

**Audit**



**Report**

OFFICE OF THE INSPECTOR GENERAL

**REVIEW OF ECONOMY ACT TRANSFERS IN THE  
INTELLIGENCE COMMUNITY**

Report No. 93-078

March 29, 1993

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**Department of Defense**

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**INSPECTOR GENERAL**  
DEPARTMENT OF DEFENSE  
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ARLINGTON, VIRGINIA 22202-2884



Report No. 93-078

March 29, 1993

**MEMORANDUM FOR INSPECTOR GENERAL, CENTRAL INTELLIGENCE  
AGENCY**

**SUBJECT:** Review of Economy Act Transfers in the Intelligence  
Community (Project No. 3RF-5009)

**Introduction**

We are providing this report for your information and use. The review was made in response to congressional direction in the classified annex to the House Appropriations Committee Report 102-627 accompanying the fiscal year 1993 Defense Appropriations Bill (House of Representatives [H.R.] 5504). The purpose of the review was to determine whether National Foreign Intelligence Program (NFIP) funds were being transferred to organizations other than those funded under the Defense Appropriations Bill without a good or a service being provided to DoD in return.

The Economy Act of 1932, 31 U.S.C. 1535, allows Federal agencies with existing capabilities to economically and efficiently satisfy another agency's needs for a good or service. The head of an agency or major organizational unit within an agency is authorized to place an order with a major organizational unit within the same agency or another agency for goods or services provided funds are available, the head of the ordering agency or unit decides the order is in the best interest of the United States Government, the agency or unit to fill the order is able to provide the ordered goods or services, and the head of the agency decides ordered goods or services cannot be provided as conveniently or cheaply by a commercial enterprise.

**Review Results**

Documentation provided by 16 DoD organizations indicated that DoD benefited in receiving either a good or service due to the NFIP fund transfers.

**Scope of Review**

We reviewed transfers of FY 1991 and FY 1992 NFIP funds made by DoD entities to organizations that are not funded through DoD appropriations. At the time of our review, the Inspectors General of the National Security Agency, the Defense Intelligence Agency, and the National Reconnaissance Office were performing reviews within their respective organizations; thus, we excluded those organizations from our review. We excluded transfers made to the General Services Administration for routine support. The 16 activities we visited or contacted to determine the nature and extent of Economy Act transfers of NFIP funds are listed in Enclosure 1. We made the review during January and February 1993 in accordance with criteria established by the Deputy Inspector General for Audit, Central Intelligence Agency.

## Methodology

We asked 16 DoD organizations to provide a list of all FYs 1991 and 1992 Economy Act transfers of NFIP funds made to agencies that are not funded by the Defense Appropriations Bill. The agencies that received the funds are identified in Enclosure 2. Because of the limited time afforded by the congressionally directed reporting date, we used the 16 management responses to our request for data as the universe of the transfers of interest. To determine whether DoD derived a benefit from the transfers, we interviewed project office personnel and reviewed supporting documentation.

## Internal Controls

We reviewed documentation relating to the Economy Act transfers identified by management to determine whether DoD received a good or service in return for the funds transferred to organizations not funded under the Defense Appropriations Bill. Because of the narrow focus of this review and the limited time available, we did not verify that transfers were properly authorized or that the transfers resulted in a more favorable cost to DoD for the good or service received.

## Prior Audits and Other Reviews

The Inspector General, DoD, has performed four audits and one inspection that focused on Economy Act transfers. In addition, the U.S. Army Audit Agency issued an advisory report, "Contract Offloading," on September 11, 1991. Those audits and the inspection identified systemic problems in the use of Economy Act transactions. A synopsis of the prior coverage and management responses is in Enclosure 3.

## Discussion

The classified annex to the House Appropriations Committee Report 102-627, accompanying the fiscal year 1993 Defense Appropriations Bill (H.R. 5504), directed:

the Director of Central Intelligence (DCI) to assemble an Inspector General team to perform a review across the entire intelligence community to assess the propriety of economy act or other transactions involving transfers of funds from intelligence organizations funded in the defense appropriations act to entities not funded in that act.

We asked the 16 Defense organizations to determine the extent of Economy Act transfers within the Department of Defense. Of the 16 organizations that responded, only the Departments of the Army, Navy, and Air Force identified Economy Act transfers for FYs 1991 and 1992. The Military Departments identified a total of 174 Economy Act transfers of NFIP funds totaling about \$68 million. The Military Departments transferred the NFIP funds, in various amounts, to 13 agencies. The Components' documentation for the 174 transactions indicated that DoD had derived a benefit, either as a good or a service, from the NFIP funding for the Economy Act transfers.

**Management Response**

A draft of this report was provided to the DoD organizations listed in Enclosure 1 for review and comment. Management agreed that the data were accurate.

This report contains no findings or recommendations. The courtesies extended to our staff are appreciated. If you have any questions on this report, please contact Mr. Harrell Spoons at (703) 692-2846 (DSN 222-2846) or Mr. Wayne Winkler at (703) 692-2937 (DSN 222-2937). This report will be distributed to the organizations listed in Enclosure 4.



Robert J. Lieberman  
Assistant Inspector General  
for Auditing

Enclosures

**RESPONSE TO SURVEY OF  
NATIONAL FOREIGN INTELLIGENCE PROGRAM  
ECONOMY ACT TRANSFERS FOR  
FY 1991 AND FY 1992**

DoD Component	Number of Transfers	Dollar Amount
ASD (C <sup>3</sup> I)*	None	None
Comptroller of the Department of Defense	None	None
U.S. Army	30	\$5,815,020
U.S. Navy	13	\$2,337,280
U.S. Air Force	131	\$59,761,405
Defense Advanced Research Projects Agency	None	None
Defense Finance and Accounting Service	None	None
Defense Information Systems Agency	None	None
Defense Logistics Agency	None	None
Defense Mapping Agency	None	None
Defense Nuclear Agency	None	None
Defense Security Assistance Agency	None	None
On-Site Inspection Agency	None	None
Strategic Defense Initiative Organization	None	None
Joint Staff	None	None
Defense Support Project Office	None	None
<b>Totals</b>	<b>174</b>	<b>\$67,913,705</b>

\* Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)

ENCLOSURE 1

**AGENCIES RECEIVING FUNDS**  
**UNDER THE ECONOMY ACT FOR**  
**FY 1991 AND FY 1992**

Receiving Agency	Number of Transfers	Dollar Amount
Bureau of Census	1	\$91,000
Department of Commerce	13	\$7,850,000
Department of Energy	93	\$45,393,500
Department of Interior	2	\$333,300
Department of State	9	\$2,303,003
Department of Transportation	1	\$96,372
Federal Communications Commission	1	\$148,000
Library of Congress	9	\$1,395,482
National Aeronautics and Space Administration	16	\$2,860,848
National Oceanic and Atmospheric Administration	7	\$1,352,800
Office of Personnel Management	9	\$3,383,281
U.S. Coast Guard	2	\$118,581
U.S. Geological Survey	11	\$2,587,538
Totals	174	\$67,913,705

ENCLOSURE 2

## PRIOR AUDIT COVERAGE

Inspector General, DoD, Report No. 93-042, "Allegations of Improprieties Involving DoD Acquisition of Services Through the Department of Energy," January 21, 1993. The audit evaluated the work performed for DoD under the Department of Energy (DoE) Work-for-Others program at the Oak Ridge National Laboratory. The audit was initiated as a result of a Hotline allegation and was performed with the cooperation of the Office of the Inspector General, DoE. The report determined that internal controls either did not exist or were inadequate to preclude the unauthorized issuance of interagency orders and payments on interagency orders that were not approved by DoD contracting officers. The report also showed that senior DoD managers were unaware of the amount of funds spent for support services through interagency acquisitions and that a system did not exist to identify where and how \$3.4 billion of DoD funds were spent. In addition, the report concluded that the Military Departments did not take prompt action to correct internal control weaknesses reported in Inspector General, DoD, Report No. 90-085, "DoD Hotline Allegation of Irregularities in DoD Contractual Arrangements with DoE," June 19, 1990. That report recommended that the Director of Defense Procurement issue guidance and reissue related interagency acquisition policies. Report No. 90-085 also recommended that the Under Secretary of Defense for Acquisition establish a system for tracking interagency orders and dollars. The Director of Defense Procurement nonconcurred with the need for a tracking system, but will address the need for approvals for agency agreements through the Defense Acquisition Regulation Council. The Army concurred with Report No. 93-042, stating that the Army had already implemented a number of corrective actions to reduce unauthorized Economy Act transfers and contract transfers.

Report No. 92-INS-10, "On-Site Inspection Agency (OSIA) Inspection Report" July 17, 1992. The inspection report states that the OSIA, DoD, violated the provisions of the Federal Acquisition Regulation (FAR) and DoD Federal Acquisition Regulation Supplement (DFARS) by not including the contracting officer in the Economy Act process. The report recommended that OSIA issue guidance requiring the contracting officer to review and approve Economy Act orders and to institute control mechanisms to ensure that funds are not transferred to agencies without obtaining approval from the proper officials. Management concurred with the recommendations and identified corrective actions.

Inspector General, DoD, Quick-Reaction Report No. 92-091, "Accountability of Government Automatic Data Processing Equipment at U.S. Army Special Operations Command," May 15, 1992. The audit was a cooperative effort between the Inspector General, DoD, and the Inspector General, Tennessee Valley Authority (TVA), to evaluate the DoD use of interagency orders in obtaining contracting support from TVA. The report showed that the Army Special Operations Command, Fort Bragg, North Carolina, had not established adequate property accountability records for \$3.4 million of automatic data processing equipment. The report recommended that the Commanding General, Army Special Operations Command, conduct a physical inventory and establish property accounting controls for the equipment. The report also recommended that Army management account for the equipment and report shortages in accordance with Army Regulation 190-40. The Army Special Operations Command concurred with the recommendations and identified corrective actions.

Inspector General, DoD, Quick-Reaction Report No. 92-069, "DoD Procurements Through the Tennessee Valley Authority," April 3, 1992. The audit was a cooperative effort between the Inspector General, DoD, and the Inspector General, TVA, to evaluate the DoD use of interagency orders in obtaining procurements through TVA. The report showed that

### PRIOR AUDIT COVERAGE (Cont'd)

DoD officials who lacked authority under the FAR and DFARS to approve interagency acquisitions improperly authorized interagency orders to transfer to TVA \$84.4 million of expiring funds during August and September 1991 to achieve technical obligations of those funds. The report also showed that internal control procedures and practices at the DoD activities involved were not adequate to ensure that contracting officers approved interagency orders as required by the FAR and DFARS or to preclude the transfer of funds to the TVA on orders that were not properly authorized. Recommendations included the initiation of action against those program officials who exceeded their authority and circumvented applicable laws and regulations by placing interagency orders with TVA. Additional recommendations included discontinuing the use of Military Interdepartmental Purchase Requests (DD Form 448) and similar forms to order goods and services from other Federal agencies and developing a form to include a section to be completed by the contracting officer for documenting compliance with the FAR and DFARS. The Director of Defense Procurement, the Army, the Navy, and the Air Force concurred with the finding and recommendations and initiated corrective action.

Inspector General, DoD, Report No. 90-034, "Contracting Through Interagency Agreements with the Library of Congress," February 9, 1990. The report states that contractor services and supplies were obtained beyond those routinely and reasonably provided by the Library of Congress and that contracts awarded on behalf of DoD by the Library of Congress were not effectively administered. In placing orders for interagency acquisitions through the Library of Congress, DoD program officials circumvented established policy and exceeded their authority by not obtaining required approvals from either DoD procurement officials or designated senior DoD officials. Recommendations were made to establish arrangements with the Library of Congress to ensure that effective contract administration is provided for all existent interagency acquisitions. The recommendations also included establishment of internal control procedures and practices to minimize the risk that orders for interagency acquisitions will be placed by unauthorized DoD program officials. The Army, Navy, Air Force, and Defense Logistics Agency (DLA) concurred that actions were needed to ensure effective contract administration. The Army and DLA partially concurred with the recommendation that required disciplinary action. They stated that disciplinary action should be limited to those who knowingly falsified information to obtain contractor support through interagency acquisitions.

Army Audit Agency Advisory Report No. WE 91-A1, "Contract Offloading," September 11, 1991. The report concluded that Army activities and installations did not have policies and procedures in place to control contract offloading<sup>1</sup>. The report states that controls over transferred contracts did not require reviews by knowledgeable personnel and frequently resulted in public law, FAR, and funding regulation violations; noncompetitive acquisitions; internal control breakdowns that led to apparent illegal acts; and the absence of oversight by Army managers. Department of the Army officials agreed with the recommendations. The Office of the Director of Information Systems for Command, Control, Communications, and Computers did not agree to direct each activity to make a 100-percent inventory, to reconcile results to the property book, and to investigate differences.

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1 Use of a previously awarded contract similar to the use of an Economy Act transfer.

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