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OF THE DEPARTMENT OF DEFENSE**

**SUMMARY OF
REPORTS ISSUED AND
PARTICIPATION ON MANAGEMENT ADVISORY TEAMS
AND SPECIAL AUDIT/EVALUATION EFFORTS**

APRIL, MAY, AND JUNE 2002



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TABLE OF CONTENTS

PART I - REPORTS ISSUED APRIL, MAY, AND JUNE 2002

(REPORTS ARE UNCLASSIFIED UNLESS OTHERWISE NOTED)

**REPORT
NUMBER**

PAGE

CONSTRUCTION AND INSTALLATION SUPPORT

**INCLUDES CONSTRUCTION AND ALL ACTIVITIES
RELATED TO MAINTENANCE AND SUPPORT OF INSTALLATIONS**

D-2002-077	Bulk Fuel Infrastructure Military Construction Project Review Process: Air Force	1
D-2002-085	Audit Coverage of DoD Energy Management	1
D-2002-089	Department of Defense Policies and Procedures to Implement the Rural Development Act of 1972	2
D-2002-125	General and Flag Officer Quarters at Pearl Harbor, Hawaii	2

CONTRACTING OVERSIGHT

**INCLUDES ISSUES RELATING TO CONTRACT ADMINISTRATION AND
OVERSIGHT, COMMERCIAL ACTIVITIES, AND PRODUCT QUALITY ASSURANCE**

D-2002-080	Quality Deficiency Reporting Procedures for Naval Repair Parts	3
D-2002-090	Evaluation of the Defense Supply Center Columbus Qualified Products List and Qualified Manufacturers List Program	3
D-2002-097	Contract Administration Services Function at Edwards Air Force Base	4

<u>REPORT NUMBER</u>		<u>PAGE</u>
D-2002-105	Fire Performance Tests and Requirements for Shipboard Mattresses	4
D-2002-109	Army Claims Service Military Interdepartmental Purchase Requests	5
D-2002-110	Policies and Procedures for Military Interdepartmental Purchase Requests at Washington Headquarters Services	6
D-2002-120	Air National Guard Decision on the Asynchronous Transfer Mode Installation Contract	6

ENVIRONMENT

**INCLUDES ENVIRONMENTAL ISSUES RELATED TO CLEANUP, COMPLIANCE,
CONSERVATION, POLLUTION PREVENTION, TECHNOLOGY, SAFETY, AND HEALTH**

D-2002-122	DoD Environmental Community Involvement Programs at Test and Training Ranges	7
------------	--	---

FINANCE AND ACCOUNTING

**INCLUDES FINANCE AND ACCOUNTING ISSUES, INCLUDING
ALL ISSUES RELATING TO THE CHIEF FINANCIAL OFFICERS (CFO) ACT**

D-2002-082	Promptness of FY 2002 Third Quarter DoD Payments to the Department of the Treasury for District of Columbia Water and Sewer Services	7
D-2002-096	Major Deficiencies in Financial Reporting for Other Defense Organizations-General Funds	8

HEALTH CARE AND MORALE

**INCLUDES HEALTH CARE ISSUES SUCH AS MILITARY TREATMENT FACILITIES
AND CHAMPUS AND MORALE ISSUES SUCH AS COMMISSARIES, NONAPPROPRIATED FUNDS,
HUMAN RESOURCE MANAGEMENT, COMPENSATION, AND OTHER QUALITY OF LIFE ISSUES**

D-2002-087	DoD Medical Support to the Federal Response Plan	8
D-2002-094	Pricing of Pharmaceutical Items in the Medical Prime Vendor Program	9
D-2002-101	Compensation Policies and Procedures for Selected Nonappropriated Fund Childcare Providers	9

INFORMATION TECHNOLOGY RESOURCES

**INCLUDES AUTOMATED SYSTEMS; INFORMATION TECHNOLOGY RESOURCES;
AND COMMAND, CONTROL AND COMMUNICATIONS (C³) SYSTEMS**

D-2002-081	The Preventive Health Care Application and an Associated Upgrade	9
D-2002-086	Defense Hotline Allegations on the Procurement of a Facilities Maintenance Management System	10
D-2002-093	Government Information Security Reform Act Implementation: Noncombatant Evacuation Operations Tracking System	10
D-2002-098	Army Web Site Administration, Policies, and Practices	11
D-2002-103	Certification of the Reserve Component Automation System	11
D-2002-106	Allegations Concerning the Defense Logistics Agency Contract Action Reporting System	11
D-2002-107	Army Transition of Advanced Technology Programs to Military Applications	12

<u>REPORT NUMBER</u>		<u>PAGE</u>
D-2002-113	Controls Over the Computerized Accounts Payable System at Defense Finance and Accounting Service Columbus	12
D-2002-119	Defense Hotline Allegations Regarding the Military Airspace Management System	13
D-2002-123	Acquisition and Clinger-Cohen Act Certification of the Defense Integrated Military Human Resources System	13
D-2002-124	Allegations to the Defense Hotline on the Management of the Defense Travel System	14

LOGISTICS

INCLUDES ISSUES RELATING TO SUPPLY SYSTEMS; TRANSPORTATION INCLUDING FUELS; MAINTENANCE OF WEAPON SYSTEMS; FOREIGN MILITARY SALES; FOREIGN MILITARY FINANCING; AND INTERNATIONAL MILITARY EDUCATION AND TRAINING

D-2002-079	Delivery and Receipt of DoD Cargo Inbound to the Republic of Korea	14
D-2002-091	Accountability and Control of Materiel at the Corpus Christi Army Depot	15
D-2002-104	Military Traffic Management Command Handling of Container Detention Charges	15
D-2002-114	V-22 Osprey Hydraulic System	16

AUDIT OVERSIGHT REVIEWS

D-2002-6-006	Summary of Risk Assessment Methodologies	19
--------------	--	----

**PART II - PARTICIPATION ON MANAGEMENT ADVISORY TEAMS
AND SPECIAL AUDIT/EVALUATION EFFORTS**

Summary of AIG-AUD Participation on Management Advisory Teams and Special Audit/Evaluation Efforts	19
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PART I

REPORT SUMMARIES

CONSTRUCTION AND INSTALLATION SUPPORT

REPORT NO. D-2002-077. Bulk Fuel Infrastructure Military Construction Project Review Process: Air Force. This audit evaluated maintenance, repair, environmental (MR&E) and military construction (MILCON) project requirements at Eglin AFB, Florida, and McChord AFB, Washington.

Air Force installation and major command personnel approved requirements at the activities visited for 30 bulk fuel-related MR&E projects. Project requirements were accurate and necessary. However, MR&E projects were not reviewed, approved, and prioritized by an Air Force Service Control Point before being submitted to the Defense Energy Support Center for funding approval in accordance with DoD regulations. The Air Force did not have a Service Control Point for reviewing fuel-related infrastructure requirements until October 1, 2001, when the Air Force Petroleum Office was established. Air Force Petroleum Office personnel stated that they planned to implement procedures for reviewing, approving, and prioritizing Air Force MR&E project requirements in accordance with DoD guidance.

Air Force installation and major command personnel correctly approved and validated requirements for three bulk fuel-related MILCON projects at McChord AFB and Hurlburt Field, Eglin AFB, valued at \$17 million. However, requirements for a \$2.5 million bulk fuel storage MILCON project at Duke Field, Eglin AFB, were inaccurate and unsupported. As a result, Air Force Reserve Command personnel submitted inaccurate and unsupported MILCON project requirements to the Installation Planning and Review Board, Defense Energy Support Center, for funding consideration. The Air Force has taken corrective action to properly identify and validate the fuel-related MILCON project requirement at Duke Field. In October 2001, Headquarters, Air Force Reserve Command submitted a new Military Construction Project Data form (DD Form 1391) that accurately documented the Duke Field requirement. We believe that the revised form clearly stated the minimum fuel requirement to be supported by the MILCON project and gave the Defense Energy Support Center the accurate and necessary data for determining whether the infrastructure request should be considered for funding approval. However, unless the Air Force takes corrective action to improve the requirements validation process, nonessential or unnecessary projects could be considered for future funding.

REPORT NO. D-2002-085. Audit Coverage of DoD Energy Management. This report summarizes issues identified in audit reports on DoD energy management of buildings and facilities. Executive Order 13123, "Greening the Government Through Efficient Energy

Management,” and the National Defense Authorization Act for FY 2002 require DoD to significantly improve its energy management and to report annually progress made toward achieving goals for reductions in energy consumption.

During the past 10 years, GAO and DoD audit organizations issued 79 reports on DoD energy management. The GAO issued 2 reports; IG DoD issued 3 reports; the Army Audit Agency issued 28 reports; the Naval Audit Service issued 1 report; and the Air Force Audit Agency issued 45 reports. The reports discussed the following key energy management issue areas: modernization projects (14 reports), energy savings performance contracts (13 reports), reimbursable activities (43 reports), utilities management (27 reports), conservation program (25 reports), and energy reporting (10 reports). Oversight of the energy program is necessary to ensure that the Department meets the objectives and achieves the long-term goals mandated by the national Defense Authorization Act for FY 2002.

REPORT NO. D-2002-089. Department of Defense Policies and Procedures to Implement the Rural Development Act of 1972. This report is required by Public Law 107-67, “Treasury and General Government Appropriations Act, 2002,” section 647, November 12, 2001. The law requires the IG of each applicable department or agency to submit a report to the Committee on Appropriations detailing what policies and procedures are in place for each department or agency to give first priority to the location of new offices and other facilities in rural areas, as directed by the Rural Development Act of 1972.

OSD, the Military Departments, and Defense agencies did not establish policies and procedures to specifically give first priority to the location of new offices and other facilities in rural areas. DoD believed its first priority related to mission requirements and that existing policies and procedures satisfied the intent of the Rural Development Act. Existing DoD guidance dictates that a thorough analysis of all alternatives be made before the acquisition of new facilities. However, specifically reflecting the requirements of the Rural Development Act of 1972 in DoD policies will result in additional assurance that DoD meets the intent of the Act.

REPORT NO. D-2002-125. General and Flag Officer Quarters at Pearl Harbor, Hawaii. We reviewed 17 General and Flag Officer Quarters (GFOQs) at Pearl Harbor, Hawaii, with budgeted maintenance and repair costs of \$1,247,300, to determine whether the Navy had properly classified interior shutter costs as maintenance and repair.

Navy family housing officials at Pearl Harbor improperly classified shutter purchases, costing \$36,378, for seven GFOQs as furnishings instead of maintenance and repair in FY 2000. As a result, Navy accounting for FY 2000 GFOQ costs was understated by at least \$36,378, Antideficiency Act violations of \$11,554 may have occurred, congressional oversight of improvement projects exceeding \$3,000 was circumvented, and Navy officials made changes to historic quarters without seeking the concurrence of the state historic preservation office. Corrective action includes implementation of existing guidance, an Antideficiency Act investigation, Congressional notification of both corrected GFOQ cost reports and improvement spending, and coordination with the Hawaii state historic preservation office.

CONTRACTING OVERSIGHT

REPORT NO. D-2002-080. Quality Deficiency Reporting Procedures for Naval Repair Parts. The Navy Nuclear and Submarine Product Quality Deficiency Programs were effectively managed for tracking and reporting deficient repair parts. However, other Navy and Marine Corps elements were not effectively reporting and tracking repair parts and were not removing the nonconforming items from inventory. In addition, there was no assurance that items reentering the inventory were screened to ensure that they were not nonconforming. Overall, databases were inaccurate, oversight was lacking, and communication between entities was broken down.

The Naval Air Systems Command's current staffing shortages, coupled with the lack of emphasis and oversight, contributed to an overall ineffective management of the quality deficiency reporting program. As a result, potentially nonconforming items, valued at as much as \$163 million and involving as many as 138,000 individual items, were not screened, nor given consideration for removal from inventory.

Quality assurance staff at the Naval Inventory Control Point, Mechanicsburg, Pennsylvania, did not establish management control procedures to ensure that Naval Sea Systems Command-managed items that were previously identified as nonconforming were removed from Navy depots and supply inventories. As a result, as many as 331,000 potentially nonconforming items, valued at as much as \$66 million, were either issued to or remained available for issue to Navy users.

Procedures to identify, investigate, and resolve nonconforming items procured with contractor warranties were ineffective at the Marine Corps Logistics Base, Albany, Georgia. The Marine Corps has no assurance that nonconforming items procured with contractor warranties were corrected or eliminated from inventory. In addition, the Marine Corps may have as many as 8,800 items in inventory or in use with a procurement value of as much as \$87 million that are deficient and unreliable.

During the period of February 2000 to August 2001, the Navy did not ensure that nonconforming DLA-managed items were posted to the Defense Distribution Depots logistical database for screening or removal. As a result, as many as 965,000 potentially nonconforming items, valued at as much as \$29 million, purchased from 372 contracts were not screened, removed, or prohibited from reentry into the DoD supply system.

REPORT NO. D-2002-090. Evaluation of the Defense Supply Center Columbus Qualified Products List and Qualified Manufacturers List Program. This report is a review of the Defense Supply Center Columbus (the Center) Qualified Products List (QPL) and Qualified Manufacturers List (QML) Program.

The Center did not have an effective manufacturer and product qualification list program:

- o Certification and retention policy for its qualified manufacturers was not fully enforced. Specifically, 512 (42.8 percent) of the required 1,196 manufacturing line audits scheduled during 1999-2000, were not accomplished. Some of the manufacturing lines have gone 8 years without recertification.

- o The Sourcing and Qualifications Unit did not receive 1,739 Product Quality Deficiency Reports required to monitor the QPL and QML Programs.

- o The Sourcing and Qualification Unit could not trace sources and authenticity of their products because they did not receive 6,479 certificates of conformance and traceability.

As a result, manufacturers without the proper recertification remained in the QPL and QML Program. Further, the Services, which rely on these programs, are subjected to a higher risk of receiving nonconforming parts.

REPORT NO. D-2002-097. Contract Administration Services Function at Edwards Air Force Base. The audit was performed in response to allegations made to the Defense Hotline regarding the Air Force Flight Test Center, Edwards Air Force Base, CA (the Flight Test Center).

The allegations were not substantiated. The Air Force decision to retain the contract administration function at the Flight Test Center was not in violation of Defense Management Report Decision 916. The Flight Test Center only administers that portion of contracts that pertain to developmental flight test activities and only for the duration of the developmental test. The Defense Contract Management Agency (DCMA) performs only acceptance testing and has no experience in supporting developmental flight-testing. DCMA officials acknowledged that they cannot ensure the availability of experienced staff support. In addition, officials at the Flight Test Center stated that transfer of the function would increase potential safety and program cost risk if there are delays or impacts to flight test schedules. The alleged costs avoided were an unsubstantiated estimate based on the assumption that 25 Flight Test Center employees would be transferred to DCMA at an average annual personnel cost of \$60,000. If these functions were transferred from the Flight Test Center, the costs to perform the function would transfer from the Air Force to DCMA and DoD would realize no cost reduction for the contract administration services function. Therefore, there is no valid reason to transfer the contract administration services function from the Flight Test Center to DCMA.

REPORT NO. D-2002-105. Fire Performance Tests and Requirements for Shipboard Mattresses. The audit was performed in response to a request from the Director, DLA regarding the award and administration of contract SP0100-00-D-EE72 to procure innerspring mattresses for the Navy.

The Naval Sea Systems Command and Defense agency contracting officials did not require National Industries for the Blind to conduct sufficient fire performance tests for first article and quality assurance requirements on the innerspring mattresses. As a result, the Navy spent \$12.5 million for 90,448 mattresses that did not meet Navy-defined fire performance requirements. The Defense Supply Center Philadelphia then needed to procure fire-resistant mattress covers, costing an additional \$4.3 million, to reduce the risk of the mattresses catching fire. Requiring compliance with technical requirements to perform tests on future procurements of innerspring mattresses or notifying the contracting officer if the Navy amends its technical requirements will ensure that mattresses meet contract requirements. Implementation of acquisition requirements will improve the Defense Supply Center Philadelphia's abilities to: maintain adequate documentation on future innerspring mattress procurements to support all contractual actions, require the contractor to provide innerspring mattresses that comply with contract requirements, and require the contractor to comply with contract quality assurance requirements. Improvements should also include requiring the contractor to comply with contract quality assurance requirements for any future innerspring mattress contracts or obtaining a contract modification from the contracting officer.

REPORT NO. D-2002-109. Army Claims Service Military Interdepartmental Purchase Requests. The Army Claims Service did not have adequate policies and procedures for processing and funding military interdepartmental purchase requests (MIPRs). The Army Claims Service did not appropriately plan or fund about \$3.8 million of the \$11.6 million it provided to the GSA Information Technology Fund for procurement of support services and information technology. The Army Claims Service may have incurred Antideficiency Act violations on the \$3.8 million by transferring and obligating FY 1997 through FY 2000 O&M funds to GSA without establishing a bona fide need. Of the \$11.6 million provided to the GSA Information Technology Fund, the Army Claims Service had about \$2.8 million remaining or improperly "banked" in the Fund for future requirements. These funds are potential monetary benefits that may be available for other uses. The banked funds consisted of about \$2.7 million obligated for undefined projects for which a bona fide need was not shown. The remaining \$0.1 million was for three projects involving hardware, software, network integration, and acquisition support and one software development project for which specific requirements were identified but the funds were not expended in the years of the applicable appropriations. The Army Claims Service also incurred higher administrative costs by using GSA rather than partnering with an Army contracting office. A lack of policy and procedures for processing MIPRs, inadequate acquisition planning, and questionable year-end spending practices led to the inappropriate handling of funds.

The Army Claims Service also inappropriately used \$3.3 million of the \$11.6 million in O&M funds for the development of personnel claims software and the torts and affirmative claims software instead of RDT&E and/or procurement funds. Use of the wrong type of funds occurred, in part, because the guidance on funding information technology projects was unnecessarily broad. In addition, USARCS was not aware of the guidance from the USD(C) that clarified procedures for funding information technology systems.

REPORT NO. D-2002-110. Policies and Procedures for Military Interdepartmental Purchase Requests at Washington Headquarters Services. WHS policies and procedures relating to the use and control of MIPRs were not adequate. We reviewed a total of 30 MIPRs with unliquidated obligations, totaling \$25.9 million, processed during FYs 1996 through 2000, and 21 had problems. Specifically, 14 MIPRs had unliquidated obligations balances totaling \$9.4 million and were dormant from 365 to 1,820 days (5 years), 7 MIPRs had unliquidated obligations that were overstated by a total \$2.5 million because disbursement data had not been posted, 4 MIPRs had unliquidated obligations that were overstated by \$4.1 million due to accepting activities' processing errors, and 5 MIPRs had potentially invalid unliquidated obligations totaling \$2.7 million due to insufficient recordkeeping by the accepting activities. WHS did not perform the required tri-annual reviews of obligations and did not allocate adequate staff to perform funds management. As a result, WHS had not taken action to deobligate million of dollars and put the funds to better use. In response to our review, WHS has taken appropriate action to deobligate about \$5.7 million of invalid unliquidated obligations on four MIPRs. Additional funds may be identified when all outstanding unliquidated obligations are reviewed. The conditions identified were similar to the conditions cited in IG, DoD, Report No. D-2000-104 "Control Over Obligations at Washington Headquarters Services," and constitute a repeat finding.

Three OSD activities incurred unnecessary service charges totaling \$182,762 by transferring funds to other procurement activities on MIPRs rather than using the Defense Supply Service-Washington.

REPORT NO. D-2002-120. Air National Guard Decision on the Asynchronous Transfer Mode Installation Contract. We performed this audit in response to a request from Congressman Roscoe G. Bartlett. The request was based on information the Congressman received from both the Air National Guard and Digicon Corporation regarding the Air National Guard's decision not to exercise the final option years on a contract between the two parties.

On October 9, 2001, the contracting officer informed the Digicon Corporation that the Air National Guard decided to not exercise the option years because it desired to pursue a technology refresh under a new contract and because it was not able to develop a mutually beneficial working relationship with the Digicon Corporation. However, through testimonial evidence, it was determined that the reason the Air National Guard decided to not exercise the remaining option years was the need for a standard network at all 90 flying units, which required an equipment upgrade. Conflicting statements between the Air National Guard and the Digicon Corporation showed that there was clearly a disagreement between the two entities as to the reasons for the Air National Guard decision. Notwithstanding the conflicting statements, the Air National Guard made the decision to not exercise the option years and was within its rights, as provided by the FAR and the option clauses incorporated into the contract, to make that unilateral decision.

ENVIRONMENT

REPORT NO. D-2002-122. DoD Environmental Community Involvement Programs at Test and Training Ranges. This evaluation was requested by the Office of the Deputy Under Secretary of Defense (Readiness) and the Director of Operational Test and Evaluation to evaluate the effectiveness of DoD environmental community outreach programs relative to encroachment challenges at DoD test and training ranges.

To enhance test and training range sustainability, DoD needs to improve community involvement efforts at the ranges. Encroachment caused by external factors is an increasing threat to the ability of test and training ranges to carry out live fire testing and training operations. Community involvement in the decision making process at test and training ranges can help range officials make cost-effective decisions on encroachment issues. However, community involvement efforts at the four DoD test and training ranges visited lacked the necessary elements for a comprehensive program or were disjointed. As a result, test and training ranges have an increased risk for environmental civil liability, negative impacts on operations and military readiness, and strained relations with local communities. To improve community involvement programs and practices, DoD needed to publish guidance on community involvement programs and establish an advocacy office for the community involvement function.

Test and training ranges have conducted some noteworthy community involvement efforts. These efforts, which we have identified as best management practices, could be adapted for use at any range in support of a community involvement program.

FINANCE AND ACCOUNTING

REPORT NO. D-2002-082. Promptness of FY 2002 Third Quarter DoD Payments to the Department of the Treasury for District of Columbia Water and Sewer Services. Public Law 106-554, the Consolidated Appropriations Act of 2001, requires the inspector general of each Federal agency to audit the agency's promptness in paying the District of Columbia for water and sewer services. The audit objective was to determine the promptness of FY 2002 third quarter payments.

DoD Components, except Fort Myer, made third quarter FY 2002 payments to the Department of the Treasury for District of Columbia water and sewer services. The Department of the Treasury withdrew \$77,000 from the Army on April 1, 2002, to pay the District of Columbia for water and sewer services to Fort Myer. Army officials dispute the appropriateness of the \$77,000 the Department of the Treasury withdrew for Fort Myer,

because Fort Myer discontinued receiving water services from the District of Columbia in 1999. Also, WHS paid \$187,000 for Arlington National Cemetery's first, second, and a portion the third quarter FY 2002 water and sewer bill as required by Public Law 107-20. The Navy and Air Force Components have credit balances from prior overpayments and were not required to make quarterly payments for FY 2002.

REPORT NO. D-2002-096. Major Deficiencies in Financial Reporting for Other Defense Organizations-General Funds. This report addresses, in summary form, the major deficiencies that continue to undermine the reliability of the reporting process.

Although DoD and DFAS have taken steps to improve the financial reporting process of the Other Defense Organizations, deficiencies related to financial systems, management controls, budgetary reporting, and trial balance reporting continue to exist because DoD and DFAS have not fully implemented corrective actions recommended in prior IG DoD reports. Many of the deficiencies are recognized by DoD and will not be fully corrected until DoD implements new systems that are compliant with the Federal Financial Management Improvement Act of 1996. Therefore we are not making any new recommendations. Until these deficiencies are corrected, financial reports such as the financial statements and the reports on budget execution will not be reliable.

HEALTH CARE AND MORALE

REPORT NO. D-2002-087. DoD Medical Support to the Federal Response Plan. The Acting ASD (Health Affairs) requested the OIG to review the DoD medical response to the September 11, 2001, terrorist attacks.

The Military Health System support following the September 11, 2001, terrorist attacks was generally in accordance with the FRP. DoD responded to all requests made through the FRP process for military medical assistance and to numerous direct requests from other government agencies. In attempting to be responsive to the emerging crisis, the Air Force moved medical personnel and equipment to McGuire Air Force Base, NJ, that were not requested through the FRP process and ultimately were not required. The Air Force stated that the movement of the personnel and equipment also served the purpose of making the resources available worldwide for Air Force requirements. The Air Force movement of medical resources cost about \$500,000 and was not coordinated with the Director of Military Support in advance or immediately after the fact. Although the movement of medical assets was within the authority of the Air Force and was approved by the Secretary of the Air Force, established FRP procedures were not followed. Any actions taken outside the coordinated efforts of the FRP represent a potentially unnecessary use of DoD resources.

REPORT NO. D-2002-094. Pricing of Pharmaceutical Items in the Medical Prime Vendor Program. We performed this audit in response to a request from DCIS that we evaluate management controls over the pricing of pharmaceutical items sold through the Defense Supply Center Philadelphia (DSCP) medical prime vendor program.

DSCP did not have adequate management controls to ensure that customers were properly charged for pharmaceutical items ordered through its medical prime vendor program. DSCP recognized the need for such controls in 1993 and reported a management control weakness in FY 1998, but a computer system upgrade to compare negotiated prices for individual pharmaceutical items with the prices that prime vendors charged customers for the items was not implemented until August 2001. However, the system upgrade was a work in progress that had not been completely tested and, as implemented, did not provide the required control. Approximately 91 percent of the items ordered (1,754,127 of 1,924,563) during the 6-month period ending November 2001 were excluded from the price comparison. As a result, DSCP had limited assurance that customers were properly charged for pharmaceutical items.

REPORT NO. D-2002-101. Compensation Policies and Procedures for Selected Nonappropriated Fund Childcare Providers. We performed this audit in response to a request from the Assistant Secretary of Defense (Force Management Policy).

DoD compensation policies for Nonappropriated Fund (NAF) childcare providers were generally effective. The childcare development center initial training program and advancement policies were effectively implemented at the 12 sites visited. All 857 NAF childcare providers at the 12 sites visited were paid at least the minimally required amount. However, 23 NAF childcare providers employed by the Marine Corps did not receive the percentage increase mandated by DoD regulations when they were promoted. As a result, though the NAF childcare providers were paid at rates equivalent to or more than the minimally required amounts, some should have been paid at rates higher than they were being paid.

The NAF childcare provider database maintained by DMDC and the databases transmitted to DMDC by the Services were inaccurate and unreliable as of July 2001. Specifically, for the 12 sites visited, 15 childcare providers in the database were no longer employed at the childcare development centers. Further, 232 of 857 NAF childcare providers were not included in the DMDC database. As a result, the DMDC database could not be relied on to provide DoD decision makers with current, accurate, and reliable information.

INFORMATION TECHNOLOGY RESOURCES

REPORT NO. D-2002-081. The Preventive Health Care Application and an Associated Upgrade. This audit was performed in response to a Defense Hotline allegation related to the operability and cost of the Preventive Health Care Application and an associated upgrade.

The allegation that millions of dollars were spent on a software application that became useless following an upgrade and subsequent patch was partially substantiated. The Preventive Health Care Application had many operability problems and was not widely accepted by the military health care community. The operability problems and limited user acceptance occurred because the Assistant Secretary of Defense (Health Affairs (ASD[HA])) had not established an implementation plan and had not adequately involved users in the development and fielding of PHCA. In December 1999, ASD (HA) put the PHCA in a legacy status and stopped development and additional fielding. Based on ASD (HA) financial data, approximately \$27 million of Defense Health Program funds were spent developing and fielding the PHCA. The problems encountered with the development and implementation of the PHCA occurred several years ago. Changes planned for the Composite Health Care System II will include the preventive health care requirements. Further, the ASD (HA) planned several improvements in the systems development and fielding process, which, if fully implemented, should reduce the likelihood of similar problems occurring with future systems.

REPORT NO. D-2002-086. Defense Hotline Allegations on the Procurement of a Facilities Maintenance Management System. This audit was performed in response to allegations made to the Defense Hotline in May 2001 concerning Marine Corps acquisition of facilities maintenance software at 16 Marine Corps installations.

The complainant made eight allegations concerning the acquisition of the software. None of the allegations was substantiated.

REPORT NO. D-2002-093. Government Information Security Reform Act Implementation: Noncombatant Evacuation Operations Tracking System. Public Law 106-398, "Government Information Security Reform," title X, subtitle G, Floyd D. Spence National Defense Authorization Act for FY 2001, requires that each agency obtain an independent assessment of its security posture. The IG of each agency is required to evaluate the agency's security posture based on a review of an independently selected subset of information systems.

In our assessment of the Noncombatant Evacuation Operations Tracking System, the Defense Manpower Data Center implementation of the Government Information Security Reform Act requirements, as reported in the Government Information Security Reform Act collection matrix for FY 2001, was generally accurate as of August 1, 2001, the date of the FY 2001 collection matrix data. Although 6 of the 32 responses provided in the collection matrix were technically inaccurate because the supporting documents were in draft form, we concluded that the Defense Manpower Data Center was making progress in achieving full information security accreditation for the Noncombatant Evacuation Operations Tracking System by August 2002, the target date for completion of the FY 2002 collection matrix.

REPORT NO. D-2002-098. Army Web Site Administration, Policies, and Practices. The objective was to evaluate Army policies and practices for Web site administration and oversight. Specifically, we reviewed how the Army hosts official Web sites, how it registers and monitors Web sites for compliance with policy, and how it safeguards sensitive information.

The Army's publicly accessible Web sites contained inappropriate information, which was in contravention of Army Web Policy. As a result, the Army does not provide adequate assurance that appropriate information resides on its Web sites and that Army personnel and operational security are appropriately protected.

REPORT NO. D-2002-103. Certification of the Reserve Component Automation System. The Chief Information Officer (CIO), DoD, did not report to Congress that development of the Reserve Component Automation System did not fully comply with the intent of the Act. The limitations directly affected three of the five interest items that were required by Section 8121(b)(2): business process reengineering, analysis of alternatives, and performance measures. The CIO did not believe the weaknesses for business process reengineering and analysis of alternatives were significant enough to withhold congressional certification and no weaknesses were identified for functional performance measures even though none were specifically developed. Disclosure of compliance limitations would have provided Congress with a more accurate measure of the progress and results that respective information technology investments made in complying with the Act. To meet the full intent of the Act, the application of business process reengineering and analysis of alternatives principles should be used before initiating development of any future RCAS increment and functional performance measures should be formally established. Additionally, the risks associated with exchanging unencrypted data files should be reevaluated. Further, out-year funding for the system should be identified and related congressional reporting requirements are met.

REPORT NO. D-2002-106. Allegations Concerning the Defense Logistics Agency Contract Action Reporting System. This audit was performed in response to allegations made to the Defense Hotline concerning the contract for modernization of the DLA Contract Action Reporting System. The complainant alleged that DLA did not properly plan, execute, or manage the contract to re-host the System from a mainframe computer to a mid-tier computer. The complainant also alleged that the contractor did not fulfill the performance obligations in accordance with the contract requirements.

The re-hosted system is currently operational and now more effective but the modernization effort could have been completed sooner and at a lower cost. DLA did not effectively plan and execute the upgrading of the System. DLA was overly optimistic in its assessment of the contractor's abilities; improperly awarded the task orders to re-host the System; expressed concerns about the re-host project, but did not address the concerns until problems were apparent; and performed little oversight of the contractor. As a result, completion of the effort slipped by nearly 17 months and the final cost exceeded original cost estimates by about \$507,000. Because of the delay, DLA also had to upgrade the original mainframe software to make it Year 2000 compliant, which it originally intended to avoid, at a cost of about \$298,000.

The complainant raised 10 issues addressing performance and administration deficiencies with the System contract. The results of our review substantiated 2 of the 10 allegations, partially substantiated 3 of the allegations, and did not substantiate 5 of the allegations.

REPORT NO. D-2002-107. Army Transition of Advanced Technology Programs to Military Applications. Army science and technology management created an extensive management process in 1999 to plan, review, and provide oversight of technology efforts that were proposed to transition to the warfighter. However, improvements are still needed because acquisition program officials were not adequately involved in fully facilitating and supporting the successful and timely transition to the warfighter for 18 science and technology projects. For example, none of the 18 projects had formally agreed to technology readiness levels. Also, five science and technology projects that were advanced technology demonstrators did not have acquisition program funding necessary for transitioning. Finally, for the two science and technology projects that transitioned with expenditures of \$36.3 million, one did not meet the exit criteria before it transitioned and the other required substantial additional development by the receiving acquisition program office. As a result, unless measures are undertaken to effectively coordinate formal acquisition program support for the 18 science and technology projects that have planned additional funding of \$244.4 million, the Army cannot make fully informed and prudent decisions on whether continued investment is warranted

Also, management did not use the performance appraisal process effectively to assist in achieving DoD performance goals and AMC's corporate objective.

REPORT NO. D-2002-113. Controls Over the Computerized Accounts Payable System at Defense Finance and Accounting Service Columbus. DFAS Columbus did not implement effective and consistent management controls to make properly supported vendor payments and to detect and correct erroneous payments. An estimated 37,918 payments made from May 1 through July 31, 2000, lacked proper supporting documentation. DFAS Columbus also made an estimated 4,369 erroneous payments, including 1,314 Fast Payments without subsequently verifying proper receipt of goods. The Director, Commercial Pay Services, needed to implement procedures to ensure that all documents supporting vendor payments were received in the mailroom, screened for compliance with 5 Code of Federal Regulations Part 1315, and immediately scanned into the Electronic Data Management system for indexing and payment processing. DFAS Columbus should also manually certify all payments and verify and use the information in the Central Contractor Registry to update vendor information in CAPS for Windows, and make EFTs as required in the Debt Collection Improvement Act of 1996. Further, Fast Payment procedures should be improved to ensure that goods paid for are received and accepted by Government activities.

Based on our recommendations, USD(C) changed DoD Regulation 7000.14-R, volume 10, chapter 1, to require the use of EFT unless a waiver is granted. The change also reiterated the requirements of 5 Code of Federal Regulations Part 1315 describing what constitutes proper supporting documentation. DFAS has begun to provide training on the standards for

properly supporting vendor payments and entering information into CAPS for Windows. The Director, DoD Education Activity, took actions that should reduce the number of Fast Payments.

REPORT NO. D-2002-119. Defense Hotline Allegations Regarding the Military Airspace Management System. This audit resulted from 7 Defense Hotline allegations relating to the efficiency and effectiveness of the system.

After 10 years of development and fielding, and expenditures of \$24 million, the System has not met its original objective of being a DoD-wide system for managing military airspace scheduling functions and providing usage information to DoD and the Federal Aviation Administration. The Services and scheduling agencies were not using the System, the System was being asked to do too many functions for too many different types of airspace. it was too cumbersome for easy use, and System airspace usage reports did not fulfill the reporting requirements of other agencies. Training was also inadequate because of limited funding and resources, a lack of coordination from the user community, and discord between the evolving System and current training materials. In addition, the funds that the Air Force spent on the System were not effective because the System had not met many Service requirements. Survey responses from 193 of 621 users of the System showed that: 34 percent (66 of the 193) said that it had the required functionality, 37 percent (71 of the 193) said it was user friendly, and 38 percent (73 of the 193) would recommend the System.

REPORT NO. D-2002-123. Acquisition and Clinger-Cohen Act Certification of the Defense Integrated Military Human Resources System. The Defense Integrated Military Human Resources System (DIMHRS) is a joint personnel and pay system. As a major automated information system, it is subject to the milestone decision approval authority of the Chief Information Officer of the DoD and certification requirements of Section 8121 of the DoD Appropriations Act for FY 2000.

Program management officials faced significant risks associated with the DIMHRS acquisition strategy, making the upcoming Milestone B review and Clinger-Cohen Act certification particularly challenging. As of February 2002, it was uncertain whether program officials could execute the acquisition within acceptable cost, schedule, and performance boundaries. The Milestone B review needs to validate that alternative acquisition approaches have been thoroughly considered. Additionally, establishing time limits to resolve potential issues during system development would reduce schedule and performance risks. As of June 2002, DIMHRS program officials have deferred Milestone B to September 2002.

The Chief Information Officer of the DoD had sufficient basis to certify, in June 2000, that DIMHRS was being developed in accordance with the Clinger-Cohen Act with respect to Milestone 1. However, substantial work remained to meet the requirements of the Clinger-Cohen Act with respect to Milestone B.

REPORT NO. D-2002-124. Allegations to the Defense Hotline on the Management of the Defense Travel System. The report discusses the need to determine the appropriateness of the Defense Travel System (DTS) to provide DoD with an effective travel management process.

Despite recent actions by USD(AT&L) and USD(C)/CFO, DTS remains a program at high risk of not being an effective solution in streamlining the DoD travel management process. DTS was being substantially developed without the requisite requirements, cost, performance, and schedule documents and analyses needed as the foundation for assessing the effectiveness of the system and its return on investment. In addition, planning for security at user sites is incomplete. The additional projected funding for the DTS Program from FYs 2002 through 2007 is \$377.1 million. As a result, there was increased risk that the planned additional investment of \$377.1 million to fully develop and implement DTS and the \$114.8 million and 6 years of effort already invested will not fully realize all goals to reengineer temporary duty travel, make better use of information technology, and provide an integrated travel system. The DTS Program is projected to expend approximately \$491.9 million (approximately 87 percent more than the original contract cost of \$263.7 million) and deployment will not be completed until FY 2006, approximately 4 years behind schedule. Managing DTS as a major automated information system with requisite documentation and tracking of cost, schedule, performance, and security can reduce the program risk. The planned performance of a cost-effectiveness study of the system will also reduce risk.

LOGISTICS

REPORT NO. D-2002-079. Delivery and Receipt of DoD Cargo Inbound to the Republic of Korea. The Assistant Deputy Under Secretary of Defense (Supply Chain Integration) expressed concern about whether the supply and distribution system was effective in delivering cargo to end users overseas. This report discusses delivery and receipt by U.S. Forces Korea of DoD cargo that is inbound to the Republic of Korea (the theater). The specific objective for this portion of the review was to assess delivery and receipt of DoD cargo arriving in the theater.

The surface delivery of DoD cargo from ports of debarkation to consignees using commercial carriers was not adequately managed within the theater and Uniform Materiel Movement and Issue Priority Systems standards were not always complied with for delivery of high priority cargo from the ports of debarkation. To assess surface delivery times, we conducted judgmental samples of cargo deliveries from ports of debarkation to consignees. In our review, cargo delivered from Kimpo International Airport, Korea, and Osan Air Base, Korea, usually exceeded the Uniform Materiel Movement and Issue Priority Systems 1-day delivery standard. Delivery times for shipments of cargo from those aerial ports of debarkation reviewed for the months of November and December 2000 and January and February 2001 averaged almost 3.8 days. Delivery times for less-than truckload shipments of

cargo from Osan Air Base reviewed for the months of November and December 2000 were not consistently completed within the 3-day commercial contract requirement. Further, at the port of Pusan, Korea, commercial carriers did not always return Transportation Control Movement Documents with a consignee signature and date of receipt before returning Transportation Control Movement Documents to the consignor. As a result, U.S. Forces Korea had no assurance that high priority cargo for DoD was delivered in a timely manner and was in compliance with standards, or that commercial carriers were held accountable for performance of delivery contracts. Also, the process of shipping high priority cargo by air and having U.S. Forces Korea arrange for commercial carriers to deliver cargo in excess of Uniform Materiel Movement and Issue Priority System standards was an inefficient use of DoD resources. Further, mission capabilities may be hampered because of untimely delivery of high priority cargo.

The Supply Support Activities in the theater that we reviewed did not adequately maintain truck manifests that were used for processing receipts for delivered cargo or end user pickup sheets used to show when cargo was issued to the end user. Further, the consignee did not always pick up cargo timely from the Supply Support Activities. As a result, there was no assurance that the cargo delivered was properly accounted for, the date the end user received the cargo, or whether the end user received the cargo.

REPORT NO. D-2002-091. Accountability and Control of Materiel at the Corpus Christi Army Depot. Materiel stored in locations within the Automated Storage and Retrieval System exceeded requirements at the Depot. Also, large amounts of materiel stored in work centers on the maintenance shop floor were not recorded on accountable records. As a result, the audit identified about \$83 million of \$432 million of inventory on hand in the Automated Storage and Retrieval System records that was above the approved 60-day level, and therefore, excess to requirements and invisible to the wholesale supply system. Further, the audit identified about \$7 million of materiel stored in work centers on the maintenance shop floor excess to any known requirements. The full extent of materiel stored in work centers on the maintenance shop floor was unknown. Additionally, inventory records at the Depot had count errors in about 9.8 percent of the storage locations. Large and inaccurate inventories made materiel difficult to manage. Also, materiel stored for long periods could become lost, obsolete, stolen, or unserviceable; and proper management decisions over the utilization of materiel can be hampered.

REPORT NO. D-2002-104. Military Traffic Management Command Handling of Container Detention Charges. This report discusses the Military Traffic Management Command (MTMC) Operations Directorate handling of detention charges that motor carriers incurred. MTMC uses DoD-owned intermodal containers, as well as those that the commercial transportation industry furnishes, to deliver equipment and supplies to America's warfighters.

The MTMC Operations Directorate did not offset detention charges that motor carriers incurred in Puerto Rico. As a result, during FY 2001 the MTMC Operations Directorate paid about \$62,929 in detention charges to ocean carriers for containers that were not returned within the allotted time and not offset against future motor carrier billings. If the MTMC

Operations Directorate takes action to retroactively recover FY 2001 detention charges and offset future motor carrier detention charges, DoD could put about \$463,157 in detention charges to better use over the next 6 years.

REPORT NO. D-2002-114. V-22 Osprey Hydraulic System. The V-22 Osprey Joint Advanced Vertical Aircraft (the V-22) is a tiltrotor, vertical takeoff and landing aircraft, which was developed to fulfill multi-Service operational requirements.

Additional measures were needed to improve the reliability of the hydraulic system for the V-22 Osprey. The V-22 entered the Low-Rate Initial Production phase in 1997 with a hydraulic system that performed at reliability rates significantly lower than predicted in the design process. During the Engineering and Manufacturing Development phase, the system achieved no better than 38.2 percent of the predicted reliability rate. The V-22 was produced with a less-than-optimal hydraulic system because the V-22 Program Manager (PMA-275) did not exercise sufficient oversight of the hydraulic system's design: PMA-275 did not specifically monitor the hydraulic system's performance. In addition to previously mandated design changes, other actions are needed to ensure sufficient management focus on the V-22 hydraulic system's performance and maintenance. A program to monitor the V-22 hydraulic system's performance, especially component reliability rates, on a continual basis will improve the reliability of the hydraulic systems. Also Bell Helicopter Textron, Inc., should amend course materials for the V-22 maintenance course to include the unique characteristics and hazards of the titanium hydraulic lines. Similarly, the Technical Study Guide Program for Marine Medium Tiltrotor Training Squadron 204 should be amended to expand the discussion of titanium hydraulic lines.

After a fatal accident in December 2000, the V-22 was grounded and PMA-275 began several initiatives, including the establishment of the Line Clearance Integrated Product Team and the Senior Hydraulic System Review Team (the Senior Hydraulic Team), to identify and correct the hydraulic system challenges facing the V-22.

AUDIT OVERSIGHT REVIEWS

REPORT NO. D-2002-6-006. Summary of Risk Assessment Methodologies. This report provides the DoD audit community with information relating to risk assessment methodologies. The primary objective of an audit risk assessment is to provide its users with the assurance that audit resources are focused on those areas needing greatest attention and will provide the best value to the audit client.

DoD audit organizations consider risk assessment results in assigning the audit resources to the functional areas identified as high risk. DoD audit organizations also respond to changing audit needs and changes in high-risk areas. The methodologies used by audit organizations varied from formal instructions for identifying high-risk areas to informal procedures such as documenting the result of an audit planning meeting with organizational managers. In each case, either through formal or informal methodologies, the objective was the same--to identify where audit resources can be used most effectively. Some audit organizations have also developed or used standard risk assessment procedures for specific types of audits such as, information system audits, contract audits, and audits required under the Single Audit Act or the CFO Act. Many of these procedures are commercially available or available through the Internet. Other types of audits do not lend themselves to standard risk assessment methodologies. However, the concepts can often be tailored to these audits as well.

PART II

PARTICIPATION ON MANAGEMENT ADVISORY TEAMS AND SPECIAL AUDIT/EVALUATION EFFORTS

Summary of the Office of Assistant Inspector General-Audit Participation on Management Advisory Teams

(Area Code 703 unless otherwise indicated)

Acquisition Deskbook Working Group (JOHN MELING, 604-9091)

Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics

Acquisition Initiatives Senior Steering Group (TOM GIMBLE, 604-8903)

Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics

Anti Terrorism Senior Steering Coordinating Committee (MAJ DAN SNY, 604-9190)

Lead Component: ASD SOLIC JCS J-3

Defense Environmental Safety and Occupational Health Policy Board

(BILL GALLAGHER, 604-9270)

Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics

DoD Homeland Defense Working Groups

Working Group 2: How DoD Will Interact with the Office of Homeland Security

(DONALD BLOOMER, 604-8863)

Working Group 5: Recommended Improvements and Actions to Address and Overcome
Existing Vulnerabilities (JOHN MELING, 604-9091)

Environmental Security Technology Implementation Committee (BILL GALLAGHER, 604-9270)

Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics

Government Information Security Reform Act Information Assurance IPT

(WANDA SCOTT, 604-9049)

*Lead Component: Assistant Secretary of Defense (Command, Control, Communications and
Intelligence)*

Inherently Governmental Integrated Process Team, DoD A-76 Overarching Policy IPT
(KENT SHAW, 604-9228)

*Lead Components: Under Secretary of Defense for Acquisition, Technology, and Logistics and
Under Secretary of Defense for Personnel and Readiness*

Past Performance Integrated Product Team (IPT) (BOBBIE SAU WAN, 604-9259)

Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics

Rapid Improvement Team to Develop DLA/Hamilton Sundstrand Strategic Alliance
Relationship (HENRY KLEINKNECHT, 604-9324)

Lead Components: Deputy Under Secretary of Defense(Acquisition Reform) and DLA

Rapid Improvement Team to Develop a DLA/Honeywell Strategic Alliance Relationship
(HENRY KLEINKNECHT, 604-9324)

Lead Components: Deputy Under Secretary of Defense(Acquisition Reform) and DLA

Reconciliation of Contracts in MOCAS Integrated Process Team (JIM KORNIDES, 614-751-1400(11))

*Lead Components: Under Secretary of Defense for Acquisition, Technology, and Logistics and
Under Secretary of Defense (Comptroller)*

Reengineering Transportation Task Force Executive Committee: (SHEL YOUNG, 604-8866)

Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics

Single Process Initiative Management Team (MIKE TULLY, 604-9347)

Lead Component: Defense Contract Management Agency

Task Force on International Agreements (DONALD BLOOMER, 604-8863)

Lead Component: Assistant Secretary of Defense (International Security Affairs)

Summary of the Office of Assistant Inspector General-Audit Participation in Special Audit/Evaluation Efforts

Audit Committees:

- Defense Commissary Agency (DAVE VINCENT, 604-9109)
- Defense Contract Audit Agency (PAUL GRANETTO, 604-9101)
- Defense Finance and Accounting Service (PAUL GRANETTO, 604-9101)
- Defense Information Systems Agency (RICHARD BIRD, 604-9102)
- Defense Logistics Agency (PAUL GRANETTO, 604-9101)
- Defense Security Service (BRIAN FLYNN, 604-9489)
- Defense Threat Reduction Agency (LEON PEEK, 604-9587)
- Missile Defense Agency (DAVE VINCENT, 604-9109)
- National Reconnaissance Office (LEON PEEK, 604-9587)
- Working Group for Air Force General Fund (BRIAN FLYNN, 604-9489)

Audit Oversight Workgroup Under the CFO Council Grants Management Committee
(JANET STERN, 604-8750)

Federal Audit Clearinghouse User Group (JANET STERN, 604-8750)

Federal Audit Executive Council Multi-Agency Working Groups:

- Government Wide Financial Statements (RICHARD BIRD, 604-9102)

Joint Audit Planning Groups:

- Acquisition Program (MARY UGONE, 604-9002)
- Construction, and Installation Support (KEITH WEST, 604-9202)
- Contracting Oversight (KEITH WEST, 604-9202)
- Quality Assurance Planning Group (KEITH WEST, 604-9202)
- Joint Credit Card Audit Planning Group (JOE DOYLE, 604-9349)
- Environment (BILL GALLAGHER, 604-9270)
- Finance and Accounting (PAUL GRANETTO, 604-9101)
- Health Care and Morale (MIKE JOSEPH, 757-766-9108)
- Information Technology Resources (WANDA SCOTT, 604-9049)
- Intelligence (CHARLES SANTONI, 604-9051)
- Logistics (TILGHMAN SCHRADEN, 604-9186)

Single Audit “Orange Book” Update Project Team (JANET STERN, 604-8750)