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Office of the Inspector General

Semiannual Report to the Congress

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October 1, 1996 - March 31, 1997

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FOREWORD

Many of you will notice that we are redesigning our *Semiannual Report to the Congress* in an effort to more effectively present our work to the Congress, to senior Defense Department managers, and to the public. Some readers found the previous format, while including more information and raw data, difficult to track from issue to issue. In this and future Reports, we will strive to produce a more meaningful report that will underscore some of the major management issues that senior DoD leaders are struggling to address under the strain of fewer resources.

As before, the Report contains a brief synopsis of some of the many and diverse subjects the Office of the Inspector General reviews, audits or investigates in a 6-month timeframe. We hope that this new format enables the reader to focus on what we see as a few of the key issues—or risks—the Department faces in managing the billions of dollars of taxpayer money it spends to equip, train and deploy America's armed forces.

As the Department of Defense undergoes major reform and downsizing, it will continue to be faced with unavoidable risks. We are working with the Department's leaders to identify those risks and develop appropriate responses—or safeguards—to manage them.

In this Report, we focus on:

- Financial Management,
- Information Management and Technology,
- The Defense Infrastructure,
- The Challenges of Acquisition Reform,
- Improving Business Practices,
- Reducing Weapon Systems Costs, and
- Health Care Fraud.

In addition, we continue to work on high profile issues, including:

- Attempting to locate missing Gulf War logs,
- Reviewing DoD and military personnel assigned to Capitol Hill,
- The Cuban shoot-down of two unarmed civilian aircraft in international waters,
- The School of the Americas,
- Base closure costs and savings, and
- Munitions scrap disposal safety.

Work on these projects is ongoing and will be reported in future Reports.

As I have pointed out in previous Reports, I remain very concerned by the fact that the Office of the Inspector General is undergoing significant downsizing—at the direction of the Department. We have initiated various measures—including our reorganization last year—to allow us to better accommodate downsizing without sacrificing quality in our work. However, as the cuts continue, that task becomes increasingly difficult. Since 1994, we have shrunk by more than 300 personnel, while requests for our services have continued to increase. Under the current Future Years Defense Plan, we will lose nearly 250 more people by September 2001, a 33 percent reduction from the beginning of fiscal year 1995. Given that direction, and the apparent lack of relief from it, I will have no choice but to decline to conduct some audits, investigations and evaluations.

I am proud of the men and women who comprise the Office of the Inspector General as they continue to maintain excellence and professionalism in their work. During this 6-month period, in addition to identifying systemic weaknesses in internal controls in Departmental operations, the auditors identified over \$2.7 billion in funds that could be put to better use. Fraud investigations conducted by the Defense Criminal Investigative Service in this period have resulted in over \$650 million in recoveries and the conviction of scores of wrongdoers. My employees and I are committed to helping make the Department of Defense a stronger, safer and more efficient organization.

A handwritten signature in cursive script, reading "Eleanor Hill".

Eleanor Hill
Inspector General

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CHAPTER ONE - REDUCING HIGH RISK VULNERABILITIES

INTRODUCTION

We continue to provide audit, evaluation and investigative assistance to the Department in reducing vulnerabilities to waste, fraud, abuse and mismanagement in high risk areas. The DoD audit, investigative and oversight communities act as agents of change in identifying new and better ways of accomplishing the Department's mission, controlling risk and fighting fraud. The following summary of DoD high risk areas illustrates our close and continuing involvement in DoD management improvement efforts.

DEFENSE FINANCIAL MANAGEMENT

The DoD needs accurate financial information and appropriate internal controls to effectively manage the Department's vast resources—over \$1 trillion in assets, 3 million military and civilian personnel and annual outlays of over \$250 billion. As indicated in the DoD Five-Year Financial Management Improvement Plan, progress has been made in streamlining the organizational structure, reducing the number of finance and accounting systems, improving fraud detection capabilities and addressing internal control problems. Nevertheless, the 82 financial audit reports issued during the period discussed numerous continuing control weaknesses. The majority of those problems are caused by the lack of a single standard transaction-driven general ledger, which is an essential ingredient for reliable financial reports; the continued reliance on inefficient processes for paying contractors and performing other finance functions; and the excessive complexity of DoD accounting codes and contracts. There will be continued problems in vendor pay and disbursement accounting, although new techniques like electronic document management hold great promise. Also, favorable audit opinions on the financial statements of most major DoD funds and the DoD-wide fund statements are unlikely for several more years.

INFORMATION MANAGEMENT AND TECHNOLOGY

The Department depends on computer systems, networks and electronic records to carry out its military missions and business operations, spending more than \$10 billion a year on information technology. Improving the integration of systems; migrating to secure, technologically improved systems at reasonable costs; and assuring that prompt and effective actions are taken to address the Year 2000 computing problem for the Department's critical systems are major challenges. During the period, we issued 18 audit reports in this area.

The successful fielding of the Global Command and Control System, the planned elimination of nearly 1,000 information systems, and the increased emphasis on the Major Automated Information Systems Review Council are positive indicators. Nevertheless, formidable problems remain, and no DoD management area can be thoroughly reformed without major improvements in automated system support. For example, we remain very concerned about vulnerability to computer crime, including vandalism, industrial espionage, fraud and invasion of privacy. The DoD estimates there are over 250,000 hacker attacks on its systems annually, two thirds of which are at least partially successful. Only 5 percent are detected, and

only one in 150 is reported. Although classified command, control and intelligence systems are well protected, the DoD is heavily reliant on more vulnerable systems for day-to-day business functions and support operations.

The difficulty in developing and fielding large DoD automated systems is illustrated by the experience of the Reserve Components Automation System. We reported that risks and cost estimating problems remain in that program, which after 8 years has still not fielded the system needed to modernize the Reserve Components' administrative and mobilization management process. We plan increased emphasis, resources permitting, on individual system development efforts and on the overall strategy of coupling business process reengineering to systems development. Auditors and investigators also need to focus on the special challenges of performing their missions in an increasingly paperless environment.

DEFENSE INFRASTRUCTURE

The DoD spends nearly two thirds of its budget, an estimated \$147 billion in fiscal year 1997, on Defense infrastructure operations and support activities. That includes the cost for maintaining facilities, providing health care to military personnel and their families, repairing equipment and managing spare parts and supply inventories. The DoD continues to face the major challenge of reducing and transforming the support structure that grew up during the Cold War. The decisions made will affect tens of thousands of civilian and military personnel at activities across the nation. In addition, the logistics community needs wholesale reinvention of its business practices and management information systems to overcome longstanding inventory management and property disposal problems, to adopt commercial practices and to enhance support to the warfighter.

During the period, we issued 95 audit and evaluation reports on logistics, health care management, facilities planning and other areas involving infrastructure costs. Despite extensive and generally successful efforts to adopt commercial concepts such as direct vendor delivery, just-in-time delivery and managed health care, further cost reductions are necessary and feasible. We reported, for example, that total asset visibility has not yet been completely achieved over repairable secondary supply items. Also, materiel managers could not ensure that stockage decisions or inventory purchases targeted an appropriate mix of items because the Military Departments are not assigning accurate essentiality codes on weapon system parts. A joint DoD-wide audit found wrong essentiality codes for 246 of 758 items reviewed on 10 weapon systems. We also reported on excessive maintenance costs and unnecessary construction.

HEALTH CARE

Although health care costs are generally considered part of DoD infrastructure, we are addressing those costs as a separate high risk area in a Special Emphasis Area to highlight the challenge posed by health care fraud.

ACQUISITION

The DoD spent about \$670 billion in fiscal years 1992 to 1996 through contracts, mostly for the development and procurement of weapon systems

and related materiel. There are 71 major acquisition programs and 890 smaller programs in place, with a total acquisition cost of nearly \$1 trillion. The acquisition process has been targeted for reform because of a long history of schedule slippage, cost growth and excessive unit cost. During the period, we issued 42 audit and oversight reports in this high risk area and have included a Special Emphasis Area on Acquisition Reform.

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ACQUISITION REFORM

We strongly support the major initiatives that are underway to improve the DoD acquisition process. The DoD audit and evaluation activities support the efforts to reengineer the acquisition support provided to warfighters, continuously improve acquisition business practices and reduce weapon systems life cycle costs. We provide incentives that produce a stable execution environment for acquisition programs, implement statutory and regulatory reforms, conduct pilot demonstrations of promising acquisition reform initiatives and maintain an experienced, highly trained professional acquisition workforce. We also offer advice on a wide range of process action teams and working groups. Examples include the:

- Acquisition Reform Senior Steering Group, which is responsible for oversight of all acquisition reform initiatives within the DoD.
- Working group that is looking at how the Department can better identify and manage acquisition program risks.
- Working group that developed and maintains the Acquisition Deskbook, a significant document that provides guidance to the acquisition community on a variety of acquisition topics, including lessons learned.

Although the DoD has done a good job in maintaining reasonable controls while reengineering its acquisition processes, there are areas where more work is needed.

- ***Supporting the warfighters.***
- ***Improving acquisition business practices.***
- ***Reducing weapon systems life cycle costs.***
- ***Reducing instability in the execution of acquisition programs.***
- ***Conducting pilot demonstrations of promising acquisition reform initiatives.***
- ***Maintaining a professional acquisition workforce.***

- Reinvention laboratory for the Parametric Cost Estimates Initiative.
- Working group that is developing benchmarks and metrics for acquisition processes.
- Team established to implement the Government-wide commercial purchase card.

We provide significant support to Department efforts such as Vision 21, which will assess the most efficient research and test infrastructure to support the Defense acquisition efforts. In addition, we worked with the DoD and Congress on acquisition reform legislative and regulatory initiatives.

The Defense acquisition area carries intrinsically high risks because of its size and complexity. Those risks are intensified during periods of prolonged organizational downsizing and turbulence, such as the DoD is now experiencing, and during the implementation of radically different policies and practices. Although the DoD has done a good job in maintaining reasonable controls while

reengineering its acquisition processes, there are areas where more work is needed.

SUPPORTING THE WARFIGHTERS

The DoD acquisition system must improve support to the warfighter by reducing the time needed to develop and field new systems and by better leveraging the latest available technologies, particularly information technologies.

The Advanced Concept Technology Demonstration Program is an initiative to get emerging new technologies to meet critical military needs out to the warfighters in a much shorter time than the "normal" acquisition development cycle. This is a new evolving program and, despite growing pains, we reported that the projects performed as part of this initiative were generally well managed. However, there has been no clear understanding among the technologists and the warfighters of what is a critical military need and what is a maturing technology. We are working with the Department to clarify the criteria for the concept's use and thereby build broader support for it.

We continuously assess the ability of the research and test community to meet the needs of the warfighter. For example, we recommended improvements in the operational test and evaluation process, the foreign material acquisition program and quality assurance for protective masks.

More needs to be done to ensure heavy emphasis on logistics considerations during acquisition program planning and execution. Those considerations include the training, manning, facilities, supply pipeline and maintenance capabilities needed to keep the systems operational. We endorse the integrated product/process team approach as a step toward improving coordination between acquisition, logistics and user communities. However, we continue to find numerous disconnects in that coordination; for example, in acquisition planning for Reserve units receiving new equipment.

We also believe that support to the warfighter can be improved by more management attention to how interactive trainers and simulators are provided for weapon system support. We have begun issuing a series of reports on this area, where over \$1 billion is spent annually.

IMPROVING ACQUISITION BUSINESS PRACTICES

Improvements in acquisition business practices are focused on adapting commercial items, technology and business practices to DoD needs. To simplify and speed up the procurement process, the DoD has expanded the use of electronic technology in the solicitation and award process and the use of non-traditional acquisition mechanisms.

In a series of audits on the DoD Electronic Commerce and Electronic Data Interchange program, we identified security, customer access and infrastructure problems with the Federal Acquisition Computer Network (FACNET). The goal of FACNET is to allow electronic exchange of procurement information between Government and industry. Despite inten-

sive efforts, FACNET has not realized cost savings for the Department because of delays in successful implementation and reluctance of contractors to use the systems. We recommended that alternative approaches be considered.

We also reported on problems in the use of "Other Transactions," which are instruments other than contracts, grants or cooperative agreements. "Other Transactions" are authorized in 10 U.S.C. 2371 and Section 845, Public Law 103-160. They are exempt from the usual control requirements such as the Federal Acquisition Regulation, Cost Accounting Standards and audit requirements. We reported that Defense Advanced Research Projects Agency contracting officers failed to administer "Other Transactions" properly, review cost proposals, monitor research costs and reduce payments to actual costs incurred. The need to improve controls is urgent because the authority to use this alternative method has been extended to all DoD organizations and the potential for unnecessarily bypassing prudent Government acquisition controls merely for the sake of expediency is significant. In view of the implementation problems indicated by our audit, we strongly recommend a cautious approach in using "Other Transactions" and we plan additional work to assess the costs, benefits and risks of that authority.

We support the Single Process Initiative, also known as block changes, which is a joint effort by Government and industry to enable commercial practices to be introduced efficiently across multiple contracts. A key role is played by contract auditors, who review the cost benefit analysis in the contractor's concept paper, provide financial advice to the management council at participating contractor sites, and act as the key evaluator for concept papers with process improvement proposals for business systems. During the period, we reviewed the process and issued a report on ways to facilitate implementation.

We will continue to review how streamlined business practices are implemented throughout the Department and how managers are identifying and managing the associated risks of streamlining. We will be reporting on the use of the broader definition of commercial items and contracting officers' newly limited rights to request cost and pricing data on items defined as commercial. We will also provide continuing coverage on best acquisition practices.

REDUCING WEAPON SYSTEMS LIFE CYCLE COSTS

Sustaining and maintaining systems is the most costly part of the weapon system life cycle. Acquisition reform initiatives, such as "Cost as an Independent Variable" and the reduced use of military specifications and standards, are targeted at reducing the cost of weapon systems. Cost as an Independent Variable focuses on identifying characteristics and capabilities of weapon systems and assessing their impact on cost. The DoD cannot wait for new systems to solve the fiscal problems posed by the growing costs to operate and support existing weapon systems. Reforms are appropriately focused on inserting new lower cost and commercial dual

use technologies into existing weapon systems to improve reliability, maintainability and susceptibility.

We have reported on deficiencies in weapon system planning for reliability testing, chemical/biological warfare on weapon system design, use of hazardous materials, serial numbering of critical parts, aircraft corrosion prevention and maintenance support, including software maintenance. Helping to reduce system like cycle costs is a major theme in our acquisition and logistics audit planning.

REDUCING INSTABILITY IN THE EXECUTION OF ACQUISITION PROGRAMS

In today's fiscal environment, program funding instability is the Department's single most important acquisition reform issue. Instability in the execution of acquisition programs is the leading cause of cost growth and schedule slips in major weapon systems. In order not to degrade readiness, the DoD has often used weapon system acquisition programs as bill payers for unbudgeted operational and contingency costs. Moreover, acquisition planning does not always conform to fiscal reality. Affordability-induced program changes result in a vicious cycle of increased costs that can cause further reductions in quantities, additional stretch-outs, and even greater per unit costs. The DoD estimates that every dollar removed from a program in the near years requires three dollars in later years to make up the reduction.

The affordability problem is aggravated by flaws in the requirements determination process, which identifies how many of what weapons are needed. Audits have raised questions about the reasonableness of the numbers of weapon systems to be procured and how the Military Services determine those numbers. In many instances, the requirements estimating process was little more than a multiplier of the number of platforms that can conceivably carry a particular system. The DoD must continuously reassess how it determines weapon requirements and better integrate the requirements estimating process with the acquisition programs and budget.

The Department's challenge is to make hard assessments of what is really needed in light of constrained funding. The Congress and DoD need to develop better mechanisms for financing contingency operations and budgeting for support operations.

CONDUCTING PILOT DEMONSTRATIONS OF PROMISING ACQUISITION REFORM INITIATIVES

The Federal Acquisition Streamlining Act of 1994 afforded early statutory and regulatory relief to designated Defense Acquisition Pilot Programs. Those programs were to serve as vanguards in implementing reform to achieve goals of acquiring systems responsively, efficiently and smartly to meet user needs. To monitor and assess those efforts, the Deputy Under Secretary of Defense (Acquisition Reform) chartered the Pilot Program Consulting Group on Metrics. Since program inception in 1994, the Office of the Inspector General and the Defense Contract Audit Agency have actively participated on the Pilot Program Consulting Group.

The Pilot Program Consulting Group has established metrics agreements with five pilot programs that were granted statutory and regulatory relief

and two other pilot programs that were only granted regulatory relief. The metrics describe how well and to what extent acquisition reform streamlining processes and practices have benefited each of the programs. In terms of streamlining acquisition processes and practices, the pilot programs demonstrated reductions in the use of military unique specifications and standards, acquisition lead times and contract data requirements. The pilot programs further demonstrated the benefits of innovative commercial practices, including milestone billing, earned value management systems, reduced Government oversight and commercial logistics support. The pilot programs also achieved efficiency gains related to improved cycle times, lower than projected contract costs and smaller program office staffs to manage programs as compared to traditional acquisitions of similar weapon system programs.

**MAINTAINING A
PROFESSIONAL
ACQUISITION
WORKFORCE**

The acquisition workforce is undergoing a 47 percent reduction from 617,000 personnel in 1989 to 329,000 personnel in 2000. Assuring the success of acquisition reform efforts demands a leaner, more professional, highly experienced and trained acquisition workforce. While we recognize that the Department has been improving training for its acquisition workforce, we remain gravely concerned about the magnitude of the planned reductions. The cuts are occurring at the same time the workforce is asked to assume more responsibility and authority and is required to absorb and implement the many changing policies, procedures and processes. Instead of workforce adjustments being a logical consequence of business process reengineering, the personnel reductions appear to have become a reform goal in and of themselves.

CONCLUSION

Changing and improving the acquisition process is a continuing challenge. We will continue to provide support to the Department and the Congress in this difficult undertaking and to furnish feedback and advice through frequent reports.

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HEALTH CARE

INTRODUCTION

Although health care is generally considered part of DoD infrastructure, we are addressing it as a separate high risk area in this report to highlight the challenge posed by rising health care costs, part of which is the result of fraud perpetrated upon the military health care system. Responsibility for investigation of DoD health care fraud rests with the Defense Criminal Investigative Service (DCIS), the investigative arm of the Office of Inspector General.

Potential annual loss to DoD due to defective or fraudulent claims could reach \$600 million to \$1.2 billion.

The U.S. Chamber of Commerce has estimated that by the turn of the century, health care costs will exceed \$1.6 trillion. The Chamber of Commerce also estimates that between 10 and 20 percent of all paid insurance claims are fraudulent or questionable. The Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) is spending approximately \$6 billion per year. If one assumes the Chamber's estimates for fraud and defective claims are correct, there may be a potential annual loss to DoD of \$600 million to \$1.2 billion.

BACKGROUND AND SCOPE

The Office of the Assistant Secretary of Defense (Health Affairs) (OASD(HA)) administers health care within the DoD. This care is provided to active duty and retired military personnel and their dependents and survivors through the DoD Military Health Services System (MHSS) which has two distinct, but related missions—readiness and benefits. Those missions are accomplished through direct care by a military treatment facility and civilian care provided through CHAMPUS, an indemnity type health insurance program.

The overall DoD health care expenditures for fiscal year 1996 exceeded \$16 billion, with CHAMPUS responsible for \$6.2 billion of that amount. The DoD will have a variety of managed care programs in place by the end of fiscal year 1997. One of those is TRICARE, a medical program for active duty personnel and qualified family members, CHAMPUS-eligible retirees and their family members, and survivors of uniformed Service members. TRICARE was designed to expand access to health care, assure high quality health care, control health care costs for patients and taxpayers, and improve medical readiness. It will be managed by the Military Services in partnership with civilian contractors in 123 Continental U.S. regions.

POTENTIAL FOR FRAUD

Under the previous system of fee-for-services, we found that most provider fraud was accomplished through "overutilization," perpetrated through ordering and billing for unnecessary care, laboratory tests, durable medical equipment or x-rays. Under the managed care program, however, we expect that fraud will be attempted through the submission of false cost data, kickbacks and falsification of provider credentials.

During this semiannual period alone, health care fraud investigations composed more than 25 percent of the DCIS case inventory, numbering

more than 400 open investigations and resulting in 25 criminal indictments and over \$640 million in civil and criminal fines and restitution.

**COOPERATIVE
MANAGEMENT
INITIATIVES**

The DCIS is actively involved with the OASD(HA) in investigating allegations of major CHAMPUS fraud. Together, they have developed a system to improve fraud detection, with emphasis placed on deterrence. A Memorandum of Understanding addressing the respective responsibilities of the DCIS and the OASD(HA) in the prevention, detection and investigation of fraud relating to CHAMPUS has resulted in a close working relationship between the two offices and has facilitated joint training and the shared use of computer hardware, software and technical support. Selected examples of the types of health care fraud investigations conducted by DCIS during this semiannual period are included below.

**COORDINATION WITH
OTHER FEDERAL,
STATE AND INSURANCE
INDUSTRY
INVESTIGATORS**

The DCIS frequently participates with the Federal Bureau of Investigation and the Department of Health and Human Services Office of Inspector General in joint investigations of health care fraud and is a member of 27 multi-agency regional health care fraud task forces nationwide. These joint efforts led to several significant results, including major settlements in investigations of fraudulent laboratory charges such as those involving SmithKline Beecham Corporation, Laboratory Corporation of America Holdings, Damon Laboratories, Corning Clinical Laboratories and Spectra Laboratory, Incorporated. Together, those investigations resulted in over \$600 million in recoveries to the United States Government.

Numerous other joint investigations are ongoing, to include a DCIS launched, nationally-coordinated health care project known as "Operation Broken Rule." The project is based on research and intelligence received from various health care organizations indicating that the staff of many state and private university hospitals may be engaging in improper health care billing practices affecting millions of dollars in DoD funds. The DCIS has 36 ongoing cases in this area, and the project involves coordination with or assistance from the Departments of Justice and Health and Human Services and the Defense Contract Audit Agency.

The OIG is an active member of the National Health Care Anti-Fraud Association. The association, composed of industry and Government representatives, serves as a focal point for public/private coordination in the health care fraud arena, provides training to industry and Government investigators and works to educate the insurance industry, the public and Federal and state legislative bodies on the need for strong health care fraud safeguards.

**EXAMPLES OF HEALTH
CARE FRAUD SCHEMES**

**Medical Provider
Fraud**

An investigation disclosed that Robert Loring, president and owner of Cardiometrix, Incorporated, falsely represented himself as the medical provider on CHAMPUS claims and billed for services that were actually performed by others. Loring and the company agreed to pay a \$170,000

civil settlement to resolve issues of false claims. Loring also allegedly inflated the bills of the physicians who actually provided the care, billed other health insurers for the same services paid for by CHAMPUS, "unbundled" laboratory charges, altered patient medical histories and billed for higher amounts by claiming patients were diagnosed with cancer when the actual surgeon found no sign of the disease. *[Note: The term "unbundled" refers to a scheme whereby multiple laboratory procedures are improperly billed separately, thereby greatly inflating reimbursement.]*

Laboratory Fraud

An investigation disclosed that the Laboratory Corporation of America (LABCORP) improperly added cholesterol testing to an automated chemistry panel test, thereby unnecessarily increasing the costs by supplying costly, unneeded services. The company agreed to pay \$187 million to resolve civil and criminal issues of false claims filed against CHAMPUS and other Federal health care programs. The agreement resolved two Qui Tam complaints. LABCORP also entered into a pre-trial diversion agreement as the result of the criminal charges.

In a separate investigation, the SmithKline Beecham Corporation agreed to pay \$325 million to resolve issues of civil false claims to Medicare, CHAMPUS and other Federal and state health care programs. The issues that were the main focus of the investigation and the basis for the settlement included greatly inflated insurance billings through unbundling of clinical test profiles, fabricating test codes and double billing for tests not performed. The investigation is an excellent example of what can be achieved through task force efforts. The task force consisted of DCIS, the Federal Bureau of Investigation, the Department of Health and Human Services, the Postal Inspection Service, the Office of Personnel Management and the Railroad Retirement Board Offices of Inspector General.

Partnership Agreements

A civil complaint charged that Richard R. Honablue, MD, obtained money under false pretenses from the CHAMPUS. Honablue charged fees through a "partnership agreement" with DoD clinics and hospitals in which he agreed to accept a reduced percentage of the CHAMPUS prevailing reimbursable fees. The investigation revealed that Honablue wrongfully billed in excess of the reduced rates and billed CHAMPUS for supplies, medications and ancillary services provided by the Government. A bankruptcy court ordered Honablue to pay \$21,557,292 to the Government, which included double damages sustained by the Government and penalties for the 4,261 false claims. This investigation was conducted jointly with the U.S. Army Criminal Investigation Command.

Psychiatric/ Counseling Services

An investigation disclosed that Hernan Enrique Burgos, MD, billed CHAMPUS for daily services rendered to each patient he attended at the Psychiatric Institute of Fort Worth even though he did not actually render daily services. Burgos felt that this billing procedure was allowable because the patients were hospitalized under his care. Burgos also billed for services even when out of the country on vacation. He was subsequently convicted and sentenced to 46 months of confinement, 3 years of supervised release and ordered to pay a \$425,000 fine and a \$700 special assessment.

In a separate investigation, Linda Cassens, doing business as Inner Action, agreed to a \$150,000 civil settlement to resolve allegations that she provided tutoring in mathematics and other academic subjects and then billed CHAMPUS for individual psychotherapy services.

OB/GYN Services

An investigation revealed that Tampa Obstetrics intentionally submitted claims to CHAMPUS that had previously been paid or denied. As a result, the company agreed to pay a \$350,000 civil settlement and to institute a compliance program to detect, correct and prevent violations of the rules and regulations of Federal health care programs and to withdraw CHAMPUS claims of approximately \$150,000.

Prescriptions

An investigation disclosed that Longs Drug Stores California, Incorporated, fraudulently billed CHAMPUS for prescription drugs that had been "returned to stock." It was determined that Longs billed immediately for prescriptions; however, if they were not picked up within 3 weeks, the items were returned to stock without reversing the billings to the insurance program. As a result of the investigation, Longs voluntarily reimbursed CHAMPUS more than \$660,000 and also agreed to pay \$50,000 to settle potential criminal and civil claims relating to these actions.

Kickbacks

An investigation disclosed that Nishendu Vasada submitted claims to CHAMPUS for psychiatric services not rendered, as well as accepting kickbacks for patient referrals. He agreed to a \$100,000 civil settlement to resolve the claims issue.

Diet Clinics

An investigation disclosed that diet clinics advertising free, medically supervised weight loss programs were established by Lisa Grossman and Leatrice Faeder. The clinics conducted extensive standard testing on weight loss patients. False claims were then submitted to CHAMPUS concealing the obesity diagnosis and weight loss treatment, which are not medically covered services. Aaron Kastner, MD, Ben Malabanan, MD, and Daniel Herlihy, MD, also participated in the scheme. As a result of the investigation, Malabanan was sentenced to 18 months confinement, 3 years probation, \$3,600 restitution and a \$50 special assessment. Herlihy was sentenced to 84 months confinement, 3 years probation and a \$600 special assessment. Kastner was sentenced to 6 months home confinement, 2 years probation and a \$50 special assessment. Kastner and Malabanan also voluntarily surrendered their medical practice licenses to the State of Texas. Grossman pled guilty and was sentenced to 21 months confinement, 3 years probation, and ordered to pay a \$50,000 fine, \$5,000 restitution and a \$50 special assessment. Faeder pled guilty and was sentenced to 6 months home confinement, 5 years probation and ordered to pay a \$200 fine and a \$50 special assessment.

CONCLUSION

As health care costs continue to rise and as the DoD moves from a fee-for-service environment into one that combines fee-for-service with managed care, special attention needs to be given to new fraud schemes that almost certainly will be attempted by corrupt health care providers.

Although the vast majority of providers are honest and law abiding, even a small minority can defraud the system of hundreds of millions of dollars. The DCIS will continue to place health care fraud among its top investigative priorities.

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CHAPTER TWO - OTHER ACTIVITIES

MAJOR CRIMINAL INVESTIGATIONS

The four Defense Criminal Investigative Organizations (DCIOs) continue to combat crime affecting the DoD and the Military Departments. The DCIS, the criminal investigative arm of the OIG, focuses the bulk of its 360 civilian criminal investigators on the investigation of health care fraud by health care providers and procurement fraud by Defense contractors. The three Military Department criminal investigative organizations, the Army Criminal Investigation Command (CIDC), the Naval Criminal Investigative Service (NCIS) and the Air Force Office of Special Investigations (AFOSI), also investigate procurement fraud, but focus the bulk of their resources on other crimes against persons and property affecting their respective Military Departments. The AFOSI and NCIS also conduct counterintelligence investigations and operations. This section focuses on the health care, procurement and other major fraud investigations by the DCIOs.

Procurement and Health Care Fraud Investigative Results

Exhibit 1 displays investigative results achieved by the four investigative organizations during the period with regard to health care provider fraud and procurement fraud.

EXHIBIT 1 INVESTIGATIVE ACCOMPLISHMENTS						
Procurement and Health Care Provider Fraud						
	DCIS	CIDC	NCIS	OSI	Joint DCIO	Total
Litigation Results - DoJ Only						
Indictments	71	0	8	3	57	139
Convictions	72	0	4	1	49	126
Civil Settlements/Judgments	39	3	15	11	29	97
Monetary Outcomes (\$000)						
DoJ Only	\$646,870	\$2,224	\$1,440	\$2,927	\$72,877	\$726,338
DoD Administrative Recoveries ¹	1,638	11,697	1,303	4,418	26,600	45,656
Investigative Recoveries ²	857	2	1,179	1,322	12,937	16,297
Total	\$649,365	\$13,923	\$3,922	\$8,667	\$112,414	\$788,291
¹ Includes the results of military courts-martial.						
² Includes Government properties seized or otherwise recovered during investigation. Those properties may include items previously transferred to a Defense Reutilization and Marketing Office. Government property recovered by investigation is valued at original acquisition price, which may exceed the current fair market value.						

**Suspensions and
Debarments
Resulting from
DCIO Investigations**

The numbers of contractors and individuals suspended and debarred as a result of DoD criminal investigations are shown in Exhibit 2.

EXHIBIT 2 SUSPENSIONS AND DEBARMENTS RESULTING FROM INVESTIGATIONS						
	Defense Criminal Investigative Organization (DCIO)					
	DCIS	CIDC	NCIS	OSI	Joint DCIO	Total
DoD CONTRACTOR ACTIONS						
Suspensions						
Companies	14	0	6	0	14	34
Individuals	28	0	9	4	23	64
Total	42	0	15	4	37	98
Debarments						
Companies	6	1	3	3	33	46
Individuals	11	0	9	6	27	53
Total	17	1	12	9	60	99

**Major Thefts and
Non-Procurement
Fraud Results**

In addition to the matters listed above, the DCIOs conducted various other significant investigations involving large scale thefts and non-procurement related fraud. The results of these investigations are presented in Exhibit 3 (page 19). As in previous reports, the statistics shown in the Exhibit do not include general crime investigations or counterintelligence activities.

**Secretary's Board on
Investigations**

During this reporting period, the Secretary's Board of Investigations continued to address issues tasked by the Deputy Secretary of Defense in response to a variety of recommendations made in the 1995 Report of the Advisory Board on the Investigative Capability of the Department of Defense. The Inspector General, as chair of the Board, continues to monitor the implementation of the interim guidance to DoD Instruction 5505.2, "Jurisdiction for Fraud Offenses," by the DCIOs. The guidance is intended to minimize duplication of investigative effort while better delineating investigative jurisdiction among the DCIOs. Additionally, the Board has taken action to ensure recommendations involving training, hiring, investigative policy and the conduct of administrative inquiries are properly implemented throughout the DoD.

EXHIBIT 3 MAJOR THEFTS AND OTHER¹ FRAUD INVESTIGATIVE RESULTS

	Totals for Period				
	DoJ	State/Local/ Foreign	Total		
LITIGATION RESULTS					
Indictments					
DCIS	70	9	79		
CIDC	8	1	9		
NCIS	31	31	62		
OSI	14	4	18		
Joint DCIO	7	0	7		
Total	130	45	175		
Convictions					
DCIS	45	19	64		
CIDC	14	1	15		
NCIS	67	42	109		
OSI	14	6	20		
Joint DCIO	7	0	7		
Total	147	68	215		
	DoJ	DoD	State/Local/ Foreign	Total	
MONETARY OUTCOMES (\$000)		2	3		
DCIS	\$23,823	\$1,076	\$1,402	\$ 38	\$26,339
CIDC	50	891	2,584	2	3,527
NCIS	834	1,646	1,499	150	4,129
OSI	147	364	382	18	911
Joint DCIO	1,613	52	39,926	0	41,591
Total	\$26,467	\$4,029	\$45,793	\$208	\$76,497

¹Other than major procurement and health care provider fraud.

²Administrative settlements and recoveries, and results of military courts-martial.

³Investigative seizures and recoveries. Includes Government properties seized or otherwise recovered during investigations and may include items previously transferred to a Defense Reutilization and Marketing Office. Government property recovered by investigation is valued at the original acquisition price, which may exceed the current fair market value.

Examples of Procurement Fraud Schemes

False Claims

A summary judgment of \$6,680,000 was ordered against John Gillespie, former employee of Daniel F. Young, Incorporated. Under a civil complaint filed by the Government, Gillespie was charged with submitting false claims, totaling in excess of \$3.6 million, and failing to pay restitution ordered in a related criminal proceeding. A DCIS investigation disclosed that Gillespie and others were involved in a fraudulent billing scheme in connection with the transportation of military cargo. Gillespie was previously convicted in a related criminal action and was sentenced to 40 months in prison, 2 years supervised release and was ordered to pay \$75,000 in restitution to the Government.

International Marine Fuels, Incorporated (IMF), San Francisco, CA, pled guilty to false statements, and Keith Rasquinha, a broker for LMQ Petroleum Services, pled guilty to conspiracy as a result of a joint DCIS and NCIS investigation, which disclosed that the DoD was overcharged in excess of \$1 million through misstated and inflated prices for bunker fuel. IMF was sentenced to 5 years probation, \$2.1 million in restitution and a \$200 special assessment. Rasquinha was sentenced to 5 years probation, 6 months home confinement, a \$3,000 fine and a \$50 special assessment.

Contractor/ Subcontractor Kickbacks

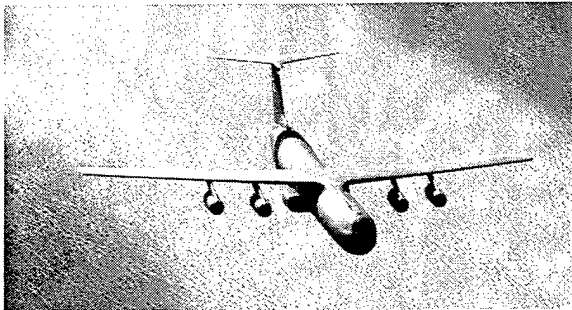
A DCIS investigation disclosed that John Purdy, president and chief executive officer, Purdy Corporation (Purdy), Manchester, CT, and Timothy Collins, former sales representative of Purdy, conspired to provide kickbacks to two former purchasing agents of United Technologies Corporation, Sikorsky Aircraft Division, a major Defense contractor. Purdy was found guilty and sentenced to 37 months incarceration, 3 years supervised home release, 400 hours community service, a \$250,000 fine and a \$50 special assessment. Collins was sentenced to 5 years probation, 400 hours of community service and fined \$30,000.

Product Substitution

A DCIS investigation disclosed that Advanced Environmental Consultants, Incorporated, and its president, Samir Sain, violated contract requirements by using regenerated carbon for carbon tank changeouts used in a waste water treatment plant at the Tooele Army Depot. Additionally, the DoD was charged for more carbon than was actually used in the changeouts.

The company was sentenced to 5 years probation, \$597,124 restitution and a \$9,200 special assessment. Sain was sentenced to 37 months of incarceration, 3 years probation and a \$2,300 special assessment.

A joint DCIS/OSI investigation revealed that Aeroparts Manufacturing and Repair, Incorporated, made false statements with respect to the manufacturing of military aircraft hardware. The fraud involved improper welding repairs on C-141 aircraft nose ring cowlings inner skins. As a result of the investigation, the company repaid the Government over \$300,000.



C-141 Aircraft

A DCIS investigation disclosed that William Kauffman, Samuel Bell and Frederick Morris, quality assurance employees of Philips Components, provided nonconforming qualified products list capacitors to the Defense Electronics Supply Center. The investigation disclosed that test reports were altered to conceal test failures and that the capacitors were manufactured in an unapproved Dominican Republic facility. Kauffman was sentenced to 60 days imprisonment, 2 years probation and a \$50 special assessment. Morris was sentenced to 2 years probation and ordered to pay a \$4,000 fine and a \$50 special assessment. Bell was sentenced to 6 months of home confinement, 1 year probation and a \$6,000 fine.

A joint DCIS/NCIS/OSI investigation disclosed that Sentry Fastener, Incorporated, and its owner, Lawrence Kanarek, substituted nonconforming fasteners and fittings for critical military equipment. Sentry was sentenced to a \$35,000 fine and a \$1,400 special assessment. Kanarek was sentenced to 5 months imprisonment, 5 months home detention, 3 years probation and a \$350 special assessment. Additionally, restitution was ordered totaling \$88,201.

**Arms Export
Control Act
Violations**

A DCIS investigation determined that Armaments Corporation of South Africa (Armcor), Kentron Proprietary Limited (Kentron) and Fuchs Electronics Proprietary Limited (Fuchs), all located in the Republic of South Africa, engaged in a massive smuggling operation of U.S. Armaments, munitions and weapons technology with the International Signal and Control Company, Lancaster, PA. The smuggling operation was designed to enhance Armcor's inventory and to market weapon systems to third world countries. The three companies were criminally fined more than \$12.5 million.

Bribery

A joint DCIS/CIDC investigation disclosed that Gregory Rigas, Chief Industrial Officer for Hercules Construction Corporation, and three other corporations conspired to bribe a Government official in an attempt to receive inside information on bid estimates. Rigas also provided false surety bond invoices to the Army Corps of Engineers. Rigas pled guilty to bribery and mail fraud and was sentenced to 3 years probation of which 6 months is to be served as home confinement, a fine of \$100, restitution of \$188,563 and a \$100 special assessment.

**Examples of Large
Scale Theft Schemes**

Fuels Theft

A DCIS investigation disclosed that Hovsep Mikaelian, leader of an organized crime family known as the "Mikaelian Organization," purchased and then sold over \$8 million worth of stolen fuel, a portion of which was stolen from a Defense Fuel Supply Point. Mikaelian was convicted and sentenced to 168 months in prison, 60 months of supervised release and ordered to pay \$2.5 million in restitution and a \$250 special assessment. To date, 28 people have been convicted as a result of this investigation.

**Theft from
Defense
Reutilization and
Marketing Offices**

A joint DCIS/NCIS investigation determined that Roger Raether illegally acquired and sold Federal excess property obtained from Defense Reutilization and Marketing Offices throughout the United States. The property was intended for use by various Indian tribal reservations and was valued at over \$80 million. Raether was sentenced to 2 years in prison, 3 years probation and ordered to pay \$50,000 in restitution.

**Theft from the
Defense Finance
and Accounting
Center,
Columbus, OH**

A DCIS investigation disclosed that Dorothy Conley obtained a stolen check of over \$80,000 from the Defense Finance and Accounting Center, Columbus, OH. The check was then deposited into a fraudulently opened business account, and the funds were withdrawn in ten cashier's checks. One of the ten checks was successfully negotiated before the account was frozen. Five other individuals also pled guilty in this scheme. Conley was sentenced to 6 months in prison, 24 months probation, \$1,250 in restitution and a \$50 special assessment.

HOTLINE

The OIG continues to operate the DoD Hotline, which allows military members, DoD employees, DoD contractor employees and the public to report occurrences of fraud, waste and mismanagement. Since 1982, the Hotline has recouped over \$417 million as a direct result of investigations, inspections, inquiries or audits initiated in response to information provided to the Hotline.

During this reporting period, the Hotline received 7,699 contacts (telephone calls and letters) that resulted in the initiation of 1,200 cases. During the same period, 1,190 Hotline cases were closed (see Exhibit 4, below).

**Significant Hotline
Complaints**

In response to a Hotline complaint, we audited an Air Force proposal to close all field training detachments and relocate their functions. The audit identified costs of \$85.7 million for facilities and other nonrecurring costs and \$35.2 million annually for travel costs without a clear benefit to the Air Force. The audit report also acknowledged an increased burden on the operational commanders and a decrease in the quality of training. As a result of the audit, Air Force officials concluded that a regionalized Field Training Detachment would be more cost effective than the closure proposal or the present system. The audit resulted in the Air Force deobligating \$86.1 million between fiscal years 1996-2001.

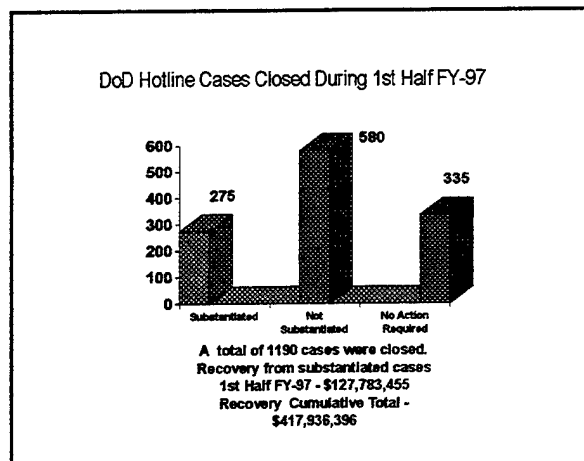


Exhibit 4

As a result of a Hotline referral, an audit by the Naval Audit Service confirmed allegations that facilities for the repair of vanes and blades at a Navy activity were substantially underutilized. The Navy subsequently directed that the parts be repaired at the underutilized facilities and that the Navy stop issuing repair contracts (on those parts) to outside contractors. Savings for fiscal years 1995 and 1996 were \$31 million, and we expect similar cost savings in future years.

**ADMINISTRATIVE
INVESTIGATIONS**

The OIG conducts investigations and also performs oversight of investigations conducted by the Military Departments pertaining to:

- Allegations of reprisal against military members, Defense contractor employees and nonappropriated fund (NAF) employees.
- Allegations that military members were referred for mental health evaluations without being afforded the rights prescribed in the DoD Directive, "Mental Health Evaluations of Members of the Armed Forces."
- Noncriminal allegations against senior military and civilian officials within the DoD.

**Examples of
Substantiated
Whistleblower
Reprisal Cases**

- A Texas Army National Guard major was not promoted and received a low rating by his senior rater in reprisal for providing information to an Inspector General. His failure to be promoted resulted in his discharge.
- An Army Reserve sergeant received two lowered noncommissioned officer evaluation reports, a command request for psychiatric evaluation, revocation of orders to attend the basic noncommissioned officers course, four official counselings, and four general counselings for making protected communications.

Results of investigations:

- *During the reporting period, we opened 180 reprisal investigations and closed 95 cases; 20 of the closed cases (21 percent) contained substantiated allegations.*
- *We received 29 allegations of violation of the DoD directive on mental health referrals. Violations were substantiated in 12 of those cases. Of the 12, eight involved failure to provide the member the required notification of rights, rather than a reprisal for whistleblowing.*
- *We opened 198 cases and closed 205 senior official administrative investigations; 30 (15 percent) of the cases closed contained substantiated allegations.*
- An Army sergeant received a letter of admonishment, an unfavorable noncommissioned officer evaluation report, and relief for cause for filing a complaint with the Inspector General at Fort Meade, MD.
- An Air Force sergeant at Volk Air Base, Netherlands, was removed from his supervisory position and received a lowered enlisted performance report in reprisal for communicating with an Inspector General regarding improprieties in the military postal system.
- An Army enlisted member at Aberdeen, MD, received a lowered noncommissioned officer evaluation report and an improper mental health evaluation in reprisal for making an Inspector General complaint against her supervisor.
- A Navy Reserve chief petty officer received an adverse enlisted performance evaluation for making protected communications to her chain of command.

- An Air Force noncommissioned officer received a lowered NATO international evaluation and enlisted performance report in reprisal for making a sexual harassment complaint.
- A Marine master sergeant received a downgraded evaluation in reprisal for making a complaint against her supervisor to the chain of command.

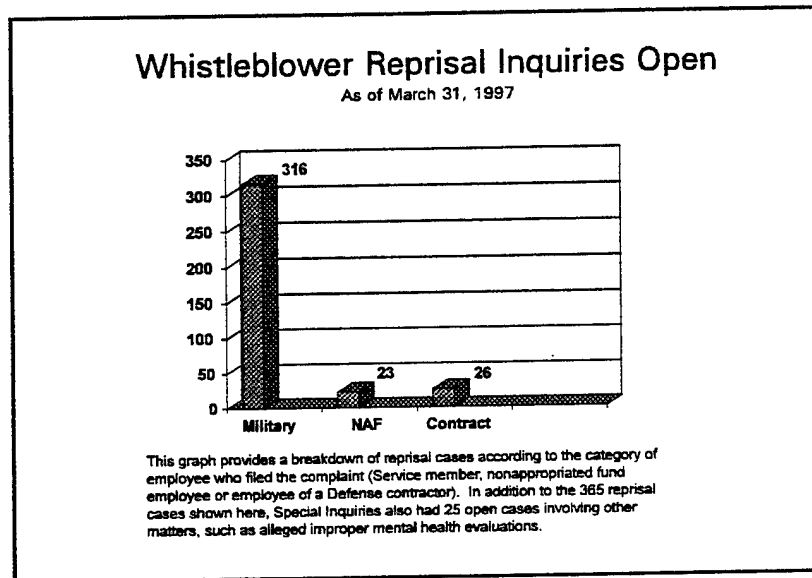


Exhibit 5

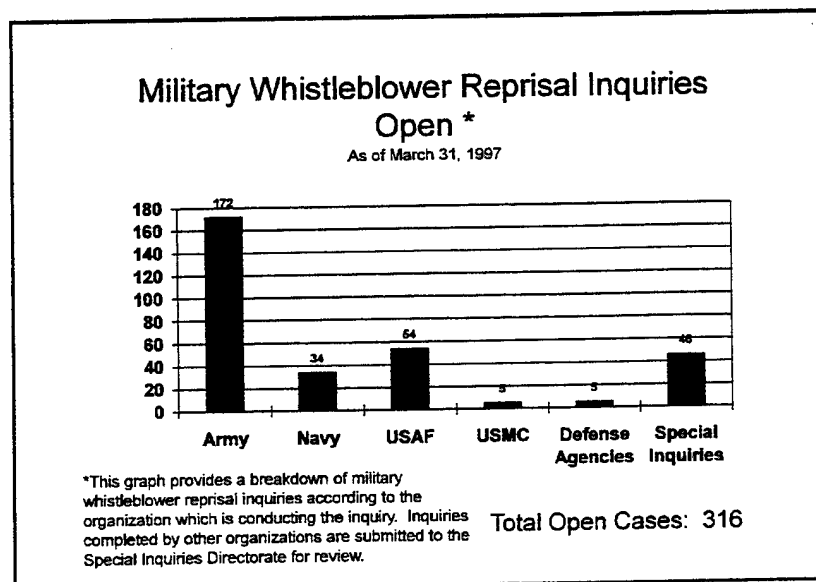


Exhibit 6

**Examples of
Substantiated
Senior Official
Cases**

*Official Travel
Improprieties*

We conducted two inquiries of significance that involved allegations of travel improprieties. In the first, we found that a senior Army official, while on official travel, improperly used business class accommodations during overseas commercial air travel. We further concluded that the senior official improperly conducted official travel in conjunction with weekends for personal convenience. We recommended that the senior official reimburse the Government for the additional costs associated with the improper use of business class accommodations and the per diem to which he was not entitled.

In a second case, we investigated allegations that a senior Army official used a Government aircraft for travel to the funeral of a relative. We found that the travel was a detour from previously scheduled official travel by military aircraft and that the senior official had requested and received approval for the detour. We discovered, however, that the approval process for such unofficial travel is not clearly delineated in the applicable DoD directive, and we concluded that the request to detour the aircraft to the funeral was authorized by an official who did not have express authority to do so. We recommended that the directive be revised to require that all such unofficial travel by senior DoD officials be approved in advance by the Secretary of Defense.

*Misuse of
Government
Resources*

The Director of a DoD agency misused Government resources in connection with the funeral of a personal acquaintance. We found that the official accepted assistance from his staff in making arrangements for and participating in the funeral. Specifically, we found that, while in a leave status, subordinates provided transportation and reception services for the funeral, but were not properly compensated for those services. Further, we found that a Government vehicle was improperly used to transport food items to a post-funeral reception, but that the senior official was not aware of its use for that purpose until he observed it after the funeral. Based on our recommendation, the senior official reimbursed his subordinates for their services and reimbursed the Government for the use of the vehicle.

Conflict of Interest

We initiated an inquiry into allegations of conflict of interest and other misconduct involving a military officer who was a senior Marine Corps attorney. We concluded that the attorney, who was also an adjunct faculty member at a private law school, violated the provisions of the Joint Ethics Regulation pertaining to conflicts of interest by encouraging subordinate military attorneys to attend trial advocacy programs offered by the law school and by approving the use of Government funds to defray the cost of the officers' tuition. The attorney, who has since retired, accepted non-judicial punishment.

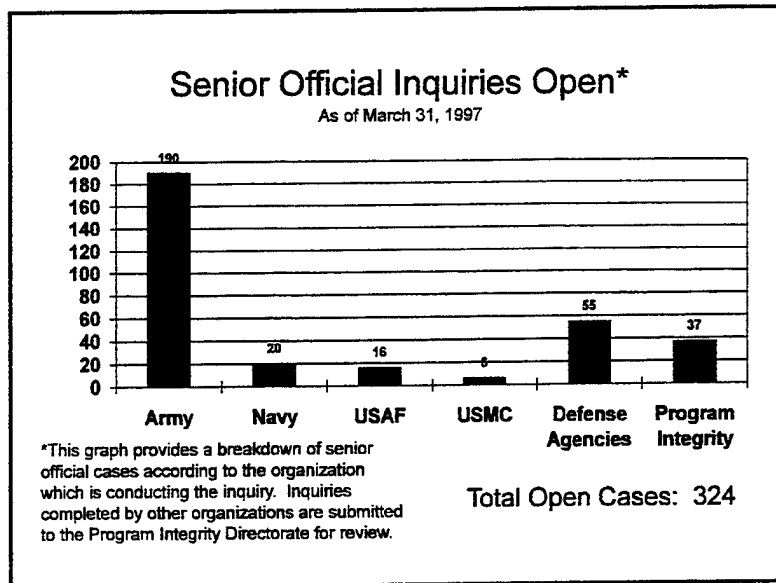


Exhibit 7

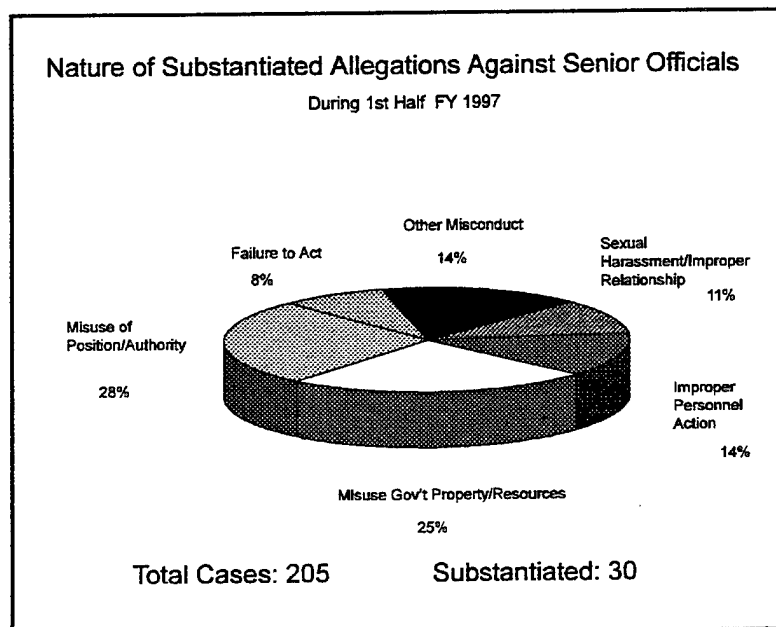


Exhibit 8

Other Inquiries

The OIG also provides a unique capability to examine wide-ranging issues, such as:

Air Force Aircraft Accident Investigation

We initiated a review of an Air Force Aircraft Investigation Report and an Air Force Inspector General (IG) inquiry into an alleged cover-up regarding circumstances of a midair collision of an F-16 and a C-130 aircraft at Pope Air Force Base, NC. We concluded that the investigative findings, conclusions and recommendations regarding the actions of the air traffic controllers were supported by the evidence contained in the report. However, we also concluded that the accident investigation and follow-on IG inquiry failed to adequately inquire into the actions of the F-16 pilot. We recommended to the Secretary of the Air Force that the investigation be reopened to address this issue.



Crash site of F-16 and C-130 aircraft

**AUDIT POLICY AND
OVERSIGHT**

The OIG develops policy for, and monitors the performance of, the DoD audit community and ensures the DoD's appropriate use of non-Federal auditors. The following are examples of reviews conducted during this period:

**Defense Contractor
Insurance and
Pension Plans**

The review evaluated whether the Defense Contract Audit Agency (DCAA) and the Defense Logistics Agency (DLA) implemented our 1993 recommendations to improve planning, documentation and coordination of Contractor Insurance Pension Reviews (CIPRs). Because of the significance of pension-related issues in business combinations, the review focused on contractors known to have acquired or sold business segments. Billions of dollars of contractor pension fund assets accumulated from charges to Government contracts continue to be exposed to undue risks. Specifically, Government-funded pension assets must be properly allocated during restructurings to ensure future contracts do not bear a disproportionate share of pension costs. Based on estimated average pension costs of \$216,000 per employee, the pension fund assets—for the 15 largest contractors—is estimated to be \$100 billion. We identified six conditions that result in unacceptable review coverage and substantial risk to the Government and found that incurred costs are improperly allocated to existing contracts and forward pricing estimates for future contracts are inaccurate. The conditions represent a material management control weakness. The Director, Defense Procurement, and the DLA agreed to take corrective action, which we will closely monitor.

Single Audit Act

We received 288 annual audit reports from state and local governments, universities and nonprofit organizations that received DoD assistance and awards. For 64 of the organizations for which the DoD has cognizance or oversight responsibilities, we conducted desk reviews to assure the audit reports meet applicable reporting standards and the single audit reporting requirements. We are still experiencing late submissions by recipients of final indirect cost rates to the DCAA and delays by DCAA in auditing those rate submissions. For seven of the organizations for which the DoD has cognizance or oversight responsibilities, we conducted quality control reviews to ensure that the audit was conducted in accordance with applicable standards and meets the auditing requirements of the Office of Management and Budget Circulars. Our findings included: lack of professional proficiency for the tasks required, inadequate sampling, failure to audit subrecipient monitoring, deficiencies in timekeeping procedures and inadequate and incomplete single audit reports. Exhibit 9 (page 29) illustrates DCAA statistics.

**EXHIBIT 9
CONTRACT AUDIT REPORTS ISSUED¹
(\$000 in millions)**

Type of Audit	Reports Issued	Examined	Audit Exceptions	Funds Put to Better Use
Incurred Costs	13,320	\$41,634.6	\$641.2	\$ 37.4 ²
Forward Pricing Proposals	5,741	39,474.3	—	1,794.4
Cost Accounting Standards	1,756	195.7	36.5	—
Defective Pricing ³	418	00	12.4	—
Other ⁴	5	00	—	—
Total	21,240	\$81,304.6	\$690.1	\$1,831.8

¹Because of limited time between availability of management information system data and legislative reporting requirements, there is minimal opportunity for the DCAA to verify the accuracy of reported data. Accordingly, submitted data is subject to change based on subsequent DCAA authentication.

²Incurred cost funds put to better use are from the cost avoidance recommended in operations audits.

³Defective pricing dollars examined are not reported because they are considered a duplication of forward pricing dollars reported as examined.

⁴Relates to suspected irregular conduct cases.

**CRIMINAL
INVESTIGATIVE
POLICY AND
OVERSIGHT**

The OIG develops policy for, and monitors the performance of, the DoD law enforcement community. An example of a significant evaluation is:

**Compliance with
Criminal History Data
Reporting
Requirements**

This evaluation was conducted to assess the consistency with which the Military Criminal Investigative Organizations (CIDC, NCIS, and AFOSI) or "MCIOs" were forwarding fingerprint cards and final case disposition forms to the Federal Bureau of Investigation. The findings established that the MCIOs were not consistently submitting this criminal history data as required and, further, that the Services' law enforcement organizations had been omitted from previous DoD guidance on this issue and were similarly unresponsive. The report recommended that the Military Departments develop interim policies and implementing procedures to meet the reporting requirements while a new DoD Instruction was developed to specifically outline for the entire DoD law enforcement community the requirements and procedures for providing this data. During the evaluation process, the Inspector General issued a memorandum to the Secretaries of the Military Departments and the Directors of the Defense Agencies providing specific guidance designed to immediately ensure compliance. The DoD Instruction regarding criminal history data reporting was drafted and distributed for comment throughout the DoD.

**Contractor Fraud
Self Reporting**

The OIG also administers the Voluntary Disclosure Program, which provides Defense contractors a vehicle to self-report procurement fraud

related to DoD contracts. We have taken a number of actions to improve the Program, including efforts to better inform DoD contracting officers and contractors of the benefits of voluntary disclosure, enhance inter-agency coordination on the status of admission decisions and the progress of verification investigations, and streamline investigative case management.

INTELLIGENCE REVIEW

The DoD intelligence community presents unique challenges to DoD leadership in the post-Cold War era. The mission, organization and operations of the intelligence community and its vital support to national leadership and the warfighter are key issues facing DoD decisionmakers. The IG continues to focus dedicated resources in this key area.

During this reporting period, significant intelligence-related audits and evaluations concentrated on such areas as information and computer security; acquisition and contract management; and intelligence operations. Two of the evaluations we completed in these areas were:

Training of Foreign Military Personnel

The evaluation was in response to a request from the Deputy Secretary of Defense to determine whether a 1992 investigation by the Assistant to the Secretary of Defense for Intelligence Oversight (ATSD(IO)) on improper training and supporting materials used at the School of the Americas and by other DoD activities were adequate to assess individual responsibility, and whether corrective actions were implemented. We concluded that the ATSD(IO) report was adequate for concluding that no deliberate and orchestrated attempt was made to violate DoD or Army policies. We also concluded that corrective actions were not fully implemented within the DoD. In response to our report, we received concurrence from the Assistant Secretary of Defense (Command, Control, Communications and Intelligence), who agreed to reissue the 1992 corrective action memorandum as a DoD Directive. We continue to examine other issues at the School of the Americas.

Brothers to the Rescue

This evaluation was conducted in response to a request from Representative Burton and Senator Helms that we evaluate the DoD response to the shootdown of two Brothers to the Rescue (BTTR) aircraft by the Cubans on February 24, 1996. Phase one of the evaluation was an analysis of the claim by BTTR leader, Jose Basulto, that Cuban fighters came within "three minutes of U.S. territory" on February 24, 1996. We concluded that the aircraft had not come within three minutes of U.S. territory and had not attempted to enter U.S. airspace. Phase two of the evaluation is continuing.

CLASSIFIED ANNEX

Additional information on the intelligence-related audits, evaluations, investigations and special reviews can be found in Appendix B and a classified annex to the Semiannual Report.

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

Audit Reports Issued	Potential Monetary Benefits (\$000 in thousands)	
	Disallowed Costs ¹	Funds Put to Better Use
97-005 Acquisition of Ship Self-Defense Systems (10/15/96) (CLASSIFIED)	N/A	\$2,693,500
97-015 U.S. Marine Corps Aircraft Corrosion Prevention and Control Program (10/31/96)	N/A	49,400
97-021 Bulk Petroleum War Reserves for U.S. Forces Korea (11/6/96)	N/A	15,600
97-042 Defense Base Realignment and Closure Budget Data for the Utility Reconfiguration at the Naval Shipyard, Philadelphia, Pennsylvania (12/10/96)	N/A	2,200
97-043 Intra-Agency, Sole-Source, Section 8(A) Contract for the Naval Aviation Training Systems Program Office (12/10/96)	N/A	5,600
97-048 Defense Base Realignment and Closure Budget Data for the Realignment of the Defense Personnel Support Center and its Tenants to the Naval Aviation Supply Office Compound, Philadelphia, Pennsylvania (12/13/96)	N/A	2,030
97-077 United Nations Reimbursement for DoD Troop Contributions (1/21/97)	N/A	11,800
97-088 Defense Base Realignment and Closure Budget Data for the Construction of an Elisted Dormitory at Buckley Air National Guard Base, Colorado (2/6/97)	N/A	500
97-095 Defense Base Realignment and Closure Budget Data for the Relocation of the Fleet Imaging Center Pacific from the Naval Air Station, Barbers Point, Hawaii, to the Naval Station, Pearl Harbor, Hawaii (2/19/97)	N/A	1,850
97-101 Permanent Change of Station Management Information System (2/24/97)	N/A	1,100
97-113 Defense Base Realignment and Closure Budget Data for the Relocation of Public Works Center from Naval Training Center, San Diego, California, to the Taylor Street Annex, San Diego, California (3/24/97)	N/A	2,100
97-114 Award and Administration of Contracts, Grants, and Other Transactions Issued by the Defense Advanced Research Projects Agency (3/28/97)	N/A	1,200
97-115 Defense Base Realignment and Closure Budget Data for the Realignment of Four Navy Activities from Leased Space in Arlington, Virginia, to the Naval Security Station, Washington, D.C. (3/28/97)	N/A	623
Total		\$2,787,503
*Fulfills a requirement of 5 U.S.C., Appendix 3, Section 5(a)(6). ¹ There were no OIG audit reports during the period involving disallowed costs.		

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APPENDIX B*

REPORTS ISSUED BY CENTRAL DOD INTERNAL AUDIT ORGANIZATIONS

Excludes base level reports issued by the Air Force Audit Agency. Includes evaluation reports issued by the IG, DoD. Evaluation reports are indicated by an asterisk next to the report number.

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

OIG, DoD
(703) 604-8937

Army Audit Agency
(703) 681-9863

Naval Audit Service
(703) 681-9126

Air Force Audit Agency
(703) 696-8027

Summary of Number of Reports by Issue Area October 1, 1996 - March 31, 1997

	IG, DoD	Military Depts	Total
Acquisition Oversight	24	15	39
Finance and Accounting	37	45	82
Construction and Installation	16	21	37
Forces Management	2	18	20
Logistics	10	20	30
Information Technology	12	6	18
Quality of Life	0	6	6
Environment	7	11	18
Intelligence	5	6	11
Health Care	4	6	10
Security Assistance	2	0	2
Other	0	2	2
Total	119	156	275

IG, DoD, also issued 8 reports on oversight reviews of DoD audit organizations.

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

Acquisition Program and Contractor Oversight

IG, DoD

97-001 Award of the Sole Source Business Process Reengineering Contract (10/3/96)

97-003 The Defense Logistics Agency Value Engineering Program (10/9/96)

97-004 Management of the Acquisition of a Classified National Reconnaissance Office Program (CLASSIFIED) (10/15/96)

97-005 Acquisition of Ship Self Defense Systems (CLASSIFIED) (10/15/96)

97-007* Valuation of the Procurement Technical Assistance Cooperative Agreement Program (10/18/96)

97-011 Functional and Physical Configuration Audits of the Air Force Navigation System Time and Ranging Global Positioning System (10/28/96)

97-018 The Patriot Advanced Capability - 3 Program (11/4/96)

97-022 Air Force Commercial Acquisition of Foreign Materiel Using Memorandums of Agreement (CLASSIFIED) (11/6/96)

97-034 Contracting Practices for Defense Fuel Region-South Fuel Delivery Contracts (11/27/96)

97-037 Functional and Physical Configuration Audits of Defense Systems (12/2/96)

97-038 Refunds Due to DoD for Economy Act Orders Issued to a Central Intelligence Agency Component (12/4/96)

97-043 Intra-Agency, Sole Source, Section 8(a) Contract for the Naval Aviation Training Systems Program Office (12/10/96)

97-053 Navy Acquisition Planning for Fielding Weapon Systems (12/20/96)

97-063 Submarine Training Simulators and Devices at Trident Training Facility, Kings Bay (1/7/97)

97-064 Air-to-Air Intercept Missile-9X Program (1/10/97)

97-066 Procurement of Gun Mounts for the M1A2 Tank (1/9/97)

97-084 Reimbursable Orders Issued to the Naval Undersea Warfare Center, Keyport, Washington (1/29/97)

97-093 C-2A Flight Simulator Training Device (2/14/97)

97-096* DoD Controls Over Resources Used to Account for Missing U.S. Personnel (2/19/97)

97-104 Waivers and Deviations for the C-17 Aircraft (3/6/97)

97-105 Lessons Learned on the B-2 Training System (3/6/97)

97-108 Umbrella Special Access Program (CLASSIFIED) (3/12/97)

97-111 Management and Administration of Contract MDA903-91-D-0061 (3/17/97)

97-114 Award and Administration of Contracts, Grants, and Other Transactions Issued by the Defense Advanced Research Projects Agency (3/28/97)

Army Audit Agency

AA 97-5 Acquisition Planning, U.S. Army Communications-Electronics Command (CLASSIFIED) (11/22/96)

AA 97-9 Flight Safety Parts, U.S. Army Aviation and Troop Command (11/6/96)

AA 97-53 Combat Service Support Control System (12/12/96)

AA 97-58 Savings From Acquisition Reform (1/7/97)

AA 97-59 Improved Recovery Vehicle Program (12/20/96)

AA 97-67 Acquisition Planning (CLASSIFIED) (1/3/97)

AA 97-77 Contractor Payment Process ((1/17/97)

AA 97-156 Reforming Ammunition Procurement - Phase I (3/20/97)

AA 97-175 Contracting Under Acquisition Arrangement With the Government of Hungary, U.S. Army, Europe and Seventh Army (3/28/97)

Naval Audit Service

002-97 C-2A(R) Aircraft Program (10/4/96)

003-97 Termination of Contracts for Spare Parts at the Naval Inventory Control Point (10/15/96)

Air Force Audit Agency

94064023 Advanced Medium Range Air-To-Air Missile Logistics Support (3/7/97)

95064015 Air Force Center for Environmental Excellence and Related Air Force Environmental Acquisition Activities (12/2/96)

95064037 Fielding of the AC-130U Gunship (11/14/96)

96064027 Airborne Information Transmission Program (11/29/96)

Construction and Installation Support

IG, DoD

97-013 Defense Base Realignment and Closure Budget Data for the Construction of an Addition to the Chapel Center at Sheppard Air Force Base, Texas (10/30/96)

97-032 Defense Base Realignment and Closure Account for the Defense Personnel Support Center, the Defense Clothing Factory, and the Naval Aviation Depot, Pensacola (11/25/96)

97-042 Defense Base Realignment and Closure Budget Data for the Utility Reconfiguration at the Naval Shipyard, Philadelphia, Pennsylvania (12/10/96)

97-046 Defense Base Realignment and Closure Budget Data for the Closure of Naval Training Center Orlando, Florida, and Realignment of Maintenance and Storage Facilities to Taft U.S. Army Reserve Center, Orlando, Florida (12/13/96)

97-048 Defense Base Realignment and Closure Budget Data for the Realignment of the Defense Personnel Support Center and Its Tenants to the Naval Aviation Supply Office Compound, Philadelphia, Pennsylvania (12/13/96)

97-069 Defense Base Realignment and Closure Budget Data for the Relocation of the E-2 Maintenance Hangar from Naval Air Station Miramar, California, to Naval Air Station North Island, California (1/14/97)

97-071 Defense Base Realignment and Closure Budget Data for the Relocation of the Carrier Air Wings from Naval Air Station Miramar, California, to Naval Air Station Lemoore, California (1/15/97)

97-072 Completed Defense Base Realignment and Closure Construction Projects (1/15/97)

97-074 Defense Base Realignment and Closure Budget Data for the Relocation of Naval Aviation Engineering Services Unit from Marine Corps Air Station El Toro, California, to Naval Air Station Miramar, California (1/17/97)

97-075 Housing Market Analysis at Peterson Air Force Base, Colorado (1/17/97)

97-076 Defense Base Realignment and Closure Budget Data for the Relocation of the United States Naval Ship Mercy to the Naval Submarine Base San Diego, California (1/22/97)

97-088 Defense Base Realignment and Closure Budget Data for the Construction of an Enlisted Dormitory at Buckley Air National Guard Base, Colorado (2/5/97)

97-095 Defense Base Realignment and Closure Budget Data for the Relocation of the Fleet Imaging Center Pacific from the Naval Air Station Barbers Point, Hawaii, to the Naval Station Pearl Harbor, Hawaii (2/19/97)

97-109 Defense Base Realignment and Closure Budget Data for Hangar Utility Improvements and the Relocation of the F-14D Aircraft from Naval Air Station Miramar California, to Naval Air Station Oceana, Virginia Beach, Virginia (3/14/97)

97-113 Defense Base Realignment and Closure Budget Data for the Relocation of Public Works Center from Naval Training Center San Diego, California, to the Taylor Street

Annex, San Diego, California (3/24/97)

97-115 Defense Base Realignment and Closure Budget Data for the Realignment of Four Navy Activities from Leased Space in Arlington, Virginia, to the Naval Security Station, Washington, D.C. (3/28/97)

Army Audit Agency

AA 97-3 Selected Installation Support Costs, U.S. Army Kwajalein Atoll, Republic of the Marshall Islands (10/29/96)

AA 97-11 Base Realignment and Closure 1995, Reserve Component Enclave, Camp Pedricktown, New Jersey (11/7/96)

AA 97-27 Leased Facilities, U.S. Army, Europe and Seventh Army (11/8/96)

AA 97-29 Construction Costs, Eighth U.S. Army (11/12/96)

AA 97-50 Reengineering Selected Base Operations Activities (11/26/96)

AA 97-63 Reimbursement of Base Operations Support Costs, White Sands Missile Range, New Mexico (12/16/96)

AA 97-64 Reimbursement of Base Support Costs (12/16/96)

AA 97-83 Management of Nontactical Support Vehicles, Fort Carson, Colorado (12/23/96)

AA 97-92 Review of the U.S. Air Force Cost Comparison System (1/6/97)

AA 97-97 Space Utilization, U.S. Army Infantry Center and Fort Benning (1/6/97)

AA 97-102 Base Realignment and Closure 1995 Savings, Red River Army Depot (3/27/97)

AA 97-103 Base Realignment and Closure 1995 Savings, U.S. Army Aviation and Troop Command (3/25/97)

AA 97-104 Commercial Activities Study, Directorate of Logistics, III Corps and Fort Hood (FOUO) (1/9/97)

AA 97-105 Restructuring Maintenance in Air Defense Units,

U.S. Army Air Defense Artillery Center and Fort Bliss (1/27/97)

AA 97-131 Space Utilization, Aberdeen Proving Ground, Maryland (2/24/97)

AA 97-140 Base Realignment and Closure 1995 Construction Requirements, U.S. Army Medical Equipment and Optical School (3/11/97)

AA 97-163 Linen Management (3/24/97)

AA 97-164 Troop and Family Housing Furnishing, XVIII Airborne Corps and Fort Bragg (3/24/97)

Naval Audit Service

001-97 Military Construction, Navy Projects Proposed for Fiscal Year 1998 (10/4/96)

004-97 Fiscal Year 1998 Military Construction Projects Stemming from Decisions of the 1993 and 1995 Base Closure and Realignment Commissions (10/18/96)

Air Force Audit Agency

96052007 Medical Property at Closing Medical Treatment Facilities (12/17/96)

Environment

IG, DoD

97-009* Strategies for Improving DoD Environmental Compliance Assessment Programs (10/28/96)

97-061* National Environmental Policy Act/Base Realignment and Closure (1/9/97)

97-068* Strategies for Improving Environmental Management Systems in the DoD (1/13/97)

97-070 Use of Energy Conservation Funds (1/15/97)

97-087 Evaluation of the Direct Sale of Recyclable Material (2/4/97)

97-089* Impact of the National Environmental Policy Act on Base Closures (2/7/97)

97-098 Laboratory Support Services for Environmental Testing (2/21/97)

Army Audit Agency

AA 97-42 Plant Operations, Johnston Atoll Chemical Agent Disposal System (11/21/96)

AA 97-95 Recycling Program, Fort Riley, Kansas (1/6/97)

AA 97-114 Managing the Army's Pollution Prevention Program (2/3/97)

AA 97-115 Eliminating Hazardous Material in Weapon Systems, Program Executive Office for Aviation and U.S. Army Aviation and Troop Command (2/7/97)

AA 97-116 Environmental Budget Process (2/3/97)

AA 97-123 Recycling Program, Fort Carson, Colorado (2/18/97)

AA 97-128 Recycling Program, Fort George G. Meade (3/4/97)

AA 97-177 Environmental Program Management (CLASSIFIED) (3/24/97)

Naval Audit Service

015-97 Management of Environmental Research, Development, Test, and Evaluation Funds for the Naval Facilities Engineering Service Center, Port Hueneme, CA (1/30/97)

Air Force Audit Agency

96052025 Management of Hazardous Materials (10/29/96)

96052026 Hazardous Waste Disposal (11/29/96)

Finance and Accounting**IG, DoD**

97-006 Major Accounting and Management Control Deficiencies in the Defense Business Operations Fund in FY 1995 (10/15/96)

97-008 Summary Report on the FY1994 Financial Statements Audits of Defense Agencies (10/25/96)

97-017 Consolidated FY 1995 Financial Report on Defense Organizations Receiving Department 97 Appropriations (10/31/96)

97-020 The Capitalization of Defense Technology Security Administration Equipment (11/4/96)

97-024 General Fund Trial Balance of the Defense Logistics Agency at September 30, 1995 (11/15/96)

97-025 Consolidated Financial Report on the National Guard and Reserve Equipment Appropriation for the Army Reserve (11/19/96)

97-026 Major Deficiencies Preventing Auditors from Rendering Audit Opinions on FY 1995 DoD General Fund Financial Statements (11/19/96)

97-027 Defense Finance and Accounting Service Work on the Navy Defense Business Operations Fund FY 1995 Financial Statements (11/22/96)

97-035 Audit of Defense Finance and Accounting Service Administration of Unit Costs (11/29/96)

97-039 Defense Logistics Agency General Fund Equipment Account (12/5/96)

97-040 Distribution Depot Over-Ocean Second-Distribution Transportation Costs (12/10/96)

97-044 Army National Guard Military Equipment (12/11/96)

97-045 Financial Accounting at the Defense Intelligence Agency (12/12/96)

97-047 Audit of the Consolidated Financial Report on the National Guard and Reserve Appropriation for the Army National Guard (12/13/96)

97-052 Vendor Payments - Operation Mongoose, Fort Belvoir Defense Accounting Office and Rome Operating Location (12/23/96)

97-056 Management Controls in the Defense Civilian Pay System (12/27/96)

97-057 Compilation of FY 1995 Air Force Consolidated Financial Statements at the Defense Finance and Accounting Service Denver Center (12/27/96)

97-059 Financial Management for the Office of the Civilian Health and

Medical Program of the Uniformed Services (12/27/96)

97-062 Consistency in Reporting the Expense Account Line Items of the Defense Business Operations Fund (1/7/97)

97-065 Funds Control at the Office of Civilian Health and Medical Program of the Uniformed Services (1/10/97)

97-067 Defense Agencies Cash Management in the Defense Operations Fund (1/10/97)

97-073 Reliability of the FY 1995 Financial Statements for the Defense Logistics Agency General Fund (1/15/97)

97-077 United Nations Reimbursement for DoD Troop Contributions (1/21/97)

97-078 Potential Antideficiency Act Violations at the Department of Defense Education Activity (1/23/97)

97-079 Documentation of the Federal Financial System Process at the Defense Finance and Accounting Service Indianapolis Center (1/24/97)

97-081 Appropriated Capital Used in the FY 1995 Defense Business Operations Fund Financial Statements (1/27/97)

97-082 Property Accountability for the Department of Defense Education Activity (1/28/97)

97-085 Audit of Administratively Uncontrollable Overtime (1/28/97)

97-091 Revenue Recognition Policies for the Army Defense Business Operations Fund (2/12/97)

97-097 Capitalization of Software Developed for the Distribution Standard System (2/19/97)

97-100 Asset Presentation on Military Department General Fund Financial Statements (2/25/97)

97-102 Inventory Accuracy at the Defense Depot, Columbus, Ohio (2/28/97)

97-107 The Defense Contract Management Command Capitalization of Fixed Assets (3/10/97)

97-110 Material Accounting and Management Control Weaknesses in the Defense Agencies' FYs 1995 and 1996 Financial Information (3/17/97)

97-112 Air Mobility Command Financial Reporting of Property, Plant, and Equipment (3/19/97)

97-116 Allegations of Improper Accounting for the National Guard and Reserve Equipment Appropriation at the Army National Guard (3/31/97)

97-117 Eliminating Entries (3/31/97)

Army Audit Agency

AA 97-6 Commercial Accounts, National Ground Intelligence Center (11/12/96)

AA 97-7 Selected Concessionaires Accounts, U.S. Army Corps of Engineers, Baltimore District (10/8/96)

AA 97-16 Commercial Accounts - Sensitive Programs (CLASSIFIED) (11/21/96)

AA 97-26 Corps-Managed Recreation Areas, U.S. Army Corps of Engineers (11/22/96)

AA 97-31 Review of the Army Management Control Process (Fiscal Year 1996) (10/28/96)

AA 97-39 The Secretary of Defense Mess Fund Financial Statements (11/7/96)

AA 97-40 The Secretary of Defense/ Joint Staff Welfare and Recreation Fund Financial Statements (11/7/96)

AA 97-41 The General Officers' Mess Fund Financial Statements (11/7/96)

AA 97-65 FY 96 Army Defense Business Operations Fund, Financial Accounting for Equipment at Depot Maintenance Activities (12/9/96)

AA 97-68 FY 96 Army Defense Business Operations Fund Financial Statements, Supply Management, U.S. Army Missile Command (12/16/96)

AA 97-73 Defense Business Operations Fund Capital Investment Program, Army (12/31/96)

AA 97-74 FY 96 Army Defense Business Operations Fund Financial Statements, Supply Management, U.S. Army Aviation Center and Fort Rucker (12/31/96)

AA 97-75 Oversight Costs on Payment-In-Kind Construction Projects, U.S. Army Corps of Engineers, Transatlantic Programs Center, Europe (12/19/96)

AA 97-78 Financial Reporting of Wholesale Equipment, U.S. Army Materiel Command (1/17/97)

AA 97-85 FY 96 Army Defense Business Operations Fund Financial Statements, Supply Management, 3d Infantry Division (Mechanical) and Fort Stewart (12/31/96)

AA 97-86 FY 96 Army Defense Business Operations Fund Financial Statements, Supply Management, Inventories (12/31/96)

AA 97-98 FY 96 Financial Reporting, Fort Worth District, U.S. Army Corps of Engineers (1/31/97)

AA 97-108 FY 96 Financial Reporting, Vicksburg Engineer District, U.S. Army Corps of Engineers (2/3/97)

AA 97-109 FY 96 Financial Reporting, U.S. Army Engineer District, Alaska (2/19/97)

AA 97-110 FY 96 Financial Reporting, Huntington District, U.S. Army Corps of Engineers (2/18/97)

AA 97-111 Commercial Accounts-Special Access Program and Sensitive Activities (2/14/97)

AA 97-121 FY 96 Army Defense Business Operations Fund Financial Statements, Supply Management, U.S. Army Aviation and Troop Command (2/12/97)

AA 97-122 Army Defense Business Operations Fund FY 98 Surcharge Rate, Supply Management Business Area (2/12/97)

AA 97-133 Army's Principal Financial Statements for Fiscal Years 1996 and 1995, Auditor's Report (2/21/97)

AA 97-136 FY 96 Financial Statements, U.S. Army Corps of Engineers, Civil Works (2/28/97)

AA 97-139 Representation Contingency Funds (Limitation .0012), U.S. Southern Command (2/27/97)

AA 97-729 Selected Concessionaire Accounts, Baltimore District, U.S. Army Corps of Engineers (2/20/97)

Naval Audit Service

005-97 Auditor General Opinion: Department of the Navy Annual Statement of Assurance and Report on Operating Accounting Systems for Fiscal Year 1996 (11/13/96)

022-97 Department of the Navy Fiscal Year 1996 Annual Financial Report: Report on Auditor's Opinion (3/1/97)

021-97 Navy Fleet and Field Level Unmatched Disbursements (3/7/97)

Air Force Audit Agency

95068018 Internal Controls Over Inventory Prices, Supply Management Business Area, Fiscal Year 1995 (12/19/96)

96053001 Opinion on Fiscal Year 1996 Air Force Consolidated Financial Statements (3/1/97)

96053011 Government Furnished Property, Fiscal Year 1995 Air Force Consolidated Financial Statements (10/22/96)

96054009 Combat Ammunition System (1/17/97)

96058002 Validating Prior-Year Obligations (1/16/97)

96058014 Basic Allowance for Subsistence Program (11/16/96)

96058021 Financial Statement Contingent Liabilities (11/29/96)

96058029 Air Force Reserve Travel Accounting (3/14/97)

96058033 Validating Prior-Year Air Force Materiel Command Obligations (2/28/97)

96062002 Foreign Military Sales Accelerated Case Closure Procedures (1/22/97)

96066009 Application Controls Within the Wholesale and Retail Receiving and Shipping System (3/14/97)

96066012 Application Controls Within the Financial Inventory Accounting and Billing System (3/7/97)

96068008 Overall Assessment of the Air Force Defense Business Operations Fund (11/20/96)

96068009 Interim Report of Audit 96068009 - Government Furnished Material and End Item Transaction Reporting System (G009) (Project 96068001) (11/12/96)

97062011 Followup Audit - Pricing Modification Kits to Foreign Military Customers (3/4/97)

Forces Management

IG, DoD

97-012 U.S. Special Operations Command Training and Education Program (10/30/96)

97-099* Evaluation of Maritime Mining Capabilities (2/26/97)

Army Audit Agency

AA 97-35 Audit of Special Pay (CLASSIFIED) (2/28/97)

AA 97-62 Assignment and Use of High-Investment Soldiers (12/23/96)

AA 97-112 Capturing Institutional Training Costs (2/20/97)

AA 97-113 Workload-Based Manpower Requirements Program, U.S. Army Forces Command (2/7/97)

AA 97-125 Controlling Institutional Training Equipment Costs, U.S. Army Aviation Center and Fort Rucker (3/7/97)

AA 97-142 Controlling Institutional Training Equipment Costs, U.S. Army Air Defense Artillery Center and Fort Bliss (3/18/97)

AA 97-706 Managing Training Funds (11/29/96)

Naval Audit Service

007-97 Use of and Reimbursement for Reserve Military Manpower at Naval Weapons Stations (12/5/96)

008-97 Management of Naval Recruiting Command Functions (12/10/96)

012-97 Inertial Navigation Systems (12/23/97)

013-97 Military Essentiality of Naval Surface Reserve Force Full-Time Support Billets (1/13/97)

018-97 Occupational Standards Updates and Their Role in Developing Navy Training (2/28/97)

019-97 Loading of Enlisted Students for Recruit Training (2/28/97)

023-97 Organization and Staffing of Selected Naval Air Reserve Functions (3/17/97)

Air Force Audit Agency

96051029 Air National Guard Technician Compensation and Active Duty Days (10/2/96)

96058022 Aviation Unit Type Code Consistency (12/13/96)

96058027 Air National Guard Training Range Utilization (11/29/96)

96058028 Airfield Suitability for Beddowns in PACAF (10/2/96)

Health Care

IG, DoD

97-033* Physician Recruitment and Retention in the Army Selected Reserves (11/26/96)

97-036 Medical Readiness Training for Reserve Physicians (12/2/96)

97-049 Allegations Involving the Ambulatory Data System (12/17/96)

97-060 Economic Impact of the Use of Tobacco in DoD (12/31/96)

Army Audit Agency

AA 97-57 Military Optical Fabrication Program (11/20/96)

AA 97-107 Mental Health Care Delivery System, Darnall Army Community Hospital (2/11/97)

AA 97-124 Mental Health Care Delivery System, Evans Army Community Hospital, Fort Carson, Colorado (2/19/97)

Naval Audit Service

006-97 Military Optical Fabrication Program (11/20/96)

010-97 Recovery of Outpatient Health Care Costs From Third Party Payers (12/17/96)

Air Force

96051010 Air Force Emergency Room Operations (3/11/97)

Information Technology Resources

IG, DoD

97-002 Vendor Participation in the Federal Acquisition Computer Network (10/4/96)

97-010 Defense Information Systems Agency Management of Trouble Tickets for Electronic Commerce/Electronic Data Interchange (10/28/96)

97-019* Evaluation of the Reserve Component Automation System (11/1/96)

97-030 DoD Interim Federal Acquisition Computer Network Certifications (11/25/96)

97-031 Phaseout of the Automatic Digital Network (11/25/96)

97-041 DoD Hotline Allegations on the Defense Logistics Agency Data, Review, Analysis Monitoring Aid (12/10/96)

97-050 Evaluation of Controls Over Workflow Applications Selected for Electronics Document Management (12/17/96)

97-051 Corps of Engineers Financial Management System (12/18/96)

97-090 Electronic Commerce Resource Centers (2/11/97)

97-094 Consolidation of Naval Activities Providing Telephone Service-Atlantic Region (2/14/97)

97-101 Permanent Change of Station Management Information System (2/24/97)

97-103 Summary Report on the DoD Implementation of Electronic Commerce/Electronic Data Interchange in Contracting for Small Purchases and the Federal Acquisition Computer Network (3/4/97)

Army Audit Agency

AA 97-32 Funding and Acquisition of Command, Control and Communications Projects, U.S. Army, Europe and Seventh Army (11/26/96)

AA 97-46 Controls Over the Acquisition and Use of Cellular Telephones and Pagers (1/2/97)

AA 97-167 Bundled Pricing in the Personal Computer 2 Contract, U.S. Army Communications-Electronics Command (Time-Sensitive) (3/14/97)

Air Force Audit Agency

95066014 Software Work Breakdown Structures (12/20/96)

96054026 Response to Command and Control System Problems Identified During the Persian Gulf Conflict (12/16/96)

96066027 Software Support Alternatives Within Air Force Materiel Command (3/4/97)

Intelligence

IG, DoD

PO 97-006 Special Activities, Navy (CLASSIFIED) (2/15/97)

PO 97-007* Training of Foreign Military Personnel, Phase I (FOUO) (2/21/97)

PO 97-010* Impact of DoD Automation Activities on the DoD Covered Community (CLASSIFIED) (3/12/97)

PO 97-011* The DoD Response to the Brothers to the Rescue Incident - Phase I (CLASSIFIED) (3/31/97)

97-023 Army Funding of Casaba Hound (CLASSIFIED) (11/8/96)

Army Audit Agency

AA 97-2 Contract Security Requirements (10/21/96)

AA 97-79 Selected Aspects of Property and Financial Management, Intelligence Materiel Division, Fort George G. Meade (12/13/96)

AA 97-80 Contingency Funds Used for Gift Locker and Counterpart Visits (Limitation .0012) (1/6/97)

Air Force Audit Agency

95070005 The Intelligence Contingency Fund (11/7/96)

96058037 Automated Intelligence Information Systems Development (3/19/97)

96070016 Quick Reaction Report of Audit 96070016 - Intelligence-Related Automated Information Systems Migration (Project 96058037) (11/27/96)

Logistics

IG, DoD

97-014 Controls Over the Return of Repairable Assets (11/1/96)

97-015 U.S. Marine Corps Aircraft Corrosion Prevention and Control Program (10/31/96)

97-016 Implementation of the DoD Asset Visibility Plan at the Defense Logistics Agency (10/31/96)

97-021 Bulk Petroleum War Reserves for U.S. Forces Korea (CLASSIFIED) (11/6/96)

97-054* Equipment Pre-positioned Afloat (12/20/96)

97-055 Capability of U.S. Forces in Europe to Receive Reinforcing Forces (CLASSIFIED) (12/27/96)

97-058 Providing Aircraft to the Naval Air Reserve Force (12/27/96)

97-086 Mission Essentiality Coding (2/3/97)

97-092 Household Goods Storage (2/12/97)

97-106 Consumable Item Transfer, Phase II, Cash Imbalance Issue (3/5/97)

Army Audit Agency

AA 97-1 Management of Equipment in the Table of Distribution and Allowances, U.S. Army Intelligence Center and Fort Huachuca (10/8/96)

AA 97-4 Asset Management, AMC Materiel Readiness Support Activity (CLASSIFIED) (12/27/96)

AA 97-76 Contractor Support for the Logistics Civil Augmentation Program, Operation Joint Endeavor (12/23/96)

AA 97-93 Tire Retread Program U.S. Army Tank-Automotive and Armaments Command, Warren, Michigan (1/6/97)

AA 97-118 Reparable Exchange Items, III Corps and Fort Hood (2/7/97)

AA 97-119 Management of Tactical Vehicles, Eighth U.S. Army (2/11/97)

AA 97-132 Requisition Processing, New Jersey Army National Guard (2/24/97)

AA 97-135 Total Asset Visibility-Acquisition Data (3/3/97)

AA 97-138 Requisition Processing, Army National Guard (2/24/97)

AA 97-161 Management of Repair Parts for Maintenance (3/17/97)

AA 97-728 Audit of Nonstandard Ammunition, U.S. Army Special Operations Command (2/13/97)

Naval Audit Service

016-97 Inventory Management of Coordinated Shorebased Allowance List Material (1/31/97)

017-97 Audit of Naval Surface Warfare Center, Crane Division, Louisville PHALANX Close-In-Weapon System Program (2/28/97)

024-97 Naval Inventory Point's Use of Additive Planned Program Requirement Levels (3/18/97)

Air Force Audit Agency

95061028 Controls Over Security Police and Combat Arms Training Munitions (12/6/96)

95062007 F110-GE-129 and F100-PW-229 Engine Programs (10/7/96)

95062014 Aircraft Programmed Depot Maintenance Over-And-Above Work (2/10/97)

96061009 Peacetime Aviation Fuel Requirements (1/21/97)

96061012 Night Vision Goggles Program (11/21/96)

96062001 Embedded Software Maintenance and Modifications (12/17/96)

Quality of Life**Army Audit Agency**

AA 97-56 Commercial Sponsorship Program, U.S. Army Community and Family Support Center (3/5/97)

AA 97-94 Followup Audit of Morale, Welfare, and Recreation Program, Fort Riley, Kansas (2/10/97)

AA 97-162 Followup Audit of Management Controls, Coral Cove Community Club, 10th Area Support Group, Okinawa (3/24/97)

Naval Audit Service

009-97 Fiscal Years 1993 and 1994 Special Funding of Morale, Welfare, and Recreation Capital Improvements and Other Requirements (12/16/96)

014-97 Navy Uniform Program (2/20/97)

025-97 Department of the Navy General Library Programs (3/18/97)

Security Assistance**IG, DoD**

97-028 Israeli Use of Offshore Procurement Funds (11/22/96)

97-029 Foreign Military Financing of Direct Commercial Contracts for Israel (11/22/96)

Audit and Criminal Investigative Oversight Reviews**IG, DoD**

PO 97-001 Training for Interception of Wire, Electronic, and Oral Communications for Law Enforcement (11/27/96)

PO 97-002 Continuing Review of Audit Reports Issued by the Air Force Audit Agency (1/17/97)

PO 97-003 Evaluation of Compliance With DoD Criminal Investigations Policy Memorandum Number 10, Criminal History Data Reporting Requirements (1/28/97)

PO 97-005 Army Materiel Command Contract Audit Followup Program (1/31/97)

PO 97-008 Defense Audit Agency Audits of Major Contractor Labor Costs (2/28/97)

PO 97-012 DoD Block Changes (3/14/97)

PO 97-013 DoD Oversight of Defense Contract Insurance and Pension Plans (3/28/97)

PO 97-014 Oversight Review of the Coordination of Remedies Program (3/31/97)

Other**Naval Audit Service**

011-97 Marine Corps Nonappropriated Audit Service (1/7/97)

020-97 Local Audit Function at Naval Submarine Base New London, Groton, CT (2/28/97)

Our report on the status of OIG, DoD reports over 12 months old in which management decisions have been made but final action has not been taken has been provided to the Department and is available upon request.

APPENDIX C* FOLLOWUP ACTIVITIES

DECISION STATUS OF INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE¹ (\$ in thousands)		
Status	Number	Funds Put to Better Use
A. For which no management decision had been made by the beginning of the reporting period.	49	\$850,185 ²
B. Which were issued during the reporting period.	124	2,787,503
Subtotals (A+B)	173	3,637,688
C. For which a management decision was made during the reporting period.	132	875,935
(i) dollar value of recommendations that were agreed to by management	—	475,050
. . . - based on proposed management action	—	475,050
. . . - based on proposed legislative action	—	0
(ii) dollar value of recommendations that were not agreed to by management.	—	400,885 ³
D. For which no management decision has been made by the end of the reporting period.	41	2,761,753
Reports for which no management decision was made within 6 months of issue.	0	0
¹ There were no OIG audit reports during the period involving questioned costs.		
² Includes \$304,580 inadvertently omitted from the last report.		
³ On certain reports with audit estimated monetary benefits of \$553 million, it has been agreed that the resulting monetary benefits can only be estimated after completion of management action, which is ongoing.		

STATUS OF ACTION ON CENTRAL INTERNAL AUDITS (\$ in thousands)			
Status of Action	Number of Reports	Questioned Costs	Funds Put to Better Use
IG, DoD			
Action in Progress - Beginning of Period	248	—	\$ 314,391
Action Initiated - During Period	132	—	875,935
Action Completed - During Period	136	—	711,313
Action in Progress - End of Period	244	—	304,839 ¹
Military Departments			
Action in Progress - Beginning of Period	438	—	7,047,132
Action Initiated - During Period	153	—	525,964
Action Completed - During Period	184	—	3,026,639
Action in Progress - End of Period	407	—	7,255,010
¹ Does not include the \$553 million referenced in the table above pertaining to actions on which there is agreement that an estimate of monetary impact at this point is infeasible.			

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

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