

**OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE**

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

OCTOBER, NOVEMBER, AND DECEMBER 2000



Report Documentation Page

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Abstract

The objective was to evaluate milestone decision authorities. use of exit criteria to track program progress in important technical, schedule, and management risk areas. Specifically, we determined whether milestone decision authorities use exit criteria to track acquisition program progress in meeting program goals and to aid in deciding whether programs should continue within an acquisition phase or progress to the next acquisition phase. Our review of the nine major Defense programs(three Army, three Navy, and three Air Force) showed that improvements were needed in the establishment of exit criteria at milestone decision points and in reporting the status toward attaining exit criteria requirements to milestone decision authorities. For seven of the nine programs reviewed, milestone decision authorities did not ensure that program managers proposed program-specific exit criteria for use at the future milestone decision point(s). As a result, the milestone decision authorities were limited in their ability to use exit criteria as a management tool to determine whether programs under their review and oversight should progress within an acquisition phase or continue into the next acquisition phase at milestone decision points. Program managers for three of the five major Defense acquisition programs reviewed did not report their status toward attaining exit criteria requirements in the quarterly Defense Acquisition Executive Summary. As a result, milestone decision authorities and OSD action officers did not have information to use as a management tool for assessing each programs progress toward satisfying exit criteria requirements and for providing direction, when needed, between milestone decision points.

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PART I

REPORT SUMMARIES

ACQUISITION PROGRAM

[REPORT NO. D-2001-012.](#) **Acquisition of the Armored Medical Evacuation Vehicle.** The Armored Medical Evacuation Vehicle (AMEV), an Army Acquisition Category III program, is a Bradley Fighting Vehicle variant and is intended to replace the M113A2/A3 Armored Ambulance as the medical evacuation vehicle platform in the Army's heavy divisions. The primary objective was to evaluate the overall management of the AMEV. Because the AMEV was in the engineering and manufacturing development phase, we evaluated whether management was cost effective in readying the system for the production phase of the acquisition process.

The Army did not have a viable acquisition strategy to acquire the AMEV at the completion of the engineering and manufacturing development phase of the acquisition process. As a result, the Army had obligated about \$9.7 million in research, development, test and evaluation funds for the program from its inception in FY 1997 through FY 2000, and planned to obligate another \$6.3 million to complete the developmental effort in FY 2001 through FY 2003 for a program that the Army did not intend to fund for production. Implementing the recommendation would allow the Army to put the \$6.3 million of remaining funds programmed for the AMEV to better use.

CONSTRUCTION AND INSTALLATION SUPPORT

[REPORT NO. D-2001-003.](#) **Bulk Fuel Storage and Delivery Systems Infrastructure Military Construction Requirements for Japan.** This report is one in a series that addresses the accuracy and reliability of maintenance, repair, and environmental and construction requirements for bulk fuel storage and delivery systems infrastructure. Our overall objective was to evaluate the accuracy and reliability of DoD documentation regarding maintenance, repair, and environmental and construction requirements for bulk fuel storage and delivery systems infrastructure. Specifically, this audit evaluated requirements for bulk fuel storage facilities at three locations in Japan.

The requirement for four proposed military construction projects for the construction of seven bulk fuel storage tanks in Japan was valid, but the Service Components and the United

States Forces Japan could not demonstrate that they had evaluated or pursued the potential for using the host nation relocation program. Those projects are no longer viable candidates for host nation relocation funding because of the lengthy approval process. The supporting economic analysis for any future military construction proposals need to document the full consideration and pursuit of funding alternatives, especially host nation support.

REPORT NO. D-2001-006. Bulk Fuel Storage Requirements for Maintenance, Repair, and Environmental Projects at Fort Hood, Texas. Our overall objective was to evaluate the accuracy and reliability of DoD maintenance, repair, environmental, and construction requirements for bulk fuel storage and delivery systems infrastructure. Specifically, we evaluated requirements for replacing six bulk fuel storage tanks located at Fort Hood, Texas.

The Army funded six bulk fuel storage maintenance, repair, and environmental projects at Fort Hood for FY 1998 that were not supported by valid project requirements. As a result, the Army spent \$3.24 million to replace bulk fuel storage tanks that were not justified by fuel inventory requirements. Unless the Army improves the requirements review and validation process, additional funds could be used on nonessential or unnecessary projects in the future. In addition, the Defense Energy Support Center plans to outsource the operations and maintenance of the Fort Hood fixed-fuel facilities, to include facilities that are not justified by fuel inventory requirements and that are not used for issuing and receiving fuel.

REPORT NO. D-2001-027. Navy Management Controls Over General and Flag Officer Quarters Costs. This is one in a series of reports on general and flag officer quarters (GFOQs). The overall objective was to evaluate the adequacy of Navy management controls over GFOQs maintenance and repair costs.

The Navy's management controls over recording of GFOQs operations and maintenance costs were adequate but were not fully implemented. Specifically, housing personnel improperly charged operations and maintenance costs at 30 of the 40 GFOQs reviewed. Additionally, supporting documentation was not always available to justify the costs recorded. This occurred because Navy housing management officials did not provide adequate oversight of GFOQ cost recording to ensure the effectiveness of management controls. As a result, the Navy's accounting for GFOQ costs was unreliable. Consequently, the Navy's reports on GFOQ costs to the Congress and OSD were inaccurate. Also, statutory, regulatory, or administrative violations may have occurred at six of the seven activities reviewed.

CONTRACTOR OVERSIGHT

REPORT NO. D-2001-001. Contract Award for the Fluid Flow Restrictor Spare Part. This audit was performed in response to a request from Senator Joseph I. Lieberman, on behalf of Birken Manufacturing Company (Birken). Birken alleged that the Defense Supply Center, Columbus (DSCC), improperly awarded a contract for fluid flow restrictors to General Electric

at a price significantly higher than the one proposed by Birken. The objective was to determine whether the Defense Logistics Agency properly awarded the contract for the fluid flow restrictor to the contractor that offered the best value to the Government.

The DSCC properly awarded the contract for fluid flow restrictors to General Electric because the proposal from Birken, the low bidder, specified use of a substitute material that was not approved by the engineering support activity. DSCC granted Birken material substitutions on prior procurements; however, DSCC notified Birken that the material substitution was not a permanent acceptable material for future contracts. Future proposals for the fluid flow restrictors from Birken specifying use of the approved material should be acceptable and DSCC should be able to obtain the spare parts at the lower unit price of \$221.40 versus \$984.04 - a savings of 77.5 percent. We calculate that, based on an annual demand of from 44 to 176 fluid flow restrictors, DSCC can save between \$201,000 and \$805,000 over a 6-year period using competitive procedures and procuring the parts from the low bidder.

REPORT NO. D-2001-023. Implementation of Most Efficient Organization for the Defense Finance and Accounting Service Commissary Vendor Payment Function. This audit is part of a larger review of Defense agency commercial activities programs and OMB Circular No. A-76 competitive sourcing studies. The overall objective was to evaluate the implementation of the competitive sourcing program for Defense agency and Defense-wide commercial activities. Specific objectives were to determine whether DFAS implemented the Government's most efficient organization (MEO) for in-house performance in accordance with the Transition Plan, the MEO was meeting the performance work statement requirements, and the incurred costs for the MEO were consistent with the Government estimate.

DFAS did not follow procedures for implementation and monitoring the MEO for the commissary vendor payment function or a subsequent MEO deviation that reduced the authorized staffing for the function from 75 to 66 personnel. Specifically, DFAS did not: document or track implementation and transition milestones outlined in the Management Plan, Transition Plan, and Quality Assurance Surveillance Plan; establish a methodology or document the analytical process for developing the MEO deviation or adjusting staffing, costs, and metrics; appoint a quality assurance specialist to oversee the MEO performance; analyze the impact of a doubling of the volume of invoices to process; and maintain supporting documentation or establish a methodology to reconcile MEO cost estimates to MEO actual costs. As a result, DFAS does not have reliable operating information to confirm that implementation of the MEO and the MEO deviation comply with the terms, quality standards, and costs specified in the performance work statement.

REPORT NO. D-2001-028. Compliance With Procurement Laws in Purchasing Free Weights and Other Strength Building Equipment. We conducted the audit in response to section 819 of Public Law 106-65, National Defense Authorization Act for FY 2000, which requires IG, DoD, to conduct an audit of procurements of free weights and other strength building equipment during the period April 1, 1998, through March 31, 2000. The overall objective was to determine whether contracting officers complied with the Buy American Act and other procurement laws and regulations.

DoD organizations procured free weights and other strength building equipment using procurement methods that generally complied with the Buy American Act and other laws and regulations. Of 90 procurements, with a total value of about \$1.8 million, only 2 procurements and 1 equipment exchange, totaling \$53,131, did not comply with the Buy American Act. The three exceptions resulted in the acquisition of free weights produced in China, and potential violations of the Antideficiency Act. The noncomplying procurements, which ranged in individual values from \$16,714 to \$19,508, occurred at one Army location and two Air Force locations.

ENVIRONMENT

[REPORT NO. D-2001-009.](#) **DoD Compliance With Hazardous Waste Laws in the U.S. European Command. This report is one in a series that discusses the DoD overseas environmental program at DoD facilities in Europe. The overall evaluation objective was to determine the status of DoD environmental program requirements at overseas military facilities. Specifically, we assessed U.S. military compliance with governing environmental standards in foreign countries. Additionally, we assessed whether the hazardous material and hazardous waste programs met regulatory requirements and command needs in Europe. This report discusses compliance with governing standards in Europe.**

DoD components and Defense agencies complied with country-specific environmental final governing standards when operating DoD facilities in the U.S. European Command. However, Italy requires compliance with procedural (permitting) and administrative (reporting) waste management laws. Italian regulators charged DoD civilian personnel with violations of Italian hazardous waste procedural and administrative laws. Although the EEA provided interim guidance for permitting and reporting issues, the EEA did not provide interim guidance for responding to enforcement actions. As a result, Italian regulators fined DoD civilian personnel, threatened to shut down disposal activities at the Aviano field office, and threatened to sequester the property of the DoD Italian hazardous waste contractors.

[REPORT NO. D-2001-010.](#) **The Navy Shipboard Pollution Control Equipment Program. This evaluation was performed in response to House Appropriations Committee report language. The objective was to review the effectiveness of the Navy's shipboard pollution control equipment (SPCE) program for upgrading equipment on Navy ships. Specifically, the evaluation assessed the progress toward program goals and objectives, and reviewed program costs versus products and services delivered.**

The SPCE program for upgrading equipment on Navy ships is effectively meeting the stated objectives of compliance with regulatory requirements at the lowest sustainable life-cycle cost with the least operational impact. The Navy established and continues to follow installation priorities, and with 660 of 984 programmed equipment installations complete, the program is meeting scheduled production rates within the anticipated budget.

Ship oily water discharge does not always meet compliance standards for oil content. Sample results collected during FY 1998 and FY 1999 determined that over 80 percent of the 145 ships inspected had discharges with an oil content greater than 15 parts per million.

The Navy deployed the solid waste management equipment without the additional shipboard manpower required to operate and maintain it, then reacted slowly to the need for additional manpower. They identified a potential requirement for additional personnel in 1993, but the findings were not approved until February 1999.

REPORT NO. D-2001-015. Defense Environmental Security Corporate Information Management Program. The audit was requested by the Chairman of the Senate Armed Services Committee. Our objective was to evaluate the status and operation of the Defense Environmental Security Corporate Information Management (DESCIM) Program.

The DoD did not effectively implement and manage the development of the DESCIM Program. The Deputy Under Secretary of Defense (Environmental Security) did not comply with policy to develop standard automated information systems for defense environmental programs that met established mission and interoperability requirements; develop environmental information systems consistent with information technology and program acquisition development strategies; establish a solid program infrastructure with a defined mission, cohesive organization, and clear management responsibilities; and document the management or expenditure of program funds in a responsible manner. As a result, the DESCIM Program has not succeeded despite the expenditure of \$100.4 million and 9 years of effort. Additionally, DoD did not realize its goals to improve functional processes, to make better use of information technology, and to eliminate duplicate environmental information systems across DoD. The projected funding for the DESCIM Program from FY 2001 through 2007 is \$57.7 million. While there may remain a need for corporate information reporting in the environmental area, DoD could put \$57.7 million to better use by terminating the DESCIM Program.

REPORT NO. D-2001-025. Summary Report on DoD Hazardous Waste Disposal Costs. This audit was jointly conducted by IG, DoD, and the Army, Navy, and Air Force audit agencies. The audit was performed in response to a request from the Office of the Deputy Under Secretary of Defense (Environmental Security) to review costs, volumes, and the budget formulation and review process related to DoD hazardous waste disposal. The overall objective was to determine why DoD hazardous waste disposal budgets have increased while the reported unit cost to dispose of hazardous waste and the reported amount of hazardous waste have decreased. In addition, we evaluated the budget formulation and review process related to DoD hazardous waste disposal.

The reported unit cost to dispose of hazardous waste could not be validated. In addition, we were unable to determine causal factors in program trends because the Army, Air Force, and DLA cost and volume estimates were poorly supported. As a result, the DoD "Environmental Compliance, Recurring Costs" portion of the budget did not accurately reflect anticipated costs to dispose of hazardous waste in the Army, Air Force, and DLA. In addition, Army, Air Force, and DLA measure of merit data did not accurately reflect the

actual progress toward meeting the established goals of reducing hazardous waste by calendar year 1999, and that raises questions as to the accuracy of the hazardous waste reduction metric within DoD. The principal cause of these problems was inadequate guidance.

FINANCE AND ACCOUNTING

REPORT NO. D-2001-011. Prior Period Adjustment to Remove National Defense Property, Plant, and Equipment From the DoD Agency-Wide Balance Sheet. The overall objectives were to determine whether the Military Departments were consistently identifying National Defense property, plant and equipment (PP&E) as defined in the Statement of Federal Financial Accounting Standards No. 11, "Amendments to Accounting for Property, Plant, and Equipment: Definitional Changes," October 1998, and whether the amount of the prior period adjustment that removed National Defense PP&E from the balance sheet was correct.

The DoD Agency-wide financial statements incorrectly stated that \$698.7 billion of the prior period adjustment was made to remove National Defense PP&E from the balance sheet. However, only \$635.5 billion of the adjustment was related to National Defense PP&E. As a result, the financial statement footnotes incorrectly overstated by \$63.2 billion, the value of National Defense PP&E previously reported on the balance sheet before the adjustments. If the dollar values of National Defense PP&E had been reported in the required supplementary stewardship information, they would have been incorrect. In addition, future statements showing the dollar value of National Defense PP&E will be significantly less than the amount removed.

REPORT NO. D-2001-022. Inventory Revaluation for the Navy Working Capital Fund by the Naval Supply Systems Command. This is the first in a series of reports on our audit work for the FY 2000 Department of the Navy Working Capital Fund Financial Statements. The overall objectives were to determine whether the revaluation of inventory from standard price to latest acquisition cost or net realizable value was reasonable and to evaluate the processes and procedures that the Naval Supply Systems Command used to revalue inventory.

Journal entries that the Naval Supply Systems Command recorded in the DFAS Central Data Base to revalue inventory from standard price to latest acquisition cost or net realizable value were erroneous; entries to reduce inventory by the estimated cost to repair unserviceable inventory were understated by \$170.7 million; entries to recognize the potential loss related to excess, obsolete, and unserviceable inventory were understated by \$383 million; and entries to reduce inventory to latest acquisition cost were understated by \$0.6 million. As a result, as of June 30, 2000, inventory was overstated by \$554.3 million.

REPORT NO. D-2001-024. Performance Measures for Disbursing Stations. This is the fifth in a series of audits on the Fund Balance With Treasury account. The overall objective was to assess controls over the collections and disbursements reported to DFAS Centers and

the U.S. Treasury. This report focuses on the objective as it applies to the measurement of DoD disbursing stations' performance in reconciling differences in deposits, interagency transfers, and checks issued.

DFAS lacked a plan to measure and improve the performance of DoD disbursing stations in reconciling differences in deposits, interagency transfers, and checks issued. DFAS did not measure the performance of: 353 (90.1 percent) of the 392 disbursing stations with deposit activity, 67 (64.4 percent) of the 104 disbursing stations with interagency transfer activity, and 500 of the 500 disbursing stations with checks issued activity, as reported on the U.S. Treasury's Statements of Differences or Comparison Reports. As a result, DFAS could not identify disbursing stations with significant unreconciled differences. The disbursing stations with the 10 largest average differences in deposits, interagency transfers, and checks issued accounted for \$3.5 billion (58.3 percent) of the \$6 billion average difference (absolute value) reported on the September 30, 1999, and April 30, 2000, Statements of Differences and Comparison Reports. Reconciliation of those disbursing stations' differences would significantly reduce the total DoD differences in deposits, interagency transfers, and checks issued and improve the accuracy and auditability of the DoD Fund Balance With Treasury account.

REPORT NO. D-2001-026. Accuracy of the Government-Owned Contractor-Occupied Real Property in the Military Departments' Real Property Databases. Our objective was to determine whether the Military Departments' real property databases accurately accounted for the existence, completeness, and valuation of real property in the possession of contractors. In addition, we assessed compliance with laws and regulations.

The Army real property databases that we sampled contained an accurate inventory, but the Navy and Air Force databases did not. The Navy real property database did not include 17 of the 80 facilities, with a reported value of \$38.9 million, tested for completeness, and the Air Force real property database did not include 8 of the 69 facilities, with a reported value of \$43.1 million, tested for completeness. As a result, the Navy real property database was understated by at least \$13 million, and the Air Force database was understated by at least \$6.8 million. In addition, the Air Force did not accurately reflect the value of at least 56 properties in the real property databases, which understated the real property database by an additional \$114.9 million.

INFORMATION TECHNOLOGY RESOURCES

REPORT NO. D-2001-013. DoD Compliance With the Information Assurance Vulnerability Alert Policy. The objective was to evaluate the progress that DoD made in complying with the Deputy Secretary of Defense policy memorandum on Information Assurance Vulnerability Alerts (IAVA). The policy memorandum provided for a compliance review by IG, DoD.

As of August 2000, DoD Progress in complying with the IAVA policy had not been consistent. At that time, all 9 CINCs, 4 Services, and 14 Defense agencies had registered as reporting entities with the IAVA database, but 4 other DoD Components had not. Based on the information contained in the IAVA database for the alerts posted in 2000, of the DoD Components registered, only four CINCs, one Service, four Defense agencies, and two other DoD Components had reported compliance with the IAVA policy. As of November 2000, however, DoD had made significant progress in IAVA implementation. The four DoD Components that had not registered were reporting through the OSD point of contact and are no longer required to register separately. All CINCs, 2 of the 4 services and 13 of the 14 Defense agencies were now reporting in compliance with IAVA policy. The DSS, the one remaining Defense agency that had not fully complied with the reporting requirements, was working to put an infrastructure in place for reporting in accordance with the policy. Of the other DoD Components, OSD was not yet reporting compliance in accordance with IAVA policy; however, it planned to be fully compliant by April 2001. Compliance by OSD is critical because 20 other DoD organizations will be reporting through it. Effective implementation of IAVA policy will help ensure that DoD Components take appropriate mitigating action against vulnerabilities to avoid serious compromises to DoD computer system assets that would potentially degrade mission performance.

REPORT NO. D-2001-014. Development and Implementation of a Joint Ammunition System. The overall objective was to determine the appropriateness of policies and regulations governing accounting for DoD operating materials and supplies. For this part of the audit, we evaluated DoD efforts to develop a new joint standardized ammunition system, the Joint Ammunition Management Standard System, to report conventional ammunition as part of operating materials and supplies.

DoD spent 8 years and \$41.3 million developing a new system for the logistical and financial reporting of the ammunition balance. Despite those efforts, DoD did not produce a working system or even have one near completion. During the audit, DoD suspended work on the most recent development effort, the Joint Ammunition Management Standard System, and began considering other alternatives. However, DoD personnel were not adequately considering an existing Navy system, the Conventional Ammunition Integrated Management System (CAIMS), as one of the alternatives. Navy personnel indicated that they completed some improvements to CAIMS in July 2000, and with limited modification CAIMS would be capable of satisfying the financial and operational visibility needs of DoD. If DoD continues to develop a new joint ammunition reporting system, it will spend an estimated \$70.7 million through FY 2005 that could largely be used for other purposes. Also, in the interim years, DoD would have to use multiple ammunition systems that are not in compliance with Federal financial accounting standards. Additionally, DoD would continue to lack total asset visibility over ammunition.

REPORT NO. D-2001-016. Security Controls Over Contractor Support for Year 2000 Renovation. In a memorandum to IG, DoD, the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) expressed concerns that system owners and users may have created increased vulnerabilities to the Defense information infrastructure and to operational readiness during the year 2000 renovation processes. The Assistant Secretary

asked IG, DoD, to monitor the adherence of DoD Components to the information security requirements of OSD. This is the second of two reports on the subject. In this phase, we reviewed controls over contractors that performed year 2000 renovations on mission-critical systems.

DoD Components used techniques such as access controls, configuration management, and code verification and validation, to monitor and control contractor access to the 159 mission-critical systems in our sample that were renovated by contract personnel during the year 2000 renovation effort. However, the cognizant DoD Components did not assess risk for 103 of 159 contractor-renovated systems and did not reaccredit 119 systems. As a result, at least seven DoD Components were not assured that documented security postures were valid. Further, potential risks to the mission-critical systems were unknown and the systems may be exposed to increased risk of unauthorized access and modification.

REPORT NO. D-2001-017. Unclassified but Sensitive Internet Protocol Router Network Security Policy. The overall objective was to evaluate DoD efforts to increase the security posture of the Unclassified but Sensitive Internet Protocol Router Network.

The ASD(C³I) did not have an active Unclassified but Sensitive Internet Protocol Router Network security policy and lacked visibility of unauthorized Internet access connections because the August 1999 policy memorandum and accompanying implementation guidelines expired in November 1999 and did not: clearly define the direct Internet connection waiver process, including the roles, responsibilities, and timelines for reviewing, validating, and approving waiver requests; and provide implementing details for DoD Components to report monthly on progress and issues relating to the Unclassified but Sensitive Internet Protocol Router Network transition process.

The memorandum was never formally incorporated into Defense policy. As a result, the requirement for DoD Components to follow the ASD(C³I) Unclassified but Sensitive Internet Protocol Router Network security policy memorandum and implementation guidelines has been unenforceable since November 1999. Although the ASD(C³I) initiated efforts to increase the security posture of the Unclassified but Sensitive Internet Protocol Router Network by initiating preliminary policy and guidance, additional efforts were needed to incorporate that policy and guidance into a DoD directive or regulation. The lack of current policy guidelines was a material management control weakness. In the absence of DoD guidance, individual installations and commands may have made questionable decisions on commercial Internet access. For example, Fort Irwin, California, had a questionably necessary direct commercial Internet connection without proper authorization. As a result, the ability of DISA to maintain comprehensive control of the NIPRNet is impaired and the security posture of the NIPRNet put at greater risk.

REPORT NO. D-2001-019. Program Management of the Defense Security Service Case Control Management System. This audit was requested by the Chairmen of the Senate and House Committees on Armed Services because of reported problems with processing security investigations for clearance determinations. The overall objective was to review the program

management of the acquisition of the Defense Security Service (DSS) Case Control Management System and the actions being taken to correct problems in its development and deployment.

The DSS did not effectively manage the high risk involved in the integration of the Case Control Management System and the Enterprise System. As a result, those systems had significant limitations and were insufficiently tested and evaluated for operational effectiveness prior to deployment in October 1998, leading to failures that degraded DSS productivity. As of September 2000, project management had been greatly improved, but high risks remained. Resolution of design problems is continuing and measurements for reliability and maintainability at production objectives are still needed.

The Air Force Program Management Office has developed a phased acquisition strategy to stabilize the Case Control Management System and the Enterprise System with product improvements and incrementally migrate it to an improved Enterprise System architecture between FY 2002 and FY 2008. However, DoD needs to consider alternative solutions for processing personnel security investigations before further decisions are made on future system architecture. The DSS appropriately identified personnel security investigations as a material management control weakness area in FYs 1999 and 2000, and is taking corrective actions. The DoD should continue to report management control weaknesses in this area until all overdue personnel security clearances requiring reinvestigation are eliminated.

REPORT NO. D-2001-029. General Controls Over the Electronic Document Access System. The Director, DFAS Columbus, requested that we review the Electronic Document Access system to determine whether sufficient safeguards are in place to ensure the security of electronically transmitted contractual data. The objective was to determine whether the security of the system was adequate. The audit included reviews of selected general controls and compliance with CFO Act requirements. The report discusses DFAS implementation of the system as it applies to DFAS Columbus.

The system security controls were not sufficient and could not provide reasonable assurance that data transmitted electronically and used by DFAS Columbus were secure. The Joint Electronic Commerce Program Office implementation of, and the DFAS security for, the system needed improvement. Unless corrective actions are taken, system data could be altered or misused.

REPORT NO. D-2001-030. Oversight of Defense Finance and Accounting Service Corporate Database Development. The overall objective was to review development of the DFAS Corporate Database (DCD) and its impact on entitlement, disbursing, and accounting functions. This report is the first in a series related to the DCD. Specifically, this report discusses DoD oversight of DFAS development of the DFAS Corporate Information Infrastructure, DCD, and associated applications.

There was high risk that DoD would not be able to achieve its goal of a single, integrated system because management was focused on individual systems and system ownership is fragmented among many DoD Components. A more integrated management approach was needed.

LOGISTICS

REPORT NO. D-2001-002. Defense Logistics Agency Customer Returns Improvement Initiative Program. This is one of two reports being issued by IG, DoD, which addresses various aspects of the DLA Product Verification Program. The overall objective was to determine whether DLA was effectively managing the Product Verification Program. Specifically, the audit was to determine how products were selected for testing and whether the program's testing plan was adequate. We also determined whether the Product Verification Program managers and quality assurance specialists were using the test results to purge nonconforming inventory from DLA depots and whether contractor problems were identified. This report discusses the methods that DLA used to screen nonconforming inventory.

DLA did not fully implement the Customer Returns Improvement Initiative Program. Therefore, all depots could not screen and suspend potentially nonconforming assets received through customer returns. The Defense Supply Centers did not regularly transmit listings of nonconforming assets to the depots that participated in the program, nor did they consistently provide all necessary information to distinctly identify the assets. As a result, as many as 28 percent of DLA's returned assets, comprised of over 176,000 individual supplies and spare parts that had been identified as potentially defective and returned to the depots, were not screened and could be reissued to customers without qualification. Conversely, the lack of detailed information on nonconforming assets forwarded to the depots may have resulted in some assets being unnecessarily suspended.

REPORT NO. D-2001-004. Disposal of Excess Government-Owned Property in the Possession of Contractors. This audit was initiated in response to allegations made to the Defense Hotline that the Defense Contract Management Agency (DCMA) was falling short of meeting its Management Reform Memorandum 5 (MRM5) goal to dispose of \$7 billion of excess Government-owned property by December 31, 1999. The allegation also stated that DCMA falsified property disposal reports by transferring the accountability of property from one contract to another and treating that action as a plant clearance disposal action. The overall objective was to determine whether DCMA plant clearance actions comply with applicable DoD guidance and whether DCMA plant clearance cases actually resulted in the disposition of excess Government-owned property reported on the plant clearance actions.

The allegation that DCMA failed to meet its MRM5 goal was substantiated. The allegation that property disposal reports were falsified was partially substantiated, in that the reporting was erroneous. We did not conclude that the misreporting was intentional. DCMA

screening and redistribution of excess and underutilized Government-owned property complied with applicable DoD guidance. However, DCMA data reported to the Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics) on the MRM5 goal was inaccurate and unsupported. As a result, DCMA data did not accurately reflect the progress made towards meeting the established goal. Also, the inaccuracy of the MRM data raised serious questions as to the accuracy of the reported National Performance Review data related to the reform initiative to dispose of \$3 billion of unneeded special test equipment, special tooling, industrial and other plant equipment. The goal that DoD established under the MRM5 initiative was ineffective in reversing the property growth trend and reducing the total amount of property in the possession of contractors. As a result, the total property in the possession of contractors increased by \$1.1 billion during the MRM5 initiative period. Also, property in the possession of contractors in the categories specifically addressed in MRM5 increased by about \$428 million during the period of October 1, 1997 to December 31, 1999.

REPORT NO. D-2001-018. Management and Oversight of the DoD Weather Program.

Our overall objective was to evaluate DoD meteorological and oceanographic services and support to determine whether the Military Departments are providing the most cost-effective and nonduplicative meteorological and oceanographic services and support to DoD and other governmental agencies. The first phase of this audit focused on evaluating DoD management and oversight of meteorological, oceanographic, and space weather services and support provided by the Military Departments. The audit was self-initiated.

An integrated DoD weather architecture using the overall DoD Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance Architecture Framework methodology was lacking. Under current DoD Directives, no Principal Staff Assistant is responsible for overall management of the DoD weather program. As a result, DoD did not adequately coordinate satellite and communication requirements to ensure all user requirements are met. We believe that the function relates closely to the core Assistant Secretary of Defense (Command, Control, Communications and Intelligence) responsibilities.

REPORT NO. D-2001-031. DoD Pilot Programs for Shipment of Personal Property – DoD Baseline Cost Methodology. This audit was requested by the U.S. Transportation Command (USTRANSCOM). The overall objectives were to evaluate the methodology and processes used by the Military Traffic Management Command (MTMC) to determine the baseline costs for the current DoD Personal Property Program (DoD Baseline Program); the methodology and processes used to collect, evaluate, and report transportation and cost data for the MTMC Reengineering DoD Personal Property Program Pilot (the MTMC Program Pilot); and the methodology used by USTRANSCOM to compare and evaluate the DoD Baseline Program, the MTMC Program Pilot, the DoD Full Service Moving Project, and the Navy Service Member-Arranged Movement Pilot Program. This report discusses the first objective as it relates to the methodology and processes used to determine the direct and indirect baseline costs for the current DoD Baseline Program; and the remaining portion of the second objective as it relates to the methodology and process used to collect, evaluate, and report indirect transportation and cost data for the MTMC Program Pilot.

Attempting to compensate for the lack of historical cost data, MTMC made commendable efforts to create the framework for rigorous and credible cost comparisons between alternative household goods transportation approaches. However, the methodology and processes used to determine direct costs under the DoD Baseline Program were flawed. As a result, the direct baseline costs developed using the current MTMC methodology and processes would be of very limited value in cost comparisons with pilot programs. The methodology and processes used by MTMC to determine indirect costs under the DoD Baseline Program also were flawed. As a result, the indirect baseline costs developed using the current MTMC methodology and processes are not reliable and, therefore, do not provide a sound basis for cost comparison.

OTHER

REPORT NO. D-2001-005. Use of Unpaid Consultants by the DoD Exchange Services. The Special Oversight Panel on Morale, Welfare and Recreation, Committee on Armed Services, U.S. House of Representatives requested this audit. The request was made in response to allegations that the Army and Air Force Exchange Service (AAFES) inappropriately engaged consultants who were financially affiliated with companies that did business with the exchange and as a result of the relationship, the exchange made improper procurement decisions. The objectives were to review the propriety of the military exchanges' use of consultants, determine whether the use of the consultants complies with prevailing ethics laws and regulations, and whether any related procurement actions were improper.

The AAFES use of unpaid consultants did not fully comply with existing laws and regulations. AAFES did not require unpaid consultants to file financial disclosure reports, which could have assisted AAFES in identifying potential conflicts of interest. Further, by allowing the unpaid consultants to serve on its board of directors, AAFES may have created an advisory committee within the meaning of the Federal Advisory Committee Act, yet did not comply with that Act's requirements. As a result, the potential for, and the appearance of, conflicts of interest existed. We did not, however, identify any improper procurement actions resulting from the use of the unpaid consultants.

REPORT NO. D-2001-007. Foreign National Security Controls at DoD Research Laboratories. The overall objective was to evaluate the adequacy of DoD policies and procedures to prevent the transfer of technologies and technical information with potential military application to countries and entities of concern. This is the fourth in a series of reports on that issue. For this report, we determined whether foreign disclosure instructions were prepared when required and whether information disclosure restraints were disseminated to all relevant individuals and organizations interacting with foreign nationals.

The dissemination of foreign disclosure instructions at the Army Research Laboratory and the Air Force Research Laboratory-Munitions provided reasonable assurance that release of controlled unclassified and classified information to foreign nationals was in accordance with visit authorizations or certifications. However, the Defense Advanced Research Projects Agency (DARPA) and the Naval Research Laboratory controls over the dissemination of foreign disclosures needed improvement. Specifically, for 208 of 270 official visits reviewed, DARPA and the Naval Research Laboratory did not disseminate foreign disclosure instructions to the program managers hosting foreign nationals. As a result, DARPA and the Naval Research Laboratory program managers were hosting foreign nationals on official visits unaware of national security foreign disclosure restraints and may have inadvertently released unauthorized technical information to other countries.

The Military Department laboratories' approval processes for visits by foreign nationals were adequate. However, DARPA security controls over the approval process for foreign national visitors were weak. Specifically, controls for granting building access for foreign national visitors representing U.S. entities required improvement. Also, the DARPA database contained inconsistent and erroneous data. As a result, controls over the disclosure of controlled unclassified information to foreign nationals were not effective and DARPA may have inadvertently disclosed controlled unclassified information to other countries, including countries of concern, without authorization.

[REPORT NO. D-2001-008.](#) **Resources of DoD Adjudication Facilities.** This report is the fourth in a series addressing security clearance and access issues. The audit became a congressional request in March 2000 when the Chairmen of the Senate and House Committees on Armed Services requested further review of the security clearance process. This report addresses the resources required to adjudicate security clearances efficiently.

The number of cases requiring adjudication is rising at a rate faster than most central adjudication facilities' ability to process adjudicative decisions in a timely manner, because the facilities' resource requirements have not been fully identified and budgeted. As a result, obtaining a security clearance may become an increasingly lengthy process for DoD personnel and contractors and DoD may be subjected to a higher risk of compromise.

PART II

PARTICIPATION ON MANAGEMENT ADVISORY TEAMS AND SPECIAL AUDIT/EVALUATION EFFORTS

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

(Area Code 703 unless otherwise indicated)

Accounting and Auditing Policy Committee (JAY LANE, 604-9101)

Lead Component: Office of Management and Budget

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

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

Acquisition Reform Senior Steering Group (DAVE STEENSMA, 604-8903)

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

Chief Information Officers Working Council (DoD) (WANDA HOPKINS, 604-9049)

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

Commercial Item Handbook Integrated Process Team (PAUL GRANETTO, 604-9201)

Lead Component: Deputy Under Secretary of Defense (Acquisition Reform)

Coordination of Federal Accounting Standards Advisory Board and American Institute of Certified Public Accountants Guidance (JAY LANE, 604-9101)

Lead Component: Under Secretary of Defense (Comptroller)

Defense Acquisition Pilot Programs Consulting Group (JOHN MELING, 604-9091)

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

Defense Chief Information Officer Executive Board (MARY UGONE, 604-9002)

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

Defense Environmental Safety and Occupational Health Policy Board
(BILL GALLAGHER, 604-9270)
Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics

Defense Working Capital Fund Policy Board (DAVE VINCENT, 604-9109)
Lead Component: Under Secretary of Defense (Comptroller)

DoD Electronic Business Fraud Vulnerability Assessment Group (KENT SHAW, 604-9228)
Lead Component: Defense Criminal Investigative Service

Environmental Security Technology Implementation Committee (BILL GALLAGHER, 604-9270)
Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics

Federal Financial Management Act Executive Working Group (JAY LANE, 604-9101)
Lead Component: Under Secretary of Defense (Comptroller)

Inherently Governmental Integrated Process Team (GERRY STEPHENSON, 604-9332)
DoD A-76 Overarching Policy IPT
*Lead Components: Under Secretary of Defense for Acquisition, Technology, and Logistics and
Under Secretary of Defense for Personnel and Readiness*

Joint Contracting Pilot Program (TILGHMAN SCHRADEN, 604-9186)
Lead Component: Navy Inventory Control Point

Joint Service Strategic Supplier Initiative with Honeywell for Spares and Repairs Rapid
Improvement Team (TILGHMAN SCHRADEN, 604-9186)
Lead Component: Deputy Under Secretary of Defense(Acquisition Reform) and AFMC

O-8 Advisory Group on PCS (DAVE STEENSMA, 604-8903)
Lead Component: Under Secretary of Defense(Personnel and Readiness)

Past Performance Integrated Product Team (IPT) (BOBBIE SAU WAN, 604-9259)
Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics

Rapid Improvement Team Rapid Improvement Team to Develop DLA/Hamilton Sundstrand Strategic Alliance Relationship (HENRY KLEINKNECHT, 604-9324)
Lead Component: Deputy Under Secretary of Defense(Acquisition Reform) and DLA

Rapid Improvement Team to Develop a DLA/Honeywell Strategic Alliance Relationship (HENRY KLEINKNECHT, 604-9324)
Lead Component: Deputy Under Secretary of Defense(Acquisition Reform) and DLA

Reconciliation of Contracts in MOCAS Integrated Process Team (JIM KORNIDES, 614-751-1400(11))
Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics and Under Secretary of Defense (Comptroller)

Reengineering Transportation Task Force Executive Committee: (SHEL YOUNG, 604-8866)
Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics

Senior Financial Management Oversight Council (ROBERT LIEBERMAN, 604-8300)
Lead Component: Under Secretary of Defense (Comptroller)

Single Process Initiative Management Team (EUGENE KISSNER, 604-9323)
Lead Component: Defense Contract Management Agency

Systems Compliance Audit Working Group (CFO) (JAY LANE, 604-9101)
Lead Component: Under Secretary of Defense (Comptroller)

Task Force on International Agreements (HARLAN GEYER, 604-9174)
Lead Component: Assistant Secretary of Defense (International Security Affairs)

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

Audit Committees:

- Ballistic Missile Defense Organization (C.J. RICHARDSON, 604-9582)
- Defense Advanced Research Projects Agency (C.J. RICHARDSON, 604-9582)
- Defense Commissary Agency (DAVE VINCENT, 604-9109)
- Defense Contract Audit Agency (JAY LANE, 604-9101)
- Defense Finance and Accounting Service (JAY LANE, 604-9101)
- Defense Information Service Agency (RICHARD BIRD, 604-9157)
- Defense Logistics Agency (JAY LANE, 604-9101)
- Defense Security Service (BRIAN FLYNN, 604-9489)
- Defense Threat Reduction Agency (LEON PEEK, 604-9587)
- National Reconnaissance Office (LEON PEEK, 604-9587)
- Working Group for Air Force General Fund (BRIAN FLYNN, 604-9489)

Audit Oversight Workgroup Under the CFO Council Grants Management Committee (JANET STERN, 604-8752)

Federal Audit Clearinghouse User Group (JANET STERN, 604-8752)

Federal Audit Executive Council Multi-Agency Working Groups:

- Electronic Business (KENT SHAW, 604-9228)
- Government Wide Financial Statements (RICHARD BIRD, 604-9175)
- Peer Review Guidance Update (DENNIS PAYNE, 604-8907)

Government Information Security Reform Working Group (MARY UGONE, 604-9002)

Joint Audit Planning Groups:

- Acquisition Program (MARY UGONE, 604-9002)
- Construction, and Installation Support (WAYNE MILLION, 604-9312)
- Contractor Oversight (RICHARD JOLLIFFE, 604-9202)
- Environment (PAUL GRANETTO, 604-9201)
- Finance and Accounting (JAY LANE, 604-9101)
- Health Care and Other Quality of Life Issues (MIKE JOSEPH, 757-766-9108)
- Information Technology Resources (WANDA HOPKINS, 604-9049)
- Intelligence (KEITH WEST, 604-9804)
- Logistics (TILGHMAN SCHRADEN, 604-9186)

PCIE IGATI Curriculum Review Working Group (PAT BRANNIN, 604-8802)

PCIE Information Technology Roundtable (KATHY TRUEX, 604-9045)

IT Workforce Issues for IGs Working Group

Information Assurance Working Group

Single Audit “Orange Book” Update Project Team (JANET STERN, 604-8752)