represented about 59 percent of the total BEQ maintenance and repair costs for FY 1979. During the first 6 months of FY 1980, costs of about \$188,000, or 60 percent of BEQ maintenance and repair efforts was attributed to negligence, abuse or acts of vandalism. Intensified security, order and discipline, and training of BEQ management personnel could substantially reduce maintenance and repair costs. In addition, procedures for identifying costs by individual BEQ should be developed. Management concurred and planned to review current BEQ policy and initiate any new procedures that are needed. (NAVAUDSVC C42960)

Utilization of Bachelor Enlisted Quarters. Navy personnel are allowed to reside off station and are paid a basic allowance for quarters (BAQ) although adequate bachelor quarters are available. For the 7-month period reviewed, an average of 255 unoccupied spaces were available for assignment. During the same period 542 bachelors (E-5 and below) were granted BAQ based on individual command requests citing as justification overpopulation of Government quarters. Granting BAQ when quarters are available is not authorized and results in unnecessary annual costs of about \$245,000. It was recommended that BAQ be granted only when actual barracks utilization exceeds 98 percent. Management agreed and indicated that substantial improvements had already been made. (NAVAUDSVC C42960)

The DoD Food Service Program. The main controls (meal cards and head counts) used to limit access to rations-in-kind and to collect the data used by dining facilities to obtain ration credits were not adequate. As much as 17 percent of the meal card information used to support head count data was questionable. Analyses of cook's worksheets and inventory records disclosed

significant quantity discrepancies and sometimes complete loss of accountability for food inventories. While the full extent of actual losses through fraudulent or wasteful practices could not be accurately determined, the auditors estimated the potential for such losses to be in excess of \$100 million annually. It was recommended that the Assistant Secretary of Defense (Manpower, Reserve Affairs and Logistics) direct the Military Departments to establish a computer oriented food accountability and control system in all shore enlisted dining facilities. The Army and Navy indicated positive actions to establish better accountability and control. The Air Force comments were less responsive and were based on the premise that its system was sufficiently controlled. (DAS 80-106)

Shipping Lettuce Overseas. About \$1 million are lost annually in making shipments of iceberg lettuce overseas due to deterioration of the product. United States personnel are using lettuce other than the iceberg variety at local restaurants in Germany and other countries. Numerous tests and studies have been conducted relative to the movement of CONUS grown iceberg lettuce to overseas areas. The most recent study by the US Army Natick Research and Development Command recommended a 1 year test be conducted on a controlled atmosphere system. (DLA-IG)

#### PERSONNEL MANAGEMENT

Control of Overtime. Policies prescribed by the Secretary of the Navy concerning overtime had not been observed at the 6 Naval Air Rework Facilities. If overtime had been controlled as effectively at these activities as it was at Naval Shipyards, overtime costs could have been reduced by about \$6.5 million in 1979. A review showed that employees had been on leave during the same week they were paid for overtime and that work accomplished during the overtime was of a routine nature such as office painting. It was recommended that procedures be instituted to control overtime costs. The activity nonconcurrent indicating that personnel ceilings dictated mandatory use of overtime to meet fleet requirements. However, the activity did not address significant incidents of non-essential overtime noted by the auditors and as a result, higher authority has been requested to review and comment on the finding. (NAVAUDSVC C12449)

#### PROCUREMENT FUNCTIONS

Contract Administration. Administration procedures for contracts applicable to an Army helicopter modernization program were not adequate. Production contracts were awarded before the prototype contract was completed and before the validation and acceptance tests were completed. Contract costs were not properly monitored and unauthorized work was performed. As a result, cost overruns of about \$2 million were incurred on the prototype contract and required technical data and engineering drawings were not obtained. Management partially agreed and stated that (i) there are circumstances, as in this case, where need outweighs risk, and (ii) the program was technically assessed as a low risk program. The auditors replied that the requirement document which established the helicopter program was not based on urgency of need. This view was confirmed by Headquarters, Department of the Army. (AAA MW 80-19)

Purchasing Leased Equipment. The Navy Publications and Printing Service leased 36 pieces of copying equipment at an annual cost of \$335,000. Purchase of the leased equipment would result in savings of about \$621,000 over the economic life of the equipment. The activity agreed to modify its economic analysis method to conform with current instructions and to reevaluate the feasibility of purchasing leased equipment. (NAVAUDSVC A41330)

Financial and Logistics Management of Aviation Fuels. Fuels purchased by the Air Force from non-DoD sources were not effectively controlled. Over 1.7 million gallons of aviation fuel were purchased from commercial sources while lower priced fuel was available through DoD contracts. The use of the available DoD contracts in these instances could have reduced the cost of fuel by \$600,000. Also, payments were made to commercial vendors based on invoices that were not properly certified for payment. Air Force Headquarters concurred in the recommendations and initiated action to advise all major commands to use fuel contracts wherever they exist. In addition, all major commands will be provided current into-plane contract listings, and applicable directives will clarify procedures for processing invoices. (AFAA 97533)

Small Business Program. The Section 8(a) program was established under the Small Business Act of 1953 so that minority businesses could develop their capabilities to compete effectively in the open market. In order to meet its FY 1978 program goal, the Defense Personnel Support Center awarded at least \$14.9 million in contracts to 8(a) firms to purchase items for which requirements did not exist. Also, the Center was not identifying the business development expenses and negotiating fair contract prices with the Small Business Administration for items to be purchased from the 8(a) firms. An additional \$1.2 million should have been identified and reimbursed to DoD for the contracts reviewed. The Defense Logistics Agency concurred in the recommendations and stated that since the time of the procurements the Center has ensured that valid requirements exist for items purchased under Section 8(a). (DAS 80-099)

#### MANUFACTURING, MAINTENANCE AND REPAIR FUNCTIONS

Maintenance Expenditures. About \$388,000 was spent during FY 1979 for the maintenance of a stricken Naval vessel used primarily for office and shop spaces. Should the current arrangement continue, additional expenditures of about \$900,000 would be needed to install sanitation devices. It was recommended that appropriate ashore accommodations be obtained and the stricken vessel be disposed of. Management concurred in the recommendations. Management stated that ship disposal had been delayed in recent years pending establishment of an asbestos policy, but that recent enactments should provide for an increased disposal rate. (NAVAUDSVC A41600)

Small Arms Inspections. Depot inspectors were not qualified to inspect and classify incoming small arms. The condition of approximately 23 percent of reparable pistols and 61 percent of reparable M-16 rifles in storage at a depot had been misclassified as unserviceable and could be returned to ready-for-issue condition with proper cleaning. This misclassification resulted in an unknown number of serviceable weapons being sent for unnecessary overhaul. The number of serviceable pistols misclassified as unserviceable was sufficient to fill an Air Force requirement for over 4,000 pistols. Corrective action is being taken. A cleaning facility is being established; depot inspectors are receiving training in weapons inspection; and weapons stored in serviceable condition are being returned to the field. (AFIG)

#### REAL AND INSTALLED PROPERTY PROGRAMS

Construction and Repair Projects. Some facilities engineering projects at an Army depot were not sufficiently supported, reviewed and analyzed before requesting project approval from the US Army Depot System Command and again before implementing the projects. Army auditors reviewed 38 short-term construction and repair projects valued at about \$2,536,000 and questioned the need, in whole or part, for 19 projects valued at about \$835,000. The requirements for some projects were not fully supported, and other projects were proposed without a thorough investigation of the job sites or full evaluation of the need for the projects. Management agreed and stated that appropriate procedures are being implemented. (AAA NE 80-14)

Preventive Maintenance. Deterioration of facilities at an Army installation could have been avoided if a comprehensive preventive maintenance program had been in effect. Preventive maintenance was not planned, scheduled or performed on a regular basis. As a result, about \$1.5 million will be needed for 23 projects to repair the facilities. Management agreed and stated that a preventive maintenance program will be established within available resources and priority will be placed on permanent buildings. (AAA SO 80-27)

Small Arms Range Construction. Construction guidance on small arms ranges was outdated and lacked sufficient detail. For example, the small arms range complex at 1 Air Force base was completed in August 1979 at a cost of approximately \$500,000. If available definitive drawings had been provided to the major command and the base involved, a suitable range complex could have been constructed for approximately \$200,000. Similar less severe examples were noted at other locations. A focal point for small arms range construction was designated, and more definitive guidance on range construction is being developed. (AFIG)

Facilities Programing. Thousands of man-hours were spent preparing Major Command Military Construction Program documents which were not used. Recommendations included reducing Major Command Military Construction Program groupings to those essential for special program management and limiting project book preparation to those projects falling within the level-of-effort target. Actions are underway to correct the deficiencies cited. (AFIG)

#### TRANSPORTATION FUNCTIONS

Transporting Vehicles. A shipment of vehicles by truck rather than railroad flatcar increased cost by \$270,000. Flatcars were not available when requested by the Transportation Officer. In addition to coordinating with the Military Traffic Management Command, management has elevated the problem to the American Association of Railroads. (DLA-IG)

#### ENERGY CONSERVATION PROGRAMS

Energy Management and Conservation. At one installation, annual savings in excess of \$850,000 could be achieved by converting fuel oil furnaces in military family housing to natural gas. Use of more efficient equipment and the forecast of higher price increases for fuel oil than for natural gas were the primary elements contributing to the expected savings. Management concurred and requested approval to include the conversion in the 1982 major construction program. (AFAA 454-14)



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

COMPTROLLER FUNCTIONS

Financial Claims Against Contractors. Procedures for processing and settling over \$5 million in claims against contractors were not adequate to ensure the prompt collection or recording of amounts due. Management agreed and is 95 percent complete in developing requirements for an automated recoupment system. In addition, Headquarters, Defense Logistics Agency is conducting a complete review of the system of collecting claims. (DLA-IG)

Billing for Reimbursable Services. One Defense Logistics Agency activity had not established specific procedures and controls to ensure that almost \$1.5 million of Foreign Military Sales earnings were collected for quality assurance services. Command established an aggressive system to keep billings current. (DLA-IG)

SUPPLY FUNCTIONS

Direct Exchange Operations. Accurate accountability was not maintained for direct exchange stocks at an Army infantry division. Stockage levels for several items were either not computed or were not current and accurate, resulting in about \$843,500 of stocks on hand or on order in excess of current requirements. In addition, vehicle components needed to accomplish high priority maintenance work were being requisitioned from Army depots instead of using components already available at the division. Deadlined equipment could have been returned to a combat ready condition sooner and transportation costs could have been avoided if the division's stock had been used. Management agreed and stated that stockage levels had been recomputed and would be continuously reviewed. (AAA WE 80-13)

Credit Cards. An analysis of the results of four recent Army audits disclosed that similar deficiencies in controlling Government credit cards existed at all activities visited. The auditors noted that (i) credit cards were used to make improper and questionable purchases, (ii) an excessive number of credit cards were on hand, (iii) duplicate credit cards were issued, (iv) vendors sales tickets were missing or not verified before payments were made, (v) credit card registers had not been established to account for credit cards requisitioned from the General Services Administration and subsequently issued and (vi) credit cards were used to make purchases from commercial and nonappropriated fund sources when the same products could have been obtained at less cost from Government sources. Management agreed and stated that corrective actions would be taken. (AAA SW 80-214, SO 80-18, SO 80-210, and NE 80-19)

Equipment Management. Army auditors identified excess equipment, valued at \$890,000, on hand at an Engineer brigade in Europe. Because the brigade's subordinate battalions were not always promptly reporting and turning in excess equipment, the brigade incurred unnecessary expenses to store and maintain the equipment. Some of the excess could have been redistributed to fill shortages

within the brigade. The excess should be redistributed and the open requisitions cancelled. Management agreed and stated that action had been initiated to redistribute or turn in excess equipment and cancel open requisitions for the redistributed equipment. (AAA EU 80-6)

Equipment Management. Prescribed requisitioning and turn-in procedures were not followed at an Army Engineer training activity. As a result, more than \$1 million in excess equipment was either on hand or on order. In addition, action had not been taken to turn in four excess 20-ton cranes, valued at about \$454,000, which were needed elsewhere in the Army. Management agreed and stated that efforts were being made to ensure that only authorized and needed equipment was on hand and on order. (AAA EC 80-11)

Washouts. Records did not support the need to acquire 623 STINGER missiles and other major items of equipment to replace items expected to be washed out of the supply system. Replacements for washouts had not been acquired for other missiles systems. Depot maintenance procedures made washouts unlikely. Deleting the requirement for washout replacements would reduce acquisitions for STINGER by about \$18 million. Management agreed and stated that if a planned evaluation of washout requirements indicates a reduction or deletion, action will be taken to accomplish this change. (AAA SO 80-28)

Logistics Support of Fire Control and Bomb Navigational Systems. Logistics support costs could be reduced approximately \$3.8 million if spare chassis were used to the greatest extent possible to satisfy repair part requirements for the Radar Data Processor. Management had not analyzed the feasibility of acquiring spare chassis in lieu of procuring the complete line replaceable unit to fill the pipeline. Management concurred and is evaluating the economic feasibility of filling a portion of the pipeline requirement by substituting spare chassis for the complete line replaceable unit assembly. (AFAA 79628)

Depot Level Maintenance Requirements for Exchangeable Assets. Inaccuracies existed at 4 air logistics centers in the computation of depot maintenance repair requirements. Numerous data errors in maintenance programs and usage data affected the accuracy of buy and repair requirements and caused the unnecessary repair/purchase of some items. Overstatements of approximately \$6.6 million in item requirements occurred as a result of using the invalid data factors. Headquarters, Air Force Logistics Command concurred in recommendations to improve procedures for developing and computing depot level maintenance factors and to emphasize training of personnel responsible for computing and reviewing the depot level maintenance factors. (AFAA 97428)

Visibility Over Air Force Property Provided to Contractors. The item requirements computation system automatically included all exchangeable items loaned to contractors as unserviceable assets. This procedure resulted in including funds in each year's budget for projected repair of all exchangeable items loaned to contractors although experience indicated that only about 4 percent ever actually required repair. The 1981 budget includes \$3.4 million for repair of exchange items. Management concurred in the recommendation to include exchange items in the requirements computation system as serviceable unless the items can be specifically determined to be unserviceable. (AFAA 797492)

Organizational and Intermediate Maintenance Failure Rate Data for the F-16 Weapon System. Projected buy requirements for 79 percent of the F-16 peculiar recoverable items reviewed were overstated by \$150.3 million due to inaccurate organizational and intermediate maintenance factors used in the item requirements system. Unless the erroneous factors are corrected in the item requirements system, overstatements to buy projections will continue to occur. Audit follow-up confirmed that management had implemented recommended actions and initiated appropriate action to compute requirements correctly. As a result, the 1980 buy requirements were reduced a net amount of \$117.9 million. (AFAA 925-1)

Not-Repairable-This-Station Demand Rate Data for the F-16 Weapon System. Not-repairable-this-station percentages used in the item requirements system to determine F-16 recoverable item requirements were inaccurate. As a result, buy and repair requirements were overstated by \$5.7 million and by \$4.7 million, respectively. Management concurred in the recommendation to review and update all F-16 peculiar items to ensure that accurate data are established/maintained in the requirements system. (AFAA 925-26)

Ammunition. Periodic inspections of ammunition at two Army depots were not accomplished at required intervals. At one of these depots ammunition received from customers and suspended from issue pending inspection/classification was not being processed within the required time frame. An excessive amount of ammunition requiring demilitarization and disposal was on hand at a third depot. Failure to conduct required inspections at prescribed intervals could result in delayed shipments. Suspending ammunition from issue pending inspection/classification for lengthy periods deprived the item manager of potential assets. Delay in demilitarization caused valuable storage space to be occupied, generated security and surveillance requirements and increased safety hazards. Corrective actions have been initiated. (AIG)

Aircraft Component Parts. Maintenance personnel at an Army depot estimated that 40 percent of the engines taken into the shop for maintenance/overhaul had been damaged by corrosion and that it was necessary to discard corroded parts from approximately 25 percent of the engines received. Many of the parts cost several thousand dollars each. In one case a transmission valued at \$200,000 provided to a contractor had to be discarded due to corrosion. The depot has been provided funds to hire additional help to work the backlog of component parts requiring represervation. Component parts indicating early signs of corrosion and deterioration are now being treated on a priority basis. (AIG)

Disposal of Ammunition, Explosives and Other Dangerous Articles. Millions of dollars worth of excess ammunition, explosives and other dangerous articles have been on the property books in Europe for periods of three to six years. The inspector pointed out that streamlining the disposal process could be effected despite the peculiar requirements relative to reutilization, security trade control, demilitarization and pre-award. Management advised the field activity involved to review its procedures. (DLA-IG)

#### SUPPORT SERVICES

Replacement Clothing. A substantial reduction in the costs associated with the Army National Guard clothing replacement program could be achieved if enlisted personnel were provided a monetary allowance in lieu of replacement

clothing. Converting the current system, which provides for the exchange of new garments for old, to a monetary allowance system could reduce yearly costs as much as \$5.9 million. Alternatively, stringent controls over issues of replacement clothing to enlisted personnel, coupled with reduced inventory levels, could substantially reduce costs of the current program. The National Guard Bureau agreed there was a need for positive cost reduction actions but opted to continue using the present issue-in-kind clothing system. The Bureau stated that positive procedural changes were being developed to improve the existing system and reduce support costs. (AAA SW 80-213)

Medical Support and Administration. Annual reductions in Air Force medical expenses of approximately \$730,000 could be realized at one installation if additional medical support personnel were assigned so that unused base hospital facilities could be utilized. The expanded capacity and additional personnel would significantly increase opportunities for in-house surgical operations and decrease surgical cases processed through civilian medical providers. Base and command-level medical officials concurred with recommendations to have hospital personnel authorizations surveyed and to request adjustments of authorizations based on unique local factors. (AFAA 345-18)

#### PERSONNEL MANAGEMENT AND TRAINING FUNCTIONS

Bonus Pay. Army enlisted personnel were not used in the particular specialty for which they had received bonus pay. Audits at five locations showed that from 7 to 20 percent of the bonus recipients were not used in the skills for which bonuses totaling \$8 million had been awarded. Auditors recommended that existing guidance and definitions concerning use of bonus recipients be clarified so that the Army receives full value for the \$400 million currently invested in bonus contracts. Management concurred and stated that applicable regulations will be changed to clearly define misuse of bonus recipients. A worldwide message will (i) define circumstances under which bonus recipients can be used to fill special duty and borrowed military manpower requirements and (ii) alert commanders of the existing policy on extended assignments of bonus recipients as members of local sports activities. (AAA HQ 80-210)

Missile Firings. STINGER missiles authorized to be fired in military occupational specialty training classes were twice the number authorized for classes involving other missile systems. Training personnel could not explain why it was necessary to fire more STINGER missiles than other missiles. They also stated that firing one missile (DRAGON, TOW, or SHILLELAGH) per class at an infantry and an armor school had proven adequate for demonstration. Reducing STINGER missile firings from two to one per class should reduce the amount of STINGER equipment and targets by about \$23 million annually. Management agreed and issued a message authorizing one STINGER missile per class for military occupational specialty training. (AAA SO 80-28)

PCS Reassignment of Air Force Military Personnel. Permanent change of station costs could be reduced considerably by involuntarily extending overseas tours of members with limited service retainability. For example, analysis of records of 890 members with limited service retainability in overseas tours disclosed that over \$1 million in permanent change of station costs could have been avoided if those members had been extended in their overseas assignments instead of returning to the continental United States for short assignments. Management agreed to evaluate the Air Force involuntary overseas tour extension

policy and initiated actions to bring it in line with DoD policy options. A study is being made of policies for reassigning members from overseas areas who are within 11 months of separation. (AFAA 795567)

Security Investigations. Security investigations were being requested automatically on 100 percent of all enlistees for 11 Air Force job specialties even though less than 50 percent of the positions in these job categories required such investigations. Reducing the number of unneeded investigations performed would reduce the workload and costs by approximately \$800,000 annually. Management concurred in the recommendation to perform investigations only when they are needed for award of an Air Force Specialty Code or specifically required for entry to or graduation from the basic technical training course. (AFAA 795567)

Active Reserves Drill Pay. Procedures and controls for recording and reporting drill assembly attendance for the Services' Selected Reserve Forces did not ensure accurate reporting. Consequently, about \$2.5 million may have been paid to members of the Selected Reserves for attendance at drill assemblies they did not attend. Also, about \$800,000 may have been paid by the 4 Service Finance Centers to selected reservists who did not appear on unit rosters. It was recommended that the Assistant Secretary of Defense (Manpower, Reserve Affairs and Logistics) advise the Services to establish procedures to require reserve units to better control attendance at drill assemblies. The Deputy Assistant Secretary of Defense (Reserve Affairs) agreed that the Services must place additional emphasis on closer supervision and certification by commanding officers. (DAS 80-135)

Leadership Training. Local Army and Navy commanders provided leadership training that was duplicated by formal, career-recognized leadership courses. While some commands discontinued such local training when new career programs were started, others did not. At 5 locations, the annual personnel salary cost for the unnecessary courses was about \$2.1 million. The Army agreed with the recommendations. The Navy agreed with the finding but considered it appropriate to continue the training until 1982. (DAS 80-138)

Infantry Remoted Target Systems. The Army's plan to acquire 94 Infantry Remoted Target (IRT) Systems at a cost of \$230 million could not be justified based upon existing documentation and proven test results. The IRT Systems would not improve the quality of the Army's recruit rifle marksmanship program. Plans for acquisition of 41 IRT Systems at a cost of \$100 million could be deferred by placing greater reliance on existing systems. Further analysis was also required to justify acquisition of the remaining 53 new systems which were to be used for advanced training. It was recommended that acquisition plans be deferred and that the system be reevaluated. Management generally agreed. (DAS 80-084)

Disability Severance and Readjustment Payments. A review of military pay records showed that the computations of DoD disability severance or readjustment pay entitlements were accurate. However, the review of the Veterans Administration case files showed that offsets totaling \$1.5 million had not been initiated in 290 cases. The Veterans Administration took immediate action to recoup the improper payments. (DAS 80-093)

Temporary Lodging Allowance in Hawaii. Temporary lodging allowance costs in Hawaii could be reduced about \$700,000 annually by assuring that permanent quarters are not vacated sooner than necessary during departure processing. Other economies could result from (i) increased use of lower cost commercial and available Government transient quarters and (ii) accumulation of data needed to determine the cost-effectiveness of leasing quarters. The Commander in Chief, Pacific generally agreed that the reported matters indicated a need for improvements in the temporary lodging allowance program in Hawaii. (DAS 80-110)

Disability Compensation Payments to Active Reserves. About 80 percent of the active reservists who received disability payments were either not requested to execute a Certificate of Waiver or, if requested, incorrectly stated that disability compensation was not received. Consequently, about \$1.3 million in dual compensation was paid in 1979 by DoD and the Veterans Administration. Periodic interchange of data between DoD and the Veterans Administration and increased emphasis on the proper execution of waivers would ensure that disability compensation or active duty pay is properly waived. The DoD and the Veterans Administration concurred in the recommendations and initial steps have been taken to resolve the problem. (DAS 80-118)

#### PROCUREMENT FUNCTIONS

A-10 Spares Acquisition and Logistics Support. Spares were acquired from the prime contractor when less costly acquisitions were available from competitors. Direct vendor purchases or competitive procurements would have reduced the \$2.6 million costs for 20 line items by approximately \$600,000. Management concurred in the recommendation to remove items from prime contractor acquisition procedures when the initial spare or repair part is broken out for competitive or direct purchase. Appropriate directive guidance was published. (AFAA 97519)

Recovery of Payments From Third Party Sources Under the Civilian Health and Medical Program of the Uniformed Services. Fiscal intermediaries had not reported over \$14.4 million of refunds to the Office of the Civilian Health and Medical Program of the Uniformed Services (OCHAMPUS). One applied \$8.9 million of refunds to reduce its request for funds while two accumulated \$5.5 million of refunds which should have been returned to OCHAMPUS. On June 1, 1979, OCHAMPUS began action to have the fiscal intermediaries return excess funds. It was estimated that provider and beneficiary refunds amounted to \$25-30 million a year. The auditors proposed that for future procurements of claims processing services OCHAMPUS should consider rejecting any proposal that does not provide for the automated processing of refund data. The auditors recommended that in order to obtain financing for expanded OCHAMPUS benefits, DoD should consider a legislative initiative to increase the outpatient deductible of \$50 to about \$120 a year. The Assistant Secretary of Defense (Health Affairs) fully concurred and OCHAMPUS generally concurred in the recommendations. (DAS 80-094)

Contracting Practices. At 16 of 23 contracting activities reviewed, Government cost estimates for supplies and services were not reliable. Significant variances between contractor proposals and Government estimates existed. In most instances, buyers did not attempt to reconcile these differences to establish a Government negotiation objective. In most cases, the estimate was used as the negotiation objective even though it was suspect. Management stated that estimating accuracy will be made a required topic for review by staff assistance teams and substantial differences will be reconciled and documented. (AFIG)

Selecting Source of Contract Material. Procedures used by the Defense Personnel Support Center in deciding whether Government-furnished material (GFM) or contractor-furnished material should be used on a contract need to be strengthened. For the purchases reviewed, costs averaged about 15 percent lower when GFM was used. Although GFM is not appropriate in all cases, it was estimated that savings of about \$7 million could be achieved if the use of GFM by the Defense Personnel Support Center were substantially increased. The Defense Logistics Agency concurred and will strengthen its procedures. (DAS 80-099)

Procurement Practices. A review of contracts awarded by the Defense Personnel Support Center disclosed that about \$750,000 of defective material was accepted because a deviation to specifications was approved without verification and about \$650,000 was spent unnecessarily because the market price was not tested before exercising an option clause. In addition, procurements of about \$1.1 million, over a 2-year period, could have been avoided if new assets declared excess and awaiting disposal had been recovered. The Defense Logistics Agency concurred in the recommendations and new procedures have been established. (DAS 80-099)

Extension of Delivery Dates. Controls should be improved so that adequate compensation is received from suppliers when contracts awarded by the Defense Personnel Support Center are modified to extend delivery dates. For 25 percent of the cases reviewed, the compensation was less than that provided for in the Center's policy guidance. Contractors' offers were accepted without conducting further negotiation or without requiring justification. Additional compensation for delivery modifications could amount to about \$600,000 annually. The Defense Logistics Agency concurred in the recommendation but felt that the basic problem was the lack of documentation. (DAS 80-099)

Sole Source Contracts. Several instances were observed where large dollar value requirements were satisfied through sole source negotiations. The prices were determined to be fair and reasonable based solely upon contractor-furnished price lists. Because requirements were for the purchase of unique, one-of-a-kind systems or maintenance of such equipment, the price lists may not satisfy the intent of the Defense Acquisition Regulation for waiving cost and price analysis. In these situations, a monopolistic environment exists and a competitive market place is not available to assure fair and reasonable prices. Emphasis is being placed upon increasing competition and a critical review of noncompetitive procurements. (AFIG)

#### MANUFACTURING, MAINTENANCE AND REPAIR FUNCTIONS

Nondestructive Inspection. Nondestructive inspection x-ray equipment provided by the Air Force Nondestruction Inspection Program Office was not reliable under field conditions. The Air Force equipment repair program had not provided adequate support since 1973; repair actions took 18-24 months and items failed shortly after return to service. Some units were forced to have equipment repaired by service contract at a higher unit cost than would have existed under a properly managed Air Force program. The San Antonio Air Logistics Center is in the process of contracting for an equipment repair facility; new equipment is being purchased; and rotational spares are now being included in the requirements computation. (AFIG)

#### TRANSPORTATION FUNCTIONS

Management of Vehicular Equipment. At one installation, \$1.4 million worth of vehicles, which were not authorized under applicable current allowances, were on hand. In addition, vehicles valued at \$318,000 were underutilized. Continued retention of such vehicles could result in unnecessary procurement of additional vehicles to meet valid requirements at other Air Force locations. Management agreed in the recommendations to maintain vehicle authorizations within applicable current allowances and to turn in for redistribution those vehicles that can not be justified for retention through adequate usage. (AFAA 915-16)

#### AUTOMATIC DATA PROCESSING PROGRAMS

Base Level Data Automation Program. There were more cost effective hardware configurations available than the two-system approach proposed for implementing the base-level data automation program. There were insufficient documentation and inadequate approval to support the requirements for a dual Automatic Data Processing (ADP) system or justify the additional cost of at least \$250 million over the single system option. The House Government Operations Committee accepted the findings which were highly critical of several elements of the Phase IV program and agreed with recommendations that the program be cancelled. The Air Force agreed to revise its plans for implementing a dual ADP system at base-level and proposed the following actions: (i) commitment to early purchase of Phase IV equipment rather than a 3-year lease; (ii) commitment to a significant level of manpower savings; (iii) consolidation of computer facilities where possible; and (iv) modification of initial hardware installation services. (AFAA 95440)

Management of Data Processing Installations. A review of management of automatic data processing resources disclosed that at four Defense agencies improvements in certain areas were needed. About 33,000 hours of idle computer time, valued at more than \$8 million, were available for time sharing, while Defense activities purchased about \$56 million of computer time. Unless action is taken to evaluate overall computer operations on a scheduled basis there is no assurance that automatic data processing resources will be used effectively and efficiently. (DAS 80-097)

Automated Data Security. Procedures for modification of applications software used to process sensitive data required improved controls at a materiel readiness command. At the same command, in-place system security control procedures were not adequate to protect classified/sensitive data. The command appointed a Classified Program Audit Officer for programs processing classified data and implemented a software lock facility to meet regulatory requirements. Also, action was taken to restrict access to utility programs and to utilize password authorizations. (AIG)

#### SECURITY ASSISTANCE

Foreign Military Sales Case Management. On the basis of a review of the management of 35 foreign military sales cases valued at \$753 million, it was concluded that prompt and accurate service was not provided to customers and some applicable costs were not recovered. Customers were not charged about \$18 million for nonrecurring costs because the Services were not complying with Defense guidance governing the recovery of such costs. Customers were not billed \$4.5 million because items sold from Defense inventories were not priced at their fair market values. Customers were not billed about \$552,200 in asset-use charges for Government facilities and plant equipment used by contractors in the foreign military sales program. The Assistant Secretary of Defense (Comptroller), the Assistant Secretary of Defense (Manpower, Reserve Affairs and Logistics) and the Director, Defense Security Assistance Agency concurred in general with the recommendations. (DAS 80-129)



## EXHIBIT K

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

The Defense Contract Audit Agency's operations audit program is an integral aspect of the total audit at major contractor locations. An operations audit is a systematic review of a particular organizational unit or function within a contractor's business to determine whether the most economical and efficient methods are employed in performance of Government work. The concept envisions contractor corrective action, which will avoid wasteful and unnecessary costs caused by uneconomical or inefficient practices.

For the 6-month period ended September 30, 1980, Defense Contract Audit Agency completed 392 operations audits with total associated annual cost avoidance recommendations of about \$198 million. Synopses of typical findings follow:

Material Scrap Handling. In coordination with the Air Force, a review was made of the effectiveness and efficiency of the contractor's system for handling high cost strategic scrap metals. Worldwide current economic conditions have increased the potential benefits that can be realized in the reclamation of such scrap metal. The review indicated that commingled scrap metal, which is sold as general scrap, consisted of about 80 percent titanium that could be reclaimed. This would result in higher scrap returns of about \$900,000 annually. The auditors also observed that high nickel content scrap contained large amounts of Inconel 718. Inconel 718, if reclaimed and sold separately, could generate additional revenues of \$353,000 annually. Also, recommended changes in scrap management will reduce the reprocessing fee and generate additional revenue. The contractor concurred with the audit findings and is taking corrective action.

Silver Recovery. Observation of the contractor's photographic and X-ray facilities revealed that silver-bearing developing fluid was not being reprocessed to reclaim the silver and there was no control over silver-bearing photographic film. All sources of solid photographic waste were analyzed to ascertain the magnitude of waste materials and their potential silver yield. The auditor concluded that centralized control of silver bearing residue would result in a greater return from this revenue source. It was recommended that (i) developing fluid be processed to reclaim silver, (ii) competitive bidding practices be implemented, and (iii) procedures be developed to centralize and control accumulation and sales activities. Annual savings were conservatively estimated at \$53,000. The contractor agreed with the recommendation and is developing procedural guidance.

Micrographics. A preliminary review indicate that a large number of multicopy paper reports were being produced and micrographic equipment was not fully utilized. The auditor observed that various paper copy reports and duplicates could be produced more economically by use of micrographic techniques. Also, certain manual graphic efforts could be accomplished more efficiently and economically by using computer graphics software programs. Total annual savings of about \$560,000 could be realized. The contractor has initiated actions to implement the recommendations.

Security Guards. Initial observations revealed an apparent excessive number of security guard posts. The auditors (i) made observations and studies of permanent and temporary guard posts, (ii) reviewed fire and security organizational activities, equipment and related workload, and (iii) studied the

electronic security system equipment. They concluded that certain permanent guard posts were adaptable to electronic surveillance techniques which could result in labor cost avoidance of about \$650,000 annually. The contractor agreed to perform a study to determine the total number of posts that can be converted to electronic surveillance.

Labor Utilization. Perambulation through the contractor's facilities disclosed a substantial number of idle workers. A ratio delay study was made of operations, and auditors concluded that increased supervision, better work scheduling, and other management action could result in savings of \$3.5 million in the next 12-month period. The contractor implemented corrective actions. The auditors will periodically make unannounced observations to determine if further corrective action is warranted.

Computer Graphics Augmented Design and Manufacture. The contractor was acquiring a substantial amount of computer graphics equipment for a major Government program. The feasibility of interfacing the computer graphics equipment between the prime contractor and major subcontractors was reviewed. Program integration of interactive computer graphics between the prime contractor and subcontractors was found to be cost effective. Integration planning, including engineering, design, drafting and manufacturing data standardization, would eliminate potential duplication, improve accuracy and timeliness and increase flexibility. Use of an integrated system among the prime contractor and major subcontractors would result in an estimated annual cost avoidance of about \$11 million. The recommended improvements will produce increased labor productivity, improved data flow and reduced schedule interruptions for program changes. The contractor is taking corrective action.

Small Tools Control. Review of the contractor's financial data indicated substantial small tool losses. The auditors reviewed small tool issuance practices and procedures and found that established controls were not being enforced. As a result, excess costs were incurred to maintain adequate tool inventories to support production. Recommendations included (i) enforcing tool issue limitations, (ii) standardizing craft monitoring of small tool activity, and (iii) periodically reviewing tool room performance and compliance with stated procedures. Estimated savings were about \$600,000 annually. The contractor concurred.

Word Processing. Significant repetitive text production efforts, such as retyping and proofreading were being performed by contractor personnel without the benefit of modern word processing equipment. The text production workflow and workload depend heavily upon the use of conventional electric typewriters and/or obsolete word processing equipment. The auditor compared current operating costs to costs associated with utilization of up-to-date word processing equipment. This disclosed that the contractor could make substantial improvements in repetitive typing and proofreading operations. The auditor recommended that contractor management (i) implement video display word processing technology with optical character reading input, and (ii) centralize, to the extent practical, text production effort. Corrective action would result in an average annual cost avoidance of about \$690,000. The contractor established a top level word processing committee which is currently evaluating available word processing equipment.

## 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 Reports to the Congress. Items are not shown on this Exhibit if final disposition was shown in one of the prior reports.

<u>Initially Reported</u> <u>Exhibit F</u>		<u>Incident</u>	<u>Investigative</u> <u>Organization/</u> <u>Action</u>
<u>Period Ended</u>	<u>Line</u> <u>Item</u>		
A.		<u>INVESTIGATION COMPLETED:</u> <u>NO FRAUD OR CRIMINAL ACTIVITY DISCLOSED:</u>	
Mar 31, 1979	F 31	Payments for services not received	OSI/FBI
Sep 30, 1979	F 14	Shortage in sales revenue	OSI/Base Commander
Sep 30, 1979	F 16	Possible shortages in amounts	OSI
Sep 30, 1979	F 19	Fees owed by concessionaire	OSI/FBI
Sep 30, 1979	F 24	Manipulation and shortages in inventory	NIS
Sep 30, 1979	F 31	Suspected contractor overbilling	OSI
Mar 31, 1980	F 22	Small purchase limitations exceeded and apparent shortage of in-flight meals.	OSI/Base Commander
Mar 31, 1980	F 36	Alleged diversion of cash	CID
Mar 31, 1980	F 38	Alleged loss of generators and alternators	OSI/Base Commander
Mar 31, 1980	F 39	Discrepancies in cash deposits and inventory shortages	OSI
Mar 31, 1980	F 42	Alleged theft of property	CID
Mar 31, 1980	F 43	Inventory shortage	CID
Mar 31, 1980	F 44	Items lost in shipment	CID
B.		<u>INVESTIGATION COMPLETED:</u> <u>DISCIPLINARY ACTION TAKEN:</u>	
Sep 30, 1979	F 48	Alleged actions to unlawfully obtain additional rations	CID

Initially Reported Exhibit F	Line	Incident	Investigative Organization/ Action
Period Ended	Item		
Mar 31, 1980	F 11	Alteration of inventory sheets	OSI
Mar 31, 1980	F 14	Apparent falsification of inventory records	CID
Mar 31, 1980	F 19	Possible black market activities	CID
Mar 31, 1980	F 35	Surplus property not "decommissioned" before its sale	NIS
C. INVESTIGATION COMPLETED: CASE REFERRED FOR PROSECUTION:			
Mar 31, 1979	F 27	Irregularities in contract administration	CID/FBI - Referred to Department of Justice in June 1980.
Mar 31, 1979	F 28	Irregularities in contract administration	CID - Referred to Department of Justice.
Mar 31, 1979	F 44	Suspected fraud in painting contract	CID/Small Business Administration/FBI - Subjects indicted; preliminary hearing scheduled for October 1980.
Mar 31, 1979	F 50	Suspected alteration of financial records	DIS - Grand Jury investigation in progress.
Mar 31, 1979	F 63	Alleged misappropriation of funds	CID - Judicial action pending; subject at large.
Sep 30, 1979	F 1	Improper overtime payments	CID/FBI - Federal employee convicted in Federal Court and sentenced to one year confinement and five years probation.
Sep 30, 1979	F 18	Stolen merchandise and inventory shortages	CID/Local Police - Five foreign national employees were tried in Korean courts and sentenced to confinements ranging from 1 1/2 to 2 1/2 years and probation of 3 to 4 years. These employees were also fined \$114,475.
Sep 30, 1979	F 20	Alleged falsification of refund vouchers	CID/FBI - Investigation completed in March 1980. Referred to Department of Justice. Subject was separated but can not be located for prosecutive action.

Initially Reported Exhibit F	Line	Incident	Investigative Organization/ Action
Period Ended	Item		
Sep 30, 1979	F 30	Alleged improper payments	OSI - Case referred to United States Attorney General for prosecution.
Sep 30, 1979	F 38	Possible criminal activity in procurement practices	CID - Pending Grand Jury action.
Sep 30, 1979	F 51	Alleged manipulation of Army Ration Accountability System	CID - Eight military subjects received reprimands from General Court-Martial Convening Authority.
Mar 31, 1980	F 6	Merchandise shortage	OSI - Trials are pending for two employees
Mar 31, 1980	F 9	Alleged misappropriation of funds	CID - One military subject convicted and sentenced to a bad conduct discharge, confinement at hard labor, forfeiture of \$600, and reduction to Private E-1.
Mar 31, 1980	F 10	Alleged alteration of deposit slips	CID/FBI - One civilian subject was fined \$572. United States Attorney suspended prosecution for 12 months to be decided on the basis of the subject's future conduct.
Mar 31, 1980	F 12	Fraudulent documents and attempted theft	OSI - Subjects were terminated. Both were sentenced by Korean courts to 8 months confinement and 2 years probation.
Mar 31, 1980	F 23	Improper purchase of equipment and lack of accountability over equipment	OSI/Base Commander - Grand Jury action pending.
Mar 31, 1980	F 41	Alleged conflict of interest	OSI/Base Commander - Referred to Grand Jury.
D. INVESTIGATION COMPLETED: OTHER DISPOSITION:			
Mar 31, 1979	F 3	Falsification of pay documents	OSI - Recoupment and administrative action was taken.

Initially Reported Exhibit F		Incident	Investigative Organization/ --Action
Period Ended	Line Item		
Mar 31, 1979	F 19	Diamond merchandise unaccounted for	NIS/FBI - Assistant United States Attorney declined criminal prosecution.
Mar 31, 1979	F 33	Alleged falsification of records	OSI - Recoupment action was initiated. Case forwarded to United States Postal Inspectors for possible mail fraud violations.
Mar 31, 1979	F 52	Alleged preparation of fraudulent bills	NIS/FBI - Assistant United States Attorney declined criminal prosecution.
Mar 31, 1979	F 74	Possible unauthorized tuition payments	OSI - University involved debarred from base. Student credits were reviewed to determine where requirements have not been satisfied. Staff Judge Advocate reviewing evidence gathered by OSI. Recoupment of funds awaits completion of legal actions.
Sep 30, 1979	F 8	Possible misuse of personnel and possible fraud in pay and allowances	OSI - Three subjects were identified. United States Attorney declined prosecution; Command action is pending.
Sep 30, 1979	F 9	Questionable travel claims	DIS - Assistant United States Attorney declined prosecution.
Sep 30, 1979	F 17	Alleged falsification or destruction of cash receipt documents	CID - One military subject convicted by General Court-Martial. Subject made restitution of all losses in lieu of confinement.
Sep 30, 1979	F 28	Potential fraud in procurement matters	CID/FBI - United States Attorney declined prosecution.
Sep 30, 1979	F 39	Mismarking of contractor shipment	DIS - Declined for prosecution.
Sep 30, 1979	F 45	Overstated headcount	CID - Investigation terminated after it failed to identify subject.
Sep 30, 1979	F 47	Alleged falsification of dining facility records	CID - Investigation terminated after it failed to identify subject.
Sep 30, 1979	F 54	Possible conflict of interest	OSI - Awaiting command action.

Initially Reported Exhibit F		Incident	Investigative Organization/ Action
Period Ended	Line Item		
Mar 31, 1980	F 7	Inventory and cash shortage	CID - Prosecution was terminated when subject died in an automobile accident.
Mar 31, 1980	F 13	Possible loss of commissions due to Government	OSI - Contract was terminated without renewal.
Mar 31, 1980	F 15	Alleged merchandise thefts	OSI - One United States Air Force member referred to the military commander for action.
Mar 31, 1980	F 16	Alleged merchandise thefts	CID/German Police - Prosecution of the subject, a United States civilian dependent wife, was suspended by German authorities when the subject returned to the United States. German authorities retain a fugitive warrant on the subject.
Mar 31, 1980	F 17	Diversion of currency or merchandise for black market use.	OSI - Two AAFES employees were terminated and \$3,200 in wages were withheld. Korean contract printing firm agreed to pay \$16,600 in restitution. Korean police are continuing their investigation.
Mar 31, 1980	F 18	Possible loss of commissions due to merchandise thefts	OSI - Subject was terminated. Also subject was prosecuted in United States District Court and fined \$100.
Mar 31, 1980	F 20	Improper accountability over property	OSI - Commander taking administrative action to improve accountability.
Mar 31, 1980	F 29	Improper labor charge to a contract	IGs-DOT/Treasury - Prosecution declined.
Mar 31, 1980	F 31	Items purchased other than those ordered	CID - Adjudication is pending.
Mar 31, 1980	F 37	Mischarging costs to Government contracts	DLA Counsel/FBI - Prosecution declined.

<u>Initially Reported</u> <u>Exhibit F</u>	<u>Line</u>	<u>Incident</u>	<u>Investigative</u> <u>Organization/</u> <u>Action</u>
<u>Period Ended</u>	<u>Item</u>		
E.		<u>INVESTIGATION STILL IN PROGRESS:</u>	
Mar 31, 1979	F 22	Payments received for false certification	CID/FBI
Mar 31, 1979	F 32	Contractor performance	OSI/FBI
Mar 31, 1979	F 35	Suspected kickbacks involving contractor	Chief of Engineers, United States Army
Mar 31, 1979	F 38	Possible inflated claim by contractor	Counsel, Architect of the Capitol
Mar 31, 1979	F 39	Possible inflated claim by contractor	Counsel, Architect of the Capitol
Mar 31, 1979	F 41	Mischarging of costs to Government contracts	DIS
Mar 31, 1979	F 75	Unauthorized medical treatment	DIS
Sep 30, 1979	F 5	Suspected false/erroneous pay and travel vouchers	OSI
Sep 30, 1979	F 6	Suspected abuses of Injury Compensation Program	OSI
Sep 30, 1979	F 7	Improper basic allowance for quarters	FBI
Sep 30, 1979	F 22	Slot machine manipulation	NIS
Sep 30, 1979	F 23	Inventory shortages	NIS/Marine Corps CID
Sep 30, 1979	F 25	Refund manipulation	NIS/FBI
Sep 30, 1979	F 29	Improper procurement practices	NIS
Sep 30, 1979	F 32	Alleged excessive profits	DIS
Sep 30, 1979	F 36	Irregularities in labor charges	DIS
Sep 30, 1979	F 37	Possible improper charges in overhead accounts	DLA Counsel
Sep 30, 1979	F 42	Cash adjustment not verifiable	OSI
Sep 30, 1979	F 44	Alleged disguising of subsistence losses	NIS

<u>Initially Reported</u> <u>Exhibit F</u>	<u>Line</u>	<u>Incident</u>	<u>Investigative</u> <u>Organization/</u> <u>Action</u>
<u>Period Ended</u>	<u>Item</u>		
Sep 30, 1979	F 46	Suspected fraudulent credit card purchases	FBI
Sep 30, 1979	F 53	Alleged improper compensation from contractor	CID/FBI
Mar 31, 1980	F 1	Alleged improper compensation	OSI
Mar 31, 1980	F 2	Alleged improper injury compensation	OSI/Base Commander
Mar 31, 1980	F 3	Alleged improper compensation	DIS
Mar 31, 1980	F 4	Offsets to pay allegedly not recouped	DIS
Mar 31, 1980	F 5	Alleged overpayments to reservists	DIS
Mar 31, 1980	F 8	Alleged manipulation of records and diversion of cash	CID
Mar 31, 1980	F 21	Possible overcharging on contracts	CID/FBI
Mar 31, 1980	F 24	Excessive costs for training materials	NIS
Mar 31, 1980	F 25	Timekeeping irregularities	DIS
Mar 31, 1980	F 26	Alleged overestimate of proposed costs and apparent improper use of scrap material.	DIS
Mar 31, 1980	F 27	Alleged inflation of costs	DIS/NIS
Mar 31, 1980	F 28	Improper labor charges	IG-NASA
Mar 31, 1980	F 30	Alleged fictitious charges to contract	DIS/CID
Mar 31, 1980	F 32	Alleged acceptance of gratuities	FBI
Mar 31, 1980	F 33	Alleged overpayment of a contractor	FBI
Mar 31, 1980	F 34	Possible theft by property disposal employee	NIS/FBI
Mar 31, 1980	F 37	Possible conversion of tires and refrigerators	NIS
Mar 31, 1980	F 40	Possible cases of false entries in official records	NIS
Mar 31, 1980	F 45	Items lost in shipment	FBI

EXHIBIT M

CURRENT 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 reports to the Congress. Items are not shown on this Exhibit if final disposition was shown in one of the prior reports.

<u>Initially Reported Exhibit G</u>	<u>Line</u>	<u>Nature of Incident</u>	<u>Estimated Monetary Loss</u>	<u>Current Status or Disposition</u>
<u>Period Ended</u>	<u>Item</u>			
March 31, 1979	G 2	Contractor substituted dairy products that did not meet contract specifications. (CID)	\$310,700	Case still pending before Federal Grand Jury.
March 31, 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	Loss recovered; Department of Justice declined prosecution.
March 31, 1979	G 6	An Army Reserve member fraudulently received Government property for personal gain. Referred to Department of Justice in January 1979. (CID)	\$31,432	Pending before Federal Grand Jury.
March 31, 1979	G 16	Air Force commissary employees and patrons conspired to defraud the Government by underringing purchases made at one store over a 5-month period.	\$12,000	United States Attorney declined prosecution. Subject's employment was terminated. Referred to British police. (OSI)
March 31, 1979	G 20	Alleged mischarging of costs of DoD contracts. Referred to Department of Justice in August 1978. (DIS)	\$1.5 million	Pending Grand Jury action.
March 31, 1979	G 21	Alleged substitution of Rebranded Semi-Conductors (Case #2). Referred to United States Attorney, Dayton, Ohio, in October 1978. (DIS)	Undetermined	Investigation is continuing.



Initially Reported Exhibit G		Nature of Incident	Estimated Monetary Loss	Current Status or Disposition
Period Ended	Line Item			
March 31, 1979	G 24	Contractor allegedly mis- charged costs to DoD. Referred to Department of Justice in August 1978. (DIS)	\$2.9 mil- lion	Pending Grand Jury action.
March 31, 1979	G 25	False claims; illegal sale of Government- furnished material. Referred to United States Attorney, Memphis, Tennessee, in November 1978. Joint investigation with FBI. (DIS)	Undeter- mined	Audit disclosed \$400,000 in residual Government- owned property was unaccounted for and \$135,000 of property was recovered during search/seizure by Federal authorities. Company owner was indicted. One individ- ual was convicted and sentenced to a 2-year prison term.
March 31, 1979	G 26	Alleged product sub- stitution and false certification. Referred to United States Attorney, Los Angeles, California, in November 1978. (DIS)	Undeter- mined	Pending Grand Jury action.
March 31, 1979	G 28	Alleged false claims CHAMPUS Program. Referred to United States Attorney, Sacramento, Cali- fornia, in October 1978. Joint DIS/ FBI investigation. (DIS)	Undeter- mined	Pending Grand Jury action.
March 31, 1979	G 29	Alleged mischarging of costs to DoD contracts. Referred to United States Attorney, New York, New York, in March 1979. (DIS)	\$500,000	Pending Grand Jury action.
March 31, 1979	G 30	Product substitution, false statement. Referred to Depart- ment of Justice in November 1978. (DIS)	Undeter- mined	Company president found guilty on 1 count and fined \$10,000. Company pleaded guilty to 8 counts, fined \$80,000. Defense Logistics Agency initiated debarment. Civil litigation pend- ing at Department of Justice.

Initially Reported Exhibit G		Nature of Incident	Estimated Monetary Loss	Current Status or Disposition
Period Ended	Line Item			
Septem- ber 30, 1979	G 1	Four employees, acting jointly, used fraudulent transfer vouchers to steal assorted merchan- dise from various Exchange outlets in an overseas area. One offender is at large; three are confined by civil authorities pend- ing judicial proceed- ings; \$7,706 worth of stolen cosmetics was recovered. (CID)	\$79,984	Five foreign national employees were tried in Korean courts and sentenced to confine- ments ranging from 1½ to 2½ years, 3 to 4 years probation and fines of \$114,475.
Septem- ber 30, 1979	G 3	Five foreign nationals, four of whom were employed at a United States 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. (NIS)	\$159,762	Prosecution in Icelandic Criminal Court resulted in the con- viction of five individuals. Sentencing is pending.
Septem- ber 30, 1979	G 4	NIS and FBI investiga- tions confirmed that a local oil company's employees loaded more waste oil than was paid for under a disposal con- tract at a Naval shipyard. The total value of stolen oil has not been deter- mined, but was estimated at \$40,000. 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 tempo- rarily because of their cooperation with the investigation. (NIS)	Undeter- mined	Federal Grand Jury now in process.

Initially Reported Exhibit G		Estimated Monetary Loss	Current Status or Disposition
Period Ended	Line Item		
Septem- ber 30, 1979	G 7	\$28,500	Subject entered guilty plea. He was placed on probation for 5 years, agreed to make restitution of \$2,041 and was fined \$1,000.
Septem- ber 30, 1979	G 8	\$51,000	Company representative was found guilty on 7 counts of conspiracy to defraud the United States, bribery and filing false claims. Company representative was sentenced to 5 years imprisonment on each count to be served concurrently, and a \$5,000 fine. Government produce manager was found guilty on 1 count of conspiracy to defraud the United States and was sentenced to 15 months in prison (suspended) and 3 years probation.
Septem- ber 30, 1979	G 12	Undeter- mined	Assistant United States Attorney declined to prosecute.
Septem- ber 30, 1979	G 13	Undeter- mined	Declined for prosecution.
Septem- ber 30, 1979	G 14	Undeter- mined	Declined for prosecution.

Initially Reported Exhibit G		Estimated Monetary Loss	Current Status or Disposition
Period Ended	Line Item		
Septem- ber 30, 1979	G 15	\$743,681	Audit identified \$3.2 million in Government claims against contractor which have not been collected. Indictments are pending.
Septem- ber 30, 1979	G 17	Undeter- mined	Case not prosecuted. Price adjustment obtained from contractor.
Septem- ber 30, 1979	G 18	\$7 million	Grand Jury handed down indictment. Trial is pending.
Septem- ber 30, 1979	G 19	\$4 million	Case accepted for prosecution by Assistant United States Attorney. Pending Grand Jury action.
March 31, 1980	G 1	\$486,000	The FBI assumed investigation in October 1979. The estimated monetary loss could not be substantiated during investigation. Three civilian subjects allegedly involved were reprimanded.

Initially Reported Exhibit G		Line Item	Nature of Incident	Estimated Monetary Loss	Current Status or Disposition
Period Ended					
March 31, 1980	G 2	Four military members and one civilian allegedly forged issue documents and stole rations from a Government issue point. (CID)	\$336,816	In December 1979, the FBI assumed investigation. Adjudication is pending.	
March 31, 1980	G 3	A civilian contractor claimed and received advance payments for construction materials not ordered. Investigation continues. (CID)	\$242,800	Referred to the FBI in May 1980.	
March 31, 1980	G 4	Six members of an Army Reserve unit and two active duty advisors allegedly used their position to fraudulently obtain property which they then sold. (CID)	\$80,000	In January 1980, the FBI assumed investigation. Case was referred to the Department of Justice. \$40,000 was recovered. Adjudication is pending.	
March 31, 1980	G 5	A Government contractor allegedly received payment for materials which were not purchased. (CID)	\$60,000	Investigation continues by the FBI.	
March 31, 1980	G 6	Three foreign national employees of the United States Government and two foreign national civilians apparently used their access to a United States compound to steal a truck and assorted automotive parts. (CID)	\$16,874	Korean authorities assumed investigation in March 1980. Three foreign nationals were sentenced to confinement ranging from 1 to 3 years; two remaining subjects are at large.	
March 31, 1980	G 7	Three military members allegedly stole paychecks with a face value of \$120,000 from the finance office where they were employed and negotiated an undetermined number by forging endorsements. (CID)	\$16,608	In January 1980, the United States Secret Service assumed investigation. Checks with a face value of \$103,392 were recovered. Two subjects were convicted and sentenced to 3 and 2 years confinement, respectively; adjudication is pending on two additional subjects.	

Initially Reported Exhibit G		Line Item	Nature of Incident	Estimated Monetary Loss	Current Status or Disposition
Period Ended					
March 31, 1980	G 8	Two members of an Army Reserve unit allegedly used their positions to fraudulently obtain property from property disposal facilities, and diverted the property to their personal use. (CID)	\$20,209	Investigation continues by the FBI.	
March 31, 1980	G 9	A contractor allegedly used substandard materials and billed the Government for materials specified by the contract. (CID)	\$28,854	Investigation continues by the FBI.	
March 31, 1980	G 10	A civilian employee of an Army finance office allegedly used his position to create a fictitious payroll account through which he negotiated fraudulent paychecks. (CID)	\$52,248	In January 1980, the United States Secret Service assumed investigation. The civilian subject was convicted and sentenced to 1 to 5 years probation. \$13,104 was recovered.	
March 31, 1980	G 11	A civilian employee of an Army finance office allegedly used her position to issue fraudulent paychecks to three accomplices. (CID)	\$45,000	In January 1980, the United States Secret Service assumed investigation. Adjudication is pending.	
March 31, 1980	G 12	Four employees of the Government and three civilian contractor employees allegedly forged false property documents to cover losses. (CID)	\$23,000	The FBI assumed investigation. Case turned over to Assistant United States Attorney on Nov. 13, 1979. Seven civilians were convicted in Federal court. Sentences ranged from probation to 10 years. \$237,560 was recovered.	
March 31, 1980	G 13	Three military members and a civilian allegedly stole rations from the warehouse where they were employed and subsequently sold the rations. (CID)	\$21,808	On December 18, 1979, the FBI assumed investigation. \$15,540 has been recovered; adjudication is pending in Federal court.	

Initially Reported Exhibit G	Line	Nature of Incident	Estimated Monetary Loss	Current Status or Disposition
Period Ended	Item			
March 31, 1980	G 14	Unknown person(s) allegedly stole 70 miles of copper telephone wire from transmission poles on an Army installation. (CID)	\$15,439	In March 1980, the FBI assumed investigation. Adjudication is pending.
March 31, 1980	G 15	A civilian employee of the Army allegedly used his position to influence a contract award. The amount in question is \$35,134. (CID)	Undeter- mined	FBI investigation failed to substantiate criminality.
March 31, 1980	G 16	Two foreign national employees conspired with a third foreign national to divert post exchange merchandise to the black-market. (CID)	\$21,666	Foreign national police conducted an investigation. Three foreign nationals were sentenced to confinements of 3 years each.
March 31, 1980	G 17	A GAO audit disclosed what appeared to be significant overcharging by civilian contractors for repainting Navy housing at a large Naval base. The Department of Justice initiated a federal grand jury investigation in August 1979, with the assistance of the Naval Investigative Service and the Naval Audit Service. (NIS)	\$897,000	Some overpayments have been recovered. A grand jury investigation is underway.
March 31, 1980	G 20	It was alleged that an individual dishonestly obtained \$6,100 from the Air Force for certifying typewriter inspections which were never accomplished. (OSI)	\$6,100	Case was referred to British authorities in November 1979. British court levied \$2,300 fine. Company removed from bidders' list.

Initially Reported Exhibit G	Line	Nature of Incident	Estimated Monetary Loss	Current Status or Disposition
Period Ended	Item			
March 31, 1980	G 22	A conspiracy to divert Government property is suspected. Incident involves potential loss of substantial quantities of possibly salvageable scrap material. (DIS)	Undeter- mined	Investigation is continuing in coordination with Department of Justice.
March 31, 1980	G 23	Contractor allegedly provided shrimp product which was not in conformance with contract specifications. Contract provided for delivery of \$1.7 million worth of shrimp product. (DIS)	Undeter- mined	Grand Jury returned a 33-count indictment against company and 3 officers. A former military veterinary inspector pleaded guilty to 1 of 6 counts of accepting gratuities and agreed to testify for the Government. Civil litigation is pending.
March 31, 1980	G 24	Irregularities existed in the labor-charging practices on two DoD contracts. Loss to Government was \$361,000 on one contract and \$400,000 (overpricing) on the other contract. (DIS)	\$761,000	DIS investigation is continuing in coordination with the Department of Justice.
March 31, 1980	G 25	DoD contractor allegedly submitted false data to support production cost proposed for three Government contracts. (DIS)	\$314,000	Department of Justice has accepted case for prosecution.
March 31, 1980	G 26	Laboratory reports were allegedly substituted, altered and falsified to reflect favorably on contractor. Contractor is involved in multi-million dollar Defense contracts. (DIS)	Undeter- mined	Grand Jury declined prosecution of company. Former plant manager was indicted on 4 counts of perjury.
March 31, 1980	G 27	Contractor did not comply with contract provisions. Contract for subscription publications was awarded in the amount of \$250,000, of which \$112,029 was paid to the contractor before cancellation of the agreement. (DIS)	Undeter- mined	Case was referred to the Department of Justice and was accepted for prosecution.

## 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 incidents reported in Exhibit H of the prior DoD reports to the Congress. Items are not shown on this Exhibit if final disposition was shown in one of the prior reports.

Initially Reported Exhibit G		Nature of Incident	Estimated Monetary Loss	Current Status or Disposition
Period Ended	Line Item			
March 31, 1980	G 28	Irregularities in labor classification and labor-charging practices were disclosed. Partial audit reveals \$285,000 in questionable charges for fiscal year 1979 alone. (DIS)	Undeter- mined	Pending Grand Jury action.
March 31, 1980	G 29	Government employee allegedly received "kickbacks" in return for privileged information relative to procurement. Contractor has been awarded approximately 55 contracts, of which 43 were based on oral quotes. (DIS)	Undeter- mined	Pending Grand Jury action.
March 31, 1980	G 30	Diversion of unaccounted-for Government property was discovered during the conduct of an unrelated investigation. Investigation resulted in recovery of \$18,872 in excess and unserviceable items and approximately \$112,000 in serviceable items. (DIS)	\$130,872	Case declined for prosecution by the Department of Justice.
March 31, 1980	G 31	Contractor allegedly mislabeled meat products and substituted lower quality meat products than those specified by contracts. Contractor has approximately 1,400 contracts with the Government involving \$800,000 annually. (DIS)	Undeter- mined	Pending Grand Jury action.

Initially Reported Exhibit H		Nature of Incident	Estimated Monetary Loss	Current Status or Disposition
Period Ended	Line Item			
Septem- ber 30 1979	H 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. (CID)	\$25,594	\$24,291 was recovered. The noncommissioned officer was convicted by a court-martial and sentenced to confinement for 5 years, reduction to Private, forfeiture of all pay and allowances and a Dishonorable Discharge. Thirteen subjects were tried by summary courts-martial, found guilty, and sentenced to reductions in grade, fines totaling \$3,248, and other sanctions. One subject was found not guilty.
Septem- ber 30, 1979	H 2	Eight service members systematically stole food from an installation dining facility. (CID)	\$32,599	Investigation completed March 18, 1980. Eight military subjects received reprimands from General Court-Martial Convening Authority.
March 31, 1980	H 1	Two military members allegedly forged the signatures of doctors on prescriptions and stole drugs. (CID)	\$43,000	Investigation was conducted by CID and Drug Enforcement Agency. Investigation by Metropolitan Washington, DC Police Department, is continuing.
March 31, 1980	H 2	A military member allegedly entered false information into a computerized payroll system to obtain fraudulent payments. (CID)	\$13,775	The military subject was apprehended and \$2,321 recovered. The subject was convicted and sentenced to confinement at hard labor for three years, fined \$7,200, and reduced to the grade of Private E-1.

Initially Reported Exhibit H		Line Item	Nature of Incident	Estimated Monetary Loss	Current Status or Disposition
Period Ended					
March 31, 1980	H 5		Three enlisted personnel in a Marine Corps base supply department allegedly procured items by Government purchase which they converted to their own personal use. (NIS)	\$21,066	Three individuals were convicted by a special court-martial.
March 31, 1980	H 6		An investigation was conducted at a Navy recruiting district of the alleged falsifying of prospective recruits' education data in order to meet enlistment quotas. (NIS)	Undeter- mined	Case is closed. The former commanding officer was found guilty of dereliction and sentenced to forfeit a portion of his pay and to receive a letter of reprimand. The senior enlisted recruiter was convicted of signing false official documents and received similar punishment. Nonjudicial punishment was imposed upon 22 additional individuals which resulted in letters of reprimand and partial forfeiture of pay.
March 31, 1980	H 7		Former employees of a company having a contract for an Air Force Drone program alleged that local nationals performed almost all maintenance on the drones. Contract calls for only United States technicians to perform the work. The contract cost estimate called for 25 United States technicians at an annual cost of \$318,000. (OSI)	\$225,669	Results of DCAA audit have not been received. Case was referred to the Air Force Commander on July 24, 1979. Case is pending results of command action.

Initially Reported Exhibit H		Line Item	Nature of Incident	Estimated Monetary Loss	Current Status or Disposition
Period Ended					
March 31, 1980	H 8		Subject firm had contract with the Army and Air Force Exchange Service for sale of a brand name vacuum cleaner in Europe with a commission on all sales to be paid to the Exchange Service. Sales records show that sales of \$397,359 were not reported and the Exchange Service lost commissions totaling \$39,735. (OSI)	\$39,735	Case was referred to Commander of the Exchange Service in Europe in December 1979, and is pending command action.
March 31, 1980	H 10		Subject and four employees claimed payment as full time employees on an Air Force contract when they were working on a totally separate contract. DCAA audits disclosed that numerous costs claimed by subject had been disapproved. Payments totaling \$177,387 had been suspended. (OSI)	\$177,387	Case is awaiting results of appeal to Armed Services Board of Contract Appeals.



ABBREVIATIONS USED IN THIS REPORT

AAA	Army Audit Agency
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
DIS	Defense Investigative Service
DLA	Defense Logistics Agency
DLA-IG	Defense Logistics Agency Inspector General
DOT	Department of Transportation
FBI	Federal Bureau of Investigation
GAO	United States General Accounting Office
NASA	National Aeronautics and Space Administration
NAVAUDSVC	Naval Audit Service
NIS	Naval Investigative Service
OSI	Air Force Office of Special Investigations

**END**