

DEPARTMENT OF DEFENSE



REPORT TO THE CONGRESS ON
AUDIT, INSPECTION AND
INVESTIGATIVE ORGANIZATIONS

OCTOBER 1, 1979 - MARCH 31, 1980



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

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
(COMPTROLLER)

May 30, 1980

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DEPARTMENT OF DEFENSE

REPORT TO THE CONGRESS
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FOREWORD

This semiannual report, prepared in accordance with Section 8(a)(1) of Public Law 95-452 (Inspector General Act of 1978), summarizes the activities of the audit, inspection and investigative units of the Department of Defense during the 6-month period ended March 31, 1980.

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

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

NCJRS

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ACQUISITIONS

DEPARTMENT OF DEFENSE
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OCTOBER 1, 1979 - MARCH 31, 1980

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PART I

INTRODUCTION

The Inspector General Act of 1978, Public Law 95-452, requires the Secretary of Defense to submit to the Congress semi-annual reports summarizing the activities of the audit, inspection and investigative units of the Department of Defense. The Act specifies that the reports shall be submitted within 60 days of the close of the reporting periods ending March 31 and September 30 each year, through October 1, 1982.

Reports for the first two 6-month periods have been submitted within the required time frames. This report covers the activities of internal and contract audit, internal review, inspection and investigative organizations of the Department of Defense during the period October 1, 1979 through March 31, 1980. This report was prepared from information provided by the various audit, internal review, inspection and investigative organizations listed in Exhibit A. As required by the legislation, the report includes:

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

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

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

- A statistical summary of criminal investigation cases completed during the reporting period.
- An updating to show the disposition or current status of incidents of fraud reported in our previous semiannual reports under this legislation.
- Descriptions of the more significant audit and inspection findings that point out ways for management and operating officials to improve the economy, efficiency or effectiveness of Department of Defense operations.
- Descriptions of opportunities found by Department of Defense auditors for reducing costs through improved contractor operations.
- A summary of progress made on special programs to combat fraud and waste in the Department.

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

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

PART II

SUMMARY

A. SUMMARY BY TYPE OF ORGANIZATION

1. AUDIT ORGANIZATIONS. All reviews by the centralized internal audit agencies, the local internal review groups, and the military exchange systems audit groups involve evaluations of economy, efficiency and effectiveness of Department of Defense (DoD) operations. The Defense Contract Audit Agency, in its reviews of costs proposed or incurred by contractors, is also concerned with the economy, efficiency and effectiveness of contractor operations and the related impact on contractual costs. Inherent in all reviews by DoD auditors is a consideration of areas susceptible to fraud or waste and of internal controls which would deter such fraud or waste. Where internal controls are lacking or appear inadequate, the auditors adjust the scope and depth of their audit coverage to determine whether procedural inadequacies may have resulted in wasteful or potentially fraudulent practices. Where the auditor's findings indicate potential fraud, referrals are made to the appropriate investigative agencies. Comments on each type of audit organization follow.

a. INTERNAL AUDIT

(1) There are four principal internal audit organizations in the DoD. The Army Audit Agency, Naval Audit Service, and Air Force Audit Agency provide internal audit services for all levels within the Army, Navy and Air Force, respectively. These Military Department audit organizations report to the Secretary or Under Secretary of their respective Departments. The fourth internal audit organization, the Defense Audit Service, which reports to the Assistant Secretary of Defense (Comptroller), performs internal audits within the Office of the Secretary of Defense, the Organization of the Joint Chiefs of Staff, the Unified and Specified Commands, and the Defense Agencies. The Defense Audit Service also conducts internal audits involving more than one DoD Component and audits requested by the Secretary of Defense or other key DoD officials. All efforts of the internal audit organizations are pertinent to this report, either in detecting and reporting on potential fraud and waste or in identifying opportunities for achieving greater economy, efficiency and effectiveness in the management of DoD resources.

(2) During the 6-month period ended March 31, 1980, the internal audit organizations issued a total of 1,885 audit reports. A statistical summary of these reports, by category of subject matter, is presented in Exhibit B.

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

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

(a) The Army Audit Agency continued to identify findings from single location audits which were indicative of Army-wide fraud and waste problem areas. In those instances where recommendations to the Army Staff were appropriate, "trend reports," were issued. In addition, field commanders were furnished "advisory reports" summarizing common problems noted during audits of similar functions at a number of locations. Trend and advisory reports issued during the period were: (i) Advisory Reports for Army National Guard and Army Reserve Activities, (ii) Advisory Report to Field Commanders - Service Supply and Construction Contracts, (iii) Trend Report - Control Over Ammunition at the Installation Level and (iv) Trend Report - Attendance at Reserve Components Inactive Duty Training.

(b) The Air Force Audit Agency initiated reviews of the four large Air Force pay systems: Joint Uniform Military Pay, Air Reserve Pay and Allowances, Retired Annuitant Pay, and Civilian Pay. Primary objectives of the reviews were to determine the adequacy of general and internal controls over the pay systems.

(c) The Defense Audit Service initiated audits in the following high risk areas: (i) acquisition and control of Government furniture, (ii) management of nonappropriated fund instrumentalities, (iii) procurement and contract administration at Defense Logistics Agency supply centers and Defense Contract Administration Services Regions, (iv) property disposal operations, (v) retired military pay compensation and (vi) operations of the Civilian Health And Medical Program of the Uniformed Services.

b. INTERNAL REVIEW AND MILITARY EXCHANGE SYSTEM AUDIT ORGANIZATIONS

(1) Internal review activities supplement the work of the central audit organizations by providing to management at subordinate levels a capability to identify and correct operational deficiencies. Internal review activities exist within the Army, Navy and Marine Corps. The three military exchange systems (Army and Air Force Exchange Service, Navy Resale and Service Support Office and Marine Corps Exchange Service) also have separate audit organizations similar to internal review groups. Generally these groups operate as part of the comptroller organizations of their respective departments or agencies. All internal review and military exchange system audit efforts are considered pertinent to this report.

(2) During the reporting period, the internal review activities issued 9,350 reports and the military exchange system audit organizations issued 57 reports as shown in Exhibit B.

c. CONTRACT AUDIT

(1) Audits of outside contractors are functionally distinct from audits of the internal operations of the Department of Defense. The Defense Contract Audit Agency, which reports to the Assistant Secretary of Defense (Comptroller), performs audits of costs proposed or incurred by outside contractors. The Agency has auditors in residence at many of the larger contractor plants, and audits other contractors on a mobile basis from geographically dispersed field offices. Any instances of potential fraud disclosed at contractor locations or opportunities for improving contractor operations would be includable in this report.

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

Contract Reports Issued

<u>Type of Audit Activity</u>	<u>Number of Reports</u>	<u>Percent of Total</u>
Incurred Costs	9,782	38.9
Forward Pricing Proposals	13,822	55.0
Cost Accounting Standards	891	3.6
Defective Pricing	490	1.9
Other	<u>155</u>	<u>.6</u>
TOTALS	<u>25,140</u>	<u>100.0</u>

(3) The Defense Contract Audit Agency took several initiatives to emphasize its responsibilities for reviewing internal controls applicable to contractor automatic data processing systems. An automatic data processing internal controls workshop was held in February 1980. A second is scheduled for June 1980. Audits of automatic data processing general and application controls were initiated at five regional contractor locations. Computer specialists from the Defense Contract Audit Institute assisted the six agency regions in audits of computer data centers. The team concept approach - auditors with specialized computer training identified within the region and supported by Computer Specialists from the Defense Contract Audit Institute - was used to audit computer data centers.

2. INSPECTION ORGANIZATIONS

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

b. The nine DoD inspection organizations issued 6,755 inspection reports during the reporting period. A statistical summary of these reports, by type of inspection, is presented in Exhibit C.

3. INVESTIGATIVE ORGANIZATIONS

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

b. Exhibit D presents a statistical summary, by category of subject matter, of the 8,351 criminal investigation cases completed during the 6-month period covered by this report.

c. Many of the criminal investigative activities are initiated either by specific requests from DoD officials at all levels or by leads from individuals. However, the audit and

inspection organizations also refer a substantial number of incidents or patterns of potential fraud to the investigative organizations. As shown in Exhibit E, 391 incidents or patterns of potential fraud were referred to investigators during the 6 months ended March 31, 1980.

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

(1) A prototype field economic crime program was developed by the Army Criminal Investigation Command to target economic crime-susceptible activities for informants, criminal information and systems access.

(2) The Air Force continued to emphasize the value of fraud awareness to Air Force managers. Briefings were provided to personnel at all levels to familiarize them with the Air Force Office of Special Investigations' mission responsibilities and capabilities and to heighten their awareness of fraud indicators.

(3) The Defense Investigative Service made increased use of a team approach in the investigation of contractor cost mischarging cases. This concept was developed jointly by the Defense Investigative Service, the Defense Logistics Agency and the Defense Contract Audit Agency. Approximately 40 current investigations have been accepted for prosecution by U.S. Attorneys or the Department of Justice. Many cases involve multi-million dollar sums; all are extremely complex and protracted.

B. SUMMARY BY DOD REPORTING CATEGORIES

1. POTENTIAL FRAUD INCIDENTS REPORTED TO INVESTIGATORS.

Section 8 of P.L. 95-452 requires that significant instances or patterns of potential fraud disclosed by audit, investigative and inspection activities during the reporting period be tabulated. The statistical data in Exhibit E show that 391 suspected fraud incidents were referred to investigative authorities by internal and contract audit, internal review and inspection organizations during the reporting period. Synopses of significant referrals are described briefly, with referral dates and identification of investigative organizations, in Exhibit F.

2. POTENTIAL FRAUD INCIDENTS REPORTED FOR PROSECUTION

a. Of the 8,351 criminal investigation cases completed during the reporting period, 31 of the more significant cases referred to prosecutive agencies by DoD investigative organizations are described in Exhibit G. These 31 cases involved estimated monetary losses of more than \$4 million.

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

3. SIGNIFICANT INSTANCES OF WASTE. Although an important concern of auditors and inspectors is waste prevention, their function also requires that they detect and report waste and errors which have occurred. Exhibit I contains descriptions of 20 of the more significant instances or patterns of waste disclosed by DoD audits and inspections in the 6 months ended March 31, 1980. The auditors' and inspectors' recommendations and related management actions, where appropriate, are also shown in the Exhibit.

4. OPPORTUNITIES FOR IMPROVING OPERATIONS

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

b. Exhibit J presents, by category of subject matter, descriptions of some of the more significant opportunities for improving the economy and efficiency of operations based on selected internal audits and inspections completed during the reporting period. Exhibit K discusses uneconomical or inefficient contractor practices disclosed by Defense Contract Audit Agency auditors which if corrected would result in decreased costs to the Department of Defense. During the reporting period the Defense Contract Audit Agency issued 217 reports dealing with the economy and efficiency of contractor operations with potential cost avoidances of about \$56 million. Cases listed in Exhibits J and K do not fall within the definition of waste as embodied in this report. Instead, they are considered to be "cost avoidance" findings, and are shown to illustrate the range of audit and inspection findings.

5. STATUS OF PREVIOUSLY REPORTED INCIDENTS. In our prior reports to the Congress we reported instances of potential fraud referred to investigative organizations, significant fraud cases referred for prosecution and significant fraud cases being resolved through command action. The resolution or current status of previously reported cases not fully resolved as of September 30, 1979, is shown in Exhibits L, M and N.

C. SPECIAL PROGRAMS TO PREVENT AND DETECT FRAUD AND WASTE

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

a. FRAUD PREVENTION SURVEYS. This project was established to develop a pilot program for conducting fraud prevention surveys by interdisciplinary teams of auditors and investigators. The pilot program consisted of three phases: (i) development of policy guidance; (ii) performance of four pilot surveys; and (iii) analysis of the survey results. An analysis of the four pilot survey reports showed that improvements in the reporting methods were needed to illustrate the relative significance of conditions found by the surveys. The final report of the Project Team recommended that the Office of the Secretary of Defense issue DoD-wide policy guidance to provide for coordination of the various survey efforts conducted within each Military Department and Defense Agency and to ensure succinct reporting of significant results. Detailed policy guidance to accomplish this objective was set forth in the Project Team's final report and is being considered for implementation by the Steering Group.

b. PROSECUTION FOLLOWUP. The purpose of this project was to develop an automated system for monitoring the status of DoD investigative cases referred to other agencies for further investigation or prosecution. The Project Team developed a reporting format for an automated system to be used by the Military Departments and Defense Agencies with investigative responsibilities. In addition, the format was designed to provide sufficient information to satisfy the reporting requirements of the Department of Justice White Collar Crime Referral Form and the Inspector General Act of 1978. Each DoD Component currently maintains statistical information on every case that it investigates or refers outside of the Department for investigation or prosecution. This information would have to be put into the suggested format for entry into the automated system. A decision as to whether to establish an automated investigation and prosecution followup system will be made after consideration of its budgetary and manpower requirements in the DoD Components.

c. IMPROVED FOLLOWUP SYSTEM. This project was established to improve monitorship by DoD Components of management actions to correct reported deficiencies concerning fraud and waste. The proposed followup system is intended to ensure implementation of recommendations made by the General Accounting Office and DoD audit, inspection, internal review and investigative organizations. The Project Team's final report, in the form of a proposed DoD Directive:

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

Formal approval of the proposed DoD Directive will be recommended to the Steering Group at its next meeting.

d. MANAGEMENT INFORMATION SYSTEM. In order to effectively combat fraud and waste, DoD management needs current and complete information about the nature and scope of the problem. Accordingly a project was established to develop a pilot management information system for tracking the status of audit, internal review and inspection recommendations and investigation, prosecution and administrative actions relating to fraud and waste. A pilot effort was conducted in the Air Force. From that effort evolved a concept for a DoD-wide fraud and waste management information system. The concept consists of three distinct subsystems. The first is an alerting system to ensure that management is notified promptly when fraud or waste has been disclosed. A further feature of this subsystem is a formal mechanism to provide followup reporting on the status of items reported. The second

subsystem will provide management with the capacity to track a case from inception to conclusion. The third subsystem will consist of a continuously updated data base which will produce historical reports and trend analyses. The data base can also provide information needed to prepare the semiannual report to Congress required by Public Law 95-452. Early in this project, improvement actions within the Air Force were identified and completed. The established criteria were then applied to the fraud and waste activities in the other DoD Components. Appropriate improvement actions have been identified and are being pursued in these organizations.

2. DOD HOTLINE ACTIVITIES. A DoD hotline was established on April 2, 1979 for the reporting of fraud or waste incidents involving the Department. The Defense Investigative Service (DIS) operates the hotline and refers reported incidents to the appropriate Military Departments and Defense Agencies. For the 6-month period ended March 31, 1980, DIS received 231 calls of which 109 were considered substantive and were referred to DoD Components. DIS also serves as the DoD focal point for hotline referrals from the General Accounting Office (GAO) of incidents involving DoD activities. During the 6-month period ended March 31, 1980, DIS received 363 referrals from GAO.

EXHIBIT AAUDIT, INSPECTION AND INVESTIGATIVE UNITS
CONTRIBUTING TO THIS REPORT*

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

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

EXHIBIT B

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

<u>Program or Function</u>	<u>Number of Reports Issued</u>			<u>Total</u>	<u>Percent of Total</u>
	<u>Internal Audit</u>	<u>Internal Review</u>	<u>Mil Exch Audit</u>		
Comptroller Functions	386	2,847		3,233	28.6
Nonappropriated Fund Instrumentalities	208	1,609	57	1,874	16.6
Supply Functions	267	1,422		1,689	15.0
Support Services	154	662		816	7.2
Personnel Management	153	531		684	6.1
Procurement Functions	117	342		459	4.1
Manufacturing, Maintenance and Repair Functions	148	264		412	3.6
Transportation Functions	64	191		255	2.3
Real Property Programs	91	105		196	1.7
Energy Conservation Programs	23	145		168	1.5
Communications and Intelligence Programs	42	102		144	1.3
Automatic Data Processing Systems	45	91		136	1.2
Force Readiness Programs	27	64		91	.8
Security Assistance Program	6	63		69	.6
Research and Development	17	19		36	.3
Other	<u>137</u>	<u>893</u>	<u>—</u>	<u>1,030</u>	<u>9.1</u>
TOTALS	<u>1,885</u>	<u>9,350</u>	<u>57</u>	<u>11,292</u>	<u>100.0</u>

EXHIBIT C

STATISTICS ON REPORTS ISSUED BY INSPECTION ORGANIZATIONS
DURING THE REPORTING PERIOD

<u>Inspector General Organizations</u>	<u>Number of Reports Issued</u>			
	<u>General</u> <u>Inspections</u>	<u>Special</u> <u>Inspections</u>	<u>Other</u>	<u>Total</u>
Army (1)	4,509	491	847	5,847
Navy (2)	8	10	3	21
Marine Corps (2)	108	0	0	108
Air Force (1)	432	182	22	636
Defense Communications Agency	0	0	0	0
Defense Intelligence Agency	16	0	0	16
Defense Logistics Agency	88	0	28	116
Defense Mapping Agency	0	2	0	2
National Security Agency	<u>9</u>	<u>0</u>	<u>0</u>	<u>9</u>
TOTALS	<u>5,170</u>	<u>685</u>	<u>900</u>	<u>6,755</u>
<u>Percentage of Totals</u>	<u>76.6%</u>	<u>10.1%</u>	<u>13.3%</u>	<u>100%</u>

Footnotes:

- (1) The disparity in the number of inspection reports issued is due to differences in methods of operation among the Military Services. The Army prepares a separate report for each unit inspected whereas each Air Force inspection report typically covers a base or wing and includes a number of inspected units.
- (2) The Navy and Marine Corps do not have separate organizations with total responsibility for inspection. Instead, each commander is responsible for inspecting his immediate subordinates. Data reported herein are largely confined to the Naval and Marine Corps Inspector General inspections of their immediate subordinates. Inspections conducted by all other commands in those two services are not included.

EXHIBIT D

STATISTICS ON CRIMINAL INVESTIGATION CASES COMPLETED
DURING THE REPORTING PERIOD

<u>Category</u>	<u>Army</u> Criminal Investiga- tion Command	<u>Navy</u> Naval Inves- tigative Service	<u>Air Force</u> Office of Special Investi- gations	Defense Investi- gative Service	<u>Total</u>	Percent of <u>Total</u>
Pay and Allowances	131	471	503	0	1,105	13.2
Nonappropriated Fund Instrumentalities	188	*	172	0	360	4.3
Commissaries	3	*	0	0	3	.0
Procurement	31	116	110	44	301	3.6
Property Disposal	42	*	6	0	48	.6
Other Diversions or Improper Use of Government Property	1,650	2,300	397	23	4,370	52.3
Other**	<u>747</u>	<u>436</u>	<u>980</u>	<u>1</u>	<u>2,164</u>	<u>26.0</u>
TOTALS	<u>2,792</u>	<u>3,323</u>	<u>2,168</u>	<u>68</u>	<u>8,351</u>	<u>100.0</u>

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

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

EXHIBIT E

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

<u>Potential Fraud Category</u>	<u>Number of Referrals to Investigators by:</u>					<u>Inspection Groups</u>	<u>Total</u>	<u>Percent of Total</u>
	<u>Internal Audit</u>	<u>Internal Review</u>	<u>Mil Exch Audit</u>	<u>Contract Audit</u>				
Pay and Allowances	7	4	0	0		7	18	4.6
Nonappropriated Fund Instrumentalities	6	7	227	0		2	242	61.9
Commissaries	0	0	0	0		2	2	.5
Procurement	8	2	0	23		4	37	9.5
Property Disposal	1	0	0	0		3	4	1.0
Other Diversion or Improper Use of Government Property	18	30	0	0		22	70	17.9
Other	<u>8</u>	<u>3</u>	<u>0</u>	<u>0</u>		<u>7</u>	<u>18</u>	<u>4.6</u>
TOTALS	<u>48</u>	<u>46</u>	<u>227</u>	<u>23</u>		<u>47*</u>	<u>391</u>	<u>100.0</u>

* In addition, 281 incidents of potential fraud were referred to investigative agencies by elements of the Defense Logistics Agency other than the Inspection Group.

EXHIBIT F

SIGNIFICANT INSTANCES OF POTENTIAL FRAUD
REFERRED TO INVESTIGATIVE ORGANIZATIONS
DURING THE REPORTING PERIOD *

<u>Line</u> <u>Item</u>	<u>Synopsis of Incident</u>	<u>Date</u> <u>Referred</u>	<u>Investigative</u> <u>Organization</u>
<u>PAY AND ALLOWANCES</u>			
1	Air Reserve and National Guard members allegedly received compensation of about \$105,000 for training not received. (AFAA)	Jan 80	OSI
2	Two individuals allegedly received injury compensation while collecting unemployment compensation or working at other jobs. Monetary impact estimated at \$14,885. (AFAA)	Oct 79	OSI Base Commander
3	Active reserve personnel were compensated for drills not attended. Overpayments were projected to be \$2.5 million annually. (DAS)	Jan 80	DIS
4	A review of Army, Navy and Marine Corps military pay records for the 30-month period ended March 31, 1979, showed that the computations of the DoD disability severance or readjustment payments were accurate. According to Veterans Administration case files, however, \$1.5 million in offsets arising because of the DoD disability severance or readjustment payments were not being recouped. (DAS)	Jan 80	DIS
5	Overpayments of an estimated \$1.3 million annually were made to active reservists because Veterans Administration benefits were not partially waived. (DAS)	Jan 80	DIS
<u>NONAPPROPRIATED FUND INSTRUMENTALITIES</u>			
6	Merchandise shortage of \$1,634 was noted at base bowling center. Also, merchandise variances (potential losses) of \$6,400 were identified. (AFAA)	**	OSI

<u>Line Item</u>	<u>Synopsis of Incident</u>	<u>Date Referred</u>	<u>Investigative Organization</u>
7	An audit of a package beverage branch revealed an inventory and cash shortage valued at \$4,204. (AIR)	Jan 80	CID
8	It was alleged that fund records were manipulated and cash of \$3,500 was diverted from a Rod and Gun Club. (AIR)	Feb 80	CID
9	Funds of \$1,035 were allegedly misappropriated from a bowling league. (AIR)	Jan 80	CID
10	Deposit slips from a Dependent Youth Activity appeared to have been altered. Work is underway to determine unreported revenues which might have been embezzled. (AIR)	Mar 80	CID and FBI
11	A sales clerk admitted to a retail store manager that he had added numerical values to both the quantity and price columns on an unspecified number of inventory sheets. The amount of falsification was \$47,000. (AAFES)	Feb 80	OSI
12	An AAFES tractor and trailer was stopped at the main gate of an Air Force base prior to departure. The truck load list and transfer voucher were determined by OSI to be fraudulent. Merchandise valued at \$43,000 was recovered. (AAFES)	Nov 79	OSI
13	A concessionaire may not be accurately reporting all sales. It is estimated that AAFES was deprived of commission earnings totaling \$39,735. (AAFES)	Nov 79	OSI
14	Unidentified person(s) apparently falsified inventory records for a cafeteria causing overstatements of about \$35,000. (AAFES)	Mar 80	CID

<u>Line Item</u>	<u>Synopsis of Incident</u>	<u>Date Referred</u>	<u>Investigative Organization</u>
15	Employees of an AAFES store were involved in criminal activities which allegedly resulted in \$32,700 of merchandise thefts. (AAFES)	Feb 80	OSI
16	A sales clerk at a retail store was observed giving a box of merchandise to a teenager through a stockroom door. CID and German Police confiscated \$13,942 of allegedly stolen AAFES merchandise. (AAFES)	Dec 79	CID/ German Police
17	Coupons with a value of \$4,023 were redeemed at a snack bar during one month. The redemption of the coupon books intact over a very short period of time may indicate diversion of currency or merchandise intended for black market use. The amount of the loss was revised to \$7,000 by OSI. (AAFES)	Mar 80	OSI
18	Investigation by OSI at an Air Force base revealed that over the last two years the manager of a barber shop, along with another employee, allegedly stole \$20,800, resulting in a loss to AAFES of \$5,616 in commissions. (AAFES)	Nov 79	OSI
19	Possible diversion of Class VI items to the black market by an employee of an installation club management system. (AIG)	Oct 79	CID
20	Nonappropriated fund property in excess of \$150,000 was not properly accounted for. (AFIG)	Mar 80	OSI

PROCUREMENT MATTERS

21	A contractor appeared to be systematically overcharging the Government for elements of labor on a contract. Monetary impact was determined to be \$28,900. (AAA)	Mar 80	CID
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<u>Line Item</u>	<u>Synopsis of Incident</u>	<u>Date Referred</u>	<u>Investigative Organization</u>
22	Procurement of in-flight meals exceeded limitation for small purchases by \$2,964. Also, there was an apparent shortage of in-flight meals valued between \$700 and \$1,300. (AFAA)	Sep 79	OSI Base Commander
23	Approximately \$38,000 of equipment was purchased under a service contract which contained no provisions for equipment purchases. Equipment was in the contractor's possession and accountability was not established in Air Force inventory records. (AFAA)	Feb 80	OSI Base Commander
24	Excessive costs of \$200,000 were being charged for training materials at a Marine Corps activity. (DAS)	Mar 80	NIS
25	Audit disclosed serious timekeeping irregularities resulting in apparent mischarging of labor to contracts. Questioned costs could approximate \$700,000. (DCAA)	Oct 79	DIS
26	Use of false production experience and high subcontract estimates for work done in-house allegedly resulted in an overestimate of proposed costs. Also, the contractor apparently used scrap material in place of new parts. Auditor questioned approximately \$200,000. (DCAA)	Oct 79	DIS
27	Contractor allegedly duplicated certain booked expenses and claimed other costs not shown in financial records on a claim proposal. DCAA questioned approximately \$146,000. (DCAA)	Oct 79	DIS
28	A contractor allegedly charged time to cost-type contracts for employees actually working on fixed price contracts. Auditor questioned \$125,000. (DCAA)	Oct 79	IG- NASA
29	Labor mischarging and submission of duplicate claims resulted in questioned costs of \$80,000. (DCAA)	Nov 79	IGs-DOT/ Treasury

<u>Line Item</u>	<u>Synopsis of Incident</u>	<u>Date Referred</u>	<u>Investigative Organization</u>
30	Altered invoices allegedly were used to support fictitious material charges to contracts. Auditor questioned \$60,000. (DCAA)	Feb 80	DIS
31	A battalion-size unit apparently procured items other than repair parts with repair parts funds, i.e., furniture, rugs, CB radios and automobile parts. Initial investigation revealed that collusion with off-post personnel resulted in items being purchased other than those ordered. Value is estimated to be \$25,000-\$50,000. (AIG)	Nov 79	CID
32	A Government employee allegedly accepted gratuities and favors from a contractor. Gratuities estimated at \$3,600. (AIG)	Feb 80	FBI
33	Case involved overpayment of a contractor and improper influence by Government personnel. (AIG)	Nov 79	FBI

PROPERTY DISPOSAL

34	Possible theft of precious metals and other Government property by property disposal employees. (DLA IG)	Oct 79	NIS/ FBI
35	There are indications that an employee had intentionally failed to "decommission" surplus property before its sale to the public. (DLA IG)	Feb 80	NIS

<u>Line Item</u>	<u>Synopsis of Incident</u>	<u>Date Referred</u>	<u>Investigative Organization</u>
<u>OTHER DIVERSION OR IMPROPER USE OF GOVERNMENT PROPERTY</u>			
36	Cash was allegedly diverted from a clothing sales store. Monetary impact has not been determined. (AAA)	Jan 80	CID
37	Audit disclosed possible conversion of 71 tires and 61 refrigerators. (NAVAUDSVC)	Jan 80	NIS
38	An alleged loss of vehicle generators and alternators valued at \$3,288 was concealed by processing unauthorized transactions in the base supply system. (AFAA)	Oct 79	OSI Base Commander
39	Case involved \$5,000 difference between base food service cash on-hand records and the deposits with Accounting and Finance Office. Additionally, inventory identified subsistence shortage valued at \$5,000. (AFAA)	**	OSI
<u>OTHER MATTERS</u>			
40	There were 3 separate instances of possible violations of 18 USC 2073 - false entries in official records or accounts. (NAVAUDSVC)	Oct 79 Feb 80 Mar 80	NIS NIS NIS
41	Case involved alleged conflict of interest regarding base decision to use local city sewage treatment plant. Base employees, responsible for preparing economic analysis and project files and who served as advisors to base negotiators of the sewage contract, held appointed political offices with the local city. Audit found that cost studies concerning the tie-in with the city were inaccurate. (AFAA)	Nov 79	OSI Base Commander

<u>Line Item</u>	<u>Synopsis of Incident</u>	<u>Date Referred</u>	<u>Investigative Organization</u>
42	Property books of a central issue facility were stolen. The books were reconstructed and the case is ongoing. (AIR)	Jan 80	CID
43	An inventory shortage of \$11,000 was reported at a self-service supply branch. (AIR)	Oct 79	CID
44	Items valued at about \$6,900, believed to have been received at an installation supply and service division and destined for further shipment to the central issue facility and to the self-service store supply, were not received at either location. (AIR)	Jan 80	CID
45	GAO hotline referral indicated GSA stores were issuing supplies to several Army Reserve units; however, these supplies were not reaching those units. (AIG)	Feb 80	FBI

Footnotes:

- * Instances reported do not necessarily represent fraud, but have that potential.
- ** Case was referred to investigative agency by Commander. Audit was conducted to assist investigation, confirm existence of alleged conditions and evaluate controls.

EXHIBIT G

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

<u>Line</u> <u>Item</u>	<u>Nature of Incident</u>	<u>Estimated</u> <u>Monetary Loss</u>
1	Four civilian employees of the United States Government allegedly used their positions to steal Government property and services, to divert lucrative contracts to relatives and acquaintances and to verify fraudulent claims for pay of employees. The FBI assumed investigation in October 1979. (CID-1)	\$486,000
2	Four military members and one civilian allegedly forged issue documents and stole rations from a Government issue point. In December 1979, the FBI assumed investigation. (CID-2)	\$336,816
3	A civilian contractor claimed and received advance payments for construction materials not ordered. Investigation continues. The FBI and Assistant United States Attorney have been briefed. (CID-3)	\$242,800
4	Six members of an Army Reserve unit and two active duty advisors allegedly used their position to fraudulently obtain property which they then sold. In January 1980, the FBI assumed investigation, and the case is pending before a grand jury. (CID-4)	\$80,000
5	A Government contractor allegedly received payment for materials which were not purchased. FBI assumed investigation in February 1980. (CID-5)	\$60,000
6	Three foreign national employees of the United States Government and two foreign national civilians apparently used their access to a United States compound to steal a truck and assorted automotive parts. Investigation continues. Korean authorities assumed investigation in March 1980. (CID-6)	\$16,874
7	Three military members allegedly stole paychecks with a face value of \$120,000 from the finance office where they were employed and negotiated an undetermined number by forging endorsements. In January 1980, the United States Secret Service assumed investigation. Checks with a face value of \$103,392 were recovered. (CID-7)	\$16,608

<u>Line Item</u>	<u>Nature of Incident</u>	<u>Estimated Monetary Loss</u>
8	Two members of an Army Reserve unit allegedly used their positions to fraudulently obtain property from property disposal facilities, and diverted the property to their personal use. In January 1980, the FBI assumed investigation. (CID-8)	\$20,209
9	A contractor allegedly used substandard materials and billed the Government for materials specified by the contract. The FBI assumed investigation in December 1979. (CID-9)	\$28,854
10	A civilian employee of an Army finance office allegedly used his position to create a fictitious payroll account through which he negotiated fraudulent paychecks. In January 1980, the United States Secret Service assumed investigation. (CID-10)	\$52,248
11	A civilian employee of an Army finance office allegedly used her position to issue fraudulent paychecks to three accomplices. In January 1980, the United States Secret Service assumed investigation. (CID-11)	\$45,000
12	Four employees of the Government and three civilian contractor employees allegedly forged false property documents to cover losses. The FBI assumed investigation in July 1979. Case turned over to Assistant United States Attorney on November 13, 1979. (CID-12)	\$23,000
13	Three military members and a civilian allegedly stole rations from the warehouse where they were employed and subsequently sold the rations. On December 18, 1979, the FBI assumed investigation. (CID-13)	\$21,808
14	Unknown person(s) allegedly stole 70 miles of copper telephone wire from transmission poles on an Army installation. In March 1980, the FBI assumed investigation. (CID-14)	\$15,439
15	A civilian employee of the Army allegedly used his position to influence a contract award. In January 1980, the FBI assumed investigation. The amount in question is \$35,134. (CID-15)	Undetermined
16	Two foreign national employees conspired with a third foreign national to divert post exchange merchandise to the blackmarket. Foreign national police have assumed investigation. (CID-16)	\$21,666

<u>Line Item</u>	<u>Nature of Incident</u>	<u>Estimated Monetary Loss</u>
17	A GAO audit disclosed what appeared to be significant overcharging by civilian contractors for repainting Navy housing at a large naval base. The Department of Justice initiated a federal grand jury investigation in August 1979, with the assistance of the Naval Investigative Service and the Naval Audit Service. Some overpayments have been recovered. A grand jury investigation is pending. (NIS-1)	\$897,000
18	A ship's enlisted postal clerk embezzled \$15,695 in postal funds and stole postal money orders which he cashed for \$80,000. He was convicted in Federal Court and sentenced to 5 years imprisonment. (NIS-2)	\$95,695
19	A former employee alleged that a company holding United States Government contracts was mischarging overhead from commercial contracts to Government contracts. Internal audit disclosed \$101,827 of mischarging. Company suspended four employees. Amount mischarged to Government contracts was returned; case was referred to the FBI in July 1979. United States Attorney verbally reprimanded company officials; however, declined prosecution. (OSI-1)	Funds recovered
20	It was alleged that an individual dishonestly obtained \$6,100 from the Air Force for certifying typewriter inspections which were never accomplished. Case was referred to British authorities in November 1979. The case is pending in English court. (OSI-2)	\$6,100
21	A company, which is under contract to the National Science Foundation to support a local observatory, made what appeared to be excessive withdrawals of property from a Defense Property Disposal Office. Disposal Office records showed that the company had received \$318,830 worth of Government surplus since 1976. Review of records at the observatory disclosed no system to document receipt and issue of property. Case was referred to the FBI in May 1978. No prosecution was undertaken as no violation could be established. (OSI-3)	\$318,830
22	A conspiracy to divert Government property is suspected. Incident involves potential loss of substantial quantities of possibly salvageable scrap material. Investigation is continuing in coordination with Department of Justice. (DIS-1)	Undetermined

<u>Line Item</u>	<u>Nature of Incident</u>	<u>Estimated Monetary Loss</u>
23	Contractor allegedly provided shrimp product which was not in conformance with contract specifications. Contract provided for delivery of \$1.7 million worth of shrimp product. Grand jury returned a 33-count indictment against company and 3 officers. A former military veterinary inspector pleaded guilty to one of 6 counts of accepting gratuities and agreed to testify for the Government. (DIS-2)	Undetermined
24	Irregularities existed in the labor-charging practices on two DoD contracts. Loss to Government was \$361,000 on one contract and \$400,000 (overpricing) on the second contract. DIS investigation is continuing in coordination with the Department of Justice. (DIS-3)	\$761,000
25	DoD contractor allegedly submitted false production data to support production costs proposed for three Government contracts. Joint investigation with FBI is continuing in coordination with the Department of Justice. (DIS-4)	\$314,000
26	Laboratory reports were allegedly substituted, altered, and falsified to reflect favorably on contractor. Contractor is involved in multi-million dollar Defense contracts. Grand jury is in progress with intent to indict in June 1980. (DIS-5)	Undetermined
27	Contractor did not comply with contract provisions. Contract for subscription publications was awarded in the amount of \$250,000, of which \$112,029 was paid to the contractor before cancellation of the agreement. Case was referred to the Department of Justice in January 1979. DIS investigation is continuing in coordination with the Department of Justice. (DIS-6)	Undetermined
28	Irregularities in labor classification and labor-charging practices were disclosed. Partial audit reveals \$285,000 in questionable charges for fiscal year 1979 alone. DIS investigation continues in coordination with Department of Justice. (DIS-7)	Undetermined
29	Government employee allegedly received "kickbacks" in return for privileged information relative to procurement. Contractor has been awarded approximately 55 contracts, of which 43 were based on oral quotes. Investigation continues for United States Attorney. (DIS-8)	Undetermined

<u>Line Item</u>	<u>Nature of Incident</u>	<u>Estimated Monetary Loss</u>
30	Diversion of unaccounted-for Government property was discovered during the conduct of an unrelated investigation. Investigation resulted in recovery of \$18,872 in excess and unserviceable items and approximately \$112,000 in serviceable items. Investigation is continuing in coordination with the Department of Justice. (DIS-9)	\$130,000
31	Contractor allegedly mislabeled meat products and substituted lower quality meat products than those specified by contracts. Contractor has approximately 1,400 contracts with the Government involving \$800,000 annually. Testing of meat products continues. Presentation of case is to be made on completion of tests. (DIS-10)	Undetermined

EXHIBIT H

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

<u>Line</u> <u>Item</u>	<u>Nature of Incident</u>	<u>Estimated</u> <u>Monetary Loss</u>	<u>Results of Action</u> <u>or Current Status</u>
1	Two military members allegedly forged the signatures of doctors on prescriptions and stole drugs. (CID-1)	\$43,000	Investigation by CID and Drug Enforcement Agency is continuing.
2	A military member allegedly entered false information into a computerized payroll system to obtain fraudulent payments. (CID-2)	\$13,775	The subject was apprehended and \$2,321 recovered. Adjudication is pending.
3	An audit was conducted aboard a Naval vessel after an informant reported that the disbursing officer lost a large amount of money in a card game. (NIS-1)	\$49,918	The officer admitted taking \$50,000 from disbursing funds. Five foreign nationals have been charged by local authorities. The disbursing officer was tried by general court-martial and sentenced to 3 years confinement, significant forfeitures, and dismissal from the Service.
4	A ship's enlisted disbursing clerk admitted issuing treasury checks to others in return for half the value of the checks. He also admitted using the same scheme previously. (NIS-2)	\$57,749	The disbursing clerk was convicted by general court-martial. His sentence, as approved on review, included 18 months confinement, total forfeitures, reduction in grade and dishonorable discharge. Charges against several civilian recipients of these checks are being prosecuted by the United States Attorney.
5	Three enlisted personnel in a Marine Corps base supply department allegedly procured items by Government purchase which they converted to their own personal use. (NIS-3)	\$21,066	One individual was convicted by a special court-martial and sentenced to a Bad Conduct Discharge and reduction in grade. Action against the other two is pending.

<u>Line Item</u>	<u>Nature of Incident</u>	<u>Estimated Monetary Loss</u>	<u>Results of Action or Current Status</u>
6	An investigation was conducted at a Navy recruiting district of the alleged falsifying of prospective recruits' education data in order to meet enlistment quotas. (NIS-4)	Undetermined	Charges against nine individuals are being referred for trial by special court-martial. The former commanding officer was found guilty of dereliction and sentenced to forfeit a portion of his pay and to receive a letter of reprimand. The senior enlisted recruiter was convicted of signing false official documents and received similar punishment. Other courts-martial are pending. Additionally, nonjudicial punishment was imposed upon 22 additional individuals which resulted in letters of reprimand and partial forfeitures of pay.
7	Former employees of a company having a contract for an Air Force Drone program alleged that local nationals performed almost all maintenance on the drones. Contract calls for only United States technicians to perform the work. The contract cost estimate called for 25 United States technicians at an annual cost of \$318,000. (OSI-1)	\$225,669	Results of DCAA audit have not been received. Case was referred to the Air Force Commander on July 24, 1979. Case is pending results of command action.
8	Subject firm had contract with the Army and Air Force Exchange Service for sale of a brand name vacuum cleaner in Europe with a commission on all sales to be paid to the Exchange Service. Sales records show that sales of \$397,359 were not reported and the Exchange Service lost commissions totaling \$39,735. (OSI-2)	\$39,735	Case was referred to Commander of the Exchange Service in Europe in December 1979, and is pending command action.

<u>Line Item</u>	<u>Nature of Incident</u>	<u>Estimated Monetary Loss</u>	<u>Results of Action or Current Status</u>
9	A foreign national employed as a computer operator issued \$33,800 of Government property to a squadron warehouseman. Property could not be located or accounted for. (OSI-3)	\$33,800	Both subjects have dropped out of contact. If they can be located the case will be referred for action.
10	Subject and four employees claimed payment as full time employees on an Air Force contract when they were working on a totally separate contract. DCAA audits disclosed that numerous costs claimed by subject had been disapproved. Payments totaling \$177,387 had been suspended. (OSI-4)	\$177,387	Subject appealed to Armed Services Board of Contract Appeals. Results of that action are pending.

EXHIBIT I

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

COMPTROLLER FUNCTIONS

Overtime at Army Depots. Reductions of about \$9 million annually can be achieved at Army depots by discontinuing the practice of authorizing overtime (i) on maintenance projects assigned low and medium priorities unless it can be demonstrated that the overtime is absolutely essential, (ii) for over-scheduled work requirements, (iii) to meet supply performance goals, (iv) for security guard shift changes, (v) to employees eligible to receive compensatory time, and (vi) for routine work in nonmission areas. Management agreed and stated that the recommended corrective actions would be taken. (AAA HQ 80-200)

Commissary Charge Sales. There are uncollected charge sales from commissaries to area club systems in excess of \$250,000. Customers apparently did not agree with the amount charged. Large amounts appear to have been uncollected upon centralization of billing in October 1977. Accounting system deficiencies are being investigated. (AIG)

SUPPLY FUNCTIONS

Management of Repair Parts and Components. Unneeded tank parts and components at an Army Depot had not been identified and reported for disposition upon completion of maintenance projects. The items valued at more than \$2.7 million were costed to maintenance projects but were never used. At the same time, the depot was frequently cannibalizing reparable tanks for repair parts without updating consumption records and canceling backordered requisitions. Management agreed and stated that actions would be taken to transfer unneeded materiel to open projects or to the supply system and to cannibalize only in emergency situations. (AAA SO 80-8)

Blanket Purchase Agreements. Supply support activities processed numerous local purchase requests under blanket purchase agreements without first attempting to obtain the items through normal supply channels. Some items locally purchased exceeded normal procurement costs up to a factor of eight. An internal review was conducted and investigation is currently in progress to determine responsibility. The organization has reemphasized proper procedures and is conducting unannounced followup inspections. (AIG)

Property Disposal Losses. Net inventory losses (approximately \$1 million) at a Property Disposal Office were excessive relative to the number of materiel receipts and the on-hand inventory balance. Closer scrutiny is now given to the processing of Inventory Adjustment Receipts/Vouchers and greater emphasis is being placed on factual data. (DLA-IG)

SUPPORT SERVICES

Blood Bank Operations. Excess blood bank inventories were stocked at two Army medical activities. Redistribution programs (with other Defense Department medical activities, VA hospitals, Red Cross, civilian hospitals, etc.) were not effective. As a result, the two medical activities disposed of over 1,400 units of blood because the storage life expired. (AAA SO 80-2 and SO 80-5)

Hand Receipt Manuals. The Army spent about \$276,000 to acquire and distribute hand receipt manuals that were excess to the needs of the recipients. In addition, the Army was planning to spend an estimated \$6 million for additional copies of manuals that may not be needed. A comparable sum could be wasted on shipping, handling, and storing excess quantities of these manuals. Management agreed to withdraw pending acquisition actions until appropriate distribution requirements have been established. (AAA MW 80-5)

PROCUREMENT FUNCTIONS

Problem Contractors. At several US Army Training and Doctrine Command (TRADOC) installations, contractors with a pattern of poor performance continued to receive contract awards. Additionally, contracting officers and facilities engineer personnel tolerated unsatisfactory performances and extensive delays on contracts or terminated contracts for the convenience of the Government rather than initiating default proceedings against substandard contractors. As a result of the audit, management took action to inform all TRADOC installations of the need to select responsible prospective contractors. Also, compliance with performance evaluation reporting requirements was included in a fact sheet identifying contract administration as an area of major interest for the TRADOC Inspector General for fiscal year 1980. (AAA EC 80-200)

Management of Aviation Fuels. Fuel owed the Republic of Korea Air Force was not repaid until after substantial fuel price increases had occurred; this increased the cost of flying by approximately \$1.2 million. Management concurred and took action to process fuel transactions that had been jointly certified by the United States and the Republic of Korea Air Force and to implement written procedures requiring monthly reconciliation and processing of fuel transactions. (AFAA 462-2)

Locally Awarded Service Contracts. Procurement practices and contract management at some Air Force bases were weak. Some Small Business Administration (SBA) contracts were awarded at costs above the fair market price range. Services contracted and paid for were not always received; services were not always obtained at reasonable, competitive costs; and competition was limited because of restrictive contract requirements. Also, some bases were not adequately monitoring contractor performance. Management concurred and published a regulation which clarified and definitized procedures for writing and administering locally awarded service contracts. Management also reiterated the need for base contracting offices to maintain skilled/trained personnel in cost and price analysis and that only fair market prices are to be established in SBA award considerations. (AFAA 95569)

Losses in Industrial Plant Equipment Sales. About \$121,500 of the \$575,000 of Industrial Plant Equipment under contractor cognizance in one Defense Contract Administration Services Region was sold as "scrap". The "scrap" sale netted the Government a 1.4 percent return as opposed to a 28 percent return for "useable" equipment. The Inspector General challenged the "scrap" designation and directed more stringent management attention to classification of previously useable equipment and better care and handling of the equipment turned in for storage. (DLA-IG)

MANUFACTURING, MAINTENANCE AND REPAIR FUNCTIONS

Overhaul Requirements. An Army materiel readiness command programed \$9.9 million for overhaul of secondary items which, when put into a serviceable condition, would be excess to the Army's planned requirements. The overhaul of items not currently needed ties up funds that could be used to finance unfunded maintenance requirements. Command indicated that either the recommended reduction would be made, or that the supply position of the items would be re-studied to determine what reduction, if any, was warranted. (AAA MW 80-4)

Fabrication of Repair Parts. Controls had not been established by an Army depot to prevent the routine use of in-house fabrication to satisfy repair parts requirements. Army auditors noted that for 44 fabrication work orders, costing about \$435,000 excess costs of about \$279,000 were incurred because the parts were fabricated in-house rather than obtained from available, more economical, supply sources. Management agreed to limit fabrication to those parts that are essential to sustain immediate maintenance production until parts can be obtained from a primary supply source. (AAA SO 80-8)

TRANSPORTATION FUNCTIONS

Airline Discount Coupons. Adequate controls were not established for collection of half-price discount coupons from Navy travelers. This has resulted in noncollection of discount tickets in an indeterminate amount, projected at \$700,000. (NAVAUDSVC A30189)

Bulk Petroleum Carrier Costs. Lack of current Freight Movement Control System freight rate information at a major Service Center resulted in the use of bulk petroleum carriers that were not lowest bidders. (In fiscal year 1977 DoD saved \$2.9 million in rates through volume movement negotiations.) It was recommended that action be initiated to develop a Master File Rate Data Base and to optimize use of available Electronic Data Exchange with particular carriers to assure timely rate information and use of lowest cost carriers. (DLA-IG)

REAL AND INSTALLED PROPERTY PROGRAMS

Engineer Project Management. Maintenance and repair projects at an Army installation had been designed, funded, or were in progress, for buildings that were scheduled to be demolished. Facilities engineering personnel did not always coordinate individual projects with the installation's master plan, nor was full consideration given to performing only minimum essential work on such buildings. Consequently, about \$320,000 has already been spent and another \$280,000 was earmarked to be spent on buildings to be torn down. Management agreed to perform only minimum essential maintenance and repair on buildings programed for disposal. (AAA EC 80-1)

Family Housing for General, Flag, and Senior Officers. The Military Departments provided extraordinary services and furnishings to general, flag, and senior officers in family housing units. DoD guidance was not precise, and the family housing managers were making very liberal interpretations of the guidance. Elimination of the extraordinary benefits could reduce DoD's family housing costs by several million dollars annually. The Military Departments generally disagreed stating that the existing policies, procedures, and controls were adequate. (DAS 80-61)

ENERGY CONSERVATION PROGRAMS

Energy Conservation Recommendations. An activity forfeited potential savings of approximately \$2.8 million by not implementing recommended energy conservation projects. The activity took action during the audit to implement the recommendations. (NAVAUDSVC C37829)

Air Refueling Support. Excess fuel was being carried on KC-135 missions at a cost of \$2.6 million annually. Directives did not provide definite guidance for computing aircraft fuel allowances. Management concurred with AFAA recommendation to publish more definitive guidance on fuel conservation policies, procedures and computation factors. (AFAA 460-12)

RESEARCH AND DEVELOPMENT

Logistics Research and Studies Program. There was a lack of specific directives and criteria for determining study subjects that were eligible for funding under the Air Force Logistics Research and Studies Program. This contributed to the expenditure of \$2.4 million for projects not compatible with overall program objectives. Air Force auditors recommended that management formulate specific criteria for governing expenditure of logistics research and study funds. Management concurred in principle and established specific criteria for determining eligible subjects. (AFAA 95439)

EXHIBIT J

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

COMPTROLLER FUNCTIONS

Claims, Defense Program. The claims data collection systems used by the Army and the Navy did not provide complete, timely, and accurate data to manage and report claims activity. If the Navy discontinued implementation of its data collection system and adopted the proven Air Force system, nearly \$300,000 of costs could be avoided and about \$240,000 of recurring annual costs would not be required. The Office of the Assistant General Counsel (Fiscal Matters), Office of the Secretary of Defense, agreed that the collection system should be uniform but did not indicate what actions should be taken to achieve uniformity. However, the Navy's Deputy Judge Advocate General initiated action to implement a system compatible with the Air Force system. (DAS 80-033)

Obligation Balances on Expired Contracts. IG inspection of major Supply Center noted unacceptable lack of action to determine costs incurred on \$2 million of expired fiscal year 1979 service orders and to deobligate approximately \$1.4 million. IG recommended immediate action to complete cost determinations and to deobligate excess funds. (DLA-IG)

SUPPLY FUNCTIONS

Fuel Reimbursements. Reimbursement procedures for issues of automotive gas and diesel fuel from one Army unit to another in Europe resulted in: (i) unneeded accounting transactions; (ii) errors and confusion in the accounting for reimbursements and for credits for unused fuel coupons; (iii) a loss of \$830,000 in operation and maintenance funds; (iv) a Coupon Redemption Account, which needlessly tied up \$2.2 million; and (v) the potential for thefts. Management agreed that the current financial procedures for reimbursable issues of fuel caused problems and needed to be corrected but at the time of the audit was unsure of the corrective actions to be taken. (AAA EU 80-201)

Direct Exchange Program. Direct exchange inventories at an Army overseas maintenance support activity exceeded authorized stockage level by \$1.8 million. An additional \$1 million of parts were due in. Army auditors estimated that most of the excess could be eliminated through redistribution and cancellations. Management agreed and stated that appropriate instructions had been issued to eliminate the excess inventories. (AAA EU 80-1)

Stock Levels. Two Naval Air Rework Facilities maintained inventories above that authorized or necessary to meet the production demands. These facilities had combined excesses on hand totaling \$9.8 million. Management has initiated action to correct the conditions responsible for the excess inventories. (NAVAUDSVC C42949 and C17049)

Electronic Warfare Systems. Acquisition of initial spares support list (ISSL) items valued at \$4 million was not properly justified and requirements computations did not exist to support \$7.9 million in other ISSL requirements. As a result of the audit, Air Force Logistics Center is clarifying guidance pertaining to the acquisition of ISSL items in excess of requirements calculations, justification for deviating from computed quantities, and the need to retain supporting documentation. (AFAA 87382)

F-4 Operational Capability Enhancement Program. At least \$9 million in unnecessary depot overhaul and procurement costs could be avoided if items permanently removed from modified assets were bench checked for serviceability. AFAA recommended, and management agreed to, establishing the bench check/serviceable turn-in approach for the management of assets permanently removed for class V modifications. Management is conducting a study to determine the type of data required to ensure proper guidance is provided item managers. (AFAA 87380)

Conventional Air Munitions. Actual quantities of munitions on hand exceeded accountable record balances by \$25.1 million. This resulted in overstated requirements and could cause excesses. AFAA recommended that management evaluate the necessity of maintaining air munition balances in the DO34A system. If it is determined that the DO34A systems should be maintained, the Air Force asset records should be reconciled with the single manager, and reconciliation results employed in procurement decisions. Management concurred and directed that a study be accomplished to determine to what extent the DO34A system will continue to be used under the single manager concept. (AFAA 87424)

F-4 Logistics Support. Logistics support for selected F-4 modifications was degraded because follow-on spares support lists were not adjusted based on actual, current usage data. Forty-two percent of the Pave Spike and Maverick items were excess, and needed items were not added to the support lists. In addition, the lack of reconciliations between the F-4G weapon system and related subsystem support lists resulted in delayed spares support and a maldistribution of assets valued at approximately \$468,000. Management agreed that necessary additions and deletions should be made to the support lists. (AFAA 87380)

F-16 Program Management. The excessive time required to definitize orders for the F-16 provisioning contract caused funds in excess of requirements to remain obligated and unavailable for new acquisitions. During fiscal year 1980, these obligated excess funds are projected to reach \$100 million if the existing procedures continue. Management responded to the audit recommendations by establishing a work group to monitor improvements in the provisioning process and simplifying the task of definitization and deobligation of excess funds. (AFAA 97411)

Security of Small Arms and Ammunition. Physical security requirements for a large volume of low-risk ammunition were overstated. The auditors believe that projects for installing intrusion detection systems, security lighting, replacing perimeter fencing, or constructing new weapons storage facilities at a cost of \$123.5 million could be reduced by \$80.5 million. It was recommended that the Office of the Deputy Under Secretary of Defense for Policy Review evaluate the Military Department's plans for improving security over small arms, ammunition and explosives. The Office of the Deputy Under Secretary of Defense for Policy Review did not concur in the recommendations. (DAS 80-021)

Replenishment Policies for Secondary Investment Items. The Army was not achieving an acceptable rate of return of unserviceable assets to depot repair facilities when compared to the Navy and Air Force. The auditors estimated that, by increasing the rate of return of the 19 sampled items to 90 percent, the net cost of meeting current requirements for these items could be reduced by over \$12 million. The Army generally concurred and stated, in part, that the Army was in the final stages of a study which would recommend procedural changes to enhance the management of reparable. (DAS 80-041)

Control of Compressed Gas Cylinders. When requisitioning compressed gas from Navy stock points, user commands are required to turn in empty gas cylinders in exchange for filled ones. A naval shipyard was requisitioning cylinders and gas from a naval supply center and later returning empty cylinders at irregular intervals. This caused fluctuations in the supply center's stock of cylinders and resulted in the shipyard not receiving \$509,191 in credit for cylinders actually returned. An accounting adjustment has been made and controls have been implemented requiring the exchange of cylinders. (NIR)

Individual Clothing and Equipment. Inspections in one Army area of the Army National Guard revealed significant losses of individual clothing and equipment. These losses, attributable to inadequate safeguarding, inventories, and storage practices, are estimated to be approximately \$1 million in the past six months. (AIG)

Excess Material. An estimated \$500,000 of idle equipment was on hand at an activity. Unaccountable material was found in the shops and in an unofficial holding area. As a result of the inspector's recommendation, a program to identify and properly dispose of the excess materials has been implemented and excess shop materials are being purged and returned to appropriate supply channels. (AFIG)

Replacement Parts for Minuteman Missile. Exhaustion of present stock of Minuteman missile high reliability/hardness critical parts will require the design and certification of replacements at an approximate cost of \$125,000 per item. There are more than 6,000 items that may require this type of action. Inspectors recommended "Life-of-Type" buy for the critical items being phased out by the manufacturer. The recommendation is under consideration. (AFIG)

Non-Return of Credited Excess Material. In fiscal year 1979, a major Supply Center authorized \$28.6 million in revolving fund credit to the Military Services but received only \$16.7 million in returns from Service customers. The non-return of \$11.9 million in assets resulted in delay in redistribution for new customer requirements and posed potential for numerous, unnecessary new procurements. It was recommended that immediate action be taken to review the situation and resolve the shortfalls. (DLA-IG)

SUPPORT SERVICES

Inpatient Activity. The inpatient workload at an Army hospital was well below the lowest DA staffing standard. Annual savings of at least \$427,000 may be possible and at least 27 military personnel could be reassigned by closing the inpatient activity and discontinuing associated support services. Additionally, a \$2.6 million hospital modernization program could be reduced if the inpatient activity were closed. The Army Surgeon General disagreed and stated that any savings that might accrue by reducing the hospital to a clinic would be more than offset by the additional costs of providing medical care through the Civilian Health and Medical Program of the Uniformed Services. Additionally, closure of the facility may impact recruitment and retention of military personnel. AAA replied that military personnel (and dependents) can be accommodated at other uniformed service hospitals located in the immediate geographic area. (AAA NE 80-12)

Contract Operation of Tankers. Three classes of tankers are manned by contract crews. If these ships were manned by civil service mariners, discounted savings of approximately \$38 million are possible over a five year period. Increased civil hire authority would be required to permit this change, however. The Assistant Secretary of the Navy (Manpower, Reserve Affairs and Logistics) is undertaking an evaluation of a change to civil service manning when the present contracts expire. (NAVAUDSVC A31109)

Audiovisual Support for Training. Even though 62 percent of the Training Extension Course lessons issued to activities had not been used, the Army planned to develop 2,376 additional lessons at an estimated cost of \$29.3 million. About \$26.1 million in reproduction and distribution costs could also be saved if the Training and Audiovisual Support Center at each installation controlled and issued lessons to troop units as needed instead of automatically distributing the lessons. Also, about \$1.1 million annually in operating costs could be saved by consolidating the US Army Training and Doctrine Command educational television facilities into one regional site. The Principal Deputy Assistant Secretary of Defense (Public Affairs) agreed that a reduction in the level of funding for the Training Extension Course program seemed to be in order and that some form of reduction in the number of educational television facilities was needed. The Army stated that a study to determine what changes in policies and procedures were required to improve the efficiency of the Audiovisual Distribution System was near completion. (DAS 80-042)

Confinement Facilities. Three bases house their prisoners at a common location but less than 20 prisoners were confined in calendar year 1979. Further consolidation with other bases could result in extensive manpower and money savings. A management analysis outlined four viable proposals that could save \$700,000. A study is underway to determine the possibility of combining confinement facilities. (AFIG)

PERSONNEL MANAGEMENT AND TRAINING FUNCTIONS

Missile Authorizations. CHAPARRAL missiles authorized to be fired in military occupational specialty training classes were twice the number authorized for classes involving other missile systems. Training personnel could not provide documentation or explain why it was necessary to fire more CHAPARRAL missiles than other missiles. Reducing firing of CHAPARRAL missiles to one per class would save 50 missiles or about \$2 million annually. Management agreed and stated that the authorization Common Table of Allowances had been reduced accordingly. (AAA SO 80-207)

Mapping, Charting and Geodetic Military Survey Resources. The Defense Mapping Agency (DMA) needs to expand its mission to provide technical assistance to artillery weapons systems managers. Utilization of advanced satellite positioning system equipment in conjunction with implementation of the Position and Azimuth Determining System would result in a reduction of about 3,900 surveyors for the Army and Marine Corps without degrading artillery mission effectiveness. Annual personnel and training costs associated with the 3,900 surveyors totaled \$35.9 million. The Army and DMA agreed that there was a need for DMA to expand its technical assistance on surveys to artillery weapons systems managers. The Navy concurred that there was need to improve Marine Corps artillery survey capabilities and that assistance from DMA would be beneficial. The Navy believes that other mission requirements would, however, impact on the actual number of reductions in personnel which can be made. (DAS 80-080)

Recruit Training Activities. The attrition rate of new recruits within DoD could be reduced by a more thorough examination prior to their acceptance. The cost to the Services was about \$4.6 million before the enlistees were "washed out" of the training program. In addition, the application of peak surge techniques to project training resource requirements and the consolidation and redistribution of training workload among the Army training centers could result in the elimination of 12 training companies and save annual pay and allowances of \$4 million. Management generally agreed with the intent of the recommendation to reduce recruit attrition but stated that the attrition categories covered by the audit may already be at their practical minimums. Management also stated that the fiscal year 1980 and 1981 programs have been reviewed to assure compatibility between the number of training companies and the accession program. (DAS 80-082)

Retired Military Pay to Survivors. Unreconciled differences in basic identification and payment data between the records of the Veterans Administration and DoD contributed to cumulative overpayments of \$570,513 to survivors of military personnel. The problems could be resolved by including these accounts in the annual reconciliation of VA and DoD records, researching unreconciled differences, and correcting the records. DoD agreed with the recommendations and action by DoD and the VA is in process. (DAS 80-060)

Pay Determination. A random review of pay actions for personnel in upward mobility positions at an activity identified more than 100 improper personnel actions and pay determinations resulting in overpayment of as much as \$1,500 per annum, per employee. Corrective action was taken to adjust the salary of personnel who were overpaid. (AFIG)

PROCUREMENT FUNCTIONS

Industrial Plant Equipment. An Army command did not always screen the DoD General Reserve of industrial plant equipment to see if items were available to fill shortages in equipment packages. As of August 1979, there were 1,297 known shortages in industrial plant equipment at the command. Army auditors reviewed 69 of these shortages and identified seven instances where the shortages, with a current acquisition cost of about \$966,000, could have been filled from the General Reserve. Management agreed and stated that automated screening of the DoD General Reserve for equipment availability will be accomplished. (AAA MW 80-203)

Breakout Reviews for Spare Parts Procurement. Sole-source purchases accounted for 71 percent of the \$332 million in major procurements made by a major Navy inventory control point during fiscal year 1978. Additionally, breakout reviews to identify items which could be competitively procured were not conducted before the buying cycle. Management concurred with audit recommendations which would enable a more accurate determination of procurement requirements and provide added lead time, thereby reducing dependence on sole-source procurement. (NAVAUDSVC C24739)

Procurement Activities at Defense Supply Centers. The Defense Supply Centers made some awards for items that were from 31 to 921 percent above the prices paid on previous procurements. This occurred primarily because the Centers did not use all past procurement information available to them. The auditors estimated that the Centers paid as much as \$4.9 million more than necessary for items procured. In addition, the Centers could realize savings by emphasizing economical buying approaches, such as the use of variable quantity buying and increased item manager involvement. DAS estimated that savings of over \$5.5 million are possible using improved techniques. The Director, Defense Logistics Agency concurred with the recommendations. (DAS 80-071)

Contract Administration Organization Staffing. The workload indicator used by Headquarters, Defense Logistics Agency for staffing the Contract Administration Division results in overstaffing and maldistribution of manpower resources. An indicator based on active contracts that require the attention of an administrative contracting officer would be more appropriate and could reduce staffing needs by 239 spaces with related annual savings of about \$6 million. The Director, Defense Logistics Agency did not concur with the recommendations to modify the workload indicator and to reduce staffing. The Deputy Director did acknowledge that the problem of developing an accurate and sensitive indicator was a long standing problem and that the current indicator was not perfect. (DAS 80-049)

Need for Production Organization. The need for a separate Production organization within the Defense Contract Administration Services (DCAS) is no longer warranted. The surveillance work being performed on over 90 percent of the contracts is usually not needed and duplicates buying office systems for determining delinquencies. The remaining Production Division personnel are involved with functions that are closely linked to the Contract Administration Division. A reduction of 412 spaces and annual savings of \$5.6 million in salaries and benefits would result. The Deputy Director for Contract Administration Division did not concur in the recommendation to eliminate production surveillance efforts performed by progress control clerks. He concluded that these clerks provide a valuable service for buying activities and that the elimination of such service would meet with strenuous opposition from buying activities. (DAS 80-049)

Acquisition of Information System. In planning for the security of an information system which provides for bulk processing of highly sensitive data, tests performed on National Security Agency facilities identified adequate radio frequency attenuation in the area under consideration to permit an alternative TEMPEST design and installation. This alternative approach resulted in a cost avoidance of \$1.6 million (NSAIG)

MANUFACTURING, MAINTENANCE AND REPAIR FUNCTIONS

Repair Cycle Float. The repair cycle float factor used to compute requirements for CHAPARRAL fire units had not been updated since 1975. Based on an updated float factor, the computed number of CHAPARRAL fire units required could be decreased by six, thus allowing the Project Officer to exclude about \$6 million from future budget requests. Management agreed and stated that the overhaul programs could be accomplished with 32 fire units in lieu of 38 units, and that future budget requests would reflect the reduced requirements. (AAA SO 80-207)

Inspect and Repair Versus Overhaul. An Army depot was overhauling M60A1 tanks when a reduced level of maintenance was called for. Available documentation showed that most of these vehicles could have been returned to serviceable condition through repair, at \$6 million less than was required for complete overhaul. Management agreed to discontinue diverting tanks from inspection and repair projects to overhaul solely to satisfy overhaul induction requirements. (AAA SO 80-8)

Disposition of Nonaccountable Maintenance Material. A Naval Air Station's Public Works shops accumulated an estimated \$1 million of maintenance material not on accountable records. Due to the manner in which it was stored, (i.e., not recorded, segregated, labeled or organized), the material was virtually useless. The Naval Air Station proposed to screen all accumulated material, establish preexpended bins for items to be retained, and turn in excess items. (NAVAUDSVC A10139)

Excess Versatile Avionics Shop Test (VAST) Equipment. Present configurations of VAST stations at several Navy activities contain components not needed for the tests at those activities. By using these excess components in assembling new MINI-VAST stations to perform specific tests at designated locations, additional procurements of \$7.5 million could be eliminated. Also, some excess components could be redistributed for use in training facilities. Management agreed to evaluate component usage to determine to what extent the unneeded components could be removed and reallocated. (NAVAUDSVC T10019)

Managing Naval Shipyard Overtime. A significant amount of the \$7,221,000 in calendar year 1978 overtime costs at a Naval shipyard was incurred without adequate formalized advance approval. The auditors recommended that procedures be established for approval and for followup random checks. The recommendation is being implemented. (NAVAUDSVC C42069)

Reclaiming and Shipping of Sandblasting Grit. Repair and proper utilization of a Naval shipyard's inoperable grit reclaimer could reduce procurements of new grit by more than \$1 million over the next two years and by about \$250,000 each year thereafter. In addition, modification of shipping specifications for bulk deliveries of grit could significantly reduce costs. Corrective action has been taken. (NAVAUDSVC C13839)

Aircraft Engine Management at Base Level. Spare engine stockage objectives were not being computed or validated consistent with Air Force guidance. Use of established computation procedures could have reduced fiscal year 1979 overhaul costs by \$5 million. Stockage requirements for afterburners and quick engine change kits could also have been reduced. Management concurred with recommendation that spare engine stockage objectives be computed in accordance with prescribed procedures and that directives be amended to include more definitized procedures for reviewing and validating spare engine requirements. (AFAA 95452)

Acquisition and Use of Flight Loads Data. Valid flight loads data had not been effectively collected and processed for analysis. Consequently, the objectives and benefits of the flight loads data recorder (FLDR) program had not been fully realized. AFAA recommended that management reevaluate the use of FLDRs to determine whether the continued application of resources is justified by the benefits that can be reasonably expected to accrue. Approximately \$2.4 million in costs can be avoided if the FLDR program is discontinued. AFAA recommended that if the program is continued, improved data collection and analysis processes be established. Management concurred and stated that the program will be fully evaluated to determine whether continuation is justified. (AFAA 97521)

TRANSPORTATION FUNCTIONS

Coal Costs for U. S. Forces in Europe. U.S. coal is being shipped to Europe for use by U.S. Forces even though European coal is available. Various options are available to acquire some or all of the coal from European sources. Potential savings of these options range from \$12 million to \$61 million. Implementation of certain of these options, however, would require renegotiation of a present U.S./West German base agreement, and consideration of the Buy American Act and the Balance of Payments Program. The Navy has forwarded these findings to the Assistant Secretary of Defense (Manpower, Reserve Affairs and Logistics) for consideration. (NAVAUDSVC A31109)

REAL AND INSTALLED PROPERTY PROGRAMS

Family Housing. At an Army support activity, 107 family housing units (10 percent of the available units) were vacant. At the same time, annual housing allowances of \$266,000 were paid to military personnel living off post who were eligible to occupy these quarters. Management agreed and stated that mandatory housing for all eligible military personnel had been directed. (AAA NE 80-7)

Real Property Maintenance Activities. There was a need for interservice reallocation of installation facilities and housing at an Air Force Base in Hawaii. The transfer of property from the Air Force to the Army, with the appropriate compensation to the Air Force, could obviate the need for as much as \$15 million in construction projects, conserve operating funds and energy resources, and result in more equitable use of military housing assets. The Commander-in-Chief, Pacific concurred with the intent of the recommendations. (DAS 80-058)

ENERGY CONSERVATION PROGRAMS

Requirements for Air Refueling Support. Inaccurate forecasts for tanker (KC-135) Category A support (major command proficiency training and formal course training activity) were prepared by organizations requiring tanker support. Audit tests indicated that both fiscal years 1980 and 1981 forecasts for KC-135 support were overstated by approximately 26,000 flying hours (\$46.7 million) because Category A forecasts were over and above the minimum training requirements specified in directives. Improving the forecasting and validating process for computing Category A air refueling training requirements would increase the accuracy and reliability of future KC-135 flying hour programs. Management concurred with AFMA recommendation that directive guidance be revised to ensure requirements are properly forecasted and validated. (AFMA 99949)

Fossil Fuel Reclamation Program. Large quantities of used diesel fuel and gasoline at a major Service Center were being sold as "waste". In June 1979, "waste" fuel was sold at \$.0625 per gallon, while the prevailing rate for foreign crude oil approximated \$1.00 per gallon. The Center sold an estimated 2.4 million gallons of "waste" fuel each year. The quantities sold annually throughout DoD measure in thousands of barrels. The IG concluded that a DoD fossil fuel reclamation program, similar to the DoD Precious Metals Program, would be beneficial. (DLA-IG)

AUTOMATIC DATA PROCESSING PROGRAMS

Uniform Automated Data Processing System - Stock Points (UADPS-SP). At the time of the audit, there was a backlog of over 1,200 projects. A review of 31 backlogged projects showed that potential benefits to all UADPS users totaling \$14.8 million were not realized because of their noncompletion. Management agreed, and is undertaking special measures to reduce the backlog. (NAVAUDSVC C44259)

Government Funded Automatic Data Processing Equipment at Contractors' Plants. DoD could reduce its costs of future automatic data processing equipment acquisitions by up to \$100 million through better management of accrued owner equity in automatic data processing equipment leased under Defense contracts. Also, the Army and Navy needed to make better reviews of contractors' automatic data processing capabilities and of the need to continue leasing computer equipment. The auditors estimated that better reviews could reduce Army and Navy contracting costs by \$36 million annually. Recommendations were made to the Office, Secretary of Defense (OSD) and the Services designed to strengthen controls and revise the Defense Acquisition Regulation in order to protect the Government's interests. The findings and recommendations were concurred in by OSD and the Military Departments. (DAS 80-014)

Automatic Data Processing Operations at the Office of the Civilian Health and Medical Program of the Uniformed Services (OCHAMPUS). Many operational problems at the OCHAMPUS have not been adequately addressed because of problems in obtaining and managing ADP equipment and systems. We believe OCHAMPUS needs to refine and better define its information requirements. After requirements are better defined and established, an analysis should be made of the various options open to OCHAMPUS to obtain necessary ADP support over the long term. It was recommended that excess ADP equipment, rather than the currently leased equipment, be used and that ADP support be obtained from the Air Force. Based on the audit, ADP procurement and building renovation actions were stopped at a savings of \$1.6 million and ADP support is being obtained from the Air Force. (DAS 80-024)

SECURITY ASSISTANCE

Billing for Reimbursable Services. Two Army materiel readiness commands had not established specific procedures and controls to ensure that Foreign Military Sales customers and grant aid programs were billed for costs incurred under maintenance support agreements. As a result, about \$2 million in reimbursable costs incurred at Army maintenance facilities had not been billed to customers. Management agreed and stated that actions will be taken to (i) identify outstanding billings and obtain appropriate reimbursements, and (ii) establish procedures to correct the condition. (AAA NE 80-2 and NE 80-3)

Management of Electronic Warfare Systems. Foreign Military Sales (FMS) reimbursable costs had not been identified or included in Letters of Offer and Acceptance, and appropriate billing for these costs had not been submitted to FMS customers. As a result of the audit, management reported \$11 million of the understatement to the Security Assistance Accounting Center for customer billing. (AFAA 87382)

EXHIBIT K

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

The active operations audit program of the Defense Contract Audit Agency is designed to identify areas of defense contractors' operations that result in increased costs to DoD contracts because of uneconomical or inefficient operations. Operations auditing involves the review and evaluation of contractor's policies, procedures, internal controls and practices for the purpose of finding ways to make them more economical and efficient.

For the six-month period ended March 31, 1980, DCAA completed 217 economy/efficiency audits with total recommended cost avoidance of approximately \$56 million. Examples of significant audit findings follow:

Material Receiving, Inspection, Storage and Issue. One review disclosed that an inordinate amount of time was spent by a contractor looking for material and this condition caused production delays and necessitated the reassignment of production personnel. DCAA recommendations included (i) consolidation of material counting and quality assurance activities, (ii) establishment of material inspection sampling techniques, (iii) replacement of certain warehouse material handling equipment, and (iv) establishment of procedures to periodically sample inventory records for accuracy. The contractor concurred in all of the above recommendations, resulting in an annual cost avoidance of \$700,000.

Word Processing. An evaluation of a contractor's administrative functions disclosed that the preponderance of effort involved typing of repetitive material and revisions to original documents. Most of the typing work was performed on standard typewriters. DCAA recommended that the contractor obtain video display equipment with optical character reading input and centralize text production effort. The contractor's agreement with the audit recommendation resulted in an annual cost avoidance of \$690,000.

Facilities Management. These audits encompass the review for efficiency and economy of various contractor functions, such as maintenance of grounds and equipment, janitorial service, plant security and rearrangement projects. One such review disclosed that the contractor had inadequate procedures and practices relative to the control of plant rearrangement costs. Based on DCAA's recommendation to consolidate the various and scattered plant rearrangement functions into one organization, the contractor has realized an annual cost avoidance of approximately \$1 million.

Energy Programs. Rapid increases in energy costs and the Nation's energy shortage have made this area of special importance. These reviews are concerned with determining that the contractor's energy program is managed in an effective and efficient manner. Specific areas of audit evaluation are: (i) heating, ventilating and air conditioning, (ii) lighting, and (iii) water heating and cooling. For example, physical observations and discussions at one contractor disclosed that minimal use was made of energy efficient fluorescent lighting equipment and the contractor was using a costly inefficient, and antiquated steam distribution system. Specific recommendations included (i) group replacement of standard fluorescent lamps and ballasts saving 7.6 million kilowatt hours and \$2.3 million, annually and (ii) establishment of a maintenance program for the steam distribution system, enabling a savings of 228.8 million pounds of steam and \$1.2 million, annually. The contractor has initiated corrective action on both of the DCAA recommendations.

EXHIBIT L

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

This Exhibit shows the current status or disposition of those incidents reported in Exhibit F of the prior DoD Reports to the Congress. Items are not shown on this Exhibit if final disposition was shown in one of the prior reports.

<u>Initially Reported</u> <u>Exhibit F</u> <u>Period Ended</u>	<u>Line</u> <u>Item</u>	<u>Incident</u>	<u>Investigative</u> <u>Organization/</u> <u>Action</u>
A. <u>INVESTIGATION COMPLETED:</u> <u>NO FRAUD OR CRIMINAL ACTIVITY DISCLOSED:</u>			
Mar 31, 1979	F 34	Irregularities in contracting practices	DIS
Mar 31, 1979	F 61	Alleged diversion of supplies	OSI
Mar 31, 1979	F 70	Alleged theft of food	OSI
Mar 31, 1979	F 72	Possible conflict of interest	NIS
Sep 30, 1979	F 15	Inventory and procurement irregularities	OSI
Sep 30, 1979	F 26	Arbitrary overpricing	NIS
Sep 30, 1979	F 41	Misuse of Government resources	NIS
Sep 30, 1979	F 52	Unexplained loss of meat and vegetables	CID
B. <u>INVESTIGATION COMPLETED:</u> <u>DISCIPLINARY ACTION TAKEN:</u>			
Sep 30, 1979	F 4	Unauthorized space available travel	OSI
Sep 30, 1979	F 10	Cash shortages	CID/FBI
Sep 30, 1979	F 11	Alleged improper salary payments	OSI

Initially ReportedExhibit FPeriod Ended Line
 ItemIncidentInvestigative
Organization/
ActionC. INVESTIGATION COMPLETED:
 CASE REFERRED FOR PROSECUTION:

Mar 31, 1979	F 63	Alleged misappropriation of funds	CID - Judicial action pending; subject at large.
Sep 30, 1979	F 3	Unauthorized disability compensation	NIS - Two former Navy employees were convicted in Federal Court for receiving disability compensation when they earned wages not reported to Department of Labor. U.S. Attorney declined to prosecute 6 others. Department of Labor has terminated disability payments.
Sep 30, 1979	F 18	Stolen merchandise and inventory shortages	CID/Local Police - PX manager's employment was terminated and prosecution is pending. Four other subjects were convicted, confined and fined \$114,475.
Sep 30, 1979	F 20	Alleged falsification of refund vouchers	CID/FBI - Investigation completed in March 1980. Referred to Department of Justice.
Sep 30, 1979	F 30	Alleged improper payments	OSI - Case referred to U.S. Attorney General for prosecution.
Sep 30, 1979	F 38	Possible criminal activity in procurement practices	CID - Pending Grand Jury action.
Sep 30, 1979	F 43	Alleged diversion of telephone charges	OSI - Individual convicted by General Court Martial, given Dishonorable Discharge and sentenced for 3 years. Recoupment in process from telephone customers for \$4,495.
Sep 30, 1979	F 50	Apparent misuse of credit cards	NIS - Perpetrators convicted by General Court Martial.
Sep 30, 1979	F 51	Alleged manipulation of Army Ration Accountability System	CID - Investigation completed in March 1980. Judicial action pending against 8 military subjects.

Initially Reported
Exhibit F
Period Ended Line
 Item

Investigative
Organization/
Action

Incident

D. INVESTIGATION COMPLETED:
OTHER DISPOSITION:

Mar 31, 1979	F 3	Falsification of pay documents	OSI - Recoupment action was taken.
Mar 31, 1979	F 18	Inventory shortages	NIS - Perpetrators not identified. Added inventory controls implemented.
Mar 31, 1979	F 21	Concessionaire failed to report receipts	OSI/FBI - U.S. Attorney declined prosecution. Contract cancelled.
Mar 31, 1979	F 33	Alleged falsification of records	OSI - Recoupment action was initiated.
Mar 31, 1979	F 48	Possible falsification of documents and collusion	DIS - Assistant U.S. Attorney declined prosecution. Possible administrative action against DLA employee being considered.
Mar 31, 1979	F 51	Alleged unauthorized sale of assets	OSI - U.S. Attorney declined prosecution, as facts did not show criminal violations.
Mar 31, 1979	F 74	Possible unauthorized tuition payments	OSI - University involved debarred from base. Student credits were reviewed to determine where requirements have not been satisfied.
Sep 30, 1979	F 2	Potential fraudulent overtime	NIS - Disciplinary and recoupment action taken in cases where fraudulent or improper payments were determined.
Sep 30, 1979	F 8	Possible misuse of personnel and possible fraud in pay and allowances	OSI - Three subjects were identified. U.S. Attorney declined prosecution; Command action is pending.

<u>Initially Reported</u>			<u>Investigative</u>
<u>Exhibit F</u>			<u>Organization/</u>
<u>Period Ended</u>	<u>Line</u> <u>Item</u>	<u>Incident</u>	<u>Action</u>
Sep 30, 1979	F 12	Incomplete or nonexistent accounting records	Base Commander/OSI - Individual agreed to a nominal settlement.
Sep 30, 1979	F 13	Alleged embezzlement	Base Commander/OSI - Full restitution of the loss to be made.
Sep 30, 1979	F 17	Alleged falsification or destruction of cash receipt documents.	CID - One military subject pending General Court Martial.
Sep 30, 1979	F 21	Alleged absconding with deposits	CID - German Government and Department of Justice declined prosecution.
Sep 30, 1979	F 27	Possible theft and inadequate records management	CID - Four incidents resolved by administrative action. One referral resolved by crime prevention survey.
Sep 30, 1979	F 33	Questionable accounting practices	DIS - No jurisdiction for prosecution.
Sep 30, 1979	F 34	Inadequate and ineffective guidance and control of labor charges	NIS/FBI - Prosecution was declined.
Sep 30, 1979	F 35	Improper charges to Government contracts	OSI - Investigation completed. U.S. Attorney declined prosecution. Company returned \$101,800 to Government. Several employees were suspended without pay. Company took steps to improve management procedures.
Sep 30, 1979	F 40	Shortage of contaminated fuel	Base Commander/OSI - Contract cancelled and the monies paid by the contractor have been refunded.
Sep 30, 1979	F 49	Shortage of rations	CID - Investigation recovered property; insufficient evidence for prosecution.
Sep 30, 1979	F 54	Possible conflict of interest	OSI - Awaiting command action.

<u>Initially Reported</u>				<u>Investigative</u>
<u>Exhibit F</u>	<u>Line</u>		<u>Incident</u>	<u>Organization/</u>
<u>Period Ended</u>	<u>Item</u>			<u>Action</u>
	E.		<u>INVESTIGATION STILL IN PROGRESS:</u>	
Mar 31, 1979	F 19		Diamond merchandise unaccounted for	Local Police/ Assistant U.S. Attorney
Mar 31, 1979	F 22		Payments received for false certification	CID/FBI
Mar 31, 1979	F 27		Irregularities in contract administration	CID/FBI
Mar 31, 1979	F 31		Payments for services not received	OSI
Mar 31, 1979	F 32		Contractor performance	OSI/FBI
Mar 31, 1979	F 35		Suspected kickbacks involving contractor	Chief of Engineers, U.S. Army
Mar 31, 1979	F 37		Mischarging costs to Government contracts	DLA Counsel/FBI
Mar 31, 1979	F 38		Possible inflated claim by contractor	Counsel, Architect of the Capitol
Mar 31, 1979	F 39		Possible inflated claim by contractor	Counsel, Architect of the Capitol
Mar 31, 1979	F 41		Mischarging of costs to Government contracts	DIS
Mar 31, 1979	F 44		Suspected fraud in painting contract	CID/Small Business Administration/FBI
Mar 31, 1979	F 50		Suspected alteration of financial records	DIS
Mar 31, 1979	F 52		Alleged preparation of fraudulent bills	NIS/FBI
Mar 31, 1979	F 75		Unauthorized medical treatment	DIS

<u>Initially Reported</u>				<u>Investigative</u>
<u>Exhibit F</u>				<u>Organization,</u>
<u>Period Ended</u>	<u>Line</u>	<u>Incident</u>		<u>Action</u>
	<u>Item</u>			
Sep 30, 1979	F 1	Improper overtime payments		CID/FBI
Sep 30, 1979	F 5	Suspected false/erroneous pay and travel vouchers		OSI
Sep 30, 1979	F 6	Suspected abuses of Injury Compensation Program		OSI
Sep 30, 1979	F 7	Improper basic allowance for quarters		FBI
Sep 30, 1979	F 9	Questionable travel claims		DIS
Sep 30, 1979	F 14	Shortage in sales revenue		OSI/Base Commander
Sep 30, 1979	F 16	Possible shortages in amounts deposited in bank		CID
Sep 30, 1979	F 19	Fees owed by concessionaire		OSI/FBI
Sep 30, 1979	F 22	Slot machine manipulation		NIS
Sep 30, 1979	F 23	Inventory shortages		NIS
Sep 30, 1979	F 24	Manipulation and shortages in inventory		NIS
Sep 30, 1979	F 25	Refund manipulation		NIS
Sep 30, 1979	F 28	Potential fraud in procurement matters		CID/FBI
Sep 30, 1979	F 29	Improper procurement practices		NIS
Sep 30, 1979	F 31	Suspected contractor overbilling		OSI
Sep 30, 1979	F 32	Alleged excessive profits		DIS
Sep 30, 1979	F 36	Irregularities in labor charges		DIS
Sep 30, 1979	F 37	Possible improper charges in overhead accounts		DLA Counsel
Sep 30, 1979	F 39	Mismarking of contractor shipments		DIS
Sep 30, 1979	F 42	Cash adjustment not verifiable		OSI

<u>Initially Reported</u>			
<u>Exhibit F</u>	<u>Line</u>		
<u>Period Ended</u>	<u>Item</u>	<u>Incident</u>	<u>Investigative Organization/ Action</u>
Sep 30, 1979	F 44	Alleged disguising of subsistence losses	NIS
Sep 30, 1979	F 45	Overstated headcount	CID
Sep 30, 1979	F 46	Suspected fraudulent credit card purchases	FBI
Sep 30, 1979	F 47	Alleged falsification of dining facility records	CID
Sep 30, 1979	F 48	Alleged actions to unlawfully obtain additional rations	CID
Sep 30, 1979	F 53	Alleged improper compensation from contractor	CID/FBI

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

This Exhibit shows the current status or disposition of those incidents reported in Exhibit G of the prior DoD reports to the Congress. Items are not shown on this Exhibit if final disposition was shown in one of the prior reports.

<u>Initially Reported</u> <u>Exhibit G</u>				
<u>Period Ended</u>	<u>Line</u> <u>Item</u>	<u>Nature of Incident</u>	<u>Estimated</u> <u>Monetary</u> <u>Loss</u>	<u>Current Status</u> <u>or Disposition</u>
March 31, 1979	G 1	A civilian employee inflated vouchers for medical services provided by civilian hospitals. Referred to Department of Justice in December 1978. (CID)	\$2,252,782	Federal Grand Jury returned indictments. Subject is at large.
March 31, 1979	G 2	Contractor substituted dairy products that did not meet contract specifications. (CID)	\$310,700	Case still pending at Department of Justice.
March 31, 1979	G 3	A contracting officer's representative altered and certified documents submitted for "unauthorized" work performed, resulting in overpayments to the contractor. (CID)	\$50,732	Loss recovered; prosecution pending referral to Department of Justice.
March 31, 1979	G 4	Numerous irregularities at a finance and accounting office resulted in unauthorized advance payments. (CID)	\$37,000	All unauthorized payments (\$50,564) recovered; 9 subjects received administrative punishment. Charges against 3 subjects dismissed for insufficient evidence.
March 31, 1979	G 6	An Army Reserve member fraudulently received Government property for personal gain. Referred to Department of Justice in January 1979. (CID)	\$31,432	Pending before Federal Grand Jury.

<u>Initially Reported</u> <u>Exhibit G</u>			<u>Estimated</u> <u>Monetary</u> <u>Loss</u>	<u>Current Status</u> <u>or Disposition</u>
<u>Period Ended</u>	<u>Line</u> <u>Item</u>	<u>Nature of Incident</u>		
March 31, 1979	G 10	Navy audit of disbursing activity disclosed a cash shortage. Referred to United States Attorney, San Francisco, California in February 1979. Accountable officer returned \$204,673 and was relieved of all disbursing duties. (NIS)	\$218,848	Former disbursing officer convicted by Federal court for misappropriation of about \$219,000 and sentenced to 5 years imprisonment, with all but 6 months suspended. Being separated from Navy. All money returned.
March 31, 1979	G 16	Air Force commissary employees and patrons conspired to defraud the Government by underringing purchases made at one store over a 5-month period. Referred to British police. (OSI)	\$12,000	One subject received a letter of admonishment. Action still pending against one subject.
March 31, 1979	G 19	Alleged substitution of Rebranded Semi-Conductors (Case #1). Referred to United States Attorney, Dayton, Ohio, in October 1978. (DIS)	Undetermined	Assistant United States Attorney advised that case does not merit prosecution.
March 31, 1979	G 20	Alleged mischarging of costs of DoD contracts. Referred to Department of Justice in August 1978. (DIS)	\$1.5 million	Grand Jury in progress.
March 31, 1979	G 21	Alleged substitution of Rebranded Semi-Conductors (Case #2). Referred to United States Attorney, Dayton, Ohio, in October 1978. (DIS)	Undetermined	Grand Jury in progress.
March 31, 1979	G 22	Alleged mischarging of labor costs on contract. Referred to United States Attorney, Los Angeles, California, in November 1978. (DIS)	Unknown	Assistant United States Attorney advised that case does not merit prosecution.

<u>Initially Reported</u> <u>Exhibit G</u>			<u>Estimated</u> <u>Monetary</u> <u>Loss</u>	<u>Current Status</u> <u>or Disposition</u>
<u>Period Ended</u>	<u>Line</u> <u>Item</u>	<u>Nature of Incident</u>		
March 31, 1979	G 24	Contractor allegedly mis- charged costs to DoD. Referred to Department of Justice in August 1978. (DIS)	\$2.9 mil- lion	Grand Jury in progress.
March 31, 1979	G 25	False claims; illegal sale of Government- furnished material. Referred to United States Attorney, Memphis, Tennessee, in November 1978. Joint investigation with FBI. (DIS)	Undeter- mined	Audit disclosed \$400,000 in residual Government- owned property was unaccounted for and \$135,000 of property was recovered during search/seizure by Federal authorities. Company owner has been indicted and trial was set for April 1980.
March 31, 1979	G 26	Alleged product sub- stitution and false certification. Referred to United States Attorney, Los Angeles, California, in November 1978. (DIS)	Undeter- mined	DIS investigation continues for United States Attorney.
March 31, 1979	G 28	Alleged false claims CHAMPUS Program. Referred to United States Attorney, Sacramento, Cali- fornia, in October 1978. Joint DIS/ FBI investigation. (DIS)	Undeter- mined	DIS investigation continues for United States Attorney.
March 31, 1979	G 29	Alleged mischarging of costs to DoD contracts. Referred to United States Attorney, New York, New York, in March 1979. (DIS)	\$500,000	Grand Jury in progress.
March 31, 1979	G 30	Product substitution, false statement. Referred to Depart- ment of Justice in November 1978. (DIS)	Undeter- mined	Company president found guilty on 1 count and fined \$10,000. Company pleaded guilty to 8 counts, fined \$80,000. Defense Logistics Agency initiated debarment. Civil litigation pend- ing at Department of Justice.

<u>Initially Reported</u> <u>Exhibit G</u>	<u>Line</u>	<u>Nature of Incident</u>	<u>Estimated Monetary Loss</u>	<u>Current Status or Disposition</u>
<u>Period Ended</u>	<u>Item</u>			
September 30, 1979	G 1	Four employees, acting jointly, used fraudulent transfer vouchers to steal assorted merchandise from various Exchange outlets in an overseas area. One offender is at large; three are confined by civil authorities pending judicial proceedings; \$7,706 worth of stolen cosmetics was recovered. (CID)	\$79,984	PX manager's employment was terminated and prosecution is pending; four other subjects convicted, confined and fined \$114,475.
September 30, 1979	G 2	A civilian subject stole a truck, trailer and other equipment from a motor pool. The major pieces of equipment, valued at approximately \$30,971, were recovered. The case was referred to the FBI on August 22, 1979. (CID)	\$38,193	United States Attorney declined prosecution; property recovered.
September 30, 1979	G 3	Five foreign nationals, four of whom were employed at a United States Naval Station were involved in a scheme whereby the Navy paid for tires and inner tubes which were not delivered. The four employees were terminated. (NIS)	\$159,762	Trial in Icelandic courts still pending for all 5 individuals.
September 30, 1979	G 4	NIS and FBI investigations confirmed that a local oil company's employees loaded more waste oil than was paid for under a disposal contract at a Naval shipyard. The total value of stolen oil has not been determined, but was estimated at \$40,000 during a recent 1-week interval. (NIS)	Undetermined	Pending before Federal Grand Jury.

<u>Initially Reported</u> <u>Exhibit G</u>	<u>Line</u>	<u>Nature of Incident</u>	<u>Estimated Monetary Loss</u>	<u>Current Status or Disposition</u>
<u>Period Ended</u>	<u>Item</u>			
(Continued)				
Septem- ber 30, 1979	G 4	Two company employees, including a vice president, were arrested by the FBI. Adverse civilian personnel action against two shipyard employees who allegedly took part in the scheme has been deferred temporarily because of their cooperation with the investigation. (NIS)		
Septem- ber 30, 1979	G 7	An Air Force civilian employee diverted computer components for his own use. Subsequent search of his home resulted in recovery of \$26,743 of Government property. Referred to Department of Justice. (OSI)	\$28,500	Case pending action by Department of Justice.
Septem- ber 30, 1979	G 8	An Air Force commissary manager conspired with the manager of a produce company to defraud the Government by paying for goods not received. Commissary manager admitted receiving bribes of \$17,000 over a 2-year period. Referred to Department of Justice. (OSI)	\$51,000	Grand Jury indictment charged commissary produce manager with 1 count of conspiracy to defraud the Government. The company representative was charged with conspiracy, bribery, and filing false claims in a seven-count indictment. Trial date has not been set.
Septem- ber 30, 1979	G 9	The manager of a base Contractor-Operated Civil Engineering Supply Store and owner of a supply firm conspired to defraud the Government by falsifying documents to show more merchandise was received than was actually delivered. Referred to Department of Justice. (OSI)	\$6,915	Subject pleaded guilty and received a 3 year suspended sentence; 3 years probation and a \$4,000 fine. In return subject implicated other military and civilian employees alleged to be involved with him.

Initially ReportedExhibit G

<u>Period Ended</u>	<u>Line Item</u>	<u>Nature of Incident</u>	<u>Estimated Monetary Loss</u>	<u>Current Status or Disposition</u>
Septem- ber 30, 1979	G 11	Contractor received \$142,220 in progress payments for eight contracts. Except for partial deliveries on the first contract, he has failed to deliver any items on subsequent contracts. Contractor has no material or documentation to support use of progress payments. In March 1979, case was referred to Assistant United States Attorney. (OSI)	\$142,220	United States Attorney found no evidence of criminality.
Septem- ber 30, 1979	G 12	Contractor substituted nonconforming electronic parts. Case referred to Assistant United States Attorney in March 1979. (DIS)	Undeter- mined	Grand Jury in progress. Assistant United States Attorney is considering prosecutive merit of the case.
Septem- ber 30, 1979	G 13	Trucking firms over- charged Government for services rendered. Referred to Assistant United States Attorney in September 1979. (DIS)	Undeter- mined	DIS investigation is continuing.
Septem- ber 30, 1979	G 14	Nonconformance to contract requirements, false certification and billing involving multi-million dollar contracts. Referred to Assistant United States Attorney in April 1979. (DIS)	Undeter- mined	DIS investigation is continuing.
Septem- ber 30, 1979	G 15	Fraudulent substitution of nonconforming, defec- tive and previously rejected material. Referred to United States Attorney in April 1979. (DIS)	\$743,681	Indictment filed on October 12, 1979. Trial date postponed from February 4, 1980. Audit identified \$3.2 million in Government claims against contractor which have not been collected.

<u>Initially Reported</u> <u>Exhibit G</u>			<u>Estimated</u>	
<u>Period Ended</u>	<u>Line</u> <u>Item</u>	<u>Nature of Incident</u>	<u>Monetary</u> <u>Loss</u>	<u>Current Status</u> <u>or Disposition</u>
Septem- ber 30, 1979	G 16	Pattern of theft and sale of flight jackets and suits and other items over a long period. Case was coordinated with United States Attorney. (DIS)	\$3,000	Charges dropped and case closed. Theft and possession of stolen Government property could not be substantiated.
Septem- ber 30, 1979	G 17	Substitution of non-conforming meat products, false statement and concealment. Referred to United States Attorney in July 1979. (DIS)	Undeter- mined	DIS investigation is continuing.
Septem- ber 30,	G 18	Fraudulent practices including conspiracy and false statements in submitting progress payments. Referred to United States Attorney in August 1979. (DIS)	\$7,000,000	Grand Jury in progress.
Septem- ber 30, 1979	G 19	Introduction of defective or previously rejected ordnance material could result in scrapping a \$25 million weapon system. Referred to United States Attorney and Fraud Section, Department of Justice in July 1979. (DIS)	\$4,000,000	Case accepted for prosecution by Assistant United States Attorney. Investigation is continuing.

EXHIBIT N

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

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

<u>Initially Reported</u> <u>Exhibit H</u>	<u>Line</u>		<u>Estimated</u>	
<u>Period Ended</u>	<u>Item</u>	<u>Nature of Incident</u>	<u>Monetary</u>	<u>Current Status</u>
			<u>Loss</u>	<u>or Disposition</u>
March 31, 1979	H 1	Subject received stolen United States Government property. (OSI)	\$16,504	Subject pleaded guilty and was placed on probation for 5 years and was fined \$500. He was also terminated from Civil Service.
March 31, 1979	H 2	Contractor failed to perform maintenance on equipment as required and submitted a false claim for repair. United States Attorney declined prosecution. (OSI)	\$19,840	Command determined that further action was not warranted.
March 31, 1979	H 3	Contractor made unauthorized modification to a contract in exchange for surplus Government parts and equipment (circumventing established disposal procedures). Air Force employees have also been implicated in this investigation. Foreign contractor not under jurisdiction of United States courts. (OSI)	\$30,000	Command determined that further action was not warranted.

Initially Reported
Exhibit H

<u>Period Ended</u>	<u>Line Item</u>	<u>Nature of Incident</u>	<u>Estimated Monetary Loss</u>	<u>Current Status or Disposition</u>
September 30, 1979	H 1	A noncommissioned officer in a finance and accounting office conspired with one or more different military members on eight separate occasions to submit fraudulent temporary duty travel vouchers containing false claims for mileage and lodging. (CID)	\$25,594	\$24,291 was recovered. The noncommissioned officer was convicted by a court-martial and sentenced to confinement for 5 years, reduction to Private, forfeiture of all pay and allowances and a Dishonorable Discharge. Eleven subjects were tried by summary courts-martial, found guilty, and sentenced to reductions in grade, fines totaling \$2,848, and other sanctions. One subject was found not guilty. Judicial action is pending against 3 remaining subjects.
September 30, 1979	H 2	Eight service members systematically stole food from an installation dining facility. (CID)	\$32,599	Investigation completed March 18, 1980; judicial action pending against 8 military subjects.
September 30, 1979	H 3	An Air Force maintenance activity prepared work orders indicating that spare parts were used for vehicle repairs when in fact the parts were placed in storage. There was no accountability or documentation on any of the parts. (OSI)	\$25,000	New physical safeguards and revised procedures were implemented to prevent repeat occurrence. No indication of criminal activity disclosed.

EXHIBIT O

ABBREVIATIONS USED IN THIS REPORT

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

NIS

Naval Investigative Service

OSI

Air Force Office of Special Investigations

END