January 8, 2001

The Honorable Duncan L. Hunter
House of Representatives

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

Dear Mr. Hunter:

This letter is part of our continuing effort to address inventory management activities within the Department of Defense (DOD) as a high-risk area. We recently reported that the Army used unauthorized activity codes to requisition over $2.6 billion in new government property and $100 million in excess government property over the past 5 years. As a consequence, this property was vulnerable to fraud, waste, and abuse. Subsequently, you asked that we determine whether the other military services and other federal agencies maintained activity codes that were unauthorized to requisition and, if so, whether any of these codes were used to requisition new and excess government property. As discussed with your office, this letter focuses on the U.S. Air Force's use of unauthorized activity codes from January 1995 to June 2000. We have reported separately on our investigations of whether the U.S. Navy and the General Services Administration used activity codes classified as unauthorized to requisition new and excess government property.

Scope and Methodology

We interviewed Air Force service point personnel and obtained a list of Air Force activity codes identified as unauthorized to requisition. We provided the codes to the Defense Automatic Addressing System Center and the Defense Reutilization and Marketing Service to determine whether any had been used to requisition new and

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

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

This letter is part of our continuing effort to address inventory management activities within the Department of Defense (DOD) as a high-risk area. We recently reported that the Army used unauthorized activity codes to requisition over $2.6 billion in new government property and $100 million in excess government property over the past 5 years. As a consequence, this property was vulnerable to fraud, waste, and abuse. Subsequently, you asked that we determine whether the other military services and other federal agencies maintained activity codes that were unauthorized to requisition and, if so, whether any of these codes were used to requisition new and excess government property. As discussed with your office, this letter focuses on the U.S. Air Forces use of unauthorized activity codes from January 1995 to June 2000. We have reported separately on our investigations of whether the U.S. Navy and the General Services Administration used activity codes classified as unauthorized to requisition new and excess government property.
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excess government property from January 1995 to June 2000. We then obtained
information about the requisitioning activity associated with the codes from the
Defense Automatic Addressing System Center and the Defense Reutilization and
Marketing Service. We performed our investigative work from June 2000 to
September 2000 in accordance with investigative standards established by the
President’s Council on Integrity and Efficiency. Our audit work was conducted
during the same time period in accordance with generally accepted government
auditing standards.

Results in Brief

As of June 2000, the Air Force maintained 4,239 activity codes identified as
unauthorized to requisition government property. However, during the past 5 years,
193 of these codes were inappropriately used to requisition nearly $23 million in new
and excess government property. In addition, safeguards established to prevent
unauthorized activity codes from being used to requisition government property
failed. This situation has created a condition in which government property is
vulnerable to fraud, waste, and abuse.

To reduce the likelihood of Air Force organizations and contractors acquiring
government property inappropriately, we are recommending that DOD review
existing activity code assignment procedures and safeguards. We will also make
information on the identity and requisition history of the unauthorized activity codes
available to DOD’s Office of the Inspector General for a determination of whether
requisitioned property was legally obtained and properly inventoried.

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

Background

Air Force Instruction 24-230 provides mandatory procedures for establishing,
changing, and terminating Air Force activity address codes. The instruction applies
to all Air Force activities and Air Force contractors that receive, ship, or maintain
custody of government property. An activity address code is a six-position
alphanumeric code that provides a uniform method for controlling government assets
and for recording the receipt and disposition of property. The first character of an
activity code identifies the service or agency; and the second character designates the
type of material usually accounted for in that account or the type of activity. The last
four characters are numeric combinations assigned by the Air Force service point.

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

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1 Maintaining the Department of Defense Activity Address Directory (DODAAD).
Base, Ohio, is responsible for (1) establishing and executing Air Force procedures and processes for using and maintaining the master activity address code file; (2) assigning, changing, or terminating activity codes; and (3) carrying out research on inquiries that relate to the Air Force portion of the master file.

According to Air Force service point personnel, three categories of Air Force activity codes are not permitted to requisition property; and each is identified by a unique series of alpha characters. Specifically, Air Force activity codes beginning with FA, FY, and JM are unauthorized to requisition. FA codes are for administrative purposes only, meaning they are not permitted to generate bills. FY codes are supplemental ship-to accounts; and JM codes are used to obtain maps and charts, which, according to the service point, are free issue items. As of June 2000, there were 4,239 FA, FY, and JM activity codes.

Unauthorized Activity Codes Requisition Over $22 Million in DOD Property

We obtained a list of the activity codes that the Air Force service point identified as unauthorized to requisition. We provided these codes to the Defense Automatic Addressing System Center and the Defense Reutilization and Marketing Service to determine whether any had been used to requisition new and excess government property respectively. It was determined that of the 4,239 Air Force activity codes that should not be used to requisition, 193 had been inappropriately used to requisition $19.6 million in new property and $3.2 million in excess property (representing the property’s acquisition value) from January 1995 to June 2000. Of the $19.6 million in new property, 98.1 percent was associated with 9 of the 193 activity codes, of which 1 accounted for $17.5 million. Of the $3.2 million in excess property, 85.4 percent was requisitioned by eight activity codes, with two responsible for nearly 48 percent of the requisitions. In addition, while the majority of the unauthorized activity codes were assigned to Air Force activities, we noted that a number were assigned to private contractors who used them to requisition property.

Safeguards Fail to Prevent Unauthorized Activity Codes From Requisitioning DOD Property

The Defense Automatic Addressing System Center and the Defense Reutilization and Marketing Service implemented safeguards to prevent the use of FY category activity codes to requisition new and excess government property in November 1999 and January 1996, respectively. However, despite these safeguards, FY codes were used to requisition property. For example, from January to June 2000, 55 FY activity codes were used to requisition about $28,000 worth of new government property. We asked a Defense Automatic Addressing System Center official to review the 55 codes and

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5 A code may be designated a ship-to address when the address of the receiving activity is different from the address of the accountable activity.
6 Headquarters Air Force acknowledged that FA and FY codes are not to be used to requisition and JM codes are authorized to order only free issue items (such as maps and charts) from the National Imagery and Mapping Agency. Headquarters Air Force agreed that the requisitioning activity noted in this letter reflects a failure to comply with Air Force Instruction 24-230. However, in some instances, the Air Force was aware that certain activities were using FA category codes to requisition—an exception to the standard procedure; and the Air Force is evaluating this activity at this time.
explain the requisition activity. According to this official, the activity codes appeared to requisition directly with the source of supply, bypassing the Center. As for excess property requisitions, from January 1996 to June 2000, 11 FY codes were used to requisition $857,891 worth of excess property. In all but one instance, this requisition activity occurred in 1996. There was one requisition in 1999 valued at $140.

Conclusions and Recommendations for Executive Action

Air Force activity codes identified as unauthorized to requisition were inappropriately used to requisition new and excess government property. In addition, safeguards in place failed to prevent this activity. This lack of internal controls creates a situation in which government property is vulnerable to fraud, waste, and abuse.

Accordingly, we recommend that the Secretary of Defense direct the Secretary of the Air Force to

- verify whether the requisitioning authority for all Air Force activity codes is categorized accurately and review procedures to ensure that activity code assignments are appropriate, made in accordance with Air Force Instruction 24-230, and routinely inspected to ensure compliance and

- evaluate current safeguards in appropriate databases to ensure that unauthorized activity codes are not used to requisition government property.

Agency Comments and Our Evaluation

DOD provided oral comments on a draft of this letter and generally agreed with our recommendations. They cited specific actions in response to our recommendations that had been taken, were underway, or were planned. They also provided clarification to improve the technical accuracy of certain information we had been provided.

Regarding our recommendation to verify the accuracy of requisitioning activity codes and review requisitioning procedures, the following actions were cited:

- The Air Force will review procedures to ensure that activity code assignments are appropriate. Air Force Instruction 24-230 will be rescinded; and more specific policy will be developed.

- The Defense Automatic Addressing System Center will be asked to edit all incoming transactions containing FA activity codes and to cancel invalid requisitions. The Center will also be asked to provide a monthly management oversight report to identify those FA activities requiring management attention.

- The Air Force will re-emphasize the proper use of FY activity codes. In addition, during the course of responding to us, the Air Force noted that some activities had withdrawn assets from Defense Reutilization and Marketing Offices that may not
have been authorized. To address this issue, the Air Force will work with the Center to determine whether additional edits are required. In addition, Headquarters Air Force Materiel Command will be directed to ensure that FY requisitions entered through the web or called into item managers are not honored.

- The Air Force will direct the Defense Automatic Addressing System Center to implement an edit to cancel all requisitions with a JM activity code that are not routed to the National Imagery and Mapping Agency depot. The Center will also be asked to provide a monthly management oversight report to identify those JM activities requiring management attention. In addition, the Air Force will direct all major commands to re-emphasize the appropriate use of JM series activity codes.

Regarding our recommendation to evaluate current system safeguards to ensure that unauthorized codes are not used to requisition government property, the following actions were cited:

- The Air Force will propose significant changes to the DOD Activity Address Directory Administrator and work through the DOD Activity Address Code Committee to strengthen internal controls at the Defense Automatic Addressing System Center and within Air Force systems, especially in view of the DOD-mandated process changes involving the use of the IMPAC cards, web, and EMALL requisitioning, which could create opportunities for acquisitions without authorization. In the interim, Air Force-directed Center edits would be used to ensure that Air Force activities processing requisitions through the Center would use the appropriate activity code when requisitioning new property or withdrawing excess property from Defense Reutilization and Marketing Offices.

The Air Force provided clarification on the use of FA, FY, and JM category activity codes to improve the technical accuracy of certain information we had been provided. We included the additional information in this letter where appropriate. In addition, we asked the Air Force to consider directing the Defense Reutilization and Marketing Service to implement an edit to cancel requisitions for property utilizing FA and JM (with the exception of maps and charts) activity codes. The Air Force is currently evaluating the feasibility of implementing such an edit.

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As arranged with your office, unless you disclose its contents earlier, we plan no further distribution of this letter until 30 days after its issuance. At that time, we will send copies of the letter to interested congressional committees, the Office of the Secretary of Defense, the Secretary of the Air Force, and the Director of the Defense Logistics Agency. The letter will then also be available at GAO's home page,

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7 IMPAC is the International Merchant’s Purchase Authorization Card, in essence, a government credit card.
8 DOD is working to streamline and automate purchasing processes that are currently paper-based and serial-processing intensive. Toward that end, DOD EMALL (electronic mall) was established in 1998 on the foundation of the Defense Logistics Agency Research and Development Program’s DLA EMALL.
www.gao.gov. If you have any questions, please call Robert H. Hast at (202) 512-7455 or David R. Warren at (202) 512-8412. John Ryan, Richard Newbold, Brian Chan, James Loschiavo, Marc Schwartz, and David Epstein made key contributions to this investigation and letter.

Sincerely yours,

Robert H. Hast
Managing Director
Office of Special Investigations

David R. Warren
Director, Defense Capabilities and Management