



United States General Accounting Office
Washington, DC 20548

January 8, 2001

The Honorable Duncan L. Hunter
House of Representatives

Subject: Department of the Navy: Unauthorized Activity Codes Used to Requisition New and Excess DOD Property

Dear Mr. Hunter:

This letter is part of our continuing effort to address inventory management activities as a high-risk area¹ within the Department of Defense (DOD). We recently reported that the U.S. Air Force and the U.S. Army had used unauthorized activity codes² to requisition nearly \$3 billion in new and excess government property during the past 5 years. As a consequence, this property was vulnerable to fraud, waste, and abuse. You asked that we determine whether the other military services and other federal agencies maintained activity codes that were unauthorized to requisition and, if so, whether any were used to requisition new and excess government property. As discussed with your office, this letter focuses on the U.S. Navy's use of unauthorized activity codes³ from January 1995 to June 2000. We have reported separately on our investigation of whether the General Services Administration used unauthorized activity codes to requisition new and excess government property.⁴

Scope and Methodology

We interviewed Navy service point personnel and obtained a list of Navy activity codes identified as unauthorized to requisition (i.e., for shipping purposes only). We provided these codes to the Defense Automatic Addressing System Center and the Defense Reutilization and Marketing Service to determine whether any had been used

¹ In 1990, we began a special effort to review and report on the federal program areas we identified as high risk because of vulnerabilities to fraud, waste, abuse, and mismanagement. This effort, supported by the Senate Committee on Governmental Affairs and the House Committee on Government Reform, resulted in a much-needed focus on problems that were costing the government billions of dollars. We identified DOD's inventory management as a high-risk area at that time because levels of unneeded inventory were too high and systems for determining inventory requirements were inadequate.

² *Department of the Air Force: Unauthorized Activity Codes Used to Requisition New and Excess DOD Property*, (GAO-01-196R, Jan. 8, 2001); *Department of the Army: Unauthorized Activity Codes Used to Requisition New DOD Property* (GAO-01-85R, Dec. 6, 2000); and *Inventory Management: Better Controls Needed to Prevent Misuse of Excess DOD Property* (GAO/OSI/NSIAD-00-147, Apr. 28, 2000).

³ According to the Marine Corps service point, the Marine Corps does not create or maintain activity codes that are unauthorized to requisition.

⁴ *General Services Administration: Unauthorized Activity Codes Used to Requisition New and Excess Government Property* (GAO-01-221R, Jan. 8, 2001).

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Abstract This letter is part of our continuing effort to address inventory management activities as a high-risk area within the Department of Defense (DOD). We recently reported that the U.S. Air Force and the U.S. Army had used unauthorized activity codes 2 to requisition nearly \$3 billion in new and excess government property during the past 5 years. As a consequence, this property was vulnerable to fraud, waste, and abuse. You asked that we determine whether the other military services and other federal agencies maintained activity codes that were unauthorized to requisition and, if so, whether any were used to requisition new and excess government property. As discussed with your office, this letter focuses on the U.S. Navys use of unauthorized activity codes 3 from January 1995 to June 2000. We have reported separately on our investigation of whether the General Services Administration used unauthorized activity codes to requisition new and excess government property. 4		
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to requisition new and excess government property, respectively, during the period January 1995 through June 2000. We then obtained information about the requisitioning activity associated with the codes from the Defense Automatic Addressing System Center and the Defense Reutilization and Marketing Service. We performed our investigative work from June 2000 to September 2000 in accordance with investigative standards established by the President's Council on Integrity and Efficiency. Our audit work was conducted during the same period and in accordance with generally accepted government auditing standards.

Results in Brief

As of June 2000, the Navy maintained 2,002 activity codes identified as unauthorized to requisition government property (i.e., for shipping purposes only). However, during the past 5 years, 663 of these codes were used to requisition over \$2 billion in new and excess government property. In addition, there are no safeguards in the Defense Automatic Addressing System Center or the Defense Reutilization and Marketing Service to prevent these activity codes from being used to requisition new and excess government property. This situation has created a condition in which government property is vulnerable to fraud, waste, and abuse.

To reduce the likelihood that Navy organizations and contractors acquire government property inappropriately, we are making recommendations to address problems in the Navy's assignment and use of activity codes. In addition, we will make information on the identity and requisition history of the unauthorized Navy activity codes available to the DOD's Office of the Inspector General for a determination of whether requisitioned property was legally obtained and properly inventoried.

DOD agreed with our recommendations and cited a number of specific actions that have been started or are being planned. Once completed, these actions should eliminate the control weaknesses we found.

Background

An activity address code is a six-position alphanumeric code used to provide a uniform method for controlling government assets and for recording the receipt and disposition of property. The first character of an activity code identifies the service or agency responsible for the property. Navy activity codes begin with an N, R, Q, or V. The Navy Comptroller Manual⁵ provides mandatory procedures for assigning, changing, and terminating Navy activity address codes. The manual applies to all Navy activities and Navy contractors.

The DOD Activity Address File is the automated master activity address code file maintained for military activities, federal agencies, and contractors by the Defense Automatic Addressing System Center. An activity within a military service or federal agency that is assigned the responsibility of controlling activity code data is known as the service point. The Navy service point is the Director of the Defense Finance and

⁵ Navy Standard Operating Procedures 1000-25, Vol.2, Ch. 5, Dec. 1997.

Accounting Service-Cleveland Center, Cleveland, Ohio. The service point is responsible for assigning, canceling, or changing Navy activity codes.

A Navy activity address code consists of a unit identification code—a five-character alphanumeric code—preceded by an N, R, Q, or V.⁶ A unit identification code identifies the Navy activity's name and mailing address and contains an embedded purpose code. According to Navy service point personnel and the Navy Comptroller Manual, unit identification codes with an S purpose code are for shipping purposes only and are unauthorized to requisition government property.⁷ As of June 2000, there were 2,002 Navy activity codes with an S purpose code on record.

Unauthorized Activity Codes Requisition Over \$2 Billion in DOD Property

We obtained a list of the activity codes identified by the Navy service point as unauthorized to requisition. We provided these codes to the Defense Automatic Addressing System Center and the Defense Reutilization and Marketing Service to determine whether any had been used to requisition new and excess government property, respectively. It was determined that of the 2,002 activity codes, 663 had been used to requisition over \$1.71 billion in new property and over \$338 million in excess property⁸ during the period January 1995 to June 2000. A relatively few activity codes were used to requisition most of the property, as measured by property value. Specifically, 12 activity codes accounted for approximately 96 percent (\$1.64 billion) of the new property, and 11 accounted for over 99 percent (\$336 million) of the excess property. Of the 11 activity codes, one was responsible for about 96 percent (\$324 million) of the excess property value. Further, while a majority of the 663 activity codes were assigned to Navy organizations, contractors working for the Navy were assigned 42 of them.

Conclusions and Recommendations for Executive Action

Navy activity codes identified as unauthorized to requisition were used to requisition new and excess government property. In addition, there are no safeguards in the Defense Automatic Addressing System Center or the Defense Reutilization and Marketing Service to prevent this activity. This lack of internal controls creates a situation in which government property is vulnerable to fraud, waste, and abuse.

Accordingly, we recommend that the Secretary of Defense direct the Secretary of the Navy to

- verify whether requisitioning authority for Navy activity codes is categorized accurately and review procedures to ensure that assignments are appropriate, made in accordance with standard operating procedures, and routinely inspected to ensure compliance and

⁶ The Director, Defense Finance and Accounting Service-Cleveland Center, is also responsible for assigning unit identification codes.

⁷ However, one Navy service point official told us that regardless of the purpose code, all Navy activity codes can requisition. This official noted that a safeguard is required in the Defense Automatic Addressing System Center that would prohibit unethical or fraudulent behavior.

⁸ These amounts represent the acquisition value of the property.

- coordinate with the Defense Automatic Addressing System Center and the Defense Reutilization and Marketing Service to incorporate safeguards in appropriate databases to ensure that unauthorized activity codes are not used to requisition government property.

Agency Comments and Our Evaluation

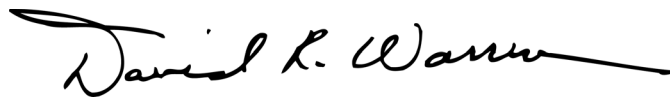
DOD provided oral comments on a draft of this letter and the data used in its preparation. They agreed with our recommendations. The Navy will review its internal procedures for categorizing activity codes as active or otherwise. The Navy will also urge major claimants to be vigilant in controlling the use of unauthorized activity codes. Finally, the Navy strongly endorses the recommendation to establish safeguards in the Defense Automatic Addressing System Center and the Defense Reutilization and Marketing Service databases that prevent the processing of an unauthorized activity code.

As arranged with your office, unless you disclose the content of this letter earlier, we plan no further disclosure of this letter until 30 days after its issuance. At that time, we will send copies of the letter to interested congressional committees and members, the Office of the Secretary of Defense, the Secretary of the Navy, the Director of the Defense Logistics Agency, and the Director of the Defense Finance and Accounting Service. The letter will then also be available on GAO's home page, www.gao.gov. If you have any questions or need additional information, please contact Robert H. Hast at (202) 512-7455 or David R. Warren at (202) 512-8412. John Ryan, Richard Newbold, Brian Chan, James Loschiavo, Marc Schwartz, and David Epstein made key contributions to this investigation and letter.

Sincerely yours,



Robert H. Hast
Managing Director
Office of Special Investigations



David R. Warren
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and Management

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