Audit Report

ADMINISTRATION AND MANAGEMENT OF THE ARMED FORCES INSTITUTE OF PATHOLOGY

Report No. 00-010 October 15, 1999

Office of the Inspector General
Department of Defense

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Acronyms

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MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (HEALTH AFFAIRS)
AUDITOR GENERAL, DEPARTMENT OF THE ARMY
DIRECTOR, ARMED FORCES INSTITUTE OF PATHOLOGY

SUBJECT: Audit Report on the Administration and Management of the Armed Forces Institute of Pathology (Report No. 00-010)

We are providing this report for review and comment. We conducted the audit at the request of the Acting Assistant Secretary of Defense (Health Affairs). We considered management comments on a draft of this report in preparing the final report.

DoD Directive 7650.3 requires that all unresolved issues be resolved promptly. Comments from the Department of the Army regarding initiating actions to recoup payments made to the American Registry of Pathology for distinguished scientists in excess of established thresholds and losses incurred operating the cafeteria, and regarding centralization of procurement and maintenance for office equipment and computers were partially responsive. In addition, comments did not provide specifics on its budget and long-range program for upgrading and replacing computers and printers. Therefore, we request that the Director, Armed Forces Institute of Pathology, provide additional comments on Recommendations A.6., A.11., A.12., and A.13. We request that management provide comments by December 14, 1999.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Harlan M. Geyer at (703) 604-9174 (DSN 664-9174), e-mail hgeyer@dodig.osd.mil, or Mr. Richard A. Brown at (703) 604-8630 (DSN 664-8630), e-mail rbrown@dodig.osd.mil. See Appendix B for the report distribution. Audit team members are listed inside the back cover.

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Assistant Inspector General for Auditing
Office of the Inspector General, DoD

Report No. 00-010 (Project No. 8LA-5028.01)  
October 15, 1999

Administration and Management of the  
Armed Forces Institute of Pathology

Executive Summary

Introduction. On March 19, 1998, the Acting Assistant Secretary of Defense (Health Affairs) requested an external review of the Armed Forces Institute of Pathology (AFIP). This is the second of two reports on the administration and management of the AFIP. The previous report discussed controls over case-related material at AFIP.

The AFIP supports DoD and serves the American people by providing medical expertise in diagnostic consultation, education, and research to enhance and promote the health and well being of the civilian and military populations served. AFIP carries out its mission through a worldwide program of medical consultation, education, and research in partnership with government, academic, and private sector organizations. On July 14, 1976, Congress enacted Public Law 94-361, which amended title 10, United States Code, chapter 7 by adding Section 176, “Armed Forces Institute of Pathology (AFIP),” and Section 177, “American Registry of Pathology (ARP).” Section 176 established AFIP as a joint entity of the Military Departments subject to the authority, control, and direction of the Secretary of Defense. It was authorized to contract with ARP for cooperative enterprises in medical consultation, education, and research between AFIP and the civilian medical profession. Section 177 established ARP as a 501(C)(3) nonprofit corporation to provide support to AFIP in advancing its civilian and military pathology pursuits and to serve as the fiscal intermediary between AFIP and outside entities. As such, ARP was authorized to accept gifts and grants from and enter into contracts with governmental and non-governmental agencies and to charge fees for its professional services. FY 1999 appropriations for AFIP totaled about $50.7 million.

Objectives. The overall objective of the audit was to evaluate the administration and management of AFIP. Specifically, we reviewed the AFIP budget and funding processes, procurement practices and procedures, and AFIP and ARP cooperative enterprises. We also evaluated the adequacy of the management control program as it applied to the objective.

Results. AFIP did not adequately administer and manage its facility renovations of about $1.5 million, distinguished scientists program that costs about $2.1 million per year, travel by ARP contract employees of approximately $17,000 for FY 1999, AFIP travel of about $16,000 for FY 1999, and equipment and maintenance accounts for FY 1999. As a result, AFIP was reimbursing ARP unnecessarily for renovations not covered by the contract and had no assurance that it was operating in an economical and efficient manner (finding A).

AFIP had no assurance that revenues of about $2.9 million annually were accounted for and properly expended in support of the AFIP and ARP cooperative enterprises. As a result, AFIP could not be certain that its cooperative enterprises with ARP were administered and managed economically and efficiently (finding B).
See Appendix A for details on the management control program as it relates to controls over facility renovations, distinguished scientists program, travel accounts, equipment and maintenance accounts, and cooperative enterprises.

Summary of Recommendations. We recommend that the Director, AFIP establish controls to ensure the implementation of DoD policy on the acceptance, receipt, use, and reporting of monetary and nonmonetary contributions; ensure that construction, renovation, and repair work is in compliance with the installation's real property maintenance plans; and maintain work order files for remediation and renovation projects, repairs, and utility services for the facilities. We also recommend that the Director, AFIP develop and establish policies and procedures for reviewing, rescinding, and updating memorandums of agreement and memorandums of understanding to ensure their accuracy and to reflect current business practices; determine overpayments for distinguished scientists and initiate actions to recoup excess payments to ARP; and request changes in the procedures for travel authorization and reimbursement approval for ARP travel under the umbrella contract. In addition, we recommend that procedures be developed for processing travel funded by non-Federal sources; that the Automation Management Services Division be designated as the central point for procurement and maintenance of computers, facsimile machines, photocopy machines, and printers; and that actions be initiated to recoup payments made to ARP for losses incurred operating its cafeteria. We further recommend that the memorandum of understanding and annexes be updated to clearly define fiscal functions and responsibilities and decisionmaking processes for the cooperative enterprises. Finally, we recommend that AFIP develop written policies and procedures to ensure proper accounting for funds generated and expended in support of the cooperative enterprises.

Management Comments. Although not required to comment, the Deputy Assistant Secretary of Defense (Health Operations Policy) provided comments, incorporating comments from the Director, AFIP. The Deputy Assistant Secretary of Defense generally concurred with the report and the AFIP comments. The Assistant Secretary of the Army (Manpower and Reserve Affairs) also provided comments, forwarding the comments of the Director, AFIP. The Army generally concurred with the report, stating that it is actively engaged with the Surgeon General and AFIP to help ensure that deficiencies found during the audit are corrected and do not recur. The Director, AFIP nonconcurred with two recommendations in finding A that relate to recouping excess payments made to ARP for distinguished scientists and for losses incurred operating its cafeteria. The Director partially concurred with two recommendations in finding A that relate to the procurement and maintenance of computers, facsimile machines, photocopy machines, and printers, citing compatibility issues. The Director concurred with the other recommendations and provided details of actions underway and planned, most of which he expected to complete by or during October 1999. A discussion of management comments is in the Findings section of the report, and the complete text is in the Management Comments section.

Audit Response. We consider the Director, AFIP comments to be partially responsive. We do not agree with the Army's reasons for not recouping payments. We also believe that the recommendations concerning the procurement and maintenance of computers, facsimile machines, photocopy machines, and printers will result in improved management controls and use of funding without adversely affecting compatibility. We request that the Director, AFIP reconsider his position and provide additional comments in response to the final report by December 14, 1999.
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Background

Introduction. On July 14, 1976, Congress enacted Public Law 94-361, which amended title 10, United States Code, chapter 7 by adding section 176, "Armed Forces Institute of Pathology (AFIP)," and section 177, "American Registry of Pathology (ARP)." Section 176 established AFIP as a joint entity of the Military Departments subject to the authority, control, and direction of the Secretary of Defense, authorized to contract with ARP for cooperative enterprises in medical consultation, education, and research between AFIP and the civilian medical profession. Also, AFIP is authorized to contract with ARP for the services of professional technical or clerical personnel deemed necessary to carry out their cooperative enterprises. Section 177 established ARP as a 501(C)(3) nonprofit corporation, which shall not be for any purpose an agency or establishment of the United States Government. ARP is to provide support to AFIP in advancing its civilian and military pathology pursuits. It authorized ARP to serve as a focus for the interchange between civilian and military pathology and to enter into contracts with AFIP for personnel and services necessary to carry out their cooperative enterprises. ARP is also authorized to enter into agreements with professional societies for the establishment and maintenance of Registries of Pathology. A registry is a collection of rare and unique cases of disease to include cardiovascular, oral and maxillofacial, neuropathology, and AIDS and emerging infectious disease. As of FY 1998 there were 42 registries. ARP accepts gifts and grants from and enters into contracts with governmental and non-governmental agencies, acts as a fiscal intermediary, and charges fees for professional services.

ARP Contract. On October 1, 1994, AFIP awarded ARP a cost-reimbursement, level of effort (task order), contract that would furnish qualified personnel to perform services as required by AFIP. The period of performance consisted of a 1-year base period plus four 1-year options for the delivery of 626,100 staff hours for each year. The estimated total cost for the base and option years of the contract was about $89.2 million for direct costs, other direct costs, and indirect costs.

AFIP Budget and Personnel. The AFIP appropriated budget for FY 1999 was about $50.7 million and included reimbursable expenses of about $1.8 million. As of January 1999, AFIP consisted of about 820 individuals, of which 305 were Department of the Army civilians; 223 were military officers and enlisted personnel; 23 were Department of Veterans Affairs employees; and 272 were ARP employees. The Department of Veterans Affairs funded the 23 positions at a cost of $1.2 million.

Objectives

The overall objective of the audit was to evaluate the administration and management of AFIP. Specifically, we reviewed the AFIP budget and funding
processes, procurement practices and procedures, and AFIP and ARP cooperative enterprises. We also evaluated the adequacy of the management control program as it applied to the objective. This is the second of two reports on the administration and management of the AFIP. The previous report discussed controls over case-related material at AFIP. See Appendix A for a discussion of the scope and methodology and the management control program and for a summary of prior coverage.
A. Armed Forces Institute of Pathology Administration and Management of Operations

AFIP did not adequately administer and manage its facility renovations, distinguished scientists program, travel by ARP contract employees, AFIP travel funded by non-Federal sources, and equipment and maintenance accounts. Inadequacies occurred because AFIP had:

- not complied with DoD and Army regulations on facility renovations of about $1.5 million,

- established conflicting policies and procedures, which were also not followed, in administering the distinguished scientists program,

- conducted ineffective oversight and validation of ARP contract employees’ travel of about $17,000 for FY 1999,

- not fully complied with specific requirements for about $16,000 of FY 1999 AFIP travel funded by non-Federal sources, and

- made no centralized organization responsible for the determination of requirements for procurement and maintenance of equipment.

As a result, AFIP had been and will continue to reimburse ARP unnecessarily for renovations not covered by the contract and had no assurance that it was operating in an economical and efficient manner.

Facility Renovations

AFIP had not adequately administered and managed its facility renovations totaling about $1.5 million. Specifically, AFIP had not complied with DoD and Army regulations on facility renovations by allowing ARP to renovate its facility without written approval. As a result, AFIP had reimbursed and will continue to reimburse ARP unnecessarily for renovations not covered by ARP contract DAMD17-94-C-4185, for personnel and services.

Public Law. Section 176, title 10, United State Code (10 U.S.C. 176) authorizes AFIP to make available, at no cost to ARP, equipment, facilities, space, and support services within AFIP as the Board of Governors deems necessary for the accomplishment of their mutual cooperative enterprises.

1996 with changes through June 1998, requires the DoD Component accepting nonmonetary contributions to document information, such as descriptions, estimated value of contribution, and name of contributor, before acceptance and to maintain the information for reporting.

**Army Regulation.** Army Regulation 420-10, "Management of Installation Directorate of Public Works," April 15, 1997, requires that construction, maintenance, or repair work funded by tenant activities be coordinated with and approved by the Directorate of Public Works, regardless of the source of funds or method of accomplishment. The Regulation also requires written project approval to be obtained before the work is started. Projects funded by tenant activities or financed by the private sector must be coordinated and approved through host command channels, regardless of the source of funds.

**AFIP Regulation.** AFIP Regulation 10-5, "Organization and Functions Manual," September 1, 1996, requires its Facilities Management and Service Branch to maintain work order files for repairs and utility services, renovation projects, and new work requirements.

**Cafeteria and Adjacent Conference Room.** In October 1994, the Army and Air Force Exchange Service discontinued its snack bar operation in the AFIP facility because it had been operating at a loss for about 22 months. Because employees working in laboratory spaces were not permitted to eat meals at their workstation, ARP proposed to convert part of the snack bar space into a cafeteria to provide its employees an eating place. The remaining space was converted into a conference room.

**Project Approval.** AFIP failed to obtain written approval for the renovation of the cafeteria and conference room in accordance with Army Regulation 420-10. Rather, AFIP obtained verbal approval from the Commander, Walter Reed Army Medical Center, who required that the Directorate of Public Works be involved, and allowed ARP to proceed with the renovation. Army Regulation 420-10 states that project work cannot proceed unless written approval is obtained to ensure that all construction, maintenance, or repair work is in accordance with the installation's real property management plans. The review and approval process also ensures that work accomplished does not violate Federal or state laws; DoD or Army regulations; building and construction codes, standards, and criteria; and installation facility standards. The process also ensures that work accomplished does not exceed any local utility infrastructure capabilities.

The Directorate of Public Works did not accept the ARP architect's proposed design. In an undated memorandum, the Director, Public Works pointed out numerous problems in the ARP architect's proposed design. For example, the design did not address the impact the project would have on the Logistics Department located on the floor below it. Most of those ceilings would have to be demolished to provide access to the existing plumbing system, which may contain asbestos, and to install the new plumbing system. Also, the drawings did not
include a demolition plan for the existing cafeteria and the electrical system. Furthermore, the drawings did not show all smoke detectors, specify wire and conduit sizes, and show wiring for fire alarm and smoke detector systems. On February 22, 1995, the Directorate of Public Works advised AFIP that construction for the cafeteria could not commence until Public Works had reviewed and approved the construction design and documents. ARP subsequently proceeded with the renovation; however, we could not determine whether the identified architectural problems were resolved before renovation. Neither AFIP, ARP, nor the Directorate of Public Works had records confirming that design problems had been corrected and that approval to proceed with the renovation had been granted.

**Renovation Costs.** AFIP failed to ensure that renovation costs for the cafeteria and adjacent facilities were to be borne solely by ARP. As a result, AFIP had reimbursed and will continue to reimburse ARP unnecessarily for renovations not covered by the personnel and services contract. On June 14, 1995, ARP opened its cafeteria. Because ARP paid for the renovations and planned to use cafeteria profits to recoup the renovation costs, AFIP believed that the renovation was a gift from ARP and that it was accomplished at no cost to AFIP. However, AFIP did not make sure that the renovation was a gift. AFIP did not comply with DoD Regulation 7000.14-R, requiring the DoD Component accepting nonmonetary contributions to document information, such as description, estimated value of contribution, and name of contributor, before acceptance and to maintain the information for reporting. At the end of FY 1995, ARP charged $750,000 in renovation costs via the indirect cost pool. Although a Defense Contract Audit Agency review of incurred costs for FY 1995 determined that about $214,000 were considered reasonable, ARP argued that the renovation of the cafeteria was done in furtherance of the common and joint objectives of the AFIP and ARP enterprise. As a result, the contracting officer authorized ARP to amortize the remaining renovation costs of approximately $536,000 over a 10-year period.

**Dart Auditorium and Front Lobby.** In FY 1996, AFIP allowed ARP to perform renovations on the Dart Auditorium and the front lobby. Although the front lobby was properly approved, the Dart Auditorium work was performed without proper coordination and approval from the Directorate of Public Works as required by Army Regulation 420-10. As a result of a suggestion received at an ARP registrars’ forum, ARP sent a memorandum to AFIP stating that the Dart Auditorium was in dire need of renovation and that with AFIP approval, it would proceed with the renovation. Because AFIP believed that the renovation was a gift and would be accomplished at no cost to the Government, AFIP directed that a work request be submitted for the renovations to those areas. During the same fiscal year, AFIP submitted a work request for ARP to renovate the front lobby. The Directorate of Public Works approved the front lobby project, which was to facilitate business and present AFIP and ARP in a light appropriate for their status in the medical community. The estimated cost of the project was $8,000 and ARP was to pay for it. However, AFIP failed to comply with DoD Regulation 7000.14-R, which requires the DoD Component accepting
nonmonetary contributions to document information, such as description, estimated value of contribution, and name of contributor, before accepting the contribution and to maintain the information for reporting. In FY 1996, ARP charged AFIP approximately $375,000 of renovation costs for the projects via the indirect cost pool.

**Owens Conference Center and Seven Restrooms.** In FY 1997, AFIP again allowed ARP to renovate the facility without proper approval from the Directorate of Public Works. Also, AFIP failed to comply with Army Regulation 420-10 that requires a review and approval process to ensure that work accomplished does not violate Federal or state laws; DoD or Army regulations; building and construction codes, standards, and criteria; and installation facility standards. It also requires that work does not exceed any local utility infrastructure capabilities. AFIP believed that the renovations were gifts that would be accomplished at no cost to the Government. However, it failed to comply with DoD Regulation 7000.14-R and did not document the required information for reporting purposes.

**Owens Conference Center.** Although a work request was submitted for the renovation of the Owens Conference Center, the Directorate of Public Works denied the request because it lacked the required drawings and specifications. However, AFIP permitted ARP to proceed with the renovations to the conference center. We found no documented evidence to show that further coordination and approval was obtained before the renovations.

**Restrooms.** In the same fiscal year, AFIP submitted a work order for ARP to renovate four restrooms or latrines. Approved by the Directorate of Public Works, three restrooms were equipped with showers and lockers for those participating in athletic programs and one restroom was equipped to accommodate handicapped personnel. In addition, AFIP allowed ARP to renovate three additional restrooms without approval from the Directorate of Public Works. Two of the three restrooms were spaces converted from janitor and storage closets and one was an existing restroom. Except for one restroom, at a cost of approximately $32,000, which was converted from a janitor’s closet for an AFIP employee’s personal use, ARP charged AFIP for the renovation to the facility. Approximately $527,000 was charged for renovations to the Owens Conference Center and six restrooms and billed as indirect costs.

**Renovation of ARP Office Space.** By FY 1998, ARP no longer consulted with AFIP about renovating facility space. For example, ARP began renovating its office space without AFIP knowledge. AFIP did not learn of the renovation until the AFIP contracting officer representative (COR) visited the room being renovated and noticed that the carpet had been removed and that the flooring underneath the carpet consisted of 9-inch square tiles containing asbestos. Because ARP had already begun the renovation and had uncovered and uprooted the asbestos-laden tiles, AFIP authorized ARP to continue with the project. AFIP indicated that the renovation would be accomplished at no cost to the Government and it would be under the supervision and guidance of the Directorate of Public Works, Walter Reed Army Medical Center.
Proposal for Carte-Blanche Approval of Renovations. On November 13, 1998, because the contracting officer had allowed renovation costs for the cafeteria and adjacent facilities, ARP submitted to AFIP a proposed memorandum of agreement for renovations. ARP proposed carte-blanche approval for costs incurred for renovations performed during FY's 1996 and 1997 and for any future renovations that ARP may perform in the AFIP building. ARP was also proposing carte-blanche approval for renovation costs to be recouped by amortizing them over a 10-year period in its indirect cost pool, similar to the way the cafeteria costs were handled.

Corrective Action by AFIP. On February 16, 1999, the Director, AFIP, responded to the proposed memorandum of agreement for renovations. The Director stated that the ARP memorandum was not in the best interest of the Government and did not agree with the terms of the proposal. The Director further stated that AFIP would manage and execute future architectural improvements, maintenance, renovations, repairs, and other similar physical alterations of Government facilities under its control. The Director also stated that any renovation, whether sought by AFIP or ARP employees, would be accomplished using proper Government approval and procurement policies.

Distinguished Scientists Program

AFIP did not adequately administer and manage its distinguished scientists program costing about $2.1 million per year, because its policies and procedures were conflicting.

Distinguished Scientists. 10 U.S.C. 176(c) authorizes AFIP to enter into agreements with ARP to obtain the services of distinguished pathologists or scientists with demonstrated abilities and experiences for the purpose of enhancing the activities of the AFIP in consultation, education, and research. AFIP acquires the support of distinguished pathologists or scientists from ARP by way of a memorandum of understanding and separate memorandums of agreement for each distinguished pathologist or scientist. Generally assigned to administrative positions as chairman or co-chairman of departments within the Center for Advanced Pathology, distinguished pathologists or scientists provide authoritative national and international consultations and medical education and conduct state of the art scientific research programs. On September 30, 1998, the Assistant Secretary of Defense (Health Affairs) approved the AFIP August 20, 1998, request for reappointment of 13 distinguished pathologists or scientists through September 30, 2000, at a cost of about $2.1 million per year.

Conflicting Policies and Procedures. AFIP business practices for acquiring distinguished scientist support did not conform to its policy. On September 3, 1990, AFIP and ARP signed a memorandum of understanding, “Consolidated Services Agreement for Cooperative Enterprises.” Annex 3 of the memorandum of understanding established the reimbursement policy for distinguished
scientists' services. It states that the cost for each distinguished pathologist or scientist will include the individual's base salary, the ARP fringe benefits, and the ARP related indirect costs. Further, those costs shall not exceed $200,000 for each individual per fiscal year. Subsequently, AFIP developed, signed, and issued individual memorandums of agreement for each distinguished scientist without reviewing and rescinding or updating the memorandum of understanding with ARP that governs the program. Our review of the individual scientists' memorandums of agreement showed that 4 of the 13 distinguished scientists exceeded the total salary costs threshold of $200,000 by about $10,500 to about $21,500. We also noted that five additional distinguished scientists could exceed the threshold during the period of authorization if a cost-of-living increase is granted.

Requirements for Distinguished Scientists. AFIP was not complying with distinguished scientist qualifications that require the individual to be a medical doctor and licensed to practice medicine in the District of Columbia. To be selected as a distinguished scientist, the individual should meet the requirements of the statement of duties for the position. The statement of duties requires an individual to be:

... a Doctor of Medicine (M.D.); licensed to practice medicine in the District of Columbia; board certified in Anatomic Pathology; to have achieved respect and recognition as a national and international expert in the field of (specialty) as a consultant, researcher, and educator; and to have demonstrated ability to obtain broad support and cooperation for programs from a wide cross section of civilian professional personnel and organizations.

Two distinguished scientists at AFIP did not meet the requirements to be a medical doctor and to be licensed to practice medicine in the District of Columbia. One distinguished scientist assigned as a forensic anthropologist possessed a Doctor of Philosophy degree in Anthropology rather than the required Doctor of Medicine degree. The other distinguished scientist was assigned as Chair, Department of Repository and Research Services and possessed a Doctor of Veterinary Medicine degree and a Doctor of Philosophy degree in Chronic Disease Epidemiology, but not a Doctor of Medicine degree.

Supporting Documentation. AFIP had not been adequately validating invoices and timecards, base salaries, and medical malpractice insurance premiums. As a result, AFIP was overreimbursing salaries and medical malpractice insurance and was paying for invoices without adequate supporting documentation.

Public Vouchers. The public voucher authorizing payment for the services of distinguished scientists' and the supporting documentation for reimbursement periods did not match. ARP prepared an invoice showing the breakdown of cost (that is, base salary, fringe benefits, medical malpractice insurance premiums, ARP related cost, etc.) for each distinguished scientist on a monthly basis and submitted it along with timecards to the Director, Center for Advanced Pathology. The Director, who has supervisory authority over the distinguished scientists, signed the timecards and prepared a memorandum listing
each distinguished scientist and validating that the invoices correctly reflected the services rendered. The memorandum and invoices were then forwarded to the Financial Management Division, Directorate of Resources Management, for payment authorization. Financial Management Division personnel checked the calculations on the ARP invoices for correctness and prepared a public voucher authorizing the Defense Finance and Accounting Service to pay the invoice.

**Invoices and Timecards.** There were numerous inconsistencies between the invoices and the time periods for all distinguished scientists claimed for 17 of 18 months, ending March 31, 1999. The supporting timecards did not agree with the time periods claimed on the invoices. For example, the Financial Management Division authorized for payment the services of a distinguished scientist for February 1999. The supporting timecard period covered January 23 through February 19, 1999, not February 1 through February 28, 1999. The Financial Management Division also authorized for payment the services of a distinguished scientist for January 1999 without any supporting documentation or timecards. In another example, ARP submitted an invoice for March 1999 but the supporting timecards were from February 20 through March 19, 1999. Additionally, the timecard showed that the individual worked only 56 hours during the time period, with no indications that the distinguished scientist took any leave. Nonetheless, AFIP paid ARP for the full amount claimed.

**Payments Beyond Base Salary.** AFIP either overpaid or underpaid ARP for distinguished scientists’ base salaries for 14 of 18 months, ending March 31, 1999. For example, an agreement between AFIP and ARP for one distinguished scientist stated that AFIP would pay a base salary of $139,874 per annum and that ARP would invoice AFIP monthly, prorated for a 12-month period ($11,656 per month). ARP billed AFIP $16,139 in salary costs for May 1998. AFIP failed to verify the amount claimed before authorizing the Defense Finance and Accounting Service to make the payment. Thus, AFIP overreimbursed ARP by $5,380, including the associated indirect cost.

**Medical Malpractice Insurance.** The agreement between AFIP and ARP states that the amount of medical malpractice insurance premiums for each distinguished scientist is not to exceed $8,000 per year. The agreement also states that ARP will invoice AFIP for medical malpractice insurance premiums paid annually on a prorated basis over a 12-month period. For the 18-month period ending March 31, 1999, ARP incorrectly invoiced AFIP for medical malpractice insurance premiums. AFIP reimbursed ARP for each claim. For example, during FY 1998 ARP submitted five different invoices for reimbursement for one distinguished scientist’s medical malpractice insurance premiums. Those premiums totaled about $20,600, including indirect costs, and AFIP reimbursed ARP for each claim. In addition, for some distinguished scientists, the costs were improperly applied from December through September, and no charges were billed for the months of October and November.
Travel Approval and Authorization

AFIP did not adequately administer and manage travel by ARP contract employees of approximately $17,000 for FY 1999 and about $16,000 of FY 1999 AFIP travel funded by non-Federal sources. The inadequacies were caused by noncompliance with contract procedures for foreign travel by ARP contract employees and noncompliance with AFIP Regulation 55-2, “Temporary Duty (TDY), Permissive TDY (PTDY), Local Travel, Invitational Travel Orders and Travel Gifts/Benefits from Non-Federal Sources,” January 15, 1997, for AFIP travel funded by non-Federal sources. AFIP approved airfare expenses without proper supporting documentation and had not fully complied with specific requirements for travel funded by non-Federal sources. As a result, AFIP could not adequately track travel funds.

AFIP Policy and Procedures. AFIP Regulation 55-2 establishes policy and procedures for preparing, processing, and issuing travel orders for AFIP employees. The Regulation requires the AFIP Office of Legal Counsel to review all requests for the acceptance of travel funds, subsistence, and related expenses from non-Federal sources. It also establishes a time frame for which travelers are to submit reimbursement claims for travel expenses.

History. The cost-reimbursement level of effort contract DAMD17-94-C-4185 between AFIP and ARP, awarded on October 1, 1994, establishes the travel approval process for travel by ARP contract employees. The Contract Administration Data section of the contract states that the cost of foreign travel is allowable only when written approval of the contracting officer or contract specialist responsible for the administration of the contract is obtained before the trip. The contract requires approval to be requested at least 30 days before the scheduled departure date. During FY 1998, the COR notified the contracting officer that contract employees had been traveling overseas without obtaining prior approval as required by the contract. The ARP contract administrator received travel requests for contract employees to travel overseas but failed to forward the requests to the contracting officer for approval. The contracting officer had authorized payment of the travel expenses without realizing that the employees traveled overseas without obtaining prior approval. Therefore, procedures were established requiring ARP to submit travel requests directly to the contracting officer for approval. However, the procedures did not require a review by the COR to determine whether the travel was necessary, valid, and in support of the contract.

Contract Travel Processing Procedures. During May 1998, corrective action was initiated and the ARP contract administrator began submitting foreign travel requests to the contracting officer 30 days before a traveler’s scheduled departure date, as required by the contract. After the contracting officer approved the travel request, a copy of the approval memorandum was provided to the COR. At the completion of the travel, the contract employee submitted a travel expenses report, travel receipts, and a copy of the travel authorization to the contract administrator for payment by ARP.
ARP reimbursed the contract employee for the travel expenses incurred. ARP also submitted a public voucher for the contract employee’s purchases and services, other than personal, to the COR with a summary of various task orders charges, including travel. The COR reviewed the travel expenses report, travel receipts, and job cost detail reports and referred to the ARP contract employee listing to validate that the traveler was a contract employee hired under the umbrella contract. In addition, the COR reviewed the travel to ensure that the employee obtained prior approval for the travel from the contracting officer, the airfare claimed was consistent with published rates, and the travel expenses were consistent with government travel regulations and allowable under the contract. After validating the expenses, the COR approved the voucher and forwarded it to the contracting officer for payment processing. Finally, the COR used the travel expenses report, travel receipts, and job cost detail reports to create an ARP travel destination spreadsheet, which was used to track travel expenses.

Although AFIP took corrective actions in May 1998 to improve the travel reimbursement process, problems still existed. AFIP was approving airfare expenses for ARP contract employees without proper supporting documentation. Also, AFIP was not complying with the specific requirements of AFIP Regulation 55-2 for travel funded by non-Federal sources. In addition, AFIP was not properly following up and deobligating excess travel expenses.

**Supporting Documentation.** AFIP was approving airfare expenses for ARP contract employees who did not have the proper supporting documentation as required by the contract, and without the assurances that the travel had occurred. During the first 7 months of FY 1999, ARP billed AFIP approximately $7,700 in airfare expenses for 12 ARP contract employees without providing any documentation to show that the travel had actually been completed. In addition, in January 1999, AFIP approved and paid about $1,750 in airfare expenses for two November 1998 trips without any supporting documentation to identify the travelers. ARP stated that it purchased the airline tickets in advance to obtain a reduced rate. Although ARP did not have the appropriate supporting documentation identifying the travelers and indicating that travel was completed, the COR approved the expenses and vouchers for payment processing under the contract task order.

**Complying with Procedures.** AFIP was not complying with the specific requirements of its regulations on acceptance of travel funds, subsistence, and related expenses from non-Federal sources to ensure that acceptance did not create a conflict of interest. In 1998, ARP paid for travel, subsistence, and related expenses in the amount of $16,000 for eight AFIP employees who traveled to Nice, France. Of the eight employees, five did not obtain prior clearance from the travel approving authority with advice of the ethics counselor (the legal counsel) to ensure that acceptance of travel funds, subsistence, and related expenses from ARP did not create a conflict of interest.
Procurement and Maintenance of Equipment

AFIP did not adequately administer and manage its equipment and maintenance accounts. AFIP had no centralized organization responsible for the determination of requirements for procurement and maintenance of equipment. As a result, there was no assurance that equipment, averaging about $1.2 million for FY 1996 through FY 1998, being procured was needed and compatible with existing equipment, or that quantity procurements were being achieved.

Receiving, Inventorying, and Disposing of Equipment. The AFIP Logistics Division (Logistics) was responsible for receiving, inventorying, and disposing of accountable items and maintaining accountability of AFIP property in the property book records. The procedures for receiving new equipment, conducting physical inventories, and disposing of equipment were satisfactory and the accountability of AFIP property and property book records was adequate. However, improvements were needed in the procurement and maintenance of equipment.

Procurement and Maintenance. AFIP had no centralized organization responsible for the determination of requirements for procurement and maintenance of equipment. AFIP had no assurance that the equipment being procured was needed, was compatible with existing equipment, or that quantity procurements were being achieved.

AFIP Regulation 10-5 directs the Automation Management Services Division to plan and coordinate efforts to acquire or develop new automatic data processing, communications, and word processing systems, software, and to satisfy new mission needs. The regulation directs the Automation Management Services Division to advise the Director on all automatic data processing matters, and formulate goals and develop long-range plans and budgets for AFIP. It also states that the Division is to prepare system acquisition plans, justification and approval documentation, and agency procurement requests.

AFIP had a staff of about 820, consisting of government employees and military personnel, as well as ARP contract employees. In February 1999, AFIP equipment accounts listed 1,477 computers, including 99 notebook computers and 36 laptop computers, valued at $6 million; 67 facsimile machines, valued at $131,000; 1,384 monitors, valued at $1.3 million; and 807 printers, valued at $1.3 million. Procurement practices in effect during the review had the separate departments purchasing and maintaining their own equipment with no oversight by any one department. From 1996 through 1998, various departments purchased 803 computers, valued at $2.6 million; 38 facsimile machines, valued at $70,000; 635 monitors, valued at $472,000; and 40 photocopy machines, valued at $449,000. In 1998, AFIP incurred costs of about $48,000 for the maintenance of 53 photocopy machines. AFIP had not considered:
• centralizing requirements for computers and printers;
• sharing equipment, such as facsimile machines, photocopy machines, and printers, to reduce equipment cost; and
• leasing versus purchasing options to reduce equipment and maintenance costs.

Computers and Printers. AFIP had not considered centralizing requirements for computers and printers. AFIP had 1,342 desktop computers and 807 printers. The figures averaged over one and one-half computers and about one printer per employee. We noted that AFIP had not considered the economy of sharing printers nor had it taken advantage of the building being wired for a computer network, both of which would have reduced the need for the number of printers that, currently, averages about one per person. The overall cost to AFIP for the printers was $1.3 million.

Departments are responsible for determining their budgets and long-term goals for automatic data processing equipment. Each department contacts the Automation Management Services Division for a determination of whether the computer systems being purchased would be compatible with AFIP systems. However, the final decision for the procurement of computers is the sole responsibility of the department purchasing the equipment. The Automation Management Services Division can advise staff on automatic data processing matters but have no oversight or approval authority over the actual procurement of software for the computers. If the department or center has the funds, they can procure the item without justifying the purchase to the Automation Management Services Division. If the Automation Management Services Division were to help determine and approve the departments’ requirements it could ensure the economical procurement of computers and printers.

Sharing of Equipment. AFIP had not maximized the use of equipment, such as facsimile machines and photocopy machines, to reduce equipment costs. One facsimile machine was assigned for the use of every 12 employees and one photocopy machine was assigned for the use of every 15 employees. In March 1999, AFIP made the Automation Management Services Division responsible for the procurement of facsimile and photocopy machines.

Lease Versus Purchase Option. AFIP had not considered lease versus purchase options to reduce equipment and maintenance costs. In the past 3 years, the departments purchased 40 photocopy machines at a cost of $449,000. In FY 1998, AFIP incurred maintenance costs for 53 photocopy machines totaling about $48,000, or about $900 per machine. AFIP had not validated the requirements for the photocopy machines before the funds were expended. AFIP also had not considered lease versus purchase options to reduce funding requirements for procurement and associated maintenance costs.

Centralization of Requirements. The accountability for equipment was centralized and the procedures for receiving new equipment, conducting physical
inventories, and disposing of computers by AFIP were satisfactory. In March 1999, AFIP made the Automation Management Services Division responsible for the procurement of facsimile and photocopy machines; however, AFIP had not considered centralizing requirements for computer systems and printers. If leasing, procurement, and maintenance responsibilities for computer systems and printers are centralized, AFIP could ensure the need for and compatibility within AFIP. Therefore, we believe that the Automation Management Services Division should assume the responsibility for developing AFIP requirements for procurement and maintenance of computer systems and printers to ensure the best value for AFIP. Also, the Automation Management Services Division should prepare budgets and long-range plans as required by AFIP Regulation 10-5.

Cafeteria Operations

A memorandum of agreement between the AFIP and ARP, “American Registry of Pathology Cafeteria Operations at the Armed Forces Institute of Pathology,” December 10, 1996, defines the parameters within which ARP would operate the cafeteria within the space AFIP allotted. The agreement states that AFIP would make the space available and provide the utilities for use in the cafeteria and conference facility. ARP was to keep the records of funds spent for the renovation as well as records of profits and losses from the cafeteria operations. Also, ARP was to make records of funds spent and profits and losses available to the Director, AFIP when requested. In addition, at such time when the costs of renovations had been recouped, ARP was to pay a concession fee of 15 percent per month of net profits to AFIP. The agreement does not contain provisions for the sharing of losses incurred from the operations of the ARP cafeteria.

Since the cafeteria opened in June 1995, ARP had incurred operating losses of over $319,000 and had billed approximately $191,000 as indirect costs for the AFIP share of the losses. The cafeteria was solely an ARP venture and as such AFIP should not bear any portion of the losses incurred in operating the cafeteria.

Recommendations, Management Comments, and Audit Response

A. We recommend that the Director, Armed Forces Institute of Pathology:

1. Establish controls necessary to ensure implementation of DoD Regulation 7000.14-R, “Financial Management Regulation Volume 12, Special Accounts, Funds, and Programs,” policy on acceptance, receipt, use, and reporting of monetary and nonmonetary contributions.
Management Comments. The Director, AFIP concurred, stating that AFIP had initiated actions to develop and implement standard operating procedures and establish controls to ensure that services and property received from any sources without compensation are treated as gifts. The Director expected to complete actions in response to the recommendation by September 30, 1999.

2. Establish procedures and controls to ensure that written approval is obtained and that construction, maintenance, and repair work is in compliance with real property management plans of Walter Reed Army Medical Center and that work is accomplished in accordance with building and construction criteria, codes, laws, and standards.

Management Comments. The Director, AFIP concurred, stating that actions had been initiated to develop and implement standard operating procedures to ensure that all future renovations are fully coordinated with the Director, Public Works, Walter Reed Army Medical Center and executed in compliance with applicable laws and regulations. The Director expected to complete actions in response to the recommendation by September 30, 1999.

3. Maintain all work order files for remediation and renovation projects, repairs, and utility services for the facility as required by Armed Forces Institute of Pathology Regulation 10-5, “Organization and Functions Manual.”

Management Comments. The Director, AFIP concurred, stating that the procedures are being developed that will control and document construction and renovation projects. The Director expected to complete actions in response to the recommendation by September 30, 1999.

4. Develop and establish policy and procedures to ensure that the memorandum of understanding between the Armed Forces Institute of Pathology and the American Registry of Pathology and that the individual memorandums of agreement for each distinguished scientist are accurate and reflect current business practice.

5. Review and update annex 3 to the memorandum of understanding between the Armed Forces Institute of Pathology and the American Registry of Pathology, “Consolidated Services Agreement for Cooperative Enterprises,” and the individual memorandums of agreements to ensure that they complement each other.

Management Comments. The Director, AFIP concurred with Recommendations A.4. and A.5., stating that the memorandum of understanding between AFIP and ARP and the individual memorandums of agreement for each distinguished scientist will be updated to ensure that they reflect current business practices and complement each other. The Director added that memorandums will also be reviewed annually. The Director expected to complete actions in response to the recommendations by September 28, 1999.
6. Determine the amount of reimbursement to the American Registry of Pathology for distinguished scientists in excess of the threshold established in annex 3 to the memorandum of understanding and initiate actions to recoup excess payments.

Management Comments. The Director, AFIP nonconcurred, stating that although the discrepancy between annex 3 of the memorandum of understanding and the agreements revealed management weaknesses and a lack of attention to program details, it did not represent a series of overpayments that must be recouped from ARP. He stated that annex 3 provided general guidance for the program and that the individual agreements, approved by the Board of Governors, provided the specific guidance and implicitly superseded the annex. Additionally, the Director stated that he did not perceive a need to recoup the monies because there was no violation of any statutory ceiling on government payments for personnel services.

Audit Response. We agree with the Director that there was no violation of any statutory ceiling on payments for personnel services, and that the Board of Governors approved the individual memorandums of agreement; however, we do not believe that the individual memorandums of agreement provide program guidance because annex 3 to the memorandum of understanding was not rescinded or updated, and, as such, still provides the policy and procedures for reimbursement of distinguished scientists’ services. Therefore, we request that the Director, AFIP reconsider his position and provide additional comments in response to the final report.

7. Review memorandums of agreement for each distinguished scientist and determine monthly costs for salary and fringe benefits and verify the accuracy of invoice amounts and supporting documentation before authorizing payment.

8. Determine whether overpayments were made to the American Registry of Pathology for distinguished scientists’ monthly salary, fringe benefits, and medical malpractice insurance premiums and initiate actions to recover excess payments.

Management Comments. The Director, AFIP concurred with Recommendations A.7. and A.8., stating that the procedures for processing and validating distinguished scientist invoices will be developed and implemented by the contracting officer representative and that the billings are undergoing review and were expected to be adjudicated by September 1999.

9. Request that the contracting officer amend contract DAMD17-94-C-4185 with the American Registry of Pathology to:
   a. Establish requirements and procedures to ensure that the contracting officer representative review travel requests before the traveler’s scheduled departure date.
b. Establish a requirement that supporting documentation for all travel payments be submitted along with American Registry of Pathology invoices for approval and reimbursement.

10. Establish standard operating procedures and controls for processing travel that ensures travelers:

a. Obtain prior approval from the ethics counselor or legal counsel when travel is funded by non-Federal sources.

b. Submit and settle travel claims within 5 days and 30 days, respectively, after completion of travel.

Management Comments. The Director, AFIP concurred with Recommendations A.9. and A.10., stating that the referenced contract is expiring and that the follow-on contract being negotiated will include the provisions for travel approval and reimbursements. The Director also indicated that revised standard operating procedures were being drafted for both AFIP and ARP travel to include legal review for all foreign travel and all travel funded by non-Federal sources. The Director expected to complete actions in response to the recommendations by September 1999.

11. Designate the Automation Management Services Division as the central point for procurement and maintenance of computers, facsimile machines, photocopy machines, and printers.

12. Direct the Automation Management Services Division to:

a. Determine requirements for equipment.

b. Perform lease versus purchase analysis for photocopy machines.

c. Determine economy for sharing equipment like printers considering that the facility contains a wired network.

d. Develop the budget and long-range plans for computers, facsimile machines, photocopy machines, and printers.

Management Comments. The Director, AFIP concurred in part to Recommendations A.11. and A.12., stating that he is reluctant to assign overall responsibility to the Automation Management Services Division for procurement and maintenance of computers, facsimile machines, photocopy machines, and printers. The Director believes that an essential element of the process, the determination of requirements, must remain at the Department Chair level. He also believes that the Department Chairs are best situated to establish requirements that pertain to their scientific and pathologic specialties, as well as to ensure compatibility with existing and often specialized equipment. He indicated
that the Information Management Directorate would take a more active and structured role in analyzing procurement options from a business-sense perspective. Additionally, the Director stated that although the building is wired for workstations, many if not all potential shared printer conversions would require the installation of new cabling. Further, any new cabling will likely incur significant expenses due to asbestos removal requirements. The Director expected to complete actions in response to the recommendations by October 1999.

Audit Response. We consider comments on Recommendations A.11. and A.12. not fully responsive. We agree that the Department Chairs are an essential element in determining requirements and are best situated to establish specific requirements. However, we believe that their involvement can still be effected if the process is centralized rather than a department or center procuring the item without justifying the purchase because it has the funds. Many of the computers and printers being procured are not related to scientific and pathologic specialties and do not require specialized equipment to meet specific needs. We also agree that the AFIP facility may not be wired for all potential shared printers. However, we believe that AFIP should take full advantage of those workstations that can be converted to a shared printer network and thus reduce the overall number of printers. As such, there would be no need to install extra cabling and incur asbestos removal expenses. In addition, AFIP did not provide specifics on its budget and long-range program for upgrading and replacing computers and printers. Therefore, we request that the Director, AFIP reconsider his position and provide additional comments in response to the final report.

13. Initiate actions to recoup payments made to the American Registry of Pathology for losses incurred operating its cafeteria.

Management Comments. The Director, AFIP nonconcurred, stating that until AFIP is able to review the cafeteria financial records and determine whether the losses are excessive or not reflective of an intent to operate on a break-even basis, discussion of recouping cafeteria losses is premature. He stated that provisions of the Federal Acquisition Regulation permit a Government contractor to recover the costs of operating a food service operation if the intent in doing so is to operate on a break-even basis, or if adequate commercial facilities are unavailable. He also indicated that he had serious questions about the reasonableness of losses described in the report, considering that Army and Air Force Exchange Service yearly losses in the 1993-1994 time frame were in the $15,000 to $20,000 range. The Director stated that depending on the outcome of the review, AFIP might seek to limit losses that ARP can recover as indirect costs. As such, the Director indicated that an estimated completion date for the actions in response to the recommendation was not applicable.

Audit Response. We agree with AFIP that reasonable operating losses incident to the ARP operation of the cafeteria as a normal contractor service to its employees are recoverable as an indirect cost in accordance with provisions of the Federal Acquisition Regulation. However, we believe that losses amounting to
$319,000 since opening in June 1995 are excessive compared to the $15,000 to $20,000 yearly losses in the 1993-1994 time frame incurred by the Army and Air Force Exchange Service before it discontinued operations. As such, the Government is indirectly subsidizing an operation that is not reflective of the intent to be operated on a break-even basis. Therefore, we request that the Director, AFIP reconsider his position and provide additional comments in response to the final report.
B. Armed Forces Institute of Pathology and American Registry of Pathology Cooperative Enterprises

AFIP had no assurance that revenues were accounted for and properly expended in support of the AFIP and ARP cooperative enterprises. The condition occurred because AFIP had no control over revenues generated from civilian medical consultations and continuing medical education courses. As a result, AFIP could not be certain that its cooperative enterprises with ARP were administered and managed in an economical and efficient manner.

Controls over Revenues Generated

AFIP had no assurance that revenues generated from civilian medical consultations and continuing medical education courses were accounted for and properly expended in support of the cooperative enterprises. ARP had total control over income and expenses of the registry funds.

Public Law and Guidance

Public Law. Public Law 94-361, 10 U.S.C. 176, authorizes AFIP to contract with ARP for cooperative enterprises in consultation, education, and research. Section 177 authorizes ARP to act as fiscal intermediary and to charge fees for professional services that are deemed appropriate and reasonable.

Memorandum of Understanding. The memorandum of understanding, "Consolidated Services Agreement for Cooperative Enterprises," September 3, 1990, between AFIP and ARP establishes specific policies, cooperative endeavors, or other topics deemed necessary for the orderly conduct of each organization's mission by their respective governing bodies.

Annex 5. Annex 5, "Cosponsored Courses and CME [Continuing Medical Education] Correspondence Study Programs," September 9, 1992, establishes procedures associated with the conduct of courses and other continuing medical education endeavors. In addition, ARP is responsible for establishing course fees and subscription rates in consultation with AFIP, collecting all revenues, and paying all expenses.

Annex 7. Annex 7, "Civilian Consultation Pilot Project," September 3, 1990, establishes the fiscal policy for the Civilian Consultation Pilot Project and
specifies that ARP will function as the fiscal agent responsible for collecting revenues, paying expenses, and maintaining the appropriate accounting data. In addition ARP will establish consultation fees with the concurrence of AFIP.

Consultation Fee Program. DoD budget constraints affected the consultation, education, and research goals of AFIP in FY 1991. To offset the budget constraints, AFIP and ARP established the Civilian Consultation Fee Program to charge fees for specimens received from the civilian community and exempt fees for the Military Departments, Department of Veterans Affairs, foreign hospitals, and cases solicited for their educational and research value. AFIP obtained permission from its Board of Governors in 1990 and instituted a trial program. The plan was to conduct the Civilian Consultation Fee Program for 3 months and analyze the impact on the case material, type and number of cases, and how the money was handled. If this met with the Board's approval, the project was to be expanded to other departments. In January 1991, the Board of Governors determined that the program had progressed well and additional departments began participating in it.

Fiscal Responsibilities. In 1990 AFIP and ARP developed and signed annex 7 to the memorandum of understanding that established the fiscal policy for “Civilian Consultation Pilot Project.” The agreement indicated that ARP would function as the fiscal agent for the project, collecting all revenues, paying all expenses, and maintaining the appropriate accounting data for the program. Furthermore, ARP was to establish the consultation fees with AFIP concurrence. The fee structure was developed based on the prevailing rates charged by the civilian medical community performing similar consultations. Today, the fees for various consultations range from $25 to $1,950 depending on the types of work performed.

In FY 1998, AFIP provided second opinions on over 50,000 difficult-to-diagnose cases. Both AFIP and ARP personnel, under the supervision of the department chairman, co-chairman, or registrar performed the consultation work. Revenues after expenses were to be divided equally between the ARP central fund and the consulting registry. In calendar year 1998, 24 of the 42 registries participated in the Civilian Consultation Fee Program and earned over $1.4 million for work performed on about 22,000 civilian consultations.

Administration of Consultation Fee Program. Since its inception, ARP has administered the Civilian Consultation Fee Program to include the collection of fees and division of funds among the registries based on expenses and proceeds from the collections. ARP did not have written policy and procedures in place to administer the program. For example, methods used to divide the funds and to decide how the funds were to be expended were not clearly defined. The Executive Director and the Director of Operations, ARP were the approving authorities for expending registry funds. Therefore, AFIP was not involved in the decisionmaking process for expending revenues generated from the Civilian Consultation Fee Program.
Permanent Program. Although the Civilian Consultation Fee Program was no longer a pilot project, no other agreement between AFIP and ARP had been developed and issued. Annex 7 of the memorandum of understanding between AFIP and ARP was never updated to establish the fiscal policy for the Civilian Consultation Fee Program. An agreement is needed to establish fiscal and accounting responsibilities as well as provide AFIP with a level of assurance that revenues generated from cooperative endeavors with ARP are adequately accounted for and expended in support of the cooperative enterprises.

Continuing Medical Education Program. The goals of the education program were to provide training in pathology and related areas that meet the needs of the military and civilian community, maintain the high professional standing and reputation of the AFIP, and accredit its postgraduate Continuing Medical Education Program. AFIP and ARP personnel work together to carry out the continuing medical education mission by jointly sponsoring and teaching the courses.

Tuition Fees. AFIP administers the educational aspect of the courses while ARP is the fiscal intermediary for the courses. Fees for the courses are based on costs and industry rates for the same or similar courses. DoD and Department of Veterans Affairs personnel are charged a fee to cover the fixed costs of the course and civilian pathologists are charged tuition fees that are comparative to the prevailing industry rate charged per credit hour. ARP charges 20 percent of the proceeds from the course to cover accounting and administrative expenses and the remainder is credited to the sponsoring registry account. The course expenses (personnel salaries, equipment, course materials, etc.) are paid out of the sponsoring registry proceeds. In FY 1998 AFIP and ARP presented about 43 courses that generated revenues over $1.5 million.

Administration of Continuing Medical Education Program. ARP has total control over income and expenses of the registry funds. The registrars request permission to expend registry funds for various needs. The Executive Director and the Director of Operations, ARP are the approving authorities for expending registry funds. Therefore, AFIP is not involved in the decisionmaking process for expending revenues generated from the Continuing Medical Education Program.

Conclusion

The Civilian Consultation Fee Program and the Continuing Medical Education Program are joint endeavors; therefore, AFIP should be involved in the decisionmaking process for expending the revenues generated from cooperative endeavors with ARP to ensure that the funds are adequately accounted for and properly expended in support of the cooperative enterprises.
Recommendations, Management Comments, and Audit Response

B. We recommend that the Director, Armed Forces Institute of Pathology:


2. Develop written policies and procedures to ensure proper accounting for revenues generated and expended in support of the cooperative enterprises.

Management Comments. The Director, AFIP concurred, stating that the "Consolidated Services Agreement for Cooperative Enterprises" memorandum of understanding between AFIP and ARP is being completely revised and will include policies and procedures to ensure proper accounting for revenues generated and expended in support of the cooperative enterprises. The Director expected to complete actions in response to the recommendations by October 1999.
Appendix A. Audit Process

Scope

We reviewed the processes and records for FY 1995 through April 1999 and analyzed corresponding public law and DoD, Military Department, and AFIP regulations and instructions used to establish, identify, and manage AFIP and ARP cooperative enterprises; building repairs and renovations; equipment purchases; foreign travel; and memorandums of agreement and understanding between AFIP and ARP. We also reviewed AFIP budget and funding processes, building renovation and repair processes, requirements for distinguished scientist support, procurement practices and procedures for equipment and maintenance, and AFIP and ARP cooperative enterprises on consultation and continuing medical education.

DoD-Wide Corporate Level Goals. In response to the Government Performance and Results Act, DoD has established 6 DoD-wide corporate level performance objectives and 14 goals for meeting those objectives. This report pertains to achievement of the following objective and goal.

Objective: Ensure Joint Medical Readiness Capabilities.
Goal: Ensure doctrinally sound, operationally integrated, joint medical force capable of successfully meeting health service demands throughout continuum of military operations. (MHS-1.2)

Methodology

We visited and interviewed responsible officials at AFIP, ARP, U.S. Army Medical Research Acquisition Activity, and Walter Reed Army Medical Center. We reviewed the AFIP cost-reimbursement level of effort (task order) contract, awarded to ARP on October 1, 1994. We analyzed and collected data, dating from January 1995 through April 1999, pertaining to AFIP budget and funding for building renovations and repairs, distinguished scientist support, equipment and maintenance, foreign travel, and AFIP and ARP cooperative enterprises.

Use of Computer-Processed Data. We did not use computer-processed data or statistical techniques for this audit.

Audit Type, Dates, and Standards. We performed this program audit from December 1998 through May 1999 in accordance with auditing standards issued
by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We included tests of management controls considered necessary.

**Contacts During the Audit.** We visited or contacted individuals and organizations within DoD and within the ARP, a private corporation. Further details are available upon request.

**Management Control Program**

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of Review of the Management Control Program.** We evaluated the administration and management of AFIP. Specifically, we reviewed the adequacy of the AFIP management controls over the AFIP budget and funding for building renovations and repairs, distinguished scientist support, procurement of equipment and maintenance, and foreign travel. Additionally, we reviewed management controls over revenues generated and expended in support of AFIP and ARP cooperative enterprises. Furthermore, we reviewed the results of any self-evaluation of those management controls.

**Adequacy of Management Controls.** We identified material management control weaknesses for AFIP as defined by DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996. AFIP controls over facility renovations, distinguished scientists program, travel accounts, equipment and maintenance accounts, and cooperative enterprises were not adequate to ensure economical and efficient operations. If management implements all recommendations, the management control weaknesses will be corrected, thereby ensuring economical and efficient operations of AFIP and oversight of the revenues and expenditures of cooperative enterprises. A copy of the report will be provided to the senior official responsible for management controls within the Army.

**Adequacy of Management’s Self-Evaluation.** AFIP officials did not identify facility renovations, the distinguished scientists program, travel funded by non-Federal sources, and requirements for procurement and maintenance of equipment as assessable units, and, therefore, did not identify the material management control weaknesses identified by the audit. The AFIP management control program consisted of the Army-required Management Control Plan checklists. AFIP did not complete vulnerability or risk assessments because the Army did not require it to; it did not use the mandatory evaluations to build or modify its management control program. AFIP functional unit managers that did not have applicable checklists submitted an annual assurance statement stating
that the applicable management controls were in place. Checklists alone were not a proper management control program. Checklists should be used as a manager's tool in evaluating management controls and not as a means of self-evaluation.

Summary of Prior Coverage

**Inspector General**


**Defense Contract Audit Agency**

Appendix B. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
  Deputy Chief Financial Officer
  Deputy Comptroller (Program/Budget)
Under Secretary of Defense for Personnel and Readiness
Assistant Secretary of Defense (Health Affairs)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management and Comptroller)
Assistant Secretary of the Army (Manpower and Reserve Affairs)
Army Surgeon General
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, National Security Agency
  Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency
Director, Armed Forces Institute of Pathology
Non-Defense Federal Organizations

Office of Management and Budget
General Accounting Office
    National Security and International Affairs Division
    Technical Information Center

Non-Government Organization

American Registry of Pathology

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology,
    Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International
    Relations, Committee on Government Reform
MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: Audit Report on the Administration and Management of the Armed Forces Institute of Pathology (Project No 8LA-5028 01)

The Office of the Assistant Secretary of Defense for Health Affairs (Health Operations Policy) appreciates your thorough evaluation of the administration and management of the Armed Forces Institute of Pathology (AFIP). The Director of AFIP prepared an extensive set of comments in response to the draft report and a copy of that document is attached. This office supports AFIP in the work they have already begun to address many of the findings in the draft report.

We agree with the full and partial concurrences outlined by the Director of AFIP. As you can see from the attached document, AFIP is revising its administrative procedures for travel and other reimbursement practices; and putting methods in place to closely follow established government accountability systems. It uses established guidelines without violating statute. The unique nature of the work conducted in this world-class Institute often calls for greater equipment requirements than most government facilities and therefore should not be held to a pre-set standard. Also, the AFIP has identified needed improvements in its building, but fiscal restraints and the requirements of outside agencies precluded immediate remodeling which would allow for activities such as networking of equipment.

This office recognizes the importance of the relationship between AFIP and the American Registry of Pathology (ARP) for conducting AFIP's mission and providing services to the public. The Institute is currently reexamining the AFIP/ARP memorandum of understanding and contract to formally update the relationship of ARP with the Institute.

The point of contact for any questions is Lieutenant Colonel Jane Meyer who may be reached at DSN 761-1711, or Commercial (703) 681-1711.

Robert Claypool, M.D., MC, USA
Deputy Assistant Secretary of Defense
(Health Operations Policy)

Attachment
As stated

(not included)
MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF
DEFENSE

SUBJECT: Draft Audit Report on Administration and Management of the Armed Forces Institute of Pathology (AFIP) (Project No. 8LA-5026 01), June 24, 1999

Enclosed is the Army Medical Command response to the subject draft report. I concur with the Surgeon General’s response. Additionally, I am actively engaged with the Surgeon General and the AFIP in an ongoing action plan to help ensure that these and other deficiencies are corrected and will not recur. We meet later this month as part of regularly scheduled sessions to address the management of AFIP operations. Your recommendations and the corrective actions are included in our agenda.

Patrick J. Henry
Assistant Secretary of the Army
(Manpower and Reserve Affairs)

Enclosure

CF:
USofA
DEPARTMENT OF DEFENSE
ARMED FORCES INSTITUTE OF PATHOLOGY
WASHINGTON, DC 20306-6000

AFIP-ZA (20-1a) 9 August 1999

MEMORANDUM THRU
UNITED STATES ARMY SURGEON GENERAL
ASSISTANT SECRETARY OF THE ARMY (MANPOWER AND RESERVE AFFAIRS)
FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: Management Comments to the Draft Audit Report on the Administration and Management of the Armed Forces Institute of Pathology (Project NO 8LA-5028.01)

1. We are providing management comments to the Draft Audit Report of June 24, 1999 (attachments A-F). These comments indicate general concurrence with the findings and recommendations of the Audit and non-concurrence in several areas.

2. We appreciate the thoroughness and the courtesies extended to the AFIP staff. The Institute is the Nation’s center of clinical and scientific excellence, providing medical expertise in diagnostic pathology consultation, education and research to enhance the wellbeing of the Armed Services and the American public. You have provided us with the opportunity to further improve our business practices and improve performance through sound management practices.

3. Your review has also provided us with an opportunity to take a fresh look at the dramatic evolution of both the American Registry of Pathology (ARP) and AFIP’s relationship with ARP. The ARP began in 1921 with the founding of the Ophthalmic Pathology Registry and grew exponentially over the next decade. It was formally founded as the ARP in 1930 as an extension of the National Research Council of the National Academy of Science - a public entity - and continued in this arrangement until 1975. Congress enacted Public Law 94-361 in 1976, which recognized ARP as a non-profit corporation and gave it a Congressional charter to facilitate the interchanges between the civilian medical profession and AFIP that had proven to beneficial to AFIP and to the American public in the past. Based on a triumvirate of strengths: staff expertise, unequalled depth and breadth, the national tissue repository/archive came into formal existence, and the extensive collaborations in pathology with Government, academia, industry, and private medicine came to fruition and blossomed beyond all expectations. The relationship between AFIP and ARP has changed in the last 24 years, with ARP becoming an important partner with AFIP in executing its mission of medical research, consultation, and education, accounting for over 1/3 of the AFIP staff and the concomitant resources. Your recommendations go a long way in clarifying and solidifying this relationship for the benefit of the Department of Defense and indeed the Nation.

4. Should you have any questions concerning these comments, please direct your calls to Commander Francesca Music, MSC, USN at (202) 782-2104 or Mister Harry Coffey at (202) 782-2104.

G. Wagner
CAPT, MC, USN
The Director

6 Attachments
Armed Forces Institute of Pathology
Management Comments

Finding: AFIP had not adequately administered and managed its facility renovations totaling about $1.5 million. Specifically, AFIP had not complied with DoD and Army regulations on facility renovations by allowing ARP to renovate its facility without written approval. As a result, AFIP had reimbursed and will continue to reimburse ARP unnecessarily for renovations not covered by ARP contract DAMD17-94-C-4185, for personnel services.

Recommendation:
A.1 Establish controls necessary to ensure implementation of DoD Regulation 7000.14-R, “Financial Management Regulation Volume 12, Special Accounts Funds Programs,” policy on acceptance, receipt, use, and reporting of monetary and non-monetary contributions.

A.2 Establish procedures and controls to ensure that written approval is obtained and that construction, maintenance, and repair work is in compliance with real property management plans of WRAMC and that work is accomplished in accordance with building and construction criteria, codes, laws, and standards.

A.3 Maintain all work order files for remediation and renovation projects, repairs, and utility services for the facility as required by AFIP Regulation 10-5, “Organization and Functions Manual.”

Concurrence:
Finding: Concur in part. AFIP agrees that the pertinent regulatory process and requirements were not completely followed, and that these failures resulted in incomplete records documenting this work and an inability to establish and enforce AFIP’s understanding that these works, which were approved for execution by AFIP, were gifts of real property improvements to the Institute. AFIP believes, however, that whether the necessary DPW approvals can be documented in every case of renovations to the AFIP building, DPW was in fact fully involved in the government’s interests in maintaining the integrity and quality of its facilities and the safety of its personnel were protected, and the funds paid to ARP for the renovations would likely have been paid anyway, and in all likelihood in greater amounts, to another contractor to have the same renovations done had ARP declined to offer them as gifts to the Institute.

This finding highlights an issue that AFIP believes bears further inquiry and analysis. ARP believes that, as a government contractor, it should have the same latitude to alter and improve the facilities as to carry out its work and house its employees as any other government contractor, and to charge those expenses to the Government as legitimate overhead expenses absorbed into the indirect cost pool. In ARP’s view, the fact that these improvements and renovations are done to a government facility (admittedly provided at no cost to ARP under special statutory authority) does not affect this result. AFIP disagrees, taking the position that alterations to government facilities must be carried out in accordance with government rules and policies governing such work, excluding competition to select contractors. Approvals by AFIP and DPW for ARP to do renovation work may vindicate ARP’s interests as a government contractor maintaining its work facilities, but those approvals have the inevitable, and impermissible, practical additional effect of awarding government facility renovation work, of benefit to the government, to ARP on a sole-source basis not supported by 10 USC 176 and 177, and not carried out under normal government contract processing guidelines.

We believe, however, that ARP does have a point insofar as the practical effect of 10 USC 176 is to deprive ARP of the ability to look after the needs of its employees, and renovations executed by ARP and billed as an indirect contracting overhead cost are of distinct benefit to the Government and can be carried out in a highly efficient and economical manner. Given the state of contracting rules in 1976, when the statute was enacted, and the evolution of the mission of AFIP and the relationship between AFIP and ARP since then, we are not completely convinced that Congress intended to limit ARP’s perquisites as a government contractor or deprive AFIP of an expedient and economical alternative to normal construction contracting procedures for improvements to its facilities that benefit both AFIP and ARP and enhance the Institute’s value to the military and civilian medical professions. We will accordingly begin the process of evaluating avenues of legislative relief.

ATTACHMENT A (Page 1 of 2)
Armed Forces Institute of Pathology
Management Comments

Recommendation A 1: Concur Procedures and an SOP will be implemented to ensure that services and property to be received from any source by the Institute without apparent compensation will be treated as gifts under the cited DoD regulation as well as Army Regulation 1-100. Specific references to these issues will be incorporated into Legal Counsel ethics and gift training.

Recommendation A 2: Concur The AFIP Directorate of Logistics will prepare and implement an SOP making clear that all future renovation efforts must be fully coordinated with DPW, executed in compliance with all applicable laws and regulations pertaining to such efforts, processed (when applicable) under AR 1-100 and DoD 7000.14-R for approval as gifts, and competed under normal procurement rules. We believe our 16 February 1999 memorandum to ARP laid the foundation for this effort.

Recommendation A 3: Concur

Action Taken to Date:
1. A draft Standard Operating Procedure (SOP) that tracks all gifts, their intent, and use is complete.
2. The Office of Strategic Planning (OSP) will conduct oversight audits each quarter for one year to determine the efficiency of the process.
3. The Legal Officer provides education on gifts every month to new staff.
4. Both AFIP and ARP SOPs are in draft development that will control and document construction and renovation projects. Procedures include the internal approval process and work request documentation.

Estimated Date of Completion:
1. ARP Contract will be finalized 28 September 1999
2. MOU between AFIP and ARP will be completed 28 September 1999
3. SOP for gifts will be finalized 30 September 1999
4. SOP on documentation and filing of work requests, construction, and renovation will be completed by 30 September 1999
**Armed Forces Institute of Pathology**  
**Management Comments**

**Finding:** AFIP did not adequately administer and manage its distinguished scientists program costing about $2.1 million per year, because its policies and procedures were conflicting.

**Recommendation:**

A 4. Develop and establish policy and procedures to ensure the memorandum of understanding (MOU) between AFIP and ARP and that the individual memorandums of agreement (MOAs) for each distinguished scientist are accurate and reflect current business practice.

A 5. Review and update Annex 3 to the MOU between ARP and AFIP, "Consolidated Services Agreement for Cooperative Enterprises," and the individual MOAs to ensure they complement each other.

A 6. Determine the amount of reimbursement to ARP for distinguished scientists (DS) in excess of the threshold established in Annex 3 to the MOU and initiate actions to recoup excess payments.

A 7. Review MOAs for each DS and determine monthly costs for salary and fringe benefits and verify the accuracy of the invoice amounts and supporting documentation before authorizing payment.

A 8. Determine whether overpayments were made to ARP for DS's monthly salary, fringe benefits, and medical malpractice insurance premiums and initiate actions to recover excess payments.

**Concurrence:**

**Finding:** Concur AFIP failed to keep the contract, MOU and MOAs aligned and current to meet the needs of the Institute as it continued to mature since 1990. These documents need to be put in order and reviewed every year.

**Recommendation A 4:** Concur The MOU will be comprehensively updated, and individual MOAs will be updated and conformed, as required, to the MOU. The MOU and MOAs will be reviewed on an annual basis.

**Recommendation A 5:** Concur See comment for Recommendation 4.

**Recommendation A 6:** Non-concur Although the discrepancy between the $200,000 threshold at paragraph 4a of Annex 3 of the MOU and the four individual agreements that exceed that threshold reveals the management weaknesses and lack of attention to detail in the program, it does not represent a series of overpayments that must be recouped from ARP. Both Annex 3, as part of the MOU, and the four individual distinguished scientist employment agreements are agreements between AFIP and ARP. As a general rule, in any case of conflict between a statement of general applicability and one focused on a specific instance within the scope of the general statement, the more specific statement prevails. AFIP believes that rule applies here. While the statement in Annex 3 was intended to provide general guidance for the program in the absence of any more specific subsequent guidance, the individual agreements between AFIP and ARP, which are in all cases approved by the Board of Governors, provide specific guidance and implicitly supersede the Annex with respect to those four individuals. This does not condone the creation and perpetuation of the conflict in program guidance, but instead recognizes that the parties have, however imperfectly, modified Annex 3 as to those four individuals. We do not perceive a need, in the absence of a violation of any statutory ceiling on government payments for personal services, to recoup monies for the failure of the individual agreements to include an express statement of modification of Annex 3, when it is clear that such a statement is implicit in the manner in which these agreements were prepared and approved.

**Recommendation A 7:** Concur The Contracting Officer's Representative will incorporate these validation procedures into the SOP for processing of distinguished scientist invoices if the SOP does not already contain them, and carry them out in processing invoices.

**Recommendation A 8:** Concur The billing is undergoing review and will be adjudicated shortly.

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**Action Taken to Date:**

1. The contract and the MOU between AFIP and ARP, including the annex pertaining to distinguished scientists, are undergoing legal and fiscal review. They will be finalized in September and will reflect current business practices.
2. Each MOA between AFIP and ARP for the distinguished scientists is being reviewed to reflect just and allowable compensation.
3. These binding agreements are to be reviewed annually and presented to the Board of Governors for approval.
4. The MOU provisions pertaining to qualifications for distinguished scientists will be modified, consistent with governing law and regulation, so as to allow for flexibility to meet the needs of the Institute.
5. AFIP completed a retrospective audit of compensation to DSs to the beginning of 1997.
6. AFIP and ARP have developed an internal audit protocol for future oversight.

**Estimated Date of Completion:**

1. ARP contract will be updated by 28 September 1999.
2. MOU between AFIP and ARP will be reviewed and completed by 28 September 1999.
3. SOPs for the compensation of DSs will be complete in September 1999.
4. The DS compensation audit is completed and adjudication will be completed by September.
Armed Forces Institute of Pathology  
Management Comments

Finding: AFIP did not adequately administer and manage travel by ARP contract employees of approximately $17,000 for FY99 and about $16,000 of FY99 AFIP travel funded by non-Federal sources. The inadequacies were caused by non-compliance with contract procedures for foreign travel by ARP contract employees and non-compliance with AFIP Regulation 55-2, "Temporary Duty (TDY), Permissive TDY (PTDY), Local Travel, Invitational Travel Orders and Travel Gifts/Benefits From Non-Federal Sources," January 1997, for AFIP travel funded by non-Federal sources. AFIP approved airfare expenses without proper supporting documentation and had not fully complied with specific requirements for travel funded by non-Federal sources. As a result, AFIP could not adequately track travel funds.

Recommendation:
A 9 Request the contracting officer amend contract DAMD17-94-C-4185 with ARP to:
   a. Establish requirements and procedures to ensure the contracting officer representative review travel requests before the traveler’s scheduled departure date.
   b. Establish a requirement that supporting documentation for all travel payments be submitted along with ARP invoices for approval and reimbursement.

A 10 Establish SOPs and controls for processing travel that ensures travelers:
   a. Obtain prior approval from the ethics counselor or legal counsel when travel is funded by non-Federal sources.
   b. Submit and settle travel claims within 5 days and 30 days respectively after completion of travel.

Concurrence:
Finding: Concur in part, noting that while AFIP must exercise more vigilance in ensuring compliance with travel procedures, the corrective actions taken by AFIP and described by the IG have substantially alleviated management problems and weaknesses with travel in the contract environment. Documentation provided by ARP in the past has been found to be insufficient by the contracting officer’s representative, been supplemented to the satisfaction of the representative. Also, the IG’s implicit assertion that travel cannot be billed under the contract until completion of travel may be incorrect under the contract provision relating to costs, which appears to allow billing when the cost is incurred. AFIP does, however, understand the point that regardless of when such travel is billed, management controls must be in place to ensure that any such reimbursed travel does in fact occur as represented by the billed cost.

Recommendation A 9: Concur, noting that as the referenced contract expires this year, the successor contract being negotiated will be drafted to include these provisions.

Recommendation A 10: Concur.

Action Taken to Date:
1. A revised SOP is being drafted for both ARP and AFIP travel.
2. Legal review is included for all foreign and non-Federal funded travel. Legal review is already required for acceptance of non-Federal funding of official government employee travel.
3. The COR will conduct quarterly internal audits for the first year and as often as indicated thereafter.

Estimated Date of Completion: September 1999

ATTACHMENT C (Page 1 of 1)
Armed Forces Institute of Pathology
Management Comments

Finding: AFIP did not adequately administer and manage its equipment and maintenance accounts. AFIP had no centralized organization responsible for the determination of requirements for procurement and maintenance of equipment. As a result, there was no assurance that equipment, averaging about $1.2 million for FY96 through FY98, being procured was needed and compatible with existing equipment, or that quantity procurements were being achieved.

Recommendation:
A 11 Designate the Information Management Directorate (IMD) as the central point for procurement and maintenance of computers, facsimile machines, photocopy machines and printers.

A 12 Direct the IMD to:
   a. Determine requirements for equipment
   b. Perform lease versus purchase analysis for photocopy machines
   c. Determine economy for sharing equipment like printers, considering the facility contains a wired network
   d. Develop the budget and long range plans for computers, facsimile machines, photocopy machines, and printers.

Concurrence:
Finding: Concur in part. To the extent the finding implies that AFIP has an overabundance of computers and related hardware, AFIP believes that its scientific and research missions impose requirements that cause AFIP to deviate from the "norm" typical of other government offices. Protocols often require a scientist to be running several computers simultaneously, often because the scientific equipment in use requires a connected and dedicated PC for its operation.

Recommendation A 11: Concur in part. As noted, IMD received the responsibility in March 1999 for procurement of facsimile equipment and photocopy machines. AFIP is reluctant to assign overall responsibility to AMS for centralized procurement of computers and printers, because AFIP believes that an essential element of that process — the determination of requirements — must remain at the Department Chair level. AFIP believes that the Department Chairs are best situated to establish the specific requirements that pertain to their scientific and pathology specialties, as well as to ensure compatibility with existing and often-specialized equipment, and enforce their specific needs for service reliability. IMD should, and must play a significant role in procurement, but AFIP does not believe centralization is appropriate given its circumstances and needs.

Recommendation A 12: Concur in part. IMD will take a more active and structured role in analyzing procurement options from the business sense perspective. See comments for Recommendation 11 regarding the requirement for lease analysis for computers and printers. As to sharing printers using the AFIP's "wired network," this may not be feasible due to the fact that while the building is certainly wired for workstation nodes, many if not all potential shared-printer conversions will require the installation of new cabling to support those new nodes. These nodes were not anticipated and planned for by the installation of extra wiring at the time of initial building conversion to network access. Any new cabling is likely to incur significant expense due to the asbestos removal requirements that accompany it work and penetrations in the building.

Action Taken to Date:
1. A study of all facsimile and copy machines is complete. Logistics will coordinate central purchasing of these with the approval of IMD.
2. A long range program for the upgrade and replacement of computers is continuing.
3. Logistics will evaluate lease/purchase options.

Estimated Date of Completion: October 1999

ATTACHMENT D (Page 1 of 1)
Armed Forces Institute of Pathology
Management Comments

Finding: An MOA between AFIP and ARP, "American Registry of Pathology Cafeteria Operations at the Armed Forces Institute of Pathology," December 10, 1996, defines the parameters within which ARP would operate the cafeteria within the space ARP allowed. The agreement does not contain provisions for the sharing of losses incurred from the operations of the ARP cafeteria.

Recommendation: A 13 Initiate actions to recoup payments made to ARP for losses incurred operating its cafeteria.

Concurrence:

Finding: Concur in part The MOA is admittedly silent on the question of responsibility for losses incident to the operation of the cafeteria. To the extent that the IG report concludes that the cafeteria operation is solely an ARP activity for which AFIP should bear no responsibility for any portion of the losses, however, AFIP believes that the finding may have been rendered with insufficient regard for certain provisions of the FAR. The FAR appears to permit a government contractor to recover the costs of operating a food service operation if the intent of the contractor in so doing is to operate on a break-even basis, or if adequate commercial facilities are unavailable. Given the silence of the MOA and the apparent applicability of the FAR provision, AFIP believes that reasonable operating losses incident to ARP's operation of the cafeteria as a normal contractor service to its employees are recoverable by ARP as an indirect cost. While one could argue that this represents an indirect subsidy or use of appropriated funds to buy meals for the government employees who patronize the cafeteria, AFIP believes the connection of the appropriated funds to the meals consumed is insufficiently direct to implicate that concern.

AFIP does, however, have serious questions about the reasonableness of the losses described in the report. At the time that AAFES discontinued its operations in Building 54 in the 1993-1994 timeframe, its yearly losses were in the $15,000 to $20,000 range. AFIP intends to explore the disproportionate size of ARP's losses with ARP, through an examination of the records pertaining to cafeteria operations that AFIP is entitled to review pursuant to the MOA, and a consideration of any changed circumstances that could account for the discrepancy in the size of the losses. Depending on the outcome of that review, AFIP may seek to limit the losses that ARP can recover as indirect costs.

Recommendation A 13: Non-concur See comments pertaining to the finding. Until AFIP is able to review the cafeteria financial records and determine whether the losses are objectively excessive and/or not reflective of an intent by ARP to operate on a break-even basis, discussion of recoupment is premature.

Action Taken to Date:
1. Cafeteria financial records have been requested and received by AFIP.
2. ARP continues to gain efficiencies in the operation of the cafeteria.
3. AFIP and ARP are reconsidering an at-risk contract to run the cafeteria. This has failed in the past.

Estimated Date of Completion: Not applicable Government review process is ongoing.
**Armed Forces Institute of Pathology**  
**Management Comments**

**Finding:** AFIP had no assurance that revenues were accounted for and properly expended in support of AFIP and ARP cooperative enterprises. The condition occurred because AFIP had no control over revenues generated from civilian medical consultations and continuing medical education courses. As a result, AFIP could not be certain that its cooperative enterprises with ARP were administered and managed in an economical and efficient manner.

**Recommendation:**


B 2. Develop written policies and procedures to ensure proper accountability for revenues generated and expended in support of the cooperative enterprises.

**Concurrence:**

Finding: Fully concur

**Recommendation B 1:** Fully concur. Negotiations are underway between counsel for AFIP and ARP to completely revise the MOU, using as many areas as possible the principles set forth by Dr. Mendez on 24 July 1990 in his approval as Assistant Secretary of Defense for Health Affairs, of the pilot civilian consultation program.

**Recommendation B 2:** Fully concur. The comprehensive revision to the MOU will include such policies and procedures.

**Action Taken to Date:**

1. MOU is being revised to clearly define the cooperative enterprises
2. A joint AFIP and ARP audit process is being designed
3. Quarterly internal audits will ensure compliance

**Estimated Date of Completion:** October 1999

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**ATTACHMENT F (Page 1 of 1)**

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