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to Congress



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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...”	36-37
Section 5(a)(1)	“description of significant problems, abuses, and deficiencies...”	1-24
Section 5(a)(2)	“description of recommendations for corrective action...with respect to significant problems, abuses, and deficiencies...”	1-24
Section 5(a)(3)	“identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed...”	25-27
Section 5(a)(4)	“a summary of matters referred to prosecutive authorities and the prosecution and convictions which have resulted...”	1-24
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.	41-53, 54
Section 5(a)(7)	“a summary of each particularly significant report...”	1-24
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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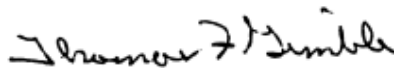
## **FOREWORD**

On September 10, 2005, I assumed the position of Acting Inspector General of the Department of Defense. On behalf of over 1400 employees of the Office of Inspector General (OIG) I am pleased to submit this Semiannual Report to Congress for the period April 1, 2005, to September 30, 2005.

This report summarizes the significant accomplishments of the OIG. During this reporting period the Department of Defense continued to be actively engaged in the Global War Against Terror. Assisting the Department by reviewing the management of programs and operations pertaining to the Global War on Terror has been a priority for the OIG. Recent reports issued by this office include:

- A joint Department of State/Department of Defense Inspectors General Interagency Assessment of Iraqi Police Training;
- A report on the Intelligence Community Inspectors General Forum Review of the National HUMINT Requirements Tasking Center conducted in conjunction with the Inspectors General of the Central Intelligence Agency, Department of State and the Defense Intelligence Agency; and
- A report on the DoD Patient Movement System which has the mission to safely transport U.S. military casualties from a combat zone to fixed medical treatment facilities and field hospitals in or out of the combat theater.

As this reporting period closed, the Nation was confronted by the natural disasters resulting from Hurricanes Katrina and Rita. Congress and agencies across the Federal government, including the Department of Defense, were quick to respond. Congress has appropriated over \$60 billion in emergency funds to aid victims and repair damaged infrastructure. The Department of Defense has a significant role in the recovery efforts and Congress and the American people will look for assurance that funds to aid victims are used efficiently for their intended purpose. The OIG DoD is cooperating with other Inspectors General to ensure proper oversight of Hurricane relief funds is provided. This office has committed 83 auditors and investigators to provide immediate oversight of DoD contracts, grants, and operations relating to Hurricane Katrina relief and recovery. Other DoD audit and investigative offices are also actively involved in providing oversight of these funds. In addition, the Defense Hotline is operating, on behalf of the Federal government, a Hurricane Relief Fraud Hotline.



Thomas F. Gimble  
Acting Inspector General

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## CHAPTER 1 – SIGNIFICANT ACTIVITIES

The Department of Defense Inspector General (DoD IG) annually assesses the most serious management and performance challenges faced by the Department of Defense (DoD) 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 2004 Performance and Accountability Report, the following challenges were identified:

Joint Warfighting and Readiness

Homeland Defense

Human Capital

Information Technology Management

Acquisition Processes and Contract Management

Financial Management

Health Care

Logistics

Infrastructure and Environment

This chapter summarizes some of the significant activities of the Department of Defense Office of Inspector General (DoD OIG) and other DoD oversight organizations as they relate to the management challenges.

### **JOINT WARFIGHTING AND READINESS**

U.S. forces continue transforming to meet the threats of the 21<sup>st</sup> century and beyond. Ongoing efforts by the Services, incorporating lessons learned from Operations Iraqi Freedom and Enduring Freedom, focus on developing the capabilities of the armed forces to provide an effective response to all threats, both conventional and unconventional. But unlike as in previous eras, a new readiness requirement is emerging, the ability to conduct peacekeeping and stabilization operations. Although other management challenges encompass areas that impact joint warfighting and readiness issues, the synergy of those challenges will determine the extent to which the United States will be able to achieve its national objectives through joint operations.

A DoD OIG audit assessing management and execution of the Warsaw Initiative program (a program developed to promote peaceful uses of military forces by developing countries) found that DoD had executed the program without developing guidance on the appropriate use of funds or procedures for documenting payments. Also, the Department's consideration of other laws could have authorized additional recipients of the funds. As a result, the Department made payments without supporting documents and may have missed the opportunity to approve funds for authorized countries. The Department agreed to issue guidance and request a legal review to determine the most beneficial laws for identifying recipients of funds.

An Air Force Audit Agency audit concluded that personnel tasked to support Air Expeditionary Force operations were not fully qualified nor ready to deploy. A comparison of deployment requirements to supporting documentation for 1,020 on-call individuals determined that 265 were not medically qualified, 420 were not fully trained, and 595 were missing personal readiness documentation such as security clearances, emergency notification data, and restricted area badges. Additionally, although installation planners had sufficient stocks of A-mobility bags, they did not maintain adequate stocks of items needed to protect deploying personnel from insect-borne illnesses.

The four Defense Criminal Investigative Organizations (DCIOs)<sup>1</sup> provide investigative support and valuable intelligence information to the Department's Global War on Terrorism and agents lend their assistance in humanitarian efforts around the world. Examples of the DCIOs efforts in joint warfighting and readiness follow.

The Air Force Office of Special Investigations (AFOSI) undertook two major initiatives focused on the War on Terrorism. First, they increased their effect-based support to Combatant Commanders by merging their counterintelligence and counterterrorism programs into a single Strategic Counterintelligence Branch. The merger codified operational processes and focused the full spectrum of offensive and defensive counterintelligence activity. Analytical products developed by this branch help Combatant Commanders understand the significance of the terrorist and insurgent threat to DoD personnel and resources.

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

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Second, AFOSI collection operations worldwide facilitated development of targeting packages against several hundred terrorist and insurgents opposing Coalition Forces in Afghanistan and Iraq. This intelligence allowed Special Operations and Coalition Forces to take direct action to mitigate threats and led to the capture of dozens of insurgents, destruction of hundreds of tons of explosives and the identification of weapons caches throughout the Southwest Asia Theater of Operations.

The Naval Criminal Investigative Service (NCIS) also strengthened its efforts in the War on Terrorism by instituting new security and protection measures at overseas ports visited by US vessels. The Port Visit Support program detects and warns of threats to Navy personnel while in those ports. .

**HOMELAND DEFENSE** The DoD defines a threat as any circumstance or event with the potential to cause harm. The Global War on Terrorism continues to heighten the level of threat to the United States from its adversaries. Direct threats to the homeland infrastructure are obvious and DoD has accomplished much progress in effectively anticipating and preventing those threats. However, chemical or biological threats remain as a significant challenge.

The DoD OIG along with six other Federal inspectors general conducted an interagency review evaluating the effectiveness of coordination between the various Federal agencies of the export licensing process for chemical and biological commodities. The audit found that the process for reviewing export license applications was adequate; however, improvements were warranted. Specifically, management could improve processes relating to the timeliness of reviews, knowledge of export regulations, identification of controlled exports, and denial of export licenses.

An Army Audit Agency report found that Army training for response to chemical, biological, radiological, nuclear, and high-yield explosive incidents was not compatible with that provided to other Federal, State, and local first responders. Army personnel received training from various sources, such as contractors, State academies and the U.S. Army Chemical School. Other first responders received training on consequence management from the Center for Domestic Preparedness, the only federally chartered center for weapons of mass destruction training.

An Air Force Audit Agency review of the demilitarization process employed during disposition of militarily specific supply items found that the process needed improvement. Managers did not properly assign demilitarization codes or review codes at item disposition. Additionally, they did not ensure that computer media were properly sanitized before initiating disposal. Proper assignment or review of demilitarization codes and sanitizing of computer media helps prevent compromise of military technology, national interests, public safety, and security, which could occur if military capabilities or sensitive information were released to the public.

The DCIOs actively participate in worldwide joint terrorism task forces (JTTF), sharing and acting on information, and relying on the unique skills and investigative specialties of the participating organizations to ensure no potential threat goes unchecked. Most recently, they partnered with other law enforcement organizations in evacuation and recovery efforts in the aftermath of Hurricanes Katrina and Rita.

Examples of the support the DCIOs are providing Homeland Defense follow.

The AFOSI deployed agents to support Joint Task Force Katrina (JTFK) efforts in the hurricane-impacted areas and serve as law enforcement advisors to the JTFK Provost Marshall on force protection and criminal matters involving United States Air Force (USAF) personnel and resources. AFOSI Agents also supported federal and local law enforcement threat working groups.

In May 2005 the AFOSI began Operation RUTHLESS RAVEN, an aggressive campaign to interdict contraband and narcotics being smuggled aboard military transportation systems. A task force, comprised of agents, analysts and data miners, was formed to identify vulnerabilities and indications of illegal smuggling activity. In addition to the task force, AFOSI organized a federal level working group consisting of the MCIOs<sup>1</sup> and other key federal law enforcement agencies to conduct liaison, share narcotics intelligence information, and conduct joint narcotics operations in an effort to detect and deter narcotics smuggling within the DoD.

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1. The Military Criminal Investigative Organizations (MCIOs) are the U.S. Army Criminal Investigation Command (USACIDC); the Naval Criminal Investigative Service (NCIS); and the Air Force Office of Special Investigations (AFOSI).

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In defense of Homeland Security, NCIS provided physical security, law enforcement training and vulnerability assessments to support the Secretary of the Navy's Critical Infrastructure Program. Agents provide routine Integrated Vulnerability Assessments for Navy installations with a population of 300 or more personnel.

NCIS also supports the FBI's National Joint Terrorism Task Force (NJTTF) and FBI's JTTFs throughout the Continental United States and Hawaii.

The NCIS, along with Immigration and Customs Enforcement, initiated a joint operation to identify terrorists, foreign intelligence officers, criminals and aliens who utilize forged or fraudulent immigration documents to secure employment aboard U.S. Naval installations. To date, this operation has resulted in the apprehension of 101 suspects -- citizens of Mexico, Colombia, Chile, Philippines, Cuba, and Vietnam -- with access to Naval bases.

In Seattle, a joint investigation resulted in the arrest and conviction of 18 Gambians suspected of planning a terrorist attack. Two suspects were identified as operating a local business in which two affiliated businesses have been linked to known terror suspects. One subject pled guilty to immigration and passport violations, receiving 36 months confinement. Ten other suspects pled guilty to immigration and passport violations. Their cases are awaiting final adjudication. All subjects are expected to be deported after serving their sentences.

An Iranian exporter who pled guilty to violations of the Arms Export Control Act and Money Laundering was sentenced to 57 months in prison; 24 months supervised release, and required to pay a \$200 court assessment. Agents working a joint investigation determined that the suspect attempted to export aircraft parts and components for F-4 and F-14 fighter aircraft and other items from the U.S. to Iran without having obtained required export licenses from the Department of State.

## **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, and capable of functioning in an integrated work environment and handling the emerging technologies and threats of the 21<sup>st</sup> century. The Department employs more than 3.28 million civilian and military personnel. The challenges of managing such a large workforce, to include oversight of contractor

personnel, highlight the need for the DoD to identify and maintain a balanced level of skills to sustain core defense capabilities and meet the increasing challenges and threats of the 21<sup>st</sup> century.

The DoD is designing a new civilian human resources management system to better support its critical national security mission. The National Security Personnel System will change how the DoD hires, pays, promotes, disciplines, and removes its civilian workforce.

In recognition that human capital is a crucial area within the Department, as well as a focus of the President's Management Agenda, the DoD OIG human capital audit team is conducting a review of the Personnel Security Clearance process. Additionally, to ensure coordination among the DoD audit community, the DoD OIG continues its participation in the Human Capital Joint Audit Planning Group with the Service audit agencies.

An Army Audit Agency report found that the duration of courses at the Army Intelligence Center could be reduced by tailoring the courses to the requirements of the soldiers' first unit assignment. The current training strategy, although in accordance with Training and Doctrine Command regulations, often provided considerably more training to new soldiers than was necessary for their first unit assignments. This approach not only increased costs but also delayed the soldiers' availability to their new units.

A Naval Audit Service review concluded that changes made to the Navy Standard Workweek, the Make Ready and Put Away allowance, and the Productivity Allowance may not reflect true manpower requirements. Enlisted manpower requirement reductions were not based on sufficient and current verifiable analysis, manpower studies, or other data. Additionally, rather than determining unconstrained manpower requirements, the Navy Manpower Analysis Center changed manpower parameters to obtain a predetermined outcome that reduced manpower requirements at a level consistent with or less than Billets Authorized for the CG 47 class ship. The results represent current funded billets that may not reflect actual needs.

In two separate audit reports, the Air Force Audit Agency concluded that active duty airmen and Air Reserve Component members did not always prepare sufficient family care plans to provide for the well-being of family members. This included either not having family care plans on

file or having plans that lacked one or more required elements, such as current powers of attorney. Additionally, many of the reviewed plans had discrepancies affecting the workability of the plan, such as expired powers of attorney and inaccurate caregiver phone numbers. Workable family care arrangements improve the ability of military members to promptly deploy and are essential for ensuring dependents receive authorized benefits and privileges.

In March 2005, AFOSI launched the Deployment Stress Management Program (DSMP) in an effort to reduce the psychological impact on OSI members and their families due to deployments to high threat areas. The program utilizes psychologists and specialty trained peer coaches to provide education on deployment stress issues to OSI personnel.

At the request of the Vice Chief of Naval Operations (VCNO), the Navy Inspector General (NAVINSGEN) conducted a review of the Navy's Sexual Assault Intervention (SAVI) program and worldwide study of sexual assault in the Navy. NAVINSGEN found that marginal program management, poor command level execution and lack of accountability had diminished the effectiveness of the SAVI program putting Sailors and their families at risk. NAVINSGEN findings complemented 35 of 38 conclusions made in the DOD *Task Force Report on the Care of Victims of Sexual Assault* released in April 2004. Since the completion of the NAVINSGEN study, there has been a significant increase in Navy commands reporting sexual assaults to higher authority. Although DOD is now providing significant guidance to the Services on the implementation of their new sexual assault response programs, there does not appear to be any DOD funding allocated to support additional program requirements.

## **INFORMATION MANAGEMENT TECHNOLOGY**

The DoD Components use information technology (IT) to support all mission functions of the Department, including business, warfighting, intelligence, and enterprise infrastructure. The President's Management Agenda for expanding electronic government has identified effective planning for IT investments as a priority. Improving IT security as part of IT management is one of the highest priorities of the Office of Management and Budget (OMB). The DoD OIG plans to continuously audit and monitor IT management, investment, and security within the DoD.

The magnitude of the information technology management challenge continues to be extremely problematic for the Department. A root cause of this difficulty is the inability of the Department to provide clear

guidance to Components on IT management issues such as defining what constitutes an information technology system, determining security standards needed for certifying systems, documenting and reporting identified security weaknesses to higher management (to include OMB), and specifying what assets to include in the inventory of the Global Information Grid. Further, the Department still has not identified all personnel performing information assurance and information technology duties, developed training and certification requirements for those individuals, nor implemented a process for tracking implementation of those requirements. Furthermore, the Department continues to significantly underreport expenditures for information technology because it is unable to identify the initiatives and investments it supports (other than through a self-reporting mechanism that lacks internal controls) and has no comprehensive inventory of IT systems to support its reports to OMB regarding system security, privacy and e-authentication.

DoD OIG audits determined that neither current nor planned draft DoD guidance on information security are as stringent as the standards promulgated by the National Institute of Standards and Technology mandated for use by all Federal agencies. As a result, DoD systems and data may be at higher risk for compromise.

A DoD OIG audit identified that DoD is taking steps to enhance its policies for the DoD Chief Information Officer, governance for business systems, information technology portfolio management, and information security; however, further work remains. DoD needs to clarify the obligation of DoD Components to implement DoD Chief Information Officer policy, use a standard definition of “system,” finalize a directive on portfolio management, appoint a permanent employee to the position of senior agency information security officer, and provide oversight of Component compliance with investment review process requirements.

An Army Audit Agency audit determined that the System-of-Systems Architecture database did not provide accurate funding, expenditure, or requirements data for each personnel information technology system under the Human Resources Command. The database is designed to account for all personnel systems, applications, reports, extracts, and databases existing within the Army personnel community. Although the database is capable of providing the information necessary to help Army leaders make management, prioritization, and budget decisions, improvements are still needed.

A Naval Audit Service audit identified several examples of incomplete information security controls at four shipyards. Comprehensive activity information system security plans had not been implemented; information technology risk assessments were not performed on an organization-wide basis; access controls were not monitored or tested; information security documentation was not universally available; and service continuity controls including backup and disaster recovery had not been developed. Also, information security awareness training policies and procedures were either incomplete or had not been developed at three of the four shipyards.

An Air Force Audit Agency audit determined that network personnel did not establish adequate controls over network equipment maintenance. Because they did not evaluate all the options for the most cost effective maintenance, they improperly included highly reliable, uninstalled, and warranted equipment in maintenance contracts. By omitting this type of items from maintenance contracts, the Air Force could save \$22.7 million over the 6-year Future Years Defense Program (FYDP). Additionally, network personnel maintained excessive uninstalled network equipment and either did not correctly code or record equipment items on accountability records. An estimated 11,000 equipment items valued at \$64.6 million could not be located or were not properly recorded and the Air Force could save an estimated \$652,000 over the 6-year FYDP by using uninstalled equipment to satisfy new requirements.

The Air Force Audit Agency also reported that major command personnel did not always certify and accredit systems according to Air Force and DoD guidance. Additionally, personnel did not accurately report selected certification and accreditation data elements. Complete and accurate certification and accreditation packages increase management awareness of vulnerabilities and risks, maximize information protection, and promote operational continuity.

DCIO agents regularly coordinate with other national intelligence and law enforcement representatives through participation in various task forces and groups. They also participate in the Law Enforcement and Counterintelligence Center at the Joint Task Force, Global Network Operations. The AFOSI serves as executive agent for the Defense Cyber Crime Center (DC3), which consists of the Defense Computer Forensics Laboratory (DCFL), Defense Computer Investigations Training Program (DCITP), and Defense Cyber Crime Institute (DCCI). The DCFL provides counterintelligence, criminal and fraud computer-evidence

processing, analysis, and diagnosis for DoD investigations. Through its DCITP, DC3 provides training in computer investigations and computer forensics to DoD investigators. The DCCI completes the computer crimes support effort by meeting the research, development, testing, and evaluation needs of the DCIOs. Two examples of criminal investigations involving information technology follow.

In Colorado, a Venezuelan national pled guilty to illegally accessing and intentionally damaging a protected computer system belonging to a Defense agency. A joint investigation led to the identification and prosecution of the subject and several others affiliated with “World of Hell,” a group of computer hackers who assisted each other with intrusions they made into government, business, and corporate computers. Sentencing is due in November 2005.

Two Defense contractor scientists, Hai Lin and Yong-Qing Cheng, who owned and operated Comtriad Technologies Corporation, pled guilty to one count each of wire fraud for stealing proprietary source codes for a system of hardware and software designed to enable low-cost voice and data transmission over the Internet. The scientists were sentenced to a \$250,000 fine and a \$400 special assessment fee. In addition, they were sentenced to probation for either one year or until such time that the corporation is legally dissolved. The employees utilized Comtriad Technologies Corporation to transfer the software to a government-owned Chinese company.

## **ACQUISITION PROCESSES AND CONTRACT MANAGEMENT**

The Department of Defense is the world’s largest purchaser of goods and services. In FY 2004 alone, DoD spent \$254 billion on acquisition. On an average working day, DoD issues more than 25,000 contract actions, valued at \$923 million, and makes more than 195,000 credit card transactions, valued at \$43.9 million. There are about 1,500 weapon acquisition programs valued at \$2.2 trillion over the collective lives of these programs. In addition, during FY 2004, DoD submitted approximately 24,000 Military Interdepartmental Purchase Requests (MIPRs), valued at \$8.56 billion, to the General Services Administration (GSA) for the purchase of goods and services. Every acquisition dollar that is not prudently managed results in that dollar not being available to fund the Secretary of Defense’s top priorities, such as the Global War on Terrorism and joint warfighting capabilities.

The investigations into violations of the Procurement Integrity Act by DoD and contractor personnel and the resulting impact on acquisition programs highlight the need for continued training for acquisition

professionals. As a result of the fraudulent acts of senior DoD officials, the DoD OIG continues to conduct investigations and audits of numerous DoD acquisition programs. The DoD OIG conducted a management accountability review on the role of the Office of the Secretary of Defense and Air Force officials in the planned lease of KC-767A Tanker Aircraft. The review determined that in their efforts to lease the tanker aircraft, the accountable officials did not comply with required guidance, including DoD acquisition policy, the Federal Acquisition Regulation, and OMB circulars. To prevent recurrences of this type, the Department must change the cultural environment in its acquisition community by establishing proper controls in the major weapon system acquisition process and by monitoring compliance with those controls.

The DoD OIG reviewed the Air Force planned procurement strategy for program requirements for the previously deferred Phase II of the Small Diameter Bomb program. The review concluded that despite the Air Force Program Office's assertion that the planned procurement strategy mitigated program cost and performance risk because the prime contractor intended to compete the seeker technology, the strategy did not provide the opportunity for other contractors to compete as the prime contractor for the future Phase II program requirements. In addition, guidance is needed to ensure that spiral or incremental development programs comply with statutory requirements for competition.

The DoD audit community continues to identify ways in which the Department could improve the acquisition of weapon system programs. DoD OIG audits of the EA-6B Improved Capability III Program and the Extended Range Guided Munition Program highlighted the need to identify quantity requirements, determine weapon system affordability, have satisfactory operational test results, and obtain authority to operate before making investment decisions.

The DoD audit community has significantly contributed to the Department's aggressive pursuit of savings through use of credit cards and reduced vulnerability to misuse. Efforts of the DoD OIG data mining group and purchase card program office of DoD have increased senior leadership involvement and improved management controls over the purchase card program. This is not just a domestic issue because overseas purchase card transactions are also a significant part of the program.

A DoD OIG audit of DoD Purchases made through the GSA, identified significant problems in purchases that GSA made for DoD, especially in the use of MIPRs. GSA contracting officials and DoD management officials did not comply with applicable laws and regulations when making purchases through the GSA. The noncompliance included a lack of acquisition planning to determine that contracting through the GSA was actually the best alternative available; the absence of adequate interagency agreements outlining the terms and conditions of the purchases; improper funding of purchases; and lack of an adequate audit trail.

The DoD OIG issued two reports on hotline allegations relating to acquisition/contracting areas. The review on DoD Hotline Allegations Concerning Postaward Audits at the Defense Contract Audit Agency Boeing Huntington Beach Resident Office substantiated the allegation that the audit office failed to issue a report because the contracting official would not support the defective pricing finding. The contracting official believed the defective data had been provided at negotiations but was not used; however, he would not provide written documentation supporting this statement. The Defense Contract Audit Agency (DCAA) agreed to review the defective data and issue the report. Two allegations were not substantiated and one could not be evaluated because of lost records. In the Review of Allegations Concerning Defense Contract Management Agency Boeing Seattle Forward Pricing Rates, the DoD OIG substantiated the allegation that the most accurate overhead and cost of money rates were not being established during 2001 through 2003. The Defense Contract Management Agency (DCMA) and the DCAA agreed to develop a surveillance plan to better monitor and adjust the rates when appropriate.

The Naval Audit Service issued a report evaluating the implementation of Earned Value Management (EVM) for the DDG 51 Arleigh Burke Class Destroyer. The Program Management Office had not fully implemented EVM and had not effectively used what was implemented on the DDG 51 acquisition program. Contractors should fully comply with guidelines and improve EVM support to Navy program managers for program system surveillance. Additionally, the Defense Contract Management Agency and the Naval Sea Systems Command should provide EVM oversight and improve their surveillance of Navy shipbuilding contracts.

An Air Force Audit Agency audit of the acquisition management of the C-130J Program found that C-130J officials did not effectively plan and execute the pilot program acquisition strategy and accepted aircraft with

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technical performance deficiencies that adversely affected operations and support for system users. The officials initiated the program without a fully developed operational requirement; applied commercial contracting practices to an unproven commercial design; established contract terms and conditions that did not adequately protect the Government's interests; awarded a multi-year contract that did not meet all established multi-year procurement criteria; and established a development systems office that did not have adequate engineering staff and access to C-130J technical data.

DoD Directive 7640.2, "Policy for Follow-up on Contract Audit Reports," as amended August 16, 1995, prescribes DoD policies and procedures, including the requirement that report recommendations be resolved within six-months of issuance and closed within 12 months. At the end of this semiannual reporting period, 416 reports with costs questioned of \$1.1 billion exceed the six month requirement for resolution and 255 reports with costs questioned of \$725.6 million exceeded the 12-month requirement and were not closed.

## **FINANCIAL MANAGEMENT**

The DoD financial statements are the largest, most complex, and most diverse financial statements 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 DoD. These problems have hindered the ability to provide reliable, timely, and useful financial and managerial data to support operating, budgeting, and policy decisions.

The DoD OIG is working with the Department to address long-standing financial management problems and supports the DoD goal of achieving a favorable audit opinion for the DoD Agency-Wide financial statements and the major DoD Components. The Under Secretary of Defense (Comptroller)/Chief Financial Officer (CFO) has directed an initiative to improve financial management within the Department. The DoD OIG is monitoring the progress in preparing the DoD Financial Improvement and Audit Readiness Plan and supports the objective of the plan, which is to provide ongoing, cross-functional collaboration with DoD Components to yield standardized accounting and financial management processes, business rules, and data that will provide a more effective environment to better support the war-fighting mission. The DoD OIG supports the DoD ongoing efforts to target achievable, incremental change and to initiate the change necessary for continual, sustainable improvement in financial management. However, achieving an unqualified audit opinion for the DoD Agency-wide financial statements

and the major DoD components will be difficult without achieving favorable opinions on internal controls. In this regard, DoD OIG will focus more audit emphasis on reviews of internal control. DoD OIG is also encouraging the Department to focus more on improving internal controls in order to achieve a favorable audit opinion.

Section 352 of the FY 2005 National Defense Authorization Act (Public Law 108-375, 10/29/04) placed restrictions on the use of appropriated funds for the purpose of preparing or implementing the Mid-Range Financial Improvement Plan until the Secretary of Defense submits a required report to Congress. In compliance with this law, the DoD OIG has not conducted any audits related to the preparation or implementation of the Mid-Range Financial Improvement Plan, but is continuing to work with the Office of the Under Secretary of Defense (Comptroller)/CFO as they prepare the report.

The DoD OIG awarded contracts and provided comprehensive oversight to Independent Public Accounting firms to audit five financial management systems and the Defense Information Systems Agency (DISA) Computing Services. These systems support multiple DoD and Federal entities. The audits assessed the design and operating effectiveness of general and application controls; compliance with the Federal Financial Management Improvement Act and other significant laws and regulations; and system certification and accreditation. Performing overall audits of the systems prevented duplication of effort by individual auditors. Although the audits concluded that control objectives were generally being met, they identified reportable conditions related to controls over entity-wide security program planning and management; physical and logical access; change management; segregation of duties; and service continuity that risked the confidentiality, integrity, and availability of sensitive data. There were also instances of noncompliance with the Federal Financial Management Improvement Act, the Financial Information Systems Management Act, and requirements for system certification and accreditation. DoD system owners are working to promptly correct the identified deficiencies on systems that DoD expects to continue using during the next few years. The DoD OIG should be performing more of these systems audits, not solely for financial reporting purposes, but to facilitate improved financial management within DoD. However, insufficient resources have restricted this capability.

The DoD OIG issued two audit reports addressing FY 2005 Emergency Supplemental funding for two agencies: DISA and the Defense Logistics

Agency (DLA). Both reports identified problems related to documentation and reporting of costs. At DISA, officials did not adequately document command, control, communications, computers, and intelligence costs incurred in support of contingency operations and did not accurately report costs under the correct contingency operation in the June 2004 Terrorist Cost Report. As a result, officials in the Office of the Chief Financial Executive could not ensure the proper use of supplemental funds, and the monthly Terrorist Cost Report did not accurately report incremental costs that DISA incurred in support of the Global War on Terrorism (GWOT).

At DLA, while correct methodologies were used to calculate transportation costs reported in the Terrorist Cost Report, the processes were not documented in formal procedures. This resulted in improper calculation of the incremental fuel costs, and in the June 2004 Terrorist Cost Report being overstated. As such, the Terrorist Cost Report did not accurately reflect DLA support of the GWOT. The Office of the Under Secretary of Defense (Comptroller)/CFO stated that Congress and senior DoD officials require its office to report on the execution of supplemental funds, in addition to incremental costs. However, they agreed that confusion exists among DoD Components as to which costs should be reported.

The DoD OIG issued Quality Control Review of McGladrey & Pullen LLP, Office of Management and Budget Circular A-133 Audit Report of the Analytic Services Inc., Fiscal Year Ended September 30, 2002. The Single Audit Act requires the Certified Public Accounting (CPA) firm to perform a financial statement and compliance review to ensure that Federal monies awarded to states, local governments, and non-profit organizations are properly accounted for and used. The DoD OIG found the CPA firm's work to be so inadequate that it referred the firm to the American Institute of Certified Public Accountants (AICPA) for action. The DoD OIG also assisted the Department of Health and Human Services OIG by performing the review of the National Guard programs as part of their single audit oversight reviews in Maine and Alaska. These reviews were part of the National Sampling Initiative, a joint Federal agency review of the single audit program to establish a baseline for how CPA firms are performing single audits of states, local governments, and non-profit organizations.

A Naval Audit Service audit found that the Defense Finance and Accounting Service (DFAS) made unsupported adjusting entries to Navy accounting records that required balancing Navy records with Department

of Treasury records in order to prepare financial reports. Additionally, DFAS did not effectively manage the tracking and reporting of problem disbursements or properly disclose unreconciled or unsupported differences between Navy records and Treasury records on the Department of the Navy's financial statements. Consequently, the Navy's FY 2003 General Fund financial statements were potentially misstated by about \$4.2 billion.

The Air Force Audit Agency issued a report on management of GWOT funds. Financial managers could not provide documentation to support approximately 26 percent of 3,588 transactions reviewed, totaling more than \$2.6 billion. Furthermore, financial managers did not always deobligate unneeded GWOT funds. Promptly doing so would allow Air Force officials to use \$39.3 million for other valid GWOT requirements. In addition, funds holders did not identify GWOT transactions totaling \$1.9 billion that were inaccurately processed in the accounting system.

The Department of Defense loses millions of dollars annually because of financial crime, public corruption, and major thefts. Through the investigative efforts of DCIO special agents, abuses in the procurement process, such as the substitution of inferior products, overcharges, bribes, kickbacks, and cost mischarging, are exposed. Additionally, the DCIOs have partnered with acquisition and financial agencies to proactively identify areas of vulnerability. Examples of investigations related to financial management follow.

A former Defense contractor comptroller was sentenced to 78 months in prison, and 36 months supervised release, and ordered to pay a \$200,000 criminal forfeiture and a \$7,200 special assessment as a result of a 72 count conviction arising out of schemes to defraud the Department of Defense, Internal Revenue Service, and numerous cable television (CTV) networks, while laundering the proceeds from the fraud. The contractor agreed to pay the Government \$1 million as part of a settlement agreement in lieu of civil litigation relating to the termination of settlement proposals. These settlement proposals were, in part, fraudulent and unsupported relating to costs for CTV services allegedly incurred at military installations in connection with base closures.

As a result of a joint investigation, based on information filed in a *qui tam* lawsuit, a major Defense contractor entered into a civil settlement agreeing to pay the Government \$41.9 million to resolve over-billing allegations. The agreement also required the contractor to pay the *qui tam* relator's attorney's fees and expenses in the amount of \$1.6 million. The

contractor allegedly over-billed various DoD agencies and contractors for auditing and consulting services, to include travel-related expenses. The company also allegedly had agreements to receive secret rebates from certain airlines, hotel chains, rental car providers, credit card issuers, and other entities that were not disclosed or credited to the Government.

A major Defense contractor agreed to pay the Government \$7.5 million as a result of a settlement agreement to resolve allegations that the company failed to properly account for uncompensated overtime in proposing, negotiating, billing, and receiving payments for products and services for DoD contracts, including those sold through foreign military sales and foreign military funding.

An investigation, based on a whistleblower suit, resulted in Oracle Corporation, one of the world's largest enterprise software companies, agreeing to pay \$8 million to resolve allegations that the company had submitted false claims for payment for computer training to a variety of Defense and other Government agencies. The whistleblower in the case will receive \$1.58 million of the total settlement amount.

Honeywell Technology Solutions, Inc. (HTSI), a major DoD contractor, entered into a civil settlement and agreed to pay \$2.75 million to settle allegations of making false statements during their response to a request for proposal from a DoD agency. HTSI stated that they had a compliant and certified earned value management system in place since the first day of the contract. However, HTSI did not have the system and subsequently billed the government for development of the system.

Raytheon E-Systems, Incorporated, a major Defense technology contractor agreed to pay a total of \$4.5 million as a result of a negotiated settlement to resolve allegations that they charged unallowable excess costs for employee relocation expenses to a wide range of DoD contracts. The contractor conducted an internal inquiry that resulted in the identification of accounting errors in the overcharges of approximately \$2 million dollars to the Government.

As the result of an investigation initiated following notification from the United States Department of Justice regarding a possible kickback arrangement, Turner Construction, a Defense subcontractor, was ordered to forfeit a DoD contract claim valued at approximately \$2 million and pay the DoD "double damages" for \$50,318 in bond commissions. Turner Construction arranged for kickbacks when purchasing construction bonds from a bond broker.

Watson Wyatt and Company, a Washington, D.C. based global human capital consulting firm, agreed to pay \$689,828 to the Government for over-billing on two DoD contracts. The firm provided actuarial services, including management of retirement trusts and related benefits, to DoD agencies and allegedly over-billed \$335,859 on the two DoD contracts.

Two Pennsylvania Defense contractors, Satellite Company of America and Innovative Concepts, were involved in a scheme designed to defraud suppliers, ran a number of small “front” companies that ordered material from numerous suppliers, sold the material to the DoD, and didn’t pay the original suppliers. The contractors were convicted – Satellite Company of America was sentenced to 24 months probation and fined \$5,000; Innovative Concepts was sentenced to 84 months in prison, restitution in the amount of \$158,891 and a special assessment of \$3,000.

A joint investigation, based on a *qui tam* complaint, resulted in Aerometals, a Defense contractor, and its officers entering into a civil settlement to resolve charges of supplying non-conforming parts on DoD contracts. The firm and its officers will pay a total of \$524,260 and provide a 12-month warranty, valued at \$475,000, for the parts that were delivered without the necessary FFA certification. The *qui tam* relater received \$36,960.

A major Defense contractor pled guilty to mail fraud and agreed to pay restitution of \$793,000 plus interest and fines of \$400,000 plus interest, payable over five years for a total of approximately \$1.6 million. Main rotor blade expandable pins made by the company and used in DoD helicopters were not heat-treated as required by the contract. Failures were reported on Army and Air Force Blackhawk helicopters; however, there were no reported accidents, injuries, or deaths related to the faulty pins.

## HEALTH CARE

The DoD challenge in its military health system 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 especially daunting because of the difficulty in controlling costs 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 \$30.7 billion in fiscal year 2005, which included \$18.2 billion in the Defense Health Program appropriation, \$6.4 billion in the Military Departments’ military personnel appropriation, \$0.2 billion for military construction, and \$5.9 billion from the DoD Medicare-Eligible Retiree

Health Care Fund. This fund covers the costs of health care for Medicare eligible retirees, retiree family members, and survivors.

The DoD OIG reported on the aeromedical evacuation process from Operation ENDURING FREEDOM and Operation IRAQI FREEDOM theaters of operation. The audit concluded the DoD patient movement system provided timely evacuation of patients from the combat zone that were consistent with theater commander and aeromedical patient movement priorities.

An Air Force Audit Agency audit concluded that the Air Force could obtain clinical laboratory services of equal quality at less cost from alternative sources. The Air Force could conduct specialized testing and obtain external laboratory testing at less cost while maintaining the same quality. Testing costs for three specialized tests at 10 Medical Treatment Facilities (MTFs) could be reduced from \$7.4 million to \$4.4 million annually, a savings of nearly \$18.0 million over the 6-year FYDP. Further, reducing commercial testing costs at the 10 MTFs reviewed could allow the Air Force to put to better use \$1.2 million over the 6-year FYDP.

To ensure that DoD health care 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. Examples of significant health care fraud investigations follow.

A major supplier of durable medical equipment agreed to pay the U.S. Government \$1,138,075 as part of a civil settlement to resolve allegations involving health care fraud. A joint investigation based on a voluntary disclosure found that a former employee of the supplier forged physicians’ signatures on multiple Certificates of Medical Necessity that were submitted to TRICARE and other government entities for payment.

Two major hospitals and a health care service agency agreed to pay the Government \$6.9 million as part of a civil settlement to resolve kickback allegations involving health care fraud. A joint investigation, based on information filed in a *qui tam* lawsuit, found that the hospitals paid kickbacks for alcohol and substance abuse patient referrals and disguised the unallowable expenses in submitted cost reports to TRICARE and other government entities for payment.

A medical doctor pled guilty in U.S. District Court and was required to pay the Government \$2 million as part of an agreement to resolve allegations of health care fraud. Four of the doctor's associates also entered into pre-trial diversion agreements with the Government and paid the Government \$187,000 for their part in the fraud. A joint investigation, based on information from other investigative agencies, found that the doctor submitted fraudulent costs that included unauthorized and medically unnecessary procedures to TRICARE and other government entities for payment.

A TRICARE provider was found guilty of drug trafficking and distribution and was required to pay the Government a \$1 million fine. A joint investigation, based on information from TRICARE, found that the doctor was writing unusually large narcotic prescriptions to patients under his care including a TRICARE beneficiary who died of drug poisoning.

At the request of the Vice Chief of Naval Operations (VCNO), NAVINSGEN conducted a review of the Navy's Drug Prevention and Abuse Program. NAVINSGEN found that although the Navy has a widely known "Zero Tolerance" policy and an active drug-testing program, drug use among active duty personnel is more prevalent than reported. A review of drug testing programs at various activities revealed many programs do not properly collect urine samples required for accurate testing. From this study, numerous recommendations have been implemented or currently being staffed for implementation by the Navy, including, changes to urinalysis collection methods, improved reporting procedures, and changes to recruiting policies.

## **LOGISTICS**

The challenge of logistics is to reliably provide warfighters with the required materiel when they need it to support continuous combat effectiveness. To meet this challenge, DoD is continuously transforming logistics by assessing best practices and evaluating new concepts that will provide joint warfighters with support for all functions. DoD logistics support operations for supplies, transportation, and maintenance cost more than \$90 billion annually. It is a function that involves more than a million active duty and reserve personnel and civilian personnel. In addition, DoD maintains a vast inventory of ships, aircraft and helicopters, ground combat and tactical vehicles, and many additional mission support assets, all to support the warfighter.

An Army Audit Agency audit identified the progress made by the Program Executive Office, Soldier, in promptly providing improved

equipment to soldiers deployed to Iraq and Afghanistan under the Rapid Fielding Initiative (RFI). Accountability controls used to field the RFI equipment were adequate; however, the Army accountability guidance for the equipment was inconsistent and ineffective.

The Air Force Audit Agency issued a report that stated Air Force personnel established inaccurate mission direct additives that directly affected budget development. Approximately 89 percent of the mission direct additives from the Secondary Item Requirements System computation cycle reviewed were inaccurate. Consequently, buy and repair budget requirements were overstated by approximately \$63 million for the errors identified.

A joint investigation exposed a theft and fencing ring that targeted computers, office equipment and supplies of several Connecticut businesses, including a DoD Top 100 contractor. Losses to the Government resulting from the theft ring's activities were estimated at \$149,000. Additionally, laptop computers that were stolen from the DoD contractor contained U.S. Government data and software. Three members of the theft and fencing ring pled guilty in U.S. District Court and an indictment was handed down for co-conspirators that have not entered pleas. One of the key defendants was sentenced to 30 months incarceration; 36 months supervised release, and ordered to pay \$50,000 in restitution. Another co-conspirator was sentenced to 1 month confinement; 36 months supervised release, and ordered to pay \$25,000 in restitution.

A DoD contractor agreed to pay the Government \$30,000 as a result of a settlement to resolve claims that they violated the False Claims Act by falsely representing to the Government that beacon transmitter units passed first article tests. The contractor had allegedly not disclosed testing failures as required by the contract.

A DoD contractor agreed to pay \$65,000 plus damages to resolve allegations that the contractor supplied the Government with non-conforming electrical cable. The investigation disclosed that the contractor supplied 2,000 feet of nonconforming electrical cable that was intended to be used on U.S. nuclear aircraft carriers or submarines.

A DoD contractor agreed to pay \$1.1 million to resolve allegations that the contractor falsely certified to the Government that they complied with contractual specifications when they overhauled and conducted repair services to hoists and hooks used on military helicopters. The contractor

was also required to return three rescue hoists to serviceable condition. The investigation revealed that the contractor submitted false certifications to the Government, altered serial numbers, and installed used parts while performing these services.

## **INFRASTRUCTURE AND ENVIRONMENT**

The challenge in managing more than 4,700 military installations and other DoD sites is to provide modern, habitable, and well-maintained facilities that cover a 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. This challenge is complicated by the need to minimize spending on infrastructure so funds can instead be used for Defense capability. Unfortunately, DoD has a growing number of obsolete facilities as well as a continuing increase in environmental requirements. Furthermore, the Department needs to efficiently and effectively implement the Base Realignment and Closure (BRAC) 2005 recommendations to eliminate excess capacity and achieve resource savings that can be used for other requirements.

Implementing the results of “Transformation through Base Realignment and Closure 2005” will pose a significant challenge for the Department. However, it will also provide an opportunity to eliminate excess physical capacity, to develop a more efficiently organized infrastructure, and to achieve cost savings. As part of the challenge, the Department must efficiently and effectively implement the BRAC Commission’s recommendations to obtain optimal savings with minimal disruption to DoD operations. Until BRAC decisions are final, the Department will not know the full impact of the transformation through Base Realignment and Closure. The outcome will affect the overall reduction of excess capacity, the amount of savings available for other uses, and the required amount of effort for environmental cleanup.

For the BRAC 2005 process, the DoD OIG issued 36 final reports and 30 memoranda reporting on the quality of BRAC management controls, data, and processes for seven Joint Cross-Service Groups and 29 Defense agencies and organizations. The reporting period ending September 30, 2005, culminates the largest effort by the DoD OIG, spanning 2 years and engaging up to 300 staff. The oversight and breadth of BRAC 2005 far exceeded prior BRAC efforts. As a result of the extensive effort and oversight provided for the BRAC 2005 process, the DoD OIG only provided minimal oversight of other infrastructure and environment areas. Extensive coverage of BRAC also impacted DoD OIG coverage of other management challenge areas as well.

The Naval Audit Service review of the Navy's implementation of the FY 2005 BRAC process determined that the process complied with statutory guidance and DoD policies and procedures. The review also concluded that recommended installation closures and realignments were identified based on certified data that appeared to be reasonably accurate and complete. The Navy's Infrastructure Analysis Team took immediate action to make identified improvements in administrative procedures related to the data certification process and correct the certified data in instances where there were differences between source documentation and the provided data call responses and other instances of minor data errors related to excess capacity analysis, military valuation, and scenario analysis phases.

An Air Force Audit Agency audit of the Air Force Qualified Recycling Program found that the Air Force met the DoD recycling goal; however, installation recycling managers did not properly manage the program. By minimizing solid waste disposal, the Air Force could reduce costs by \$27.6 million over the FYDP and increase diversion rates an average of 11 percent. Properly monitoring Defense Reutilization and Marketing Office recyclable material sales could yield \$6.8 million in added Air Force revenues over the FYDP.

As a result of a settlement agreement to resolve claims asserted in a *qui tam* complaint, two major Defense contractors agreed to pay the Government \$17.75 million. Based on allegations from the *qui tam*, an investigation found that the contractors engaged in a conspiracy to divide the market and fix prices for carbon fibers in violation of the Sherman Antitrust Act. The carbon fibers were used in various military systems. One of the companies previously pled guilty to obstruction of justice for concealing incriminating documents from the grand jury.

A civilian DoD employee received 48 months probation, a \$35,000 fine, and forfeited \$175,579, after pleading guilty in U.S. District Court to receiving bribes. An investigation found that the DoD employee was paid \$117,015 in bribes for providing pricing and bid information to a DoD contractor. An employee of the contractor also pled guilty to bribery and received 12 months probation, \$100,000 fine and forfeited \$125,000.

At the request of the Deputy Assistant Secretary of the Navy, Installations and Facilities, NAVINSGEN conducted a review of the Navy's implementation of the DOD's Utilities Privatization initiative. NAVINSGEN found the Navy is aggressively pursuing this DOD initiative and had spent over \$100 million, with a total projected amount to be spent

between \$130 and \$150 million. Due to inaccurate assumptions of private sector interest in purchasing DOD utility systems, untimely DOD guidance, restrictive laws and regulations, and lack of a business case analysis, not a single Navy utility system has been privatized using the authorities established for the DOD Utilities Privatization initiative. NAVINSGEN recommended a new strategy with a business case analysis be developed prior to continuing with this initiative.

## **OTHER SIGNIFICANT ACTIVITIES**

The DoD IG proposed a 5-part "Principled Governance Initiative" (PGI) to assess and strengthen the Iraqi IG system: facilitate exchange visits between USG and Iraqi IGs; provide senior advisor to the Iraqi Ministry of Defense (MOD) IGs; establish forward and rear liaison support cells; conduct an assessment of the Iraqi IG system; and assist Iraqis in creating a Principled Governance Academy. In support of PGI objectives, the DoD IG organized and hosted MOD IG's visit to Washington DC. Representing the 31 Iraqi IGs, the MOD IG presented a speech to the President's Council on Integrity and Efficiency and requested that the PCIE inspectors general partner with the Iraqi IGs. Also, in support of the PGI objectives, the Inspections and Evaluations staff established forward and rear support cells and deployed a senior advisor to Iraq to assist the MOD establish IG policies and procedures and develop anti-corruption processes. An assessment of the Iraqi IG system is planned for 2<sup>nd</sup> quarter FY06. The assessment will study US support, capability of the Iraqi IG system, and the status of building self-sustaining IG institutions.

The DoD OIG issued reports on the Army, Navy and Air Force audit agencies' audits of special access programs (SAPs). The three reviews determined that the service audit agencies quality control policies and procedures used on SAPs were in accordance with quality standards established by the Government Auditing Standards and operating effectively. However, the DoD OIG provided suggestions for improving the quality control systems.

The DoD IG continues to review closed investigations conducted by the Military Criminal Investigative Organizations into allegations of abuse by U.S. forces against prisoners, detainees, and persons under U.S. control in Iraq, Afghanistan and Guantanamo Bay to ensure the investigations are thorough and timely in accordance with DoD and Service policies and procedures.

## 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 DoD OIG report recommendations.

### **DoD Audit Community**

The defense audit community consists of the DoD OIG, the Army Audit Agency, the Naval Audit Service, and the Air Force Audit Agency. As a whole, the organizations issued 311 reports, which identified the opportunity for \$944,346,887 in monetary benefits. Appendix A lists reports issued by central DoD internal audit organizations. Appendices B and C, respectively, list DoD OIG reports with potential monetary benefits and statistically summarizes audit follow-up activity.

The Defense Contract Audit Agency (DCAA) provided financial advice to contracting officers in 21,712 reports during the period. The contract audits resulted in more than \$5.2 billion in questioned costs and funds that could be put to better use. Appendix D contains the details of the audits performed. Contracting officers disallowed \$176.7 million of the \$844.6 million questioned as a result of significant post-award contract audits. The contracting officer disallowance rate of 21 percent represents a significant decrease of the average disallowance rate of 36 percent achieved during the prior two reporting periods. Additional details of the amounts disallowed are found in Appendix E.

### **Significant Open Recommendations**

Managers accepted or proposed acceptable alternatives for all of the 131 DoD OIG audit recommendations made in the last 6 months of fiscal year 2005. 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 864 open actions being traced in the DoD OIG follow up systems are on track for timely implementation, there were 214 reports more than 12 months old, dating back as far as 1991, for which management has not completed

actions to implement the recommended improvements.<sup>1</sup> Significant open recommendations that have yet to be implemented include the following:

- Recommendations made in 1997 and subsequent years to make numerous revisions to the DoD Financial Management Regulations, clarify accounting policy and guidance, establish a single repository for business system information, and develop a plan for performance characteristics and training requirements for the DoD financial management workforce have resulted in initiatives that are underway to correct financial systems deficiencies and enable the Department to provide accurate, timely, and reliable financial statements.
- Recommendations from multiple reports in the high-risk area of personnel security. These include: development of a prioritization process for investigations; incorporate Federal guidance regarding country codes in the Defense Clearance Investigations Index; establishment of minimum training and experience requirements and a certification program for personnel granting security clearances, implementation of a peer review capability; issue policy on the access by all contractors, including foreign nationals, to unclassified but sensitive DoD IT Systems; development of a mechanism for all agencies to track cases submitted to OPM; establish policy on access reciprocity and a single, integrated database for Special Access Programs.
- Recommendations made in 2004 to define network centric warfare and its associated concepts; formalize roles, responsibilities, and processes for the overall development, coordination, and oversight of DoD network centric warfare efforts; and develop a strategic plan to guide network centric warfare efforts and monitor progress. Applicable DoD guidance is being updated to reflect definitions that have been developed.
- Recommendations were made in 2004 to clarify guidance on the differences between force protection and antiterrorism in DoD

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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 DoD OIG 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.

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policies and procedures and to ensure that a force protection program has been established throughout the U.S. Pacific Command.

- Recommendations made in 2003 and 2004 regarding completion of the information security certification and accreditation process for various DoD systems in accordance with the existing DoD Instruction 5200.40, DoD Information Technology Security Certification and Accreditation Process (DITSCAP). These actions need to be completed to address requirements of the Federal Information Security Act (FISMA). The revision to DITSCAP is in formal coordination as DoD Instruction 8510.bb, DoD Information Assurance Certification and Accreditation Process (DIACAP).
- Recommendations made in a 2004 report to develop and deliver a contract compliant C-130J aircraft and to increase amounts withheld to motivate the contractor to deliver an aircraft that meets contractual requirements. Contract re-negotiation and testing are currently underway.
- Corrective actions on 160 recommendations, contained in 87 audit reports, to implement policy changes in 76 policy issuances, such as DoD Directives, Instructions and Regulations, the Federal Acquisition Regulation (FAR), and the Defense FAR Supplement have not been completed. Final implementation and issuance of the recommended revisions has been delayed by the extensive time needed to revise and coordinate policy changes.

### **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 DoD OIG. The Defense Criminal Investigative Service (DCIS) is the criminal investigative component of the DoD OIG. The non-criminal investigative units include the Directorate for 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. The 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. The 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 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) support each of the Secretary of Defense Management Challenges. The DCIOs protect the military and civilian men and women of the Department by combating crimes, both domestic and overseas, with highly trained special agents, forensic experts, analysts, and support personnel. Examples of the DCIO's mission initiatives and investigative accomplishments are detailed in Chapter 1 under the nine management challenges.

Monetary recoveries of approximately \$477 million resulted from the investigative efforts of the Defense Criminal Investigative Organizations (DCIO)<sup>1</sup>, and are displayed by major categories in Figure 2 (the following page). Figure 3 (the following page) displays the total companies and individuals indicted and convicted is 733 and 686, respectively. Figure 1 (below) displays the number of companies and individuals suspended or debarred for this period were 8 and 22, respectively.

	Suspended - Companies	Suspended - Individuals	Debarred - Companies	Debarred - Individuals
Terrorism	0	0	0	0
Procurement	2	2	12	7
Health Care Fraud	0	1	0	0
General Crimes	0	0	0	0
Drug Related	0	0	0	0
Public Corruption	0	2	0	0
Other	0	1	1	2

Figure 1

1. Except for the Navy Criminal Investigative Service (NCIS), the information provided in this section by the DCIOs is for this reporting period. Due to converting to a new data system, the NCIS data covers all of FY 2005.

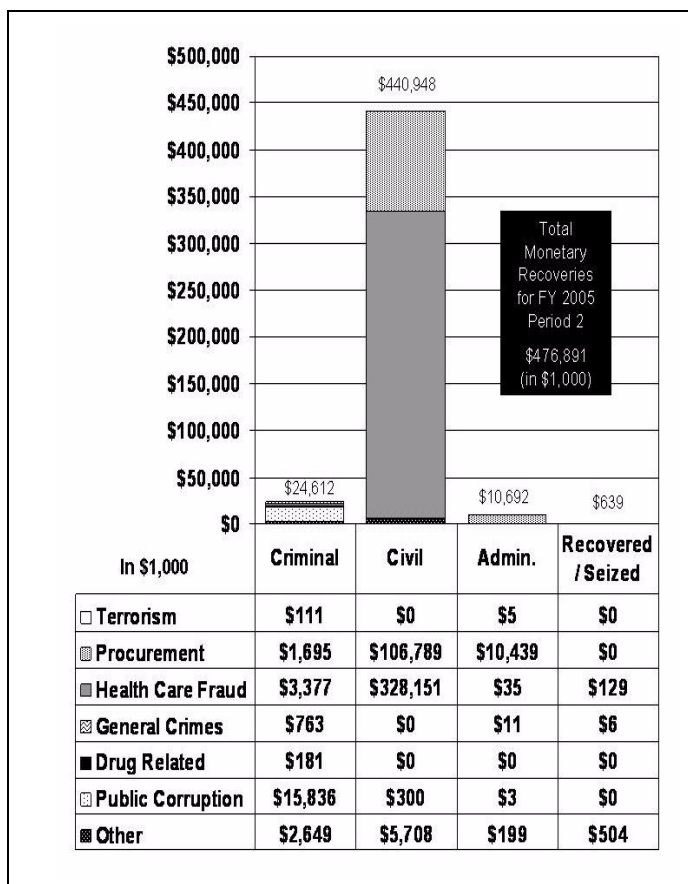


Figure 2

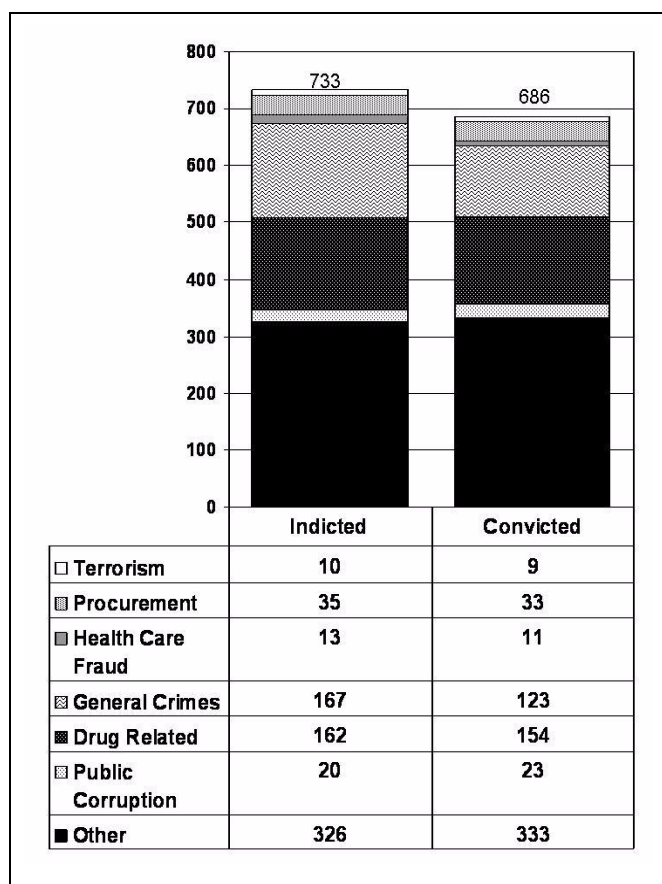


Figure 3

### 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.

Figures 4 and 5 (on the following page) show results of activity on senior official cases during the last 6 months of FY 2005. On September 30, 2005, there were 236 ongoing investigations into senior official misconduct throughout the Department, representing little change from March 31, 2005, when we reported 242 open investigations. Over the past 6 months, the Department closed 213 senior official cases, of which 38 (18 percent) contained substantiated allegations.

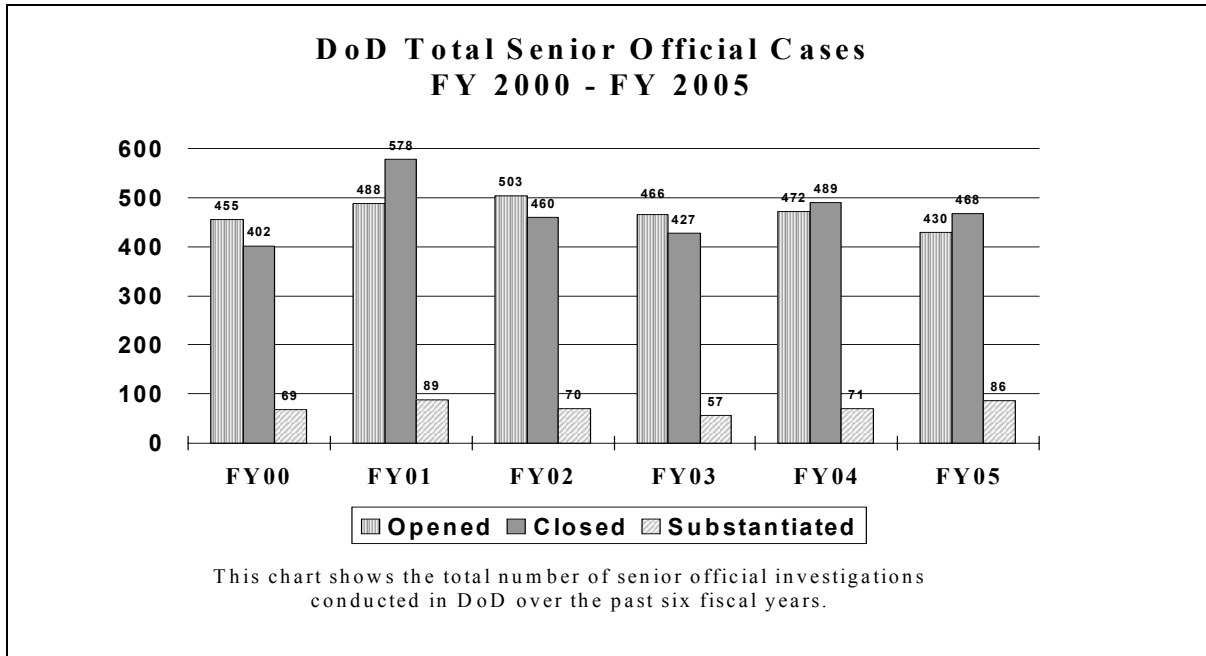


Figure 4

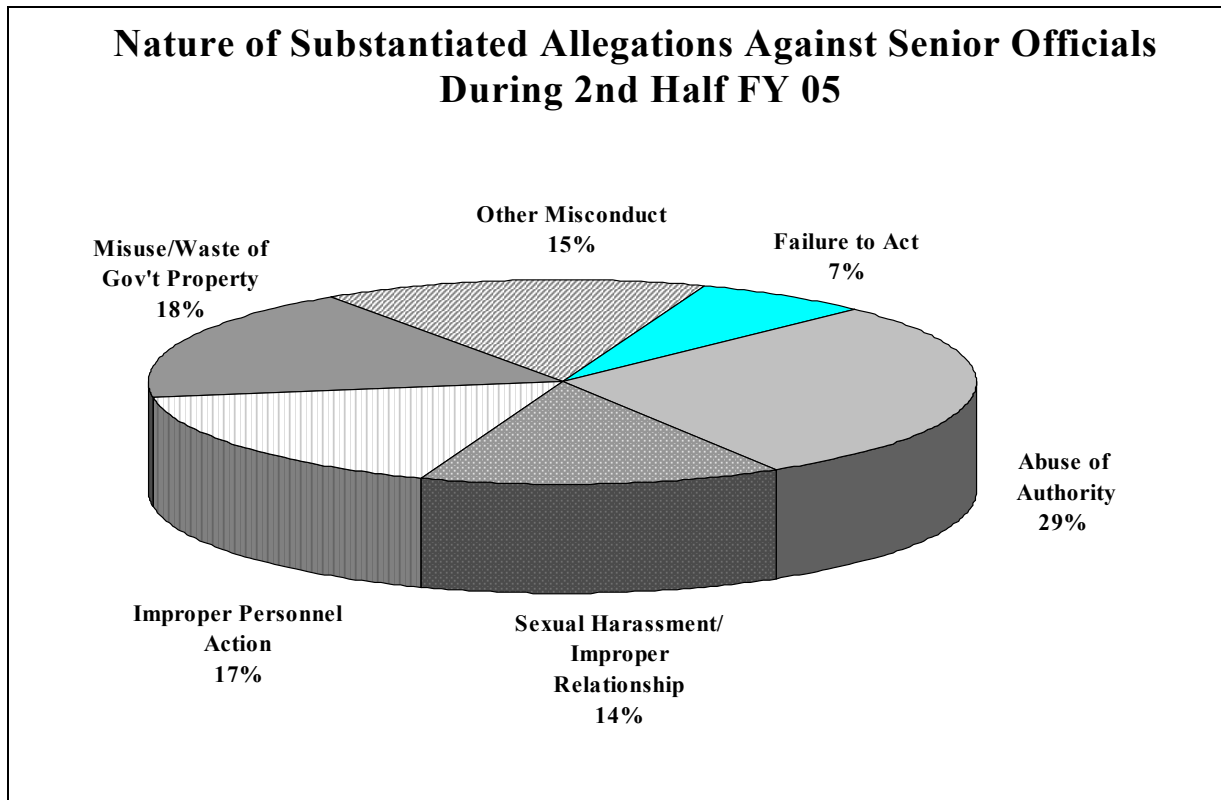


Figure 5

**Directorate for  
Military Reprisal  
Investigations**

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

- Allegations that unfavorable actions were taken against members of the Armed Forces, DoD non-appropriated 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 IGs received 350 complaints of whistleblower reprisal. We closed 246 reprisal cases during this period. Of those 246 cases, 182 were closed after preliminary analysis determined further investigation was not warranted and 64 were closed after investigation. Of the 64 cases investigated, 13 (20%) contained one or more substantiated allegations of whistleblower reprisal.

The MRI and the Military Departments currently have 454 open cases involving allegations of whistleblower reprisal.

**Examples of  
Substantiated  
Whistleblower  
Reprisal Cases**

An Air Force senior airman alleged her supervisor recommended denial of reenlistment and removed her from her position in reprisal for her sexual harassment complaint against the flight commander. Air Force investigation substantiated the allegations and the flight commander was verbally counseled.

An Army National Guard sergeant alleged his executive officer and commander issued an Article 15 and unfavorable noncommissioned officer evaluation report (NCOER) to him in reprisal for his complaint that a soldier attempted to engage in homosexual activity. Investigation substantiated that the Article 15 and NCOER were issued in reprisal for the sergeant's protected communication. In addition, the investigation also substantiated that two other soldiers were issued unfavorable NCOERs by the same responsible officials in reprisal for their protected communications. Corrective action is pending.

A Navy lieutenant commander alleged his commanding officer issued him a non-punitive letter of caution and unfavorable fitness report in reprisal

for filing gross mismanagement complaints against the commanding officer. The Navy investigation substantiated the allegations against the commanding officer. The commanding officer was issued a non-punitive letter of caution as corrective action.

A former employee of a DoD contractor alleged she was terminated in reprisal for reporting security violations by the company to the government. Our investigation substantiated the employee's allegation. Corrective action against the contractor is pending with Air Force officials.

### **Referrals for Mental Health Evaluations**

We closed 14 cases involving allegations of improper referrals for mental health evaluations during the reporting period. In six (43%) of those cases, we substantiated that command officials and 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." We did not substantiate these mental health referrals were taken in reprisal for Service members' protected communications.

### **Directorate for Civilian Reprisal Investigations**

The DoD OIG Directorate for Civilian Reprisal Investigations (CRI) was established in January 2004, to develop protections for civilian-employee relaters of fraud, waste, abuse of authority, and mismanagement in the DoD. The CRI conducts investigations, coordinates personnel management remedies and reaches out to federal and non-federal agencies involved with whistleblower affairs.

### **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 ODIG-INTEL also conducts oversight of Service and Defense agency reviews of security and counterintelligence within all DoD test and laboratory facilities.

### **Intelligence Community**

The DoD OIG, the IGs of the Defense Intelligence Agency, National Geospatial-Intelligence Agency, National Reconnaissance Office, and National Security Agency; the Air Force Audit Agency; and the Defense Contract Audit Agency completed 106 intelligence-related and other classified and sensitive reports. The reports are categorized into the areas

shown in Figure 6 below. A listing and highlights of the 105 reports can be found in the Classified Annex to this report.

<b>IG and Audit Agency Reviews (U)</b>				
<b>DoD Management Challenge Area</b>	<b>DoD OIG</b>	<b>Defense Agencies</b>	<b>Military Departments</b>	<b>Total</b>
Joint Warfighting and Readiness	0	28	1	29
Homeland Defense	2	0	0	2
Human Capital	1	4	0	5
Information Technology Management	2	7	2	11
Acquisition Processes and Contract Management	0	7	0	7
Financial Management	3	4	2	9
Health Care	0	0	0	0
Logistics	0	2	0	2
Infrastructure and Environment	7	2	0	9
Other Reports	4	27	1	32
<b>TOTAL REPORTS ISSUED</b>	<b>19</b>	<b>80</b>	<b>6</b>	<b>106</b>

Figure 6

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, the inspectors general of the Defense intelligence agencies, 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.

**Audit Policy and  
Oversight  
Directorate**

In accordance with the Inspector General Act of 1978, as amended, 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 in 24 DoD organizations, 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 Follow-up on Contract Audit Reports." During the reporting period, APO issued six reports that addressed the quality of audits and the effectiveness of contracting officer actions. APO also referred a Certified Public Accounting firm for substandard audit work to the American Institute of Certified Public Accountants . The reports are the following:

- DoD Hotline Allegations Concerning Postaward Audits at the Defense Contract Audit Agency Boeing Huntington Beach Resident Office (D-2005-6-005, May 4, 2005)
- Review of Allegations Concerning Defense Contract Management Agency Boeing Seattle Forward Pricing Rates (D2005-6-006, (FOR OFFICIAL USE ONLY) ( May 17, 2005)
- Quality Control Review of McGladrey & Pullen LLP Office of Management and Budget Circular A-133 Audit Report of the Analytic Services Inc., Fiscal Year Ended September 30, 2002 (D-2005-6-007, August 25, 2005)
- Quality Control Review of Army Audit Agency's Special Access Program Audits (D-2005-6-008, August 25, 2005)

- Quality Control Review of Air Force Audit Agency’s Special Access Program Audits (D-2005-6-009, August 26, 2005)
- Quality Control Review of Naval Audit Service’s Special Access Program Audits (D-2005-6-010, September 2, 2005)

APO has been instrumental in providing suggestions to the American Institute of Certified Public Accountants (AICPA), President’s Council on Integrity and Efficiency (PCIE), regulatory council for the Defense Federal Acquisition Regulation Supplement on issues related to defense acquisition, and providing training. Specifically APO:

- Commented on AICPA Statement of Auditing Standards No. 96, “Audit Documentation.”
- Commented on PCIE “Guide for Conducting External Peer Reviews of the Audit Operations of Offices of Inspector General.”
- Commented on DFARS cases “Contract Termination,” “Labor Laws,” “Contractor Insurance/Pension Reviews,” “Competition Requirements for Federal Supply Schedules and Multiple Award Contracts,” “Earned Value Management Systems,” “Contract Performance of Acquisition Functions Closely Associated with Inherently Governmental Functions,” and “Advisory and Assistance Services.”
- Presented at the Defense Contract Audit Agency OMB Circular A-133 Training Workshop an update on the National Sampling Initiative and improvements needed in their A-133 audits.
- Presented a two day workshop on the contract audit followup program.
- Presented training on conducting external peer reviews in accordance with the PCIE Guide for Conducting External Peer Reviews of Audit Operations to personnel from the service audit agencies and the OIG DoD.

**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 DoD OIG 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, trafficking in persons, and leaks of classified information for the Department of Defense. During this reporting period (1 Apr 05 through 30 Sep 05) the DoD OIG Hotline received 6,330 contacts from the public, members of the DoD community, the GAO, and the Congress. The Hotline initiated 933 investigations to include 49 Congressional inquiries, 77 GAO inquiries, as well as 282 reprisal complaints and 90 allegations pertaining to senior DoD officials that the Hotline processed for preliminary analysis by ODIG Investigations. There were 1,037 cases closed during the reporting period that resulted in \$996,786.00 being returned to the Government.

**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 DoD OIG by serving as the contact for communications to and from Congress, and by serving as the DoD OIG Public Affairs Office. The OCCL also includes the Freedom of Information Act/Privacy Act Office and Strategic Planning. In addition, the OCCL provides staff support and serves as the liaison for the DoD OIG to the President's Council on Integrity and Efficiency and the Defense Council on Integrity and Efficiency (DCIE). The DoD IG established the DCIE in 2002 to ensure effective coordination and cooperation among oversight agencies within the DoD.

**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 DoD OIG routinely receives legislation for review that has been referred to the Department of Defense for comment. During the current reporting period, the DoD OIG commented on the following legislative items:

- H.R. 1815, National Defense Authorization Act for FY 2006, section 303, Operation and Maintenance, Office of Inspector General. As passed by the House of Representatives, this provision would reduce the DoD OIG appropriation by \$35.2 million. The DoD OIG opposed the reduction because it would require a reduction in force of DoD OIG personnel, which would significantly impact the ability of the DoD OIG to perform its roles and responsibilities as mandated in the Inspector General Act of 1978.
- S. 1042, National Defense Authorization Act for FY 2006, section 328. As reported by the Senate Armed Services Committee, this provision would prohibit the obligation or expenditure of funds for the purposes of financial management improvement activities relating to the preparation, processing, or auditing of financial statements until the Department submits a comprehensive plan outlining intended actions to the congressional defense committees. The DoD OIG opposed this provision because it would have a negative impact on DoD efforts to provide accurate and reliable financial data and the language would prevent the Department's auditors from performing even the minimal work to disclaim an audit opinion on the Department's Financial Statements.
- S. 1042, National Defense Authorization Act for FY 2006, section 823. As reported by the Senate Armed Services Committee, this provision would require the establishment of a risk assessment team chaired by the IG to review and report on the contracting systems and internal controls of the DoD and assess areas of vulnerability of Defense contracts to fraud, waste, and abuse. The DoD OIG recommended, due to the broad scope of the report, that the time frame for completing the requested report be extended.

Additionally, the DoD OIG is given the opportunity to provide information to Congress by participating in congressional hearings.

On April 6, 2005, the Honorable Joseph E. Schmitz, then-Inspector General, testified before the Airland Subcommittee, Senate Committee on Armed Services regarding contracting for and performance of the C-130J aircraft. The IG's testimony centered on the audit of "Contracting for and Performance of the C-130J Aircraft," issued July 23, 2004. The audit found that the Air Force used an unjustified commercial item acquisition

strategy to acquire the C-130J aircraft and fielded aircraft that did not meet contract specifications or perform their intended mission. The IG also informed the subcommittee about additional work the DoD OIG is performing on commercial contracting practices for procuring defense systems.

On April 14, 2005, Mr. Schmitz testified before the Airland Subcommittee, Senate Committee on Armed Services regarding Air Force acquisition oversight. The IG's testimony was focused on the audit "Acquisition of the Boeing KC-767A Tanker Aircraft," issued March 29, 2004 (Report No. D-2004-064). The audit found that the Boeing KC-767A Tanker Program did not meet the statutory definition of a commercial item. In addition, the commercial item procurement strategy did not provide the Air Force with sufficient cost or pricing data to make decisions for the Boeing KC-767A Tanker Program and did not demonstrate the level of accountability needed to conclude that the prices negotiated represent a fair expenditure of DoD funds. The audit also found that the Air Force, by using Section 8159 of the DoD Appropriations Act for FY 2002 to justify its informal acquisition strategy, did not demonstrate best business practices and did not comply with statutory provisions for testing. The IG also commented on the Defense Criminal Investigative Service involvement in the investigations of Ms. Darleen Druyun, the former Principal Deputy Assistant Secretary of the Air Force for Acquisition and Management and Michael Sears, the former Boeing Chief Financial Officer, both of whom pled guilty to Federal crimes associated with conflicts of interest.

On June 7, 2005, Mr. Schmitz and Mr. Thomas Gimble, Deputy Inspector General, testified before the Senate Armed Services Committee regarding the management accountability review of the Boeing KC-767A Tanker Program. The IG's testimony centered on the "Management Accountability Review of the KC-767A Tanker Program" issued May 13, 2004 (Report No. OIG-2004-171). The review found that a number of senior DoD and Air Force officials acted as if Section 8159 of the FY2002 Appropriations Act had waived various legal requirements--statutory checks and balances--that it had not. In addition the review concluded that the system of management internal controls was either not in place or not effective because the existing acquisitions procedures were not followed in the proposed lease of the Boeing KC767A tanker aircraft. Mr. Schmitz also submitted a publicly releasable version of the report to be included as part of the record.

On September 28, 2005, Mr. Thomas F. Gimble, Acting Inspector General, testified before the Subcommittee on Oversight and Investigations, House Committee on Energy and Commerce regarding the DoD OIG audit and investigative efforts regarding the Hurricane Katrina relief. The Acting IG's testimony detailed the DoD OIG coordination with all IGs through the PCIE Homeland Security Roundtable on Hurricane Katrina to ensure effective use of DoD oversight resources in the relief and recovery efforts. Specifically for DoD, the DoD OIG, the Army Audit Agency, the Naval Audit Service, the Air Force Audit Agency, the Defense Contract Audit Agency, and the Defense criminal investigative organizations will employ a cadre of auditors, investigators, and inspectors who will provide immediate and professional oversight of DoD contracts, grants, and operations related to Hurricane Katrina relief and recovery efforts. The Acting Inspector General detailed the current and planned oversight efforts for Hurricane Katrina relief and recovery and assured the subcommittee that the DoD OIG effort will be on a "real-time" basis and that feedback would be provided as issues were identified.

On September 29, 2005, Mr. Thomas F. Gimble, Acting Inspector General, testified before the Permanent Subcommittee on Investigations, Senate Committee on Homeland Security and Governmental Affairs regarding the management of the Defense Travel System. The Acting IG's testimony centered on the audit of the "Allegations to the Defense Hotline on the Management of the Defense Travel System," issued July 1, 2002. The audit found that the DoD should have managed the Defense Travel System Program as a major automated information system program and ensured that it had met requirements of the Clinger-Cohen Act and DoD acquisition and security policies. The Acting IG also informed the subcommittee that the DoD OIG initiated work to determine material differences between the original Defense Travel System and the 2002 contract renegotiation and to complete a cost benefit evaluation.

The DoD OIG has been working with the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD (AT&L)) to amend the Defense Federal Acquisition Regulation Supplement (DFARS). The proposed change would implement DoD policy prohibiting any activities on the part of DoD contractor employees that support or promote trafficking in persons. The proposed change includes a clause for use in contracts requiring performance outside the United States. The proposed clause would require the contractor to establish policy and procedures for combating trafficking in persons and to notify the contracting officer of any violations and the corrective action taken.

The DoD OIG also regularly reviews new and revised regulations proposed by the Department of Defense. During this reporting period, the DoD OIG reviewed 120 draft issuances or re-issuances of DoD directives, instructions, manuals, and policy guidance.

**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.

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

DoD OIG  
 (703) 604-8937  
<http://www.dodig.mil>

Army Audit Agency  
 (703) 681-9863  
<http://www.hqda.army.mil/aaaweb>

Naval Audit Service  
 (202) 433-5525  
<http://www.hq.navy.mil/NavalAudit>

Air Force Audit Agency  
 (703) 696-7904  
[www.afaa.hq.af.mil](http://www.afaa.hq.af.mil)

**Summary of Number of Reports by Management Challenge Area**  
**April 1, 2005 – September 30, 2005**

	<b>DoD OIG</b>	<b>Military Depts.</b>	<b>Total</b>
Joint Warfighting and Readiness	1	13	14
Homeland Defense	1	3	4
Human Capital	-	29	29
Information Technology Management	12	12	24
Acquisition Processes/Contract Management	7	41	48
Financial Management	19	72	91
Health Care	1	6	7
Logistics	-	32	32
Infrastructure and Environment	-	25	25
Base Realignment and Closure	26	7	33
Other	1	3	4
<b>Total</b>	<b>68</b>	<b>243</b>	<b>311</b>
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)

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**JOINT WARFIGHTING  
AND READINESS**


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**DoD OIG**

**D-2005-085** DoD Execution of the Warsaw Initiative Program (07/01/05)

**Army Audit Agency**

**A-2005-0212-ALA** Followup Audit of the Joint Contingency Force Advanced Warfighting Experiment (06/22/05)

**A-2005-0219-FFH** Total Army Analysis Process: Tactical Medical Requirements, U.S. Army Center for Army Analysis, Fort Belvoir, Virginia (06/30/05)

**A-2005-0259-FFE** Followup Audit of Support for Nonmedical Chemical and Biological Defensive Equipment, Aberdeen Proving Ground, Maryland (08/19/05)

**A-2005-0285-FFF** Reserve Component Readiness Reporting, U.S. Army Reserve Command (09/27/05)

**Naval Audit Service**

**N-2005-0041** Contracts for Studies and Levels of Effort at Naval Sea Systems Command (04/20/05)

**N-2005-0052** Marine Corps Reserve Activation Savings Model Validation (07/22/05)

**N-2005-0054** Military-Essentiality of Marine Corps Full-Time Reservists (08/23/05)

**Air Force Audit Agency**

**F-2005-0003-FD3000** Information Operations Personnel Data Verification (04/1/2005)

**F-2005-0004-FD3000** Air and Space Expeditionary Force Management (05/02/2005)

**F-2005-0005-FD3000** Individual Deployment Process (06/13/2005)

**F-2005-0006-FD3000** Sustainment of Nuclear Assets (07/14/2005)

**F-2005-0013-FD4000** Mission Readiness Training Quota (09/13/2005)

**F-2005-0007-FD3000** Weather Operations Metrics (09/27/2005)

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**HOMELAND  
DEFENSE**


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**DoD OIG**

**D-2005-043** Interagency Review of the Export Licensing Process for Chemical and Biological Commodities (FOR OFFICIAL USE ONLY) (6/10/05)

**Army Audit Agency**

**A-2005-0150-FFE** Contracting for Installation Preparedness (04/13/05)

**A-2005-0204-FFC** Security of Civil Works Water Resources Infrastructure, U.S. Army Corps of Engineers (06/23/05)

**Air Force Audit Agency**

**F-2005-0008-FC4000** Demilitarization Process (09/08/2005)

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**HUMAN CAPITAL**


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**Army Audit Agency**

**A-2005-0137-FFF** Followup Audit of Delayed Entry Program Management, Deputy Chief of Staff, G-1 (04/14/05)

**A-2005-0162-FFF** Material Weakness Manpower Requirements Determination, (04/27/05)

**A-2005-0167-FFF** Followup Audit of Mobilization and Pay Record Discrepancies in the Reserve Components (05/06/05)

**A-2005-0189-FFE** Contractor Aircrew Safety (05/17/05)

**A-2005-0190-ALT** Personnel Management and Training, California Army National Guard (05/19/05)

**A-2005-0183-FFF** Reserve Component Duty Military Occupational Specialty Qualification and Officer Basic Course Training Requirements (06/15/05)

**A-2005-0207-FFF** Followup Audit of Military Training Service Support-Pilot Test, Fort Lee, Virginia, (06/29/05)

**A-2005-0220-ALE** Followup Audit of Controls Over Morale, Welfare, and Recreation Equipment Downrange (Bosnia and Kosovo), U.S. Army, Europe and Seventh Army (07/14/05)

**A-2005-0246-ALE** Followup Audit of Living Quarters Allowance, U.S. Army, Europe and Seventh Army (07/29/05)

**A-2005-0191-FFF** Advanced Individual Training Courses, U.S. Army Intelligence Center, Fort Huachuca (08/09/05)

**A-2005-0131-FFF** Followup Review of Distance Learning Facilities and Hardware Acquisition Structure (09/09/05)

**A-2005-0274-FFG** Soldier Allowances for the Active Component (09/19/05)

**A-2005-0314-ALE** Followup Audit of Child Care Operations, U.S. Army Installation Management Agency, Europe Region (09/22/05)

### **Naval Audit Service**

**N-2005-0055** Navy Manpower Requirement Process-Surface Ships (08/25/05)

### **Air Force Audit Agency**

**F-2005-0003-FD1000** Family Member Programs Personnel Background Investigations (04/01/2005)

**F-2005-0003-FD4000** Family Care Plan Program (04/14/2005)

**F-2005-0004-FD1000** Air Force Military Engineer Shortages (04/27/2005)

**F-2005-0004-FD4000** Academic Degrees (04/27/2005)

**F-2005-0005-FD4000** Career Enlisted Flyer Incentive Pay (05/02/2005)

**F-2005-0006-FD4000** Communications and Information Personnel (05/02/2005)

**F-2005-0007-FD4000** Air Force Human Capital Performance Management System (06/15/2005)

**F-2005-0008-FD4000** Special Duty Assignment Pay (06/21/2005)

**F-2005-0009-FD4000** Hazardous Duty Incentive Pay - Parachutists and Non-Rated Aircrew (06/23/2005)

**F-2005-0012-FB1000** Financial Management Activities (06/24/2005)

**F-2005-0010-FD4000** Military Equal Opportunity (08/09/2005)

**F-2005-0011-FD4000** Follow-up Audit, Air Force Aid Society (08/09/2005)

**F-2005-0007-FD2000** Air Force Morale, Welfare, and Recreation Advisory Board Corporate Governance (09/08/2005)

**F-2005-0012-FD4000** Reserve Component Family Care Plans (09/09/2005)

**F-2005-0014-FD4000** New Officer Education (9/23/2005)

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## **INFORMATION TECHNOLOGY MANAGEMENT**

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### **DoD OIG**

**D-2005-054** Audit of the Information Technology Security Certification and Accreditation Process (FOR OFFICIAL USE ONLY) (04/28/05)

**D-2005-059** Report on Standard Finance System Controls Placed in Operation and Tests of Operating Effectiveness for the Period October 1, 2004 through March 31, 2005 (04/30/05)

**D-2005-069** Audit of the General and Application Controls of the Defense Civilian Pay System (FOR OFFICIAL USE ONLY) (05/13/05)

**D-2005-083** Reporting of DoD Capital Investments for Information Technology in Support of the 2006 Budget Submission (06/10/05)

**D-2005-092** Report on the Defense Property Accountability System Controls in Operation and Test of Operating Effectiveness for the Period September 1, 2004 through April 30, 2005 (07/07/05)

**D-2005-094** Proposed DoD Information Assurance Certification and Accreditation Process (FOR OFFICIAL USE ONLY) (07/21/05)

**D-2005-093** Technical Report on the Standard Finance System (FOR OFFICIAL USE ONLY) (08/17/05)

**D-2005-099** Status of Selected DoD Policies on Information Technology Governance (08/19/05)

**D-2005-104** Report on the Defense Business Management System Controls Placed in Operation and Tests of Operating Effectiveness for the Period October 1, 2004 through May 15, 2005 (08/26/05)

**D-2005-105** Report on the Defense Information Systems Agency, Center for Computing Services Controls Placed in Operation and Tests of Operating Effectiveness for the Period October 1, 2004 through April 30, 2005 (09/06/05)

**D-2005-106** Report on Defense Civilian Pay System Controls Placed in Operation and Tests of Operating Effectiveness for the Period October 1, 2004 through June 30, 2005 (09/15/05)

**D-2005-110** Summary of Information Security Weaknesses Reported by Major Oversight Organizations From August 1, 2004, through July 31, 2005 (FOR OFFICIAL USE ONLY) (09/23/05)

### **Army Audit Agency**

**A-2005-0175-FFI** Centralizing Common User Support (Single Directorate of Information Management Concept), Dugway Proving Ground, White Sands Missile Range, and Yuma Proving Ground (06/14/05)

**A-2005-0200-FFI** Headquarters, Department of the Army Information Technology Purchase Process (06/27/05)

**A-2005-0218-FFI** Forces Command Network Support Contract, Headquarters, U.S. Army Forces Command (08/04/05)

**A-2005-0242-FFI** Human Resources Command Personnel Information Technology Systems (08/11/05)

**A-2005-0266-FFE** Followup Audit of Hazardous Materials Information System (08/26/05)

**A-2005-0265-FFI** Followup Audit of Selected Aspects of Information Assurance--Fort Knox, Kentucky (08/29/05)

### **Naval Audit Service**

**N-2005-0038** Common Access Card Implementation (04/08/05)

**N-2005-0049** Information Security Controls at Naval Shipyards (07/07/05)

### **Air Force Audit Agency**

**F-2005-0003-FB4000** Network Infrastructure Equipment (04/01/2005)

**F-2005-0005-FB2000** Air Force Implementation of Electronic Business Process to Manage and Purchase Information Technology Products (04/27/2005)

**F-2005-0005-FB4000** Certification and Accreditation of Air Force Major Command Systems (07/11/2005)

**F-2005-0006-FB4000** Air Force Implementation of the Federal Information Security Management Act (07/14/2005)

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## **ACQUISITION PROCESSES AND CONTRACT MANAGEMENT**

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### **DoD OIG**

**D-2005-048** Acquisition of Targets at the Missile Defense Agency (4/6/05)

**D-2005-055** DoD Purchase Card Convenience Checks (5/3/05)

**D-2005-078** Audit of the Extended Range Guided Munition Program (06/15/05)

**D-2005-077** Accounting for Sperry Marine Pension Plan Assets Under an Advance Agreement with Litton Industries, Inc. (06/17/05)

**D-2005-091** Source Selection Decisions for the Air Force Small Diameter Bomb Program (FOR OFFICIAL USE ONLY) (07/12/05)

**D-2005-096** DoD Purchases Made Through the General Services Administration (07/29/05)

**D-2005-098** Contract Award and Administration for the Improved Navy Lighterage System (08/11/05)

### **Army Audit Agency**

**A-2005-0149-ALA** Earned Value Management, Program Executive Office, Ground Combat Systems and Program Manager Office, Unit of Action (04/06/05)

**A-2005-0159-ALA** Proposed Modifications to the Kalmar Rough Terrain Container Handler (04/12/05)

**A-2005-0163-ALS** Contract for Logistics Services, U.S. Army Reserve Command, Fort McPherson, Georgia (04/20/05)

**A-2005-0160-ALA** Integrated System Control, Fort Monmouth, New Jersey (04/22/05)

**A-2005-0170-ALA** Primary (Non-Rechargeable) Communications-Electronics Batteries, U.S. Army Communications-Electronics Life Cycle Management Command (05/02/05)

**A-2005-0176-ALA** Contract Award Practices, U.S. Army Tank-Automotive and Armaments Command - Rock Island, Rock Island Arsenal, Illinois (05/02/05)

**A-2005-0194-ALA** Program Management in Support of Iraq Reconstruction, Project and Contracting Office, Washington, DC (05/26/05)

**A-2005-0208-ALA** Earned Value Management, Program Executive Office, Command, Control and Communications Tactical (06/22/05)

**A-2005-0209-ALA** Followup Audit of the Army Transformation Experiment 2002 (06/23/05)

**A-2005-0222-ALS** Contract Offloading, U.S. Army Reserve Command, Fort McPherson, Georgia (06/30/05)

**A-2005-0171-FFP** Government Purchase Card, Army Commands in Korea (07/06/05)

**A-2005-0202-ALM** Impact on Warranties on Weapon System Maintenance Costs, Program Executive Office, Command Control and Communications Tactical, Fort Monmouth, New Jersey (07/12/05)

**A-2005-0234-ALT** Validation of Most Efficient Organization, Fort Detrick, Maryland (07/20/05)

**A-2005-0235-ALT** Commercial Activities Preaward Process (07/21/05)

**A-2005-0282-ALM** Impact of Warranties on Weapon System Maintenance Costs, Program Executive Office, Missiles and Space, Redstone Arsenal, Alabama (09/02/05)

**A-2005-0271-ALA** Followup Audit of High Mobility Artillery Rocket System Program, Office of the Product Manager (09/06/05)

**A-2005-0283-ALM** Impact of Warranties on Weapon System Maintenance Costs, Program Executive Office, Intelligence, Electronic Warfare, and Sensors, Fort Monmouth, New Jersey (09/06/05)

**A-2005-0267-ALA** Followup Audit of The Army's Purchase Card Program, Fort Eustis and Fort Monroe, Virginia (09/08/05)

**A-2005-0290-ALW** Followup of Audit Report A-2002-0491-AMW, Government Purchase Cards, Tobyhanna Army Depot (09/08/05)

**A-2005-0293-ALM** Impact of Warranties on Weapon System Maintenance Costs, Program Executive Office, Combat Support and Combat Service Support, Warren, Michigan (09/09/05)

**A-2005-0294-ALM** Impact of Warranties on Weapon System Maintenance Costs, Program Executive Office, Aviation, Redstone Arsenal, Alabama (09/12/05)

**A-2005-0291-ALA** Semi-Trailer Taillight Commonality, Office of the Product Manager, Trailers (09/15/05)

**A-2005-0296-ALT** Contract Administration for Contracts Resulting from A-76 Commercial Activities Study Decisions (09/15/05)

**A-2005-0308-ALA** Army Government Purchase Card Program, Fort Stewart, Georgia (09/21/05)

**A-2005-0321-ALT** Contract Administration for the Base Operations Support Contract, U.S. Army Garrison, Picatinny (09/27/05)

**A-2005-0313-FFG** Army Government Travel Card-Individual Pay, U.S. Army Forces Command (09/28/05)

**A-2005-0336-ALS** Training Resource Model Inputs Acquisition Contracting, U.S. Army Aviation and Missile Life Cycle Management Command, Redstone Arsenal, Alabama (09/30/05)

### **Naval Audit Service**

**N-2005-0037** Air Navigation Warfare Program (FOR OFFICIAL USE ONLY) (04/05/05)

**N-2005-0039** Space and Naval Warfare Systems Center New Orleans (04/20/05)

**N-2005-0040** Resolution of Critical Operational Issues Identified During Operational Evaluations (04/20/05)

**N-2005-0047** Deterring and Detecting Procurement Fraud in the Department of the Navy (06/24/05)

**N-2005-0056** Earned Value Management for the DDG 51 Arleigh Burke Class Destroyer Program (FOR OFFICIAL USE ONLY) (08/31/05)

**N-2005-0060** Government Travel Card Program at Naval Sea Systems Command (09/21/05)

**Air Force Audit Agency**

**F-2005-0006-FC1000** Most Efficient Organization Performance Reviews (04/14/2005)

**F-2005-0005-FC3000** Acquisition of Air Force Materiel Command Medical Treatment Facility Operations and Equipment Maintenance Services (06/20/2005)

**F-2005-0004-FC3000** Combat Survivor Evader Locator Program Acquisition Management (06/23/2005)

**F-2005-0007-FC1000** Base Operating Support, March ARB CA (A-76 Cost Comparison) (06/23/2005)

**F-2005-0008-FC1000** Air Force Pentagon Communications Agency (A-76 Direct Conversion) (07/07/2005)

**F-2005-0009-FC1000** Space and Missile Systems Center, Education and Training Services, Los Angeles AFB CA (A-76 Cost Comparison) (07/08/2005)

**F-2005-0007-FC3000** Airborne Integrated Terminal Group Program (09/09/2005)

**F-2005-0008-FC3000** Acquisition Management of the C-130J Program (09/28/2005)

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**FINANCIAL MANAGEMENT**


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**DoD OIG**

**D-2005-047** Contracts Classified as Unreconcilable by the Defense Finance and Accounting Service Columbus (Contract No. DAAA09-81-G2008/0031) (04/01/05)

**D-2005-051** Independent Examination of the Land Assets at the U.S. Army Corps of Engineers, Civil Works (04/06/05)

**D-2005-053** FY 2004 Emergency Supplemental Funding for the Defense Information Systems Agency (FOR OFFICIAL USE ONLY) (04/29/05)

**D-2005-056** Reliability of the FY 2004 Financial Statements for the National Geospatial-Intelligence Agency (CLASSIFIED) (04/29/05)

**D-2005-045** FY 2004 Emergency Supplemental Funding for the Defense Logistics Agency (FOR OFFICIAL USE ONLY) (05/09/05)

**D-2005-065** Termination of the Audit of the DoD Midterm Solution for Military Equipment Valuation (05/09/05)

**D-2005-061** Appropriations Received and Net Transfers on the FY 2004 DoD Agency-Wide Financial Statements (05/10/05)

**D-2005-062** Recording and Accounting for DoD Contract Financing Payments (05/10/05)

**D-2005-074** Support for Reported Obligations for the National Security Agency (CLASSIFIED) (05/31/05)

**D-2005-087** Departmental Expenditure Reporting at Defense Finance and Accounting Service Indianapolis (06/27/05)

**D-2005-100** Identification and Reporting of DoD Erroneous Payments (08/17/05)

**D-2005-101** DoD Recovery Audit Program (08/17/05)

**D-2005-102** Defense Departmental Reporting System – Audited Financial Statements Report Map (08/17/05)

**D-2005-097** Report on the Auditability Assessment for the Financial Statements of the Defense Intelligence Agency (CLASSIFIED) (08/18/05)

**D-2005-103** Development and Management of the Army Game Project (08/24/05)

**D-2005-108** Review of the U.S. Army Corps of Engineers, Civil Works, Balance Sheet Reporting and Financial Statement Compilation (09/16/05)

**D-2005-112** Review of the Development of the DoD Baseline for Military Equipment (09/30/05)

**D-2005-113** Report on the Defense Departmental Reporting System and Related Financial Statement Compilation Process Controls Placed in Operation and Tests of Operating Effectiveness for the Period October 1, 2004 through March 31, 2005 (09/23/05)

**D-2005-114** Development of the DoD Baseline for Military Equipment (09/30/05)

### **Army Audit Agency**

**A-2005-0134-FFG** Review of the Army Management Control Process FY 04, Office of the Chief of Chaplains, Headquarters, DA (04/04/05)

**A-2005-0151-FFG** Review of the Army Management Control Process FY 04, Office of the Judge Advocate General (04/08/05)

**A-2005-0152-FFG** Review of the Army Management Control Process FY 04, U.S. Army Chemical Materials Agency, Aberdeen Proving Ground, Maryland (04/08/05)

**A-2005-0153-FFG** Review of the Army Management Control Process FY 04, U.S. Army Tank-Automotive & Armaments Command, Warren, Michigan (04/08/05)

**A-2005-0154-FFG** Review of the Army Management Control Process FY 04, U.S. Army Materiel Command (04/12/05)

**A-2005-0080-FFG** Office of the Secretary of Defense/Joint Staff Welfare and Recreation Association Fund, Internal Controls (04/13/05)

**A-2005-0155-FFG** Review of the Army Management Control Process FY 04, Office of the Deputy Chief of Staff for Logistics (G-4) (04/13/05)

**A-2005-0156-FFG** Review of the Army Management Control Process FY 04, Corpus Christi Army Depot (04/15/05)

**A-2005-0157-FFG** Review of the Army Management Control Process FY 04, McAlester Army Ammunition Plant, U.S. Army Field Support Command (04/15/05)

**A-2005-0166-FFG** Standard Procurement System, Financial Requirements (04/21/05)

**A-2005-0019-FFG** Validation of Completed Tasks for Accounts Payable--Army Chief Financial Officers Strategic Plan (04/28/05)

**A-2005-0173-ALE** Commanders Emergency Response Program and Quick Response Fund, Multi-National Security Transition Command - Iraq (05/02/05)

**A-2005-0179-FFG** Review of the Army Management Control Process FY 04, An Assessment for the Secretary of the Army (05/10/05)

**A-2005-0180-ALT** Financial and Accounting Operations, U.S. Property and Fiscal Office for Indiana (05/25/05)

**A-2005-0161-FFF** Followup Audit of Funding of Aviation Training, U.S. Army Aviation Center and Fort Rucker (05/26/05)

**A-2005-0196-FFH** Financial Controls Over Golf Course Operations, Fort Campbell, Kentucky (06/10/05)

**A-2005-0185-FFG** Followup Audit of U.S. Debit Card Pilot Program, U.S. Southern Command, Miami, Florida (06/21/05)

**A-2005-0206-FFG** Validation of the Statement of Accountability, Attestation of Disbursing Station Symbol Number 8551 (06/29/05)

**A-2005-0215-FFH** Financial Controls--Community Club Operations, Fort Buchanan, Puerto Rico (06/30/05)

**A-2005-0216-ALW** Followup of Audit Report AA 00-399 Compilation of Selected Army Working Capital Fund FY 99 Financial Statements (07/01/05)

**A-2005-0217-ALW** Followup Audit of Workers Compensation, Army Working Capital Fund, Office of the Deputy Assistant Chief of Staff, G-1 for Civilian Personnel Policy (07/01/05)

**A-2005-0228-ALW** Followup Audit of Internal Controls Over Inventory, Office of the Administrative Assistant to the Secretary of the Army (07/01/05)

**A-2005-0001-FFG** Secretary of Defense Executive Dining Facility Fund Internal Controls (07/08/05)

**A-2005-0236-FFH** Attestation Review of Morale, Welfare, and Recreation Financial Statements--Army Nonappropriated Fund Employee Retirement and 401(k) Savings Plans, U.S. Army Community and Family Support Center (07/18/05)

**A-2005-0201-FFG** Sale and Exchange Program, U.S. Army Tank-Automotive and Armaments Command (08/05/05)

**A-2005-0248-FFP** Followup Audit of Nonappropriated Fund Payroll for Local Nationals, Eighth U.S. Army, Seoul, Korea (08/18/05)

**A-2005-0223-FFC** Insurance Reserve Account, U. S. Army Corps of Engineers (08/23/05)

**A-2005-0258-FFF** Management Controls Over Civilian Payroll Funds, U.S. Military Entrance Processing Command (08/26/05)

**A-2005-0272-ALS** Followup Audit of the Recapitalization Program Efficiency, Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology) and Office of the Deputy Chief of Staff, G-8 (08/31/05)

**A-2005-0270-FFG** Review of the Army Management Control Process FY 05, Great Plains Regional Medical Command (09/07/05)

**A-2005-0286-FFG** Review of the Army Management Control Process FY 05, U.S. Army Veterinary Command, Fort Sam Houston (09/09/05)

**A-2005-0287-FFG** Review of the Army Management Control Process FY 05, Headquarters, North Atlantic Regional Medical Command (09/09/05)

**A-2005-0295-FFI** Followup Audit of Disbursements Without Obligations (09/13/05)

**A-2005-0288-FFG** Review of the Army Management Control Process FY 05, U.S. Army Surface Deployment and Distribution Command (09/16/05)

**A-2005-0289-FFG** Review of the Army Management Control Process FY 05, Office of the Deputy Chief of Staff G-8 (09/16/05)

**A-2005-0261-FFG** Defense Property Accountability System Material Weakness Closeout, Fort Belvoir, Virginia (09/19/05)

**A-2005-0277-FFG** Defense Property Accountability System Material Weakness Closeout, Fort Stewart, Georgia (09/19/05)

**A-2005-0278-FFG** Warfighters' Simulation and Joint Simulation System Funding (09/20/05)

**A-2005-0292-FFG** Army Government Travel Card - Individual Pay, U.S. Army Training and Doctrine Command (09/20/05)

**A-2005-0310-ALW** Followup Audit of Army Working Capital Fund Recommendations, Office of the Assistant Secretary of the Army (Financial Management and Comptroller) (09/21/05)

**A-2005-0309-ALW** Followup of Audit Report AA 01-423 Compilation Process for the Fiscal Year 2000 Statement of Financing, Army Working Capital Fund (09/22/05)

**A-2005-0312-ALW** Followup of Audit Report A-2002-0365-AMW Compilation of Army Working Capital Fund Fiscal Year 2001 1307 Accounting Report (09/22/05)

**A-2005-0315-ALE** Followup Audit of Allocation of Army Lodging Fund Common Overhead Support Costs, 26th Area Support Group, Heidelberg, Germany (09/22/05)

**A-2005-0316-ALE** Followup Audit of Nonappropriated Fund Payroll, U.S. Army Installation Management Agency, Europe Region (09/22/05)

**A-2005-0320-FFG** Integrated Facilities System Requirements Determination (09/27/05)

**A-2005-0326-FFG** Defense Property Accountability System Material Weakness Closeout, Corpus Christi, Texas (09/28/05)

**A-2005-0329-FFI** Followup Audit of Disbursements Without Obligations, U.S. Army Acquisition, Logistics, and Technology Enterprise Systems and Services (09/29/05)

**A-2005-0332-ALE** Followup Audit of Commanders' Emergency Response Program and Quick Response Fund, Multi-National Security Transition Command - Iraq (09/30/05)

## Naval Audit Service

**N-2005-0043** Financial Reports from Space and Naval Warfare Systems San Diego (04/28/05)

**N-2005-0044** Customer Billing at Naval Facilities Engineering Service Center, Port Hueneme, CA (05/05/05)

**N-2005-0048** Verification of the Department of the Navy's Reporting of Depot Maintenance Workload Between Public and Private Sectors (06/30/05)

**N-2005-0050** Independent Attestation Report on Agreed-Upon Procedures Attestation Engagement of Department of the Navy General Fund, Fiscal Year 2004 Environmental Liabilities Account (07/15/05)

**N-2005-0051** Internal Controls Over Military Pay Advances and Debts (07/22/05)

**N-2005-0053** Independent Attestation Report on Agreed-Upon Procedures Attestation Engagement of Department of the Navy General Fund, Fiscal Year 2004 Other Liabilities Account (08/08/05)

**N-2005-0057** Department of the Navy's Fund Balance with Treasury Account (Phase II) (09/02/05)

**N-2005-0059** Independent Attestation Review of Financial Statements for the City of Tustin Local Redevelopment Authority No-Cost Economic Development Conveyance (09/15/05)

### **Air Force Audit Agency**

**F-2005-0006-FB1000** Air National Guard Dual Compensation (04/01/2005)

**F-2005-0007-FB1000** Internal Controls Over Selected Aspects of Air National Guard Financial Management (04/01/2005)

**F-2005-0008-FB1000** Initial Funds Distribution Process (04/14/2005)

**F-2005-0003-FB2000** Air Force Financial Statements - Reliability and Use of Electronically Scanned Contract Source Documents (04/27/2005)

**F-2005-0004-FB2000** Comprehensive Engine Management System Controls (04/27/2005)

**F-2005-0009-FB1000** Office of Special Investigations Confidential Investigative Contingency Funds (06/15/2005)

**F-2005-0010-FB1000** Air Force Reserve Unliquidated Obligations (06/17/2005)

**F-2005-0008-FB2000** Automated Civil Engineering System - Operations Controls (06/20/2005)

**F-2005-0011-FB1000** Global War on Terrorism Funds Management (06/20/2005)

**F-2005-0001-FB3000** Fund Balance With Treasury for Air Force General and Working Capital Funds (06/21/2005)

**F-2005-0006-FB2000** Information Services Activity Group Budget Process (06/22/2005)

**F-2005-0013-FB1000** Financial Management Transformation Initiatives (07/07/2005)

**F-2005-0006-FC3000** Air Force Research Laboratory Reimbursement Process (08/08/2005)

**F-2005-0010-FC1000** Foreign Military Sales Component Improvement Program for the F100-PW-229 Engine (08/08/2005)

**F-2005-0010-FB2000** System Controls for Financial Inventory Accounting and Billing System (09/20/2005)

**F-2005-0014-FB1000** Your Guardians of Freedom (09/26/2005)

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## **HEALTH CARE**

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### **DoD OIG**

**D-2005-095** DoD Patient Movement System (07/27/05)

### **Army Audit Agency**

**A-2005-0328-FFI** Followup Audit of the Discontinue Research Process, Office of the Assistant Secretary of the Army (Financial Management and Comptroller) (09/29/05)

### **Air Force Audit Agency**

**F-2005-0004-FD2000** Clinical Laboratories (04/01/2005)

**F-2005-0005-FD2000** Third Party Collection Funds Usage (07/06/2005)

**F-2005-0006-FD2000** Physical Therapist Productivity (07/11/2005)

**F-2005-0008-FD2000** Deployment Health Assessments (09/20/2005)

**F-2005-0009-FD2000** Medical Skill Level Upgrade Training (09/26/2005)

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## **LOGISTICS**

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### **Army Audit Agency**

**A-2005-0143-ALE** Implementation of the Bosnia Restructure Plan, U.S. Army, Europe and Seventh Army (04/04/05)

**A-2005-0146-ALW** Management of Consigned Inventory, Office of the Assistant Secretary of the Army (Financial Management and Comptroller) and Office of the Deputy Chief of Staff, G-4 (04/08/05)

**A-2005-0168-ALE** Theater Distribution Capabilities--Operation Iraqi Freedom (04/26/05)

**A-2005-0172-ALE** Functionality of Logistics Automated Systems--Operation Iraqi Freedom (04/27/05)

**A-2005-0184-ALT** Equipment Maintenance, California Army National Guard (05/11/05)

**A-2005-0177-ALS** Internal Controls Over Cargo Container Payments, Military Surface Deployment and Distribution Command (05/12/05)

**A-2005-0182-ALS** Rapid Fielding Initiative Accountability Procedures, Program Executive Office, Soldier, Fort Belvoir, Virginia (05/12/05)

**A-2005-0186-ALE** Followup Audit of the General Support Maintenance Program, U.S. Army, Europe and Seventh Army (05/12/05)

**A-2005-0210-ALM** Followup Audit of the U.S. Army Aviation Hydraulic Contamination Control Program, Redstone Arsenal, Huntsville, Alabama (07/01/05)

**A-2005-0213-ALM** Followup Audit of the Army Oil Analysis Program, Redstone Arsenal, Huntsville, Alabama (07/01/05)

**A-2005-0197-ALE** Asset Visibility and Container Management--Operation Iraqi Freedom (07/05/05)

**A-2005-0221-ALE** Surface Transportation Management--Balkans, U.S. Army, Europe and Seventh Army (08/04/05)

**A-2005-0237-ALW** Project Manager Assets - Aviation, Office of the Program Executive Officer, Aviation, Apache Attack Helicopter (08/09/05)

**A-2005-0238-ALW** Project Manager Assets - Aviation, Office of the Program Executive Officer, Aviation, Scout Attack Helicopter (08/09/05)

**A-2005-0239-ALW** Project Manager Assets - Aviation, Office of the Program Executive Officer, Aviation, Cargo Helicopter (08/09/05)

**A-2005-0240-ALW** Project Manager Assets - Aviation, Office of the Program Executive Officer, Aviation (08/09/05)

**A-2005-0250-ALE** Class IX Spare Parts--Operation Iraqi Freedom (08/15/05)

**A-2005-0260-FFE** Followup Audit of Transportation Motor Pool, Fort Hood, Texas (08/22/05)

**A-2005-0273-ALW** Audit of Product Manager Office, Heavy Expanded Mobility Tactical Truck (08/29/05)

**A-2005-0275-ALM** Maintenance Support to Combat Units, Fort Hood, Texas (09/01/05)

**A-2005-0307-ALW** Army Workload and Performance System, Workload Forecast, U.S. Army Materiel Command (09/20/05)

**A-2005-0304-ALM** Sustainment Systems Technical Support, U.S. Army Tank-Automotive and Armaments Life Cycle Management Command (09/21/05)

**A-2005-0305-ALM** Sustainment Systems Technical Support, U.S. Army Aviation and Missile Life Cycle Management Command (09/26/05)

**A-2005-0306-ALM** Sustainment Systems Technical Support, Offices of the Assistant Secretary of the Army (Acquisition, Logistics and Technology, Deputy Chief of Staff, G-4, and U.S. Army Materiel Command (09/28/05)

**A-2005-0338-ALM** Followup Audit on Specialized Repair Authority, U.S. Army Communications-Electronics Life Cycle Management Command, Fort Monmouth, New Jersey (09/30/05)

### **Air Force Audit Agency**

**F-2005-0004-FC2000** Follow-up Audit, Depot Paint and Depaint Operations (04/28/2005)

**F-2005-0005-FC2000** Follow-up Audit, Prepositioned Aircraft Fuel Drop Tanks (04/28/2005)

**F-2005-0006-FC2000** C/KC-135 Global Air Traffic Management Modification (06/14/2005)

**F-2005-0006-FC4000** Mission Direct Additive Requirements (07/11/2005)

**F-2005-0007-FC4000** Cargo Processing (07/14/2005)

**F-2005-0007-FC2000** Disposal of Inactive Engines and Associated Aircraft (09/01/2005)

**F-2005-0011-FC1000** KC-135E Special Assessment (09/08/2005)

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## **INFRASTRUCTURE AND ENVIRONMENT**

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### **Army Audit Agency**

**A-2005-0147-ALO** Garrison Utilities and Energy Services, Fort Stewart and Hunter Army Airfield, Georgia (04/07/05)

**A-2005-0181-FFP** Followup on the Audit of Space Utilization of Storage and Warehouse Facilities, U.S. Army Garrison, Hawaii (05/10/05)

**A-2005-0188-ALO** Military Construction Process (05/19/05)

**A-2005-0192-ALO** Army Stationing and Installation Plan, Fort Hood, Texas (05/20/05)

**A-2005-0229-ALW** Followup on Recommendations 3 and 4 Audit Report A-2003-0450-AMW, Anniston Army Depot (07/15/05)

**A-2005-0247-FFE**, Land Use Controls and Monitoring at Formerly Used Defense Sites, U.S. Army Corps of Engineers Louisville District (08/03/05)

**A-2005-0249-ALO** Garrison Utilities and Energy Services, Fort Leonard Wood, Missouri (08/08/05)

**A-2005-0251-FFE** Followup Audit of Disposal Actions at Formerly Utilized Sites, U.S. Army Corps of Engineers (08/08/05)

**A-2005-0256-FFE** Validation of Material Weakness for Unexploded Ordnance (08/19/05)

**A-2005-0257-FFE** Followup Audit of Chemical and Biological Support for Forward Stationed DA Civilians and Contractors (08/19/05)

**A-2005-0262-FFE** Followup Audit of the Army Forestry Program (08/25/05)

**A-2005-0263-FFE** Followup Audit of Hazardous Waste Disposal Volumes and Costs (08/25/05)

**A-2005-0269-ALO** Barracks Sustainment, Restoration, and Modernization, U.S. Army Garrison Fort Eustis, Virginia (08/31/05)

**A-2005-0280-FFE** Followup Audit of Projected Supply and Use of Halon 1301 (09/02/05)

**A-2005-0281-FFE** Followup Audit of Execution of Environmental Projects (09/02/05)

**A-2005-0297-FFE** Followup Audit of Overhead, and General and Administrative Costs on Environmental Subcontracts, U.S. Army Corps of Engineers Baltimore District (09/13/05)

**A-2005-0284-FFC** Operation and Maintenance and Maintenance Backlog, U.S. Army Corps of Engineers, Rock Island District (09/20/05)

**A-2005-0311-ALO** Followup Audit of Recommendations in Audit Report AA 02-098, U.S. Army Garrison, Fort Bragg; Fort Bragg, North Carolina (09/20/05)

**A-2005-0317-FFE** Followup Audit of Management of Chemical Stockpile Sites, U.S. Army Chemical Materials Agency (09/23/05)

**A-2005-0318-FFE** Followup Audit of Administering Service Contracts, III Corps and Fort Hood, Texas (09/23/05)

**A-2005-0324-FFC** Operations and Maintenance Backlog, U.S. Army Engineer District, Tulsa (09/29/05)

**A-2005-0333-ALO** Barracks Sustainment, Restoration, and Modernization, U.S. Army Garrison, Fort Leonard Wood, Missouri (09/30/05)

**A-2005-0334-FFE** Motor Vehicle and Occupational Health Safety Programs (09/30/05)

### **Naval Audit Service**

**N-2005-0045** Management of Naval Air Station, Sigonella Housing Department (06/08/05)

### **Air Force Audit Agency**

**F-2005-0006-FD1000** Qualified Recycling Program (09/08/2005)

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## **BASE REALIGNMENT AND CLOSURE**

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### **DoD OIG**

**D-2005-049** Joint Chiefs of Staff Data Call Submissions and Internal Control Processes for Base Realignment and Closure 2005 (04/13/05)

**D-2005-050** American Forces Information Service's Data Call Submissions and Internal Control Processes for Base Realignment and Closure 2005 (04/13/05)

**D-2005-052** TRICARE Management Activity Data Call Submissions and Internal Control Processes for Base Realignment and Closure 2005 (04/21/05)

**D-2005-058** Defense Advanced Research Projects Agency's Data Call Submissions and Internal Control Processes for Base Realignment and Closure 2005 (05/06/05)

**D-2005-060** Defense Security Service's Data Call Submissions and Internal Control Processes for Base Realignment and Closure 2005 (05/06/05)

**D-2005-063** Missile Defense Agency Data Call Submissions and Internal Control Processes for Base Realignment and Closure 2005 (05/10/05)

**D-2005-064** Defense Contract Management Agency Data Call Submissions and Internal Control Processes for Base Realignment and Closure 2005 (05/06/05)

**D-2005-068** Defense Legal Services Agency Data Call Submissions and Internal Control Processes for Base Realignment and Closure 2005 (05/09/05)

**D-2005-070** Defense Information Systems Agency Data Call Submissions and Internal Control Processes for Base Realignment and Closure (BRAC) 2005 (05/10/05)

**D-2005-071** Defense Security Cooperation Agency's Data Call Submissions and Internal Control Processes for Base Realignment and Closure 2005 (05/10/05)

**D-2005-072** Defense Threat Reduction Agency's Data Call Submissions and Internal Control Processes for Base Realignment and Closure 2005 (05/10/05)

**D-2005-057** Office of Economic Adjustment Data Call Submission and Internal Control Processes for Base Realignment and Closure 2005 (05/11/05)

**D-2005-073** Department of Defense Education Activity Data Call Submissions and Internal Control Processes for Base Realignment and Closure 2005 (05/12/05)

**D-2005-066** Defense Technology Security Administration Data Call Submissions and Internal Control Processes for Base Realignment and Closure 2005 (05/20/05)

**D-2005-067** Defense Contract Audit Agency Data Call Submissions and Internal Control Processes for Base Realignment and Closure 2005 (05/27/05)

**D-2005-075** Defense Finance and Accounting Service Data Call Submissions and Internal Control Processes for Base Realignment and Closure 2005 (05/27/05)

**D-2005-076** Defense Human Resource Activity's Data Call Submissions and Internal Control Processes for Base Realignment and Closure (BRAC) 2005 (05/31/05)

**D-2005-081** Supply and Storage Joint Cross-Service Group Data Integrity and Internal Control Processes for Base Realignment and Closure 2005 (06/06/05)

**D-2005-082** Industrial Joint Cross-Service Group Data Integrity and Internal Control Processes for Base Realignment and Closure 2005 (06/09/05)

**D-2005-084** Education and Training Joint Cross-Service Group Data Integrity and Internal Control Processes for Base Realignment and Closure 2005 (06/10/05)

**D-2005-086** Technical Joint Cross-Service Group Data Integrity and Internal Control Processes for Base Realignment and Closure 2005 (06/17/05)

**D-2005-088** Defense Logistics Agency Data Call Submissions and Internal Control Processes for Base Realignment and Closure 2005 (06/27/05)

**D-2005-089** Medical Joint Cross-Service Group Data Integrity and Internal Control Processes for Base Realignment and Closure 2005 (07/07/05)

**D-2005-079** Washington Headquarters Services Data Call Submissions and Internal Control Processes for Base Realignment and Closure 2005 (07/08/05)

**D-2005-080** Office of the Secretary of Defense, Director of Administration and Management Data Call Submissions and Internal Control Processes for Base Realignment and Closure 2005 (07/08/05)

**D-2005-090** Headquarters and Support Activities Joint Cross-Service Group Data Integrity and Internal Control Processes for Base Realignment and Closure 2005 (07/15/05)

### **Naval Audit Service**

**N-2005-0042** Risk Assessment of the Department of the Navy Base Realignment and Closure 2005 Information Transfer System (04/25/05)

**N-2005-0046** The Department of the Navy's Implementation of the FY 2005 Base Realignment and Closure Process (06/10/05)

### **Air Force Audit Agency**

**F-2005-0004-FB4000** 2005 Base Realignment and Closure - Installation Visualization Tool Data Reliability (06/16/2005)

**F-2005-0007-FB2000** BRAC Cueing and Analysis Tools (06/22/2005)

**F-2005-0009-FB2000** BRAC Facility Analysis Capability Tool (08/08/2005)

**F-2005-0005-FD1000** Quick Reaction Report of Audit, Base Realignment and Closure Disposition Planning (09/21/2005)

**F-2005-0007-FB4000** 2005 Base Realignment and Closure - Joint Action Scenario Team Data Collection (09/27/2005)

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## **OTHER**

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### **DoD OIG**

**D-2005-107** Controls Over Joint Strike Fighter (JSF) Technology (FOR OFFICIAL USE ONLY) (09/30/05)

### **Naval Audit Service**

**N-2005-0058** Naval Audit Service Opinion on Proposed Fiscal Year 2005 Statement of Assurance (FOR OFFICIAL USE ONLY) (09/14/05)

**N-2005-0061** Opinion Letter - Peer Review of the Air Force Audit Agency (09/23/05)

**N-2005-0062** Letter of Comments - Peer Review of the Air Force Audit Agency (09/23/05)

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

<b>Audit Reports Issued</b>	<b>Potential Monetary Benefits</b>	
	<b>Disallowed Costs</b>	<b>Funds Put to Better Use</b>
<b>There were no DoD OIG audit reports claiming Potential Monetary Benefits issued during the reporting period.</b>	N/A	N/A
<b>Totals</b>		

\* 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**

<b>DECISION STATUS OF INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE (\$ in thousands)</b>		
<b>Status</b>	<b>Number</b>	<b>Funds Put to Better Use<sup>1</sup></b>
A. For which no management decision had been made by the beginning of the reporting period.	20	\$95,600
B. Which were issued during the reporting period.	70	0
Subtotals (A+B)	90	95,600
C. For which a management decision was made during the reporting period.	68	95,600
(i) dollar value of recommendations that were agreed to by management		
- based on proposed management action		95,600
- based on proposed legislative action		
(ii) dollar value of recommendations that were not agreed to by management		
D. For which no management decision has been made by the end of the reporting period.	22	0
Reports for which no management decision was made within 6 months of issue (as of September 30, 2005).	3 <sup>2</sup>	0
<sup>1</sup> There were no OIG DoD audit reports issued during the period involving "questioned costs." <sup>2</sup> 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, 2005. Action to achieve a decision is on hold pending a Secretary of Defense decision on recapitalization of the tanker program. OIG DoD Report No. D-2005-025, "Dod FY 2004 Implementation of the Federal Information Security Management Act for Information Technology Training and Awareness," December 14, 2004; and OIG DoD Report No. D-2005-029, "Management of Information Technology Resources within DoD," January 27, 2005, also had no management decision as of September 30, 2005.		

\*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<sup>1</sup>**  
**(\$ in millions)**  
**April 1, 2005 through September 30, 2005**

Type of Audit <sup>2</sup>	Reports Issued	Amounts Examined	Questioned Costs <sup>3</sup>	Funds Put to Better Use
Incurring Costs, Ops Audits, Special Audits	14,807	\$77,934.3	\$1,196.3	\$364.2 <sup>4</sup>
Forward Pricing Proposals	5,169	\$81,805.1	--	\$3,561.8 <sup>5</sup>
Cost Accounting Standards	1,349	\$1,099.7	\$84.2	--
Defective Pricing	387	(Note 6)	\$27.3	--
<b>Totals</b>	<b>21,712</b>	<b>\$160,839.1</b>	<b>\$1,307.8</b>	<b>\$3,926</b>

<sup>1</sup>This schedule represents Defense Contract Audit Agency (DCAA) contract audit reports issued during the 6 months ended September 30, 2005. 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.

<sup>2</sup>This schedule represents audits performed by DCAA summarized into four principal categories, which are defined as:

Incurring 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).

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

<sup>4</sup>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.

<sup>5</sup>Represents potential cost reductions that may be realized during contract negotiations.

<sup>6</sup>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<sup>1</sup>**  
**(\$ in millions)**  
**Period ending September 30, 2005**

	Number of Reports	Costs Questioned	Disallowed Costs <sup>6</sup>
<b>Open Reports:</b>			
Within Guidelines <sup>2</sup>	540	\$1,087.0	N/A <sup>7</sup>
Overage, greater than 6 months <sup>3</sup>	416	\$1,118.5	N/A
Overage, greater than 12 months <sup>4</sup>	255	\$725.6	N/A
In Litigation <sup>5</sup>	84	\$1,835.1	N/A
<b>Total Open Reports</b>	1,295	\$4,766.2	N/A
<b>Closed Reports</b>	391	\$844.6	\$176.7 (20.92%)
<b>All Reports</b>	1,686	\$5,610.8	N/A

<sup>1</sup>This schedule represents the status of Defense Contract Audit Agency reports on incurred costs, defective pricing, equitable adjustments, accounting and related internal control systems, 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.

<sup>2</sup>These reports are being processed within the time frames established by OMB Circular A-50, "Audit Follow-up," and DoD Directive 7640.2 as described in footnotes 3 and 4 below.

<sup>3</sup>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.

<sup>4</sup>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, the contracting officer issues a final decision pursuant to the Disputes Clause, or the report is superseded.

<sup>5</sup>Of the 84 reports in litigation, 5 are under criminal investigation.

<sup>6</sup>Disallowed costs are costs sustained by the contracting officer in negotiations with contractors.

<sup>7</sup>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 therefore, no reviews were made by the OIG.**

# Hurricane Relief Fraud Hotline

If you have knowledge of fraud, waste, abuse, or allegations of mismanagement involving hurricane relief operations, you can:

- Call the Hurricane Relief Fraud Hotline at (866) 720-5721
- Fax the Hurricane Relief Fraud Hotline at (703) 604-8567
- Email: [katrinafraud@dodig.mil](mailto:katrinafraud@dodig.mil)
- Or write: Hurricane Relief Hotline  
Washington, D.C. 20301-1900

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*Calls can be made anonymously  
and confidentially*

**hotline**

Send written complaints to:  
Defense Hotline, The Pentagon, Washington, D.C. 20301-1900  
You may also contact us by phone at 800.424.9098  
e-mail [hotline@dodig.mil](mailto:hotline@dodig.mil) or [www.dodig.mil/hotline](http://www.dodig.mil/hotline)

To report fraud, waste, mismanagement, and abuse of authority within the Department of Defense



Friedrich Wilhelm Augustus von Steuben was the Inspector General 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



This report, as well as audit report and testimony text, are available on the Internet at: [www.dodig.mil](http://www.dodig.mil)  
Additional information on or copies of this report may be obtained by writing or contacting:

Office of the Inspector General of the Department of Defense  
Office of Communications and Congressional Liaison  
400 Army Navy Drive, Arlington, VA 22202-4704  
Mr. John R. Crane 703-604-8324; DSN 664-8324

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 1, SECTION 9.