
REPORT BY THE U.S.

General Accounting Office

Stronger Procurement Controls In The Far East Would Minimize Fraud And Abuse

Documented cases show that procurement abuse is prevalent in some U.S. Government offices overseas. There are indications of

- prohibited and questionable purchases,
- questionable payments,
- purchases exceeding authority,
- inadequate competition, and
- bribery and collusion.

This report discusses problems encountered overseas and identifies factors which alleviate or aggravate them. GAO recommends

- centralizing procurement authority,
- internal review and follow-
- reater U.S. citizen control
ents, and
- requency of questionable

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OFFICE





UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

PROCUREMENT AND SYSTEMS
ACQUISITION DIVISION

B-161507

The Honorable Harold Brown
The Secretary of Defense

The Honorable Cyrus R. Vance
The Secretary of State

The Honorable Clifford L. Alexander, Jr.
The Secretary of the Army

The Honorable
The Secretary of the Navy

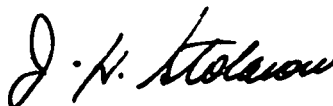
The Honorable Max Cleland
Administrator of Veterans Affairs

NCJRS
OCT 17 1980
ACQUISITIONS

This report shows that U.S. Government procurement offices in the Far East are vulnerable to procurement abuse. Offices with highly centralized authority and frequent, thorough reviews, however, experienced fewer abuses.

This report contains recommendations to you on pages 17 and 18. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of the Air Force; the chairmen of the Senate Committees on Governmental Affairs, Appropriations, Budget, Armed Services, and Veterans' Affairs; and the chairmen of the House Committees on Government Operations, Appropriations, Budget, Armed Services, and Veterans' Affairs.


J. H. Stolarow
Director

D I G E S T

Gaps found in purchasing controls at U.S. Government offices overseas, coupled with reports of widespread collusion and bribery, indicate procurement fraud. At some locations, because controls are almost entirely lacking, collusion and bribery are not even necessary to defraud the Government.

At most locations visited GAO found some degree of procurement abuse, such as

- prohibited and questionable purchases,
- questionable payments,
- purchases exceeding authority,
- inadequate competition, and
- bribery and collusion.

Procurement overseas presents a particular challenge because of language barriers and cultural differences. Though competition has been a benchmark of price reasonableness in the United States, GAO found that, in some cases, it was inappropriate for use in the Far East. U.S. Government procurement organizations varied widely in their ways of buying and in their success at minimizing abuse.

Procurement offices with highly centralized authority and frequent, thorough internal reviews experienced fewer abuses. Conversely, organizations with widely dispersed procurement authority and limited internal review experienced the most questionable purchases, unauthorized purchases, and violations of

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procurement authority. Numerous Navy commands with purchase authority at each Navy base were poorly monitored--reviews of some locations were infrequent, poorly done, or not followed up. In contrast, the Air Force in the Philippines and the Army in Korea had centrally controlled systems to procure supplies and services and were able to identify and correct problems more readily.

Similarly, aggressive corrective action where problems were identified helped to minimize abuses, and increased U.S. citizen control of procurement helped to improve enforcement of controls. The Army in Korea and Air Force in the Philippines emphasized U.S. citizens' responsibility for procurement and reported better control over procurement.

Although GAO does not propose that local national involvement in overseas procurement be prohibited, it does believe such involvement should be restricted. The U.S. Government has limited recourse available in the event of fraud or abuse by foreign nationals.

Navy procurement overseas relies heavily on local national employees and should increase use of U.S. citizens for civilian positions. Navy staffing flexibility is hampered because the Navy does not have enlisted military personnel positions for procurement. The Army also has no such positions for procurement, but in Korea has made greater use than the Navy of U.S. citizens for civilian positions.

GAO's recommendations to the Secretaries of State, Defense, Army, and Navy and to the Administrator of Veterans Affairs include

- designating a single office to monitor and assist all Navy procurement activities in the Far East;
- transferring Veterans Administration procurement authority in Manila, Philippines, to the American Embassy;

- assuring that purchasing activities are periodically reviewed and that problems are corrected;
- providing Army and Navy enlisted personnel positions for procurement and greater Navy use of U.S. citizens for key civilian procurement positions; and
- providing emphasis to assure that military departments' procurements are necessary to their missions and guidelines to identify prohibited and questionable items.

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ABBREVIATIONS

GAO General Accounting Office

VA Veterans Administration

CHAPTER 1

INTRODUCTION

We examined U.S. Government procurement of supplies and services in the Pacific and Far East areas to see how local procurement is controlled outside the continental United States. This report discusses problems being encountered and identifies factors which serve either to alleviate or aggravate the problems.

In the Pacific/Far East areas, U.S. Government agencies visited during our review purchased the following amounts of supplies and services during 1978. The table shows only those locations visited, but includes procurements by an agency for others.

<u>Agency</u>	<u>Dollars</u>
	(thousands)
Navy:	
Hawaii	\$62,520
Japan	11,401
Philippines	4,834
Army:	
Korea	68,400
Air Force:	
Philippines	5,971
Marine Corps:	
Hawaii	11,590
State Department:	
Korea	6,271
Philippines	<u>a/11,998</u>
Veterans Administration (VA):	
Philippines	2,004

a/This figure includes purchases by the Agency for International Development, which has independent procurement authority. It does not include rental properties.

These procurements represent purchases made under local procurement authority. They do not include requisitions processed through normal supply channels and purchased by contracting officers in the continental United States. The purchases vary widely, from office supplies and grounds maintenance to construction materials and aircraft maintenance.

Two sets of regulations govern most U.S. Government procurement. The Defense Acquisition Regulation governs armed services procurement, and the Federal Procurement Regulations apply to other Federal agencies. Some agencies are exempted from the regulations for all or certain types of procurement. Individual agencies may issue implementing regulations.

The regulations provide that no contract shall be entered into unless all applicable requirements of law, executive orders, and regulations have been met. Among the myriad requirements are basic considerations, such as valid need, reasonable price, and available funds.

According to the regulations, the term procurement includes purchasing, renting, leasing, or otherwise obtaining supplies and services. It also includes functions that relate to obtaining supplies and services. Our review excluded construction.

SCOPE OF REVIEW

We met with agency officials, researched policies, and examined documents in tests of selected procurement transactions. Our work at selected military procurement activities in Hawaii, Korea, Japan, and the Philippines included the Army, Air Force, Navy, and Marine Corps. We included procurements in Hawaii to aid in contrasting purchasing overseas with purchasing in the United States. We also worked at American Embassies in Korea and the Philippines and at VA and the Agency for International Development in the Philippines. Appendix I lists locations we visited.

We discussed our work with internal auditors and investigators and considered the results of internal audits and investigations.

CHAPTER 2

BETTER CONTROLS CAN REDUCE ABUSE

Local procurement overseas presents a particular challenge because of language barriers and cultural and economic differences. Though competition has been the benchmark of price reasonableness in the United States, we found that, in some cases, it was inappropriate for use in the Far East. Far Eastern suppliers frequently do not independently compete for the procurements--a must if the method is to be effective. U.S. Government procurement organizations varied widely in their approaches to buying in an overseas environment, with varying degrees of success at minimizing abuse.

We found some degree of procurement abuse at most locations visited. Our tests addressed compliance and control weaknesses; however, we also considered the results of criminal investigations and internal reviews by the activities we visited. The problems, which are detailed in chapter 3, include

- prohibited and questionable purchases,
- questionable payments,
- purchases exceeding authority,
- inadequate competition, and
- bribery and collusion.

The frequency and severity of problems varied with agencies and location. Procurement offices with highly centralized procurement authority and frequent, thorough internal reviews tended to experience fewer abuses. Conversely, organizations with widely dispersed procurement authority and limited internal review tended to experience the most questionable purchases, unauthorized purchases, and violations of procurement authority and regulations.

STRONG CENTRAL CONTROL AIDS IN MONITORING PURCHASING

The Pacific Air Forces' Contracting Center at Clark Air Base and its branch offices at Manila and John Hay Air Base provide contracting support to all Air Force units in the

Philippines. The center also procures for Air Force commissaries and the club system. The center has received both staff assistance visits from Headquarters, Pacific Air Forces, at least once a year, and annual Inspector General inspections which concentrate on the procurement area.

Our review at Clark Air Base disclosed no significant control weaknesses in purchase of supplies. A recent Air Force inspection disclosed problems identified in contracts and blanket purchase agreements for services, and corrective action (including cancellation of all blanket purchase agreements for repair services) was already under way. The lack of an Air Force required self-inspection program at this contracting center may have contributed to the problems in procurement of services not surfacing earlier.

Centrally controlled procurement also improves efficiency. One of our 1975 reports ^{1/} estimated \$2 million annual personnel savings possible from interservice consolidation of procurement in Japan and Hawaii. The report cited the following additional improvements in efficiency and productivity:

- Lower costs for goods and services resulting from fewer procurement actions, larger volume procurements, and increased vendor competition.
- Concentration of legal and technical expertise and valuable procurement information on such things as available sources of supply and prior vendor performance and prices.
- Lower administrative, overhead, and support costs.

Dispersed Navy procurement
hinders monitoring and control

Navy procurement in the Far East is spread among 21 known organizations with procurement authority derived from a headquarters command. Thirteen procurement activities were in Japan alone. In addition, Navy supply depots we visited had given more than 25 other activities procurement

^{1/}"Millions Could Be Saved Annually and Productivity Increased If Military Support Functions in the Pacific Were Consolidated," LCD-75-217, Aug. 26, 1975.

authority to place calls under blanket purchase agreements and indefinite delivery contracts.

The large number of Navy activities with purchasing authority places a correspondingly great burden on internal review. A common problem at Navy organizations was infrequent and sometimes inadequate internal review. As a result, serious problems went unnoticed, sometimes even though the activity had been recently inspected.

Navy commissaries, for example, have procurement authority independent of local supply depots. One commissary had a general inspection the month before our visit. The inspectors reported that procurement records were being maintained as required and noted no major deficiencies. The commissary exhibited very basic control weaknesses, however, which included lack of requisition forms, inadequate separation of duties, payment of dealer invoices without corroborating documentation, and unauthorized purchases.

Navy procurement regulations provide that contracting officers who locally delegate ordering authority outside their commands will assure that users review blanket purchase agreement files semiannually and correct discrepancies. We found that Navy Supply Depot contracting officers had not done so. Our visits to selected activities with redelegated procurement authority revealed numerous problems, including some abuses of procurement authority that could have been identified by onsite checks and consultations concerning blanket purchase agreement usage. The problems were similar to those discussed in chapter 3, and also included failure to perform periodic self-reviews or to report procurement activity.

Isolated VA post not adequately monitored and controlled

VA Regional Office, Manila, procurement was last reviewed by VA headquarters in February 1971. A prior visit was in 1956. We noted control weaknesses and procedural shortcuts which could leave their system vulnerable to abuse. In general, lack of documentation in contract files precluded determining whether goods and services were required, whether the price was reasonable, or whether procurement action was legal and proper. For example, one division lacked basic controls over the procurement function. We found no evidence of a requisition showing need, competition, or other efforts

to show price reasonableness or an evaluation of contractor performance. One contractor was excluded from consideration for renewal because of unsatisfactory performance; however, the files did not document the alleged problems.

The items purchased by the VA Regional Office were often similar to items purchased by the American Embassy, Agency for International Development, Air Force, and Navy offices in Manila. Embassy officials told us that the American Embassy, which provides procurement support to 15 other U.S. agencies in the Philippines, could easily take responsibility for VA purchasing, at less cost.

AGGRESSIVE ACTION ON PROBLEMS HELPS MINIMIZE ABUSE

A 1976 procurement management review of the U.S. Army Korea Procurement Agency pointed out longstanding problems with collusion among Korean contractors and recommended alternatives to counter the problem. Competition had reportedly been seldom achieved in environments where vendors discussed bids to decide on who should bid and what the low bid should be. The Army developed a controlled, source selection procedure, which Army officials believe has helped regain control of source selection in Korea. They believe that the procedure, coupled with increased emphasis on accurate Government estimates and negotiation, has reduced collusion and resulted in somewhat lower costs to the Government.

We noted that the U.S. Army Korea Procurement Agency was well aware of the unique problems encountered overseas and, in most cases, actively addressed the problems. Our primary concern at this location involved the interface between the procurement agency and requesting activities, rather than control problems within the procurement agency.

In October 1978, the Navy began a test in which the Naval Supply Depot, Yokosuka, Japan, was designated a regional procurement office for Navy purchasing activities in Japan. The supply depot provides technical advice to purchasing activities, reviews each activity to determine compliance with Defense and Navy directives, and makes advisory recommendations. The regional procurement office test does not include Navy activities in other areas, such as Guam and the Philippines. Also, it does not include Navy activities whose purchase authority is derived outside the Naval Supply Systems Command, even if the activity is in Japan.

Before this test, affected activities dealt directly with the Washington headquarters command. Navy officials said that because of the great distances involved, some locations never received an onsite review. In their opinion, initial experience with the regional procurement office test has been favorable and has demonstrated that such a function is needed. Reports on reviews completed at the time of our visit resulted from using a detailed checklist and included substantive recommendations.

Inadequate corrective action
perpetuates problem areas

Not all locations responded as aggressively as the Army in Korea or the participants in the Navy test, however. We found that the Navy had failed at several activities to act promptly to resolve identified procurement problems. As noted in chapter 3 (see p. 12) Navy commissary staff had been advised by a management review team that it was improperly approving unauthorized payment, but was still doing so at the time of our review. Also, purchases of questionable items not specifically prohibited by regulations or Comptroller General Decisions (see pp. 10 to 12) were not terminated even when identified. We found evidence of this problem in two successive visits to one Navy supply depot, with no indication that corrective action had been taken or was planned. Officials at another location advised us that Navy headquarters guidance regarding questionable purchases was vague and would hamper local enforcement efforts.

A Navy review of the Marine supply department we visited cited inflated priorities on requisitions processed by the department. The assignment of priority designations higher than warranted can result in other more urgent purchases being delayed and competitive requirements circumvented. Supply officials told us the problem rested with requesting activities, not supply, and that no action had been taken. Although other Navy auditors' recommendations had been addressed, we found priority designations more inflated than before.

One Navy organization addressed control problems by changing its organization and procedures. The organization relieved a U.S. citizen of purchase authority, but did not relieve local national employees of purchase authority, even where tests of transactions disclosed evidence supporting allegations made as long as several years earlier. Supply officials took the position that they did not have sufficient evidence for criminal proceedings.

MAXIMIZING U.S. CITIZEN CONTROL
IMPROVES ABILITY TO ENFORCE
PROCUREMENT REGULATIONS

In the Far East, experience and precedent have shown that when dealing with citizens of the host country, the laws of the host country can prevail over enforcement of American laws. Charges brought against local national civilian employees can fall under the jurisdiction of host country laws and courts; and host country cooperation can be less than satisfactory, thereby making enforcement of U.S. procurement regulations more difficult or unfeasible. For example, Federal investigators reported that a foreign national employee of the U.S. Government admitted accepting bribes, but was not prosecuted, because his actions were not illegal under the host country's law.

To gain maximum control of the procurement process, the Air Force has eliminated local national involvement in key initial stages for purchases of services and construction in the Philippines. For such purchases, local national employees perform only administrative duties and have no supervisory responsibility--all purchase actions are performed by American officers or enlisted personnel. For supplies, two local national employees have ordering authority under Air Force blanket purchase agreements. Similarly, the American Embassies in Korea and the Philippines give contracting authority only to U.S. citizens.

Lack of enlisted procurement
positions can handicap enforcement
of procurement regulations

Although other U.S. agencies have improved enforcement of procurement regulations by minimizing local national personnel in key positions, the Navy has not. Since it has no enlisted positions for procurement, the Navy must use civilian personnel or officers to fill procurement staff and supervisory positions. In the Far East, the civilian positions are almost entirely filled with local national personnel, thus making enforcement of procurement regulations difficult.

Army officials told us that although the Army does not have an enlisted personnel position for procurement, such a position has been created where problems arose. In Korea, enlisted personnel are only involved with cash funds and administration--contracting officer responsibility is restricted to Army officers and U.S. civilians. Army officials in Korea reported that they minimized local national

civilians' roles in the procurement process. The Army was better able to do this because their proportion of U.S. citizens among civilian procurement staff was higher than at Navy locations.

CHAPTER 3

PROCUREMENT ABUSES IN THE FAR EAST

Procurement abuses ranged from apparently innocent, but improper, purchases to outright bribery and collusion. The various problems usually seemed to involve just management weaknesses, but, in some cases, Federal investigators identified bribery and collusion as factors. The problems appeared similar whether or not there was evidence relating the other problems to fraud.

In the following examples, we do not attempt to show precise levels of abuse at any location. For problems such as prohibited and questionable purchases, we are concerned more with the widespread nature of the abuse than with any one instance. We are concerned, however, even by individual cases where basic controls are totally lacking or where bribery and collusion are evident.

PROHIBITED AND QUESTIONABLE PURCHASES

The Comptroller General has long held that appropriated funds may not be used for objects not specifically set forth in an appropriation act unless the objects are necessary and appropriate for carrying out purposes for which the appropriation was made.

We noted purchases of items normally prohibited. We found no justification for items, such as

- gift-type items; that is, cigarette lighters, cuff links, tie clips, flowers, and alcoholic beverages;
- wages and a Christmas bonus for an employee by means of purchase orders;
- coffee percolators and supplies;
- business and invitation cards; and
- plaques not given as approved incentive awards.

We also questioned other purchases that singly might be justified, but, lacking supporting documentation, appeared to be of doubtful propriety as a group. Some, such as sports and sexually explicit magazines, luggage tags, ladies' underwear, custom-made monogrammed bowling shirts, and a jogging suit raise questions by their very nature. Expensive attache

cases; pens; and elaborate, carved-wood nameplates appeared ostentatious for Government issue. Other items, such as approximately 240 flashlights and 300 measuring rules at one organization, raise questions by their possibly excessive quantity. Following up an organization's possibly excessive purchase of photographs under a blanket purchase agreement, we found consistent use of the agreement for photographs of a personal nature, including birthday and other parties and social events. In one case, the organization paid about \$100 for the commanding officer's secretary's wedding pictures.

We noted numerous purchases of high fidelity equipment, appliances, photographic equipment, and related accessories where the organization did not seem to have a mission-related need for such items.

Navy ships personnel frequently buy television sets, stereo equipment, washers, dryers, refrigerators, and other appliances without justifying such purchases as mission related. One supply depot spent almost \$8,000 for such items requested by ships during May 1978 to February 1979. Where ships had visited more than one port, ships requisitioned such items at each port. Requisitions on file did not show adequate justification, and supply depots purchased the items without getting justifications.

In an example from shore stations, the planning office of one organization requested and received \$1,500 worth of items during 1 week near the fiscal year's end. Among the items were a refrigerator, a microwave oven, a cassette deck and 4 speakers, silk screen art, 12 flower vases, a hanging macrame table, 4 pillow cushions, and 9 hand-held calculators.

The organization's procurement office showed some evidence of screening in that it did not purchase 54 attache cases, 7 leather ladies' wallets, 7 tape recorders, 64 flashlights, and 60 raincoats also requested by the planning office. During our review, that organization prohibited the purchase of several items and established a more stringent approval system for purchase of items susceptible to personal use.

At one shore station, we examined about \$8,750 worth of vehicle rental payments over a 49-day period. We questioned over \$6,300 (72 percent) of the payments because of inadequate description or justification of need and unreasonable cost in comparison to available Government vehicles. Another

organization's vehicle rentals were also inadequately justified--some with supporting documentation showing that the vehicles were used on weekends, occasionally for family members.

QUESTIONABLE PAYMENTS

Organizations made unauthorized payments and failed to properly document procurement actions. The problems centered around orders by unauthorized individuals, lack of written orders, and payments made without proper supporting documentation. At most locations such control weaknesses were limited; however, at Navy commissaries these weaknesses were widespread.

The lack of supporting documentation for purchased goods and services not only raises the question of need for the items, but also makes after-the-fact determination of need difficult.

Orders by unauthorized individuals

At one commissary, unauthorized individuals placed orders totaling almost \$100,000 in the 1-year period ending May 1979. The commissary also lacked adequate separation of duties because the same individuals determined requirements, placed orders, and certified receipt and acceptance of subsistence items under blanket purchase agreements.

Another commissary repeatedly made payments to suppliers based on orders by unauthorized individuals. For example, a purchase order was prepared 2 days after receipt of services to cover \$1,925 for repairs ordered by an unauthorized individual. In a similar situation with the same vendor, another purchase order was prepared almost 1 month after repairs were made. These unauthorized procurements were made even though an internal review group had previously criticized the practice in a contract management review report.

At the State Department in the Philippines, we noted minor cases of unauthorized payments in which purchase requests and purchase orders were written after receipt of the item.

Lack of documentation

Most organizations lacked purchase documentation in varying degrees. Embassies, the VA Regional Office, and Navy commissaries lacked documentation consistently. Elsewhere, the problem was less frequent.

Even though Navy regulations require written purchase requests, Navy commissaries routinely accepted verbal requests and authorizations when initiating purchase orders. Two had no purchase request documentation for any purchase order initiated. A third occasionally used handwritten notes as documentation. A Marine Corps commissary also did not always prepare a purchase request before initiating a purchase action, and prepared requests were subsequently discarded.

Two of the above three Navy commissaries had policy letters delineating purchasing procedures and all three had a purchase request form, but the procedures were not followed. One of the commissaries processed supplier payments without the benefit of ordering documents, price lists, and related contractual documents. Without such information the commissary had no way to independently verify information processed for payment.

At an Air Force site, a contract for typewriter maintenance had no listing of the machines covered under the contract, either by serial number or location. The Air Force contracting personnel had no idea what machines were covered, where the machines were located, what type of service was needed, or who certified receipt and acceptance of the service rendered. Despite this lack of information, supplier invoices totaling over \$20,000 annually had been routinely processed for payment for the last 3 years.

PURCHASES EXCEEDING AUTHORITY

We noted cases where organizations exceeded their procurement authority, either outright or by splitting requirements, so that individual orders were small enough to fall within their authority. In most cases, the purchases exceeding authority were minor but widespread. In all cases below, the requirements should have been referred to another organization with adequate purchases authority.

In some cases, purchases exceeding authority were major--and costly. For example, one Navy organization's frequent orders for coveralls during a 5-month period resulted in over \$11,000 additional cost to the Government. Although the organization made periodic orders (including several cases where requirements appeared to have been split) at an average cost of \$1.95 a unit, the organization's parent procurement activity subsequently contracted for the item at a unit cost of \$1.65. The same organization split requirements for other items as well, ordering over 75,000 respirators

costing \$33,436 within a 4-day period, even though it had only a \$10,000 purchase authority.

The most frequent type of purchase exceeding authority occurred in organizations limited to \$500 per call on blanket purchase agreements. At one Navy site, the attitude was that purchases exceeding authority could be made to avoid time delays which would result from properly referring requirements to an organization with adequate procurement authority. Examples of purchases exceeding authority included

--splitting \$4,447 worth of galvanizing service for one user into 12 calls to one supplier within 8 days and

--splitting requirements 6 times into 14 orders to obtain 14 air-conditioners for a total value of \$4,397.

Outright purchases exceeding authority were minor and infrequent.

ISOLATED CASES OF INADEQUATE
COMPETITION OR OTHER ASSURANCE
OF PRICE REASONABLENESS

Regulations require that purchases be competitive to the maximum practicable extent. At two locations in the Philippines, we noted insufficient competition in cases where competition appeared feasible. Air Force blanket purchase agreements for services over \$500 showed no evidence of competition for 8 of 12 calls examined. At that location, we also noted inadequate rotation among vendors for calls below \$500. In two cases, all calls for specialized service in 1978 and early 1979 were to one vendor, even though agreements with other vendors existed. The VA procurement office in Manila did not always document how contract prices were determined to be reasonable--where documented, the competition was inadequate.

Competition for Navy small purchases in Hawaii also needed improvement. In issuing purchase orders at one location, two Navy buyers routinely reported no bids by vendors other than those suggested in requisitions. Similarly, vendors not suggested in requisitions processed at another location were reported to have declined to bid in 52 of 60 (87 percent) blanket purchase agreement calls we tested. Such a high incidence of no bids appeared unreasonable for the types of items purchased.

BRIBERY AND COLLUSION

Federal investigators' reports indicated instances of bribery and collusion in Japan, Korea, and the Philippines. Cases in the Philippines centered mostly around individual cases of bribery and kickbacks. Cases in Korea and Japan also included collusion in well-developed contractor organizations.

Ongoing Naval Investigative Service work in Japan, beginning in October 1976, disclosed the presence of organizations whose purposes included discussing potential U.S. Government contracts, determining amounts to be bid, and designating the low bidder. Although the continuing Navy work centered about Yokosuka Naval Base, the investigators found indications that the collusion is widespread. They noted similar activity at the other major U.S. military bases in Japan, including one report citing organized collusion among contractors over 16 years ago.

The investigators in Japan estimated that U.S. contracts with Japanese companies are costing 25 to 30 percent too much, and cited overpricing possibly exceeding \$11 million at one organization. They reported that the companies either actively solicit or have already developed contacts among local national employees of the U.S. Government. Through these contacts, the companies obtain data regarding contracts and influence U.S. Government actions, such as preparation of Government cost estimates.

An Army crime survey in 1974 and 1975 reported widespread abuses in Korea as well. High-level correspondence between the U.S. and Korean Governments, coupled with reduced dependence on competition in contractor selection, has produced indications of reduced criminal activity. Although the Army has not done another crime survey, Army officials in Korea believe they have at least regained control of contractor selection--total reliance on competition had allowed contractors to agree on who should get the contract. The Army officials said that the collusive elements and other abuses may yet exist, however.

Air Force and Navy investigators in the Philippines reported no widespread collusion among contractors, but identified numerous individual cases of graft and theft. Air Force contracting officials authorized changes to purchasing procedures at Clark Air Base and revised their office staffing to increase U.S. citizen (as opposed to foreign national) control of the purchasing process. According to the officials, contractor performance was significantly improved, but the potential for abuse continued to be a problem.

CHAPTER 4

CONCLUSIONS AND RECOMMENDATIONS

The gaps in purchasing controls found at Government procurement offices overseas, coupled with Federal investigators' reports of widespread collusion and bribery, indicate danger of procurement fraud. At some locations, where documentation and separation of duties were almost entirely lacking, only individual initiative would be needed to defraud the Government--collusion and bribery would be unnecessary. Losses were often not measurable; but, in some cases, notably the overpricing discovered by Navy investigators in Japan, the U.S. Government appears to have lost millions of dollars.

Control weaknesses and evidence of abuse appeared most prevalent in those cases where procurement authority was most widely dispersed. Numerous Navy commands with purchase authority at each Navy base were poorly monitored, because internal reviews of some commands were infrequent, poorly done, or not followed up. In contrast, the Air Force in the Philippines and the Army in Korea had centrally controlled systems to procure supplies and services. The Army and Air Force were able to identify and correct problems more readily.

The Navy's regional procurement office test in Japan is a good first step to address control problems. Navy organizations there will be periodically reviewed by experienced procurement staff and will have technical assistance more readily available. Even if the test plan is fully implemented, however, the Navy system will fall short of other military services' systems from a control standpoint because the regional procurement office recommendations are only advisory, and the nearest direct control by a central procurement authority would still be outside Japan. Also, the test does not include other countries, such as the Philippines.

Federal civilian agencies' procurement in the foreign countries visited was generally consolidated under the State Department. The VA Regional Office in Manila was an exception which we believe could be serviced by the State Department. The control weaknesses found in the VA Regional Office, its inability to provide internal reviews of procurement in the Philippines, and the potential for improved efficiency though consolidation emphasize the need to transfer VA's purchase authority.

Army and Air Force emphasis on maximizing U.S. citizens' responsibility for procurement has merit. The placement of U.S. citizens in key procurement positions improves ability to enforce procurement regulations and should be emphasized. We do not propose that local national involvement in overseas procurement be prohibited. However, we do believe it should be controlled because of limited recourse available to the U.S. Government in the event of fraud or abuse by foreign nationals.

The Navy could improve control of procurement by creating an enlisted personnel position for procurement. The establishment of a body of procurement trained enlisted personnel would provide Navy procurement managers with the flexibility to staff more key procurement positions with U.S. citizens. This would allow for increased enforcement of procurement regulations and would also serve to reduce concerns about conflict of interest between local national employees and local contractors.

The Army has made greater use than the Navy of U.S. civilians, has used enlisted personnel in procurement offices, and has created a position with a procurement speciality in exceptional cases. Army staffing flexibility overseas could be improved, however, by routine availability of enlisted personnel with procurement expertise.

The many questionable purchases--and in some cases, poor prospects for corrective action--highlight a need for headquarters-level action to eliminate purchases not required for missions and to provide guidance on what purchases are not considered necessary.

Our review was made primarily in Hawaii and the Far East. However, we believe our observations may represent procurement problems in other foreign countries.

RECOMMENDATIONS

In view of the better control possible through more centralized control of procurement, we recommend that:

- The Secretary of the Navy designate a single office to monitor and assist all Navy procurement activities in the Far East, assess the need for individual activities' procurement authority, and work toward central procurement authority.

--The Administrator of Veterans Affairs transfer procurement authority from the VA Regional Office in Manila, Philippines, to the American Embassy.

To improve internal review effectiveness, we recommend that:

--The Secretaries of State and the Navy assure that the Departments of State and Navy purchasing activities are periodically reviewed and that problems disclosed are corrected.

To improve the ability to keep control of the procurement process, we recommend that:

--The Secretaries of the Army and Navy provide enlisted personnel positions for procurement activities overseas.

--The Secretary of the Navy encourage greater use of U.S. civilian personnel for procurement overseas.

To stop purchases of questionable items, we recommend that the Secretary of Defense:

--Reemphasize that procurements by the military departments must be necessary to their respective missions.

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KOREA

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