

**REPORT TO THE CONGRESS
ON THE
DEPARTMENT OF DEFENSE AUDIT,
INSPECTION AND INVESTIGATIVE ORGANIZATIONS**

OCTOBER 1, 1978 — MARCH 31, 1979



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

MAY 30, 1979

68956

Fraud, Waste, and
Abuse

Charge 5131

(not 5114)

REPORT
OF
THE DEPARTMENT OF DEFENSE
UNDER P.L. 95-452

FOREWORD

In accordance with Section 8(a)(1) of Public Law 95-452, the Inspector General Act of 1978, this is the initial semiannual report summarizing the activities of the audit, inspection and investigative units of the Department of Defense during the 6-month period ended March 31, 1979.

This report presents a comprehensive summary of the Department's 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. The report includes a description of significant instances of fraud, waste and abuse disclosed during the period, a summary of matters referred for prosecution, and statistical data on audit and inspection activities, all required by legislation. 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.

The Department has taken certain new initiatives to combat fraud and waste in its programs. A Steering Group on Oversight of Defense Activities has been established to monitor these initiatives, which are described in this report. The Deputy Secretary of Defense chairs this group, whose membership includes senior officials of the Department. We are determined to see that appropriate attention is given at all levels within the Department to the prevention and detection of fraud and waste, as part of our overall objective of efficient and effective management of Defense programs.

NCJRS

JUN 13 1980

ACQUISITIONS

REPORT TO THE CONGRESS
ON THE DEPARTMENT OF DEFENSE
AUDIT, INSPECTION AND INVESTIGATIVE ORGANIZATIONS

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PART I

INTRODUCTION

A. PUBLIC LAW 95-452 REPORTING REQUIREMENTS

The Inspector General Act of 1978, Public Law 95-452, requires the Secretary of Defense to submit to the Congress semiannual reports summarizing the activities of the audit, inspection and investigative units of the Department of Defense.

The Act specifies that these reports shall include, but need not be limited to:

- o A description of significant instances or patterns of fraud, waste, or abuse disclosed by the audit, inspection and investigative activities during the reporting period, and a description of recommendations for corrective action made with respect to such instances or patterns;

- o A summary of matters referred for prosecution and of the results of such prosecutions; and

- o A statistical summary, by categories of subject matter, of audit and inspection reports completed during the reporting period.

The Act specifies that the reports shall be submitted within sixty days of the close of the reporting periods ending March 31 and September 30 each year, through October 1, 1982.

B. SUPPLEMENTAL REPORTING REQUIREMENTS

Since the mandatory reporting elements alone would not present Department of Defense audit, inspection, and investigative activities in their proper perspective, the following supplemental information has been developed for presentation in this initial report:

- o Personnel data as of March 31, 1979, including authorized strength, the numbers of civilian and military personnel, the numbers of professional and technical staff members and administrative support personnel.

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

o 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.

C. DEFINITIONS OF FRAUD AND WASTE

The Act requires the reporting of fraud, waste, and abuse. At the outset, it should be recognized that it is virtually impossible to draw sharp distinctions among these three terms, or to define "waste" with reasonable precision. As part of new initiatives currently under way within the Department, we are attempting to establish criteria which would help in classifying reportable instances of wrongdoing, and afford greater precision in definition. For purposes of this report, however, we have broadened the definition of "fraud" to include other unlawful activity against the Government and have combined "waste" and "abuse" in the single category of "waste". For this current reporting period, the following descriptive definitions of the terms "fraud" and "waste" have been employed.

"Fraud and other Unlawful Criminal Activity" is defined as any willful or conscious wrongdoing that adversely affects the Government's interests. This includes, but is not limited to, acts of dishonesty that contribute to a loss or injury to the Government. The following are some examples of incidents which would be treated as fraud or other unlawful activity under this definition: falsifying time cards, purchase orders, or other documents; charging personal expenses to the Government; diverting Government property or funds for unauthorized uses; submitting false claims for services not performed or materiel not delivered; intentionally mischarging or misallocating contract costs; deceiving the Government by suppressing the truth; violating laws or regulations, such as, by bribery, graft, conflict of interest, acceptance of gratuities, or theft of Government property; and any attempt or conspiracy to engage in or use these devices.

"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.

D. SCOPE OF REPORT

1. DOD AUDIT, INSPECTION AND INVESTIGATIVE FUNCTIONS

This report summarizes the results of reviews by the audit, inspection and investigative functions of the Department of Defense

during the reporting period. The functions included are outlined by organization on Exhibit A, and are described briefly as follows:

a. INTERNAL AUDIT

There are four principal internal audit organizations in the Department of Defense, one in each of the three Military Departments and one at the Office of the Secretary of Defense level. Each of the three Military Department audit organizations, the Army Audit Agency, the Naval Audit Service, and the Air Force Audit Agency, provides internal audit services for all levels within its own department. They report to the Secretary or Under Secretary of their respective departments. The Defense Audit Service 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 Military Service, and audits requested by the Secretary of Defense or the Assistant Secretaries of Defense. All internal audit efforts are pertinent to this report, both in detecting and reporting on potential fraud and waste, and in identifying opportunities for achieving greater economy, efficiency, and effectiveness, contributing to the prevention of fraud and waste.

b. INTERNAL REVIEW

Internal Review activities supplement the work of the audit organizations by providing to management at subordinate levels a capability to identify and correct operational deficiencies. They exist within the Army, Navy, Marine Corps, Defense Civil Preparedness Agency, National Security Agency, and the three Military Exchange Systems. Generally these groups operate as part of the comptroller organization of their respective departments or agencies. As with internal audit, all internal review efforts are considered pertinent to this report.

c. CONTRACT AUDIT

Audits of outside contractors are functionally distinct from the audits of 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 on all Department of Defense contracts. The Agency has auditors in residence at the larger contractors' plants, and audits smaller contractors on a mobile basis from geographically dispersed branch offices. Any instances of potential fraud or opportunities to substantially reduce costs to the Government identified at contractor locations would be includable in this report.

d. INSPECTION

Inspection functions exist in the Military Services and in four of the Defense Agencies. Inspection functions complement the work of the audit and investigative activities in evaluating mission capability and management of the military components. To the extent that the activities of the inspection organizations are directed towards evaluating operational economy, efficiency and effectiveness, in preventing fraud and waste and in detecting and reporting incidents involving potential fraud, they are also covered by this report. However, the traditional Military Service Inspector General efforts, such as performing operational readiness inspections and hearing individual complaints, have been excluded.

e. INVESTIGATION

Each military department has its own criminal investigative organization - 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. The activities of these DoD investigative organizations are included only to the extent of their participation in investigating incidents or patterns of potential fraud and in reporting them to the Justice Department for prosecutive action or to DoD officials for administrative remedies. Other efforts by investigative personnel which involve military intelligence, counterintelligence, and background investigations, or other efforts not related to fraud or other unlawful criminal activities against the Government are specifically excluded.

2. REPORTING PERIOD

The report covers activities for the 6 months from October 1, 1978 to March 31, 1979, inclusive.

3. METHOD OF COLLECTING DATA

Information and statistical data contained in this report were compiled in the Office of the Assistant Secretary of Defense (Comptroller) from feeder reports submitted by the various DoD Components.

Under the decentralized operating policies employed by the Department of Defense, the normal reporting practices of the audit, inspection and investigative units are specifically aligned with the operational and functional requirements of their respective organizations. To accommodate the reporting requirements for this initial submission to the Congress, we established special requirements for collection of feeder reports from the various Defense components and prescribed standardized formats for statistical data.

The reporting plan required all DoD Components to report all relevant activities. Those with no audit, inspection or investigative organizations furnished negative reports.

The statistical data compiled from feeder reports are sufficiently reliable to serve as a basis for determining the general nature and extent of the activities of these organizations. For organizations other than the centralized audit organizations, these statistical data compiled centrally for the first time represent either actual data or, as a minimum, a reasonable approximation. These statistical data include personnel strength, application of resources and the number of reports issued.

PART II

SUMMARY

A. PERSONNEL RESOURCES APPLIED

As of March 31, 1979, the Department of Defense audit, inspection and investigative functions were authorized 12,364 personnel who were involved to some degree with the detection and prevention of fraud, waste and abuse. The personnel authorization for each function is shown below, together with civilian and military personnel distribution data:

Table 1: Civilian and Military Personnel Authorizations

<u>Functions</u>	<u>Number of Personnel</u>			<u>Percent of Total</u>
	<u>Civilian</u>	<u>Military</u>	<u>Total</u>	
Audit:				
Internal Audit	2,409	413	2,822	22.8
Internal Review	1,533	208	1,741	14.1
Military Exchange Audits	102	4	106	.9
Contract Audit	<u>3,524</u>	<u>0</u>	<u>3,524</u>	<u>28.5</u>
Subtotals	7,568	625	8,193	66.3
Inspection (Note 1)	658	2,516	3,174	25.7
Investigative (Note 2)	<u>342</u>	<u>655</u>	<u>997</u>	<u>8.0</u>
Totals	<u>8,568</u>	<u>3,796</u>	<u>12,364</u>	<u>100.0</u>

Note (1): Does not include the augmentees used within some military components to supplement authorized strength.

Note (2): Personnel authorizations for the investigative components are not allocated by specific mission areas. These figures represent reasonable approximations of those investigative resources which are devoted to fraud investigations.

Of the total 12,364 personnel authorized, 10,098 (81.7%) were members of the professional and technical staff and 2,266 (18.3%) were clerical and administrative support personnel.

B. OPERATIONAL SUMMARY

1. AUDIT ORGANIZATIONS

The audit organizations collectively expended 2,634 direct man-years of effort during the 6-month period ended March 31, 1979, as follows:

Table 2: Man-Years of Audit Effort

<u>Organization</u>	<u>Direct Man-Years</u>	<u>Percent Of Total</u>
Internal Audit	982	37.3
Internal Review	306	11.6
Military Exchange Audit	34	1.3
Contract Audit	<u>1,312</u>	<u>49.8</u>
Totals	<u>2,634</u>	<u>100.0</u>

As a result of their participation in these efforts, the various internal audit, internal review, and Military Exchange Systems audit organizations issued 5,057 reports. A statistical summary, by categories of subject matter, of these reports issued during the reporting period is presented on Exhibit B.

Contract audit efforts during the same period resulted in 23,009 reports, identified to the following activities:

Table 3: Contract Audit Reports Issued

<u>Type of Audit Activity</u>	<u>Number Of Reports</u>	<u>Percent Of Total</u>
Incurring Costs	9,677	42.1
Forward Pricing Proposals	12,093	52.6
Cost Accounting Standards	861	3.7
Defective Pricing	263	1.1
Other	<u>115</u>	<u>.5</u>
Totals	<u>23,009</u>	<u>100.0</u>

2. INSPECTION ORGANIZATIONS

The eight inspection organizations in the Department of Defense applied a total of 1,187 direct man-years of effort to general, special and other types of inspections (815, 147, and 225 man-years, respectively) during the period and issued 6,972 inspection reports. A statistical summary, by categories of subject matter, of these reports is presented on Exhibit C.

3. INVESTIGATIVE ORGANIZATIONS

About 200 direct man-years of effort were expended by the four investigative organizations in preventing or detecting fraud during the 6-month period. Exhibit D presents a statistical summary, by categories of subject matter, of the 3,511 criminal investigation cases completed during the 6-month period covered by this report.

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 report a substantial number of potential fraud incidents or patterns to the investigative organizations. As shown on Exhibit E by categories of subject matter, 418 incidents or patterns of potential fraud were referred to investigators in the 6 months ended March 31, 1979.

C. DOD REPORTING CATEGORIES

1. REPORTING POTENTIAL FRAUD INCIDENTS TO INVESTIGATORS

As required by Section 8 of P.L. 95-452, the significant instances or patterns of potential fraud disclosed by audit, investigative, and inspection activities during the reporting period have been tabulated. The statistical data in Exhibit E show that there were 418 referrals of suspected fraud incidents to investigative authorities during the reporting period. Synopses of significant referrals are described briefly, with referral dates and identification of investigating organizations, on Exhibit F.

2. REPORTING MATTERS FOR PROSECUTION OR OTHER ACTION

Of the 3,511 criminal investigation cases completed during the reporting period 30 of the more significant cases referred to prosecutive agencies by Department of Defense investigative organizations are described on Exhibit G.

A considerable number of criminal investigation cases handled by the investigative organizations are resolved by means of some administrative action within the Department of Defense. Exhibit H contains descriptions of six cases resolved in this manner during the reporting period.

3. REPORTING SIGNIFICANT INSTANCES OF WASTE

Although the primary concern of auditors and inspectors is waste prevention, it is also important that they detect and report waste and errors which occurred in the past.

Exhibit I contains descriptions of significant instances or patterns of waste disclosed by Department of Defense audit and inspection organizations in the 6 months ended March 31, 1979. The auditors' or inspectors' recommendations and related management actions, where appropriate, are also shown on the Exhibit.

4. REPORTING OPPORTUNITIES FOR IMPROVING OPERATIONS

All of the audit and inspection groups provide objective and constructive evaluations of the organizations, programs, systems, and functions they examine. The primary purpose of their examinations of operational economy, efficiency, and effectiveness is to lead to actions which will improve some aspect of Department of Defense operations. These audit and inspection activities, therefore, are directed toward identifying, reporting, and making appropriate recommendations regarding conditions that cause or contribute to inefficient operations.

Exhibit J presents, by categories 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 presents recommendations by contract auditors for improvements in contractor operations that would result in decreased costs to the Department of Defense. These instances do not fall into the definition of waste as embodied in this report. They are considered to be "cost avoidance" findings, and are shown to illustrate the range of audit and inspection findings.

D. PROGRAMS TO PREVENT AND DETECT FRAUD AND WASTE

1. ONGOING PROGRAMS

Over a period of many years the Department of Defense has built a substantial core program to prevent and detect fraud and waste.

This program consists primarily of the continuing day-to-day activities of the various audit, inspection, and investigative functions which have been referred to earlier in this report.

a. AUDIT

All of the activities of the internal audit functions (centralized internal audit, local internal review groups, and Military Exchange Systems audit groups) involve evaluations of economy, efficiency, and effectiveness of Department of Defense 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 to the extent that they would 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 and waste. Where internal controls are lacking or appear inadequate, the auditors adjust the scope and depth of their audits to determine whether procedural inadequacies may have resulted in wasteful or potentially fraudulent practices. Where findings indicate potential fraud, referrals are made to the appropriate investigative agencies.

b. INSPECTION

The Department of Defense has an extensive inspection program that reaches into all levels of its operations. Inspection activities range from evaluations of the economy, efficiency, and effectiveness of systems and functions to the traditional military Inspector General (IG) roles of inspecting and testing the operational readiness of combat and combat support units, and hearing individual complaints by military personnel. Although this latter military inspection role is not directly related to the prevention of fraud or waste, most of the inspection resources would be considered at least indirectly as applicable to such efforts. As with audit, any findings by the inspectors which indicate potential fraud are referred to the appropriate investigative agencies.

c. INVESTIGATIVE

Investigative activities are responsible for inquiries into allegations with respect to conduct that is illegal or that violates

Department of Defense regulations governing standards of conduct. The activities of the investigative organizations range from crime prevention surveys and criminal investigations, which are fraud prevention and detection activities, to the military intelligence and counterintelligence activities and personnel background investigations, which are operational tasks and not directly related to investigation of alleged fraudulent acts.

Of particular interest is the crime prevention survey program initiated by the four investigative agencies. Crime prevention surveys are in-depth probes of specific operations, activities, or areas to determine whether conditions exist that are conducive to crime. The purpose of the surveys is to determine whether management and accounting systems are susceptible to exploitation by theft or fraud and, if so, whether there are indications of such exploitation. The investigative agencies generally concentrate their surveys in operations where funds or property are managed.

The Army Criminal Investigation Command conducts crime prevention surveys in support of the Defense Logistics Agency and Army activities. During calendar year 1978, 1,243 surveys were conducted resulting in 9,850 findings that disclosed crime conducive conditions. Similar types of surveys are conducted by the Naval Investigative Service, which also has a program of Fraud Investigative Surveys in support of the Naval Material Command. The Air Force Office of Special Investigation, and the Defense Investigative Service also have crime prevention survey programs. Recent surveys have focused on such areas as depot operations, property disposal activities, automated data processing systems, procurement and distribution systems, and nonappropriated funds.

2. NEW INITIATIVES

In order to re-emphasize the need for attention to the problems of fraud and waste at all levels, the Secretary of Defense established a Steering Group on Oversight of Defense Activities. This group, currently chaired by the Deputy Secretary of Defense and composed of key departmental officials, is charged with overall coordination of programs that comprise the Department's efforts to combat fraud and waste, and provide high-level attention to and visibility over these programs.

The projects initiated under guidance of the Steering Group thus far include the design of a fraud prevention survey program. Another effort is the development of improved procedures for following up on actions taken on recommendations in internal and contract audit reports. The development of a pilot automated management information system which will track the status of audit, inspection, investigation, prosecution, and administrative recommendations and actions related to the prevention and detection of fraud and waste also has been approved by the Steering Group. Other issues addressed thus far include training and improved coordination.

DEPARTMENT OF DEFENSE AUDIT, INSPECTION
AND INVESTIGATIVE UNITS INCLUDED IN THIS REPORT*

	<u>Applicable Functions</u>				
	<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 Civil Preparedness Agency		X			
Defense Communications Agency				X	
Defense Contract Audit Agency			X		
Defense Intelligence Agency				X	
Defense Investigative Service					X
Defense Logistics Agency				X	
National Security Agency		X		X	
<u>Other DoD Organizations</u>					
Army/Air Force Exchange Service		X			
Navy Exchange System		X			
Marine Corps Exchange System		X			

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

REPORTS ISSUED BY DOD INTERNAL AUDIT, INTERNAL REVIEW,
AND MILITARY EXCHANGE SYSTEM AUDIT ORGANIZATIONS
DURING THE SIX MONTHS ENDED MARCH 31, 1979

<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	358	793		1,151	22.8
Nonappropriated Fund Instrumentalities	115	682	69	866	17.1
Supply Functions	341	339		680	13.4
Support Services	215	239		454	9.0
Procurement Functions	123	299		422	8.3
Manufacturing, Maintenance and Repair Functions	202	106		308	6.1
Personnel Management	198	83		281	5.6
Transportation Functions	66	67		133	2.6
Real Property Programs	85	21		106	2.1
Force Readiness Programs	89	9		98	1.9
Automatic Data Processing Systems	63	25		88	1.8
Communications and Intelligence Programs	34	32		66	1.3
Research and Development	20	21		41	.8
Energy Conservation Programs	31	6		37	.7
Security Assistance Program	14	20		34	.7
Other	83	201	8	292	5.8
TOTALS	<u>2,037</u>	<u>2,943</u>	<u>77</u>	<u>5,057</u>	<u>100.0</u>

REPORTS ISSUED BY DOD INSPECTION ORGANIZATIONS
DURING THE SIX MONTHS ENDED MARCH 31, 1979

<u>Inspector General Organizations</u>	<u>Number of Reports Issued</u>			<u>Total</u>
	<u>General Inspections</u>	<u>Special Inspections</u>	<u>Other</u>	
Army (1)	4,242	489	894	5,625
Navy (2)	4	6	6	16
Marine Corps (2)	68	0	0	68
Air Force (1)	442	145	59	646
Defense Communications Agency	0	2	0	2
Defense Intelligence Agency	15	0	0	15
Defense Logistics Agency	95	3	494	592
National Security Agency	<u>8</u>	<u>0</u>	<u>0</u>	<u>8</u>
<u>TOTALS</u>	<u>4,874</u>	<u>645</u>	<u>1,453</u>	<u>6,972</u>
<u>Percent of Totals</u>	<u>69.9%</u>	<u>9.3%</u>	<u>20.8%</u>	<u>100.0%</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 an Air Force inspection report covering a base or wing includes a number of inspected units.

(2) The Navy and Marine Corps do not have single organizations with total responsibility for inspection. Each commander is responsible for inspecting his immediate subordinates. Data reported herein are largely confined to operations of the Naval and Marine Corps Inspector Generals' inspections of their immediate subordinates. Inspections conducted by all other commands are not included.

DOD CRIMINAL INVESTIGATION CASES COMPLETED
DURING THE SIX MONTHS ENDED MARCH 31, 1979

<u>Fraud Category</u>	<u>Army</u>	<u>Navy</u>	<u>Air Force</u>		<u>Total</u>	<u>Percent of Total</u>
	<u>Criminal Investigation Command</u>	<u>Naval Investigative Service</u>	<u>Office of Special Investigation</u>	<u>Defense Investigative Service</u>		
Pay and Allowances	174	307	724	0	1,205	34.3
Nonappropriated Fund Instrumentalities	34	2	198	0	234	6.7
Commissaries	34	0*	0	0	34	1.0
Procurement	3	28	108	34	173	4.9
Property Disposal	3	0*	16	4	23	.7
Other Diversion or Improper Use of Government Property	135	0*	507	15	657	18.7
Other**	<u>715</u>	<u>308</u>	<u>162</u>	<u>0</u>	<u>1,185</u>	<u>33.7</u>
<u>TOTALS</u>	<u>1,098</u>	<u>645</u>	<u>1,715</u>	<u>53</u>	<u>3,511</u>	<u>100.0</u>
<u>Percent of Totals</u>	<u>31.3%</u>	<u>18.4%</u>	<u>48.8%</u>	<u>1.5%</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.

POTENTIAL FRAUD CASES REFERRED TO INVESTIGATORS
BY AUDIT AND INSPECTION ORGANIZATIONS
DURING THE SIX MONTHS ENDED MARCH 31, 1979

<u>Potential Fraud Category</u>	<u>Number of Referrals to Investigators by:</u>					<u>Inspection Groups</u>	<u>Totals</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	6	6	0	0	14	26	6.2	
Nonappropriated Fund Instrumentalities	5	19	75	0	2	101	24.2	
Commissaries	0	2	0	0	3	5	1.2	
Procurement	12	0	0	8	123	143	34.2	
Property Disposal	0	0	0	0	61	61	14.6	
Other Diversion or Improper Use of Government Property	9	7	0	0	8	24	5.7	
Other	<u>5</u>	<u>3</u>	<u>0</u>	<u>0</u>	<u>50</u>	<u>58</u>	<u>13.9</u>	
<u>TOTALS</u>	<u>37</u>	<u>37</u>	<u>75</u>	<u>8</u>	<u>261</u>	<u>418</u>	<u>100.0</u>	

INSTANCES OF POTENTIAL FRAUD REFERRED TO INVESTIGATIVE ORGANIZATIONS

<u>Line Item</u>	<u>Synopsis of Incident</u>	<u>Date Referred</u>	<u>Investigative Organization</u>
<u>PAY AND ALLOWANCES</u>			
1.	Suspected fraudulent certification and payment of overtime (four separately reported instances). (NAVAUDSVC)	Jan 79 Jan 79 Mar 79 Mar 79	NIS NIS NIS NIS
2.	Suspected fraudulent claims for "out-of-pocket" expenses. (NAVAUDSVC)	Dec 78	NIS
3.	Alleged falsification of pay documents to enable military members residing in Government quarters to receive quarters allowances. (AFAA)	(1)	OSI
4.	Employee suspected of falsifying own payroll card. (AIR)	Jan 79	CID
5.	Funds obtained by submitting altered vouchers for travel advances. (AIR)	Dec 78	CID
6.	Suspected fraudulent travel voucher. (AIR)	Dec 78	CID
7.	Suspected conspiracy to defraud the Government through falsification of time and attendance records. (AIR)	Jan 79	Provost Marshal
8.	Suspected falsification of leave balance. Employee resigned - civil recovery and criminal action being pursued. (DLAIG)	Mar 79	CID
9.	Irregularities concerning submission of a medical certificate supporting sick leave. (DLAIG)	Feb 79	OSI
<u>NONAPPROPRIATED FUND INSTRUMENTALITIES</u>			
10.	Possible diversion of food items. (USAAA)	Nov 78	CID
11.	Shortage of \$2,700 in sales income based on sales accountability analysis. (USAAA)	Jan 79	CID

12.	Payments of \$10,380 not supported by documentation. Fourteen checks were removed from a Finance and Accounting Office. (USAAA)	Jan 79	CID
13.	Weakness in cash controls contributed to loss of cash (two separate instances). (AFAA)	(1) (1)	OSI OSI
14.	Unexplained shortage of cash and merchandise. (AIR)	Jan 79	CID
15.	Possible misappropriation of funds and property. (AIR)	Sep 78	CID
16.	Cash shortage of \$3,827 disclosed in billing fund account. (AIR)	Nov 78	CID
17.	Irregularities in cash accountability. (MCES)	Mar 79	NIS
18.	Inventory shortages. (MCES)	Feb 79	NIS
19.	Diamond merchandise valued at \$98,094 was unaccounted for. (AAFES)	Oct 78	Canal Zone police and Asst. U.S. Attorney
20.	Inquiry into alleged acceptance by employee of gifts from a vendor disclosed \$21,000 in unauthorized markdowns. (AAFES)	Nov 78	CID/FBI
21.	Concessionaire failed to report estimated \$60,000 in receipts causing AAFES to lose about \$7,000 in commissions. (AAFES)	Dec 78	OSI/FBI
22.	An AAFES employee allegedly received payments estimated at \$50,000 for certifying delivery of services, parts and equipment not received from a company in which he was a silent partner. (AAFES)	Dec 78	CID/FBI
23.	A computer operator made unauthorized transactions through the computer to divert \$184,356 of beverages to the Korean economy. (AAFES)	Mar 79	OSI and Korea National Police
24.	Irregularities were noted at an overseas consolidated open mess. Inspection disclosed inadequate controls over foreign currency exchange and receipt and issue of merchandise. (AFIG)	Mar 79	OSI

25. Indications of theft by commissary personnel and complicity between several store management and vendor personnel. (AFIG) Nov 78 OSI

PROCUREMENT MATTERS

26. Contractors were paid for work not performed. (USAAA) Dec 78 CID

27. Irregularities in the award and administration of a contract awarded in response to an unsolicited proposal. (USAAA) Mar 79 CID

28. Irregularities in contract administration. Additional payment made for work previously within the scope of the contract. (USAAA) Mar 79 CID

29. Payments made for work not completed. (USAAA) Mar 79 CID

30. Work performed was not within scope of contract and tasking documents were apparently falsified to give appearance of being within scope of contract. (NAVAUDSVC) Feb 79 NIS

31. Contractors paid for services allegedly not received (two separate instances). (AFAA) Nov 78 OSI
(2)

32. Use of inferior quality material by a contractor. (AFAA) (1) OSI

33. Food Service contractor allegedly falsified records. (AFAA) (1) OSI

34. Irregularities in contracting practices involving favoritism toward certain contractors. (DAS) Feb 79 DIS

35. Suspected violation of anti-kickback statute in Iran by local subcontractor. (DCAA) Oct 78 Office of Chief of Engineers, U.S. Army

36. Employee used computer to write checks for himself using fictitious vendor name. (DCAA) Nov 78 Department of Justice

37. Company official mischarged personal expenses to Government contracts. Gratuities given to Government employee and costs charged to contracts for unused leave not paid to terminated employees. (DCAA) Nov 78 Counsel, Defense Logistics Agency

38.	Improper or nonexistent costs were included in subcontractor's delay claim on Government construction contract. (DCAA)	Dec 78	Counsel, Architect of the Capitol
39.	Prime contractor submitted inflated delay claim. (DCAA)	Jan 79	Counsel, Architect of the Capitol
40.	Check stolen and travel voucher requests forged by employee. (DCAA)	Jan 79	Department of Justice
41.	Improper labor costs charged on Government contracts. (DCAA)	Mar 79	Defense Investigative Service
42.	Overstated progress payments on Government contracts for costs not incurred. (DCAA)	Jan 79	Counsel, Defense Logistics Agency
43.	Alleged irregularities in the award, performance and acceptance of contract work to improve firing ranges. Estimated monetary loss to the Army exceeds \$150,000 and may reach \$500,000. (AIG)	Mar 79	CID
44.	Suspected fraud in connection with painting contract at an Army hospital. The allegation concerns failure on part of contractor to apply prescribed number of coats of paint, use flame retardant paint in designated areas, apply primer and/or undercoat. (AIG)	Jan 79	CID
45.	Potential fraud, violation of procurement procedures and standards of conduct regarding referrals for orthopedic devices at an Army hospital. (AIG)	Mar 79	CID
46.	Contractor allegedly offered a bribe (materials) to an inspector in order to get substandard work accepted. (AIG)	Oct 78	CID
47.	Suspected irregularities in award of contracts. (AFIG)	Mar 79	OSI
48.	Defense Audit Service reported possible falsification of documents and collusion between buyers and contractors in small purchase operations. (DLAIG)	Feb 79	DIS
49.	Low bidder allegedly approached by second low bidder to withdraw low bid in return for financial consideration from second low bidder. (DLAIG)	Nov 78	CID

50.	Defense Contract Audit Agency reported possible alteration of financial records and mischarging of costs against DoD contracts. (DLAIG)	Oct 78	DIS
51.	Contractor allegedly sold assets subject to DoD claims for recovery of progress payments. (DLAIG)	Nov 78	OSI
52.	Contractor allegedly committed security violations, prepared fraudulent bills and committed other crimes. (DLAIG)	Mar 79	NIS
53.	Suspected forgery of acceptance documents. (DLAIG)	Jan 79	NIS
54.	Contractor possibly providing items that do not meet specifications. (DLAIG)	Oct 78	DIS

IMPROPER USE OR DIVERSION OF GOVERNMENT PROPERTY

55.	Automotive assemblies and repair parts valued at \$136,000 were unaccounted for. Items included automobile engines, transmissions, carburetors, etc. (USAAA)	Mar 79	CID
56.	Medical equipment valued at \$27,000 was unaccounted for. (USAAA)	Nov 78	CID
57.	Ammunition stocks were unaccounted for and possibly were lost. (USAAA)	Jan 79	CID
58.	Machineguns were unaccounted for and possibly were lost. (USAAA)	Nov 78	CID
59.	Possible misappropriation of tires and batteries. (NAVAUDSVC)	Feb 79	NIS
60.	Suspected theft of aviation wrist watches. (NAVAUDSVC)	Mar 79	NIS
61.	Alleged loss or diversion of supplies for personal use (two separate instances). (AFAA)	Mar 79	OSI
62.	Possible diversion of food. (AIR)	Nov 78	CID

63.	Alleged misappropriation of funds by an employee. (AIR)	Nov 78	CID
64.	Irregularities in safeguarding and accounting for subsistence resulted in loss of about \$2,500 of subsistence. (AIR)	Feb 79	Provost Marshal
65.	Alleged misuse of Government property, equipment and employees and alleged acceptance of cash from a contractor for work performed by Government employees. (AIG)	Jan 79	CID
66.	Alleged alteration of time cards and misuse (personal use) of Government vehicles and equipment. (AIG)	Dec 78	CID
67.	Irregularities were noted in a base supply account including loss of goods, unauthorized documentation procedures, and false documents to correct warehouse overages and shortages. (AFIG)	Nov 78	OSI
68.	Investigation made pursuant to reports of inventory loss resulted in indictment of employee for receiving, concealing, and converting Government property to personal use. (DLAIG)	Jan 79	DIS
69.	Possible diversion of Government property due to lack of proper accountability. (DLAIG)	Mar 79	OSI/NIS
70.	Alleged theft of food from troop messes. (DLAIG)	Mar 79	OSI

OTHER MATTERS

71.	Cash shortages involving a disbursing officer and a collection agent. (NAVAUDSVC)	Nov 78	NIS
72.	Possible conflicts of interest by former Navy employees in connection with Navy contracts (two separate instances). (NAVAUDSVC)	Dec 78 Dec 78	NIS NIS
73.	Apparent misappropriation of funds from a private association. (AFAA)	Feb 79	NIS

74.	Tuition assistance payments for possibly unauthorized college courses. (AFAA)	Feb 79	OSI
75.	Unauthorized personnel received treatment at Uniformed Services Medical Facilities. An estimated \$40,000 of unauthorized care was provided at one clinic during a 3-month period. (DAS)	Oct 78	DIS
76.	Suspected fraud involving telephone credit cards. (AIR)	Mar 79	Provost Marshal
77.	Contractor alleged that an auditor accepted gratuities during an audit. (AIR)	Mar 79	Provost Marshal

Footnotes:

- (1) Case initially was referred to investigative agency by commander. Audit subsequently was conducted to assist investigation, confirm existence of alleged conditions, and evaluate controls.
- (2) One case awaiting results of Commander's Investigative Board before being referred to an investigative agency.

SYNOPSIS OF SIGNIFICANT CASES REFERRED FOR PROSECUTION
OR OTHER ACTION

<u>Line Item</u>	<u>Nature of Incident</u>	<u>Estimated Monetary Loss</u>
1.	A civilian employee inflated vouchers for medical services provided by civilian hospitals overseas, and retained inflated portion of payments to hospitals. Referred to Department of Justice in December 1978. Federal Grand Jury pending. (Offender at large.) (CID-1)	\$ 2,252,782
2.	Contractor substituted dairy products that did not meet contract specifications. Pending referral to Department of Justice/FBI. (CID-2)	310,700
3.	A contracting officer's representative altered and certified documents submitted for "unauthorized" work performed, resulting in overpayments to the contractor. Pending referral to Department of Justice/FBI. (CID-3)	50,732
4.	Numerous irregularities at a finance and accounting office resulted in unauthorized advance payments. Action pending. (CID-4)	37,000
5.	Two civilians and one military member illegally sold and/or held Government property. Referred to Department of Justice in December 1978. Trial results pending. (CID-5)	21,133
6.	An Army Reserve member fraudulently received Government property for personal gain. Referred to Department of Justice in January 1979. Awaiting trial date. (CID-6)	31,432
7.	President of contractor and three former and one present Navy employees indicted on charges of conspiracy to defraud, submit false claims and bribery. Referred to U.S. Attorney, San Diego, California. Trial in progress. (NIS-1)	Investigation pre- cluded loss of \$662,000
8.	Contractor submitted fraudulent claim in collusion with civilian contracting officer who was subsequently employed by the contractor. Referred to U.S. Attorney, San Diego, California. U.S. Attorney declined prosecution because company president died and contracting specialist now resides in Guam. (NIS-2)	100,000

<u>Line Item</u>	<u>Nature of Incident</u>	<u>Estimated Monetary Loss</u>
9.	Embezzlement from USNS vessel's disbursing account. Referred to Department of Justice. Former civilian purser pleaded guilty and sentenced to 18 months in prison. U.S. Attorney also filed civil action to levy on individual's retirement pay. (NIS-3)	\$ 85,000
10.	Navy audit of disbursing activity disclosed a cash shortage. Referred to U.S. Attorney, San Francisco, California in February 1979. Accountable officer returned \$204,673 and was relieved of all disbursing duties. Pending trial. (NIS-4)	218,848
11.	Fraudulent travel claims by civilian and military personnel at two installations. Referred to U.S. Attorney, Seattle, Washington. Fifty-one individuals have pleaded guilty. Typical sentence included a fine, 40 days community service and restitution. Navy has initiated punitive and administrative actions in some cases. (NIS-5)	236,000
12.	Fourteen Marine Corps reservists filed fraudulent lodging receipts and falsified other expenses. U.S. Attorney declined prosecution. U.S. Marine Corps handled subsequent actions. Of the six members recalled to active duty, three officers resigned under less than honorable conditions, one officer is awaiting court-martial, one officer sentenced to loss of seniority and forfeiture of pay, and a senior NCO who cooperated with the investigation was allowed to retire. The remaining eight individuals may be subject to further proceedings. (NIS-6)	28,000
13.	Contractor overstated costs in support of \$1.5 million in progress payments. Referred to Naval Investigative Service in January 1979 for further investigation. (OSI-1)	298,000
14.	Employee embezzled funds from an Air Force base restaurant. Referred to FBI for further investigation and to Department of Justice for prosecution. Subject pleaded guilty and was sentenced to 18 months in prison. (OSI-3)	32,291
15.	An Air Force commissary officer conspired with two soft drink vendor suppliers to defraud the Government by manipulating delivery documents. This scheme netted the conspirators about \$1000 a week. Referred to FBI for further investigation and to Department of Justice for prosecution. Air Force employee sentenced to four years in prison; vendors sentenced to one year and six months, respectively. (OSI-4).	10,869

<u>Line Item</u>	<u>Nature of Incident</u>	<u>Estimated Monetary Loss</u>
16.	Air Force commissary employees and patrons conspired to defraud the Government by underringing purchases made at one store over a five-month period. Referred to British police. Action in British court is pending. (OSI-5)	\$ 12,000
17.	An Air Force employee embezzled funds from a golf course account over several years. Referred to FBI for further investigation and to Department of Justice for prosecution. Subject pleaded guilty, received four-month prison sentence, and was ordered to repay \$19,678. (OSI-6)	64,636
18.	Air Force member stole ammunition (25,000 rounds) and explosives. Subsequent search disclosed \$100,000 worth of ammunition, plastic explosives, grenades, etc., in his possession. Joint AFOSI, Department of Treasury, and FBI investigation. Referred to Department of Justice for prosecution. Subject pleaded guilty, sentenced to two years in prison, discharged from Air Force. (OSI-7)	100,000
19.	Substitution of Rebranded Semi-Conductors (Case #1). Referred to U.S. Attorney, Dayton, Ohio, in October 1978. Action pending. (DIS-1)	Undetermined
20.	Mischarging costs to DoD contracts. Referred to Department of Justice in August, 1978. Action pending. (DIS-2).	\$1.5 Million
21.	Substitution of Rebranded Semi-Conductors (Case #2). Referred to U.S. Attorney, Dayton, Ohio in October 1978. Action pending. (DIS-3)	Undetermined
22.	Mischarging of labor costs on contract. Referred to U.S. Attorney, Los Angeles, California in November, 1978. Action pending. (DIS-4)	Unknown
23.	Contractor from early 1960's to 1973 supplied non-conforming, substandard, often unwholesome meat under DoD contracts through schemes to circumvent inspection and contract requirements by offering gratuities and falsifying documents. Referred to Department of Justice in March, 1978. Two defendants pleaded guilty to conspiracy, one sentenced to three years; second defendant currently plea bargaining; third defendant to be tried in May, 1979. (DIS-5)	Excess of \$1 Million

<u>Line Item</u>	<u>Nature of Incident</u>	<u>Estimated Monetary Loss</u>
24.	Contractor mischarging costs to DoD. Referred to Department of Justice in August, 1978. Action pending. (DIS-6)	\$ 2.9 Million
25.	False claims; illegal sale of Government-furnished material. Referred to U.S. Attorney, Memphis, Tennessee in November, 1978. Pending joint investigation with FBI. (DIS-7)	Undetermined
26.	Product substitution, false certification. Referred to U.S. Attorney, Los Angeles, California in November, 1978. Action pending. (DIS-8)	Undetermined
27.	Contractor submitted false certifications while providing nonconforming, often unwholesome meat by circumventing inspection and compromising inspectors through gratuities. Referred to U.S. Attorney, Tyler, Texas. Trial November, 1978. Firm, owner and six managers found guilty and fined a total of \$126,000; owner sentenced to five years in prison; managers received suspended sentences. (DIS-9)	500,000
28.	False claims CHAMPUS Program. Referred to U.S. Attorney, Sacramento, California in October, 1978. Pending Joint DIS/FBI investigation. (DIS-10)	Undetermined
29.	Mischarging costs to DoD contracts. Referred to U.S. Attorney, New York, N.Y. in March, 1979. Action pending. (DIS-11)	500,000
30.	Product substitution, false statement. Referred to Department of Justice in November, 1978. Action pending. (DIS-12)	Undetermined

SYNOPSIS OF SIGNIFICANT CASES BEING RESOLVED THROUGH COMMAND ACTION

<u>Line Item</u>	<u>Nature of Offense</u>	<u>Estimated Monetary Loss</u>	<u>Date of Action</u>	<u>Action Organization</u>	<u>Results of Action (or Current Status)</u>
1	Subject received stolen U.S. Government property. (OSI-1)	\$16,504	N/A	60th Air Base Group, Travis AFB, CA	U.S. Attorney declined prosecution. Case is pending action by command.
2	Contractor failed to perform maintenance on equipment as required and submitted a false claim for repair. (OSI-2)	\$19,840	N/A	National Guard Bureau Washington, D.C.	U.S. Attorney declined prosecution. Case is pending action by command.
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. (OSI-3)	\$30,000	N/A	Osan Air Base Korea	Foreign contractor not under jurisdiction of U.S. courts. Case is pending action by command.
4	Failure to abide by agreements with DLA following conviction and debarment of predecessor firms; engaged illegally in commercial production; substitution. (DIS-1)	None	N/A	Defense Logistics Agency	Successor firm, its present owner and manager to be debarred from DoD bidder's list.
5	Violation of Standards of Conduct by contracting officer. (DIS-2)	None	Dec 78	Defense Logistics Agency	Prosecution declined. DLA (DCASR, New York) planned to terminate employee, who in the meantime died of natural causes.
6	False Claims for PCS by DoD employee. (DIS-3)	None. Employee withdrew \$4,500 claim.	Aug 78	Defense Contract Audit Agency	Prosecution declined. Employee withdrew claim and was terminated for cause.

SIGNIFICANT INSTANCES OF WASTE DISCLOSED BY AUDIT,
INTERNAL REVIEW AND INSPECTION ORGANIZATIONS

SUPPLY FUNCTIONS

Repair Parts Management. Supply support activities in Europe did not manage repair parts economically. Audit disclosed that requirements were overstated by more than \$5 million and over \$5 million of excess parts were on hand. In addition, about 226,000 unnecessary requisitions and related transactions were processed in a year and air transportation costs of \$350,000 were incurred needlessly. Army auditors recommended that supply activities fully comply with published supply guidance, and authorized reduction of stockage levels in forward support companies to 30 days of supply. Management response has not been finalized. (USAAA No. EU 79-202)

Ground Communications-Electronics-Meteorological (CEM) System and Equipment. Eighteen CEM vehicles valued at over \$53,000 were erroneously disposed of even though requirements existed. In addition, CEM vehicles valued at \$700,000 were declared excess and approved for disposal even though valid requirements existed and procurements for similar vehicles were being processed. Management agreed to clarify directives to specifically address disposal of CEM vehicles. During the audit, appropriate corrective action was taken to utilize the CEM vehicles valued at \$700,000 to fill existing requirements. (AFAA No. 87392)

Disposal of Assets. Due to erroneous coding, assets that should have been disposed of at field level were returned to air logistics centers, only to be disposed of upon receipt. This resulted in unnecessary expenditures of personnel resources and funds to process and transport the items. The inspectors recommended that inventory managers be trained in coding of assets and a worldwide reconciliation of repairable assets be performed to eliminate erroneous coding. (AFIG)

COMPTROLLER FUNCTIONS

Control of Overtime. Activities reviewed spent one million dollars for overtime during FY 1978. The overtime equated to 44 man-years of effort; however, little of the overtime met the criteria prescribed in Army Regulations. The more significant deficiencies noted included the preparation and approval of overtime requests after the work was performed, the delegation of approval authority to persons not responsible

for an agency's operations, insufficiently documented justification for overtime, and "blank check" overtime approval. Management agreed with recommendations to tighten controls over overtime and to make use of alternatives to overtime, such as: use of temporary, part-time and intermittent employees, shift adjustments, contracting out, improved manpower requirements determinations, better management of annual leave, and workload adjustments. (AIR)

PROCUREMENT AND CONTRACT ADMINISTRATION

Surveillance and Inspections of Contract Work. Audit disclosed instances where contractors deviated from contract specifications, and substandard contractor workmanship was not identified and reported. Inspection results were not always made known to the contracting officer even though some inspections disclosed contract deficiencies. Contractors' deviation from contract specifications resulted in the Army receiving less than provided for in the contract and will require additional funds to correct defective work. Review of 24 contracts with a total cost of \$4.3 million showed that additional costs of about \$500,000 will be needed to correct substandard work. Management agreed with the finding and initiated action to provide detailed guidance for conducting inspections, documenting contractors' performance, and reporting deficiencies to contracting officers. (USAAA No. SO 79-5)

Component Breakout of an Aircraft Production Program. Component breakout reviews by program office personnel did not address all of the items eligible for breakout consideration. Component breakout is the process of identifying contractor-furnished equipment items, which a contractor obtains from a subcontract manufacturer, and buying them for future procurements directly from the manufacturer, if it results in a lower overall cost. A management decision not to break out 12 items resulted in additional costs of approximately \$4.2 million. In addition, 37 other line items were identified by audit as candidates for component breakout which could result in cost avoidance to the Air Force of \$15 million. The Air Force Audit Agency recommended that management initiate an aggressive component breakout program. Management did not identify action taken or planned. Audit followup is planned. (AFAA No. 975-26)

Duplication of Contract and In-House Study. A major command let a contract for \$94,975 to lease four video disc systems for evaluation prior to the development of a formal evaluation plan. Approximately 1 month later the same command approved a contractor study for \$150,000 to evaluate video disc technology. Part of the justification for this study was that the command did not possess the personnel or equipment to

conduct the study in-house. These actions pointed to questionable management practices and a waste of Army resources. The finding was referred to the subject command for corrective action and the finding will be made the subject of a future inspection of the command by the Department of the Army Inspector General Agency. (AIG)

PERSONNEL MANAGEMENT AND TRAINING

Improper Screening of Personnel. One battalion received an input of 1,491 students for Advanced Individual Training in 1977. Of those, 556 were eliminated for failure to meet standards. Ninety percent of the unqualified students were identified within 3 days of assignment. Inadequate screening by basic training units was evident. The requirement to obtain reassignment instructions from Headquarters, Department of the Army for those failing to meet standards caused an average of 18 days delay to complete reassignment. This caused an approximate 10,000 man-day loss within one training battalion in 1977. Although the decentralizing of assignment authority is not possible, personnel have been sent to training posts to explain and establish proper screening procedures. (AIG)

TRANSPORTATION FUNCTIONS

Use of Air Transportation. Materiel that should have been shipped by surface transportation was shipped by air. The additional cost of transporting the materiel by air may have amounted to as much as \$825,000 in a 6-month period. Management agreed and stated that corrective action would be taken. (USAAA No. WE 79-17)

Unnecessary Use of Commercial Carriers Along QUICKTRANS Routes. Using commercial carriers for 10,020 shipments along QUICKTRANS routes during a 6-month period resulted in unnecessary costs of \$1.3 million. Navy auditors recommended that the audited activity monitor commercial shipments along QUICKTRANS routes and notify shippers of available QUICKTRANS service. The activity partially concurred and indicated that commercial shipments will continue to be monitored and shippers encouraged to use all available space in QUICKTRANS. (NAVAUDSVC No. A41438)

Use of Organizational Aircraft for Passenger Airlift. Audit disclosed that organizational aircraft sometimes were used to transport aircrews to or from depot maintenance activities to deliver and pick up other aircraft. This resulted in inefficient and uneconomical use of

limited aircraft flying hours. Auditors estimated that unnecessary costs of \$1.0 million annually were incurred. Management concurred and stated that guidance will be issued to all units emphasizing the need to reassess the requirement to transport aircrews to and from depots on organizational aircraft. (AFAA No. 89916)

Household Goods Shipment. During the month of December 1978, household goods in transit from an overseas location were left exposed to the elements resulting in an estimated \$180,000 in water damage claims against the Government. The household goods were stored in an uncovered area awaiting onward movement during which time severe rain storms were encountered. Repacking prior to movement resulted in an additional cost of \$5,800. Resulting management actions taken included the suspending of incoming shipments until household goods could be properly protected, improved supervision and use of dunnage and water-proof covers. (AIG)

SUPPORT SERVICES

Loss of Subsistence. Overrequisitioning and questionable portion control resulted in excessive use of subsistence items and waste of perishable items in a base dining facility. In addition, some leftover food was taken home by food service personnel at the end of the training week. As a result of the inspection, management adopted improved methods for planning and ordering subsistence items. One person resigned, and disciplinary action is pending on three additional personnel involved in misappropriation of subsistence. (AFIG)

AUTOMATIC DATA PROCESSING PROGRAMS

Implementation of Approved Automated System. Delays in implementing an approved automated system for processing and recording insurance and retirement payroll withholdings resulted in unnecessary costs for rental of equipment, and for temporary employees. Management agreed to accelerate implementation of the approved automated system. Monetary benefits attributable to this finding were estimated at \$240,000. (AIR)

OPPORTUNITIES FOR IMPROVING ECONOMY, EFFICIENCY
AND EFFECTIVENESS OF OPERATIONS

SUPPLY FUNCTIONS

Ammunition Requirements. Inadequate monitoring of ammunition requirements resulted in the requisitioning and accumulation of excess quantities of ammunition. Excess quantities ranging from 7 months to 44 years of supply were on hand for 75 percent of the items reviewed. The auditors estimated that more than \$4 million of conventional ammunition and related components would be excess to FY 1979 requirements. Management agreed to revise local regulations requiring supported units to make annual reviews of ammunition requirements, and to identify and report excess ammunition. (USAAA No. WE 79-18)

Automated Supply Programs. Automated supply programs designed to identify excess repair parts were not being used effectively. As a result, one infantry division accumulated about \$1.3 million of unneeded repair parts, including \$573,000 of parts in excess of authorized retention levels. Additional unneeded parts valued at \$419,000 were on order. Management concurred in the audit recommendations to turn in excess repair parts and cancel requisitions for unneeded parts. (USAAA No. SW 79-3)

Equipment Management by a Reserve Command. Army Reserve units in one command had on hand equipment valued at about \$268,000 that was excess to their needs and had requisitioned more than \$1.1 million of equipment that was either not authorized or not needed. Conversely, other units had not requisitioned many authorized items of equipment. Management concurred in the auditors' recommendations and stated that corrective action would be taken. (USAAA No. NE 79-11)

Equipment Management by a National Guard Unit. About \$3.6 million of one state National Guard unit's equipment was excess to requirements. Over \$2.3 million of this excess equipment could have been redistributed among other Guard units in the state to alleviate shortages. Requisitions valued at \$102,000 had been placed against the Army supply system for items that were already on hand, in excess quantities, at other Guard units. Management agreed with recommendations to identify and redistribute excess equipment to units with shortages, return unneeded equipment to the supply system, and cancel requisitions for unneeded equipment. (USAAA No. EC 79-7)

Acquisition of Obsolescent Medical Materiel. A medical materiel agency requested approval from the Office of the Surgeon General to acquire 70 blood gas apparatus at a cost of \$1.2 million. Auditors determined from the supply history file that this apparatus was in the process of being replaced by another item in the supply system. The audit finding resulted in immediate action by the command to cancel the acquisition request. (USAAA No. EC 79-5)

Auditors also found that about \$1 million of materiel needed to fill known requirements remained in storage at an Army depot for as long as 4 years in unissuable condition. (The equipment involved had not been previously used and therefore should have been in like-new condition; upgrading costs were assumed to be minimal.) Also, about \$1.2 million of serviceable items, determined to be excess to Active Army requirements, could have been applied against requirements of other medical logistics programs. Additional items valued at \$900,000 were excess to all Army requirements but had not been reported as excess to the Defense supply system. Management concurred in the finding and advised that a schedule for accomplishment of required actions would be established. (USAAA No. EC 79-5)

Management of Recoverable Assets. More than \$800,000 of major assemblies and about \$300,000 of direct exchange items at one location were not on accountable records, while sixty major assemblies valued at \$422,000 were excess to the needs of the installation. Management agreed to identify and establish accountability for all major assemblies and direct exchange items, and request disposition instructions for unneeded items. (USAAA No. SO 79-3)

Identification and Redistribution of Excess Materiel. Eleven Navy audit reports identified more than \$52 million of aircraft ground support equipment, material handling equipment and other types of equipment that were excess to requirements. In addition, about \$4 million of excess materiel was identified as being available to meet existing requirements. The Naval Audit Service recommended that activities identify excesses and redistribute these assets where appropriate to avoid possible unnecessary procurements. Management indicated that actions would be taken to identify and redistribute excess materials and equipment. (NAVAUDSVC Nos. C24947, C42918, A10038, A10058, A31148, C17338, A10018, A30948, A31178, C17408, and A10318)

Computation of Maintenance Float Quantities. Errors totaling \$42.7 million were found in the computation of requirements for maintenance float quantities for 15 Principal End Items. Although most of the errors had not resulted in excessive buys, the auditors found that savings of \$1,044,000 would be possible from the cancellation of outstanding procurements of certain items which had been based on the overstated requirements. Headquarters, Marine Corps concurred and initiated action to ensure proper computation of requirements and reviews of quantities on procurement for possible reduction. (NAVAUDSVC No. C35538)

Overstated Inventory Objectives. Audit recalculation of requirements based upon current Combat Service Support Unit structure, showed overstated inventory objectives for six principal end items totaling 300 units of equipment valued at about \$7.4 million. Outstanding current procurements for three of these end items could be reduced resulting in a savings to the Marine Corps of about \$2.3 million. Headquarters Marine Corps concurred with the finding and initiated action to ensure that inventory objectives are changed to reflect current Marine Corps force structure and that outstanding procurement quantities are reviewed for possible reduction. (NAVAUDSVC No. C35538)

Stockage Levels for Collocated Assets. Asset requirements at three air logistics centers were overstated by at least \$19 million, which caused a related increase in capital investment of the System Support Division of the Air Force Stock Fund. Potential cost avoidance is possible if appropriate management action is taken to reduce certain stock levels for collocated assets, as recommended by the auditors. Management is pursuing alternative actions to correct the problem. The effectiveness of management action will be determined during the audit followup. (AFAA No. 87393)

Control Over Assets. An internal review disclosed lack of control over unused facility engineering materials, supplies and other assets susceptible to pilferage. Recommendations were made to store supplies in a central warehouse, account for supplies properly, and establish procedures to require that unused supplies be turned in. Management response had not been received when this report was prepared. (AIR)

Ammunition Management. At one major command large quantities of ammunition returned in an unserviceable condition or not identifiable by lot number had to be destroyed, resulting in an estimated loss of \$1.3 million annually. Corrective actions taken by management included issuing only those quantities of ammunition needed to fulfill firing requirements and returning unused ammunition to ammunition supply points for repacking and reissue where possible. (AIG)

Demilitarization of Ammunition. An excessive amount of ammunition requiring demilitarization and disposal was on hand at a depot, with some items dating back 5 years. The backlog was 4,192 tons, with a dollar value of \$11.5 million. Failure to reduce the backlog could cause further deterioration which could affect the stability of the ammunition. Delay also resulted in inefficient use of storage space, increased security and surveillance requirements, and presented a safety hazard. The feasibility of hiring temporary employees to reduce the excessive amounts of demilitarization is being considered. Alternatives within the depot's own resources and authority are also being analyzed. (AIG)

Property Accountability. An inspection at an Army hospital disclosed that approximately \$750,000 of new equipment had not been recorded on accountable records and current hand receipts had not been signed by personnel responsible for property physically located in the hospital. Under these conditions equipment could be lost without detection and it would be difficult to pinpoint responsibility for lost property. (AIG)

COMPTROLLER FUNCTIONS

Administrative Control of Funds. An audit of the Defense Personnel Support Center disclosed that a significant portion of contractors' invoices received for payment by the Center were not processed within the prescribed 30 days. With regard to these invoices offering discounts for prompt payment, extrapolation of the results of the auditors' analysis indicated that approximately \$900,000 could be saved annually by improving upon the timely payment of invoices with discount provisions. Management agreed with the recommendation and implemented corrective action. (DAS No. 79-041)

Safeguarding Negotiable Instruments. A surprise cash count identified \$300,000 worth of checks physically on hand in a Finance and Accounting Office that had not been deposited, recorded, or properly safeguarded. Management agreed with recommendations to record and deposit all checks promptly and to safeguard all cash and negotiable instruments. (AIR)

Payroll Operations. Controls over payroll operations were not adequate. Separated employees were carried on the active payroll for excessive periods of time; as a result, some overpayments were made. Moreover, procedures were not adequate to ensure that all overpayments were detected and collected. The automated reports that assist in controlling and monitoring payroll fund expenditures were not always being used effectively. Management agreed with the finding and implemented corrective action. (AIR No. 13A-79)

MAINTENANCE AND REPAIR FUNCTIONS

Cancellation of Repair Program. Desk-type telephones stored at an Army depot were coded nonreparable in May 1977 because of continual increases in the depot labor rates, and the high cost of the component parts. Despite the nonreparable status of the telephones, a work directive was issued to repair the telephone sets at a cost of about \$247,595. As the cost of repairing the telephones exceeded the cost of new telephones and the stockage level of the telephone set was adequate, the auditors recommended cancellation of the depot repair program. Command agreed and cancelled the program after \$90,000 had been expended. Estimated savings of about \$157,000 were realized by cancelling the program. (USAAA No. NE 79-6)

Support and Maintainability of Avionic Equipment. Avionic recoverable spares requirements computations were overstated by \$8.7 million due to the use of erroneous computation factors. However, no excess procurements were made as a result of using these factors. The Air Force Audit Agency recommended and management agreed to review these factors and make the necessary changes and adjustments in the computation procedures. (AFAA No. 87381)

PROCUREMENT AND CONTRACT ADMINISTRATION

Economic Analyses. Nine audit reports contained findings that cost analyses were not being performed to identify whether various types of equipment such as vehicles, copiers and typewriters should be leased

or purchased. Consequently, leasing of equipment did not provide the most cost effective method of acquisition. The auditors estimated that about \$3.2 million could be saved over the useful life of the equipment by procuring in lieu of leasing such equipment. Activities concurred with the recommendations to perform economic analyses and purchase equipment in appropriate circumstances. (NAVAUDSVC Nos. C42828, A10028, A10038, A11668, A20928, A31118, A20768, A30948, C46038)

Management of an Aircraft Development Program and Production Planning. During the provisioning process for new aircraft, some parts/components are identified which are not readily available from private industry; procurement of spares for some of these items is planned to guard against catastrophic or peculiar losses. Generally, items of this nature are not purchased until the end of aircraft production. At the time of audit over \$800,000 had been prematurely obligated in anticipation that these spare parts and components would be needed. The Air Force Audit Agency recommended and management agreed that procurement of these items should be deferred until the final stages of aircraft production. These actions resulted in reductions in procurement of \$800,000 for FY 1978 and \$6.3 million for FY 1979. (AFAA No. 78265)

In the same program, repair parts requirement computations used in direct support of aircraft and subsystem maintenance programs were overstated. The system management personnel had established a policy of buying at least two of each repair part. This policy and the erroneous manual adjustments to the requirement computations resulted in provisioning actions which exceeded forecasted demands. As a result overprocurements of about \$288,000 had occurred. Management's action to revise this policy for spare part requirement computations resulted in reducing requirements for FYs 1978 and 1979 by \$1.8 million. (AFAA No. 78265)

The auditors also noted that a component breakout program, including a master list of candidates, had not been established for the aircraft. Auditors estimated that cost avoidance of at least \$6.7 million could be realized from the breakout of five items that were common to and currently being produced under other Air Force programs. Management initiated a review of selected components and stated that the feasibility of component breakout would be monitored throughout the life of the contract. (AFAA No. 78265)

Procurement of Computers. Procedural irregularities in connection with a lease/purchase contract for two mini-computers resulted in procurement of one computer without adequate requirements and an apparent regulatory violation for "New Start" analysis. In addition, it appeared

the second year lease costs would have exceeded the thresholds for major command approval authority. Management agreed with recommendations to cancel procurement of the second mini-computer system and establish procedures to ensure that computer contracts meet requirements and regulations. Estimated monetary benefits of \$568,000 were attributed to this action. (AIR)

Bulk Petroleum Products. An inspection of Air Force depots disclosed petroleum products were not properly managed, controlled, and accounted for. Contractor delivery tickets did not reference net gallon quantities or product loading temperatures, and procedures for inspection and acceptance of bulk fuel deliveries did not specify the minimum required information. Bulk petroleum products were accepted by unauthorized personnel and regulatory inspection criteria were not being applied. The depots involved have taken action to assure strict compliance with all regulatory requirements in the future. (AFIG)

PERSONNEL MANAGEMENT AND TRAINING FUNCTIONS

Training During First Enlistments. An Army school was providing Advanced Individual Training to first enlistment soldiers, although Army's policy was to give such training only to soldiers who re-enlist. About \$8 million was budgeted for fiscal year 1979 for teaching Advanced Individual Training. At the time when the audit was made, experience indicated that about 70 percent of the soldiers who received advanced training could be expected to leave the Army after their first term. The auditors recommended that management discontinue teaching skill level 2 tasks in Advanced Individual Training courses to first enlistment soldiers and develop plans to provide such training only to those individuals who make commitments beyond their first enlistment. The command reply process was still open when this report was prepared. (USAAA No. SO 79-9)

Inactive Duty Training. An analysis of the results of seven recent audits of Army Reserve and National Guard units disclosed that similar deficiencies in inactive duty training were prevalent at all the activities visited.

-- Supervision of unit training was not adequate to ensure that training time was used productively. Reservists were idle or were engaged in activities not called for on the training schedules. Many units reviewed did not accomplish the training provided for on approved quarterly training schedules.

-- Weekend training exercises at many state Guard units were not well planned or supervised, and required tasks were not always performed. As a result, some Guard units could have difficulty undertaking a Federal mission in the case of an emergency.

-- Controls over attendance at inactive duty training assemblies were not adequate. Some members were recorded as present for training assemblies they either did not attend or did not complete. Members were excused for invalid reasons and equivalent training authorized to make up for absences either was authorized improperly or was not supported by documentation. Many members absent without valid reasons were given excused absences.

-- Questionable payments were made to unit members for (i) equivalent training authorized without valid reasons for absences; (ii) training assemblies missed and made up informally without proper support; and (iii) unit training assemblies not attended by members who were recorded as present.

Management generally agreed with the audit recommendations and stated that corrective actions were being initiated. (USAAA Nos. NE 79-8, NE 79-11, NE 79-12, EC 79-7, MW 79-2, MW 79-16, WE 79-4)

Staffing Levels. Five audit reports disclosed that staffing levels of various sections within activities reviewed could be reduced by consolidation or realignment of functions. The auditors recommended that detailed reviews be made to determine the feasibility of consolidation or realignment. Monetary benefits were estimated to be about \$1.3 million. Activities concurred with the recommendations and indicated studies would be performed and reductions in manpower effected, if appropriate. (NAVAUDSVC Nos. A10038, A31078, A10118, C17338, and A10318)

Management of Mobilization Augmentees. The mobilization augmentee program for procurement personnel lacked justification. No specific requirement supported the need for many procurement positions and computer operator positions. In response to audit recommendations, management deleted 47 procurement and 7 computer operator positions from the Reserve Program avoiding unnecessary costs of \$569,010 over the next three years. (AFAA No. 464-1)

RESEARCH AND DEVELOPMENT FUNCTIONS

Acquisition of Vehicular Antennas. Acquisition of the AS-2731 Vehicular Antenna to replace the AS-1729 Vehicular Antenna did not appear to be cost effective. Reasons supporting the replacement of the

existing antenna were no longer valid. A safety hazard in the AS-1729 antenna had been corrected and the AS-2731 antenna offered little, if any, operational improvement. Savings of at least \$41.8 million would be possible through purchase of replacement parts for the AS-1729 antenna instead of buying the AS-2731 antenna. The auditors recommended that the proposed acquisition of the AS-2731 be reevaluated. Management agreed with the finding, and is awaiting results of studies now underway before taking definitive action. (USAAA No. NE 79-9)

TRANSPORTATION FUNCTIONS

Stopping Unneeded Shipments. A Logistic Control Activity's procedures for stopping unneeded shipments did not cover shipments from non-Army depots. The auditors also found that some unneeded shipments from Army depots also were not being stopped. If prompt action had been taken to stop all unneeded shipments intended for this activity during the 4th quarter of FY 1978, savings in consumer funds for materiel not needed would have been at least \$200,000. Potential annual savings exceed \$800,000. Management agreed to initiate appropriate corrective action to stop all unneeded shipments. (USAAA No. WE 79-17)

Need to Revise Navy Contract Cargo Airlift System (QUICKTRANS) Routes. Adding a transcontinental route between Charleston, South Carolina or Jacksonville, Florida, and the West Coast, and replacing intracoastal air routes with dedicated truck service would save an estimated \$2.5 million annually. These changes would also expedite the movement of material, reduce trans-shipping of material, and reduce congestion at the Norfolk terminal. The auditors recommended that management review the QUICKTRANS route structure to determine if a southern transcontinental air route would better serve the Navy's transportation needs. Management concurred, noting that a review did indicate that a southern transcontinental pattern would be effective. (NAVAUDSVC No. A41438)

Air Passenger Terminals. One time savings estimated at \$17.5 million, and recurring annual savings estimated at \$17.4 million, could be achieved by closing unneeded Military Airlift Command (MAC) Air Passenger Terminals, reducing operations at other terminals, and discontinuing pre-departure customs inspections of passengers. The auditors recommended that the Assistant Secretary of Defense (Manpower, Reserve Affairs and Logistics) direct the Military Airlift Command to close four military air passenger terminal facilities and reduce the size (manpower and operations) of five others. The Secretary of Defense has since closed the Norton air passenger terminal and tasked the Air Force to reflect in the FY 1981 Program Objective Memorandum a plan which addresses consolidation and/or closure of the other 15 major MAC air passenger/cargo terminals operating in CONUS and overseas. (DAS No. 79-025)

International Air Passenger Traffic. Savings estimated at \$52.9 million could be achieved through improved means of moving Defense personnel internationally by air. Auditors found that the most economical aircraft were not always chartered, air passenger traffic was not always routed through cost favorable commercial gateways, air charter capacity was not fully utilized, and scheduled commercial service was used in lieu of less costly air charter service. In responding to the final report, the Deputy Assistant Secretary of Defense (Supply, Maintenance and Services) stated that several of the actions recommended had been overtaken by events. A new approach to procurement of peacetime airlift and maintenance of Civil Reserve Air Fleet commitments is now being developed, and the factors highlighted in the audit report will be fully considered in this process. The response also stated that some action has been or is being taken on other recommendations: such as, curtailing reimbursable travel, developing compensatory tariffs, limiting access to scheduled services in favor of using Military Airlift Command (MAC) flights, upgrading MAC passenger handling, and centralizing management control of international airlift. (DAS No. 79-052)

SUPPORT SERVICES

Screening Dependents Before Overseas Transfer. The Navy did not screen dependents to preclude them from postponing dental treatment before accompanying their sponsors to overseas duty stations. Postponement of dental care for dependents until arrival overseas requires additional Navy resources overseas for treatment which should have been an expense of the sponsor. The recommended screening could improve the dental health of the dependents, while enabling more attention to be directed to active duty personnel in the overseas area. The Chief of Naval Personnel and Chief, Bureau of Medicine and Surgery concurred. Dental screening was implemented effective November 8, 1978. (NAVAUDSVC No. A10378)

Fire Protection Services. Savings estimated at \$31 million could be realized without compromising safety if all Military Departments were to use fire protection practices which have been proven effective in one or more of the Military Services and at commercial airports. The estimated savings could be achieved through improved personnel management practices, elimination of unnecessary rescue equipment, and consolidation or elimination of unnecessary fire departments. The audit report contained 11 recommendations related to improving military fire protection policy and practices. The Deputy Assistant Secretary of Defense (Energy, Environment and Safety) advised the Defense Audit Service that his office would develop, on a priority basis, guidance for fire protection services. Moreover, the Deputy Assistant Secretary of Defense (Installations and

Housing) was proceeding with planned consolidation of fire departments. Many of the recommendations in the report should be resolved after issuance of this policy guidance. (DAS No. 79-019)

NONAPPROPRIATED FUND INSTRUMENTALITIES

Management of Army Club Systems. An analysis of 12 Army Audit Agency reports of Army club systems disclosed prevalent weaknesses in management of food and bar operations. Sales accountability analyses and internal controls were not sufficient to prevent the loss or misappropriation of revenue or merchandise. In many instances wide variances between expected and recorded sales and gross income were not investigated. Management generally agreed with the audit recommendations and stated that corrective actions would be taken. (USAAA Nos. WE 79-800, WE 79-801, WE 79-803, EU 79-800, EU 79-801, EU 79-802, EU 79-804, EU 79-805, EU 79-806, NE 79-800, SW 79-800, SW 79-801)

Nonappropriated Fund Instrumentalities. Ten nonappropriated fund instrumentalities were reviewed to determine the adequacy of controls over cash and inventory. At many of these locations, cash receipts could not be verified, cash and inventories were not adequately safeguarded from theft, inventories were not reconciled with records, and assets were not marked to show ownership. Management agreed with the findings and took appropriate corrective actions. (AIR)

REAL AND INSTALLED PROPERTY PROGRAMS

Construction of Rifle Ranges. Auditors found that construction plans provided for six rifle and machinegun training ranges although only two ranges were needed. About \$500,000 could be saved by canceling construction of the unneeded ranges. Management agreed with the recommendation and deleted the two M-16 ranges from the construction program. Management also agreed to construct four machinegun courses on two ranges rather than build four separate facilities. (USAAA No. SO 79-3)

Similarly, another audit disclosed that the construction of eight rifle ranges as part of the planned expansion and new construction of Army reserve centers in fiscal years 1979 through 1984 may not be necessary because of the availability of adequate rifle firing facilities near the planned construction sites. Substantial savings are possible by eliminating the rifle ranges from the planned construction. Management agreed to review construction plans and eliminate construction of unneeded rifle ranges. (USAAA No. NE 79-11)

Recovery of Utility Costs. Family housing and tenant activities at a major Army installation were undercharged about \$214,000 for utility services because rates were not recomputed to reflect significant increases in the wholesale rates charged by suppliers and because applicable cost factors were not used in rate computations. Required metering devices had not been installed by activities purchasing utility services, and required inventories of utility consuming facilities and equipment were not updated annually as a basis for estimating utility consumption. Management agreed and stated that corrective action would be taken. (USAAA No. SO 79-5)

Reserve Forces Facilities. The audit showed that improved planning of Reserve facilities would result in better use of facilities and that the construction program needed improvement. Consolidation of construction requirements, as well as changes in construction criteria, could save DoD an estimated \$33 million in one-time savings and about \$4 million in recurring savings annually. The report contained 19 recommendations to improve the construction program for Reserve Forces facilities. The Deputy Assistant Secretary of Defense (Installations and Housing) was considering these recommendations and had not commented on the audit report when this report was prepared. (DAS No. 79-059)

AUTOMATIC DATA PROCESSING PROGRAMS

Excess Computer Capacity Proposed for the Great Lakes Complex. The computer system proposed for the Great Lakes complex will have a capacity significantly in excess of that actually needed. On an assumption that certain organizational changes proposed for the Great Lakes complex would be approved, local management sent to higher authority for approval proposed organizational structure to meet the anticipated increase in data processing workload. Audit indicated that the proposed configuration far exceeds requirements. Savings of more than \$1.1 million could be realized over the economic life of the system by realigning equipment consistent with requirements. Navy auditors recommended that pending final decision on various organizational changes, the audited activity should re-evaluate the computer configuration proposed for the Great Lakes complex and consider excluding the IBM 360/30, together with the related personnel requirements, and MDS-2400 computer systems. The audited activity and higher authority concurred with the recommendation. (NAVAUDSVC No. A41388)

Delaying Procurement of a Computer. One installation was in the process of acquiring an Automated Data System with an estimated initial 4-year cost of \$2.8 million, based upon a substantially inaccurate and

incomplete economic analysis. The analysis was not made in accordance with existing guidance, and did not incorporate required firm bid/offer procedures or an independent audit of in-house estimates. The auditors recommended that the installation delay the computer procurement pending an analysis performed in accordance with all applicable directives and based upon the results, obtain necessary approvals from higher authority to fill requirements either through contractor procurement or in-house. As a result of the audit, procurement action has been delayed pending resolution of the problems identified. (NAVAUDSVC No. R10078)

Procurement Accounting and Reporting System (PARS). The development of PARS required 5 years of effort and the expenditure of over \$16 million. However, PARS has not fully achieved its primary objective -- the development of a real-time automated data system for uniformly managing and controlling the procurement appropriations --- due to underfunding of development, changes in the approved system design, and inadequate user involvement during development. An information review by the General Accounting Office (GAO) disclosed that significant modification must be incorporated into the system to qualify it for approval under the Budget and Accounting Procedures Act of 1950. The auditors recommended that management identify actions required to increase the usefulness of PARS and obtain GAO approval; prepare an Automated Data System plan to recognize planned and required developments/enhancements; and submit the plan to the Director, Department of the Navy Automated Data Processing Management for approval. Management comments were not responsive to the recommendations. Consequently, the Naval Audit Service requested that higher authority review the findings and recommendations, obtain audited activity responses which address the recommendations, and resolve this matter. (NAVAUDSVC No. 130057)

Contractual Services. Directives did not specifically address the need to consider feasible alternatives to contracting out for automatic data processing services. Auditors found examples where contracting out cost the Government \$720,000 more than it would have cost in-house had personnel been available. As a result of the audit, management revised and clarified procedures for management of automatic data processing system documentation, acquisition, and implementation. Air Force Regulation 300-12 will be amended to re-emphasize that all data automation requests must be evaluated to determine whether the effort proposed is cost effective in terms of improved operations. (AFAA No. 85361)

Base Level Data Automation Program (Phase IV). Auditors noted that Phase IV performance specifications for replacement of base level computers, contained an unsupported requirement to upgrade the keyboard/printer

devices used in the current supply system to keyboard/ printer/visual display units. Based on an interim audit report management reduced the requirements by \$8.5 million by substituting less expensive terminal units. Auditors continued to question the need for the terminals and recommended re-evaluation of requirements for the terminal units and elimination of unsupported requirements from performance specifications. Management subsequently reduced the number of terminals, thereby eliminating an additional \$20.8 million in life cycle cost from the Phase IV program. (AFAA No. 85376)

Leased Equipment. Leasing arrangements for computers did not recognize the Government's interest in the equipment. Therefore, accrued equity was lost when Defense contractors terminated the lease. The audit disclosed many instances where DoD purchased new equipment at full list price during the periods when Defense contractors' terminated leases for similar equipment. Detailed review at five contractors disclosed that application of the equity principle could have reduced equipment purchases by an estimated \$1.9 million. This interim report did not include a recommendation, and a reply was not required. (DAS No. 79-040)

Automatic Data Processing Systems. The Military Departments were unnecessarily spending an estimated \$230,000 annually to maintain a resource management information system that paralleled the DoD Automatic Data Processing Reutilization Management System. The auditors recommended that the Military Departments be directed to discontinue operating and maintaining separate automatic data processing management information systems. The Deputy Assistant Secretary of Defense (Management Systems) concurred and stated that duplicate component systems will be discontinued. (DAS No. 79-062)

ENERGY CONSERVATION

Use of Hot Water in Clothes Washers. Utility savings of \$2.4 million could be realized annually by eliminating hot water usage in clothes washers located in Navy and Marine Corps bachelor quarters. Both the Navy and Marine Corps have acknowledged the use of cold water to wash clothes as an effective means to reduce energy consumption. And, in terms of cleanliness and health, comparative analysis has shown no significant difference between hot and cold water usage for clothes washing. Audit determined that hot water was routinely supplied and used in clothes washers located in bachelor quarters. The Chief of Naval Operations and the Commandant of the Marine Corps concurred and issued implementing instructions to restrict the use of hot water in clothes washers in bachelor quarters. (NAVAUDSVC No. C42928)

Flying Hour Requirements. An audit of one installation showed that flying hour requirements were unsupported. The standard cost of the unsupported requirement was \$2.7 million. Management agreed and reduced costs of wing flying hour requirements by \$1,758,816 in its funding proposal to the major command. (AFAA No. 396-14)

OPPORTUNITIES FOR REDUCING COSTS THROUGH
IMPROVED CONTRACTOR OPERATIONS

The work of the Defense Contract Audit Agency has a significant impact on the economy and efficiency of DoD operations. The Agency issues around 50,000 reports each year which assist in achieving prudent acquisition of defense goods and services. About half of these reports relate to audit evaluations of contractor pricing proposals which resulted in reduced prices for new procurement in the 6-month reporting period by approximately \$700 million.

The Agency also has an ongoing program to identify costs that can be avoided by defense contractors due to uneconomical or inefficient operations. A synopsis of typical cost avoidance opportunities surfaced during the first half of FY 1979 follows. Dollar amounts shown represent cost avoidance totals for the individual categories for that period.

Interactive Computer Graphics. (\$20.5 million) Rapid advances in computer technology are enabling engineers, designers and draftsmen to use the computer as a tool to greatly increase their productivity. The objective of these audits is to ascertain whether the contractors perform design and drafting effort in an economical and efficient manner consistent with the extent of interactive computer graphics technology available. DCAA reviews have disclosed numerous instances in which contractors could reduce costs either by utilizing interactive computer graphic equipment for the preparation of various designs or drawings in lieu of manual methods or by making an increased use of existing computer graphics equipment. Contractors have generally implemented these recommendations.

Repair, Rework, and Replacement of Nonconforming Material. (million) The objective of these reviews is to evaluate contractor procedures and practices for collecting, reporting, monitoring and controlling expenditures relative to the repair, rework and replacement of nonconforming material. DCAA reviews have disclosed numerous instances in which the contractor did not have effective or timely procedures to identify and resolve causes of nonconforming material. In these cases DCAA recommends various ways of increasing defect prevention effort, thereby decreasing the more costly rework and replacement activities.

Word Processing. (\$9 million) Word processing in many instances represents an efficient and effective production of written communications at the lowest possible cost through the combined use of improved systems management procedures and automated technology. Utilization of modern word processing equipment can and has resulted in savings of 15 to 30 percent of applicable secretarial/clerical payroll costs. In a recent review DCAA recommended an optical character reader word processing system using dictation equipment which would significantly reduce contractor document processing costs. The contractor agreed.

Transportation and Traffic. (\$7.8 million) These reviews are concerned with ascertaining that the contractor moves its personnel and material in the most efficient and economical manner. The majority of the cost avoidance actions pertain to contractor use of company-owned aircraft in lieu of commercial service. As an example, one of DCAA's reviews disclosed that two contractor-owned aircraft were flying to and from the same destination, on the same day, both with vacant seats. The contractor acted on the auditor's recommendation and disposed of one aircraft.

Direct Production Labor and Related Supervision. (\$7.7 million) Reviews of labor and attendant supervision are to determine whether personnel are efficiently and economically utilized when (1) establishing and maintaining staffing levels, (2) attaining satisfactory productivity goals, and (3) implementing a work performance system in connection with items being manufactured, processed, or assembled.

Typical findings are: (1) low productivity due to lack of supervisory personnel, (2) excessive overtime premium costs caused by the understaffing of manufacturing personnel, and (3) excess of management personnel generally the result of decreased sales volume.

Production Scheduling and Control (PS&C). (\$7.2 million) This type of audit includes a review for efficiency and economy of the basic system and management practices for planning, scheduling and controlling the contractor's day-to-day manufacturing operations and for coordination of the material, including subcontracted items, labor and facilities to produce a quality product on a timely basis.

Representative major cost avoidance actions reported by DCAA auditors in the PS&C area include recommendations that (1) welding applications electrodes not be discarded until they are 2 inches or less in length, (2) separate stockrooms be merged to provide better accessibility to operating personnel, and (3) manual operations be mechanized.

Facilities Management. (\$6.2 million) These audits encompass the review for efficiency and economy of such functions as maintenance of grounds, roads, plant machinery and equipment, janitorial service, security plant rearrangement, construction and modification projects.

Some major cost avoidance recommendations made by DCAA auditors are: (1) utilization of subcontracted janitorial and security services in lieu of the contractor's employed services, (2) reduction of maintenance repair workload and equipment downtime production delays through implementation of a formal scheduled preventive maintenance program, and (3) the introduction of a central storage facility eliminated the unnecessary movement of supplies and equipment, thereby reducing the need for transportation personnel.

Telecommunications. (\$5.7 million) A DCAA review of a contractor's telecommunication requirements seeks to determine what telephone equipment configuration and maintenance features will provide the most efficient and economical communication system for a particular operation.

Some major cost avoidances have resulted from recommendations to: (1) replace tariffed telephone equipment with purchased interconnect equipment, (2) reduce maintenance requirements due to the enhanced reliability of interconnect equipment, and (3) improve user efficiency due to expanded equipment capabilities.

ADPE Systems Analysis. (\$4.2 million) These audits determine whether the ADP system is operating efficiently and economically by ascertaining if it (1) properly records and processes information, (2) distributes data center costs in an equitable manner, and (3) uses equipment and labor resources effectively. Some representative examples of cost avoidance recommendations are to: (1) establish a centralized or common data base file to reduce errors in reports and thereby eliminate research effort, (2) increase utilization of computer capacity by consolidating computer operations into a centralized processing center and eliminating excess equipment, (3) utilize computer capacity on the off (third) shift to accommodate increased workload, and (4) improve scheduling and control to relieve prime shift saturation and thereby negate requirement for additional equipment.

Energy Conservation. (\$2.9 million) Rapid increases in the cost of energy and the Nation's energy shortage have made this area of special importance to DCAA. These reviews are concerned with the determination of whether the contractor's energy conservation program is managed in an effective and efficient manner. Specific areas of audit evaluation are: (1) heating, ventilating and air conditioning, (2) lighting, and (3) water heating and cooling. As an example, a recent audit review resulted in the recommendation that the contractor burn its trash and capture the resultant heat. The recommendation, which the contractor agreed to study, would result in an annual cost avoidance of approximately \$270,000.

Material Handling Equipment. (\$1.3 million) These audits are performed to evaluate the adequacy and effectiveness of the contractor's policies, procedures and internal controls and to ascertain that the contractor performs the various material handling functions in the most efficient and economical manner. A recent review of a contractor's storage operations disclosed uneconomical utilization of personnel and storage space. DCAA recommended that the contractor acquire and implement a large computer-controlled Automated Storage/Retrieval System (AS/RS) and a ministacker AS/RS for a centrally located storeroom. The contractor stated that he would study the recommendation, which if implemented would result in an annual cost avoidance of \$1.1 million.

Micrographics. (\$1.2 million) Micrographics is the technology of recording information on microfilm and the subsequent reproduction of this information to a readable viewer format. Applications are classified into four broad categories: (1) security and archival storage, (2) scientific and engineering data management, (3) records and information management, and (4) micropublishing. DCAA's reviews of contractor operations have disclosed that micrographics technology is not generally used. As a result, increased labor and other costs are passed on to the Government. In a recently completed audit, it was determined that clerks spent 25 percent of their time looking for misplaced documents and another 30 percent refiling documents. To alleviate this condition, it was recommended that the contractor acquire and use a microfilm system. The contractor concurred with DCAA's recommendation which will result in an annual cost avoidance of \$510,000.

Material Requirements. (\$1 million) These reviews assess contractor's systems of identifying, procuring and maintaining materials necessary to support production operations. Typical recommendations are: (1) installation of an inventory management system to reduce material replacement costs and associated monitoring costs, (2) implementation of a consolidated material requirements and control system to consider economic quantities, and (3) screening of available excess material before purchase of new materials.

Maintenance and Calibration of Test Equipment. (\$1 million) This type of audit reviews the contractor's maintenance and calibration program to assure that it is operating in an efficient and economical manner. Such a program should assure that test equipment is performing accurate measurements. Other related matters are acquisition, initial inspection, control, storage, calibration, preventive maintenance, repair, and disposition of test/measurement equipment.

Some examples of cost avoidance recommendations by DCAA are: (1) reduction of restrictive criteria used to establish calibration intervals resulting in fewer tests to achieve reliability levels, and (2) a decrease in the number of required calibrations resulting in a reduction of testing personnel.

Quality Assurance. (\$1 million) Reviews of contractor's quality/product assurance systems are to determine if they are performed in an economical and efficient manner. Effective systems provide for systematic control of quality and reliability in all phases of the operations including design, procurement, production, testing, storage, and handling of materials.

Some major cost avoidance recommendations have been to (1) increase lot sizes after reaching acceptable quality levels thereby reducing number of inspections being performed, (2) reduce test and inspection staffing levels to be commensurate with reduced workload requirements, and (3) cease performing excessive tests and additional production operations due to inefficient use of automatic test equipment.

Reproduction Operations. (\$1 million) DCAA's evaluation of the economy and efficiency of reproduction operations generally involves a review of one or more of the following areas: (1) a graphic arts print shop with a photography section, (2) a print control department, and (3) self-service copy machines located for convenience throughout the contractor's facilities.

An audit disclosed that an annual cost avoidance of \$780,000 could be realized by consolidation of 13 different print shops. At the time of DCAA's review, the print facilities were operating at 28 percent of standard capacity. In another instance DCAA recommended acquisition of self-service copy machines to eliminate \$150,000 of employee waiting time.

ABBREVIATIONS USED IN THIS REPORT

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
DIS	-	Defense Investigative Service
DLA	-	Defense Logistics Agency
DLAIG	-	Defense Logistics Agency Inspector General
FBI	-	Federal Bureau of Investigation
MCES	-	Marine Corps Exchange System
NAVAUDSVC	-	Naval Audit Service
NIS	-	Naval Investigative Service
OSI	-	Air Force Office of Special Investigations
USAAA	-	Army Audit Agency