



Inspector General

United States
Department *of* Defense

Semiannual
Report *to the*
Congress

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*Inspector General of the
Department of Defense*

Vision

*"One Professional Team of Inspectors,
Auditors, and Investigators, Inspiring by
Paradigm Both a Culture of Accountability
and Intelligent Risk-Taking Throughout
the Department of Defense"*



FOREWORD

As "independent and objective units" within their respective component (Inspector General Act, Section 1), Inspector General offices within the Department of Defense are unique "measuring" assets for their respective commanders--properly deployed, a part of the Secretary of Defense's leadership and management solution. "An IG must have the commander's total confidence and trust. To be effective, IGs must understand the commander's goals, expectations, standards, vision, operating methods, and personality. The IG must become the commander's confidant, that is, the individual with whom the commander can discuss, in complete trust, any aspect of the command, in wartime as well as peacetime" (Army Regulation 20-1).

As this report is being written, the efforts of the Department of Defense are shifting from the prosecution of an armed conflict to securing the peace and rebuilding Iraq. In both endeavors, the role of the Inspector General today remains as the same as it was when the continental Congress in 1777 determined the appointment of inspectors general as "essential to the promotion of discipline in the American army, and to the reformation of the various abuses which prevail in the different departments."

Another legacy, and one that stems from General von Steuben, is the importance to "teach and train." As a result, a series of articles has been initiated to define the salient characteristics of the Inspector General concept. In that regard, the recent Journal of Public Inquiry, published by the President's Council on Integrity and Efficiency, contained an article titled "The Enduring Legacy of Inspector General von Steuben" that noted the role of an Inspector General as "an independent extension of the eyes, ears, and conscience of the Commander" who must follow the cardinal virtues of: integrity and efficiency, discipline and accountability. In addition, an article titled "Inspector General Investigations: 'Dogged Pursuit of the Truth,'" has been issued that stresses the broad role of investigations as a tool to assist leadership in "assessing and improving standards and policies governing conduct and decision making" rather than as a tool narrowly crafted to obtain prosecutions in only criminal matters.

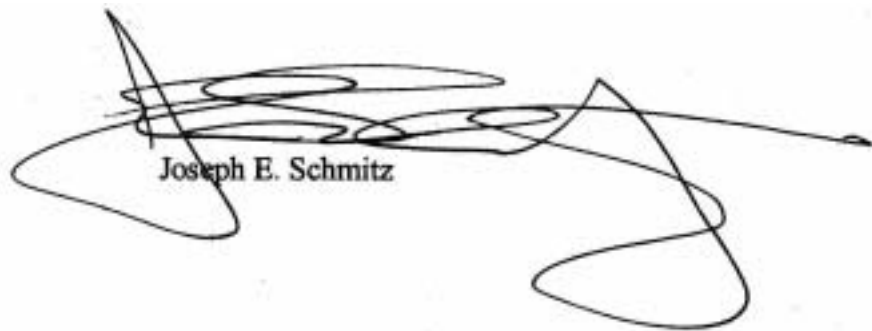
Secretary Rumsfeld in his "Bureaucracy to Battlefield" speech on September 10, 2001, correctly identified a core mission underlying the Inspector General concept by stating "The old adage that you get what you inspect, not what you expect, or put differently, that what you measure improves, is true. It is powerful, and we will be measuring." Today, this office adheres to that model in efforts to identify and prevent waste, fraud, and abuse of defense resources.

Recent efforts to fulfill the Inspector General mission include:

- *Strategic Management of Human Capital*: Hiring two new deputy Inspectors General, Richard Race for Investigations and Jerry Hansen for Inspections and Policy, along with RADM Larry Poe, USNR, for Intelligence.
- *Competitive Sourcing*: This office oversees the integrity of the Department of Defense's participation in the government-wide Competitive Sourcing Initiative, aka A-76 Public/Private Competitions. Last quarter, an independent evaluation by another federal IG of a

\$31.8 million A-76 accounting error, has led to a number of proactive improvements to the oversight of--and improvements in--DoD competitive sourcing initiatives.

- *Improved Financial Performance:* As a result of a proactive joint effort along with the Office of Comptroller the recently-released government-wide financial statement included the following accolade: “The Secretary of Defense recently included improving DoD’s financial management as one of his top 10 priorities, and DoD has already taken a number of actions intended to address its serious financial management problems.”
- *Improved IG Support to Combatant Commanders:* We recently completed the initial phase of our global Human Trafficking Assessment through conducting inspections in Korea and have offered, "support forward" to deploy joint IG assets in the Central Command area of responsibility and Operation Iraqi Freedom.
- *Public Confidence in Integrity of DoD Programs and Operations:* Through proactive involvement in high-profile allegations of impropriety including the allegations of sexual assault at the Air Force Academy, this office has endeavored to ensure that the focus of this Department is not distracted from its core mission of deterring, fighting, and winning wars.



Joseph E. Schmitz

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SIGNIFICANT ACTIVITIES

INTRODUCTION

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

CRIMINAL INVESTIGATIONS

The four Defense Criminal Investigative Organizations (DCIOs) continue to combat crime affecting the Department of Defense (DoD). The Defense Criminal Investigative Service (DCIS) has focused investigative priorities on terrorism, product substitution, computer crimes, technology protection, public corruption, and major thefts. The U.S. Army Criminal Investigation Command (USACIDC), the Naval Criminal Investigative Service (NCIS), and the Air Force Office of Special Investigations (AFOSI) also investigate procurement fraud, but have changed their focus to concentrate on terrorism, force protection and crimes affecting major weapons systems within their respective Military Departments. The AFOSI and NCIS also conduct counterintelligence investigations and operations. The DCIOs have continued to support anti-terrorism investigations and participate as members of Joint Terrorism Task Forces (JTTFs). The DCIOs work cooperatively to investigate cases involving more than one Service.

Monetary recoveries and fines related to all criminal investigations throughout the DoD totaled more than \$135 million. Figure 1 (page 2) displays other statistical results achieved by the four investigative organizations during the semiannual reporting period. The following are examples of significant cases.

Terrorism

Presidential Decision Directive 39 (PDD 39) states “it is the policy of the United States to deter, defeat, and respond vigorously to all terrorist attacks on our territory and against our citizens, or facilities....”

After the tragic events of September 11, 2001, the OIG DoD moved to enhance law enforcement efforts in the prevention of terrorist attacks. The DCIS special agents are working at JTTF locations, in addition to doing their traditional work of ensuring our warfighters have the best and safest equipment to accomplish their missions. The DCIS currently has agents assigned full time to JTTFs in different locations, while additional agents are assigned on a part-time or as-needed basis, to support the JTTFs around the country.

During this reporting period, the OIG DoD developed and distributed *Indicators of Potential Terrorist Threats* brochures to 18 DoD components

Judicial and Administrative Actions				
	Convictions	Indictments	Debarments	Suspensions
Terrorism	4	29		
Procurement/ Health Care Fraud	80	127	97	73
Other	228	215		
Total	312	371		

Figure 1

including the Defense Intelligence Agency, the National Reconnaissance Office, and the Military Criminal Investigative Organizations. Other copies were sent to the Central Intelligence Agency, Federal Bureau of Investigation, and the Military Department security force elements. The brochures alert individuals to activities or conditions that may indicate terrorist threats.

In a terrorism related case, an Army enlisted member’s spouse was convicted of communicating terrorist threats and sentenced to 8 months confinement for telephoning the Fort Polk Main Post Exchange and falsely reporting that there was anthrax in the building. Another enlisted member’s spouse was convicted of conspiracy and sentenced to 1 day confinement for allowing the other spouse to knowingly use her telephone calling card to communicate the threat. As a result of the threat, the Exchange was forced to close, thus losing sales revenue and incurring lost wages and costs of searching and cleaning the building. In addition to the sentences, each spouse was ordered to make restitution in the amount of \$237,000. After serving their confinement, both will be placed on supervised release for 5 years.

Product Substitution Counterfeit materials, and other forms of unauthorized substitution of products, are one of the DCIOs’ highest priorities for detection, investigation, prosecution, and deterrence. These efforts and cases are all the more important to support Operation Iraqi Freedom.

Two “employees” of a fictitious DoD contractor in California were each sentenced to pay \$11,949 in restitution, a \$5,000 fine, a \$100 special assessment fee, to perform 100 hours of community service, and to serve 24 months of supervised probation. The employees, while operating the fictitious company, submitted false certificates of conformance with components they caused to be delivered to the U.S. Army. The parts submitted by the company were “bearing races” used within the main rotor system of the Cobra attack helicopter, failure of which could cause catastrophic loss to the aircraft and crew.

The president of a New York tool and die company pled guilty to a single count of providing a false certification to the DoD and was sentenced to 1 year probation. The company furnished non-conforming C-141 drag brace assemblies, CH-53 helicopter fuel shutoffs, C-130 shoe assemblies, and aircraft carrier catapult system grab assemblies. A special condition of his probation was that he had to restore the facing of the shoe assemblies to DoD specifications.

Three former co-owners of a marketing company were sentenced in Ohio following an investigation of their role in selling defective and counterfeit avionics antennae used by the DoD and the commercial aircraft industry. Two of the owners pled guilty to conspiracy to commit wire and mail fraud. They were sentenced to 3 years supervised release and ordered to pay \$2,800 in restitution and a \$100 special assessment fee. The third owner pled guilty to misprision of a felony and was sentenced to 3 years supervised release and ordered to pay \$2,800 in restitution and a \$100 special assessment fee. The U.S. District Court Judge also ordered the defendants to refrain from any involvement with the aircraft industry during the 3-year period of supervision.

Computer Crimes

Criminal activity in the cyber environment continues to grow with viruses, denial of service attacks, and hacker attacks being the most notorious crimes. While examining DoD computers for evidence in other criminal matters, child pornography is often detected and becomes a matter for investigation.

A civilian employee of the Army in Oklahoma was sentenced to 87 months imprisonment with no possibility of parole, 3 years supervised release, and his name will be registered as a sex offender. He was ordered to pay a \$5,000 fine and a \$200 special assessment fee. This employee entered a voluntary plea of guilty for the receipt of computerized photographs showing a minor engaging in sexually explicit conduct. The investigation disclosed that these images were loaded onto a DoD computer registered to the employee.

A DoD contractor in Texas was sentenced to 27 months imprisonment, 3 years supervised release and was ordered to pay restitution in the amount of \$931,161 and a \$100 special assessment fee. The DoD contractor continued to use the names of terminated employees on the company's payroll to embezzle over \$250,000 and deposited the funds into his personal checking account. These costs were eventually billed against a contract administered by the Defense Contract Management Agency in Ohio.

An employee of a DoD contractor based in Utah was sentenced to 18 months imprisonment, 36 months supervised probation, and was ordered to pay a \$100 special assessment fee. The employee, whose job involved classified encryption projects, used government-furnished equipment to download and distribute child pornography.

A Navy civilian employee installed a root kit and Internet Relay Chat program and changed the root password on a Naval laboratory system. The employee admitted installing illegal software, but denied compromising the systems. Further investigation of system logs determined that the compromise originated in Italy and Romania and not with the civilian employee. Assistance was requested from the Italian and Romanian authorities; however, they were unable to determine who was responsible for the compromise. The systems were repaired, and no further compromise was noted. Although the investigation failed to identify who compromised the systems, the Navy was able to patch the system to prevent other such intrusions.

A network domain intrusion at a Naval hospital resulted in the total loss of network services. An investigation determined that 4 days of event security logs had been erased. Once access to the system was gained, the intruder(s) reconfigured the system and attacked the health services office and dental centers files. Investigators traced the intruder(s) through a Canadian site; however, Canadian authorities were unable to provide any additional investigative information. The investigation developed information to assist command authorities in identifying system vulnerabilities so that patches could be placed on the system to prevent further damage and intrusions. The hospital incurred a \$20,000 loss as a result of the intrusion.

Bribery and Kickbacks

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

A former top 100 DoD contractor in New Jersey agreed to a civil settlement in the amount of \$685,000 to resolve alleged violations of the False Claims

Act. The qui tam investigation alleged a contract fraud scheme involving kickbacks and money laundering activities in the maritime industry. The investigation developed from an undercover operation conducted with the Federal Bureau of Investigation. The investigation previously resulted in the conviction and incarceration of four contractor employees and the recovery of an additional \$392,000 in fines and restitution.

As a result of an investigation into an illegal kickback scheme, a Massachusetts DoD subcontractor was sentenced to 2 years probation and ordered to pay \$4,263,037 in restitution and a \$7,600 special assessment fee. A second DoD subcontractor was sentenced to 2 years probation and ordered to pay \$3,286,515 in restitution and a \$5,600 special assessment fee. A total of six individuals and three companies were debarred from government contracting by the Department of the Air Force. The investigation was based on an anonymous hotline call that alleged a DoD subcontractor was paying kickbacks to a prime contractor employee through his wife's company. The investigation previously resulted in the arrest and conviction of two individuals and the recovery of an additional \$6.9 million in fines and restitution.

A joint investigation revealed that a Navy government subcontractor provided kickbacks to 12 prime contractor employees. The subcontractor, who had contracts for the overhaul of Navy ships in New Orleans, Louisiana, received pre-bid proprietary information on dry docking and repairs from the prime contractor, who, in turn, received cash, accommodations, transportation, and merchandise from the subcontractor. As the result of a civil agreement, the subcontractor paid the Navy \$3.2 million in damages and the U.S. Attorney's Office for the Southern District of Alabama \$400,000 to defray the costs of the government's investigation. Seven of the prime contractor employees pled guilty to violations of the Anti-Kickback Act and were sentenced according to their level of involvement. The U.S. Attorney determined that no criminal prosecutions would be initiated against the five remaining prime contractor employees.

A major Defense contractor reached a \$6.2 million civil settlement with the government to settle issues concerning the improper testing of packaging used to preserve spare parts and test failures of an accelerometer sensor assembly for the Navy's F/A-18 flight control computer. The sensor assemblies, which did not meet Navy requirements, were delivered to the Navy and installed on F/A-18 aircraft. Of the \$6.2 million settlement, \$3 million went directly to the F/A-18 Program Office.

Financial Crimes

Financial crimes cases generally involve the filing of false claims or false statements, public corruption violations, and contract fraudulent charging.

An investigation revealed that two defense contractors, with the help of a procurement manager at an Air Force Base in Massachusetts, fraudulently obtained certification that made them eligible to receive government contracts outside the usual competitive bidding channels. The first company was sentenced to 2 years probation and ordered to pay \$4,263,037 in restitution and a \$7,600 special assessment fee. The second company was sentenced to 24 months probation and ordered to pay \$3,286,515 in restitution and a \$5,600 special assessment fee. The other participants in the scheme, to include the procurement manager, were previously sentenced in March 2002.

An investigation into cost mischarging allegations associated with Air Force contracts disclosed information relating to fraudulent overstatement of the company's profits. The former Chief Financial Officer (CFO) of a DoD subcontractor in Maryland was sentenced to 1 year probation with 6 months home detention for his part in a conspiracy that overstated the company's profits reported to the Securities and Exchange Commission. The CFO and the company president provided false financial statements to the parent company. The false statements resulted in a \$6.25 million overstatement in revenues. The profits were exaggerated at a time when the company was being offered for sale. This could have resulted in a larger return on investment for the CFO and the president. The company president is awaiting sentencing.

Four Texas DoD contractors agreed in a civil settlement to pay a total of \$775,000 and withdraw unpaid certified claims for equitable adjustment totaling \$8.2 million. Investigation disclosed that the claims for equitable adjustment submitted to the U.S. Army Corps of Engineers were fraudulent in the amount of \$3.2 million. The companies also agreed to pay \$10,000 in legal fees for the qui tam relator in this action.

An investigation revealed that a major insurance company was involved in a complex scheme with a military support association to increase profits through the sale of life insurance policies to active duty military personnel. The insurance company signed a settlement agreement with the U.S. Attorney's Office for the Eastern District of Pennsylvania, which provided for the company to pay \$1 million in civil penalties; to reimburse the government \$505,965 for the cost of the investigation; to increase the face value of all in-force policies by 6.5 percent; to pay \$2.5 million to all policy holders who cancelled their policies during the relevant time period (1991–1998); and to never sell another policy or reapply to the DoD for permission to conduct business on a military installation.

In Arkansas, a U.S. District Court issued a final order and judgment against a Defense contractor for providing documentation to another company involved in a previous government investigation, which resulted in that company filing false certifications for progress payments on two government contracts and thus fraudulently obtaining the payments. The contractor was ordered to pay \$5.4 million plus additional costs of \$51,188.

A Defense contractor in North Carolina pled guilty to submitting false statements and claims and was sentenced to 24 months imprisonment, 3 years of supervised release, and restitution of \$1.5 million. The contractor failed to pay the supplier and subcontractors for work performed on the contract after certifying it had been done. As part of the contractor's sentence, the judge imposed a lifetime debarment from government contracting.

The former co-owner of a company alleged inappropriate use of its minority status to obtain four Air Force and Navy contracts valued at \$1.75 million. An investigation determined that the company obtained 10 small disadvantaged business set-aside contracts by falsely certifying its minority status. The company's current owners agreed to a civil settlement and a payment of \$500,000. Suspension and debarment action is pending.

An investigation revealed that a company's president provided false claims to the government to generate cash flow to purchase additional stock in the company. On three cost-plus-fixed-fee engineering support contracts with an Air Force research laboratory, the company billed the government for advanced costs that had not been incurred; regularly billed delivery orders that had already been closed; double-billed various items; and charged indirect costs that were unallowable. In a mediated settlement agreement, the company paid \$247,000, and the company's president and vice president were proposed for debarment from government contracting.

**Government
Purchase Card
Crimes**

Misuse of government purchase cards continues to receive attention from Congressional and DoD leadership. Previously, the OIG responded to Congressional and DoD requests on an ad hoc basis. However, to provide more efficient and complete responses, the OIG recently established a centralized database to track purchase card fraud investigations conducted by the DCIOs. The database includes information on dollar loss, case status, allegation disposition, monetary recovery, and judicial action. The DCIOs continue investigations into the illegal use and misuse of government issued purchase and travel cards.

As part of an ongoing DoD initiative into the detection of Government Purchase Card (GPC) fraud, waste, and abuse, a GS-15 DoD civilian

employee in the Pentagon was convicted of theft of government property. The employee was sentenced to 37 months incarceration and was ordered to pay \$1.7 million in restitution. Her fraudulent use of a GPC resulted in \$1,711,000 in fictitious purchases. No goods or services were ever delivered, and false invoices were provided to government auditors to conceal the fictitious purchases. Another DoD employee, a subordinate to the above individual, was determined to have used her assigned GPC to fraudulently obtain \$30,000 in property and convert it to personal use. She was sentenced to 3 years supervised probation, 6 months home confinement, and was ordered to make full restitution.

A DoD contractor in Louisiana agreed in a civil settlement to pay \$725,000 to resolve allegations of false claims. The claims resulted from inappropriate actions taken during the award process of contracts with the DoD. The inappropriate action consisted of the contractor padding the contract price through the inflation of projected services. The DoD employee agreed to the contract knowing the price and service projections were inflated in exchange for the contractor hiring his fiancé, after the DoD employee negotiated a contract with the company on behalf of the government. The scheme was uncovered through an investigation into the government employee's fraudulent use of a GPC, for which the government employee was previously sentenced.

Medical Fraud

Efforts to combat fraud against TRICARE and other government health care programs resulted in many successes during this 6-month period.

A nationwide clinical laboratory paid \$4,801,914 in a civil settlement to resolve allegations of fraud against federal health care programs including TRICARE and Medicare. The settlement was the result of a qui tam civil lawsuit alleging the facility billed for unnecessary tumor analysis and unbundled panels of tissue samples to receive higher reimbursement for laboratory tests.

A Tennessee medical provider was sentenced to 15 months confinement, 3 years supervised probation, and was ordered to pay restitution of \$247,002 and a \$500 special assessment fee. The investigation disclosed the provider illegally billed for medical services in spite of being excluded from participating in any government-sponsored health care programs, including TRICARE, as a result of a previous conviction.

A California proctologist was sentenced to 33 months in prison, 3 years probation, and paid \$29,999 in a civil settlement for submitting fraudulent claims to the government insurance programs including TRICARE. His

previous guilty plea to conspiracy to defraud the Internal Revenue Service of both corporate and personal income taxes resulted in an additional payment of \$370,000.

Environmental Crimes

Investigations in this area address such matters as reporting false test results, removal and disposal of hazardous materials from base closures under Base Realignment and Closure, and violations of environmental laws such as the Clean Water Act.

An environmental testing company in Texas pled guilty to 10 counts of submitting false claims and making false statements to the U.S. Government. The company was ordered to pay a \$1 million fine, \$1.29 million in restitution, and was placed on 5 years probation. From 1997 to 1999, the company falsified tests of underground storage tanks across the country including tanks on military bases, at post offices, and other facilities.

A DoD subcontractor in Ohio that conducted plating operations, and its president/majority shareholder, each pled guilty to a single count of violating the Clean Water Act. The president was sentenced to 12 months imprisonment, 6 months supervised release, and was ordered to pay \$5,000 and a \$100 special assessment fee. The company was sentenced to 2 years probation, ordered to pay \$25,000 and a \$400 special assessment fee, and make a contribution of \$10,000 to the Mid Ohio Regional Planning Commission's Greenways Program.

A Colorado subcontractor which provided labor to a prime contractor at several DoD facilities was sentenced to 15 months imprisonment, 3 years supervised release, and was ordered to pay \$19,998 forfeiture and a \$500 special assessment fee. The labor subcontractor hired illegal aliens to work as asbestos abatement laborers throughout the United States. The workers were not adequately trained or provided the necessary equipment to safely perform asbestos abatement.

Theft

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

A former DoD employee was sentenced in New York to 1 year probation and ordered to pay a \$500 fine and a \$100 special assessment fee. The employee stole computer equipment including several hard drives containing personally identifying information about members of the an active military unit that supplies C-5 transport aircraft to the war effort. One of the hard drives was sold on E-Bay. The former DoD employee was allowed to resign from his

position in lieu of termination, and he received a less than honorable discharge from the Air National Guard.

SPECIAL INQUIRIES

The OIG DoD Office of Special Inquiries conducts investigations and also performs oversight of investigations conducted by the Military Departments that pertain to:

- Allegations of reprisal actions taken against members of the armed forces, Defense contractor employees, and DoD nonappropriated fund employees for making protected communications.
- Allegations that members of the armed forces were referred for mental health evaluations without being afforded procedural rights prescribed in the DoD Directive and Instruction.

Whistleblower Reprisal Activity

During the reporting period, the Inspector General of the DoD and the Inspectors General of the Military Departments received 305 new complaints of whistleblower reprisal. Of the 205 cases closed during this period, 172 cases were closed after preliminary analysis determined further investigation was not warranted. A full investigation was conducted for 33 cases, in which 17 cases (51 percent) contained one or more substantiated allegations of whistleblower reprisal. These investigative results were referred to commanders and supervisors for corrective action.

Examples of Substantiated Whistleblower Reprisal Cases

A Navy petty officer received an unfavorable evaluation and was separated from the Navy with a general discharge in reprisal for his complaints to the chain of command regarding missing supplies, abuse of vehicle passes, and abuse of authority. Corrective action is pending.

An Army sergeant in the National Guard received an adverse evaluation report, and his award nomination was not recommended for approval after he made allegations to Inspectors General regarding fraud, waste, and abuse and violations of the "Don't Ask Don't Tell" policy on homosexuals in the military. Corrective action is pending.

After a subordinate made a protected communication, an Air Force technical sergeant threatened her promotion in reprisal for the subordinate's protected communication concerning unprofessional conduct by the technical sergeant. The subordinate also received a downgraded performance report and was not selected for a key position in reprisal for her protected communication. Corrective action is pending.

An Army colonel and major issued an unfavorable evaluation to a senior noncommissioned officer after she made protected communications to her chain of command, an equal opportunity office, and Inspectors General alleging sexual discrimination and mistreatment of females by senior leadership. Responsible management officials retired before completion of the investigation and no corrective action was taken.

A Defense contractor employee was terminated from employment in reprisal for disclosing violations of an Air Force contract for hospital maintenance services to a government contracting official and a medical flight commander. Corrective action is pending.

Referrals for Mental Health Evaluations

Twelve cases closed during the reporting period contained allegations of improper referrals of military members for mental health evaluations. Investigations of 10 cases substantiated that commanders failed to follow the procedural requirements for referring a Service member for a mental health evaluation under DoD Directive 6490.1, "Mental Health Evaluations of Members of the Armed Forces." We continue our efforts with the Inspectors General of the Military Departments to improve commanders' knowledge of the Directive's requirements.

DEPARTMENTAL INQUIRIES

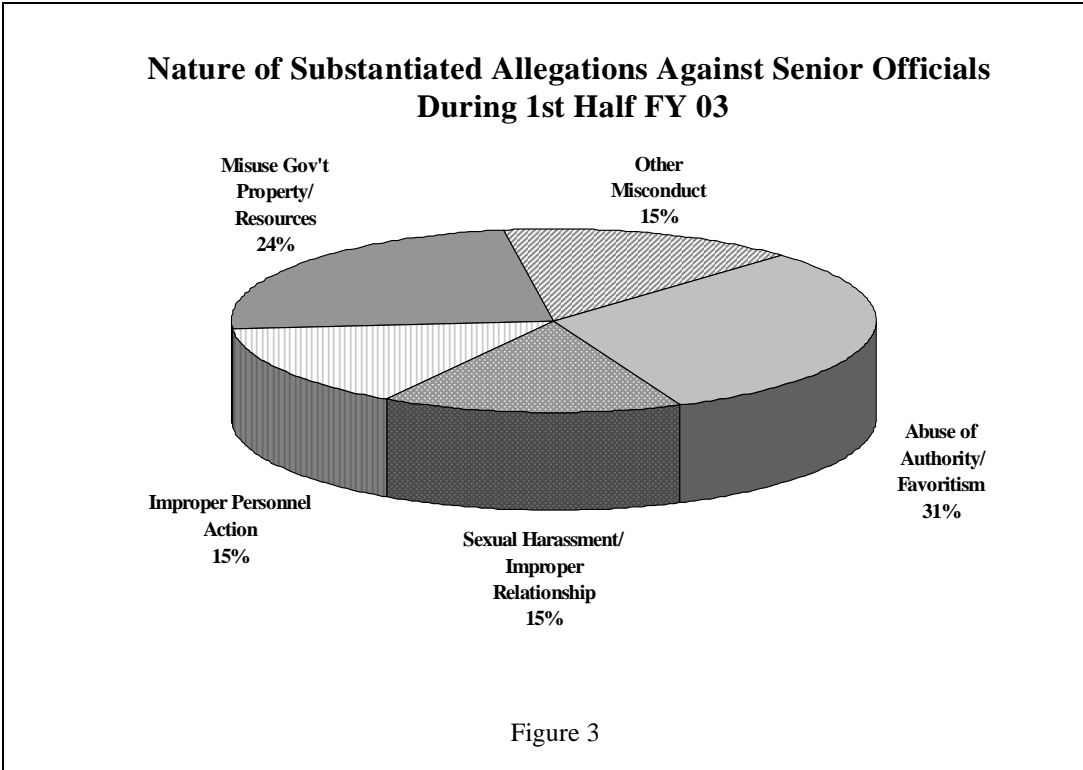
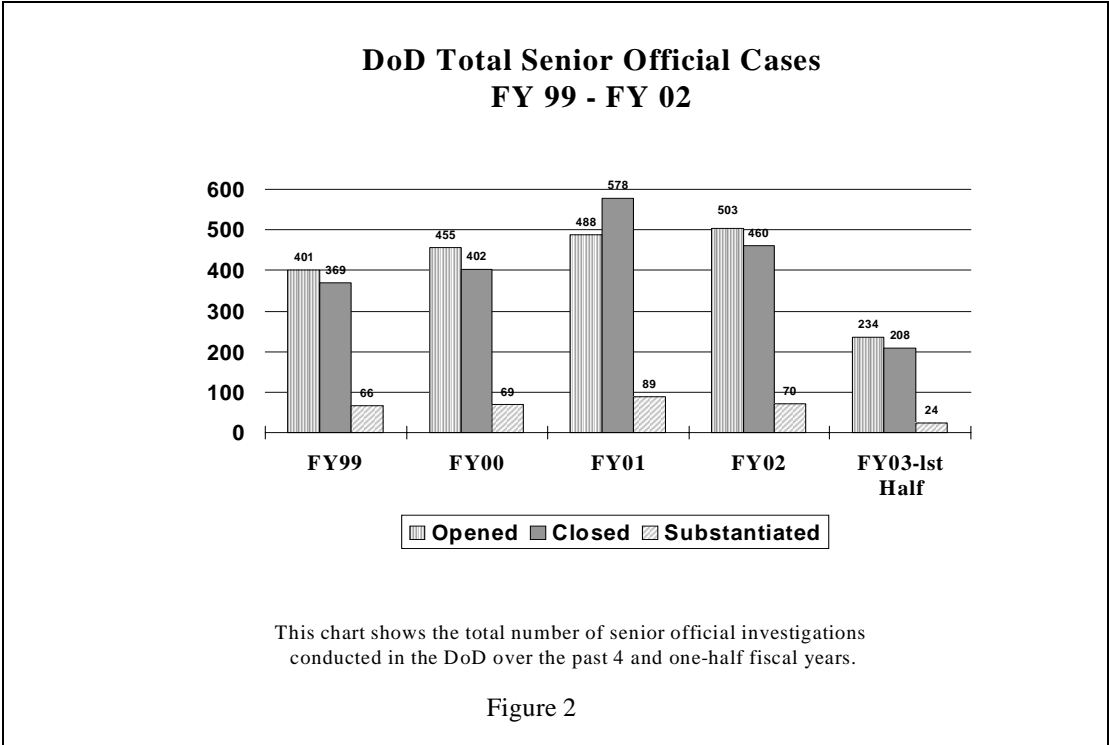
Senior Official Inquiries

The OIG DoD Office of Departmental Inquiries conducts investigations into allegations against senior military and civilian officials and performs oversight of senior official investigations conducted by the Military Departments.

Figures 2 and 3 (page 12) show results of activity on senior official cases during the period. On March 31, 2003, there were 245 ongoing investigations into senior official misconduct throughout the Department, which represented an increase from October 1, 2002, when we reported 224 open investigations. Over the past 6 months, the Department closed 208 senior official cases, of which 24 (12 percent) contained substantiated allegations.

INSPECTIONS AND POLICY

The Office of the Assistant Inspector General for Inspections and Policy (OAIG-IP) was established during this reporting period, within existing resources, in the next phase of the transformation of the OIG DoD to form the third arm of the team of investigators, inspectors, and auditors "...inspiring by paradigm a culture of accountability and intelligent risk-taking throughout the Department of Defense." The OAIG-IP includes the DoD Hotline, the offices of Investigative Policy and Oversight (IPO) and Audit Policy and Oversight (APO), and will soon include an Inspections



team. The Office has already undertaken several highly sensitive inspections, including the Air Force Academy sexual assault issues, the DoD program to prevent human trafficking, and a peer review requested by the Navy of its Office of Inspector General.

Hotline

The OIG Hotline continues to be a viable in-take activity for DoD employees and the public to report suspected instances of fraud, waste, and mismanagement, and suspected threats to homeland security. During the reporting period, the OIG Hotline received 6,901 contacts from the public and members of the DoD community and initiated 1,468 investigations. Additionally, the OIG Hotline received 37 Congressional interest cases during the reporting period. A number of contacts came from individuals reporting suspected threats to homeland security--a new mission for the Defense Hotline.

Investigative Policy and Oversight

The responsibilities of the Investigative Policy and Oversight Office is to assist the OIG in fulfilling its statutory responsibilities to prevent fraud, waste, and abuse; to develop investigative policy for the Department; and to monitor and evaluate the performance of the DoD law enforcement community. A large amount of the work performed by IPO consists of oversight of the operations, policies, and products of the four DCIOs, which investigate crimes affecting the DoD. A summary of work performed by the DCIOs and monitored by IPO follows.

Recent Management Actions

Following the events of September 11, 2001, the Office of Investigative Policy and Oversight (IPO) formed the Enduring Freedom Support Group (EFSG), comprised of senior IPO, DCIO, and law enforcement organization policy experts. At its quarterly meetings, the EFSG addresses emerging issues faced by the DoD criminal investigative and law enforcement communities, seeking to concentrate resources in areas that provide the greatest assistance to the DoD. Through the EFSG, IPO strives to reduce barriers, develop strategies, and forward or coordinate major areas of concern facing the law enforcement community. During this reporting period, the EFSG discussed the Attorney General's September 2002 memorandum on the disclosure of foreign intelligence acquired in the course of a criminal investigation; the use of the Army forensic laboratory to support investigations by Defense Agency investigators; implementation of the statistical collection regarding purchase card misuse; the proposed interim guidance concerning retention of information collected on non-DoD individuals and organizations; and the FBI's audit of the Army's submissions to the National Crime Information Center as required by the Brady Law.

On January 7, 2003, the Inspector General issued DoD Instruction 5505.7, "Titling and Indexing of Subjects of Criminal Investigations in the

Department of Defense.” The revised Instruction incorporates a process whereby individuals who are titled/indexed can seek a review by the head of the investigative agency of that decision.

On February 6, 2003, the Inspector General issued DoD Instruction 5505.2, “Criminal Investigations of Fraud Offenses.” The Instruction establishes policies, responsibilities, and procedures for determining which of the DCIOs shall conduct investigations of fraud offenses under the United States Code and the Uniform Code of Military Justice.

***Investigative Policy
and Oversight
Products***

The Office of Investigative Policy and Oversight issued two evaluation reports during this period:

- Evaluation of Installation-level Training Standards for Civilian Police Officers and Security Guards in the Department of Defense
- Evaluation of the Policies and Practices of the Defense Organizations Employing Criminal Investigators with Respect to Control over Firearms

The training standards report determined that training for civilian police officers and security guards in DoD varies widely and does not ensure that individuals possess the core competencies needed for their jobs, including the ability to respond to major threats and emergencies. A similar condition was identified with respect to physical fitness requirements. The report recommended that DoD follow the Model Minimum Standards for training adopted for the law enforcement profession, and require police officers and security guards to complete a military training program for law enforcement personnel.

The firearms control report verified accountability of nearly 6,000 firearms in a sampling of six criminal investigative agencies and their firearms management programs. Further, it determined that criminal investigators in each organization have proper authorization to carry firearms. The report recommended several enhancements to management controls concerning accountability records and a recurring awareness program for personnel responsible for firearms accountability.

***Voluntary
Disclosure
Program***

The Voluntary Disclosure Program encourages contractors to disclose potential criminal or civil fraud that may affect their contractual relationship with the DoD or the contractor’s responsibility under the Federal Acquisition Regulation. During this reporting period, the government recovered \$846,500 in two disclosure settlements and received two requests for

admission to the program. Since its inception in 1986, the program has recovered more than \$423.2 million.

Audit Policy and Oversight

In accordance with the Inspector General Act of 1978, as amended, the Office of Audit Policy and Oversight (APO) provides policy direction and oversight for audits performed and evaluates the performance of over 6,000 DoD auditors, ensures appropriate use of non-federal auditors and their compliance with auditing standards, and ensures that contracting officials comply with statutory and regulatory requirements when processing contract audit reports. During the reporting period, APO issued four oversight and quality control review reports, as follows, and completed several other significant actions.

- DoD Oversight of Contractor Purchasing Systems
- Summary of Quality Control Reviews of Office of Management and Budget (OMB) Circular A-133 Audits
- Quality Control Review of Grant Thornton, LLP OMB Circular A-133 Audit Report of the Center for Naval Analyses Corporation, Fiscal Year Ended September 30, 2001
- The Quality Control System at the National Security Agency Inspector General Office of Audits

The APO also issued the overall opinion on the FY 2002 Military Department Audit Agencies' External Quality Control Reviews, which were done using the newly established process, and issued the third in a series of reports in the continuing review of the Defense Contract Audit Agency's quality control system, with an overall opinion to be issued by September 30, 2003. Other APO actions include:

- Recommended that the Military Services not contract out their internal audit function because internal auditing is an important tool for the Military Departments and managers to account for money Congress has appropriated and is explicitly envisioned in-- if not required by--both the Inspector General Act of 1978, as amended, and the Goldwater-Nichols Department of Defense Reorganization of 1986.
- Reviewed data supporting a proposal to consolidate the Army Audit Agency and Army Internal Review.

- Participated in revising OMB Circular A-133 guidance, commented on proposed legislation, OMB guides, and revisions to the Federal Acquisition Regulation and Defense Federal Acquisition Regulation Supplement.
- Provided consultation and training on audit standards and policy issues to OIG and other auditors.

AUDITING

The central audit offices of the DoD are the OIG DoD, the Army Audit Agency, the Naval Audit Service, and the Air Force Audit Agency. The organizations all together issued 188 reports, identifying the opportunity for \$554 million in monetary benefits. Appendix A lists internal audit and evaluation reports by management challenge area. Appendices B and C, respectively, list OIG DoD reports with potential monetary benefits and statistically summarize audit followup activity.

The Defense Contract Audit Agency (DCAA) provided financial advice to contracting officers in 18,273 reports issued during the period. Contract auditing resulted in approximately \$3.23 billion in questioned costs and funds put to better use. Further details are at Appendix D. Contracting officers disallowed \$190 million as a result of significant DCAA post-award contract audit reports closed during the period. Additional details on the status of actions taken on significant post-award contract audits are in Appendix E.

Acquisition

The Department is the largest purchaser in the world. In fiscal year 2002, the Department spent \$200 billion on acquisition. On average every working day, the Department issues more than 20,000 contract actions valued at \$692 million and makes more than 5,000 purchase card transactions valued at \$26 million. The Department's challenge is to obtain the best value of quality and cost for a myriad of goods and services. During the reporting period, the DoD audit community issued 51 reports on acquisition issues. Ultimately, every acquisition dollar that is not prudently managed is a dollar not available to fight the war on terrorism.

The OIG DoD reported that technology has not quickly transitioned to the warfighter. Despite the development of the Future Naval Capabilities process that was designed to align and partner requirements, acquisition, and science and technology communities to focus on delivering and transitioning priority naval capabilities, a review of 33 technologies found that all 33 lacked one or more elements for transitioning. These deficiencies included the lack of charters to establish roles and responsibilities, lack of agreements on technology readiness levels and exit criteria, and no identifiable funding.

An OIG DoD report about V-22 Osprey Joint Advanced Vertical Aircraft disclosed that the fuel cells in the fuselage sponsons of the aircraft were noncrashworthy. Based on a Navy safety risk assessment, the Under Secretary of Defense for Acquisition, Technology, and Logistics determined that the benefits of returning to flight outweighed the risks of using noncrashworthy fuel cells. The report pointed out that the safety risk assessment for the fuel cells was flawed and the Under Secretary of Defense for Acquisition, Technology, and Logistics responded by initiating action to ensure that the safety organizations of the Military Departments review their safety risk assessment procedures and update them.

An OIG DoD report identified where management of the Aviation Into-Plane Reimbursement card needed improvement. The reimbursement card was used to purchase \$222 million of fuel and ground handling support. Only 3 of 17 activities visited actually reconciled monthly bills to all the purchase card receipts. This resulted in an undetected \$8 million worth of duplicate bills and tax overpayments.

Contracting procedures with small businesses also needed improvement. An OIG DoD audit identified where five contractors overstated their Historically Underutilized Business Zones (HUBZones) subcontracting awards by \$1.3 million. Thus the Department managers were not aware that the program was overstating its accomplishments. In another audit focusing on 124 contract awards to small business, the OIG reported that 48 awards should have been competed instead of sole-sourced, 70 awards lacked adequate reviews of contractor price lists, and 45 awards did not request available discounts. This lack of attention to proper contracting procedures resulted in not obtaining the best prices for the warfighter.

The Department has about 1,500 weapon systems acquisition programs valued at \$1.8 trillion over the collective life of the program. The OIG DoD audits of the Chemical Demilitarization Program and Advanced Deployable System showed the need to update the acquisition program baseline and life cycle cost estimates to effectively manage the program and facilitate investment decisions. A naval audit of the Advanced Mission Computer and Display Program showed that the program was incorrectly managed under a schedule-driven acquisition strategy instead of an event-driven strategy, and that \$37 million programmed for warranties was not required. For the Space Based Infrared System-High, the Air Force Audit Agency reported that the program was not adequately identifying and controlling program risk. Further, the award fee and corporate commitment plan were not achieving the intended objective of an incentive tool.

Human Capital

The challenge in the area of human capital is to ensure that the DoD civilian and military workforces are appropriately sized, well trained and motivated, held to high standards of integrity, encouraged to engage in intelligent risk taking, and thus capable of handling the emerging technologies and threats of the 21st century. The Department has 2.6 million active duty and Reserve men and women under arms and a civilian workforce of nearly 700,000. The size of DoD and the wide variety of skills needed to meet this challenge are complicating factors, as are the constraints posed by personnel management rules.

The protection of social security numbers is a paramount issue because of the increase in identity theft. An OIG DoD report addressed how three Defense agencies provided controls over improper release of individual social security numbers. Those three agencies made disclosures of personally identifiable information for legal purposes; however, their programs needed improvements in policy administration, oversight, periodic reviews, physical security, and training.

The Under Secretary of Defense for Personnel and Readiness requested the OIG DoD assess the implementation of policies with regard to inappropriate coercion or pressure for Army members to join various non-federal entities. The assessment indicated that DoD prohibitions on coercing or pressuring Army members to join non-federal entities were not fully implemented.

The Department is developing and implementing a common DoD-wide military personnel system. The OIG DoD reported that the Navy was continuing to fund development of the Navy Standard Personnel System even though the Defense Integrated Military Human Resources System is scheduled to replace the Navy system. About \$33.4 million programmed for future development of the Navy system could be put to better use by halting development of the redundant system.

The Naval Audit Service reported that the Marine Corps used military personnel to perform non-military essential duties that could have been performed by civilians, and incorrectly reported that all these military personnel were performing military essential duties. Such use of military personnel was significantly more costly than employing civilians and was counter to DoD policies regarding the accomplishment of commercial type work. An Army audit of the recruiting command showed it could reduce staffing and costs by \$17 million and still achieve the recruiting objectives.

The Uniformed and Overseas Citizens Absentee Voting Act requires the OIG DoD to annually report on each Service's compliance with the Act, starting in

2003. The report showed that the DoD Federal Voting Assistance Program Office developed guidance and resources for effective and compliant DoD implementation of the Act. Although each Service had a plan for implementing the Voting Assistance Program, the effectiveness of the Services' programs for the November 2002 elections varied at the 10 locations visited. The Services' voting assistance programs were partially effective at six locations and ineffective at four locations. Problems identified were that unit voting assistance officers lacked training, absentee voters were not aware of voting assistance officers, and the span of control of unit voting assistance officers was too large.

Financial Management

The DoD audit community has consistently reported on the lack of adequate financial reporting systems and a variety of internal control problems. These combined have prevented those systems from being able to consistently provide managers with accurate and timely information for decision making and produce financial statements that can receive an audit opinion. To help resolve these problems, the Department established the Financial Management Modernization Program. Part of the program includes the financial management enterprise architecture that will be used to construct and guide the Department's future business environment. The final "To Be" architecture and a transition plan are scheduled for release in April 2003. The OIG DoD welcomes development of the architecture because it has consistently advocated a primary and singular focus on the Department's financial systems. During the reporting period the DoD audit community issued 51 reports on Financial Management.

Despite the extensive efforts by the Department's financial managers, the basic scorecard of obtaining an opinion on the nine major component financial statements did not show progress for fiscal year 2002. Of the nine major financial statements, only the Military Retirement Trust Fund could provide reliable financial information that could achieve an unqualified audit opinion. About 120 OIG DoD auditors were assigned to the audit of the Army Corps of Engineers, Civil Works financial statement because the Army asserted it was ready for obtaining an audit opinion. Although an audit opinion did not result from the effort, the OIG DoD will continue to work with the Army as progress is ongoing. Four smaller Defense components' financial statements achieved an audit opinion this year, and this is positive. The Department's financial managers and OIG DoD auditors developed a cooperative planning and work strategy to address the accelerated submission of audit financial statements from January 31, 2003, for fiscal year 2002, to November 15, 2004, for fiscal year 2004. The cooperative attitude between the financial managers and auditors is refreshing.

Until the Department installs its new financial management architecture and integrated systems, it must rely on workarounds and manual compilations of financial data that are prone to errors. A series of three OIG DoD audits identified hundreds of millions of dollars of deferred maintenance that were not identified and reported for financial statements. Other audits of the Navy identified \$6.9 billion of assets that were erroneously reported in the wrong financial category. Adequately documenting adjustments to closed accounts is still an issue needing improvement because an OIG DoD audit identified \$53 million of unsupported changes to Navy accounts. Similarly, the Air Force Audit Agency reported that \$1.6 billion of environmental restoration contingent liability was understated by \$107 million.

The Air Force Audit Agency reported that the Air Force Material Command could reduce overtime costs by \$134 million through improved management control of overtime and annual leave use. An Army audit showed that the military treatment facilities could improve business processes and increase collections from patients with non-DoD health insurance by \$24 million annually.

Homeland Security

The start of Operation Iraqi Freedom has heightened the level of threat from adversaries who may use nuclear, chemical, and biological weapons and weapons of mass disruption such as information warfare attacks on the Defense information structure. The DoD audit community issued 24 reports related to Homeland Security.

Since FY 2001 the Government Information Security Reform Act required that each agency obtain an independent assessment of its security posture. The fiscal year 2002 review assessed the accuracy of the data DoD used in fiscal year 2001 to report the security status for 560 information technology systems. The DoD reported invalid data on the security status of systems for an estimated 370 systems. Further, although the requirement for systems to maintain security certification and accreditation has existed since 1997, we estimate that only 101 of 560 systems met the requirement. Consequently, the Office of Management and Budget and DoD managers do not have dependable information to ascertain the degree to which information security controls exist in systems.

The OIG DoD reported that 72 of 91 mission-essential systems that process billions of dollars annually of financial transactions did not have adequate information security controls. The Air Force Audit Agency identified the need for complete and consistent guidance for approving and controlling contractor and foreign national access to DoD networks and computer systems. An Army audit identified that the Army top-level architecture

redesign for information security could reduce costs from \$708 million to \$475 million over the next 6 years.

Control over computer assets is a basic tenet of Information Security. The Naval Audit Service reported that 595 of 15,068 leased personal computers were missing from units under cognizance of the Commander U.S. Pacific Fleet.

To provide a ready reference tool for Department managers and the Joint Chiefs of Staff, the OIG issued a classified summary of 51 completed and 54 ongoing audits and inspections identifying Homeland defense, chemical and biological defense, and counterterrorism issues. The OIG DoD also issued 3 reports on the need to improve the security and export controls over biological agents at Defense laboratories and medical facilities.

Joint Warfighting and Readiness

The DoD needs to design and produce new systems with joint warfighting requirements in mind. To reduce the risk of building stovepipe systems, the Defense components are required to develop and retrofit DoD systems into common interoperable and secure systems. An OIG DoD report on implementation of interoperability and information assurance policies for acquisition of DoD weapon systems pointed out the need for consistent guidance and a process to measure and assess interoperability. Otherwise, DoD is at risk of developing systems that operate independently of other systems and of not fully realizing the benefits of interoperable systems to satisfy the needs of the joint warfighter. The Director Joint Staff agreed with the report and the need for a joint process responsible for developing and acquiring joint command and control systems and integrating capabilities.

Our armed forces must be prepared to execute their missions in all types of environments including those that are chemically and biologically contaminated. Over the last 9 years, the Department has made progress in improving the quality and quantity of individual protective equipment, but additional improvements are still needed. As the OIG identifies issues on individual protective equipment, the Department has been initiating corrective actions. The Inspector General testified in open and closed sessions on October 1, 2002, before the House Subcommittee on National Security, Veterans Affairs and International Relations, House Committee on Government Reform on preparing for the toxic battlefield. The testimony addressed the results of reviews of 287 military units in 31 states, the U.S. European Command, and the U.S. Central Command and their use of chemical and biological individual protective equipment. The testimony described the need for an inventory management tool to provide visibility of individual protective equipment and training for proper storage and maintenance of the equipment.

An OIG DoD report about the U.S. Pacific Command issued after the testimony identified similar issues on the use of chemical and biological individual protective equipment.

Accurate readiness reporting is key to effective decision making at the Joint Chiefs of Staff and Combatant Command levels. In a series of reports, the Naval Audit Service identified inaccurate readiness reporting for Navy P-3 aircraft squadrons and cruiser units because of liberal interpretation of readiness criteria, omission errors, errors in judgment, and lack of training. The Navy Readiness Information System data for manpower contained erroneous definitions that resulted in some units unknowingly overstating personnel readiness.

Logistics

Control and accountability of material storage used and repaired at DoD depot maintenance facilities continues to be problematic. In fiscal year 2002, the DoD spent an estimated \$15.3 billion for depot maintenance. The proper management of this important function requires that adequate controls and procedures be in place and followed to ensure that assets remain viable to the materiel managers and that proper quantities be maintained. The DoD audit community issued 20 reports on logistics issues during the reporting period. The OIG DoD issued three reports that identified \$90 million of parts that were either unaccounted for or excess to known requirements at three depot maintenance facilities. We noted that at one depot the error rate in the depot's inventory record was 8.8 percent and the error rate for the second depot was 23.8 percent.

The Naval Audit Service reported that the Naval Air Systems Command could not demonstrate that using contractor logistics support was resulting in reduced cost and improved system availability. The Navy could only provide documentation for 21 of 63 decisions that chose contractor logistics support. Controls did not exist to ensure that the basis for the contractor logistics support product support decisions included achieving the desired results of reduced cost, improved system availability, and adequate performance information.

The Air Force Audit Agency reported that the propulsion modernization program for the T-38 Talon did not consider performance and reliability improvements in computations for engine and spare parts requirements. Consequently, the Air Force could spend \$124 million to modify 105 aircraft and engines that will not be needed.

Export Controls

The annual statutory required audit of exports controls focused on DoD involvement in export enforcement activities this year. The Defense

Technology Security Administration established and executed an effective monitoring program for space launches and ensured that space launch-related technology was not inadvertently released or obtained by potential adversaries. However, improved Defense management controls and procedures were needed to verify that Department of Commerce and Department of State approval of export licenses accurately reflected DoD conditions for approval of the license. Specifically, of the 4,976 export licenses reviewed, 347 Departments of Commerce- or State-approved licenses misstated or omitted DoD conditions for approval. Further, only 84 of 574 enforcement actions required by DoD for approval of the export licenses were performed by the Departments of Commerce and State.

**SIGNIFICANT OPEN
RECOMMENDATIONS**

Managers accepted or proposed acceptable alternatives for 306 (99 percent) of the 308 OIG DoD audit recommendations made in the first 6 months of fiscal year 2003. Many recommendations require complex and time-consuming actions, but managers are expected to make reasonable efforts to comply with agreed-upon implementation schedules. Although most of the 1,143 open actions being tracked in the OIG DoD follow up systems are on track for timely implementation, there were 234 reports more than 12 months old, dating back as far as 1990, for which management has not completed actions to implement the recommended improvements.^{1/}

We are concerned that DoD was not benefiting from the recommended improvements and was not meeting the intent of the Inspector General Act to complete corrective actions promptly. To accelerate implementation of the corrective actions, the Inspector General wrote to each component head responsible for the delinquent recommendation and requested their assistance in completing the needed actions. This resulted in increased senior DoD leadership involvement in implementing the overdue corrective actions.

Significant open recommendations that have yet to be implemented include the following:

- Recommendations made in 1997 and 2000 to improve policy guidance on handling potentially dangerous munitions residue on

1. Section 6009 of the Federal Acquisition Streamlining Act, as amended, provides: "If the head of the agency fails to complete final action with regard to a management decision within the 12-month period, the inspector general concerned shall identify the matter in each of the inspector general's semiannual reports pursuant to section 5(a)(3) of the Inspector General Act of 1978 (5 U.S.C. App.) until final action on the management decision is completed." A list of OIG DoD reports on which management decisions have been made but final action has not been taken is continued in the Secretary of Defense Report issued pursuant to section 5(b) of the Inspector General Act.

training and test ranges. The applicable policy documents are still in draft.

- Recommendations made in 1998 to improve management of the electromagnetic frequency spectrum are partially accomplished, but final guidance has still not been issued.
- Recommendations made in 2000 to improve controls over the release of technical information ("deemed exports") to foreign governments and individuals.
- A recommendation made in 2000 to establish centers of excellence for contracting for services.

**OIG DOD
TESTIMONY/
COMMENTS**

**Chemical and
Biological Defense**

On October 1, 2002, Joseph E. Schmitz, Inspector General of the Department of Defense, testified before open and closed sessions of the House Committee on Government Reform, Subcommittee on National Security, Veterans Affairs, and International Relations, during a hearing on *Chemical and Biological Equipment: Preparing for a Toxic Battlefield*. The Inspector General testified on audit efforts to assess the availability and serviceability of chemical and biological defense material issued to U.S. Armed Forces. Although much of the Inspector General's testimony was reserved for closed session, he discussed the need for the Services to develop standardized automated inventory management tools and improved readiness reporting systems. Mr. Schmitz also emphasized the importance of providing comprehensive chemical and biological defense training programs and ensuring compliance with training guidelines.

**Cooperative Threat
Reduction Program**

On March 4, 2003, David Steensma, Deputy Assistant Inspector General for Auditing, testified before the House Committee on Armed Services at a hearing on *U.S.-Russian Cooperative Threat Reduction and Non-Proliferation Programs*. The testimony centered on an audit of the "Cooperative Threat Reduction Liquid Propellant Disposition Project" issued September 30, 2002 (Report No. D-2002-154). The audit found that the DoD obligated \$164 million to assist Russia in developing a facility to dispose of liquid fuel used for launching intercontinental ballistic missiles and submarine-launched ballistic missiles. When the facility was ready for testing, the Defense Threat Reduction Agency learned that Russia had used the fuel for its commercial space launch program and there was insufficient

fuel available to cost effectively operate the plant. In February 2003, the Deputy Secretary of Defense approved the “dismantlement and salvage where possible” of the facility.

As a result of the audit, the OIG DoD recommended that the DoD reduce program risks by negotiating implementing agreements requiring a commitment from Russia to provide the weapon systems and their components, provide adequate transparency rights to DoD, and include remedies when Russia fails to use equipment and services provided by DoD. The OIG DoD testified that the DoD is to be commended for establishing an Executive Review program to assess risks associated with other cooperative threat reduction projects.

**Proposed Revision
to OMB Circular
A-76**

The OIG DoD provided comments to the proposed Office of Management and Budget (OMB) revision of Circular A-76, Performance of Commercial Activities. In a February 11, 2003, letter to OMB, the Inspector General recommended that public-private competitions consider net present value for cost comparisons. In his letter, the Inspector General noted, “The longer the period of performance, the greater the impact net present value will have on ensuring the best decisions are made for the benefit of the government and the taxpayer.” The Inspector General recommended that for the government to achieve measurable benefits from competitive sourcing and to enable managers to make informed decisions, net present value should be evaluated for all competitive sourcing competitions exceeding 3 years.

**INTELLIGENCE
REVIEW**

See the Classified Annex to this report for summaries of the 114 intelligence-related and other sensitive reports.

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APPENDIX A*
REPORTS ISSUED BY CENTRAL DOD INTERNAL AUDIT ORGANIZATIONS

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

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
(202) 433-5525

Air Force Audit Agency
(703) 696-8027
(703) 697-8014

**Summary of Number of Reports by Management Challenge Area
 October 1, 2002 - March 31, 2003**

	IG, DoD	Military Depts.	Total
Financial Management	21	30	51
Acquisition	13	25	38
Logistics	5	15	20
Readiness	4	9	13
Information Technology Management	5	4	9
Infrastructure and Environment	3	15	18
Information Security	10	9	19
Human Capital	3	4	7
Health Care	1	5	6
Other	5	8	13
Total	70	124	194
The OIG DoD also issued 4 reports and the Military Department audit agencies issued 3 reports on audit oversight reviews. For information on intelligence-related reports, including those issued by other Defense agencies, refer to the classified annex to this report.			

* Partially fulfills requirements of the Inspector General Act of 1978, as amended, 5 U.S.C., Appendix 3, Section 5(a)(6) (See Appendix B).

**FINANCIAL
MANAGEMENT**

IG DoD

D-2003-010 Promptness of FY 2003 First Quarter DoD Payments to the Department of the Treasury for District of Columbia Water and Sewer Services (10/15/02)

D-2003-017 Naval Ammunition Logistics Center Financial Reporting of Ammunition and Other Ordnance Assets in Operating Materials and Supplies for FY 2002 (10/30/02)

D-2003-020 Naval Air Systems Command Financial Reporting of Non-Ammunition Operating Material and Supplies For FY 2002 (11/8/02)

D-2003-030 Financial Reporting of Deferred Maintenance Information on Air Force Weapons Systems For FY 2002 (11/27/02)

D-2003-034 Adjustments to the Intergovernmental Payments Account (12/10/02)

D-2003-039 Naval Supply Systems Command Revaluation of Inventory to Latest Acquisition Cost (12/31/02)

D-2003-041 Independent Auditor's Report on the Air Force General Funds FY 2002 Principal Financial Statements (1/6/03)

D-2003-042 Independent Auditor's Report on the Air Force Working Capital Fund FY 2002 Principal Financial Statements (1/6/03)

D-2003-043 Independent Auditor's Report on the U.S. Army Corps of Engineers, Civil Works, FY 2002 Principal Financial Statements (1/6/03)

D-2003-044 Independent Auditor's Report on the Department of the Navy General Fund FY 2002 Principal Financial Statements (1/7/03)

D-2003-045 Independent Auditor's Report on the Navy Working Capital Fund FY 2002 Principal Financial Statements (1/7/03)

D-2003-046 Independent Auditor's Report on the Army Working Capital Fund FY 2002 Principal Financial Statements (1/8/03)

D-2003-047 Independent Auditor's Report on the Army General Fund FY 2002 Principal Financial Statements (1/8/03)

D-2003-048 Reopening of Contracts in the Mechanization of Contract Administration Services System (1/16/03)

D-2003-049 Promptness of FY 2003 Second Quarter DoD Payments to the Department of the Treasury for District of Columbia Water and Sewer Services (1/15/03)

D-2003-050 Independent Auditor's Report on the Department of Defense FY 2002 Agency-Wide Principal Financial Statements (1/15/03)

D-2003-054 Financial Reporting of Deferred Maintenance Information on Army Weapons Systems for FY 2002 (2/3/03)

D-2003-058 Financial Reporting of Deferred Maintenance Information on Navy Weapon Systems For FY 2002 (3/6/03)

D-2003-060 DoD Payroll Withholding Data for FY 2002 (3/18/03)

D-2003-062 Processing General Services Administration Rent Bills for DoD Customers in the National Capital Region (3/12/03)

D-2003-067 Audit of Recoveries of Prior Year Obligations (3/21/03)

Army Audit Agency

A-2003-0032-FFG Auditors Opinion of Audit of American Red Cross (10/30/02)

A-2003-0003-IMU Overhead and Layering in Morale, Welfare and Recreation Activities, U.S. Army, Europe and Seventh Army (10/31/02)

A-2003-0009-FFG Identification of Soldiers in Deserter or Absentee Status (11/13/02)

A-2003-0026-IMU Funding Execution, Task Force Sinai (11/14/02)

A-2003-0041-IMU Living Quarters Allowance, U.S. Army, Europe and Seventh Army (11/20/02)

A-2003-0052-IMT Aviation Maintenance Business Practices, Fort Drum, New York (11/20/02)

A-2003-0050-IMH Financial Controls--Golf Course Operations, Fort Belvoir, Virginia (11/22/02)

A-2003-0073-FFG Requirements Review of Logistics Modernization Program (11/27/02)

A-2003-0028-IMH Financial Controls--Golf Course Operations, Fort Lesley J. McNair, Washington, D.C. (11/29/02)

A-2003-0029-IMH Financial Controls--Bowling Operations, Fort Bliss, Texas (1/24/03)

A-2003-0101-AMW Aged Accounts--Army Working Capital Fund, U.S. Army Tank-Automotive and Armaments Command (1/24/03)

A-2003-0127-FFG National Science Center Special Fund Financial Statement, Augusta, Georgia (1/28/03)

A-2003-0145-FFB Secretary of Defense Executive Dining Facility Fund FY 02 Financial Statements, Office of the Secretary of Defense (2/28/03)

A-2003-0210-IMH Use of Appropriated Funds for Morale, Welfare, Recreation and Family Programs (3/28/03)

Naval Audit Service

N2003-0003 Validation of Selected FY 2000 Unliquidated Obligations at Space and Naval Warfare Systems Command (10/18/02)

N2003-0005 Commander in Chief, U.S. Pacific Fleet Other Base Operating Support Program Management (10/25/02)

N2003-0006 Implementation of Activity-Based Cost Accounting in the U.S. Marine Corps (10/28/02)

N2003-0008 Naval Audit Service Opinion on Proposed FY 2002 Annual Statement of Assurance (10/31/02)

N2003-0020 The Department of the Navy's Stewardship of the Defense Emergency Response Fund Appropriation (12/10/02)

N2003-0038 Fiscal Year 2002 Implementation of the Federal Managers' Financial Integrity Act at Selected Navy Activities (3/26/03)

Air Force Audit Agency

F2003-0002-FB3000 Memorandum Report, Accounting for Electronic Pods and Uninstalled Engines (10/1/02)

F2003-0003-FB3000 Operating Materials and Supplies (10/10/02)

F2003-0001-FC4000 Air Force Working Capital Fund FY 2001 Collections and Disbursements (10/16/02)

F2003-0002-FC4000 Air Force Automated Civil Engineer System - Real Property Controls (10/30/02)

F2003-0004-FB3000 Air Force General Fund Undistributed Transactions (11/6/02)

F2003-0001-FB1000 Air National Guard Obligations (11/7/02)

F2003-0003-FC4000 Follow-up Audit, Contract Depot Maintenance Obligations and Accrued Expenses (11/14/02)

F2003-0004-FC4000 Air Force Working Capital Fund, FY 2001 Statement of Budgetary Resources - Wholesale Supply Overhead, Internal Control Review (11/14/02)

F2003-0003-FB4000 Nonappropriated Fund Cash Controls (12/30/02)

F2003-0005-FC2000 Follow-up Audit, Depot Overtime and Leave Use (3/7/03)

ACQUISITION

IG DoD

D-2003-003 Controls for the DoD Aviation Into-Plane Reimbursement Card (10/3/02)

D-2003-004 Acquisition of the Advanced Deployable System (10/3/02)

D-2003-013 Fuel Cells of the V-22 Osprey Joint Advanced Vertical Aircraft (10/24/02)

D-2003-015 A Revised Acquisition Program Baseline and Threat Assessment for the Chemical Demilitarization Program (FOR OFFICIAL USE ONLY) (10/30/02)

D-2003-016 Material Distribution Services Contract at the Defense Distribution Depot Warner Robins, Georgia (10/30/02)

D-2003-018 Validity of Registration in the Central Contractor Registration Database (10/30/02)

D-2003-019 DoD Contractor Subcontracting With Historically Underutilized Business Zones (Hubzones) Small Businesses (11/7/02)

D-2003-029 Contract Actions Awarded to Small Businesses (11/25/02)

D-2003-038 Management Controls Over Proposed Prime Vendor Support for the Army Apache Helicopter (12/31/02)

D-2003-052 Acquisition of the Synthetic Aperture Radar/Moving Target Indicator (1/31/03)

D-2003-053 Navy Transition of Advanced Technology Programs to Military Applications (2/4/03)

D-2003-056 Public/Private Competition for the Defense Finance and Accounting Service Military Retired and Annuitant Pay Functions (3/21/03)

D-2003-065 Allegations Concerning Government Acceptance Procedures for a Contractor's Parts (3/21/03)

Army Audit Agency

A-2003-0010-FFG Headquarters, DA Service Contracts (10/17/02)

A-2003-0043-AMA Followup to High Level Architecture Report (11/19/02)

A-2003-0053-AMM Mobile Subscriber Equipment, U.S. Army Communications-Electronics Command, Fort Monmouth, New Jersey (12/6/02)

A-2003-0081-IMT Property Accountability Procedures, White Sands Missile Range, New Mexico (12/16/02)

A-2003-0072-FFG Government Purchase Card Program, U.S. Army Reserve Readiness and Training Center, Fort McCoy, Wisconsin (12/27/02)

A-2003-0004-AMA Army Transformation Experiment 2002 (2/3/03)

A-2003-0156-AML Small Purchases of Supplies and Equipment, North Carolina Army National Guard, Raleigh, North Carolina (2/21/03)

A-2003-0151-AMA Risk Management Program - Stryker Vehicle System, Office of the Project Manager Brigade Combat Team (3/6/03)

Naval Audit Service

N2003-0007 Selected Aspects of the Configuration Management Process for F/A-18C and D Aircraft (10/29/02)

N2003-0010 Independent Review of Information Technology, Naval Surface Warfare Center, Indian Head, MD (11/04/02)

N2003-0016 Risk Assessment of Naval Systems Acquisition and Acquisition Logistics – Volume I (11/14/02)

N2003-0017 Risk Assessment of Naval Systems Acquisition and Acquisition Logistics – Volume II (11/26/02)

N2003-0027 Department of the Navy Travel Card Program (2/14/03)

N2003-0029 Management of the Advanced Mission Computer and Display Program (2/28/03)

N2003-0030 Department of the Navy's Reverse Auctioning Process (3/05/03)

N2003-0032 Independent Review of Maintenance and Fabrication, Indian Head Division, Naval Surface Warfare Center, Indian Head, MD (3/07/03)

N2003-0033 Independent Review of Naval Explosive Ordnance Disposal Technology Division, Administrative Services, Indian Head, MD (3/11/03)

N2003-0035 Post Award Reviews for Navy Commercial Activity Studies Under OMB Circular A-76 (3/14/03)

N2003-0037 Navy Inherently Governmental and Commercial Activities Inventory: Department of the Navy Management Decision Manpower Code L Positions (3/25/03)

Air Force Audit Agency

F2003-0001-FC3000 Space Based Infrared System Integrated Product Team Participation, Phase II (10/11/02)

F2003-0002-FC3000 Memorandum Report, Joint Purchase Card Project - Air Force (12/2/02)

F2003-0001-FC1000 Wright-Patterson AFB Meteorological Services A-76 Direct Conversion (1/16/03)

F2003-0002-FC1000 Vandenberg AFB Weather Observation Services Direct Conversion (2/13/03)

F2003-0002-FD3000 Security Controls Over Contractor Access to Air Force Installations (FOR OFFICIAL USE ONLY) (2/28/03)

F2003-0003-FC1000 72d Communications Squadron, Network Control Center and Automated Data Processing Equipment, Tinker AFB OK (3/12/03)

LOGISTICS

IG DoD

D-2003-005 DoD Use of the North Atlantic Treaty Organization Maintenance and Supply Agency (10/7/02)

D-2003-033 Accountability and Control of Materiel at the Naval Air Depot, North Island (12/6/02)

D-2003-036 Property Accountability at Research, Development, Test, and Evaluation Installations (12/16/02)

D-2003-057 Accountability and Control of Materiel at the Naval Air Depot, Jacksonville (3/5/03)

D-2003-064 Accountability and Control of Materiel at the Warner Robins Air Logistics Center (3/20/03)

Army Audit Agency

A-2003-0105-IMU General Support Maintenance Program, U.S. Army, Europe and Seventh Army (12/31/02)

A-2003-0106-AML Methodology for Computing Authorized Stockage Lists (12/31/02)

A-2003-0110-IMU Logistics Civil Augmentation Program, Camp Stronghold Freedom, Uzbekistan (12/31/02)

A-2003-0139-FFG National Defense Equipment Reporting, Deputy Chief of Staff, G-4 (2/6/03)

A-2003-0175-IME Ground Equipment Contract Maintenance Support, I Corps and Fort Lewis, Washington (3/7/03)

A-2003-0192-AML Development and Integration of Automatic Identification Technology into Logistics Processes (3/21/03)

Naval Audit Service

N2003-0024 Contractor Logistics Support at the Naval Air Systems Command (1/29/03)

N2003-0031 Execution of Ship Maintenance Plans (3/06/03)

Air Force Audit Agency

F2003-0001-FC2000 Follow-up Audit, Flying Hour Projections Used in Spares Requirements (11/18/02)

F2003-0003-FC2000 Nonrecurring Costs for F-16 Mid-Life Update Modification (FOR OFFICIAL USE ONLY) (1/8/03)

F2003-0002-FC2000 T-38C Propulsion Modernization Program (1/14/03)

F2003-0004-FC2000 C-130 Aircraft Logistics Support (1/29/03)

F2003-0007-FC4000 Air Force Management of Aviation Fuel Purchases (2/13/03)

F2003-0008-FC4000 Programmed Depot Maintenance Materiel Support (2/21/03)

F2003-0009-FC4000 Execution and Prioritization of Repair Support System (2/28/03)

READINESS

IG DoD

D-2003-006-T Statement of Joseph E. Schmitz, Inspector General of the Department of Defense to the Subcommittee on National Security, Veterans Affairs, and International Relations House Government Reform Committee on Chemical and Biological Equipment: Preparing for the Toxic Battlefield (10/1/02)

D-2003-007-T Statement of Joseph E. Schmitz, Inspector General of the Department of Defense to the Subcommittee on National Security, Veterans Affairs, and International Relations House Government Reform Committee on Chemical and Biological Equipment: Preparing for the Toxic Battlefield (CLASSIFIED) (10/1/02)

D-2003-028 Summary Report on Homeland Defense, Chemical and Biological Defense, and Other Matters Related to Counterterrorist Military Operations (CLASSIFIED) (11/25/02)

D-2003-040 Chemical and Biological Defense Individual Protective Equipment in the Pacific Command Area (CLASSIFIED) (12/31/02)

Army Audit Agency

A-2003-0093-FFF Station Missioning, U.S. Army Recruiting Command (1/15/03)

A-2003-0113-AMA Combined Arms Tactical Trainer (1/28/03)

Naval Audit Service

N2003-0001 Navy P-3 Aircraft Readiness Reporting (10/01/02)

N2003-0011 Office of Naval Intelligence Emergency Action Plans (CLASSIFIED) (11/08/02)

N2003-0012 Verification of the Reliability and Validity of the Department of the Navy's Total Force Manpower Management System (TFMMS) Data (11/08/02)

N2003-0022 Mine Countermeasures Squadrons Readiness Reporting (12/19/02)

N2003-0025 Navy Cruiser Unit Readiness Reporting (2/06/03)

N2003-0039 Navy F/A-18 Combat Aviation Training (3/31/03)

Air Force Audit Agency

F2003-0001-FD3000 Space Operations Crew Force Management (2/27/03)

INFORMATION TECHNOLOGY MANAGEMENT

IG DoD

D-2003-002 Information Resource Management at the Army Aviation and Missile Command (10/3/02)

D-2003-011 Implementation of Interoperability and Information Assurance Policies for Acquisition of DoD Weapon Systems (10/17/02)

D-2003-026 Allegations Regarding the DoD Education Activity's Use of the Standard Procurement System (11/25/02)

D-2003-051 Development Testing of Prophet Mission-Critical Software (1/22/03)

D-2003-061 The Development of the Navy Standard Integrated Personnel System (3/12/03)

Army Audit Agency

A-2003-0140-FFG Validation of Property Book and Unit Supply Enhanced System, Version 3.4.1 (3/25/03)

Naval Audit Service

N2003-0019 Shipyard Management Information System (12/09/02)

N2003-0026 Verification of the Reliability and Validity of the Department of the Navy's Readiness Information System (RIS) Data (2/13/03)

N2003-0028 Administration of Momentum Financial Information System (2/27/03)

INFRASTRUCTURE AND ENVIRONMENT

IG, DoD

D-2003-001 DoD Integrated Natural Resources Management Plans (10/1/02)

D-2003-025 DoD Alternative Fuel Vehicle Program (11/22/02)

D-2003-068 Army Response to Chemical Agent Incident at Tooele Chemical Agent Disposal Facility (3/28/03)

Army Audit Agency

A-2003-0060-IME Pollution Prevention Material Weakness (11/29/02)

A-2003-0063-IME Management of Installation Environmental Programs, U.S. Army Air Defense Artillery Center and Fort Bliss, Texas (11/29/02)

A-2003-0064-IMO Privatization of Family Housing, Fort Lewis, Washington (11/29/02)

A-2003-0070-IME Implementation of the Military Munitions Rule (12/2/02)

A-2003-0092-IME Disposal Actions at Formerly Utilized Sites, U.S. Army Corps of Engineers (12/19/02)

A-2003-0115-FFC Dredging Operations in the Pacific Region, U.S. Army Corps of Engineers (1/3/03)

A-2003-0137-IMU Army Communities of Excellence Program, U.S. Army Installation Management Agency, Europe Region (1/31/03)

A-2003-0138-IMU Army Family Housing Leasing in Germany, U.S. Army Installation Management Agency, Europe Region (2/13/03)

A-2003-0189-IMH Followup Audit of Morale, Welfare and Recreation Sustainment Repair and Maintenance, Fort Sill, Oklahoma (3/19/03)

A-2003-0190-IMH Followup Audit of Morale, Welfare and Recreation Sustainment Repair and Maintenance, Fort Stewart, Georgia (3/21/03)

Naval Audit Service

N2003-0009 Department of the Navy's Environmental Training Program (11/01/02)

N2003-0021 Standardizing Pier Construction for Deep Draft/Power Intensive Ships (12/12/02)

Air Force Audit Agency

F2003-0001-FB4000 Brooks City-Base Project - Phase II (10/16/02)

F2003-0006-FB4000 Follow-up Audit, Environmental Restoration Contingent Liabilities at Closed Installations (2/28/03)

F2003-0001-FD1000

Memorandum Report, Removal of Luke AFB From the Environmental Protection Agency's National Priority List (3/17/03)

INFORMATION SECURITY

IG DoD

D-2003-008 Implementation of the Government Information Security Reform by the Defense Finance and Accounting Service for the Defense Integrated Financial System (FOR OFFICIAL USE ONLY) (10/7/02)

D-2003-009 Security Controls for the Defense Procurement Payment System (10/11/02)

D-2003-22 FY 2002 Independent Assessment of the DoD Subset of Information Technology Systems for Government Information Security Reform Reported for FY 2001 (FOR OFFICIAL USE ONLY) (11/14/02)

D-2003-23 The Reserve Retirement Repository System (FOR OFFICIAL USE ONLY) (11/15/02)

D-2003-024 Information Assurance Challenges - An Evaluation of Audit Results Reported from August 23, 2001, through July 31, 2002 (FOR OFFICIAL USE ONLY) (11/21/02)

D-2003-027 Government Information Security Reform Act Implementation: Defense Advanced Research Projects Agency Management Support System (11/25/02)

D-2003-035 The Integrated Automated Travel System Information Security Program (FOR OFFICIAL USE ONLY) (12/16/02)

D-2003-037 Implementation of Government Information Security Reform by the Defense Finance and Accounting Service for the Standard Accounting, Budgeting, and Reporting System (FOR OFFICIAL USE ONLY) (12/19/02)

D-2003-055 Summary of Defense Financial and Accounting Service Implementation of Government Information Security Reform (FOR OFFICIAL USE ONLY) (2/21/03)

D-2003-066 Controls Over the Use and Protection of Social Security Numbers Within DoD (3/21/03)

Army Audit Agency

A-2003-0058-AMI Information Management Systems for Special Access Programs (11/15/02)

A-2003-0157-FFB Cost Estimate for the Army's Top Level Architecture-Redesign, Chief Information Office/G-6 (2/6/03)

Naval Audit Service

N2003-0002 Control and Accountability Over Leased Personal Computers Within the U.S. Pacific Fleet (10/03/02)

N2003-0015 Department of the Navy's Implementation of Government Information Security Reform Act for Fiscal Year 2001 (11/13/02)

Air Force Audit Agency

F2003-0005-FC4000 Controls Over Access to Air Force Networks and Systems (FOR OFFICIAL USE ONLY) (11/19/02)

F2003-0006-FC4000 Air Mobility Command Information Security Program and Practices (FOR OFFICIAL USE ONLY) (12/2/02)

F2003-0004-FB4000 Validation of Air Force Data in the Fiscal Year 2001 DoD Government Information Security Reform Act (2/21/03)

F2003-0005-FB4000 Air Force Reserve Command Information Security Program and Practices (FOR OFFICIAL USE ONLY) (2/21/03)

F2003-0007-FB4000 Pacific Air Forces Information Security Program and Practices (FOR OFFICIAL USE ONLY) (3/13/03)

HUMAN CAPITAL

IG DoD

D-2003-031 Human Capital: Defense Contracting Command-Washington (12/5/02)

D-2003-032 Results of the Survey Regarding Undue Influence on Army Component Members to Join Non-Federal Entities (12/6/02)

D-2003-072 DoD Compliance With the Uniformed and Overseas Citizens Absentee Voting Act (3/31/03)

Naval Audit Service

N2003-0034 Time and Attendance Practices at the Naval Undersea Warfare Center (3/12/03)

N2003-0036 Use of Marine Corps Military Personnel to Perform Non-Military Essential Duties (3/25/03)

Air Force Audit Agency

F2003-0002-FB4000 Air Force Personnel Demographic Data (12/16/02)

F2003-0002-FB1000 Unemployment Compensation for Former Air Force Civilian Employees (1/16/03)

HEALTH CARE

IG DoD

D-2003-063 Resource Sharing Between DoD and the Department of Veterans Affairs (3/14/03)

Army Audit Agency

A-2003-0002-IMH Third Party Claims, Madigan Army Medical Center, Tacoma, Washington (10/1/02)

A-2003-0001-IMH Third Party Claims, Martin Army Community Hospital, Fort Benning, Georgia (10/22/02)

A-2003-0075-IMH Third Party Collection Program, Womack Army Medical Center, Fort Bragg, North Carolina (12/16/02)

A-2003-0144-IMH Third Party Collection Program, Walter Reed Army Medical Center (2/14/03)

A-2003-0185-IMH Third Party Collection Program, U.S. Army Medical Command (3/10/03)

OTHER

IG DoD

D-2003-012 Controls Over Biological Agents at Contractor Facilities (CLASSIFIED) (10/21/02)

D-2003-014 Facility-Specific Controls Over Biological Agents (CLASSIFIED) (10/25/02)

D-2003-021 Export Controls Over Biological Agents (CLASSIFIED) (11/12/02)

D-2003-059-T Statement of David K. Steensma, Deputy Assistant Inspector General for Auditing, Office of the Inspector General Department of Defense to the House Committee on Armed Services on U.S.-Russian Cooperative Threat Reduction and Non-Proliferation Programs (3/4/03)

D-2003-070 DoD Involvement in Export Enforcement Activities (FOR OFFICIAL USE ONLY) (3/28/03)

Army Audit Agency

A-2003-0054-FFG Review of the Army Management Control Process (FY 2002)--An Assessment for The Secretary of the Army (11/13/02)

A-2003-0141-IMO DoD Support to the 2001 Presidential Inaugural (1/31/03)

A-2003-0170-FFG Review of Army Management Control Process (FY 2002), Department of the Army Inspector General (3/26/03)

A-2003-0172-FFG Review of Army Management Control Process (FY 2002), 7th Infantry Division and Fort Carson (3/26/03)

A-2003-0171-FFG Review of Army Management Control Process (FY 2002), U.S. Army Space and Missile Defense Command (3/28/03)

A-2003-0173-FFG Review of Army Management Control Process (FY 2002), 24th Infantry Division (Mechanized) and Fort Riley (3/28/03)

Naval Audit Service

N2003-0013 Report 03A (CLASSIFIED) (11/12/02)

N2003-0014 Report 03B
(CLASSIFIED) (11/12/02)

**AUDIT OVERSIGHT
REVIEWS**

IG DoD

D-2003-6-001 DoD Oversight
of Contractor Purchasing
Systems (11/6/02)

D-2003-6-002 Summary of
Quality Control Reviews of
Office of Management and
Budget Circular A-133 Audits
(11/8/02)

D-2003-6-004 Report on
Quality Control Review of
Grant Thornton, LLP for OMB
Circular A-133 Audit Report of
the Center for Naval Analyses
Corporation, Fiscal Year Ended
September 30, 2001 (2/10/03)

D-2003-6-005 Review of the
Quality Control System at the
National Security Agency
Inspector General Office of
Audits (3/13/03)

Naval Audit Service

N2003-0004 Peer Review of the
Air Force Audit Agency
(10/21/02)

N2003-0018 Quality Control
Review of Audit Report N2002-
0003 (Revised): "Military
Construction Project Develop-
ment for FY 2003 Program"
(12/04/02)

N2003-0023 Quality Control
Review of Audit Programs
(12/23/02)

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

Audit Reports Issued	Potential Monetary Benefits	
	Disallowed Costs ¹	Funds Put to Better Use
D-2003-003 Controls for the DoD Aviation Into-Plan Reimbursement Card (10/3/02)	N/A	\$8,300,000
D-2003-005 DoD Use of the North Atlantic Treaty Organization Maintenance and Supply Agency (10/7/02)	N/A	1,000,000
D-2003-016 Material Distribution Services Contract at the Defense Distribution Depot Warner Robins, Georgia (10/30/02)	N/A	4,138
D-2003-033 Accountability and Control of Materiel at the Naval Air Depot, North Island (12/6/02)	N/A	40,000,000
D-2003-057 Accountability and Control of Materiel at the Naval Air Depot, Jacksonville (3/5/03)	N/A	20,000,000
D-2003-061 The Development of the Navy Standard Integrated Personnel System (3/12/03)	N/A	33,400,000
D-2003-064 Accountability and Control of Materiel at the Warner Robins Air Logistics Center (3/20/03)	N/A	30,200,000
Totals		\$132,904,138
¹ There were no OIG audit reports during the period involving disallowed costs.		

* Partially fulfills the requirement of the Inspector General Act of 1978, as amended, 5 U.S.C., Appendix 3, Section 5(a)(6) (See Appendix A).

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APPENDIX C*
FOLLOWUP ACTIVITIES

DECISION STATUS OF INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE (\$ in thousands)		
Status	Number	Funds Put to Better Use¹
A. For which no management decision had been made by the beginning of the reporting period.	24	\$273,400
B. Which were issued during the reporting period.	59	132,904
Subtotals (A+B)	83	406,304
C. For which a management decision was made during the reporting period.	61	282,904
(i) dollar value of recommendations that were agreed to by management		
- based on proposed management action		79,364
- based on proposed legislative action		
(ii) dollar value of recommendations that were not agreed to by management		203,540 ²
D. For which no management decision has been made by the end of the reporting period.	22	123,400
Reports for which no management decision was made within 6 months of issue (as of March 31, 2003).	3 ³	90,000
¹ There were no OIG DoD audit reports issued during the period involving "disallowed costs." ² On 4 audit reports with a total of potential funds put to better use of \$63,800 million, management has agreed to take the recommended actions, but the amount of agreed monetary benefits cannot be determined until those actions are completed. ³ OIG DoD Report No. D-2002-091; "Accountability and Control of Materiel at the Corpus Christi Army Depot," issued May 21, 2002; OIG DoD Report No. D-2002-095; "Chemical and Biological Defense Individual Protective Equipment in Central Command and European Command Areas," issued May 30, 2002; and OIG DoD Report No. D-2002-154, "Cooperative Threat Reduction Program Liquid Propellant Disposition Project," issued September 30, 2002, had no management decision as of March 31, 2003, but were decided on April 30, 2003, April 21, 2003, and April 14, 2003, respectively.		

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

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

Type of Audit ²	Reports Issued*	Amounts Examined	Questioned Costs ³	Funds Put to Better Use
Incurring Costs, Ops Audits, Special Audits	12,319	\$50,284.8	\$443.0	\$52.1 ⁴
Forward Pricing Proposals	4,684	\$62,063.0	--	\$2,711.3 ⁵
Cost Accounting Standards	1,049	\$127.4	\$12.9	--
Defective Pricing	221	(Note 6)	\$5.5	--
Totals	18,273	\$112,475.2	\$461.4	\$2,763.4

¹This schedule represents Defense Contract Audit Agency (DCAA) contract audit reports issued during the 6 months ended March 31, 2003. Both "Questioned Costs" and "Funds Put to Better Use" represent potential cost savings. Because of limited time between availability of management information system data and legislative reporting requirements, there is minimal opportunity for the DCAA to verify the accuracy of reported data. Accordingly, submitted data is subject to change based on subsequent DCAA authentication.

²This schedule represents audits performed by DCAA summarized into four principal categories, which are defined as:

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

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

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

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

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

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

⁵Represents potential cost reductions that may be realized during contract negotiations.

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

*Applies to Army Corps of Engineers and DCAA only.

Waivers of Advisory and Assistance Service Contracts

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

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

APPENDIX E
STATUS OF ACTION ON SIGNIFICANT POST-AWARD CONTRACT AUDITS¹
(\$ in thousands)

	Number of Reports	Costs Questioned	Disallowed Costs ⁶
Open Reports:			
Within Guidelines ²	418	\$824,231	N/A ⁷
Overage, greater than 6 months ³	302	\$945,280	N/A
Overage, greater than 12 months ⁴	242	\$547,441	N/A
In Litigation ⁵	176	\$2,370,514	N/A
Total Open Reports	1,138	\$4,687,466	N/A
Closed Reports	470	\$545,773	\$190,015 (34.8%)
All Reports	1,608	\$5,233,239	N/A

¹This schedule represents the status of Defense Contract Audit Agency reports on incurred costs, defective pricing, and noncompliance with the Cost Accounting Standards as reported by the Army, Navy, Air Force, Defense Contract Management Agency, and TRICARE. Contract audit followup is reported in accordance with DoD Directive 7640.2, "Policy for Followup on Contract Audit Reports." Because of limited time between availability of the data and reporting requirements, there is minimal opportunity to verify the accuracy of the reported data.

²These reports are being processed within the time frames established by OMB Circular A-50, Audit Followup, and DoD Directive 7640.2.

³OMB Circular A-50 requires that audit reports be resolved (the contracting officer decides on a course of action) within 6 months after report issuance.

⁴DoD Directive 7640.2 states that audit reports are overage if not dispositioned within 12 months from date of issuance. Disposition is achieved when the contractor implements audit recommendations, the contracting officer negotiates a settlement with contractor, or the report is superseded.

⁵Of the 176 reports in litigation, 16 are under criminal investigation.

⁶Disallowed costs are costs sustained by the contracting officer in negotiations with contractors.

⁷N/A (not applicable)

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the Department of Defense, please contact us at:*

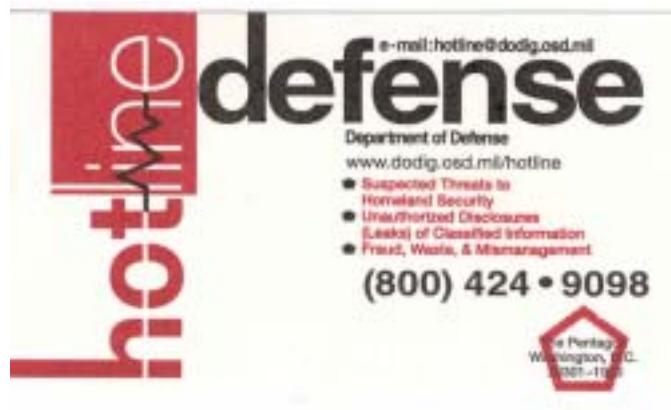
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