

OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

SEMIANNUAL REPORT TO THE CONGRESS



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October 1, 1997 - March 31, 1998

Mission Statement

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

FOREWORD

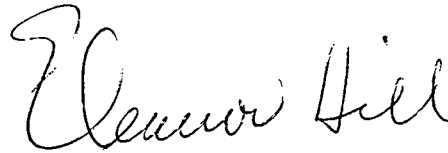
I am again pleased to report on the achievements of the Office of the Inspector General for the Department of Defense and other parts of the Department's audit and investigative community for the period October 1, 1997 to March 31, 1998. This report summarizes significant audit and investigative efforts during that 6-month period while those oversight projects pertaining to the intelligence community are discussed in the Classified Annex to this report. As in our two most recent reports, we have selected significant topics for detailed discussion. This report contains special emphasis sections on environmental issues and on information technology management.

During this reporting period, the oversight community has focused its efforts on a wide variety of fronts, including both the challenges posed by new reform initiatives and the frustrations driven by persistent and long-standing problems. Their work has been critical to ongoing efforts to reengineer and improve the Department's operations and has yielded impressive results for both the Department and, ultimately, the taxpayers:

- internal auditors identified \$3.9 billion in funds that could be put to better use immediately or during the Future Years Defense Program period;
- the Department of Defense contract audit organizations took exception to \$858 million and identified over \$2.1 billion in funds that could be put to better use; and
- the Department of Defense criminal investigative organizations achieved over \$228 million of monetary outcomes and nearly \$5 million in seizures and recoveries of Government property.

This reporting period also witnessed some significant milestones for the Office of the Inspector General, which we believe will better ensure our ability to maintain a professional and responsive audit and investigative capability in the years ahead. We recently established a computer intrusion group within the Defense Criminal Investigative Service, the criminal investigative arm of the Office of the Inspector General, and are working closely with the Federal Bureau of Investigation to adequately address the growing threat of computer intrusion against the Department's many automated information systems. Also during this period, our auditors worked closely with Department officials in addressing the year two thousand computer problem. Recognizing and reinforcing our criminal investigative efforts, the Congress granted statutory law enforcement authority to special agents of the Defense Criminal Investigative Service. Finally, in an effort to maintain the quality of our most critical work in the face of continued downsizing, we recently completed another reorganization effort, resulting in the further streamlining of our organization and the elimination of one Assistant Inspector General position and the accompanying internal component. We continue to emphasize the need to identify and implement initiatives that will strengthen and improve our own capacity to detect and pursue waste, fraud, and abuse in an ever changing environment.

In my view, the accomplishments set forth in this report amply demonstrate the commitment of the Department's audit and investigative community to the goals of efficiency, effectiveness, and integrity in Government. The Congress can be assured that the dedicated professionals that comprise that community will continue to do their best to make those goals realities in the years ahead.

A handwritten signature in cursive script that reads "Eleanor Hill". The signature is written in black ink and is centered on the page.

Eleanor Hill
Inspector General

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CHAPTER ONE - REDUCE HIGH RISK VULNERABILITIES

INTRODUCTION

The Department of Defense (DoD) audit, inspection and investigative community acts as an agent of positive change in identifying better ways to accomplish the DoD mission by controlling risk, fighting fraud and reducing costs. By closely linking our oversight activities with the Department's strategic goals and management improvement plans, as well as extensively participating in DoD team problem solving efforts, we try to provide objective, relevant, practical and timely advice to policy makers, managers and commanders.

HIGH RISK AND SPECIAL EMPHASIS AREAS

In the two previous semiannual reports, we discussed the principal high risk areas in the Department--Acquisition, Financial Management, Infrastructure and Information Technology Management. In addition, we addressed certain focus areas where there continuously are numerous significant audits and investigations--Acquisition Reform, Health Care Fraud, Readiness, Property Disposal and Official Misconduct. In this report, we provide updates on the main high risk areas, with additional detail on Information Technology Management. We also discuss another focus area--Environment.

ACQUISITION

The DoD continues to put a very high priority on acquisition reform to reduce per unit cost of equipment, time needed to develop new weapon systems, acquisition overhead expenses and reliance on other than commercial business practices. A paramount goal is to attain a \$60 billion annual investment level for weapon systems modernization without requiring an increase in overall DoD budget authority. Achieving this goal depends on successfully implementing drastic reforms in all DoD support functions, especially logistics. Costs can be

"Changing decades old mindsets is difficult... much remains to be done."

cut significantly only if weapon systems are chosen and designed with more emphasis on reducing life cycle support costs than has been evident in the past. Because the Department's principal management problems cut across functional areas and are interlinked, the traditional DoD "stovepipe" management approach is being replaced by more integrated efforts. Changing decades old mindsets and habits is difficult, however, and much still remains to be done.

From an oversight standpoint, the challenge is to ensure that the DoD maintains reform momentum without inadvertently weakening important management controls during a period of increased risk. The risk of fraud and mismanagement is considerably increased during periods of

downsizing, restructuring and introducing completely new processes and systems, even when those measures are intended to result ultimately in more effective and efficient operations. Although much of the risk may be unavoidable, it is important that managers know what the risk factors are and have effective controls in place to deal with them. For further discussion on this point, see the summary of the recent Inspector General, DoD, testimony to Congress in Chapter 2.

During the reporting period, we issued 42 audit reports on acquisition matters. Our findings indicated that the initial procurement approaches used to buy aircraft spare parts using commercial practices were disjointed and inefficient, resulting in excessive prices paid to two contractors. Most of the parts were unnecessarily procured on a sole-source basis. Our audits also indicated continued problems in models used for determining weapon system requirements, the need for further improvement in product quality deficiency reporting and research, opportunities for reducing security costs and inadequate planning for various types of aircraft onboard systems and simulators.

FINANCIAL MANAGEMENT

The Department remains unable to comply with the requirements of the Chief Financial Officers Act of 1990 and the Federal Financial Management Reform Act of 1994 regarding auditable annual financial statements. During the reporting period, we issued disclaimers of opinion on all but one of the major DoD reporting entities and on the DoD-wide consolidated financial statements. The causes for this lack of compliance remain the lack of accounting systems with integrated, double-entry,

“The Department remains unable to comply with...the Chief Financial Officers Act...and the Federal Financial Management Reform Act.”

transaction-driven general ledgers and a wide variety of internal control problems. The DoD has candidly acknowledged these deficiencies and is working to overcome them; however, new systems will not be fully in place until 2003. In the meantime, we are working with the Department

and the General Accounting Office (GAO) to attempt to mitigate, to the extent possible, the impact of DoD financial reporting problems on the GAO ability to opine on the future of Government-wide financial statements.

During the reporting period, 82 audit reports were issued in this area. All but a few pertained to the mandatory financial statement audits. The combination of the downsizing of the audit community, the increased number of statements and reporting entities requiring audit, the labor-intensive nature of those audits and other factors makes it impossible to carry out a sufficiently robust program of operations audits to

compliment the financial statement audits in both the finance and non-finance areas of the DoD. Nevertheless, audit reports did address other finance issues, such as the contract fund reconciliation process, cash management in working capital funds, debt collection and employee injury compensation. We continued monitoring DoD efforts to reduce the number of disbursements that cannot be matched to original obligations and will report on that matter later this year.

On another longstanding issue, we apprised the Congress in February 1998 that we were unable to provide a planned report on a new DoD procedure for making contractor progress payments because the Department was still considering how to address the problem and had deferred a decision to at least May 1998.

INFRASTRUCTURE

Reducing support costs, while not degrading force readiness or quality of life for military personnel, is a prime focus of DoD managers. During this reporting period, we issued 75 audit and evaluation reports covering logistics, health care management, environment, facility construction and other support areas. Virtually all of those reports can be linked to strategic reform goals, which in turn are primarily related to adopting commercial business practices, such as just-in-time delivery of supplies and managed health care, outsourcing and eliminating excess capacity and inventory. Findings addressed matters such as housing requirements, base utility privatization, personnel requirements, dual management of commercially available items by DoD and other Government agencies, joint contracting for depot maintenance of equipment, logistics agreements with allies, spare parts requirements and transport vehicle management.

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INFORMATION TECHNOLOGY MANAGEMENT

Rapidly advancing computing and communications technology continues to enhance U.S. military capabilities. Information technology is a major component of most weapon systems and the capabilities of command, control, communication and intelligence systems are a crucial factor in battlefield success or failure. Likewise, all DoD business functions--logistics, procurement, personnel management and others--depend heavily on information networks. The evolving global information environment is introducing paperless transactions, universal access to information, further miniaturization and other capabilities that enable

"The challenges posed by the "Y2K" problem are enormous..."

radical changes in system designs and processes. The ongoing revolutions in both military concepts and business practices will be successful only if the DoD overcomes a number of formidable challenges. To help assess how well those challenges are being addressed, we issued 31 inspection and audit reports during the period. Also, the audit and investigative communities are taking proactive measures to keep pace with the problems and opportunities in this area.

YEAR 2000 COMPUTING

By the end of the reporting period, about 150 DoD internal auditors were conducting over 2 dozen reviews of DoD efforts to deal with the Year 2000 computing problem. The challenges posed by the "Y2K" problem are enormous; in February 1998, the DoD estimated that it had 2,915 mission-critical systems and about 25,000 others. The interfaces between these systems and with non-DoD systems owned by other Federal agencies, state and local governments, contractors and other countries are huge in number and understood only in part. Identified problems include:

- The dispersed ownership of the DoD systems themselves.
- Difficulty in compiling roadmaps of system interfaces and summaries of test results for easy access on an unclassified basis.
- Competition for resources.
- Conflicting priorities.
- Resistance to recognizing the Y2K problem as a serious threat to continuity of military operations.

- Necessarily very complicated testing scenarios that will be hard to stage realistically.
- The lack of adequate staffing in the Office of the Secretary of Defense to address the problem.
- Overly optimistic progress reports from throughout the Department.
- Widespread lack of viable contingency plans.
- Lack of assurance that non-DoD system failures will not impact DoD systems directly or cause indirect problems in areas like the U.S. industrial base or utility infrastructure.
- Limited confidence that the \$1.9 billion DoD cost estimate for Y2K problem remediation is accurate.

During the reporting period, positive momentum to deal with the problem has become more apparent. The appointment of a Y2K conversion official with a full-time staff was an overdue and important step. The Department reacted responsively to our audit finding that procurement rules against the purchase of "Y2K compliant" information technology products were not properly implemented. Likewise,

"...positive momentum to deal with the [Y2K] problem has become more apparent."

managers have been highly receptive to audit advice on matters including programs that were missed during the problem assessment phase; inaccurate reporting; the inadequacy of the initial DoD-self certification approach; the need to test Y2K scenarios in actual joint exercises; problems in efficiently compiling and accessing test information; and the need for outreach initiatives, especially to critical small business suppliers.

The DoD plans to have all mission-critical systems fixed by December 31, 1998. Given the status of the current effort, it is likely that many systems will miss that date. We foresee that audit efforts during the remainder of fiscal year 1998 will concentrate on identifying any remaining gaps in the assessment process, helping to rebaseline the status reporting and reviewing the realism of test plans. During fiscal year 1999, the primary audit focus likely will be on monitoring the controls over testing and ensuring that viable contingency plans are in place wherever necessary. Those plans are flexible and the audit community will adjust its coverage to meet management's needs, in accordance with

**OVERSIGHT OF
INFORMATION
TECHNOLOGY
INVESTMENTS**

our partnership with the Chief Information Officers in this area. We will also encourage the Military Service Inspectors General to provide additional coverage, especially in the field units, along the lines of Army IG work at the installation level.

The principal goals of the Clinger/Cohen Act were to ensure that Federal agencies improved their processes for determining information technology requirements, maximized use of commercially available products and implemented more effective management decision making and oversight for investment projects. The DoD is attempting to streamline and modernize computing support in all business areas at once. An effort of this magnitude would stress even a well-established and well-resourced management control structure. In an era of overall downsizing and against a backdrop of decades of disjointed, overly decentralized systems management and repeated failures to standardize data or systems, complying with the Act's precepts will be extremely difficult for the Department.

The DoD has announced the merger of the management oversight process used for major weapon systems and information systems and is eliminating the Major Automated Information Systems Review Council. Much emphasis is being placed on resolving system development issues in integrated product teams, necessitating few formal reviews by senior managers. We endorse the team problem solving approach; however, we have concerns about critical system programs for which very limited oversight exists. We believe that closer Office of the Secretary of Defense involvement is needed, regardless of what mechanism is used for such oversight. In addition, it is imperative that all important system development efforts be comprehensively audited at least once during development and again during procurement and fielding.

"...resource constraints... preclude adequate audit coverage."

Unfortunately, resource constraints and the emergence of other audit requirements, including the Y2K problem, currently preclude adequate audit coverage. This is of particular concern now because fiscal years 1998 through 2001 are probably the most crucial years in terms of whether the next generation of DoD automated systems will fulfill the high expectation for them.

Auditors recently identified problems in the Reserve Components Automated System, DoD accounting system migration strategies, Defense Property Accountability System, Defense Civilian Personnel System, Defense Security Assistance Management System, DoD Joint Technical Architecture and the Permanent Change of Station Management

**INFORMATION
ASSURANCE
AUDITS**

Information System, among others. Many other system acquisition efforts remain unaudited.

The DoD estimates that there are at least 250,000 attempts a year to gain unauthorized access to DoD computer systems. In most cases, the motives appear to be thrill seeking or curiosity, and no damage is done. However, vulnerability to fraud, vandalism, invasion of privacy and sabotage is a growing national concern.

Internal DoD auditors were among the first to identify the growing nature of the problem four years ago and have remained engaged in its control. Both financial audits and automated system program audits routinely include reviews of security, especially general and application system controls. In addition, the Army Audit Agency agreed with the Army Chief Information Officer to evaluate network and system security continuously and to assess recent improvements to the Army Information Systems Security Program. Air Force auditors are verifying whether vulnerabilities identified by the Air Force Information Warfare Center have been reduced. Office of the Inspector General (OIG), DoD auditors recommended improvements in DoD multi-level security plans and in controls for sensitive databases such as the Mechanization of Contract Administration Services System and the Defense Civilian Personnel Data System. Audit findings include continued unacceptably high numbers of unauthorized accesses; inherent security flaws in internet-based networks; lack of separation of duties; and inadequate security procedures, training and awareness.

**COMPUTER CRIME
INVESTIGATIONS**

Crimes involving computers are becoming more prevalent. From pornography and concealing evidence of a crime to intrusions into computer networks, the criminal use of computers has had a growing impact on the DoD law enforcement community. Investigating these crimes frequently requires the seizure of multiple computers, review of large amounts of data, analysis of sophisticated hardware and technical interviews of system managers and owners. Increasingly, successful investigation will demand agent specialization. Given the growing enormity of the threat to Department-wide systems, resources to combat the problem are simply inadequate.

"...resources to combat [crimes of computer intrusion and fraud] are simply inadequate."

Because the challenges in this area are so similar for both the counter-intelligence and investigative communities, the DoD plans a joint effort, the DoD Computer Forensics Laboratory and the DoD Computer Investigations Training Program (DCITP). With the Air Force Office of Special

Investigations (AFOSI) as Executive Agent, this effort is underway, with 25 staff in training for certification as forensic computer examiners. Once in a permanent facility, the laboratory will expand to 40 Army, Navy, Air Force and Defense Criminal Investigative Service (DCIS) personnel responsible for the processing and analysis of counterintelligence, fraud and other criminal computer evidence. Training in computer crime investigations will be provided jointly for counterintelligence and information assurance specialists and investigators. The Naval Criminal Investigative Service (NCIS) has been tasked by the AFOSI as the agency responsible for the DCITP.

The AFOSI has also been a forerunner in using electronic technology to assist in reviewing investigative documents through the use of its Data Imaging System (DIS). The DIS can quickly review large volumes of investigative documents. The AFOSI made the DIS available for use by any Defense Criminal Investigative Organization (DCIO), and it is estimated that use of the DIS has saved significant workyear resources.

In 1994, the NCIS developed an agency-wide capability to respond to "computer crime" within the Navy and later established a Computer Crime Investigations Group. The NCIS also established an Intrusion Response Group at the Fleet Information Warfare Center. In October 1997 the Computer Investigations and Operations Department (CIO) was created. The CIO investigates attacks on the Naval information infrastructure and anticipates the nature of future attacks.

The DCIS established a computer fraud program in 1990. The program evolved into the current cadre of Seized Computer Evidence Recovery Specialists (SCERS). The SCERS agents are assigned to DCIS field offices and assist in the seizure and analysis of evidence. Recently, the DCIS created a Computer Intrusions Investigation Team (CIIT) in cooperation with the Defense Information Systems Agency (DISA). The CIIT investigates criminal intrusions into the DoD information infrastructure.

The Army Criminal Investigation Command (CIDC) has computer forensics capability at the CIDC Criminal Investigative Laboratory. Additionally, the Army created a Computer Crimes Investigation Team (CCIT) to expand its current investigative capability. The CCIT is a mobile team that can assist field investigations involving computer crimes. The CCIT enhances existing CIDC field activities.

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ENVIRONMENT

With more than 400 major military installations and over 25 million acres of land, the DoD faces major environmental management challenges. Currently, the Department devotes approximately \$5 billion annually to environmental programs. To date, the DoD has spent about \$15 billion to clean up existing hazardous waste sites and expects to spend an additional \$25 billion to complete these projects. The Department must protect its people and the resources over which it has stewardship;

“...the DoD has spent about \$15 billion...and expects to spend an additional \$25 billion...”

comply with environmental laws, regulations, treaties and agreements; and be a good neighbor. Failure to carry out these responsibilities and to stress proactive action in this area could result in health hazards, impediments to operational readiness, deterioration of community relations, law suits, fines and unaffordable growth in cleanup costs. Since 1995, the DoD

audit and inspection community has issued over 30 reports addressing environmental management issues. In addition, investigative coverage is given a high priority in this area because the significant threat of criminal activity is a continuing concern. Related criminal investigations by the DCIS during this period resulted in 46 convictions and fines totaling \$9.9 million. The following paragraphs summarize the primary environmental challenges faced by the Department and the assistance we are providing to help address them.

COST EFFECTIVE CLEANUP

The primary challenges facing DoD in the remediation of hazardous waste sites are: identifying and prioritizing cleanup requirements; developing realistic cost estimates; dealing with complex regulatory processes; keeping costs under control; expeditiously identifying and implementing emerging cleanup technologies; and removing expended ordnance from military property, especially from base closure sites. Recent audits and evaluations indicate that environmental cleanup and laboratory test contracts need to be more effectively managed; budget submissions need greater support; program management and oversight could be improved; and some sites may not be using the most effective, efficient cleanup technologies. For example, an evaluation of DoD pump-and-treat remediation systems showed that they cost \$40 million annually to operate and maintain, but will not meet cleanup goals at many sites in a timely manner. The Department is presently exploring alternative treatment technologies. A review of environmental research, development, test and evaluation projects showed a lack of management controls for documenting and quantifying the transfer of more cost-effective emerging technologies to the user community. Ongoing

oversight efforts include evaluations of the effectiveness of cleanup activities at controversial sites in Alaska and Massachusetts and reviews of environmental technology transfers. Future audits will focus on clean-up requirements and closing or realigning installations and the use of innovative technologies to expedite remediation and reduce expenses.

REPORTING ENVIRONMENTAL LIABILITIES

Audits of DoD financial statements indicated that the reporting of estimated environmental cleanup liabilities is becoming more accurate, increasing from \$17.9 billion in fiscal year 1996 to \$38.3 billion in fiscal year 1997. However, liabilities for disposal of hazardous waste and remediation of environmental contamination remain understated, primarily because estimates are lacking for major weapon systems and ammunition. The DoD is attempting to implement accounting standards that require comprehensive reporting in the financial statements for fiscal year 1998.

COMPLIANCE ISSUES

Recent reviews of DoD compliance with statutory and regulatory guidance resulted in recommendations to improve management of underground storage tanks. Such tanks must be brought into compliance with the Resource Conservation and Recovery Act's (RCRA) upgrading requirements for tank spillage, overfill and corrosion protection by December 22, 1998. As indicated by several audits, numerous problems are encountered by the Department in developing an accurate inventory of underground storage tanks, putting systematic remediation or replacement projects into place and reporting progress to senior managers. Despite Departmental remedial efforts, we have concluded that at least 24 percent of the DoD RCRA regulated underground storage tanks may not be compliant by the statutory deadline of December 1998. This could lead to fines by the Environmental Protection Agency (EPA) and friction with some communities. The DoD has been responsive to the audit recommendations and is accelerating its corrective actions.

ENERGY CONSERVATION

To comply with energy conservation goals mandated by the Energy Policy Act of 1992 and Executive Order 12902, the DoD has a long-term effort under way to reduce installation energy use by 30 percent between 1985 and 2005. According to the DoD, reductions to date have reached 15.5 percent of the energy use goals and \$500 million off annual utility costs. These conservation efforts are important for various national security and environmental protection reasons, including cutting DoD facility operating costs and reducing greenhouse gas emissions. Overall DoD energy use will continue to decline as base infrastructure is downsized. The ongoing privatization of most utility systems on military installations is intended to accelerate their upgrading and the introduction

of more energy efficient features. In addition, audits have indicated there are opportunities for further savings through more emphasis on energy conservation during the design of new facilities. Management agreed and is drafting more aggressive facility energy use reduction targets for new buildings.

**NATURAL
RESOURCE
CONSERVATION**

The DoD challenge is to balance the need to protect and conserve the air, land and water resources under its stewardship with military mission requirements, including training, testing, manufacturing, maintenance and stockpiling. A review of the Legacy Resource Management Program showed the need to complete an inventory of natural and cultural resources on DoD lands and to develop a prioritized list of conservation projects. If audit priorities permit, we plan to evaluate DoD natural resources management to ensure that DoD can sustain future needs and to identify significant obstacles to training and testing missions.

**POLLUTION
PREVENTION**

For fiscal year 1994, the DoD reported releasing or transferring off-site about 10.6 million pounds of toxic chemicals. In 1995, there was a reported reduction of 36 percent to 6.7 million pounds. The DoD Acquisition Year 2000 Goal 8 specifies a further 20 percent reduction. Upfront measures to reduce the need for hazardous substances to be used or generated during the manufacture, maintenance, operation and disposal of weapon systems and other equipment are vastly more cost effective than subsequent retrofits, modifications and cleanup. The DoD acquisition procedures have been modified. The changes are partially in reaction to audit findings that management emphasis was lacking and to stress the need for system life cycle costs, including environmental costs, during system design. Starting in fiscal year 1998, most acquisition system audits will include coverage of the extent to which applicable environmental issues are being addressed by program managers. Auditors have also questioned the need for constructing new paint removal facilities, which would have expanded the number of hazardous waste generation sites and added to overall excess repair capacity. The projects were canceled. We also support the DoD initiative to make hazardous waste minimization a focus topic for the Single Process Initiative (SPI). Led by the Defense Logistics Agency, the SPI is a joint DoD/industry effort to adopt commercial best practices and standardized processes instead of multiple contract-unique or DoD component-unique processes at each contractor facility.

**ENVIRONMENTAL
CRIME THREATS**

Some environmental laws impose a "cradle to grave" responsibility on the generators of hazardous waste. When the DoD is the generator of that hazardous waste and environmental laws are violated, the DoD is placed

in a compromising position and may be held accountable for the improper or illegal disposition of such waste. The DCIOs recognize that violations of the Federal environmental laws involving DoD-generated hazardous waste are serious crimes that not only have an impact on the environment, but are major impediments to the proper management of the DoD contracting process.



Improper disposal of drums of oil.

INVESTIGATIVE EFFORTS

The DCIOs are responsible for investigating alleged fraud and abuse with regard to the removal, transport and disposal of hazardous material from DoD installations, as well as investigating all allegations of fraud involving the Defense Reutilization and Marketing Service (DRMS) and its activities. The DRMS manages the disposal of hazardous property, including hazardous material and hazardous waste, for DoD activities and provides contracting services to DoD activities to dispose of hazardous waste safely and in accordance with all applicable laws. The U.S. Army Corps of Engineers (USACE) administers billions of dollars worth of civil works projects annually, including projects involving cleanup operations. The DCIOs are committed to ensuring that DoD contractors comply with the environmental laws when performing under DoD contracts to guarantee minimum damage to, and/or full restoration of, the environment. DoD contractors who engage in environmental crimes, such as providing fictitious laboratory test results, polluting waterways and improperly disposing of hazardous waste while performing under DoD contracts, have been and will continue to be primary targets for investigation.



Illegal trash transfer station.

CASE EXAMPLES

The following are examples of recent criminal and civil prosecutions relative to DoD contractors.

Investigation disclosed that Tank Systems, Incorporated (TSI), Austin, Texas, and several individuals submitted falsified test reports concerning leaking tanks, which claimed the soil surrounding a leaking tank was properly removed and disposed of when it was not. Further, claims were submitted falsely certifying that work was performed in compliance with contract specifications. In addition to various terms of incarceration, all defendants were collectively and individually held responsible for payment of \$1.5 million in restitution to the Government.

“MSA illegally stored a mixture of pentaborane and other boron hydrides, [an] ignitable and reactive hazardous waste...”

Mine Safety Appliances, Incorporated (MSA), Pittsburgh, Pennsylvania, pled no contest to a criminal information charging it with one count of illegal storage of hazardous waste and was sentenced to a \$350,000 fine. MSA illegally stored a mixture of pentaborane and other boron hydrides, which constitute ignitable and reactive hazardous waste, at its Callery Chemical

Division facility in Evans City, Pennsylvania, in an area that was not a permitted hazardous waste storage facility.

A former asbestos abatement supervisor at Del-Tray Construction Management Company, Incorporated (Del-Tray), Wilmington, Delaware, was sentenced to 6 months house arrest, 3 years probation and a \$3,000 fine for one count of violating the Clean Air Act. An investigation found that the supervisor violated the Act while performing under a contract for asbestos removal from a building at Dover Air Force Base, Dover, Delaware.

IT-Davy-McKee Corporation entered into a \$4.3 million civil settlement to resolve fraud allegations related to IT-Davy's performance of an environmental cleanup contract administered by the USACE. IT-Davy was a joint venture between the International Technology Corporation and the Davy-McKee Corporation. On behalf of the EPA, the USACE contracted with IT-Davy to perform an environmental cleanup at a New Jersey landfill under the Federal Superfund Law. IT-Davy allegedly used a complex accounting scheme to submit false claims through double billings for labor and equipment costs. An administrative settlement of \$9.6 million in repudiated costs (contract reduction) was reached with IT-Davy. Evidence gathered in the investigation enabled the USACE to determine correct overhead rates during negotiations, which also included labor and equipment cost double billings.

"Under Ellis' direction...employees removed asbestos...and illegally dumped it into the Patapsco River."

Kerry Ellis, Sr., and Seawitch Salvage were found guilty and sentenced for violations of the Clean Air Act, the Clean Water Act, the Rivers and Harbors Act and making a false statement to the Government. Ellis was sentenced to 30 months confinement, 3 years supervised release, a \$50,000 fine

and a \$325 special assessment. Seawitch was sentenced to 5 years probation, a \$50,000 fine and a \$1,325 special assessment. Ellis is the president and general manager of Seawitch, a salvage company that dismantles ships. The DRMS awarded Seawitch a ship breaking contract to dismantle three decommissioned Navy minesweepers and remove all hazardous material aboard the ships. The DRMS also awarded Seawitch a contract to dis-mantle the USS CORAL SEA, a decommissioned Navy aircraft carrier. Under Ellis' direction, Seawitch employees removed asbestos from one minesweeper and the USS CORAL SEA and illegally dumped it into the Patapsco River. False documentation was then provided to DRMS to conceal the illegal dumping.

**PROACTIVE
EFFORTS, LIAISON
AND TRAINING**

The DCIOs continue to work with Federal, state and local environmental agencies to share information, discuss and pursue new investigative methods and identify targets for potential investigation of environmental crimes related to the DoD. For example, the DCIOs participate in various environmental crime task forces in which they exchange intelligence on potential targets with task force members from the Federal, state and local level. The current downsizing and restructuring of the Military Services has also raised environmental concerns of interest to the DCIOs. For instance, the real estate associated with base closures is being turned over to local community or private interests, requiring certification as to environmental soundness. This process has revealed past abuses that must be addressed. With the sale of surplus ships increasing, the ship-breaking industry and process have become a growing environmental concern. The DCIOs continue to develop partnerships with the DoD agencies responsible for environmental-related operations (USACE, DRMS and the Naval Facilities Engineering Command, for example) to allow their agents to target for potential criminal investigation those DoD contractors and sites that do not comply with contractual environmental requirements. Recognizing the need to have agents skilled in the detection and investigation of environmental crimes, the DCIOs have been seeking and developing specialized training programs in the area of environmental crimes.

The continued pursuit of such cases not only serves as a deterrent, but will help control costs and restore the public's confidence in the integrity of the DoD with regard to protecting the environment.

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CHAPTER TWO - SIGNIFICANT ACTIVITIES

INTRODUCTION

This chapter summarizes the significant activities of the Office of the Inspector General components and their work with other members of the DoD oversight community.

CRIMINAL INVESTIGATIONS

The four Defense Criminal Investigative Organizations (DCIOs) continue to combat crime affecting the DoD and the Military Departments. The Defense Criminal Investigative Service (DCIS), the criminal investigative arm of the OIG, focuses the bulk of its 337 civilian criminal investigators on the investigation of procurement fraud by Defense contractors and health care fraud by health care providers. 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 majority of their resources on other crimes against persons and property affecting their respective Military Departments. The AFOSI and NCIS also conduct counterintelligence investigations and operations. This section focuses on the procurement, health care and other major fraud investigations accomplished by the DCIOs.

Procurement and Health Care Fraud Investigative Results

Figure 1 (page 20) displays the investigative results achieved by the four investigative organizations during the period in the areas of procurement fraud and health care provider fraud.

Examples of Major Procurement Fraud

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

A qui tam complaint brought by a former employee resulted in a \$4.5 million civil settlement by Alliant Techsystems, Incorporated, and Hercules, Incorporated. The settlement resolves allegations that Alliant and Hercules illegally overcharged the Navy for labor costs on contracts implementing the Intermediate-Range Nuclear Forces (INF) Treaty. Alliant purchased Hercules in 1995. The investigation disclosed that managers at Alliant and Hercules allegedly directed employees to mischarge labor time to the INF Treaty Program, even though management knew the

“...Alliant and Hercules illegally overcharged the Navy for labor costs on contracts...”

| PROCUREMENT FRAUD AND MAJOR HEALTH CARE FRAUD INVESTIGATIVE CASE RESULTS | | | | | | |
|--|---------------------|--------------------|---------------------|--------------------|----------------------|----------------------|
| | DCIS | CIDC | NCIS | OSD | Joint DCIO | Total |
| Litigation Results - DoJ Only | | | | | | |
| Indictments | 72 | 3 | 15 | 4 | 23 | 117 |
| Convictions | 59 | 2 | 10 | 3 | 19 | 93 |
| Civil Settlements/Judgments | 33 | 2 | 7 | 2 | 31 | 75 |
| Monetary Outcomes | | | | | | |
| DoJ Only | \$17,724,796 | \$4,171,667 | \$23,848,291 | \$5,234,877 | \$106,643,901 | \$157,623,532 |
| DoD Administrative Recoveries ¹ | 2,855,350 | 106,858 | 745,553 | 301,947 | 25,055,195 | 29,064,903 |
| Investigative Recoveries ² | 4,628,000 | 0 | 70,952 | 52,507 | 0 | 4,751,459 |
| Total | \$25,208,146 | \$4,278,525 | \$24,664,796 | \$5,589,331 | \$131,699,096 | \$191,439,894 |
| ¹ Includes the results of military courts-martial. ² Includes Government properties seized or otherwise recovered during investigations. 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. | | | | | | |

Figure 1

employees did not devote as much time to the contract as was charged to the Government. (DCIS/NCIS)

Lockheed Martin Corporation (LMC), successor in interest to General Electric Company (GEC) Aerospace Controls Systems Department, the McDonnell Douglas Corporation (MDC), the Navy and the Department of Justice (DoJ) entered into an agreement to resolve allegations that GEC violated the Truth in Negotiations Act. The LMC agreed to pay the Government \$7.9 million to resolve allegations that GEC failed to provide current, accurate and complete cost and pricing data to MDC during negotiations with the Navy for contracts to provide flight electronic control systems on the F/A-18 aircraft. As a result, the Government allegedly paid a higher price for the aircraft. LMC and MDC have not acknowledged any wrongdoing as part of this settlement. (DCIS/NCIS)

Dolphin, Incorporated, Phoenix, Arizona, was sentenced to 5 years probation, a \$1,415,674 fine, \$84,326 in investigative costs and a \$600 special assessment. Dolphin previously pled guilty to three counts of fraud through commercial interstate carrier. Dolphin produces aluminum

“...Dolphin employees would sometimes return the part to the lot and replace it with another until the specified lot sample was amassed.”

and steel castings used in military and commercial applications that include aircraft brake parts, missile guidance fins, machine gun flash suppressers and pistol frames. The investigation determined that Dolphin failed to perform required quality control x-ray tests. The military specification mandates that if one or more castings fail the lot sample x-ray test, the failed parts must be rejected and the entire lot x-rayed. However, when an x-ray revealed a defect in a casting selected for the lot sample, Dolphin employees would sometimes return the part to the lot and replace it with another until the specified lot sample was amassed. This resulted in shipment of known defective parts. (DCIS/CIDC/AFOSI)

The McDonnell Douglas Aerospace/Douglas Aircraft Company (DAC), Long Beach, California, agreed to pay a \$2 million civil settlement to resolve allegations relating to cost mischarging on the C-17 Military Transport Plane Program. The DAC did not admit liability. The suit alleged that DAC accepted defective, nonconforming tooling items from subcontractors for the C-17 to maintain the appearance of meeting

“The suit alleged that DAC accepted defective, nonconforming tooling items from subcontractors for the C-17 to maintain the appearance of meeting production milestones and to obtain progress payments.”

production milestones and to obtain progress payments. It was also alleged that DAC reworked some of the defective tooling and billed the rework under its prime contract with the Government, thereby double-billing the Government for the same tool. (DCIS)

Employees of Hughes Electronics Technologies, Incorporated, a subsidiary of Hughes Electronic Corporation, allegedly circumvented the company's internal control procedures to inflate work estimates and falsely certify the accuracy of costs. As a result, the Air Force was allegedly overbilled for work performed on a contract at McClellan Air Force Base, California. The investigation resulted in a \$5.5 million settlement with Hughes. (AFOSI)

Components of Teledyne Systems Company, Incorporated, are contractors on various Naval Sea Systems Command contracts in the Friend or Foe Identification Program. Teledyne also repairs and calibrates sensitive testing equipment for commercial customers. Teledyne allegedly charged the Government for the bulk of the company's overhead in connection with commercial repair and calibration activities. The

investigation resulted in a settlement of \$13.95 million paid to the Government by Teledyne. (DCIS/NCIS)

Stewart and Stevenson Services, Incorporated, of Houston, Texas, was contracted by the Air Force to install power generation systems under a program to design and construct long-range radar and ground entry sites for the Kingdom of Saudi Arabia. Stewart and Stevenson failed to disclose the true cost impact of a change order and falsely certified the information. The investigation resulted in the company pleading guilty to one criminal count of making a false statement. The company was ordered to pay a \$2 million criminal penalty, \$3 million in restitution and an additional \$2 million in civil penalties. (AFOSI/DCIS)

Pall Aeropower Corporation, formerly Pall Land and Marine Corporation, while denying the allegations, agreed to pay a \$2.2 million civil settlement to settle allegations that it defrauded the DoD by overcharging for air filters for the AH-1 Cobra helicopter. During negotiations, Pall allegedly failed to reveal to Army negotiators that manufacturing changes Pall intended to make in producing the filters would significantly reduce Pall's cost. As a result, the Army paid a higher contract price and Pall earned a larger profit on the contract. (CIDC/DCIS)

Examples of Health Care Fraud

A task force investigation resulted in a \$4 million civil settlement between Vendell Healthcare, Incorporated, and its wholly-owned subsidiaries (Vendell of Florida, Incorporated; Rivendell of Florida, Incorporated; Rivendell of Bay County, Incorporated; and Altacare of Florida, Incorporated) and four Government agencies. Vendell and its Florida subsidiaries allegedly submitted approximately \$15.5 million in fraudulent claims to the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS), Medicare and the Federal Employees Health Benefit Program (FEHBP). These claims allegedly included billing for services not rendered, misrepresenting the level of services (upcoding), billing for medically unnecessary admissions, extending patients' lengths of stay when not medically necessary and submitting claims for charges previously paid. Vendell filed for bankruptcy in March 1997, and the negotiated settlement amount was reduced. The companies face possible administrative sanctions from CHAMPUS, Medicare and the FEHBP. (DCIS/FBI/Department of Health and Human Services/Office of Personnel Management)

Dr. Andrew S. Shankman was sentenced to 87 months incarceration, 3 years supervised release, 400 hours community service and a \$6,300 special assessment. Shankman was found guilty of 125 counts of

“Shankman was found guilty of 125 counts of conspiracy, mail fraud, wire fraud, dispensing controlled substances and money laundering.”

conspiracy, mail fraud, wire fraud, dispensing controlled substances and money laundering. Thomas Davidson, co-owner and operator of Shankman/Davidson Psychiatric Management, Incorporated (SDPMI), pled guilty to mail and wire fraud and money laundering. He was sentenced to 2 years imprisonment and 3 years probation. His grandson, Michael E. Davidson, SDPMI's former vice president for administrative operations, was sentenced to 33 months incarceration, 3 years supervised release and 400 hours community service after pleading guilty to conspiracy. The investigation disclosed that Shankman and his company, SDPMI, employed unlicensed therapists to provide mental health services to CHAMPUS, Medicare and Medicaid beneficiaries. Shankman then billed the Government programs, from which SDPMI received over \$5.2 million, as if he personally provided the services. (DCIS/FBI/Internal Revenue Service/Georgia Department of Medical Assistance/Office of the Secretary of State for Georgia)

“Several individuals conspired to...make unnecessary ambulance runs, make ambulance runs without emergency medical technicians and sign forms for bogus ambulance runs.”

Several individuals conspired to defraud health insurers by directing employees of Big Creek Volunteer Rescue Squad, Incorporated, to make unnecessary ambulance runs, make ambulance runs without emergency medical technicians and sign forms for bogus ambulance runs. Big Creek's ambulance service, through Quality Ambulance Service, submitted fraudulent health care claims to CHAMPUS and Medicaid using Quality's provider number for payment. Wesley Miller, Jr., former Big Creek chairman of the board and mayor and chief of police for War, West Virginia, was sentenced to 33 months imprisonment, 36 months probation, a \$10,000 fine and \$12,100 in restitution for conspiring to commit mail fraud. As an additional result of the investigation, Phillip Falgiani, owner of Falgiani Salvage Company, pled guilty to conversion of public property and was sentenced to 5 years probation and \$10,538 in restitution. Both Falgiani and the company were debarred. Falgiani knowingly converted for personal use Federal surplus property provided to Big Creek under the Federal Excess Property Program. (DCIS/West Virginia OIG Medicaid Fraud Control Unit/West Virginia State Police Bureau of Criminal Investigations)

**Suspensions and
Debarments
Resulting from
Investigations**

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

| SUSPENSIONS AND DEBARMENTS RESULTING FROM INVESTIGATIONS | | | | | | |
|--|--|----------|-----------|----------|------------|------------|
| | Defense Criminal Investigative Organization (DCIO) | | | | | Total |
| | DCIS | CIDC | NCIS | OSD | Joint DCIO | |
| DoD CONTRACTOR ACTIONS | | | | | | |
| Suspensions | | | | | | |
| Companies | 33 | 1 | 10 | 0 | 18 | 62 |
| Individuals | 47 | 1 | 15 | 1 | 19 | 83 |
| Total | 80 | 2 | 25 | 1 | 37 | 145 |
| Debarments | | | | | | |
| Companies | 10 | 5 | 7 | 1 | 15 | 38 |
| Individuals | 21 | 0 | 17 | 5 | 31 | 74 |
| Total | 31 | 5 | 24 | 6 | 46 | 112 |

Figure 2

Other Criminal Investigative 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 those investigations are presented in Figure 3. As in previous reports, the statistics shown in the table do not include general crime investigations or counterintelligence activities.

| OTHER CRIMINAL INVESTIGATIVE RESULTS | | | |
|--------------------------------------|-------------------|---------------------|------------|
| | Totals for Period | | |
| | DOJ | State/Local/Foreign | Total |
| LITIGATION RESULTS | | | |
| Indictments | | | |
| DCIS | 43 | 9 | 52 |
| CIDC | 4 | 12 | 16 |
| NCIS | 25 | 27 | 52 |
| OSI | 11 | 3 | 14 |
| Joint DCIO | 7 | 0 | 7 |
| Total | 90 | 51 | 141 |
| Convictions | | | |
| DCIS | 28 | 14 | 42 |
| CIDC | 22 | 12 | 34 |
| NCIS | 51 | 38 | 89 |
| OSI | 17 | 6 | 23 |
| Joint DCIO | 8 | 1 | 9 |
| Total | 126 | 71 | 197 |

| | DoJ | DoD | | State/ Local/ Foreign | Total |
|--------------------------|---------------------|--------------------|---------------------|-----------------------------|---------------------|
| | | 1 | 2 | | |
| MONETARY OUTCOMES | | | | | |
| DCIS | \$7,472,000 | \$10,000 | \$731,000 | \$72,000 | \$8,285,000 |
| CIDC | 88,000 | 593,000 | 1,232,000 | 2,000 | 1,915,000 |
| NCIS | 469,000 | 4,042,000 | 2,356,000 | 66,000 | 6,933,000 |
| OSI | 595,000 | 329,000 | 748,000 | 20,000 | 1,692,000 |
| Joint DCIO | 2,436,000 | 6,000 | 21,536,000 | 1,000 | 23,979,000 |
| Total | \$11,060,000 | \$4,980,000 | \$26,603,000 | \$161,000 | \$42,804,000 |

¹Administrative settlements and recoveries, and results of military courts-martial.

²Investigative 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.

Figure 3

Examples of Other Criminal Investigations

Espionage

Information developed by the Foreign Counterintelligence Squad of the FBI disclosed that during an alleged vacation trip in the late 1980s, Dr. Peter Hoong-Yee Lee provided classified information to the People's Republic of China. Lee gave a series of technical lectures in which he discussed his classified research work while employed by TRW Corporation, Redondo Beach, California. The data Lee provided significantly assisted China in its nuclear weapons development program. As the result of a joint investigation by the FBI and DCIS, Lee pled guilty to transmission of Defense information and making a false statement to a U.S. Government agency. (DCIS/FBI)

Kickbacks

"Robert Berger...was sentenced to 38 months in jail..."

Robert Berger, former owner and sole shareholder of Royce Aerospace Materials Corporation was sentenced to 38 months in jail and 3 years supervised probation. Berger pled guilty to bankruptcy fraud, violating the Anti-Kickback Act and a conspiracy to defraud the Internal Revenue Service (IRS). Royce, a subcontractor that provided raw materials such as aluminum and titanium to DoD prime contractors, filed for bankruptcy protection in 1993.

"Cash from the diverted funds was used to pay kickbacks to prime DoD contractors..."

During the bankruptcy period, Berger directed a customer to issue checks for monies owed to Royce to a fictitious company wholly owned and controlled by Berger. Between 1990 and 1996, Berger conspired to devise a scheme to divert about \$1.2 million in checks from Royce. The checks were claimed as false business expense deductions on Royce corporate tax returns. Cash from the diverted funds was used to pay kickbacks to purchasing agents for prime DoD contractors, including Israel Aircraft Industries International, Incorporated (IAII), in return for bid information and securing DoD subcontracts for Royce.

Eugene Ellerby, who processed checks for Berger in the scheme, pled guilty to income tax issues and was sentenced to 3 years probation and \$2,500 restitution. Milton Beresford, IAII's purchasing agent for raw material, pled guilty to illegal receipt of kickbacks and tax evasion, having received approximately \$57,000 in cash kickbacks from Royce. Richard Doherty, retired IAII purchasing manager, provided fictitious company names, took checks made out to the bogus companies to Puerto

Rico banks for processing, then returned cash to Berger. Doherty pled guilty to conspiracy to commit corporate income tax evasion and to pay kickbacks. Alan Dunkirk, a purchasing manager for Beta Shim, Incorporated, allegedly received kickbacks from Royce in return for bid information on subcontracts awarded by Beta. Dunkirk pled guilty to tax evasion. (DCIS/IRS)

Conspiracy

A number of companies and individuals pled guilty to conspiracy and/or related charges after participating in a scheme to overcharge the Defense Fuel Supply Center by overstating prices, falsifying competitive quotes, concealing overcharges in payments to shell corporations and dividing the proceeds among co-conspirators. Jacqueline Plecas, president of Med-Atlantic Petroleum Corporation (MAPCO), was sentenced to 27 months in prison, 3 years probation and \$15,000 restitution. A summary judgment of \$56 million was ordered against Plecas and MAPCO. John Santana, President, International Marine Fuels (IMF), was sentenced to 12 months and 1 day in prison and 3 years probation. Santana will be personally liable for \$1 million in restitution if IMF fails to pay

“A summary judgment of \$56 million was ordered against Plecas and MAPCO.”

restitution of \$2.1 million. Plecas and MAPCO, and Santana and IMF, overcharged the DoD in excess of \$20 million and \$1 million, respectively, by misstating and inflating fuel prices for bunker fuel in excess of those permitted to be charged under contracts, and Plecas

made false statements during a bankruptcy proceeding for MAPCO. Plecas and IMF have been suspended from Government contracting; debarment proceedings are pending. Constantine Vagionis, former MAPCO corporate attorney, established off-shore corporate accounts used to transfer monies between conspirators. Vagionis pled guilty to income tax issues and was sentenced to 4 months home confinement, 2 years probation and fined \$2,000. (DCIS/NCIS/IRS)

Disaster Relief Fraud

Alexandria Mobile Home Sales (AMHS) was awarded a contract by the U.S. Army Corps of Engineers (USACE) to construct a mobile home park site in Albany, Georgia, for flood victims of Tropical Storm Beryl. An investigation disclosed that officers of AMHS conspired to, and submitted requests for, payment to the Government that included false Prompt Payment Act certificates. Doyle Luneau, Financier, AMHS, was sentenced to 42 months confinement, required to enter into supervised release (probation) for a period of 3 years, ordered to pay \$380,696 restitution and a \$2,500 fine. William H. Edmonds, Owner/President, AMHS, was sentenced to 30 months confinement, ordered to pay \$380,696 in restitution and required to enter into supervised release for a period of 3 years and complete 350 hours of community service.

H. Gayle Marshall, attorney for AMHS, was sentenced to 13 months confinement, ordered to pay a \$5,000 fine, ordered to surrender his license to practice law for a period of 3 years and, upon release from confinement, required to complete 500 hours of community service. (CIDC/DCIS)

False Claims

Global Associates Limited (Global), an engineering and professional services firm located in Falls Church, Virginia, was a primary subcontractor on a contract awarded by the Naval Undersea Warfare Center (NUWC), New London, Connecticut, to conduct analysis to help formulate Navy technology requirements and evaluate submarine self defense initiatives. During 1994, Global allegedly submitted false claims for costs incurred under various other contracts or business efforts unrelated to the NUWC contract. Global paid the United States \$1 million plus interest to settle civil and criminal false claims allegations. (NCIS/DCIS)

**Product
Substitution**

The Pizzagalli Construction Company, Incorporated (PCCI), agreed to pay \$950,000 to settle all allegations associated with a qui tam complaint. PCCI allegedly falsified data to disguise various construction defects in the prototype barracks the company built at Fort Bragg, North Carolina, under a contract awarded by the USACE. (CIDC)

A investigation resulted in Hydroaire, Incorporated, Chicago, Illinois, agreeing to pay \$150,000 to settle violations of the False Claims Act. Hydroaire allegedly delivered non-conforming linear actuating cylinders/accumulators. Those parts are classified as a critical application item for use on the Trident submarine. Testing disclosed that the cylinders/accumulators did not meet certified military specifications. A catastrophic failure of a hydraulic accumulator is considered dangerous because of its potential for personal injury and equipment damage. Failure of the accumulator could result in a life-threatening hazard to personnel and the boat from serious impact damage from projectiles, as well as a fire from the discharge of oil and oil mist. (NCIS/DCIS)

As a result of an investigation conducted by the DCIOs and the National Aeronautics and Space Administration (NASA), Transistor Devices, Incorporated (TDI), agreed to pay the Government \$929,000 in cash and

“TDI...was a sole source supplier for the Navy’s Aegis and Phalanx Programs.... Allegedly, TDI knowingly supplied non-conforming power supply units.”

deliver a full set of power unit drawings and the materials necessary to fabricate and replace 263 bias boards. TDI, an aerospace company headquartered in Cedar Knolls, New Jersey, was a sole source supplier of power supplies for the Navy's AEGIS and Phalanx Programs and supplied parts for the SLQ-32 and MK-10

Missile Programs. Allegedly, TDI knowingly supplied nonconforming power supply units. (DCIS/NCIS/AFOSI/CIDC/NASA)

A multi-district task force investigation uncovered violations of mail fraud, interstate transportation of stolen property and the anti-kickback statutes. The task force identified numerous companies paying kickbacks to prime DoD contractors for accepting substandard or faulty aircraft fasteners and components ultimately used in contracts with the DoD, the Federal Aviation Administration and commercial companies. One of the companies, Astral Air Parts, Incorporated, of Elwood, New Jersey, owned and operated by Joseph Polesovsky, ordered and bought ordinary commercial fasteners to supply to Government customers that ordered military specification parts. The commercial parts were supplied as Government specification parts to DoD contractors with no evidence that they met appropriate specifications. Polesovsky was sentenced to 6 months home confinement, 3 years probation, a \$20,000 fine and 100 hours community service. Astral Air Parts, Incorporated, was sentenced to 2 years probation and a \$48,000 fine. Another company, Transpec Fasteners, Fort Worth, Texas, defrauded defense contractors out of approximately \$150,000 by selling ordinary commercial fasteners and connectors when the parts should have complied with rigid Government specifications. The fasteners were designated for use in the AGM-86 launch cruise missile. Transpec was sentenced to pay a fine of \$120,000. (NCIS/AFOSI/DCIS/Department of Transportation)

Defective Pricing

Raytheon Company, Lexington, Massachusetts, agreed to pay \$21 million to settle a pricing dispute with the Government on certain Navy contracts. The settlement addresses defective pricing claims relating to the negotiation and award of 14 Navy contracts to install and refurbish sonar systems on Navy submarines and surface ships. (NCIS)

Dutch and Belgian firms and a U.S. subsidiary agreed to pay \$65 million in criminal fines. The Dutch, Belgian and Texas firms were charged with participating in international conspiracies, to include bid rigging, in marine construction and transportation service contracts. The fines stem from two separate investigations. In an investigation conducted by the DCIS and the Department of Justice (DoJ) Antitrust Division, HeereMac and its commercial director were charged with participating in an international conspiracy to rig bids for heavy-lift marine construction services. In a separate investigation conducted by the NCIS and the Antitrust Division, Dockwise N.V., Dockwise USA Incorporated, Christiaan B. Van Der Zwan and Bastiaan A. De Jong, both former officials of Dockwise

“Dutch and Belgian firms and a U.S. subsidiary agreed to pay \$65 million in criminal fines.”

N. V., were charged with international conspiracy to rig bids on five Military Sealift Command (MSC) contracts in 1992, for semisubmersible heavy-lift transportation services for the Navy. Semisubmersible heavy-lift transport vessels move extremely large cargo, such as drilling rigs and other ships. A \$4 million civil recovery that is part of the settlement will go to the MSC.

HOTLINE

The OIG, DoD continues to encourage military members, DoD employees, DoD contractor employees and the public to contact the DoD Hotline to report occurrences of fraud, waste and mismanagement. During this reporting period, the Hotline received 9,485 telephone calls and letters, resulting in the initiation of 1,160 cases--186 of those cases dealt specifically with reprisal or program integrity issues. The distribution of all opened cases is detailed in Figure 4, page 31. During the same period, the Hotline closed 1,430 cases. Since 1982, over \$405 million has been recovered and saved as a direct result of Hotline initiated investigations, inquiries or audits initiated in response to information initially provided to the Hotline.

On March 10, 1998, the DoD Hotline staff hosted a conference of 43 representatives from 26 DoD and Military Service components that regularly interact with the Hotline. The conference provided for professional interaction to improve Hotline functions Department-wide.

Additionally, during this reporting period, the DoD Hotline staff provided assistance to several non-DoD agencies in establishing fraud hotlines. Those include the Central Intelligence Agency, the Equal Employment Opportunity Commission, the Environmental Protection Agency, the State of Texas and the Federal Republic of Germany.

Significant Hotline Complaints

The Navy Exchange Service Command (NEXCOM) repaid \$8.7 million for appropriated fund support that it improperly received for costs related to the lease of its headquarters building in Virginia Beach, Virginia, and the move of its headquarters from New York to Virginia Beach. This recovery was a result of an initial complaint to the DoD Hotline and subsequent congressional interest. The Naval Inspector General investigation found that NEXCOM improperly used appropriated funds to reimburse nonappropriated funds, in violation of DoD policy and congressional direction, and that the Naval Supply Systems Command improperly provided expired funds to NEXCOM for relocation expenses in violation of 31 U.S.C. 1553.

A joint DCIS, OSI, NCIS and FBI investigation substantiated a hotline complaint that a major Defense contractor intentionally failed to observe contractually mandated quality assurance measures when manufacturing circuit boards and wire assemblies used in aircraft engine electronic controls. The contractor also falsified hourly labor performance records. Under the terms of a settlement agreement with the DoJ, the manufacturer admitted to not adhering to contracted manufacturing methods and paid \$950,000 in restitution to the U.S. Treasury.

Special agents from the CIDC and the FBI substantiated a hotline complaint of large-scale theft and diversion of property. Government property custodians devised a scheme involving combat support vehicles not listed on unit property inventories. The individuals used Government funds to purchase vehicles and other equipment and then divert the equipment for personal use. As a result of the investigation, savings to the Government included \$2.6 million in Defense Reutilization and Marketing Office property returned to Government control and \$654,841 realized as a cost avoidance. The primary subject of the investigation was sentenced to serve 4 months in prison and pay a \$4,000 fine. He received a General Discharge from the Army Reserve on the basis of his conviction and retired from Federal civilian service in the face of impending removal action.

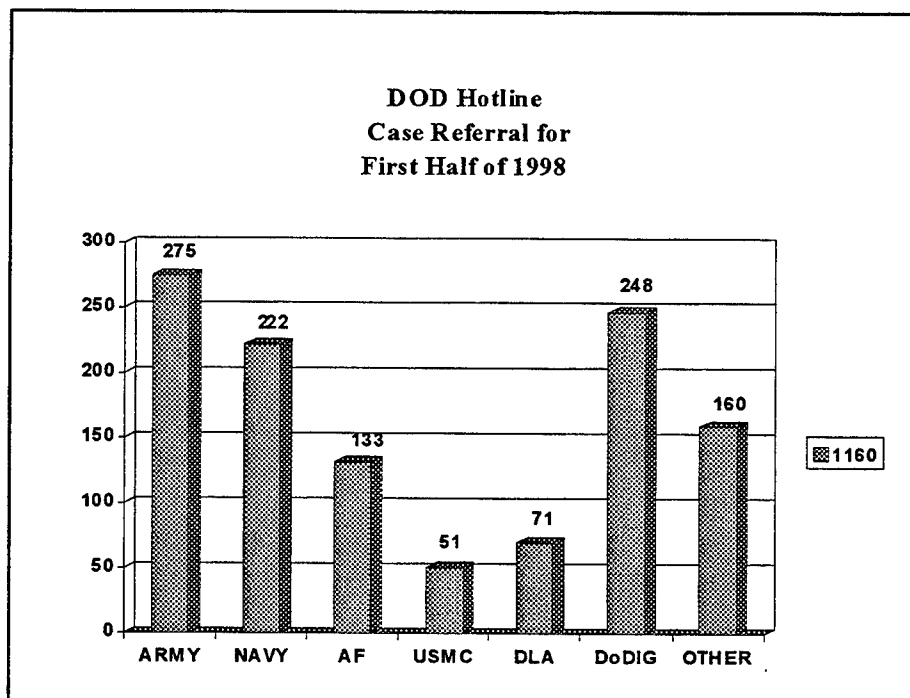


Figure 4

ADMINISTRATIVE INVESTIGATIONS

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

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

Whistleblower Reprisal Activity

During the reporting period, the Special Inquiries Directorate received 149 new allegations involving complaints of whistleblower reprisal; 41 of those cases were closed after a preliminary analysis determined further investigation was not warranted. Of the open cases, we closed 185 cases during the reporting period. Approximately 20 percent of the reprisal allegations were substantiated or partially substantiated. We also closed 29 cases concerning violations of the DoD Directive on referrals for mental health examination. Figures 5 and 6 (page 33) show results of whistleblower reprisal activity during the period.

Examples of Substantiated Whistleblower Reprisal Cases

Military Reprisal

An investigation found that an Army captain in the Texas National Guard was the victim of whistleblower reprisal when her promotion and an assignment were delayed, and she received an adverse personnel action. We also found that a responsible management official's comments that "officers do not go to the IG" and that such a complaint "would follow you through your career" could be perceived as an attempt to restrict the captain's right to communicate with an Inspector General.

An Air Force investigation substantiated allegations by a major in the Alaska Air National Guard that officers in his chain of command initiated withdrawal of his Federal recognition and separation in reprisal for his protected communications regarding problems within that Guard unit.

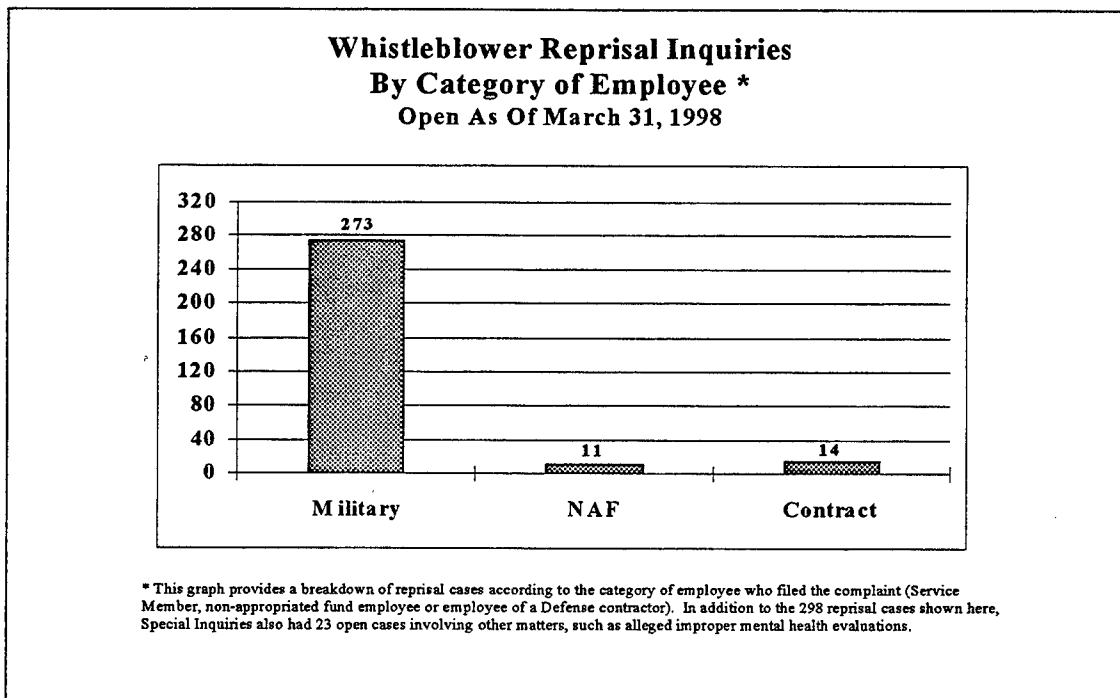


Figure 5

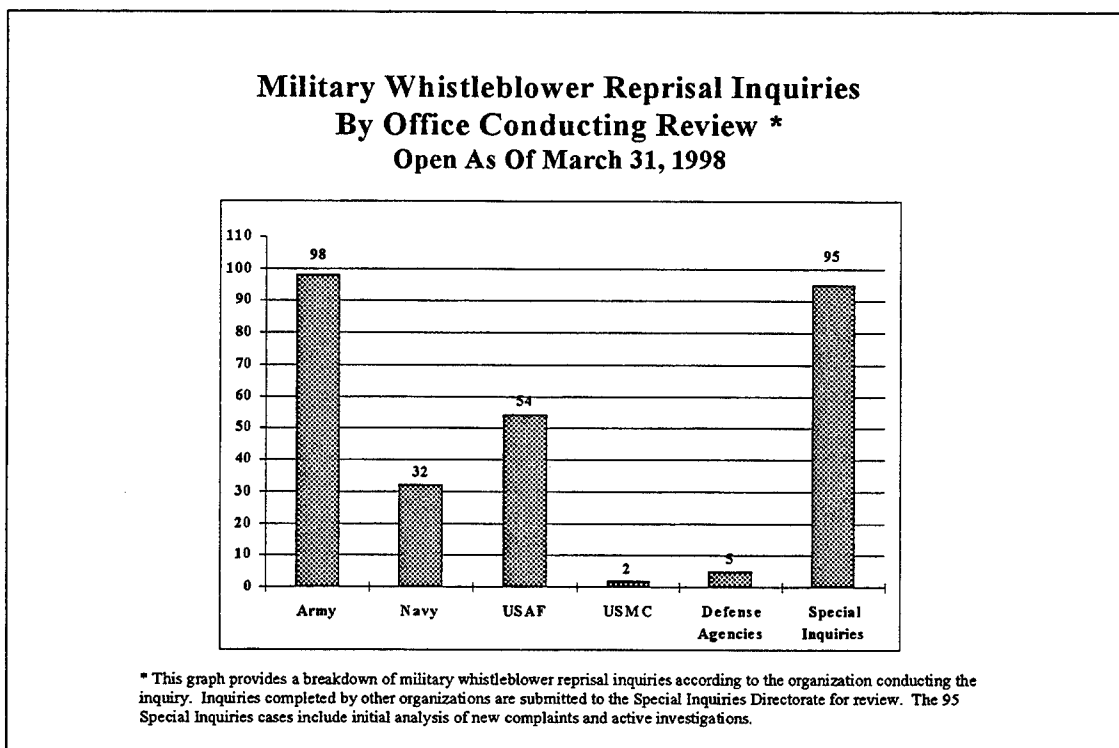


Figure 6

An Army sergeant alleged that he received a written counseling statement, an adverse performance evaluation and was barred from reenlistment in reprisal for filing equal opportunity complaints. An investigation substantiated the sergeant's reprisal allegations.

***DoD Contractor
Employee Reprisal***

Four employees of a Defense contractor alleged they were fired in reprisal for reporting concerns to a representative of the USACE about safety, working conditions and pay. We substantiated that three of the contractor employees were fired in reprisal for their whistleblowing activities. Allegations of reprisal brought by the fourth contractor employee were not substantiated.

**Senior Official
Activity**

Figures 7 and 8 (page 35) show results of activity on senior official cases during the period. On March 31, 1998, there were 264 ongoing investigations into senior official misconduct throughout the Department, down from the 343 cases that we reported open as of October 1, 1997. Over the past 6 months, we closed 199 senior official cases; 40 of the closed cases (20 percent) contained substantiated allegations.

**Examples of
Substantiated
Senior Official
Cases**

***Inappropriate
Behavior in the
Workplace***

Two inquiries were completed that substantiated allegations of inappropriate behavior in the workplace on the part of senior DoD officials. In one case, a senior official was found to have made comments of an overt sexual nature and engaged in other conduct that was perceived by subordinates as offensive. Our inquiry concluded that the individual's behavior on those occasions was inappropriate for a Federal employee and violated the DoD policy on sexual harassment.

In the second inquiry, we found that a senior DoD official engaged in unwelcome touching of another employee on one occasion and, on several occasions, told jokes and made comments of a racial or sexual nature that were considered inappropriate by numerous members of his staff. We concluded that his conduct did not constitute sexual harassment but, nevertheless, was inconsistent with the type of responsibilities that are assigned, by regulation, to senior leaders. In addition, we found that the official borrowed money from employees receiving less pay than himself, in violation of DoD ethics regulations. In both of the foregoing inquiries, we provided the results of our work to appropriate management officials for consideration of corrective action.

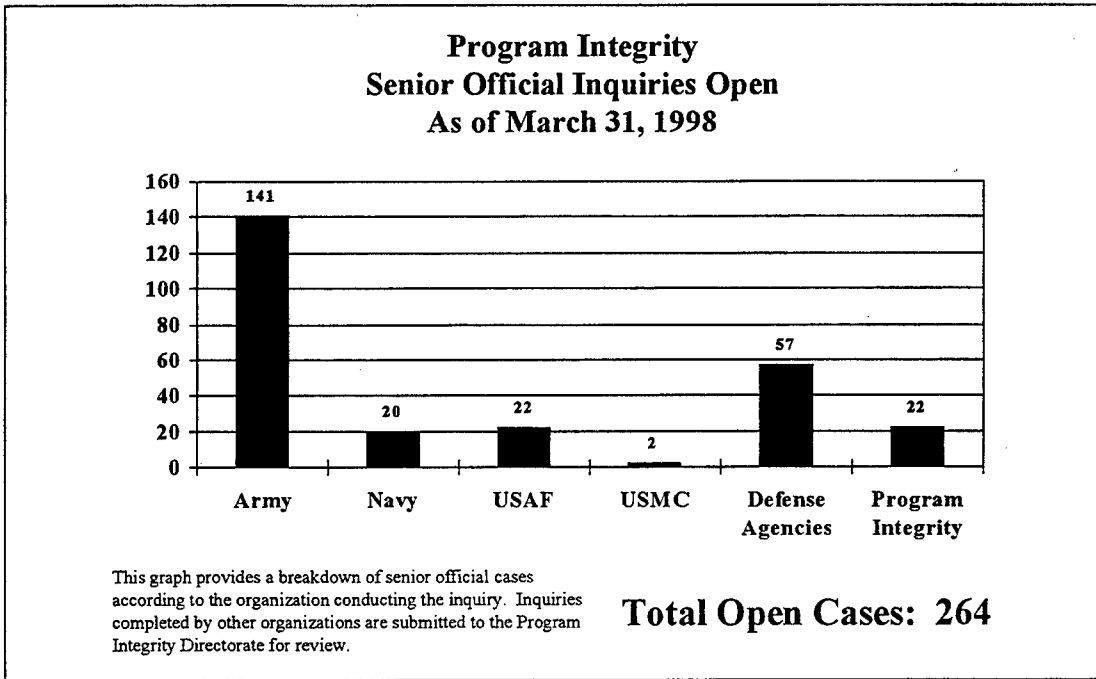


Figure 7

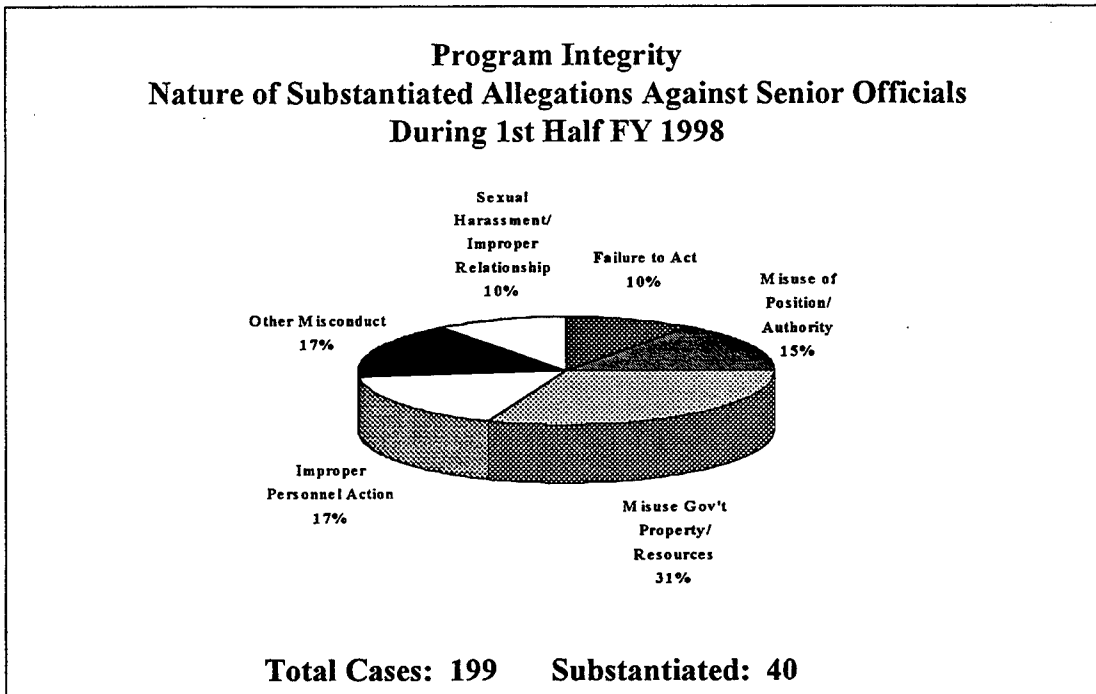


Figure 8

AUDITING

Our auditors and those of the Military Departments issued 245 audit and evaluation reports during the period, identifying \$3.9 billion in potential monetary benefits. See Appendix A for a listing of those reports, sorted by major subject area. Appendices B and C list OIG reports with quantifiable potential monetary benefits and overall DoD internal audit followup activities, respectively. Appendix D summarizes DCAA contract audit reports issued during the period.

IG, DoD Testimony

On March 18, 1998, the Inspector General testified before the Senate Armed Services Subcommittee on Acquisition and Technology regarding the Status of Acquisition Reform in the Department of Defense.

The Inspector General noted the progress made in streamlining DoD acquisition processes and that the OIG has been working with the Department through its participation in management process action teams, integrated process teams and other working groups to promote improvements in DoD business activities. However, because of the size and complexity of the DoD acquisition program, the OIG considers this to be a high risk area and gives high priority to audit coverage of acquisition programs and functions and to investigations of procurement fraud.

One of the objectives of acquisition reform initiatives is to promote the use of commercial business practices and the procurement of commercial items. The Inspector General discussed the results of recent audits that examined allegations that the Defense Logistics Agency (DLA) was paying higher prices for aircraft spare parts using the contractors' catalog prices than before it began procuring the parts in a commercial pricing environment. The audits found that, while the contractors involved did not violate any law or regulation, the Government was paying prices considerably higher (71 percent in one case and 280 percent in the other) than a prudent buyer would consider fair and reasonable.

"The Inspector General concluded that the DoD has not learned how to be an astute buyer in the commercial market."

The Inspector General concluded that the DoD has not learned how to be an astute buyer in the commercial market. All of the transactions examined were sole source contracts, yet many should not have been. The DLA also failed to maximize its negotiating leverage. Despite the

fact that the DoD was the largest customer for most of the parts, the Department received only modest discounts from one contractor's catalog prices and none from the other.

Other areas where many opportunities for management improvement exist include program funding stability, testing, oversight of information system investments, service contracts, dual management of commercially available items, joint contracting and DoD accounting requirements.

The Inspector General also expressed concern regarding proposals to minimize or eliminate some of the tools that have historically proven valuable in Government oversight efforts, including the False Claims Act, the Truth in Negotiations Act and the work of the DCAA. Additionally, there has been discussion of eliminating cost principles, cost accounting standards and contract audits. While advocating the use of reasonable commercial practices when there is a healthy, competitive marketplace, the Inspector General noted that, frequently, the DoD is buying unique military weapons from a few dominant suppliers and market forces do not exist. In those circumstances, the DoD has an obligation to act as an informed consumer and must rely on all available oversight tools to verify that what is paid is reasonable and taxpayer dollars are properly safeguarded.

The Inspector General's testimony concluded by emphasizing that, despite the progress made by reform initiatives, there are still many problems in the acquisition area and much work to be done. This is an era of turbulence and considerable risk for the Department. Sound and realistic management efforts, coupled with effective and efficient oversight, are essential to the Department's ultimate success in coping with that risk and making acquisition reform initiatives work.

Single Audit Program

The Inspector General Act of 1978 requires that we take appropriate steps to assure that work performed by non-Federal auditors in support of Government programs complies with the standards established by the Comptroller General. The overall objective of the Single Audit Program is to reduce the audit burden on the agencies and institutions while ensuring that Government funds are properly accounted for and expended. We conducted 674 desk reviews of organizations for which the DoD has cognizance or oversight responsibilities to assure the audit reports meet applicable requirements. We conducted quality control reviews and issued four reports that focused on the qualitative aspects of the audits. Although quality was generally good, we had findings that included: untimely issuance of single audit reports, incorrect statements regarding type of indirect cost rate applied, missing required reports on compliance, incomplete management representation letters and lack of specific training in governmental auditing.

As a result of our reviews, we referred Price Waterhouse LLP, Raleigh, North Carolina, to the American Institute of Certified Public Accountants and the North Carolina State Board for deficiencies in its fiscal year 1994 and 1995 audits of Shaw University.

We are currently working with the U.S. Census Bureau's Single Audit Clearinghouse staff to ensure that centralized information compiled under the Single Audit Act is more timely and relevant. Although information related to recipients of Federal awards is currently posted on the internet, much of the information is not useful.

Navy Audit Funding

In September 1997, the Navy announced a number of changes to planning, programming and budgeting for the Naval Audit Service. One significant initiative is that the cost of audits of Naval Working Capital Fund financial statements will be shifted from the Naval Audit Service portion of the Operations and Maintenance, Navy appropriation, to the accounts of various Working Capital Fund Commands, which will reimburse the Audit Service. A similar reimbursable arrangement will fund Audit Service work on the Naval and Marine Corps General Funds. The IG, DoD has not objected to this funding arrangement, but will review its impact, including any perceived impingement on auditor independence or on the effectiveness of the mandatory financial statement audits, as part of our audit policy and oversight program.

INTELLIGENCE REVIEW

During this reporting period, the Office of Intelligence Review further developed its oversight capacity with respect to the DoD intelligence agencies. Coordination was effected, not only with the intelligence agencies themselves, but also with cognizant Congressional oversight committees and with related oversight organizations in other Executive Departments. Various joint projects have been initiated covering significant cross-agency issues.

For additional information regarding specific work performed, see the Classified Annex to this report.

APPENDIX A*
REPORTS ISSUED BY CENTRAL DOD INTERNAL AUDIT ORGANIZATIONS

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

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

OIG, DoD
(703) 604-8937

Army Audit Agency
(703) 681-9863

Naval Audit Service
(703) 681-9126

Air Force Audit Agency
(703) 696-8027

Summary of Number of Reports by Issue Area
October 1, 1997 - March 31, 1998

| | IG, DoD | Military Depts | Total |
|--|----------------|-----------------------|--------------|
| Finance and Accounting | 31 | 51 | 82 |
| Acquisition Program and Contractor Oversight | 30 | 12 | 42 |
| Information Technology Resources | 16 | 15 | 31 |
| Logistics | 7 | 21 | 28 |
| Construction and Installation | 5 | 14 | 19 |
| Environment | 6 | 11 | 17 |
| Quality of Life | 1 | 8 | 9 |
| Forces Management | 1 | 7 | 8 |
| Intelligence | 3 | 2 | 5 |
| Health Care | 1 | 1 | 2 |
| Total | 101 | 142 | 243 |

The IG, DoD, also issued 4 reports on audit and criminal investigative oversight reviews and one testimony report.

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

Acquisition Program and Contractor Oversight

IG, DoD

98-004 Transition of Navy Missile Acquisition Programs From Program Management Offices to Support Commands (10/7/97)

98-005 Use of Foreign Materiel Exploitation Results (10/8/97)

98-011 Transition of Air Force Missile Acquisition Programs From the Program Executive Officers to the Air Force Materiel Command (10/23/97)

98-012 Federal Acquisition Computer Network Central Contractor Registration (CCR) Program (10/22/97)

98-026 Contractor Selection for the Development of the Range Rule Risk Methodology (11/24/97)

98-032 Contracting Procedures for the Upgrade of the M113A3 Armored Personnel Carrier (12/5/97)

98-043 Supportability Planning for Fleet Introduction of the Strategic Sealift Ships (12/30/97)

98-044 Contractual Actions for Urgent Procurement Requirements (12/31/97)

98-045 Estimate-at-Completion of the Contract for the Family of Medium Tactical Vehicles Program (FOUO) (12/31/97)

98-047 Use of Foreign Comparative Testing Program Funds for the BOL Expendable Countermeasures Dispenser (1/15/98)

98-049 DoD Sensitive Support Focal Point System (CLASSIFIED) (1/20/98)

98-053 Pioneer Unmanned Aerial Vehicle Program (1/22/98)

98-055 Reporting Foreign Comparative Testing Project Costs (1/23/98)

98-063 Defense Logistics Agency Product Quality Deficiency Program (2/5/98)

98-064 Commercial and Noncommercial Sole-Source Items Procured on Contract N000383-93-G-M111 (FOUO) (2/6/98)

98-067 Access Reciprocity Between DoD Special Access Programs (CLASSIFIED) (2/10/98)

98-069 Air Force Special Access Program (SAP) (CLASSIFIED) (2/10/98)

98-070 Short-Term Precision Landing Capabilities for C-17 Aircraft (2/11/98)

98-078 Acquisition of the Amphibious Landing Transport Dock 17 Class of Ships (2/18/98)

98-079 Corrosion Prevention Programs Within the Services for Tracked and Wheeled Vehicles (2/20/98)

98-081 Use of the Foreign Comparative Testing Program for the Finnish Nickel Cadmium Battery (CLASSIFIED) (2/23/98)

98-083 Defense Manufacturing Technology Program (2/25/98)

98-084 Management of the 1994 Contracts for Developing the Tomahawk Baseline Improvement Program and Producing the Tomahawk Missile (FOUO) (2/26/98)

98-087 Cost of SSN-21 Class Submarines (3/6/98)

98-088 Sole-Source Prices for Commercial Catalog and Noncommercial Spare Parts (FOUO) (3/11/98)

98-089 Special Access Program Security Issues (FOUO) (3/11/98)

98-092 Threat Distributions for Requirements Planning at U.S. Central Command and U.S. Forces Korea (CLASSIFIED) (3/20/98)

98-096 Acquisition of the Army Tactical Missile System Anti-Personnel/Anti-Materiel Block IA Program (3/25/98)

PO 98-603 Dispositioned Defective Pricing Audit Reports at the U.S. Army Aviation and Troop Command (12/23/97)

PO 98-604 Consolidation of DoD Contract Administration Services (1/15/98)

Army Audit Agency

AA 98-30 Achieving Efficiencies in Testing, U.S. Army Redstone Technical Test Center (12/15/97)

AA 98-53 Contract Termination Process, U.S. Army Communications-Electronics Command (12/23/97)

AA 98-78 Contracting Policies and Procedures, St. Paul District U.S. Army Corps of Engineers (FOUO) (2/2/98)

AA 98-84 Contract Termination Process, U.S. Army Aviation and Missile Command (1/26/98)

AA 98-92 Real Estate Acquisition (3/9/98)

AA 98-96 Advisory Service Contracts (2/12/98)

Naval Audit Service

001-98 Auditor General Advisory: Program Executive Office Auditor Project (10/3/97)

014-98 Planning for the Acquisition of Flight Data Recorders for Naval Aircraft (12/18/97)

016-98 Acquisition of Computer Equipment and Displays on Air Force Contracts (1/8/98)

029-98 Acquisition, Management, and Use of Flight Simulators (3/27/98)

Air Force Audit Agency

97064010 Air Logistics Center Contract Terminations (1/23/98)

97066007 Reimbursements at Test Centers and Laboratories (12/29/97)

Construction and Installation Support

IG, DoD

98-003 Unaccompanied Enlisted Personnel Housing Requirements for Marine Corps Base Camp Lejeune, North Carolina (10/3/97)

98-006 DoD Family Housing Requirements Determination (10/8/97)

98-014 Defense Base Realignment and Closure Budget Data for the Realignment of Undergraduate Pilot Training From Reese Air Force Base, Texas, to Columbus Air Force Base, Mississippi (10/24/97)

98-018 Navy Use of Variable Housing Allowance Survey Data (11/10/97)

98-080 Unaccompanied Enlisted Personnel Housing Requirements for Naval Station San Diego, California (2/23/98)

Army Audit Agency

AA 98-15 Base Realignment and Closure Construction Requirements Wheeler Army Air Field, Hawaii (11/12/97)

AA 98-20 Arvin Cadet Physical Development Center Construction Project, United States Military Academy (11/14/97)

AA 98-23 Space Utilization, III Corps and Fort Hood (10/30/97)

AA 98-45 Army's Utility Privatization Program (12/18/97)

AA 98-59 Unaccompanied Enlisted Personnel Housing Program (12/29/97)

AA 98-62 Space Utilization, U.S. Army Air Defense Artillery Center and Fort Bliss (12/29/97)

AA 98-76 Family Housing Management, U.S. Army, Europe and Seventh Army (1/26/98)

AA 98-114 Telephone Costs, 25th Infantry Division (Light) and U.S. Army Hawaii, Schofield Barracks, Hawaii (3/1/98)

AA 98-136 Military Traffic Management Command Base Realignment and Closure 1995 Construction Requirements, Fort Eustis, Virginia (3/20/98)

Naval Audit Service

002-98 Fiscal Year 1999 Military Construction Projects Stemming from Decisions on the 1993 and 1995 Base Closure and Realignment Commissions (11/7/97)

012-98 Military Construction, Navy Projects Proposed for Fiscal Year 1999 (12/17/97)

026-98 Physical Security at Naval Air Station Patuxent River, MD (2/27/98)

028-98 Bachelor Quarters Centralized Reservation System (3/19/98)

Air Force Audit Agency

97052002 Commanders' Facility Assessment Program

Environment

IG, DoD

98-001 Evaluation of the Department of Defense Pollution Prevention Program (10/3/97)

98-017 Upgrade of the Interim Tankman System (11/7/97)

98-021 Management of Underground Storage Tanks at Defense Logistics Agency Centers (11/13/97)

98-051 Chemical Event at Tooele Chemical Agent Disposal Facility (1/20/98)

98-076 Funds Used for the Arctic Military Environmental Cooperation Program (2/17/98)

98-090 Evaluation of DoD Waste Site Groundwater Pump-and-Treat Operations (3/12/98)

Army Audit Agency

AA 98-3 Eliminating Hazardous Material in Weapon Systems, Program Executive Officer for Ground Combat and Support Systems (10/10/97)

AA 98-7 Environmental Remediation, Pueblo Chemical Depot, Colorado (11/24/97)

AA 98-16 Environmental Remediation, Fort Devens, Massachusetts (10/24/97)

AA 98-19 Environmental Remediation, U.S. Army Materials Technology Laboratory, Watertown, Massachusetts (10/24/97)

AA 98-24 Eliminating Hazardous Material in Weapon Systems, Program Executive Officer for Tactical Wheeled Vehicles (10/30/97)

AA 98-35 Environmental Remediation, Alabama Army Ammunition Plant (12/2/97)

AA 98-97 Forestry and Agricultural Outleasing Programs (2/3/98)

AA 98-106 Environmental Remediation, Fort Ord, California (3/23/98)

AA 98-134 Management of Underground Storage Tanks (3/16/98)

Naval Audit Service

018-98 Management of Underground Storage Tanks (1/2/98)

Air Force Audit Agency

97052030 Forest Program (11/18/97)

Finance and Accounting

IG, DoD

98-002 A Status Report on the Major Accounting and Management Control Deficiencies in the Defense Business Operations Fund for FY 1996 (10/3/97)

98-008 Financial Reporting of Defense Business Operations Fund FY 1996 Property, Plant, and Equipment (10/9/97)

98-016 Controls Over Government Bills of Lading (11/3/97)

98-019 Inventory Record Accuracy and Management Controls at the Defense Logistics Agency Distribution Depots (11/10/97)

98-022 Reporting of Contract Holdbacks on the DoD Financial Statements (11/17/97)

98-027 Including All Appropriation Accounts in the FY 1996 "Other Defense Organizations" Financial Statements by the Defense Finance and Accounting Service, Indianapolis Center (11/28/97)

98-028 Personal Services and Benefits Expenses in the FY 1996 Statement of Operations and Changes in Net Position of the "Other Defense Organizations" (12/2/97)

98-029 Revenues and Expenses From Reimbursable Activity for Other Defense Organizations (12/5/97)

98-030 Hotline Allegations on Army National Guard Appropriations (12/3/97)

98-031 The DoD Contract Fund Reconciliation Process (12/5/97)

98-033 Defense Agency Travel Payments at Defense Finance and Accounting Service, Indianapolis Center (12/8/97)

98-038 Control of Database Applications at the Defense Finance and Accounting Service, Indianapolis Center (12/12/97)

98-039 Cash Management in the Defense Working Capital Funds (12/15/97)

- 98-040** Air National Guard Financial Reports on the National Guard and Reserve Equipment Appropriation (12/16/97)
- 98-042** Financial Reporting by Selected Defense Agencies of Government Property in the Custody of Contractors (12/16/97)
- 98-046** Military Traffic Management Command Financial Reporting of Property, Plant, and Equipment (1/14/98)
- 98-048** Travel and Transportation Expenditures Reported on the Consolidated FY 1996 Financial Statements of the "Other Defense Organizations" Receiving Department 97 Appropriations (1/16/98)
- 98-050** Defense Business Operations Fund Adjustments at the Defense Finance and Accounting Service, Denver Center (1/20/98)
- 98-052** Defense Logistics Agency Past Due Federal Accounts Receivable (1/22/98)
- 98-054** Compilation of FY 1996 Air Force Consolidated Financial Statements at the Defense Finance and Accounting Service, Denver Center (1/23/98)
- 98-056** Controls Over Presenting Expense Account Line Items on the FY 1996 Statement of Operations for the Air Force Supply Management Business Area (1/27/98)
- 98-058** Payroll Expenses Reported in FY 1996 for the Office of the Secretary of Defense (2/2/98)
- 98-059** Financial Accounting for the Defense Investigative Service (2/3/98)
- 98-060** Joint Logistics Systems Center Reporting of Systems Development Costs (2/3/98)
- 98-062** Compilation of the FY 1996 Financial Statements for Other Defense Organizations (2/4/98)
- 98-071** Cash Impact of the Consumable Item Transfer, Phase II, FY 1997 (2/11/98)
- 98-072** Defense Business Operations Fund Inventory Record Accuracy (2/12/98)
- 98-073** Defense Finance and Accounting Service Work on the Navy General Fund FY 1996 Financial Statements (2/12/98)
- 98-075** Distribution Depot Revenues (2/13/98)
- 98-086** Internal Controls and Compliance With Laws and Regulations for Expense Account Line Items on the FY 1996 Defense Business Operations Fund Consolidated Financial Statements (3/4/98)
- 98-097** Defense Commissary Agency Financial Reporting of Property, Plant and Equipment (3/27/97)
- Army Audit Agency**
- AA 98-12** Army Working Capital Fund FY 97 Financial Statements, Anniston Army Depot (10/20/97)
- AA 98-17** Army's Principal Financial Statements for Fiscal Years 1996 and 1995, Financial Reporting of Progress Payments, Defense Finance and Accounting Service (11/14/97)
- AA 98-18** Selected Financial Controls - Morale, Welfare and Recreation Activities, U.S. Army Training Center and Fort Jackson (10/27/97)
- AA 98-32** Army Working Capital Fund Statement of Financial Position, Crane Army Ammunition Activity (11/17/97)
- AA 98-33** Review of the Army Management Control Process (Fiscal Year 1997) (11/14/97)
- AA 98-42** Out-of-Service Debt (12/17/97)
- AA 98-46** Army Working Capital Fund Supply Management FY 97 Statement of Financial Position, U.S. Army Air Defense Artillery Center and Fort Bliss (12/17/97)
- AA 98-49** Cash Controls, U.S. Army Garrison, Carlisle Barracks, Pennsylvania (12/18/97)
- AA 98-57** Financial Reporting of Section 801 Family Housing Leases (12/23/97)
- AA 98-58** Closeout of Conventional Ammunition Working Capital Fund - Phase I (12/23/97)
- AA 98-60** Army Working Capital Fund FY 97 Financial Statements, Work in Process (1/21/98)
- AA 98-61** Selected Financial Controls - Morale, Welfare and Recreation Activities, Fort Belvoir, Virginia (12/30/97)
- AA 98-64** Audit of Secretary of Defense Mess Fund, Financial Statements (1/8/98)

AA 98-66 Audit of General Officers' Mess Fund, Financial Statements (1/8/98)

AA 98-70 Selected Financial Controls - Morale, Welfare and Recreation Activities, U.S. Army Community and Family Support Center (1/16/98)

AA 98-79 Army Working Capital Fund FY 97 Financial Statements, U.S. Army Communications-Electronics Command (1/23/98)

AA 98-90 Selected Financial Controls Over Billeting Activities, U.S. Army Training Center and Fort Jackson (1/30/98)

AA 98-93 City of Cumberland Section 202 Project, Great Lakes and Ohio River Division, U.S. Army Corps of Engineers (2/6/98)

AA 98-98 Army's Principal Financial Statements for Fiscal Years 1997 and 1996, Financial Reporting of Wholesale Munitions (2/5/98)

AA 98-101 Financial Controls, Pine Bluff Arsenal, Arkansas (2/17/98)

AA 98-103 Closeout of the Conventional Ammunition Working Capital Fund - Phase II (2/17/98)

AA 98-104 Army's Principal Financial Statements for Fiscal Years 1997 and 1996, Auditor's Report (2/13/98)

AA 98-105 Cost Reimbursement for Contingency Operations, U.S. Army Reserve (3/16/98)

AA 98-108 Corps of Engineers Financial Management System (2/13/98)

AA 98-110 Army Working Capital Fund FY 97 Financial Statements, Property, Plant and Equipment (3/3/98)

AA 98-111 Army Working Capital Fund Principal Financial Statements for Fiscal Year 1997, Auditor's Report (2/13/98)

AA 98-112 FY 97 Financial Statements Opinion Report, U.S. Army Corps of Engineers, Civil Works (2/19/98)

AA 98-124 Army Working Capital Fund Principal Financial Statements for Fiscal Year 1997, Report on Internal Controls and Compliance With Laws and Regulations (3/19/98)

AA 98-125 Army Working Capital Fund Statement of Financial Position, U.S. Army Tank-automotive and Armaments Command (3/20/98)

AA 98-144 Army's Principal Financial Statements for Fiscal Years 1997 and 1996, Financial Reporting of Accounts Receivable (3/30/98)

AA 98-157 Army's Principal Financial Statements for Fiscal Years 1997 and 1996, Financial Reporting of Wholesale Equipment, Followup Issues (3/31/98)

Naval Audit Service

004-98 Department of the Navy Fiscal Year 1996 Annual Financial Report: Fund Balance with Treasury and Cash and Other Monetary Assets (10/31/97)

005-98 Auditor General Opinion: Department of the Navy Annual Statement of Assurance for Fiscal Year 1997 (11/14/97)

006-98 Department of the Navy Fiscal Year 1996 Annual Financial Report: Accounts Payable and Accrued Payroll Benefits (11/14/97)

007-98 Financial Practices at Navy Special Warfare Group Two (11/27/97)

015-98 Department of the Navy Fiscal Year 1996 Annual Financial Report: Department of Defense Issues (12/19/97)

019-98 Ground Fuel Tax Refunds at Selected Navy and Marine Corps Commands (1/23/98)

022-98 Quality Control Review: "Fiscal Year 1995 Consolidating Financial Statements of the Department of the Navy Defense Business Operating Fund" (2/17/98)

023-98 Quality Control Review: "Fiscal Year 1996 Consolidating Financial Statements of the Department of the Navy Defense Business Operating Fund" (2/17/98)

024-98 Fiscal Years 1997 and 1996 Consolidated Financial Statements of the Department of the Navy Working Capital Fund (2/27/98)

025-98 Department of the Navy Principal Statements for Fiscal Years 1997 and 1996: Report on Auditor's Opinion (2/27/98)

Air Force Audit Agency

96068002 Expenses and Accounts Payable, Supply Management Business Area, Fiscal Year 1996 (11/28/97)

97051026 Air Force Injury Compensation Program (10/3/97)

97053009 Opinion on Fiscal Year 1997 Air Force Consolidated Financial Statements (2/27/98)

97054026 Work Information Management System Financial Management and Acquisition Module Controls (1/26/98)

97054031 Followup Audit, Aerospace Maintenance and Regeneration Center Accounting Systems (12/29/97)

97054035 Official Representation Contingency Funds, Fiscal Year 1996 (2/5/98)

97058003 United States Property and Fiscal Office Accountability for Air National Guard Resources (2/4/98)

97058005 Military Family Housing Tenant Liability (3/2/98)

97068041 Interim Report of Audit, Incremental Revenue Recognition, Depot Maintenance Activity Group, Air Force Working Capital Fund, Fiscal Year 1997 (Project 97068001) (2/3/98)

97068043 Opinion on Fiscal Year 1997 Air Force Working Capital Fund Financial Statements (2/27/98)

Forces Management**IG, DoD**

98-036 Intergovernmental Personnel Act Employees in the Office of the Assistant to the Secretary of Defense (Nuclear and Chemical and Biological Defense Programs) (FOUO) (12/11/97)

Army Audit Agency

AA 98-26 Bilateral Training Exercises, U.S. Army Japan and 9th Theater Army Area Command (11/18/97)

AA 98-130 Implementation of Workload-Based Manpower Requirements Program, U.S. Army Forces Command (3/16/98)

AA 98-148 Implementation of Workload-Based Manpower Requirements Program, U.S. Army Training and Doctrine Command (3/30/98)

Naval Audit Service

021-98 Naval Selected Reserve Enlisted Retention Programs (1/30/98)

Air Force Audit Agency

97051029 Air Force Academy Flight Screening Operations (1/14/98)

97058007 Operational Readiness of RED HORSE Squadrons (10/14/97)

97058030 Prime Base Engineer Emergency Force Operations (12/19/97)

Health Care**IG, DoD**

98-035 Medical Facility Requirements - Naval Hospital Bremerton, Washington (12/10/97)

Army Audit Agency

AA 98-1 Management of Deployable Medical Systems (10/9/97)

Information Technology Resources**IG, DoD**

98-007 General and Application Controls Over the Mechanization of Contract Administration Services System (10/9/97)

98-009 Demand Assigned Multiple Access Terminals (10/14/97)

98-013 Second User Acceptance Test of the Electronic Document Management System at the Defense Finance and Accounting Service Operating Location, Omaha, Nebraska (10/24/97)

98-014 The Working Capital Funds Interim Migratory Accounting Strategy (10/24/97)

98-023 Implementation of the DoD Joint Technical Architecture (11/18/97)

98-024 Security Controls Over Systems Serving the DoD Personnel Security Program (11/19/97)

98-041 Acquisition Management of the Defense Civilian Personnel Data System (12/16/97)

98-057 Defense Finance and Accounting Service Acquisition Program for the Electronic Document Management Program (1/27/98)

98-061 Tactical Contingency Communications Equipment - Central Area (2/4/98)

98-065 DoD Information Technology Solicitations and Contract Compliance for Year 2000 Requirements (2/6/98)

98-068 Year 2000 Compliance in an Air Force Special Access Program (CLASSIFIED) (2/10/98)

98-074 Sharing Year 2000 Testing Information on DoD Information Technology Systems (2/12/98)

98-077 Year 2000 Computing Problem Reports: August 1997 Report (2/18/97)

98-082 Information Assurance of the Defense Civilian Personnel Data System (2/23/98)

98-095 Defense Security Assistance Management System (3/24/98)

98-098 Selected General Controls Over the Retiree and Casualty Pay Subsystem at the Defense Finance and Accounting Service, Cleveland Center (3/30/98)

Army Audit Agency

AA 98-9 Web Server Security, U.S. Army Aviation and Missile Command (FOUO) (10/31/97)

AA 98-10 Army Web Server Security (1/20/98)

AA 98-123 Information Assurance for the Army's Segment of the Defense Civilian Personnel Data System (FOUO) (3/3/98)

Air Force Audit Agency

97054008 Command Post Operations (12/24/97)

97054013 General and Application Controls Within the On-Line Vehicle Interactive Management System (1/5/98)

97058036 Computer Upgrades and Random Access Memory Chips (1/9/98)

97058039 Voice Mail Systems (12/30/97)

97058046 Telephone Service for Personnel Residing on Installations (2/25/98)

97066001 Information Protection Over the Global Positioning System Computers (CLASSIFIED) (1/28/98)

97066002 Multi-Use Software Licenses (12/15/97)

97066018 Inventory Status for the Year 2000 Program (1/21/98)

97066024 Followup Audit, Risk Management of Depot Maintenance Computers (11/7/97)

97066025 Software Cost Estimating Methodologies Within the Materiel Systems Group (1/5/98)

97066029 Global Combat Support System - Air Force (11/19/97)

97068016 Application Controls Over Unit Price Data Within the Requirements Data Bank System, Air Force Working Logistics

Intelligence

See Appendix in classified annex to this report.

Logistics

IG, DoD

98-020 Supportability Issues for the National Guard and Reserves (11/10/97)

98-025 Management and Administration of International Agreements in the Department of Defense (11/19/97)

98-034 Billing of Household Goods Accessorial Charges (12/10/97)

98-037 Dual Management of Commercially Available Items - Battery, Food Service, and Photographic Products (12/12/97)

98-066 Executive Agent Support to Joint Operations (2/9/98)

98-085 Joint Contracting for Depot Maintenance of Secondary Items (3/4/98)

98-094 Management and Administration of International Agreements in the U.S. Central Command (CLASSIFIED) (3/23/98)

Army Audit Agency

AA 98-2 Unit-Level Logistics System-Ground, XVIII Airborne Corps and Fort Bragg (10/9/97)

AA 98-29 Ammunition Management (CLASSIFIED) (11/3/97)

AA 98-31 Total Asset Visibility-Operational Projects (11/17/97)

AA 98-41 Transportation Motor Pool Operations, Eighth U.S. Army (12/12/97)

AA 98-54 Followup Audit - Ammunition Supply Point, I Corps and Fort Lewis (12/23/97)

AA 98-77 Initial Spares and Repair Parts, Program Executive Officer for Tactical Missiles (1/30/98)

AA 98-99 Sustainment Requirements for the Army, Prepositioned Stock Program (2/23/98)

AA 98-135 Reengineering Organizational Clothing and Individual Equipment, and Central Issue Facility Operations (3/30/98)

AA 98-138 Army Prepositioned Stock Program, Combat Equipment Group-Europe (3/31/98)

Naval Audit Service

008-98 Local Audit Function at Selected Chief of Naval Education and Training Command Activities (11/20/97)

010-98 Sustainability of Air Launched Missile Systems (12/5/97)

011-98 Alteration of Harbor Security and Explosive Ordnance Disposal Boats (11/26/97)

017-98 Marine Corps Procurement of Replenishment Material Requirements (1/6/98)

027-98 Servicewide Transportation Under the Operation and Maintenance Appropriation (3/6/98)

030-98 Management of Non-Tactical (Administrative) Transportation Vehicles (3/24/98)

Air Force Audit Agency

96061003 Consumable Readiness Spares Requirements (10/1/97)

96061021 Government Bills of Lading (11/28/97)

97061004 Depot Contract Maintenance Usage and Inventory Data (1/7/98)

97061024 Munitions Inventory and Access Controls (10/31/97)

97061027 Munitions Transportation and Disposal Controls (1/7/98)

97061029 Followup Audit, Express Transportation for Small Packages (1/29/98)

Quality of Life

IG, DoD

98-091 Information and Assistance to Members of Families of Casualties of Military Aviation Accidents (3/16/98)

Army Audit Agency

AA 98-27 Child and Adult Care Food Program, Fort Lewis, Washington (10/27/97)

AA 98-40 Army Family Advocacy Program (12/9/97)

AA 98-51 Baseline Validation-Demonstration Project For Uniform Funding of Morale, Welfare and Recreation Activities (12/23/97)

AA 98-133 Reengineering Overhead Support for Morale, Welfare and Recreation Activities, U.S. Army Field Artillery Center and Fort Sill (3/18/98)

AA 98-141 Assets and Liabilities of Army Morale, Welfare and Recreation Test Sites (3/30/98)

Naval Audit Service

003-98 Navy Exchange Service Command Local Audit Function (11/7/97)

013-98 Morale, Welfare, and Recreation Resale Activities at Naval Air Station, Patuxent River, MD (12/16/97)

020-98 Consumer Electronics (B5) and Home Office (B7) Retail Departments (1/23/98)

Audit Oversight Reviews

IG, DoD

PO 98-6-005 Coopers and Lybrand, L.L.P., Rensselaer Polytechnic Institute, Fiscal Year Ended June 30, 1996 (2/10/98)

PO 98-6-006 Coopers and Lybrand, L.L.P., and the Defense Contract Audit Agency, the RAND Corporation, Fiscal Year Ended September 24, 1995 (2/17/98)

PO 98-6-007 KPMG Peat Marwick L.L.P., and the Defense Contract Audit Agency, the Aerospace Corporation, Fiscal Year Ended September 30, 1995 (3/6/98)

PO 98-6-008 KPMG Peat Marwick L.L.P., and the Defense Contract Audit Agency, the Smithsonian Institution, Fiscal Year Ended September 30, 1996 (3/20/98)

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 B¹ | | |
|---|--|------------------------------------|
| INSPECTOR GENERAL, DOD, AUDIT REPORTS ISSUED CONTAINING QUANTIFIABLE POTENTIAL MONETARY BENEFITS | | |
| Audit Reports Issued | Potential Monetary Benefits (\$ in thousands) | |
| | Disallowed Costs² | Funds Put to Better Use |
| 98-017 Upgrade of the Interim TANKMAN System (11/7/97) | N/A | \$100 |
| 98-035 Medical Facility Requirements - Naval Hospital, Bremerton, Washington (12/10/97) | N/A | 2,000 |
| 98-043 Supportability Planning for Fleet Introduction of the Strategic Sealift Ships (12/30/97) | N/A | 18,000 |
| 98-059 Financial Accounting for the Defense Investigative Service (2/3/98) | N/A | 30,600 |
| 98-060 Joint Logistics Systems Center Reporting of Systems Development Costs (2/3/98) | N/A | 1,998,000 |
| 98-064 Commercial and Noncommercial Sole-Source Items Procured on Contract N000383-98-G-M111 (2/6/98) | N/A | 83,800 |
| 98-088 Sole-Source Prices for Commercial Catalog and Noncommercial Spare Parts (3/11/98) | N/A | 13,300 |
| Totals | 0 | \$2,145,800 |

1. Fulfills the requirement of 5 U.S.C., Appendix 3, Section 5(a)(6).

2. There were no OIG audit reports during the period involving disallowed costs.

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APPENDIX C*
FOLLOWUP ACTIVITIES

| DECISION STATUS OF INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE¹ (\$ in thousands) | | |
|---|---------------|--------------------------------|
| Status | Number | Funds Put to Better Use |
| A. For which no management decision had been made by the beginning of the reporting period. | 41 | \$395,789 |
| B. Which were issued during the reporting period. | 113 | 2,145,800 |
| Subtotals (A+B) | 154 | 2,541,589 |
| C. For which a management decision was made during the reporting period. | 119 | 415,889 |
| (i) dollar value of recommendations that were agreed to by management | | 2,098 |
| - based on proposed management action | | 2,098 |
| - based on proposed legislative action | | 0 |
| (ii) dollar value of recommendations that were not agreed to by management | | 413,791 |
| D. For which no management decision has been made by the end of the reporting period. | 35 | 2,125,700 |
| Reports for which no management decision was made within 6 months of issue (as of March 31, 1998). | 0 | 0 |

1. There were no OIG audit reports during the period involving questioned costs.

| 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 | 251 | | \$308,161 |
| Action Initiated - During Period | 119 | | 2,098 |
| Action Completed - During Period | 108 | | 83,056 |
| Action in Progress - End of Period | 263 | | 221,579 ¹ |
| Military Departments | | | |
| Action in Progress - Beginning of Period | 400 | | 7,236,827 |
| Action Initiated - During Period | 142 | | 1,767,432 |
| Action Completed - During Period | 186 | | 1,473,379 |
| Action in Progress - End of Period | 356 | | 7,881,883 |

1. On certain reports (primarily from prior periods) with audit estimated monetary benefits of \$382 million, it has been agreed that the resulting monetary benefits can only be estimated after completion of management action, which is ongoing.

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APPENDIX D
CONTRACT AUDIT REPORTS ISSUED¹
(\$000 in millions)

| Type of Audit | Reports Issued | Examined | Audit Exceptions | Funds Put to Better Use |
|--------------------------------|----------------|-------------------|------------------|-------------------------|
| Incurring Costs | 12,965 | \$47,083.5 | \$622.8 | \$28.8 ² |
| Forward Pricing Proposals | 4,915 | 33,045.6 | -- | 2,112.6 |
| Cost Accounting Standards | 1,571 | 142.8 | 71.6 | -- |
| Defective Pricing ³ | 420 | 0 | 163.6 | -- |
| Other ⁴ | 2 | 0 | -- | -- |
| Totals | 19,873 | \$80,271.9 | \$858.0 | \$2,141.4 |

1. Because of limited time between availability of management information system data and legislative reporting requirements, there is minimal opportunity for the DCAA to verify the accuracy of reported data. Accordingly, submitted data is subject to change based on subsequent DCAA authentication.
2. Incurred cost funds put to better use are from the cost avoidance recommended in operations audits.
3. Defective pricing dollars examined are not reported because they are considered a duplication of forward pricing dollars reported as examined.
4. Relates to suspected irregular conduct cases.

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Auditor, GS-511 Qualifications

Basic Requirement for the GS-5 Level:

Education - Bachelor's or higher degree in accounting; or related field that is supplemented by 24 semester hours in accounting (may include up to 6 hours of credit in business law)

OR

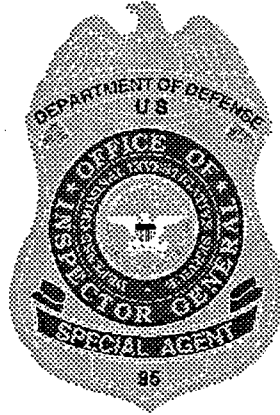
A certificate as a Certified Public Accountant or a Certified Internal Auditor, obtained through written examination

- Drug testing required
- Travel up to 75%
- Security clearance required

Additional Requirements for the GS-7 Level:

- 1 year of graduate-level education;
- superior academic achievement; or
- 1 year of specialized experience equivalent to at least the GS-5 level.

*For employment information, please contact:
Office of the Inspector General, Department of Defense
Personnel and Security Directorate, Room 567
400 Army Navy Drive
Arlington, Virginia 22202
Telephone: 703-604-9730*



Criminal Investigator, GS-1811 Qualifications

Basic Requirement for the GS-5 Level:

3 years of appropriate experience OR Bachelor's degree in any field

- Must be at least 21, but under 35 years of age
- Medical and physical examinations required
- Drug testing required
- Required to carry firearms
- Top Secret security clearance required
- Travel up to 20%

Additional Requirements for the GS-7 Level:

- 1 year of graduate-level education;
- Superior academic achievement; or
- 1 year specialized experience equivalent to at least the GS-5 level.

***For employment information, please contact:
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Arlington, Virginia 22202
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