Inspector General

United States Department of Defense

Semiannual Report for Transmission to the Congress

April 1, 2004 - September 30, 2004

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Inspector General of the
Department of Defense

Vision

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

INSPECTOR GENERAL ACT REPORTING REQUIREMENTS

The table below cross-references the specific pages in this semiannual report to the reporting requirements prescribed by the Inspector General Act of 1978 (Public Law 95-452), as amended.

IG Act References	Reporting Requirements	Page
Section 4(a)(2)	"review existing and proposed legislation and regulations...make recommendations... "	39-41
Section 5(a)(1)	"description of significant problems, abuses, and deficiencies... "	1-25
Section 5(a)(2)	"description of recommendations for corrective action...with respect to significant problems, abuses, and deficiencies... "	1-25
Section 5(a)(3)	"identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed... "	27-29
Section 5(a)(4)	"a summary of matters referred to prosecutive authorities and the prosecution and convictions which have resulted... "	1-25
Section 5(a)(5)	"a summary of each report made to the [Secretary of Defense] under section 6(b)(2)... " (instances where information requested was refused or not provided)	N/A
Section 5(a)(6)	"a listing, subdivided according to subject matter, of each audit report issued..." showing dollar value of questioned costs and recommendations that funds be put to better use.	43-53, 54
Section 5(a)(7)	"a summary of each particularly significant report... "	1-25
Section 5(a)(8)	"statistical tables showing the total number of audit reports and the total dollar value of questioned costs... "	55
Section 5(a)(9)	"statistical tables showing the total number of audit reports and the dollar value of recommendations that funds be put to better use by management... "	55
Section 5(a)(10)	"a summary of each audit report issued before the commencement of the reporting period for which no management decision has been made by the end of reporting period... "	55
Section 5(a)(11)	"a description and explanation of the reasons for any significant revised management decision... "	N/A
Section 5(a)(12)	"information concerning any significant management decision with which the Inspector General is in disagreement... "	N/A
Section 5(a)(13)	"information described under Section 804 [sic] of the Federal Financial Management Improvement Act of 1996... " (instances and reasons when an agency has not met target dates established in a remediation plan)	N/A
Section 8(f)(1)	"information concerning the number and types of contract audits... "	56

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FOREWORD

As an independent extension of the "eyes, ears and conscience of his commander," the Inspector General of the Department of Defense (DoD) must maintain a broad, DoD mission-focused perspective in auditing, inspecting, or investigating allegations associated with DoD programs and operations around the world. The scope of the activities described in this report reflect the unique policy and oversight duties associated with this Office, as well as the statutory duty to "give particular regard to the activities of the internal audit, inspection, and investigative units of the military departments with a view toward avoiding duplication and ensuring effective coordination and cooperation."

This report for the period of April 1, 2004, to September 30, 2004, highlights significant results and accomplishments, focusing on major leadership challenges facing DoD, including:

Public Confidence in the Integrity of DoD Programs and Operations

- Achieving for the first time ever an independent Office of Legal Counsel within this Office of Inspector General, in order to satisfy post-Enron independence standards;

- Providing independent and objective oversight for the various investigations and inspections associated with allegations of detainee abuse, including Abu Ghraib;

- Assisting leadership of DoD in effectively meeting profound challenges associated with Trafficking in Persons, resulting in a Secretary of Defense "Zero Tolerance" Policy Memorandum on the subject and testimony before the House Armed Services Committee and the Commission on Security and Cooperation in Europe ("Helsinki Commission");

- At the direction of the Secretary, assuming an unprecedented role in overseeing the DoD's response to a request from the Chairman of the Senate Armed Services Committee for hundreds of thousands of documents related to an Air Force tanker lease program;

- Conducting a first-ever comprehensive climate survey at all three Military Service Academies relating to leadership, sexual assaults, and reprisals; and

- Establishing the first outreach program to promote higher standards of whistleblower protection within DIA, NGA, NRO, NSA, and the intelligence components of the military services.

Support of the Global War on Terror

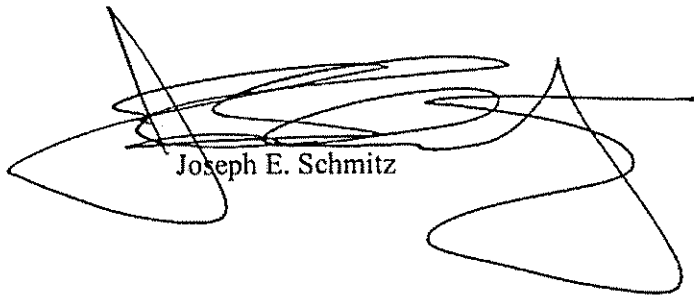
- Deploying our Academic Dean to Baghdad to train Iraqi IGs in order to satisfy the precondition that every Iraqi ministry have a functional Office of Inspector General prior to transfer of sovereignty; and continuing to champion efforts to create an "Iraqi Academy for Principled Governance" -- to help create and sustain a culture of integrity in Iraq;

- Finalizing a first-ever Charter for training IGs deployed to warfighting commands in cooperation with IGs of the military departments, Joint Staff, and Combatant Commands; and

- Continuing to deploy approximately 50 special agents of the Defense Criminal Investigative Service in direct support of Joint Terrorism Task Forces, as well as sustained criminal investigative support for DoD programs and operations in Iraq.

Transformation

- Developing, testing, and obtaining approval from the President's Council on Physical Fitness and Sports for the "Commander-in-Chief's Challenge," a DoD mission-focused version of the "President's Challenge" designed to empower leaders throughout DoD to better reward improvements in health, physical fitness, character development, and teamwork.



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CHAPTER 1 – SIGNIFICANT ACTIVITIES

The Inspector General annually assesses the most serious management and performance challenges faced by the Department of Defense based on the findings and recommendations of audits, inspections, and investigations conducted during the year. The Inspector General Summary of Management Challenges is included in the Department of Defense Performance and Accountability Report. In the Fiscal Year 2003 Performance and Accountability Report, the following challenges were identified:

Joint Warfighting and Readiness
Homeland Defense
Human Capital
Information Technology Management
Streamlined Acquisition Processes
Financial Management
Health Care
Logistics
Infrastructure and Environment

This chapter summarizes some of the significant activities of the Office of Inspector General and other DoD oversight organizations as they relate to these management challenges.

JOINT WARFIGHTING AND READINESS

U.S. forces continue to transform to meet new and evolving threats, both traditional and asymmetrical. Operations Iraqi Freedom and Enduring Freedom reinforced the need for the Services to continue to train together in order to fight as a team. The experiences gained in those operations, together with the ongoing efforts aimed at transforming U.S. forces, create a changing environment unlike any experienced in a long time. These experiences and efforts, individually, as well as collectively, challenge the Department to ensure that U.S. forces are ready to carry out their assigned missions, while addressing their individual immediate needs. Many of the other challenge areas encompass those functions that support joint warfighting and readiness issues.

An OIG DoD audit on the management of network centric warfare determined that although DoD Components had taken steps to incorporate network centric warfare concepts into operations, the approach to integrating network centric warfare needs to improve to better position the Department to realize the full potential of the network centric warfare concept. Improvements are needed in defining network centric warfare and its associated concepts; formalizing roles, responsibilities, and processes for the overall development, coordination, and oversight of DoD network centric warfare efforts; and developing a strategic plan to guide network centric warfare efforts and monitor progress.

An Air Force Audit Agency report found that 23 percent of space personnel assigned to or augmenting an Air and Space Operations Center (AOC) were not adequately prepared to perform duties upon arrival at the AOC. The personnel did not have the necessary experience and/or training in areas such as missile warning, combat search and rescue, and current AOC operations.

The OIG worked with the Joint Staff, Combatant Command, and Military Department Inspectors General to develop policy, guidance, and training to institutionalize the roles, missions, functions, and relationships of Combatant Command Inspectors General. This initiative will greatly enhance the abilities of these Inspectors General to perform their duties in support of the combatant commanders. Also, the draft charter to create a Joint Inspector General Orientation Training Course was provided to the Services and the Joint Staff for coordination.

The OIG has initiated a project to evaluate the support provided to mobilized Army National Guard and Reserve units deployed to Iraq and to support the Global War on Terror in response to concerns expressed in a letter signed by 28 members of Congress. The evaluation will seek to determine whether National Guard and Reserve units that deployed to Kuwait, Iraq, and Afghanistan received adequate support and if any disparity in support exists between active and reserve component units.

The Defense Criminal Investigative Service (DCIS), the criminal investigative arm of the OIG, actively supports Joint Warfighting and Force Readiness through its investigative efforts into defective products and the issuance of timely safety alerts on defective products that are life threatening to our warfighters. Through its investigations within the Defense industrial base, DCIS works closely with the Defense Security Service and other DoD entities to protect technologies developed for and

funded by the Department of Defense from fraud, diversion, or compromise.

The Defense Criminal Investigative Organizations (DCIOs)[1] have established proactive operations to identify and prosecute individuals involved in the illegal transfer, theft, possession, and unauthorized sale of U.S. munitions-list items through Internet auction sites. This effort has resulted in the investigation of approximately 120 military members and civilians, and the recovery of several hundred items of body armor. These items, designed to protect military members from multiple impacts of high-velocity assault ammunition, are prohibited from being sold to or possessed by the general public. Examples of investigations conducted under this program follow:

- Two enlisted members stationed in California pled guilty to conspiracy, larceny and sale of government property. In this case, one military member paid another member $1,000 to steal 100 pieces of body armor from a supply room and then sold 17 of them for $5,000 on an Internet auction site. The member who stole the items was sentenced to 6 years confinement, ordered to forfeit all pay and allowances, reduced in grade, and given a dishonorable discharge. As a result of a pretrial agreement, all confinement time in excess of 42 months was suspended. The individual who sold the items was sentenced to 4 years confinement with 1 year suspended, ordered to forfeit all pay and allowances, reduced in grade, and given a dishonorable discharge. All but two of the items were recovered.

- Another investigation resulted in an enlisted member stationed in Texas pleading guilty to theft of government property after he stole body armor and sold it for profit. This member was sentenced to 6 months confinement and 3 months supervised release and ordered to pay $5,500 in restitution for the value of the theft and $5,000 for the cost of the investigation.

1. The Defense Criminal Investigative Organizations (DCIOs) are the Defense Criminal Investigative Service (DCIS), a component of the OIG DoD; the U.S. Army Criminal Investigation Command (USACIDC); the Naval Criminal Investigative Service (NCIS); and the Air Force Office of Special Investigations (AFOSI).

HOMELAND DEFENSE

The global war on terrorism continues to heighten the level of threat from adversaries of the United States. These adversaries may use weapons of mass destruction, such as chemical or biological weapons, or they may attempt to use information warfare to attack the Defense information structure. As such, homeland security continues to be a priority across the Federal Government.

The increasing threat of terrorist actions against U.S. military and civilian populations demonstrates the need to enhance the safety of military forces in the United States and overseas. DoD installations at home and abroad must plan and be prepared to execute the necessary actions to protect U.S. personnel and assets against natural disasters or those of human origin. An OIG DoD report contained findings centered on disaster preparedness and consequence management plans, training and exercise programs, equipment, and host nation support at the installation level in relation to disaster preparedness and consequence management programs. The U.S. European Command and the Service Components agreed to address methods for improving installation disaster preparedness and consequence management programs at installations in the U.S. European Command.

The Army Audit Agency reported there were no material deficiencies with vulnerability assessments or security upgrade recommendation packages prepared by the U.S. Army Engineer District, Seattle. Also, the District used funding for the security of civil works water resources critical infrastructure according to guidance received from Corps Headquarters and Division and had an updated emergency management plan. However, the District hadn't fully incorporated security issues into its emergency management and dam safety programs.

The Naval Audit Service found that installations assigned to the Commander, Navy Region Mid-Atlantic (CNRMA) were not consistently and routinely conducting local vulnerability and criticality assessments, and vulnerabilities identified during assessments were not always reported, prioritized, and tracked by the installations. Also, installation Antiterrorism/Force Protection and emergency management plans were not classified properly, were missing required elements, and were not comprehensive in nature; there were also several deficiencies in emergency management preparedness at CNRMA installations.

In September 2003, the Assistant Secretary of Defense for Homeland Defense (ASD (HD)) assumed responsibility for Critical Infrastructure Protection (CIP) oversight. Subsequently, the ASD (HD) requested the

Office of the Inspector General to evaluate the CIP organization and policy; validate the efficiency and effectiveness of vulnerability assessment methodologies; and review procedures related to vulnerability assessments for data collection and analysis. The Inspections and Evaluations Directorate began its evaluation of the Defense Critical Infrastructure Program in June 2004 with emphasis on DoD facilities and assets exposed to high risks.

The DCIOs actively participate in nationwide joint terrorism task forces, sharing and acting on information, and relying on the unique skills and investigative specialties of the participating organizations to ensure that no potential threat goes unchecked. Additionally, the DCIS continues to partner with the Bureau of Immigration and Customs Enforcement, Department of Homeland Security, in investigating the illegal acquisition and exportation of critical Department of Defense technology. Operated by the NCIS, the Multiple Threat Alert Center utilizes the Navy's worldwide presence and combination of law enforcement, counterintelligence, intelligence, and security capability to identify all available threat indicators and produce warnings of possible terrorist activities. The USACIDC, NCIS, and AFOSI manage offensive and defensive activities, including vulnerability assessments, to detect, counter, and destroy the effectiveness of hostile intelligence services and terrorist groups that target our military members and installations. Additionally, they provide counterterrorism support to special events where terrorist activities or other dangerous situations might occur. The Service criminal investigative organizations have instituted initiatives to train military families to recognize potential terrorist threats and respond properly.

Investigating individuals who attempt to export controlled military weapons and parts to foreign governments is another way the DCIOs help strengthen homeland defense. Two cases are highlighted below.

- A Connecticut helicopter parts supplier pled guilty to violations of the Arms Export Control Act and the International Traffic in Arms Regulation after the company was found to have conducted illegal exports of export-controlled helicopter parts to Iran, which is covered by a U.S. embargo. The company was fined $500,000 and placed on probation for 5 years. The company's president, who pled guilty to obstruction of justice charges resulting from attempts to impede the investigation and destroy evidence, was fined $10,000, sentenced to 1 year of probation.

- In another arms exportation case, an investigation found that two owners of a California-based company conspired to illegally export weapons and missile parts to the People's Republic of China. One co-owner was sentenced to 12 months and 1 day confinement, ordered to pay a $2,000 fine, and placed on supervised release for 2 years after being convicted of violations of the Arms Export Control Act and conspiracy to export defense articles. The other co-owner was sentenced to 21 months confinement, and the company was fined $75,000 and placed on probation for 3 years after being convicted of the same offenses. Additionally, the company and both co-owners were administratively debarred from contracting with the U.S. Government.

HUMAN CAPITAL

The challenge in the area of human capital is to ensure that the DoD civilian and military workforces are appropriately sized, well trained and motivated, held to high standards of integrity, capable of functioning in an integrated work environment, and able to handle the emerging technologies and threats of the 21st century. The Department has over 3.38 million civilian and military personnel, with an annual financial investment of more than $100 billion. The challenges of managing such a large workforce, including oversight of contractor personnel, highlights the need for the Department to identify and maintain a balanced level of skills to sustain core defense capabilities and meet the increasing challenges and threats of the 21st century. The Department is in the beginning stages of developing the National Security Personnel System (NSPS) which will allow the Department to develop a flexible and fair system to help attract, retain, reward, and grow its civilian workforce to meet national security demands.

In recognition that human capital is a crucial area within the Department, the OIG DoD dedicated an audit team to focus on the area of human capital. In May 2004, the team announced a review of the Enterprise Management of DoD Human Capital, a top-down look at the management of human capital within the Department. In addition, along with the Service audit agencies, the OIG DoD established the Human Capital Joint Audit Planning Group.

The Naval Audit Service reported that the Department of the Navy has not yet been able to develop or field effective integrated information systems necessary to support the Navy's future human capital needs. This resulted from reliance on a decentralized management structure and

strategic guidance for military, civilians, and contractors rather than an overarching Human Resources Management strategic plan, goal and objectives. There was also an ineffective information technology (IT) investment strategy due to a lack of formal policy, implementation, and oversight of an IT portfolio management system.

The Air Force Audit Agency issued a report that found the Officer Accessions Program was properly determining annual and out-year non-rated line officer accession targets, allocating those targets to the sources of commission, and classifying cadets and/or candidates pending graduation into Air Force specialties. However, the sources of commission did not effectively produce non-rated officers in the appropriate numbers and skills to meet accession targets. In addition, Air Education and Training Command officials did not provide initial skills training to new officers within the required 6 months, so the officers were not able to perform their specialty duties in a timely manner subsequent to reporting for duty.

Trafficking in persons (TIP) is a global problem that enslaves thousands of people. The President, in National Security Presidential Directive 22 (NSPD-22), and the Secretary of Defense, in a memorandum dated September 16, 2004, have emphasized that trafficking practices will not be tolerated in military organizations, DoD contractors, or their subcontractors. In accordance with NSPD-22, the OIG DoD is assisting the Under Secretary of Defense for Personnel and Readiness to develop a TIP awareness and training campaign for all DoD personnel. The OIG will be conducting evaluation visits to various regions of the world as part of a continuing effort to assess DoD's efforts to combat trafficking in persons.

During this reporting period, the Investigative Policy and Oversight Office of the OIG continued work in response to a request from Congress that the OIG expand an ongoing evaluation of the Air Force's response to allegations of sexual assaults at the Air Force Academy. Specifically, the OIG was requested to conduct "a thorough review of the accountability of Academy and the Air Force Headquarters leadership for the sexual assault problems at the Academy over the last decade" including the "actions of current as well as previous Air Force Leadership." Additionally, in response to requests of the Secretary of Defense and the Chairman of the Senate Armed Services Committee, the OIG DoD completed sexual assault and leadership climate surveys at the three military service academies.

In May 2003, the Secretary of Defense challenged the Department's leadership to reduce the number of preventable mishaps and accidents by "at least 50 percent in the next 2 years." In response to this challenge, the Undersecretary of Defense for Personnel and Readiness (USD (P&R)) created the Defense Safety Oversight Council. This forum meets regularly and reviews safety initiatives, metrics, and best practices of the military departments and OSD. The OIG participates in this forum as an advisor. In August 2004, the USD (P&R) requested Inspector General assistance to evaluate the DoD safety program, to include such considerations as policies, organizational structure, culture, and safety programs at the installation level. In response to this request, the OIG Inspections and Evaluations Directorate is assembling a team of safety experts that will evaluate the Department's safety program and recommend best practices that may be used to help achieve the Secretary of Defense's accident reduction goal.

Congressional requirements for review of the Voter Assistance Program (VAP) are specified in the 2002 National Defense Authorization Act, Public Law 107-107, section 1602. This law requires the OIG DoD to annually assess the effectiveness of voter assistance programs in the Military Services and to submit a report to Congress in March of each year. Since June 2004, the Inspections and Evaluations Directorate has conducted 9 unannounced installation visits and should complete a total of 14 field visits by the end of November 2004.

INFORMATION TECHNOLOGY MANAGEMENT

DoD Components use information technology in a wide variety of mission functions including finance, personnel management, computing and communication infrastructure, logistics, intelligence, and command and control. The President's Management Agenda initiative for expanding electronic government has identified effective planning for information technology investments as a priority. Improving information technology security is one of the Office of Management and Budget's highest priorities in information technology management.

An OIG DoD audit on the reporting of DoD capital investments for information technology determined that DoD did not adequately report information technology investments to Congress and the Office of Management and Budget (OMB) in support of the President's Budget for FY 2004. The Component Chief Information Officers and Chief Financial Officers did not always include required information in submitted reports. Specifically, 170 of 198 Capital Investment Reports submitted to OMB and 182 out of 197 Selected Capital Investment Reports submitted to Congress did not completely respond to one or

more of the required data elements addressing project management, business case justifications, realistic cost and schedule goals, and measurable performance benefits. Consequently, the quality of the DoD information reported to Congress and Office of Management and Budget (OMB) had limited value and did not demonstrate that DoD was effectively managing its $27.9 billion information technology investment for FY 2004.

An OIG DoD audit substantiated a Hotline allegation concerning the Collaborative Force-Building, Analysis, Sustainment, and Transportation System (CFAST) in response to allegations made to the Defense Hotline regarding the development of the system. Management control documentation was not prepared to justify the initiation of the system, compare budgeted and actual costs, measure performance requirements, track scheduled and actual timelines, or ensure that existing systems' capabilities were taken into consideration. The U.S. Joint Forces Command has agreed to conduct a "Quick Look and Final Capability Needs Analysis," to determine the appropriate documentation requirements for the system.

The Army Audit Agency reported the Army had policies and guidance in place to implement the DoD Enterprise Software Initiative and had effectively done so through the Army Small Computer Program. In addition, the Army could achieve more benefits if the Small Computer Program has visibility over all software purchases.

The Naval Audit Service issued a report that concluded information security operational controls at Naval Aviation Depots contained significant weaknesses in that the controls were either incomplete or nonexistent. The lack of effective controls creates vulnerabilities within the operating environment that impact all systems and increase the risk for loss or misuse of Government resources, unauthorized access and modification of system data, disruption of system operations, and disclosure of sensitive information.

The Air Force Audit Agency reported that the Air Force Chief Information Officer (AF-CIO), through establishment of the Information Technology (IT) portfolio management process, had initiated a viable framework to establish visibility over Air Force IT resources. However, the seven functional and major command CIO elements reviewed presented incomplete IT portfolios. This situation occurred partly because the AF-CIO could not anticipate the specific criteria and

standards the Office of Management and Budget and OSD would place on the Air Force for IT budget submission reporting.

STREAMLINED ACQUISITION PROCESSES

The Department of Defense (DoD) is the largest purchaser in the world. In FY 2003, DoD spent $231 billion on acquisition. On an average working day, DoD issues more than 22,000 contract actions, valued at $841 million, and makes more than 140,000 credit card transactions, valued at $37 million. There are about 1,500 weapon acquisition programs valued at $2.1 trillion over the collective lives of these programs. Every acquisition dollar that is not prudently managed results in the unavailability of that dollar to fund Defense programs such as the global war on terrorism and joint warfighting capabilities.

The investigations of the former Principal Deputy Secretary of the Air Force for Acquisition and Management and the former Chief Financial Officer for The Boeing Company and their impact on acquisition programs highlight the need to continue to monitor the acquisition process and post-government employement of acquisition officials. The adverse actions of a few people can cause delay for major acquisition programs, impede quick delivery of new capabilities to the warfighter, and negatively affect public perception of the integrity of the acquisition process.

At the request of the Secretary of the Air Force, the OIG DoD reviewed the negotiations by the former Principal Deputy Assistant Secretary of the Air Force for Acquisition and Management for the North Atlantic Treaty Organization Airborne Warning and Control Systems Mid-term Modernization Program, "Global Solution." The report identified that senior-level Air Force managers did not use appropriate business and contracting procedures during negotiations with The Boeing Company. A contract modification was awarded without knowing whether the $1.32 billion cost was fair and reasonable. Air Force actions to renegotiate the prices and contract should result in a substantial price reduction.

The DoD audit community has continued to assist in improving the acquisition of weapon system programs. The need to better negotiate contract items was highlighted by an OIG DoD audit that showed the Air Force conditionally accepted 50 C-130J aircraft at a cost of $2.6 billion even though none of the aircraft met commercial contract specifications or operational requirements and also paid the contractor more than 99 percent of the contract price for these aircraft. OIG DoD audits of 27 acquisition category II and III programs valued at $18.3 billion showed a

need for implementing effective management controls. Program managers in the Army, Navy, and Air Force did not prepare or obtain updated information to effectively manage programs, did not report program deviations, and did not request revisions to program baselines when cost schedule and performance breaches occurred. The Services agreed to implement better reporting systems to monitor and control programs.

An OIG DoD audit of the Military Departments' transition of advanced technology programs to military applications identified the need to fully adopt the best practices suggested by the Office of the Secretary of Defense for advanced technology development-funded projects; to sufficiently address technology transitions as a performance standard in the appraisal process for science and technology personnel; and to emphasize technology transitioning in financial guidance for advanced technology development funding.

An OIG DoD audit of the acquisition of the EA-6B Improved Capability III Program determined that the program office should have provided the milestone decision authority with a complete operational assessment at the Program's low-rate initial production decision. The program office should have also completed information system security requirements before beginning the operational test phase of the Program's information system and obtained updated reliability prediction data from the contractor for the Tactical Jamming System Receiver to determine the best maintenance and logistical support strategy.

In FY 2003, the Department contracted for $123 billion in services. Annual procurement of services now exceeds the $89 billion of purchases to acquire weapon systems and spare parts. An OIG DoD review of the $875 million spent annually by the Military Departments to acquire direct care medical services identified the need for an overall DoD-wide strategic approach for medical services contracts. Inefficiencies existed in the number of overlapping contracting efforts, lack of competition, inconsistent application of procurement regulations and use of contracts that imposed unneeded administrative and financial burdens on DoD. The Acquisition, Health Affairs, and Comptroller Offices of the Secretary of Defense and the Military Department Surgeons General agreed to initiate actions to improve management and uniformity in contracting for medical services.

OIG DoD auditors assisted the Department in implementing the President's Management Agenda initiative on competitive sourcing. An

OIG DoD report on a completed competitive sourcing proposal at Picatinny Arsenal identified best practices and lessons learned for future study teams developing the in-house cost estimate for the most efficient organization. Another OIG DoD report on completed competitive sourcing function showed the need to revise the options for the Defense Finance and Accounting Service military and retired pay function. The options needed revision for the cost advantages and disadvantages for staying with the contractor and for revision of the methodology used to assess contractor performance.

The Defense auditing community is heavily involved in helping the Department pursue savings through the use of credit cards and reduce its vulnerability to misuse of the cards. OIG DoD reports on purchase card use at the U.S. Army Corps of Engineers, Louisville District and the Naval Medical Center, San Diego identified the need to improve management controls. Proactive efforts of both the OIG DoD data mining group and purchase cards program office of DoD have been increasing senior leadership involvement and improving management controls over the purchase card program. For example, DoD reduced the number of purchase cards by 47 percent, from 214,000 to 114,000. Data mining by the auditors also eventually led to the indictments of four people including a senior government contracting officer at the Defense Enterprise Computer Center-Mechanicsburg for fraudulently using the purchase card for $11 million of DoD contracts. The OIG DoD also reported that credit limits were $457 million higher than needed for 178 centrally billed travel cards, and 462 accounts should be closed because they are unneeded. Eliminating unneeded accounts and lowering credit limits reduces the vulnerability for fraud and misuse.

DCIO agents are also continuing their efforts to investigate fraud involving the Government Purchase Card (GPC) Program. Since January 1, 2003, the OIG DoD has been collecting statistics regarding DCIO investigations. During this reporting period, the DCIOs reported 99 GPC cases. Of the 99 cases, 35 are closed and 64 remain active. Misuse of the GPC for personal use and schemes regarding kickbacks and bribes continue to top the list of investigations. Reported punishments include jail terms, fines, and restitution totaling $1.3 million, bad conduct discharges, and debarment of contractors. One area of significance involved Army cases initiated in South Korea. Of the 27 Army cases reported during this period, 12 involved South Korean nationals using the GPC for personal reasons, which included kickbacks from local Korean contractors. Three of the last six newly opened cases by the Army

involved South Korean nationals, both local civilians and Army civilian employees.

The Naval Audit Service reported that the desired operational effectiveness, performance, and improved capability of the MK53 Decoy Launching System were at risk. Improvements were needed in implementing long-overdue follow-on testing and more effective management of the balance between launchers and available decoys.

Programs, sponsored by NCIS and AFOSI, are designed to identify areas of weakness within the procurement system and to provide auditors with the tools, including an Air Force fraud indicators handbook, to identify fraud. The NCIS is also partnering with the acquisition community by placing its agents in numerous Department of Navy acquisition centers and is working with the Naval Audit Service, Naval Inspector General, and the Navy Office of General Counsel's Procurement Integrity Office to share information and identify fraud trends.

Procurement fraud results in the loss of millions of dollars to the Department of Defense. Through their investigative efforts, DCIO agents expose abuses in the procurement process such as product substitution, overcharges, bribes, kickbacks, and the use of defective products. Additionally, the organizations have partnered with other acquisition and financial agencies to identify areas of vulnerability. For example, DCIS has partnered with the Defense Finance and Accounting Office, the Defense Manpower Data Center, and the OIG DoD audit organization to proactively identify areas vulnerable to fraud through the use of various techniques such as data mining. The AFOSI has partnered with Air Force contracting offices to identify vulnerabilities. Similar efforts are underway with the Air Force acquisition fraud counsels.

Sample investigative cases involving product substitution and cost mischarging follow.

- As a result of the investigation of a near collision of two military aircraft on a training mission, a top 100 DoD contractor in New York agreed to a $35.9 million administrative settlement to resolve allegations of providing defective components after it was discovered that one of its subcontractors provided non-conforming parts affecting the aircraft's ability to fly in large formations in order to conduct strategic airlift operations. The contractor agreed to replace and repair all the defective parts,

develop a new system to replace the current equipment, provide an interim system, and to do this at no charge to the military.

- A major Defense aerospace contractor in Illinois agreed to a civil settlement in which the company forfeited $6 million of a withheld payment of $9.6 million and agreed to provide $1.4 million worth of aircraft parts at no charge to the Department. The settlement resolved false claims allegations after an investigation revealed the company gave subcontractors permission to utilize Russian-smelted titanium on aircraft parts supplied under a DoD contract. The use of specialty metals from non-U.S. sources is prohibited unless prior approval is obtained. The contractor did not obtain the approval prior to incorporating the parts.

- A Virginia-based Defense contractor was sentenced to 36 months probation, ordered to pay a $250,000 fine, and required to complete community service at a cost of $60,000 after being convicted of submitting false claims for incorporating a banned substance into the production of military supplies. The contractor's technical manager was fined an additional $1,000, received 24 months probation, and was ordered to pay a $50 special assessment after being convicted on the same charge. The contractor used lead chromate in the production of a variety of military products including tents, tarps, and vehicle equipment covers. Lead chromate is a known toxic substance and is not permitted for use by military contracts.

- An investigation based on a complaint by a company's former employee ended with fines for the company, and prison and fines for its owner and a civilian Defense contracting officer. The Illinois company, awarded a contract to repair, rebuild or refurbish 12 military trucks, instead simply cleaned and repaired engine components. The company's owner conspired with the government's contracting officer to submit false claims. The government contracting officer received automotive parts and equipment in exchange for his services. The company was found guilty in U.S. District Court of wire fraud, mail fraud, false claims, and unlawful monetary transactions. It was ordered to forfeit $407,145, pay restitution of $133,592 to the U.S. Government, and pay a $6,800 special assessment. The company was debarred from government contracting. The company's owner was found guilty of the same charges and sentenced to 37 months confinement, fined $10,000, and ordered to pay $133,592 in restitution and a special

assessment of $1,700. He was also debarred. The contracting officer pled guilty to receipt of a bribe and making false statement. He was sentenced to 4 months confinement, fined $5,000, and ordered to pay a special assessment of $200 and a fine of $3,700. He also was debarred and resigned from government service.

- An apparel company entered into a $750,000 civil settlement with the U.S. Government to resolve allegations that it violated the False Claims Act by failing to return $1.8 million in overpayments it claimed when all payments had been made. Information for the case was developed under the False Claims Project that targets DoD contractors who are unwilling to return overpayments or erroneous payments. To date, companies involved in the program have been ordered to pay the Government a total of $1.4 million.

- A Maryland company and its president entered into a civil settlement with the Government after an investigation determined that the company had received payment for work improperly performed and defrauded the Government in excess of $1.5 million. The company president agreed to pay $100,000 plus half his military retirement pay for a period of 72 months. The company agreed to pay $1.5 million.

- An aerospace and defense systems company agreed to a $6.5 million contract reduction over the remaining life of an aerospace contract in lieu of facing charges of defective pricing. In contract negotiations, the company based its proposed material costs for the firm-fixed price contract on the highest historical costs incurred instead of an average of the historical costs. This resulted in a $7 million loss to the Government.

FINANCIAL MANAGEMENT

The Department's financial statements are the largest, most complex, and most diverse in the world. The Department faces financial management problems that are complex, long-standing, pervasive, and deeply rooted in virtually all business operations throughout the Department. These problems have hindered the ability to provide reliable, timely, and useful financial and managerial data to support operating, budgeting, and policy decisions. Because of these problems, the Department has been receiving a disclaimer of opinion on all but two of its financial statements. To date, only the Military Retirement Fund

has received an unqualified opinion, while the Medicare Eligible Retiree Health Care Fund received a qualified opinion for FY 2003.

The OIG DoD is working closely with the Department to address these long-standing problems and supports the Department's goal of achieving a favorable audit opinion for the FY 2007 DoD agency-wide financial statements. The Under Secretary of Defense (Comptroller)/Chief Financial Officer has directed an initiative to improve financial management in the Department with the stated objective of achieving an unqualified audit opinion on the Department's financial statements for FY 2007. This initiative will require the OIG DoD, as the Department's statutory auditor, to conduct or contract for annual audits on about 66 financial statements. To accomplish this enormous task, the OIG DoD hired 100 more audit personnel during FY 2004 and plans to hire an additional 200 auditors within the next 2 years. In addition, the OIG DoD awarded contracts during FY 2004 to audit six DoD financial management systems. Each of these audits will determine the accuracy and reliability of the data, whether general and application controls are adequately designed and effectively operating, whether the system complies with the Federal Financial Management Improvement Act requirements and all other applicable laws and regulations, and whether the system is properly certified and accredited in accordance with the DoD Information Technology Security Certification and Accreditation Process.

The DoD audit community issued 78 reports on Financial Management during the reporting period. The OIG DoD issued an audit report on the reconciliation of suspense accounts and net disbursements at DFAS Indianapolis for the Army General Fund. The report found that the suspense account balances increased by $767.3 million over the past 3 years and approximately 1,334 discrepancies valued at $1.8 billion exist between the Department of the Treasury and DFAS Indianapolis accounting records. Another OIG DoD audit on environmental cost estimating and financial reporting found that the data and processes used to report $21.9 billion in environmental liabilities reported on the FY 2002 Army financial statement for the Base Realignment and Closure (BRAC), Defense Environmental Restoration Program, and non-Defense Environmental Restoration Program did not have adequate documentation and audit trails. Additionally, the management controls over the Navy's $10.1 billion environmental liability estimate reported on the FY 2002 Navy financial statement for the disposal of nuclear powered ships needed improvement.

The Air Force Audit Agency issued a report concerning the Reliability and Maintainability Information System (REMIS), a critical financial feeder and management information system containing over 8,200 aerospace vehicles valued in excess of $150 billion. Although program personnel generally developed and implemented adequate system controls, improvements were needed in adequately addressing applicable Federal accounting standards and strengthening system controls. The recommended improvements should enhance data integrity and provide users more complete, timely, reliable, and consistent financial data to support management decisions.

As a result of the Federal Acquisition Streamlining Act and the Government Paperwork Elimination Act, the Department of Defense now conducts millions of electronic financial transactions a year – thus dramatically increasing the threat of financial fraud. The DCIS continues to proactively respond to this threat through smart partnering with Department auditors and educating DoD employees in an attempt to identify those areas that are vulnerable to fraud, waste, and abuse.

HEALTH CARE

The DoD military health system challenge is to provide high quality health care, within fiscal constraints, in both peacetime and wartime for approximately 9.2 million eligible beneficiaries. This challenge is more daunting in the face of price growth pressure that has made cost control difficult in both the public and private sectors. The DoD challenge is magnified because the military health system must also provide health support for the full range of military operations. The system was funded for a total amount of $29.8 billion in fiscal year 2004, including $5.4 billion from the DoD Medicare-Eligible Retiree Health Care Fund to cover the costs of health care for Medicare-eligible retirees, retiree family members, and survivors.

An OIG DoD audit of management of pharmaceutical inventory and processing of returned pharmaceuticals found that although DoD is improving pharmaceutical operations, the risk of dispensing expired pharmaceuticals can be minimized by reducing inventory levels through improvements in policy, oversight, and automation. Although the Department has a national contract for processing the return of outdated, expired, and recalled pharmaceuticals and has established a working group to address contract issues, implementing and managing the pharmaceutical returns program needs to be improved. The Office of the Assistant Secretary of Defense (Health Affairs) and the Military Department Surgeons General agreed to develop policy and establish oversight procedures of the pharmaceutical returns program to better

control funds expended for the returns services and the credits received, and to reduce the number of pharmaceuticals that will ultimately expire and have to be returned.

Another OIG DoD audit of direct-care medical services contracts showed that although DoD and the Military Departments had ongoing initiatives regarding the acquisition of direct-care medical services, an overall strategic approach is needed. Recommendations were made to establish a pilot program for acquiring direct-care medical services and to develop implementing guidance.

The Army Audit Agency reported that the Europe Regional Medical Command did not have adequate processes and procedures for billing, collecting, and accounting for billable services provided to paying patients. Problems occurred because of billing inaccuracies, billing procedures, delinquent accounts, accounting for medical services, and management controls. As a result, about $3 million in bills for medical services were backlogged or unaccounted for, and the command had no assurance that facilities were recovering the costs of providing medical services to paying patients.

To ensure that Department of Defense health program funding is utilized in a proper and efficient manner toward providing quality patient care to TRICARE beneficiaries, the DCIS has aggressively pursued health care investigations involving "harm to patient," corruption, kickbacks, and allegations with significant TRICARE impact. DCIS continues to serve as an active participant in local health care fraud task forces and the National Health Care Anti-Fraud Association. Recently, DCIS formed an alliance with various U.S. Attorney's Office, TRICARE, and DoD OIG auditors to address systemic weaknesses and vulnerabilities in the TRICARE Overseas Program. Two examples of significant healthcare fraud investigations follow:

- A joint investigation, initiated as a result of a qui tam complaint, resulted in a $35 million civil settlement between a Washington healthcare provider and the U.S. Government. The healthcare provider had allegedly submitted false claims to various Government agencies, including TRICARE, relative to medical services not rendered.

- In California, a medical facility entered into a $2.2 million civil settlement to resolve allegations that it submitted fraudulent

claims in its cost reports to TRICARE and other Federal health care programs.

LOGISTICS

The challenge of making DoD a world-class logistics provider is vast and the Department has numerous initiatives to help improve logistics. These include Force-centric Logistics Enterprise, DoD Business Management Modernization Program, and Performance Based Logistics. The Force-centric Logistics Enterprise initiative is DoD's comprehensive program to integrate logistics with operational planning and to meet warfighter requirements for more agile and rapid support. Force-centric Logistics Enterprise is focused on near-term collaborative initiatives that directly improve warfighter support, address known structural problems, and accelerate the achievement of DoD's long-range vision of Focused Logistics. Specific collaborative initiatives include: Enterprise Integration/Enterprise Resource Planning; Total Life-Cycle Systems Management; End-to-End Distribution; Executive Agents; Condition-Based Maintenance Plus; and Depot Maintenance Partnerships. The primary objective of the DoD Business Management Modernization Program is to change DoD business processes in financial and logistics systems to achieve efficiencies, and in the process, to eliminate redundant and noncompatible systems. The objectives of the Performance Based Logistics initiative are to compress the supply chain, eliminate non-value-added steps, and improve readiness for major weapons systems and commodities.

DoD logistics support operations for supplies, transportation, and maintenance cost more than $90 billion annually. Defense maintenance alone consumes an estimated $59 billion annually. It is a function that involves nearly 700,000 active duty and reserve military personnel and civilian personnel, as well as several thousand private-sector firms. Supported weapon systems include more than 300 ships, 15,000 aircraft and helicopters, 330,000 ground combat and tactical vehicles, and hundreds of thousands of additional mission-support assets. In addition, DoD maintains a varied inventory of items such as clothing, engines, and repair parts, valued at an estimated $67 billion, all to support the warfighter. The DoD audit community issued 28 logistics-related reports during the reporting period.

OIG DoD logistics audits during the period are typical of the broad range of audits recommending improvements to logistics operations. An OIG DoD report addressed the Military Departments' implementation of Performance Based Logistics in support of weapon systems. Overall, the Military Departments were implementing

Performance Based Logistics strategies; however, with the exception of Navy headquarters, their efforts were inconsistent, processes were inadequate and uncoordinated, and results undeterminable. Another OIG DoD audit determined that the controls over materiel designated for or sent to disposal needed improvement. A judgmental sample of 700 Navy disposal transactions, valued at $134.3 million, showed that $39 million worth of Government property was not recorded on accountable supply records and was vulnerable to loss or undetected theft. The Navy has taken action to ensure that fleet activities comply with current policy regarding disposal transactions.

The Army Audit Agency issued a report discussing the review process for Operational Projects. Because of the inadequate review process, requirements were overstated by about $125.6 million. In addition, none of the Operational Projects had enough materiel on hand to satisfy intended purposes, and after requirements are reduced, Eighth Army will have about $37.6 million of excess equipment on hand which could be distributed to other activities with valid needs, providing additional cost savings.

The Air Force Audit Agency issued a report discussing parts furnished to contractors to enable them to perform work necessary to produce, maintain, and repair equipment. Control over the return of the parts issued to contractors and the related price adjustment for unserviceable parts not returned was ineffective. Management did not adequately track the return of parts valued at $619.8 million, receive parts valued at $238.9 million, or charge Air Force Working Capital Fund customers for parts not returned.

INFRASTRUCTURE AND ENVIRONMENT

The challenge in managing about 4,700 military installations and other DoD sites is to provide modern, habitable, and well-maintained facilities, which cover a wide spectrum from test ranges to housing. Review of defense and security needs resulted in transformation of a force structure that must be accompanied by a new base structure. There is an obsolescence crisis in the facilities area itself, and environmental requirements are continually growing. Furthermore, the Department maintains more facility infrastructure than needed to support its forces; there is an estimated 25 percent more base capacity than needed. Maintaining those facilities diverts scarce resources from critical areas. However, the Department has been making progress this year in defining all of the infrastructure problems by working towards recommendations for realignment and closure in the BRAC 2005 process.

Transformation through BRAC poses a significant challenge and opportunity for DoD. BRAC 2005 should eliminate excess physical capacity and transform the infrastructure in such a way that provides opportunities for more efficient joint activity. As part of the challenge, DoD must meet the timelines established in law and use certified data that are accurate and complete to develop the recommendations. The OIG DoD and Service audit agencies have a large ongoing effort validating the internal controls and accuracy of the certified data to ensure a fair and accurate process that will withstand Government Accountability Office, Base Realignment and Closure Commission, and public scrutiny.

An OIG DoD report on $32 billion of environmental liabilities at Army and Navy installations showed that the reliability of data and processes needed improvement. About $22 billion of reported Army environmental liabilities lacked adequate documentation and audit trails. Also, Army and Navy models used for estimating environmental liabilities needed verification and validation to actual project cleanup costs. The Navy needed better controls over the estimating procedures for disposal of nuclear powered ships.

Executive Order 13148 directs that by December 31, 2005, each agency shall implement an environmental management system at all appropriate agency facilities based upon facility size, complexity, and the environmental aspects of facility operations. Environmental management systems protect the environment while ensuring ranges are available for future testing and training. In the past, the Inspector General identified environmental encroachment issues that impact readiness at test and training ranges. Additionally, installation restoration (clean-up) practices at active installations and clean-up activities at closing installations are DoD's biggest environment expenditures. The Inspections and Evaluations Directorate has been developing a program to evaluate processes for protecting the environment while protecting DoD's requirement to be mission ready. Today, as never before, the Department of Defense faces significant challenges to conduct the realistic training necessary to produce combat-ready forces. Hence, the DoD IG is carefully assessing the balance between military requirements and the public's concern for the environment. Because the nation is at war, DoD has had to increase training and expand land and air maneuver space requirements. The operations tempo correspondingly increases the stress on the testing and training range infrastructure. The OIG is exploring how best to achieve mission success while minimizing the impact on the environment.

The DCIOs continue to proactively address environmental issues and investigate crimes affecting the natural resources so valuable to our defense infrastructure. For example:

- A recycling company was fined $3.9 million after pleading no contest to violating the Clean Water Act and submitting false statements concerning illegal discharge activities. Four former or current employees entered guilty pleas to the offense of Conspiracy to violate the Clean Water Act and were sentenced to home confinement, fined and ordered to pay special court assessments. The company's former owner fled the United States and is currently a fugitive. The recycling company, engaged in the smelting of scrap to recover copper, discharged zinc oxide slurry into U.S. waters and installed a "secret" discharge pipe connected to a storm water retention system to control the flow of pollutants into a protected wetland.

- A Georgia pipeline company with DoD contracts was sentenced to pay a $50,000 fine, a $125 special assessment fee, and $350,000 in restitution to be used on environmental education and protection within Tennessee after pleading guilty to discharging diesel fuel from its pipeline into navigable waters without a permit authorizing such discharge.

OTHER SIGNIFICANT ACTIVITIES

Today, agents from the four Defense Criminal Investigative Organizations (DCIOs) provide investigative support to the Department in Iraq, Guantanamo Bay and Afghanistan. Working with local law enforcement authorities in Iraq, DCIO special agents supported the former Coalition Provisional Authority and now the Special Inspector General for Iraqi Reconstruction, thus playing a significant role in the rebuilding of Iraq as a sovereign democratic nation. The U.S. Army Criminal Investigation Command (USACIDC) provides command and control of the joint protective service protective mission for the senior United Nations official in Iraq, as well as for all senior military commanders in theater. The NCIS provides tactical counterintelligence to the coalition as well as protective service. Additionally, DCIO agents have developed other relationships as exemplified by the AFOSI sponsoring and hosting the Baghdad Chief of Police Forces to the International Association Chiefs of Police, European Policing Conference held in Northern Ireland. This marked the first time that a senior Iraqi law enforcement official traveled to liaison with the international law enforcement community.

Prisoner/detainee abuse allegations have received significant press coverage and other attention during the recent months. Because of the various ongoing activities of the affected commands and of the inspection and investigative units of the military departments relating to these allegations, some of which raise questions of serious misconduct against senior DoD officials, the IG DoD established a multi-disciplinary team to monitor Departmental reviews and investigations into the alleged abuse. The mission of the team is two-fold: (1) facilitate the timely flow of "law enforcement sensitive" information to senior leaders of the DoD (including the Military Departments), and (2) subsequently address any remaining issues. As part of the OIG response, the Deputy Inspector General for Intelligence established a team to monitor the status of the various investigations and inquiries conducted within the DoD relating to prisoner/detainee abuse allegations. The Deputy Inspector General for Inspections and Policy established a task force of criminal investigators and investigative review specialists from the OIG and the Military Criminal Investigative Organizations to review all closed criminal investigations conducted into allegations of abuse by U.S. forces against detainees in Iraq, Afghanistan, and Guantanamo Bay. The task force is charged with ensuring that existing DoD and Service policies and procedures facilitate thorough and timely criminal investigations of alleged detainee abuse and with evaluating the sufficiency of the investigations.

On September 20, 2004, the Inspectors General of the Department of Defense and Coalition Provisional Authority signed a Memorandum of Agreement that places the CPA-IG Hotline under the operational control of the Defense Hotline.

The Inspections and Evaluations Directorate concluded a 10-month follow-up review of the DoD fire and emergency services program. Results of the review reinforce the need to revise the DoD Fire and Emergency Services Strategic Plan. The Strategic Plan should establish a long-term approach to resolving human capital and fire and emergency services challenges.

The Strom Thurmond National Defense Authorization Act for Fiscal Year 1999 (Public Law 105-261) requires that, "Every three years the Inspector General of a military department shall inspect the [Armed Forces] Retirement Home, including the records of the Retirement Home." One of the problems associated with this requirement is the lack of standardized criteria for conducting these inspections. As the Military Department IGs rotated the responsibility for these inspections, there

was no continuity from one inspection to the next, resulting in ineffective metrics and inefficient trend analyses. As a solution to this problem, in April 2004, the OIG DoD assisted the Office of the Secretary of Defense in a review of past inspections and facilitated the draft of a new DoD Directive, Instruction, and a standard inspection checklist. These documents have been forwarded to the Under Secretary of Defense for Personnel and Readiness for coordination with the military services.

Allegations against Islamic religious organizations that endorsed Islamic chaplains to the Military Departments generated congressional concerns about the credibility of the DoD accession process for military chaplains. As requested by Senator Charles Schumer, in October 2003, the Inspections and Evaluations Directorate initiated an evaluation of the DoD Chaplain program to review how military chaplains are selected, to include a review of the qualification criteria for the religious organizations and their endorsing agents and the policies that govern program management.

The Coalition Provisional Authority Inspector General (CPA-IG) has undertaken the responsibility to help the Iraqi government establish an Iraqi Anti-Corruption program, consisting of three elements: the Iraqi Board of Supreme Audit (BSA), the Iraqi Ministry Inspectors General (IGs), and the Commission on Public Integrity (CPI). In order to sustain this effort the CPA-IG in Baghdad is establishing an "Academy of Principled Governance." The vision for this Academy is to provide training and education for auditors, investigators, and inspectors for all three elements of the Anti-Corruption program. The training plan includes orientation visits to several government agencies in the United States. To organize and facilitate those visits, the Inspections and Evaluations Directorate is coordinating support activities in the Washington DC area.

The DCIOs also investigate cases of kickbacks, bribes, and illegal campaign activity. Four such cases are described below.

- A California prime defense contractor agreed to pay $1 million to the Government as part of a criminal settlement agreement. An investigation disclosed that several of its employees engaged in violations of the Anti-Kickback Act by receiving illegal kickbacks from several subcontractor employees.

- In Virginia, a moving company pled guilty to violating the Anti-Kickback Act and was ordered to pay a $250,000 fine and a $400 general assessment. The company was involved in a price fixing scheme with European freight forwarders to raise rates charged to the Department of Defense to move household goods belonging to military and civilian personnel from Germany to the United States.

- A project manager for a California-based small and disadvantaged defense contractor was sentenced to 30 days confinement and 2 years supervised probation and ordered to pay a $1,000 fine and a $50 special assessment after pleading guilty to illegally supplementing a Federal official's salary. The official, convicted and sentenced earlier, was in a position to exert substantial influence over the award of DoD contracts.

- A District Court judge in California sentenced the president and former owner of a defense contractor to 6 months of electronically monitored home confinement and 36 months probation and ordered him to complete 200 hours of community service within a 2-year period. He was also ordered to dissolve his company. The president and former owner pled guilty to charges of conspiracy and making unlawful campaign contributions to several U.S. Congressmen in an attempt to influence their votes to award a multi-million dollar, sole source DoD contract to his company. Claims against the company had been resolved earlier in a $3 million settlement agreement.

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CHAPTER 2 - OFFICE OF THE INSPECTOR GENERAL

DEPUTY INSPECTOR GENERAL FOR AUDITING

The Office of the Deputy Inspector General for Auditing (ODIG-AUD) conducts audits on all facets of DoD operations. The work results in recommendations for reducing costs, eliminating fraud, waste, and abuse of authority, improving performance, strengthening internal controls, and achieving compliance with laws, regulations, and policies. Audit topics are determined by law, by requests from the Secretary of Defense and other DoD leadership, by Hotline allegations, by congressional requests, and by internal analyses of risk in DoD programs.

The ODIG-AUD serves as the focal point for Government Accountability Office (GAO) activity in the DoD, and continues to perform follow-up on GAO and OIG report recommendations.

DoD Audit Community

The defense audit community consists of the OIG DoD, the Army Audit Agency, the Naval Audit Service, and the Air Force Audit Agency. As a whole, the organizations issued 257 reports, which identified the opportunity for $1,970,299,091 in monetary benefits. Appendices B and C, respectively, list OIG DoD reports with potential monetary benefits and statistically summarizes audit followup activity.

The Defense Contract Audit Agency (DCAA) provided financial advice to contracting officers in 21,952 reports during the period. The contract audits resulted in almost $3.5 billion in questioned costs and funds that cold be put to better use. Appendix D contains the details of the audits performed. Contracting officers disallowed $162 million of the $414 million questioned as a result of significant post-award audits. Additional details on the amounts disallowed are found in Appendix E.

Significant Open Recommendations

Managers accepted or proposed acceptable alternatives for 365 (99 percent) of the 369 OIG DoD audit recommendations made in the last 6 months of fiscal year 2004. Many recommendations require complex and time-consuming actions, but managers are expected to make reasonable efforts to comply with agreed-upon implementation schedules. Although most of the 1049 open actions being tracked in the OIG DoD follow up systems are on track for timely implementation, there were 212 reports

more than 12 months old, dating back as far as 1991, for which management has not completed actions to implement the recommended improvements.[1]

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

- Recommendations made in 2002 to improve oversight and management controls, and develop training for the DoD purchase card program. A standardized training program for cardholders and billing officials has been developed. DoD policies and guidance on purchase card use and management controls nearing completion.

- Recommendations made in 2002 and subsequent years to negotiate amendments to Cooperative Threat Reduction (CTR) Program agreements to use U.S.-provided assistance for intended purposes. Proposed CTR agreement amendments to ensure that the Russian Federation will meet its commitments, and also to provide access to, and visibility over the use of U.S.-funded CTR facilities are being coordinated among Russian Federation Ministries. Actions are being taken to reclaim facility components or utilize remaining assets for CTR purposes, and to avoid the pitfalls that resulted in construction of facilities that were not used as intended.

- Recommendations made in 2001 and subsequent years addressing financial systems deficiencies. Initiatives underway to correct financial systems deficiencies should enable the Department to provide accurate, timely, and reliable financial statements. In response to recommendations made in 2003, efforts are underway to establish an integrated repository that will include existing relevant databases and will capture information technology systems and business systems, as well as

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

budget data. However, at present this is not expected to occur until FY 2007.

- Recommendations made in 2001 and subsequent years on various aspects of information security, including updating guidance for information security, certification and accreditation of various DoD systems, and the identification and registry of DoD information systems. Completion of planned actions in response to those recommendations will address requirements of the Federal Information Security Management Act.

- Recommendations made in 2001 and subsequent years addressing competitive sourcing and cost comparison issues associated with OMB Circular No. A-76. Efforts are underway to update DoD's A-76 implementing guidance on the revised OMB Circular No. A-76.

- Recommendations made in 1999 and subsequent years addressing the need to prepare U.S. forces to survive and operate in a chemical and biological warfare environment by improving the management of resources for defending against chemical and biological weapons. The Services and combatant commands are taking steps to ensure that their forces are adequately equipped and trained. The Department is in the process of implementing a standardized inventory system that will provided total visibility over chemical and biological defense assets.

DEPUTY INSPECTOR GENERAL FOR INVESTIGATIONS

The Office of the Deputy Inspector General for Investigations (ODIG-INV) comprises the criminal and the administrative investigative components of the OIG. The Defense Criminal Investigative Service (DCIS) is the criminal investigative component of the OIG DoD. The non-criminal investigative units include the Directorate of Investigations of Senior Officials (ISO), the Directorate for Military Reprisal Investigations (MRI), and the Directorate for Civilian Reprisal Investigations (CRI).

Defense Criminal Investigative Service

The Defense Criminal Investigative Service (DCIS) is tasked with the mission to protect America's warfighters by conducting investigations in support of crucial national defense priorities. DCIS conducts investigations of suspected major criminal violations focusing mainly on terrorism, product substitution/defective parts, cyber crimes/computer intrusion, illegal technology transfer, and other categories of fraud

including bribery, corruption, and major theft. DCIS also promotes training and awareness in all elements of the DoD regarding the impact of fraud on resources and programs by providing fraud awareness presentations.

Defense Criminal Investigative Organizations

The DCIS, the U.S. Army Criminal Investigation Command (USACIDC), the Naval Criminal Investigative Service (NCIS), and the Air Force Office of Special Investigations (AFOSI) together are known as the Defense Criminal Investigative Organizations (DCIOs). The DCIS focuses its investigative priorities on terrorism, technology protection, product substitution, computer crime, financial crime, public corruption, and major thefts. The USACIDC, NCIS, and AFOSI also investigate procurement fraud, but their primary mission focus is terrorism, force protection, general crimes under the Uniform Code of Military Justice, and crimes affecting major weapons systems within their respective Military Departments. The AFOSI and NCIS also conduct counterintelligence investigations and operations. The DCIOs support anti-terrorism investigations and participate as members of Joint Terrorism Task Forces. Additionally, they work cooperatively to investigate cases involving more than one service.

Monetary recoveries and fines related to all criminal investigations throughout the DoD totaled more than $140 million. Figure 1 below displays other statistical results achieved by the investigative organizations during this semiannual reporting period.

Judicial and Administrative Actions

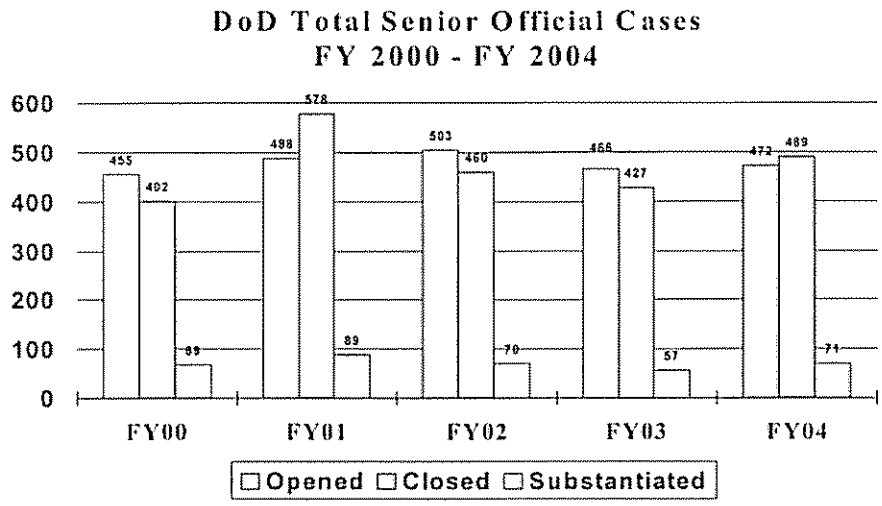
	Convictions	Indictments	Debarments	Suspensions
Terrorism	10	12	46	30
Procurement/ Health Care Fraud	30	33		
Other	263	209		
Total	303	254		

Figure 1

Directorate for Investigations of Senior Officials

The IG DoD Directorate for Investigations of Senior Officials conducts investigations into allegations against senior military and civilian officials and performs oversight of senior official investigations conducted by the Military Departments.

Figure 2 (below) and Figure 3 (the follwing page) show results of activity on senior official cases during the second 6 months of FY 2004. On September 30, 2004, there were 241 ongoing investigations into senior official misconduct throughout the Department, which represented a slight decrease from March 31, 2004, when we reported 263 open investigations. Over the past 6 months, the Department closed 233 senior official cases, of which 35 (15 percent) contained substantiated allegations.



This chart shows the total number of senior official investigations conducted in DoD over the past five fiscal years.

Figure 2

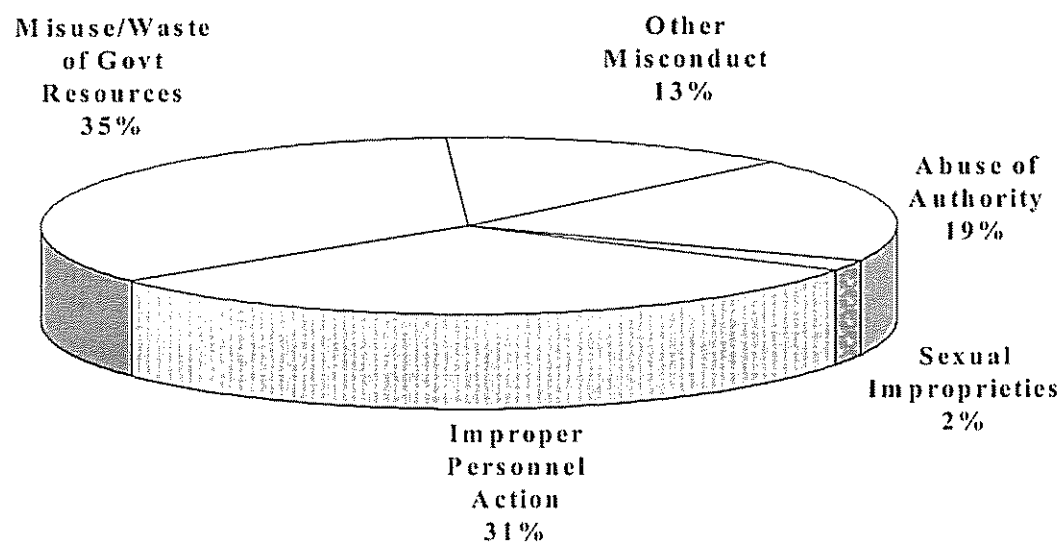


Figure 3

Directorate for Military Reprisal Investigations

The OIG, DoD Directorate for Military Reprisal Investigations (MRI) conducts investigations and performs oversight of investigations conducted by the Military Departments. Those investigations pertain to:

- Allegations that unfavorable actions were taken against members of the Armed Forces, DoD non-appropriate fund employees, and Defense contractor employees in reprisal for making protected communications.

- Allegations that members of the Armed Forces were referred for mental health evaluations without being afforded the procedural rights prescribed in the DoD Directive and Instruction

Whistleblower Reprisal Activity

During the reporting period, MRI and the Military Department Inspectors General received 311 complaints of whistleblower reprisal. We closed 310 reprisal cases during this period, which included six (6) complaints submitted by current and former Air Force Academy cadets who alleged they received unfavorable actions after reporting sexual assaults. Of those 310 cases, 250 were closed after preliminary analysis determined further investigation was not warranted and 63 were closed after investigation. Of

the 63 cases investigated, 16 (25%) contained one or more substantiated allegations of whistleblower reprisal.

The MRI and the Military Departments currently have 383 open cases involving allegations of whistleblower reprisal.

Examples of Substantiated Whistleblower Reprisal Cases

An Air Force master sergeant in Utah alleged he received an unfavorable enlisted performance report in reprisal for making protected communications to an inspector general about mismanagement by officers in his command. Our investigation found that an Air Force major and a Navy captain reprised against the master sergeant for his protected communications. Corrective action is pending against both officers.

An Army specialist in Hawaii submitted a complaint that he was threatened with an Article 15 and involuntary separation in reprisal for his complaint to an inspector general about being tasked for a duty assignment by the first sergeant. An Army investigation substantiated that the specialist's First Sergeant threatened Article 15 action in reprisal for his protected communication. Corrective action is pending against the First Sergeant.

A lieutenant in the Navy Reserve alleged she was issued a letter of instruction and downgraded fitness report in reprisal for her complaints of discrimination to her chain of command and Equal Opportunity Office, and testimony to the Defense Advisory Committee on Women in the Services (DACOWITS). Our investigation substantiated that two Navy captains reprised against the lieutenant. Both responsible officials subsequently retired from active duty.

Referrals for Mental Health Evaluations

We closed twenty nine (29) cases involving allegations of improper referrals for mental health evaluations during the reporting period. In 20 (69%) of those cases, we substantiated that command officials and/or mental health care providers failed to follow the procedural requirements for referring Service members for mental health evaluations under DoD Directive 6490.1, "Mental Health Evaluations of Members of the Armed Forces." Although these officials failed to follow procedural guidelines due to ignorance of the DoD Directive, we did not substantiate these mental health referrals were in reprisal for Service member's protected communications.

Directorate for Civilian Reprisal Investigations (CRI)

The Directorate for Civilian Reprisal Investigations (CRI) was established in January 2004, to serve as "advocate" protecting civilian-employee relaters of fraud, waste, abuse of authority, and mismanagement in the

DoD. CRI conducts investigations, coordinates personnel management remedies, reaches out to federal and non-federal agencies involved with whistleblower affairs.

The Directorate has a total of 16 active, open cases. During the reporting period, CRI attained its first success when a Department of the Air Force employee wrongly terminated was restored to his position by the U.S. Merit Systems Protection Board (Atlanta Regional Office).

The primary focus of CRI's outreach during this period has been directed at increasing communication between those DOD components which conduct investigations into alleged reprisals against members of the DOD intelligence community.

DEPUTY INSPECTOR GENERAL FOR INTELLIGENCE

The Office of the Deputy Inspector General for Intelligence (ODIG-INTEL) audits, reviews, evaluates, and monitors the programs, policies, procedures, and functions of the DoD Intelligence Community and the intelligence-related activities within the DoD Components, primarily at the DoD, Service, and Combatant Command levels, ensuring that intelligence and intelligence-related resources are properly, effectively, and efficiently managed. The Office also conducts oversight of Service and Defense agency reviews of security and counterintelligence within all DoD test and laboratory facilities.

Intelligence Community

The Office of the Inspector General of the DoD, the IGs of the Defense Intelligence Agency, National Geospatial-Intelligence Agency, National Reconnaissance Office, and National Security Agency; the Naval Audit Service; the Naval Criminal Investigative Service; the Air Force Audit Agency; the Army Audit Agency; and the Defense Contract Audit Agency completed 104 intelligence-related reports the reports are categorized into the areas shown in Figure 4 on the following page. A listing and highlights of the 104 reports can be found in the Classified Annex to this report.

Intelligence-Related Reports				
DoD Management Challenge Area	OIG DoD	Military Departments	Defense Agencies	Total
Joint Warfighting and Readiness	4	0	15	19
Homeland Security	2	6	1	9
Human Capital	1	0	13	14
Information Technology Management	1	2	9	12
Streamlined Acquisition Processes	0	2	0	2
Financial Management	3	2	14	19
Health Care	0	0	0	0
Logistics	0	0	0	0
Infrastructure and Environment	1	1	1	3
Other	3	0	23	26
Total Reports Issued	**15**	**13**	**76**	**104**

Figure 4

The Intelligence Community Inspectors and Auditors General continued to coordinate and share information to improve the effectiveness and efficiency of oversight of DoD intelligence activities. The Intelligence Community Inspectors General Forum serves as a mechanism for sharing information among Inspectors General whose duties include audit, evaluation, inspection, or investigation of programs and operations of Intelligence Community elements. The Information Assurance Working Group, established by the Intelligence Community Inspectors General Forum in 1999, monitors and evaluates the status of management policies and oversight of efforts to protect the Intelligence Community systems. Within DoD, the Joint Intelligence Oversight Coordination Group comprises senior representatives from the Office of the Secretary of Defense and Defense intelligence agency and Military Department audit, evaluation, and inspection organizations. The objectives of this group are to improve the effectiveness and efficiency of DoD oversight of intelligence activities by identifying areas needing more emphasis and deconflicting oversight programs. See the Classified Annex to this report for information on meetings of these groups.

DEPUTY INSPECTOR GENERAL FOR INSPECTIONS AND POLICY

The Office of the Deputy Inspector General for Inspections and Policy (ODIG-I&P) conducts inspections and evaluations, manages the DoD Hotline, and provides the oversight and policy for Audit and Investigative activities within DoD, as required by Section 8 of the IG Act.

Inspections and Evaluations Directorate

The Inspections and Evaluations Directorate within the Office of the Deputy Inspector General for Inspections and Policy promotes positive change by identifying opportunities for performance and efficiency improvements in DoD programs and operations. The Directorate conducts objective and independent customer-focused management and program inspections addressing areas of interest to Congress and the Department of Defense.

The Directorate is projected to build to 50 military and civilian personnel by the end of fiscal year 2005. The organizational structure will include six divisions:

Joint Operations, Defense Agencies, and Service Inspectors General

Reserve Forces

Homeland Defense

Safety and Operational Health

Engineering and Environment

Special Projects and Technical Assistance

These divisions are designed to provide broad subject area expertise to address the goals of the President's Management Agenda, General Accountability Office High Risk Areas, the Secretary of Defense's List of Top Ten Priorities, the DoD IG's Strategic Plan and requests from Congress, DoD officials, and the Inspector General..

Audit Policy and Oversight Directorate

In accordance with the Inspector General Act of 1978, as amended in 1982, the Office of Assistant Inspector General for Audit Policy and Oversight (APO) provides policy direction and oversight for audits performed by over 6,500 DoD auditors, ensures appropriate use of non-federal auditors and their compliance with auditing standards and ensures that contracting officials comply with statutory and regulatory requirements when resolving contract audit report recommendations in accordance with DoD Directive 7640.2, "Policy for Followup on Contract Audit Reports." During the reporting period, APO issued or participated

in oversight, quality control, special assistance reviews and Hotline reviews, as follows, and completed several other significant actions.

- Quality Control Review of the Assistant Inspector General for Audits of the Inspector General, National Reconnaissance Office (D2004-6-005, June 10, 2004).

- Oversight Review of Naval Sea Systems Command Contract Audit followup Process (D-2004-6-006, July 8, 2004).

- Quality Control Review of PricewaterhouseCoopers, LLP and the Defense Contract Audit Agency (DCAA), Office of Management and Budget Circular A-133 Audit Report of the Institute for Defense Analyses (IDA), Fiscal Year Ended September 28, 2001 (D-2004-6-007, July 16, 2004).

- Followup Review of the Military Department Audit Agencies Peer Review (D-2004-6-008, August 3, 2004).

Other significant actions include:

- Fourteen (14) letters to not for profit organizations on the results of initial reviews of the audit reports done in accordance with the Single Audit Act and OMB Circular A-133.

- Comments on changes to the Federal Acquisition Regulation (FAR) and the Defense Federal Acquisition Regulation Supplement (DFARS), such as:

  - » DFARS Case No. 2003-D012, "Improper Business Practices and Contractor Qualifications Relating to Debarment, Suspension, and Business Ethics," recommending legal and regulatory requirements be included that addresses Truth in Negotiations Act and the False Claims Act.

  - » DFARS Case No. 2003-D060, "Threshold for Small Business Specialist Review" recommending revisions to include verification by small business specialists that the small businesses are not acting as brokers.

- Addressing auditor or audit organization independence in memoranda to the following officials or organizations:

  - » Chief, National Guard Bureau (September 28, 2004) on the organizational placement of the National Guard Bureau internal review organization.

  - » Center for Naval Analysis (June 11, 2004) on questions related to audit disclaimers on independence.

  - » Deputy Under Secretary of Defense (Civilian Personnel Policy) (August 13, 2004) nonconcurring with the draft DoD policy "Certification for DoD Professional Accounting Positions" because it impinges on IG statutory authority and impairs independence of the OIG DoD as required by the Government Auditing Standards.

  - » General Counsel of the Navy (May 5, 2004) on the proposed Oversight Planning Board Charter and safeguards for independence of the Naval Audit Service.

Investigative Policy and Oversight Directorate

The Investigative Policy and Oversight Directorate (IPO) evaluates the performance and develops/implements policy for the DoD law enforcement community and the non-criminal investigative offices of the DoD. The IPO also manages the IG Subpoena Program for the Defense Criminal Investigative Organizations (DCIOs) and administers the DoD Voluntary Disclosure Program, which allows contractors a means to report potential civil or criminal fraud matters.

DoD Hotline

The OIG DoD Hotline continues its primary mission of providing a confidential and reliable means for DoD civilian and contractor employees, military service members, and the public to report fraud, waste, mismanagement, abuse of authority, threats to homeland security and leaks of classified information. During this reporting period, the Defense Hotline received 10,049 contacts from the public and members of the DoD community, initiated 1433 investigations and closed 1095 cases. Investigations initiated by the Defense Hotline returned $637,958 to the Federal Government during this reporting period. We received 36 Congressional inquiries and 114 investigative referrals from the Government Accountability Office (GAO) to include coordination with the GAO regarding potential post-government employment violations. In addition, the Hotline responded to 786 requests from DoD contractors and the military services for Defense Hotline fraud, waste, and abuse posters.

OFFICE OF COMMUNICATIONS AND CONGRESSIONAL LIAISON

The Office of Communications and Congressional Liaison (OCCL), is a staff element of the immediate Office of the Inspector General. This office supports the OIG by serving as the contact for communications to and from Congress, and by serving as the OIG Public Affairs Office. OCCL also includes the Freedom of Information Act/Privacy Act Office and Strategic Planning. In addition, OCCL provides staff support and serves as the liaison for the OIG to the President's Council on Integrity and Efficiency (PCIE) and the Defense Council on Integrity and Efficiency (DCIE). The Inspector General established the DCIE in 2002 to ensure effective coordination and cooperation between and among the activities of the OIG and Defense agencies.

Comments on Legislation / Testimony

Section 4(a) of the Inspector General Act requires the Inspector General "to review existing and proposed legislation and regulations relating to the program and operations of [the Department of Defense]" and to make recommendations "concerning the impact of such legislation or regulations on the economy and efficiency in the administration of programs and operations administered or financed by [the Department] or the prevention and detection of fraud and abuse in such programs and operations." The OIG routinely receives legislation for review that has been referred to the Department of Defense for comment. OIG comments provided during the reporting period included the following:

- S. 2023, A Bill to Limit the Department of Defense Contracting with Firms Under Investigation by the Inspector General of the Department of Defense. The OIG did not support the proposal for several reasons including: it does not afford due process to contractors, it would require divulging information regarding ongoing investigations, other procedures exist to exclude contractors from doing business with the government when they willfully fail to perform in accordance with a contract, and it does not address investigations initiated by other investigative organizations.

- An amendment to S. 2400, the Department of Defense Authorization Bill for Fiscal Year 2005, broadening the scope under Title 10, Unites States Code, Section 1034, "Military Whistleblower Protection," of individuals authorized to receive protected communications from military members. The OIG supported the amendment but recommended that it apply to disclosures made after the date of enactment.

Additionally, the Office of the Inspector General provides information to Congress by participating in congressional hearings.

On April 28, 2004, the Assistant Inspector General for Contract Management and the Program Director of the Data Mining Directorate testified before the Senate Committee on Governmental Affairs regarding the use of purchase cards in the Department of Defense. Their testimony discussed the findings of three OIG audit reports issued in fiscal years 2003 and 2004 that identified management control problems with the use of purchase cards. Overall, the Department of Defense has taken aggressive action to improve the purchase card program; however, the audits found that better implementation and oversight of management controls at the activity level is still needed. Additionally, the testimony discussed initiatives taken by the OIG to pioneer the use of data mining techniques in the Department of Defense to identify potential misuse of purchase cards.

On July 8, 2004, the Deputy Inspector General for Auditing testified before the Financial Management, the Budget, and International Security Subcommittee of the Senate Committee on Governmental Affairs regarding the FY 2003 DoD Financial Statements. The Inspector General also submitted a prepared statement for the hearing. The Deputy Inspector General discussed the impediments that have prevented the Department from receiving an unqualified opinion on its financial statements. He also provided the Subcommittee information on the efforts the Department is making to improve financial systems and business process and the steps the OIG is taking to provide the audit coverage required to attain a favorable opinion on the Department's financial statements.

On September 21, 2004, House Committee on Armed Services and the Commission on Security and Cooperation in Europe (the Helsinki Commission) held a joint forum entitled "Enforcing U.S. Policies Against Trafficking in Persons: How is the U.S. Military Doing?" The Inspector General participated in the forum and provided testimony on the importance of DoD efforts to combat trafficking in persons. He provided copies of two recent reports issued by the OIG that assessed efforts to combat trafficking in persons in Korea and in Bosnia-Herzegovinia and Kosovo. The Inspector General emphasized the leading role Congress has taken by enacting legislation such as the Victims of Trafficking and Violence Protection Act of 2000 and its 2003 reauthorizations, and the strong support of the Secretary of Defense in implementing a "zero tolerance" approach to trafficking in persons.

The OIG also regularly reviews new and revised regulations proposed by the Department of Defense. During this reporting period the OIG reviewed 152 draft issuances or re-issuances of DoD directives, instructions, manuals and other policy guidance.

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APPENDIX A*
REPORTS ISSUED BY CENTRAL DOD INTERNAL AUDIT ORGANIZATIONS

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

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

OIG DoD
(703) 604-8937

Army Audit Agency
(703) 681-9863

Naval Audit Service
(202) 433-5525

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

Summary of Number of Reports by Management Challenge Area
April 1, 2004 - September 30, 2004

	IG, DoD	Military Depts.	Total
Joint Warfighting and Readiness	2	6	8
Homeland Defense	1	11	12
Human Capital	4	14	18
Information Technology Management	9	12	21
Streamlined Acquisition Process	16	45	61
Financial Management	12	66	78
Health Care	3	11	14
Logistics	4	24	28
Infrastructure and Environment	1	11	12
Base Realignment and Closure**	-	4	4
Other	-	1	1
Total	**52**	**205**	**257**
For information on intelligence-related reports, including those issued by other Defense agencies, refer to the classified annex to this report.			

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

** In accordance with the Under Secretary of Defense of Acquisition, Technology, and Logistics/Chairman, Infrastructure Steering Group policy memorandum "Transformation Through Base Realignment and Closure (BRAC 2005) Policy Memorandum One--Policy, Responsibilities, and Procedures," April 16, 2003, BRAC-related information will not be released to the public until the Secretary of Defense forwards his recommendations to the 2005 BRAC Commission on May 16, 2005. In addition, BRAC-related reports are exempt from release under section 552 (b) (5), title 5, United States Code, "Freedom of Information Act," and DoD Directive 5400.7, "DoD Freedom of Information Act Program," September 1998, (Exemption Number 5, paragraph C3.2.1.5).

JOINT WARFIGHTING AND READINESS

IG DoD

D-2004-0082 DoD Installation Disaster Preparedness and Consequence Management in the U.S. European Command (CLASSIFIED) (5/24/04)

D-2004-0091 Management of Network Centric Warfare Within the Department of Defense (FOR OFFICIAL USE ONLY) (6/22/04)

Army Audit Agency

A-2004-0526-FFF Operational Facility Requirements Rules and Modification Tables of Organization and Equipment Authorizations (9/30/04)

Naval Audit Service

N-2004-0061 Navy Range Operations Support Funding (6/21/04)

N-2004-0077 Navy Optimal Manning (9/22/04)

Air Force Audit Agency

F-2004-0003-FD3000 Memorandum Report, Air Force Common Helicopter Replacement Study (4/1/04)

F-2004-0004-FD3000 Space Personnel in Air and Space Operations Centers (4/12/04)

F-2004-0005-FD3000 Medical Readiness Reporting (5/10/04)

HOMELAND DEFENSE

IG DoD

D-2004-0066 Report on Allegations Concerning Personnel Background Investigations and Clearances at the Space and Naval Warfare Systems Command, Information Technology Center (FOR OFFICIAL USE ONLY) (4/9/04)

Army Audit Agency

A-2004-0291-FFC Security of Civil Works Water Resources Infrastructure, U.S. Army Engineer District, Seattle (5/14/04)

A-2004-0514-FFC Security of Civil Works Water Resources Infrastructure, U.S. Army Engineer District, Nashville (9/27/04)

Naval Audit Service

N-2004-0042 Emergency Action Plans at Naval Criminal Investigative Service Facilities (CLASSIFIED) (4/29/04)

N-2004-0047 Chemical and Biological Defense Program Requirements and Sustainment (5/12/04)

N-2004-0052 Department of the Navy Top Secret/Sensitive Compartmented Information Requirements Process (5/21/04)

N-2004-0062 Naval Criminal Investigative Service Special Operations Fund (CLASSIFIED) (7/7/04)

N-2004-0066 Research on the Oversight of Intelligence Programs and Sensitive Activities within the Department of the Navy (CLASSIFIED) (7/21/04)

N-2004-0071 Department of the Navy Anti-Terrorism Risk Assessment Management Approach for Navy Region Mid-Atlantic (8/13/04)

Air Force Audit Agency

F-2004-0006-FD3000 Enlisted Intelligence Personnel (8/5/04)

F-2004-0008-FD3000 Weapons of Mass Destruction Emergency Response Equipment (FOR OFFICIAL USE ONLY) (9/7/04)

F-2004-0007-FD3000 Air Force Homeland Security Operations (9/8/04)

HUMAN CAPITAL

IG DoD

D-2004-0071 Strategic Management of Human Capital Reporting (4/14/04)

D-2004-0073 Public-Private Competition for the Base Operating Support Functions at Picatinny Arsenal, New Jersey (4/22/04)

D-2004-0086 Management of Marine Corps Enlisted Personnel Assignments in Support of Operation Iraqi Freedom (6/16/04)

D-2004-0088 Analysis of the Defense Finance and Accounting Service Military Retired and Annuitant Pay Sourcing Options (6/16/04)

Army Audit Agency

A-2004-0246-IMH Followup Audit of Reengineering Overhead Support for Morale, Welfare and Recreation Activities, U.S. Army Community and Family Support Center (4/14/04)

A-2004-0121-FFF Followup Audit of Advanced Individual Training Courses, U.S. Army Signal Center, Fort Gordon, Georgia (5/3/04)

A-2004-0211-FFF Army Working Capital Fund Supply Management Staffing Model Prototype, U.S. Army Aviation and Missile Command (5/7/04)

A-2004-0282-IMO DOD Support to the 2001 National Boy Scout Jamboree (5/7/04)

A-2004-0272-FFF Followup Audit of Army National Guard Bonus Programs (5/25/04)

A-2004-0416-IMO Revenues and Expenses for the 2003 Army Birthday Ball (7/21/04)

A-2004-0471-FFF Management of Reserve Component's Non-Participants (9/9/04)

A-2004-0503-AMW Followup Report, U.S. Army Audit Agency Report: AA 02-103, Workers' Compensation, Rock Island Arsenal (9/14/04)

A-2004-0447-FFF Followup Audit of Delayed Entry Program Management, U.S. Army Recruiting Command, Fort Knox, Kentucky (9/24/04)

Naval Audit Service

N-2004-0036 Military Personnel Support for Supply Administration and Operations Within the Marine Corps (4/12/04)

N-2004-0040 Department of the Navy's Strategic Information Technology Planning for Human Resources (4/15/04)

N-2004-0049 Accounting for Major Headquarters Activities' Contractor Personnel (5/14/04)

Air Force Audit Agency

F-2004-0004-FD4000 Air Force Aid Society (7/21/04)

F-2004-0005-FD4000 Officer Accessions Program (7/23/04)

INFORMATION TECHNOLOGY MANAGEMENT

IG DoD

D-2004-0067 Implementation of the Federal Information Security Management Act for FY 2003 at Selected Military Treatment Facilities (FOR OFFICIAL USE ONLY) (4/8/04)

D-2004-0068 Global Command and Control System - Korea (CLASSIFIED) (4/6/04)

D-2004-0074 Reliability of the Automated Cost Estimating Integrated Tools Software Model (4/23/04)

D-2004-0081 Reporting of DoD Capital Investments for Information Technology (5/7/04)

D-2004-0098 Status of the General Accounting Office and U.S. Army Audit Agency Recommendations for the U.S. Army Corps of Engineers (7/23/04)

D-2004-0114 The Followup on the Government Accountability Office and U.S. Army Audit Agency Recommendations for the U.S. Army Corps of Engineers (FOR OFFICIAL USE ONLY) (9/21/04)

D-2004-0115 The Followup on the Government Accountability Office and U.S. Army Audit Agency Recommendations for the U.S. Army Corps of Engineers (FOR OFFICIAL USE ONLY) (9/21/04)

D-2004-0116 Information Security Weaknesses Reported by Major Oversight Organizations from August 1, 2003, through July 31, 2004 (FOR OFFICIAL USE ONLY) (9/23/04)

D-2004-0117 Defense Hotline Allegation Concerning the Collaborative Force-Building, Analysis, Sustainment, and Transportation System (9/24/04)

Army Audit Agency

A-2004-0216-FFB Information Systems Security Material Weakness, Chief Information Officer/G-6 (4/8/04)

A-2004-0273-AMI Intelligence Contingency Funds, United States Forces Central Command (CLASSIFIED) (5/4/04)

A-2004-0276-AMI Department of the Army Support Program (CLASSIFIED) (5/5/04)

A-2004-0301-AMI Intelligence Contingency Funds, U. S. Army Intelligence and Security Command (CLASSIFIED) (5/28/04)

A-2004-0315-AMI Followup Audit of Recommendation in U.S. Army Audit Agency Report AA02-118, Secure Environment Contracting (CLASSIFIED) (6/17/04)

A-2004-0364-AMI Army Support Program (CLASSIFIED) (6/24/04)

A-2004-0339-FFB Army's Implementation of DOD Enterprise Software Initiative (6/25/04)

A-2004-0499-FFB Resource Control Process for Programmed Information Technology Investments (9/29/04)

Naval Audit Service

N-2004-0050 The Navy's Management of Personal Computer Inventory Afloat (5/18/04)

N-2004-0063 Information Security – Operational Controls at Naval Aviation Depots (7/9/04)

N-2004-0072 Information Security – Operational Controls at Naval Air Systems Command Headquarters and Naval Air Warfare Centers (8/16/04)

Air Force Audit Agency

F-2004-0006-FB4000 Visibility of Air Force Information Technology Resources (5/4/04)

STREAMLINED ACQUISITION PROCESS

IG DoD

D-2004-0069 The NATO AWACS Mid-Term Modernization Program "Global Solution" (4/14/04)

D-2004-0070 Small Business Administration Section 8(a) Program Contracting Procedures at the Defense Supply Center, Columbus (4/12/04)

D-2004-0078 Summary Report on the Military Departments' Transition of Advanced Technology Programs to Military Applications (4/29/04)

D-2004-0083 Management of the Centrally Billed Travel Card Program at Defense Agencies (5/24/04)

D-2004-0089 Acquisition of the MH-47G Helicopter Service Life Extension Program (6/14/04)

D-2004-0093 Acquisition and Management of Specialized Shipping and Unit-Owned Containers and Related Accessories (6/30/04)

D-2004-0097 The Central Test and Evaluation Investment Program (6/30/04)

D-2004-0102 Contracting for and Performance of the C-130J Aircraft (7/23/04)

D-2004-0103 Contract No. N00024-02-C-6165 for Consulting Services at the Naval Shipbuilding, Conversion, and Repair Facility (8/2/04)

D-2004-0104 Purchase Card Use and Contracting Actions at the U.S. Army Corps of Engineers, Louisville District (7/27/04)

D-2004-0108 Implementation of the DoD Management Control Program for Air Force Acquisition Category II and III Programs (8/16/04)

D-2004-0109 Implementation of the DoD Management Control Program for Navy Acquisition Category II and III Programs (8/17/04)

D-2004-0110 The Military Departments' Implementation of Performance-Based Logistics in Support of Weapon Systems (8/23/04)

D-2004-0111 Contracts Awarded by the Defense Threat Reduction Agency in Support of the Cooperative Threat Reduction Program (8/25/04)

D-2004-0112 Undefinitized Contractual Actions (8/30/04)

D-2004-0113 Acquisition of the EA-6B Improved Capability III Program (8/31/04)

Army Audit Agency

A-2004-0232-AMA FY 03 Followup of Administering Service Contracts - Dining Facility (Audit Report AA 01-366), U.S. Army Aviation and Missile Command, Redstone Arsenal, Alabama (4/1/04)

A-2004-0234-FFF Contract Issues (4/7/04)

A-2004-0248-AMA FY 03 Followup of Closed Audit Recommendations - Best Practices for Using Award Fees (Audit Report AA 01-169), AMCOM; Ofc of the PEO, Tactical Missiles; and Ofc of the PEO, Air and Missile Defense (4/14/04)

A-2004-0250-AMM Tactical Software Maintenance, Office of the Program Executive Officer, Tactical Missiles and U.S. Army Aviation and Missile Research, Development and Engineering Center, Redstone Arsenal, Alabama (4/19/04)

A-2004-0221-FFB Biometrics Management Office Contracts (4/23/04)

A-2004-0264-AML Use of Accomodation Checks, South Carolina Army National Guard, Columbia, South Carolina (4/29/04)

A-2004-0270-IMT Contract Administration for the Directorate of Base Operations Support Contract, Fort Knox, Kentucky (5/5/04)

A-2004-0295-AMI Coordinating Requirements for Special Access Programs, Site A (5/12/04) (CLASSIFIED)

A-2004-0296-AMI Coordinating Requirements for Special Access Programs, Site B (5/12/04) (CLASSIFIED)

A-2004-0244-FFB Information Technology Agency Contract Management (5/25/04)

A-2004-0313-FFP Acquisition Management Controls, Eighth U.S. Army, U.S. Army Contracting Command-Korea, and U.S. Army Contracting Agency (6/3/04)

A-2004-0337-IMT Performance of the Post-Competition Most Efficient Organization for the Directorate of Logistics, Fort Drum, New York (6/14/04)

A-2004-0342-AMA Fee Arrangement Plan for System Development and Demonstration--Future Combat Systems, Office of the Program Manager, Unit of Action (6/21/04)

A-2004-0347-AMM Tactical Software Maintenance, Office of the Program Executive Officer, Ground Combat Systems, Warren, Michigan (6/29/04)

A-2004-0389-FFP Army Travel Card Program, Eighth U.S. Army (7/20/04)

A-2004-0394-IMT Perfromance of the Post-Competition Most Efficient Organization for the Directorates of Logistics and Public Works, Fort Leavenworth, Kansas (7/19/04)

A-2004-0400-AMA Followup on the Audit of Controls for the International Merchant Purchase Authorization Card Program, U.S. Army Tank-Automotive and Armaments Command (7/23/04)

A-2004-0438-AML Definitization of Task Orders - Audit of Logistics Civil Augmentation Program (8/12/04)

A-2004-0481-AMW Followup Review of Government Purchase Cards, Tobyhanna Army Depot (8/31/04)

A-2004-0443-AMA Unit Set Fielding Oversight and Guidance (9/1/04)

A-2004-0490-IMT State Sales Taxes (9/9/04)

A-2004-0491-IMT Contract Administration for the Logistics Support Services Contract, Fort Bragg, North Carolina (9/10/04)

A-2004-0532-IMT Contract Administration for the Directorate of Engineering and Logistics Support Contract, Fort Lee, Virginia (9/29/04)

A-2004-0519-AMA Managing the Army's Ammunition Mission, Office of the Program Executive Officer, Ammunition, Picatinny Arsenal, New Jersey and U.S. Army Joint Munitions Command, Rock Island Arsenal, Illinois (9/30/04)

A-2004-0530-AMA Contract Advisory and Assistance Services (9/30/04)

Naval Audit Service

N-2004-0043 The MK 53 Decoy Launching System (5/3/04)

N-2004-0044 Department of the Navy Entertainment Motion Picture Program (5/5/04)

N-2004-0046 Reporting of Contracted Advisory and Assistance Services (5/12/04)

N-2004-0051 The AN/SPY-1D (V) Upgrade Program (5/19/04)

N-2004-0053 Department of the Navy Integrated Aircraft Engine Management and Budgeting Process (5/26/04)

N-2004-0056 Independent Review of Southeastern Retail Supply Functions, Fleet and Industrial Supply Center, Jacksonville, FL (6/3/04)

N-2004-0057 Earned Value Management for the Extended Range Guided Munition Program (6/16/04)

N-2004-0067 Marine Corps Most Efficient Organizations Established as a Result of A-76 Studies (7/22/04)

N-2004-0068 Independent Review of Public Works Center Pearl Harbor, Contract Support Services, Pearl Harbor, HI (7/23/04)

N-2004-0073 Independent Review of Industrial Maintenance Services, Naval Air Depot, Cherry Point, NC (8/16/04)

N-2004-0074 Independent Review of Personnel Support Detachment, Recruit Training Center Great Lakes, IL (8/19/04)

Air Force Audit Agency

F-2004-0007-FC1000 Wright-Patterson AFB OH, Environmental Management (A-76 Cost Comparison) (5/5/04)

F-2004-0008-FC1000 Air Combat Command, Langley AFB VA, Human Resources/ Multiple Personnel Functions (A-76 Direct Conversion) (5/21/04)

F-2004-0009-FC1000 Edwards AFB Personnel Systems Management (A-76 Cost Comparison) (6/8/04)

F-2004-0010-FC1000 Wright-Patterson AFB Awards, Records, and Decorations (A-76 Direct Conversion) (7/23/04)

F-2004-0011-FC1000 Spangdahlem Aircraft Wash Rack (A-76 Direct Conversion) (8/6/04)

F-2004-0013-FC1000 Avon Park Air Range FL, Range Operations, Civil Engineering, and Support (A-76 Direct Conversion) (8/6/04)

F-2004-0005-FC3000 Program Office Preparation for the KC-767A Aerial Tanker Acquisition (8/24/04)

F-2004-0006-FC3000 Pricing of TF-39 and T-56 Contract Modifications (8/24/04)

F-2004-0007-FC3000 Air Force Government Purchase Card Internal Co (9/9/04)

FINANCIAL MANAGEMENT

IG DoD

D-2004-0072 Promptness of FY 2004 Third Quarter DoD Payments to the Department of the Treasury for District of Columbia Water and Sewer Services (4/15/04)

D-2004-0075 Reliability of the FY 2003 Financial Statements for the National Geospatial-Intelligence Agency (CLASSIFIED) (4/23/04)

D-2004-0079 Reliability of the Defense Intelligence Agency FY 2003 Financial Statements (CLASSIFIED) (4/29/04)

D-2004-0080 Environmental Liabilities Required To Be Reported on Annual Financial Statements (5/5/04)

D-2004-0084 Antideficiency Act Investigation of the Research, Development, Test and Evaluation, Defense-Wide, Appropriation Account 97 FY1989/1990 0400 (5/28/04)

D-2004-0085 DoD Costs of Licensing Space-Related Exports and Monitoring Satellite Launches (5/28/04)

D-2004-0092 Corp of Engineers Equipment Reporting on Financial Statements for FY 2003 (6/22/04)

D-2004-0099 Reliablity of the National Security Agency FY 2003 Financial Statements (CLASSIFIED) (7/15/04)

D-2004-0100 Promptness of FY 2004 Fourth Quarter DoD Payments to the Department of the Treasury for District of Columbia Water and Sewer Services (7/15/04)

D-2004-0106 Selected Controls Over the Army Fund Balance with Treasury at Defense Finance and Accounting Service Indianapolis (8/5/04)

D-2004-0107 U.S Army Corps of Engineers Financial Information Imported into the Defense Departmental Reporting System - Audited Financial Statements (8/5/04)

D-2004-0118 Army General Fund Controls Over Abnormal Balances for Field Accounting Activities (9/28/04)

Army Audit Agency

A-2004-0222-AMA Ammunition Pricing Practices, Office of the Program Executive Officer, Ammunition, Picatinny Arsenal, New Jersey and U.S. Army Joint Munitions Command, Rock Island Arsenal, Illinois (4/2/04)

A-2004-0205-FFG Validation of Completed Tasks for Interest Payable--Army Chief Financial Officers Strategic Plan (4/6/04)

A-2004-0225-AMW Attestation Review of Selected Army Chief Financial Officers Strategic Plan Tasks--Army Working Capital Fund (4/8/04)

A-2004-0245-FFG System Requirements--Installation Status Report (4/13/04)

A-2004-0263-AMW Followup of Selected Audit Recommendations--Army Working Capital Fund (4/21/04)

A-2004-0265-AMA Realignment Phase 2, Field Operating Agencies, Office of the Chief of Legislative Liaison (4/26/04)

A-2004-0236-FFG Review of the Army Management Control Process (Fiscal Year 2003), U.S. Army Training and Doctrine Command (5/5/04)

A-2004-0281-IMH Army Lodging Overhead Costs, Fort Lee, Virginia (5/7/04)

A-2004-0283-AMA Realignment Phase 2, Field Operating Agencies, U.S. Army War College (5/7/04)

A-2004-0292-AMA Validating the Business Council Initiative on Rechargeable Batteries (5/11/04)

A-2004-0293-AMA Realignment Phase 2 Field Operating Agencies, Office of The Judge Advocate General (5/11/04)

A-2004-0110-FFB Federal Oversight of the National Guard (5/12/04)

A-2004-0294-AMA Realignment Phase 2 Field Operating Agencies, U.S. Army Test and Evaluation Command (5/14/04)

A-2004-0298-AMA Realignment Phase 2, Field Operating Agencies, U.S. Army Logistics Transformation Agency (5/14/04)

A-2004-0324-AMA Realignment Phase 2 Field Operating Agencies, Office of the Chief of Public Affairs (6/1/04)

A-2004-0336-IMH Followup Audit of Financial Controls--Golf Course Operations, Fort Sam Houston, Texas (6/10/04)

A-2004-0349-AMA Realignment Phase 2 Field Operating Agencies, Office of the Deputy Chief of Staff, G-3 (6/25/04)

A-2004-0346-FFG Validation of Completed Tasks for Advances and Prepayments, Army Chief Financial Officers Strategic Plan (6/25/04)

A-2004-0334-AMA Realignment Phase 2, Field Operating Agencies, U.S. Army Center of Military History (6/25/04)

A-2004-0359-FFG Review of Army Management Control Process (FY 03), U.S. Army Intelligence Center, Fort Huachuca (6/29/04)

A-2004-0378-AMA Realignment Phase 2 Field Operating Agencies, U.S. Army Inspector General Agency (6/30/04)

A-2004-0369-AMW Obligations for Requisitions, Standard Operations and Maintenance Army Research and Development System (SOMARDS) (6/30/04)

A-2004-0338-IMH Army Lodging Overhead Costs, Fort Jackson, South Carolina (7/09/04)

A-2004-0361-AMA Realignment Phase 2 Field Operating Agencies, U.S. Army Acquisition Support Center and U.S. Army Simulation, Training and Instrumentation Command (7/26/04)

A-2004-0410-AMW Acquisition and Financial File Reconciliations, Office of the Program Executive Officer, Aviation (7/28/04)

A-2004-0431-AMW Validation of the Army's Fund Balance With Treasury, Defense Finance and Accounting Service Columbus Center (8/3/04)

A-2004-0317-FFG Army Civilian Welfare Fund, Auditor's Report (8/13/04)

A-2004-0452-AMW Unliquidated Obligations, Office of the Project Manager, Cargo Helicopters (8/19/04)

A-2004-0445-AMA Realignment Phase 2 Field Operating Agencies, U.S. Army Contracting Agency (8/20/04)

A-2004-0449-IMH Followup Audit of Nonappropriated Fund Payroll, U.S. Army Community and Family Support Center (8/25/04)

A-2004-0458-AMW Unliquidated Obligations, Office of the Project Manager, Apache Attack Helicopter (8/26/04)

A-2004-0463-FFC FY 03 Supplemental Funds and Cash Flow (8/27/04)

A-2004-0466-FFG Logistics Modernization Program - Requirements Followup (9/2/04)

A-2004-0473-FFG Property Book and Unit Supply Enhanced System--Requirements Followup (9/8/04)

A-2004-0486-FFC Followup Audit of Corps of Engineers Financial Management System, General Application Controls (9/9/04)

A-2004-0457-FFB FY 01 and FY 02 Potential Antideficiency Act Violations, Colorado Army National Guard (9/10/04)

A-2004-0482-FFG Secretary of Defense Executive Dining Facility Fund FY 03 Financial Statements, Office of the Secretary of Defense (9/15/04)

A-2004-0513-IMU Army Management Control Process (FY 04), U.S. Army, Europe and Seventh Army (9/16/04)

A-2004-0510-AMW Selected Reimbursable Costs, Pine Bluff Arsenal, Arkansas (9/17/04)

A-2004-0318-FFG Army Civilian Welfare Fund, Internal Controls (9/20/04)

A-2004-0515-IMU Army Management Control Process (FY 04), U.S. Army, North Atlantic Treaty Organization (9/21/04)

A-2004-0500-AMW Unliquidated Obligations, Office of the Project Manager, Utility Helicopters (9/21/04)

A-2004-0504-AMW Selected Financial Management Issues, Pine Bluff Arsenal, Arkansas (9/21/04)

A-2004-0506-IMT Cooperative Agreements, California Army National Guard and the U.S. Property and Fiscal Office for California (9/24/04)

Naval Audit Service

N-2004-0035 Termination of Basic Allowance for Housing for Navy Personnel Residing in Government Housing in the Jacksonville, FL Area (4/1/04)

N-2004-0037 Department of the Navy Travel Card Delinquencies and Outstanding Advances (4/12/04)

N-2004-0038 The Department of the Navy's Fiscal Year 2003 General Fund and Working Capital Fund Consolidated Balance Sheet Line – Military Retirement Benefits and Other Employment Related Actuarial Liabilities (4/13/04)

N-2004-0039 Unliquidated Obligations for the Research, Development, Test, and Evaluation, Navy Appropriation (4/13/04)

N-2004-0041 Logistics Feeder Systems Supporting Operating Materials and Supplies Data on the Department of the Navy's Fiscal Year 2002 Financial Statements (4/27/04)

N-2004-0045 Fiscal Year 2003 Implementation of the Federal Managers' Financial Integrity Act at Selected Naval Activities (5/10/04)

N-2004-0048 Audit Trails Related to Financial Reports from Selected Navy Working Capital Fund Activities (5/14/04)

N-2004-0054 Fiscal Year 2002 Department of the Navy General Fund Reimbursable Transactions at Selected Activities (5/27/04)

N-2004-059 Liquidation of Outstanding Travel Advances for U.S. Pacific FleetShips (6/17/04)

N-2004-0060 Termination of Basic Allowance for Housing for Navy Personnel Residing in Government Housing at Selected District of Columbia and Maryland Activities (6/17/04)

N-2004-0064 United States/ United Kingdom Polaris Trust Fund (7/15/04)

N-2004-0065 Internal Controls Over Basic Allowance for Housing in the San Diego, CA, Area, and Suspension of Government Debt for Navy Personnel (7/19/04)

N-2004-0070 Opinion on the United States/United Kingdom Polaris/Trident Trust Fund Financial Accounts (8/5/04)

N-2004-0076 Termination of Basic Allowance for Housing for Personnel Residing in Navy Housing at Selected Activities in Washington State and California (9/7/04)

N-2004-0078 Naval Audit Service Opinion on Proposed Fiscal Year 2004 Statement of Assurance (9/22/04)

Air Force Audit Agency

F-2004-0004-FB2000 Aerospace Maintenance and Regeneration Center Business System Controls (4/12/04)

F-2004-0006-FD4000 Civilian Firefighter Pay and Leave Practices (7/21/04)

F-2004-0012-FC1000 Saudi Arabia F-15 (Peace Sun) Foreign Military Sales Contract and Financial Management (8/6/04)

F-2004-0005-FB2000 Military Personnel Centrally Managed Allotment - Fiscal Year 2004 Pay Records (8/24/04)

F-2004-0004-FB1000 Air Force Contract Debt (9/7/04)

F-2004-0006-FB2000 System Controls for Reliability and Maintainability Information System (9/27/04)

F-2004-0007-FD4000 Aviator Continuation Pay (9/27/04)

HEALTH CARE

IG DoD

2004-0087 DoD Management of Pharmaceutical Inventory and Processing of Returned Pharmaceuticals (6/17/04)

2004-0094 Direct Care Medical Services Contracts (6/24/04)

2004-0096 Controls Over Purchase Cards at Naval Medical Center San Diego (6/29/04)

Army Audit Agency

A-2004-0256-IMH Followup Issues--Military Treatment Facility Downsizing and Healthcare for Soldiers at Remote Locations, U.S. Army Medical Command (4/15/04)

A-2004-0348-IMU Third Party Collection Program, Europe Regional Medical Command (6/18/04)

A-2004-0371-IMH Attestation Review of the Army Optical Fabrication Production Cost Estimate, U.S. Army Medical Command (7/6/04)

A-2004-0409-IMH Attestation Review of the Estimate of Prospective Private Sector Unit Prices for Military Eyewear , U.S. Army Medical Command (8/20/04)

A-2004-0470-IMH Followup Audit of Recommendations in Audit Report: A-2003-0286-IMH, Martin Army Community Hospital, Fort Benning, Georgia (8/27/04)

A-2004-0469-IMH Followup Audit of Recommendations in Audit Report: A-2003-0001-IMH, Martin Army Community Hospital, Fort Benning, Georgia (8/27/04)

A-2004-0472-IMU Medical Services Billing, Europe Regional Medical Command (8/31/04)

A-2004-0485-IMH Followup Audit of Recommendation in Audit Report: A-2003-0002-IMH, Madigan Army Medical Center, Tacoma, Washington (9/9/04)

A-2004-0502-IMH Followup Audit of Recommendations in Audit Report: A-2003-0075-IMH, Womack Army Medical Center, Fort Bragg, North Carolina (9/10/04)

A-2004-0288-IMU Dental Services Contracting in Europe, Europe Regional Dental Command (9/28/04)

Air Force Audit Agency

F-2004-0004-FD2000 Obstetrics Care Marketing (6/7/04)

LOGISTICS

IG DoD

D-2004-0062 Interagency Review of Foreign National Access to Export-Controlled Technology in the United States (4/16/04)

D-2004-0077 Accountability and Control of Materiel at the Marine Corps Logistics Base Albany, Georgia (4/29/04)

D-2004-0090 Defense Hotline Allegations Concerning C-130 Aircraft Use in the U.S. Central Command Area of Responsibility (CLASSIFIED) (6/17/04)

D-2004-0095 Navy Controls Over Materiel Sent to Defense Reutilization and Marketing Offices (6/24/2004)

Army Audit Agency

A-2004-0229-AMM Organization and Funding, U.S. Army Priority Air Transport Detachment, Andrews Air Force Base, Maryland (4/05/04)

A-2004-0237-AML Followup Audit of Recommendation in Audit Report A-2002-0423-AML (4/08/04)

A-2004-0224-FFP Operational Projects--Summary, Eighth U.S. Army (4/08/04)

A-2004-0269-IMT Ammunition and Small Arms, California Army National Guard (4/30/04)

A-2004-0233-AMM Fixed-Wing Aircraft Maintenance Contracts, U.S. Army Priority Air Transport Detachment, Andrews Air Force Base, Maryland (5/04/04)

A-2004-0261-FFG Management Controls for Wholesale Munitions Inventories, Integration of Automatic Identification Technology (5/18/04)

A-2004-0333-AML Selected Asset Holding Projects (6/08/04)

A-2004-0357-IMU Ammunition Accountability, U.S. Army, Europe and Seventh Army (7/09/04)

A-2004-0433-AMW Logistics Modernization Program--Production Support Processes, U.S. Army Materiel Command (7/30/04)

A-2004-0444-AMM Sustainment Planning for Maintenance Support, U.S. Army Communications-Electronics Command and Office of the Product Manager, Warfighter Information Network – Tactical (8/10/04)

A-2004-0465-AMM Sustainment Planning for Maintenance Support, Office of the Program Manager, Unit of Action (8/27/04)

A-2004-0511-AML Training Resource Model Inputs (Price and Credit), U.S. Army Tank-automotive and Armaments Command--Warren, Michigan (9/24/04)

A-2004-0512-AML Training Resource Model Inputs (Price and Credit), U.S. Army Tank-automotive and Armaments Command, Rock Island, Illinois (9/24/04)

A-2004-0527-AML Training Resource Model Inputs (Price and Credit, Missile Items), U.S. Army Aviation and Missile Command, Redstone Arsenal, Alabama (9/27/04)

A-2004-0528-AML Training Resource Model Inputs (Price and Credit, Aviation Items), U.S. Army Aviation and Missile Command, Redstone Arsenal, Alabama (9/27/04)

A-2004-0538-AMM Maintenance Issues Impacting Training Resource Model Inputs (9/29/04)

A-2004-0529-FFG Asset Visibility Of Military Equipment During Conversions, U.S. Army Communications-Electronics Command (9/30/04)

Air Force Audit Agency

F-2004-0004-FC4000 Low Speed Vehicle Management (4/26/04)

F-2004-0005-FC4000 Contractor Assets and Price Controls (5/10/04)

F-2004-0006-FC4000 Indenture Relationship Impact on Secondary Item Requirements Computations (5/21/04)

F-2004-0003-FC2000 A-10 Aircraft Engine (TF34-GE-100) Maintenance Support Operations (6/7/04)

F-2004-0004-FC2000 Follow-up Audit, C-130 Aircraft Propeller Accountability (6/7/04)

F-2004-0007-FC4000 Secondary Item Repair Budget Prices (8/4/04)

F-2004-0008-FC4000 Reporting of Lost and Stolen Munitions (8/11/04)

INFRASTRUCTURE AND ENVIRONMENT

IG DoD

D-2004-0101 Department of Defense Policies and Procedures to Implement the Rural Development Act of 1972 (7/23/04)

Army Audit Agency

A-2004-0243-IMU Operation Enduring Freedom--Base Camp Construction and Master Plan (04/15/04)

A-2004-0186-IMO Potable Water and Wastewater Utility Systems Contract, Aberdeen Proving Ground, Maryland (4/27/04)

A-2004-0287-IME Maneuver Area Training Equipment Site, Texas Army National Guard (5/13/04)

A-2004-0335-IME Land Use Controls and Monitoring at Formerly Used Defense Sites, U.S. Army Corps of Engineers Savannah District (6/10/04)

A-2004-0365-FFP Energy Savings Performance Contract-Lighting Retrofit, U.S. Army Garrison, Alaska (7/2/04)

A-2004-0390-IMO Disposition Plans and Costs for the Old U.S. Disciplinary Barracks, Fort Leavenworth, Kansas (7/9/04)

A-2004-0382-FFP Funding for the Operation and Maintenance of the Okinawa Pipeline, U.S. Army, Japan (7/13/04)

A-2004-0439-IMO Barracks Requirements at Fort Carson, Fort Carson, Colorado (8/06/04)

A-2004-0448-IME Land Use Controls and Monitoring at Formerly Used Defense Sites, U.S. Army Corps of Engineers, Charleston District (8/18/04)

A-2004-0460-IMO Audit of Barracks Requirements, Fort Carson--Impact of 10th Special Forces Group, Fort Carson, Colorado (8/24/04)

A-2004-0492-IMO Garrison Utilities and Energy Services, Fort Lewis, Washington (9/14/04)

BASE REALIGNMENT AND CLOSURE

Naval Audit Service

N-2004-0058 Base Realignment and Closure Optimization Methodology (FOR OFFICIAL USE ONLY) (6/16/04)

Air Force Audit Agency

F-2004-0005-FB4000 2005 Base Realignment and Closure - Installations Inventory (FOR OFFICIAL USE ONLY) (4/12/04)

F-2004-0007-FB4000 2005 Base Realignment and Closure - Installation Capacity Analysis Questionnaire (FOR OFFICIAL USE ONLY) (8/24/04)

F-2004-0008-FB4000 Base Realignment and Closure Data Collection System (FOR OFFICIAL USE ONLY) (9/27/04)

OTHER

Naval Audit Service

N-2004-0055 Quality Assurance Review of the Local Audit Function at U.S. Naval Support Activity Bahrain (6/01/04)

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

Audit Reports Issued	Potential Monetary Benefits[1]
	Funds Put to Better Use
D-2004-069 The NATO AWACS Mid-Term Modernization Program "Global Solution" (4/14/04)	$21,000,000
D-2004-077 Accountability and Control of Materiel at the Marine Corps Logistics Base Albany, Georgia (4/29/04)	4,080,000
D-2004-093 Acquisition and Management of Specialilzed Shipping and Unit-Owned Containers and Related Accessories (6/30/04)	137,423,719
Totals	**$162,503,719**
[1]There were no OIG audit reports during the period involving questioned costs.	

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

APPENDIX C*
FOLLOWUP ACTIVITIES

DECISION STATUS OF INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE ($ in thousands)

Status	Number	Funds Put to Better Use[1]
A. For which no management decision had been made by the beginning of the reporting period.	23	$44,227
B. Which were issued during the reporting period.	54	162,504
Subtotals (A+B)	77	206,731
C. For which a management decision was made during the reporting period.	57	69,307
(i) dollar value of recommendations that were agreed to by management		
- based on proposed management action		4,080
- based on proposed legislative action		
(ii) dollar value of recommendations that were not agreed to by management		65,227[2]
D. For which no management decision has been made by the end of the reporting period.	20	137,424
Reports for which no management decision was made within 6 months of issue (as of September 30, 2004).	1[3]	0

[1]There were no OIG DoD audit reports issued during the period involving "questioned costs."
[2]On four audit reports with total of potential funds put to better use of $52 million, management has agreed to take the recommended actions, but the amount of agreed monetary benefits cannot be determined until those actionas are completed.
[3]OIG DoD Report No. D-2004-064, "Acquisition of the Boeing KC-767A Tanker Aircraft," issued March 29, 2004, had no management decision as of September 30, 2004. Action to achieve a decision is on hold pending a Secretary of Defense decision on recapitalization of the tanker program, expected in November 2004.

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

APPENDIX D
CONTRACT AUDIT REPORTS ISSUED[1]
($ in millions)
April 1, 2004 through September 30, 2004

Type of Audit[2]	Reports Issued	Amounts Examined	Questioned Costs[3]	Funds Put to Better Use
Incurred Costs, Ops Audits, Special Audits	14,747	$58,966.8	$855.4	$304.2[4]
Forward Pricing Proposals	5,510	$64,268.5	--	$2,167.0[5]
Cost Accounting Standards	1,312	$935.6	$93.5	--
Defective Pricing	383	(Note 6)	$27.3	--
Totals	**21,952**	**$124,170.9**	**$976.2**	**$2,471.2**

[1]This schedule represents Defense Contract Audit Agency (DCAA) contract audit reports issued during the 6 months ended September 30, 2004. Both **"Questioned Costs"** and **"Funds Put to Better Use"** represent potential cost savings. Because of limited time between availability of management information system data and legislative reporting requirements, there is minimal opportunity for DCAA to verify the accuracy of reported data. Accordingly, submitted data is subject to change based on subsequent DCAA authentication.

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

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

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

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

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

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

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

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

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

APPENDIX E
STATUS OF ACTION ON SIGNIFICANT POST-AWARD CONTRACT AUDITS[1]
($ in millions)
Period ending September 30, 2004

	Number of Reports	Costs Questioned	Disallowed Costs[6]
Open Reports:			
Within Guidelines[2]	261	$243.3	N/A[7]
Overage, greater than 6 months[3]	225	$627.5	N/A
Overage, greater than 12 months[4]	223	$490.5	N/A
In Litigation[5]	144	$2,263.7	N/A
Total Open Reports	853	$3,625.0	N/A
Closed Reports	323	$430.9	$167.4 (38.85%)
All Reports	1,176	$4,055.9	N/A

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

[2]These reports are being processed within the time frames established by OMB Circular A-50, "Audit Followup," and DoD Directive 7640.2 as described in footnotes 3 and 4 below.

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

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

[5]Of the 144 reports in litigation, 24 are under criminal investigation.

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

[7]N/A (not applicable)

Waivers of Advisory and Assistance Service Contracts

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

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

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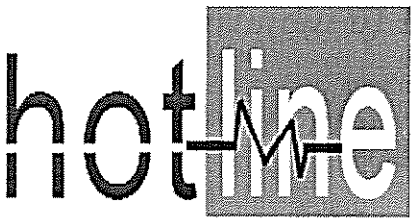

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of the Continental Army and served under General George Washington.
He is recognized as the "Father of the Inspector General System"
of the United States Military.

Inspector General
Department of Defense

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Mr. John R. Crane 703-604-8324; DSN 664-8524

NO MONEY SHALL BE DRAWN FROM THE TREASURY, BUT IN CONSEQUENCE OF APPROPRIATIONS MADE BY LAW;
AND A REGULAR STATEMENT AND ACCOUNT OF THE RECEIPTS AND EXPENDITURES OF ALL PUBLIC MONEY SHALL BE
PUBLISHED FROM TIME TO TIME. U.S. CONSTITUTION - ARTICLE I, SECTION 9.