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Inspector General
United States Department of Defense

Commercial Solicitation of Military Personnel on DoD Installations

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Acronyms

AFDCB	Armed Forces Disciplinary Control Board
CAC	Common Access Card
GAO	Government Accountability Office
NAIC	National Association of Insurance Commissioners
NLSO	Naval Legal Service Office
NSGL	Naval Station Great Lakes
PL	Public Law
PSAD	Personnel Support Activity Detachment
RLSO	Region Legal Service Office
SEC	Securities and Exchange Commission
SGLI	Servicemembers' Group Life Insurance

INSPECTOR GENERAL
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April 7, 2008

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR PERSONNEL AND READINESS
COMMANDANT OF THE MARINE CORPS
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
NAVAL INSPECTOR GENERAL
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on Commercial Solicitation of Military Personnel on DoD Installations (Report No. D-2008-075)

We are providing this report for review and comment. The Commanding General, U.S. Army Training and Doctrine Command did not respond to the draft report; however, we considered management comments from the Under Secretary of Defense for Personnel and Readiness, the Department of the Navy, and the Department of the Air Force when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Therefore, we request that the Commanding General, U.S. Army Training and Doctrine Command provide comments on Recommendation A.2. by May 7, 2008.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to AUDROS@dodig.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. Thomas S. Bartoszek at (703) 604-9619 (DSN 664-9619) or Mr. Robert E. Schonewolf at (215) 737-3886 (DSN 444-3886). See Appendix C for the report distribution. The team members are listed inside the back cover.

Robert F. Prinzbach II

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Acting Assistant Inspector General
Readiness and Operations Support

Department of Defense Office of Inspector General

Report No. D-2008-075 **April 7, 2008**
(Project No. D2007-D000LD-0131.000)

Commercial Solicitation of Military Personnel on DoD Installations

Executive Summary

Who Should Read This Report and Why? DoD civilian and military personnel who are involved in managing and preventing inappropriate personal commercial solicitations on DoD installations and personnel responsible for providing financial training to military personnel should read this report.

Background. Public Law 109-290, "Military Personnel Financial Services Protection Act," September 29, 2006, section 14, directs the DoD Inspector General to conduct a study on the impact of the reforms included in this Act and of DoD Instruction 1344.07, "Personal Commercial Solicitation on DoD Installations," March 30, 2006, on the quality and suitability of sales of securities and insurance products marketed or otherwise offered to members of the Armed Forces.

Results. The reforms contained in Public Law 109-290 and the impact of revised DoD Instruction 1344.07 have been partially effective in reducing commercial solicitations of inappropriate life insurance products to military personnel by sales agents on the DoD installations visited. The Military Services are providing personal financial readiness training. However, commercial solicitations and sales of inappropriate life insurance products are occurring off base. As a result, junior enlisted Service members are still purchasing high-cost life insurance products that are considered inappropriate and may threaten their financial stability (Finding A).

The Navy must take additional steps in protecting junior enlisted naval personnel at Naval Station Great Lakes from the sale of inappropriate life insurance products and dishonest and predatory sales practices. Problems identified in 2005 and 2006 with inappropriate sales of life insurance products continue. As a result, junior enlisted personnel were transported off post to a financial planning agency and persuaded to sign up for supplemental life insurance products that are considered inappropriate. In addition, unauthorized access by financial planning agency employees to MyPay, a DoD information system, subjects the information contained on the system to undue risk of alteration and compromise. Junior enlisted sailors could be hurt financially by having allotments taken from their pay for inappropriate life insurance products (Finding B).

See the Findings section of the report for the detailed recommendations.

Management Comments and Audit Response. A draft of this report was issued on February 6, 2008. The Deputy Under Secretary of Defense for Military Community and Family Policy responded on behalf of the Under Secretary of Defense for Personnel and Readiness. She concurred with recommendations stating her office will work with the appropriate offices to incorporate material that will help Service members identify inappropriate life insurance practices and products. Additionally, she stated a wealth of material is available online at Service portals and on the web site of the National

Association of Insurance Commissioners. Further, she cited current policy directing Armed Forces Disciplinary Control Boards in all geographical areas in which grounds for withdrawal action have occurred to consider all applicable information and take action the Boards deem appropriate. Violations that occur off-base are being handled appropriately by the Board and the State commissioners. In addition, she stated that the Defense Department will reiterate the need for the Services to ensure the State insurance commissioners are informed of inappropriate practices targeting military personnel off-base as well as including this information in the quarterly Personal Commercial Solicitation Report.

The Acting Assistant Secretary of the Navy (Manpower and Reserve Affairs) concurred with the recommendations contained in the draft report. She stated that the Navy revised the Navy Personal Financial Management Standardized Curriculum in November 2007 to add consumer awareness training focused on deterring, detecting, and defending against consumer fraud. As a critical part of the training program, the Navy included the Consumer Action Handbook published by the Federal Trade Commission. The Navy distributed the new curriculum to Navy Fleet and Family Support Centers, and to Navy training school commands. Also, the Recruit Training Command's legal department incorporated a Recruit Liberty orientation lecture in Recruit Training Center's standard operating procedures. The Recruit Training Command legal department provided additional formal training to the Recruit Division Commanders addressing predatory lending and other deceptive sales practices involving insurance, investments, and solicitation of "MyPay" information.

The Acting Assistant Secretary of the Navy (Manpower and Reserve Affairs) further stated that the Navy made the discussion of inappropriate commercial solicitations and business practices an agenda item at the Naval Station Great Lakes (NSGL) Monthly Host/Tenant Installation meeting. Further, she indicated that Region Legal Service Office Midwest contacted the Illinois Division of Insurance in August 2007 and will continue to contact the Division as the need arises. Also, persons affiliated with financial products will no longer be eligible for commercial solicitation permits.

Responding for the Marine Corps, the Acting Assistant Secretary of the Navy (Manpower and Reserve Affairs) indicated that the Personal Financial Management Program training curriculum includes a module titled "Your Insurance Needs."

The Air Force Assistant Deputy Chief of Staff for Manpower and Personnel concurred with the recommendation, stating that the instructors for basic training are educating trainees on unscrupulous insurance sales practices under the current lesson plan and will cover these practices in the new Financial Management Lesson (and Basic Trainee Study Guide) as part of the expanded 8.5-week program beginning in November 2008. The lesson will discuss abusive insurance and investment practices and safeguards that exist to help our Service members. In addition, the Assistant Deputy Chief of Staff, Manpower and Personnel stated that the Technical Training schools have an Airmen and Family Readiness Center with a Personal Financial Manager who has for years included in the personal financial management lessons information on unscrupulous sales tactics related to insurance and securities. Also, Air Education and Training Command periodically reviews lesson plans to ensure they remain consistent with Air Force and DoD guidance.

See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

Audit Response. The management comments we received are responsive. Actions taken and proposed by the Office of the Under Secretary of Defense, the Department of the Navy, and the Department of the Air Force satisfy the intent of our recommendations. However, we request that the Commanding General, U. S. Army Training and Doctrine Command provide comments on the final report by May 7, 2008.

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Background

Public Law 109-290, "Military Personnel Financial Services Protection Act." We conducted this audit as required by Public Law 109-290 (P.L. 109-290), "Military Personnel Financial Services Protection Act," September 29, 2006, section 14. P.L. 109-290 requires a study and report by the Inspector General of the DoD.

> "(a) STUDY.—The Inspector General of the DoD shall conduct a study on the impact of DoD Instruction 1344.07 (as in effect on the date of enactment of this Act) and the reforms included in this Act on the quality and suitability of sales of securities and insurance products marketed or otherwise offered to members of the Armed Forces.
>
> (b) REPORTS.—Not later than 12 months after the date of enactment of this Act, the Inspector General of the DoD shall submit an initial report on the results of the study conducted under subsection (a) to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives, and shall submit followup reports to those committees on December 31, 2008 and December 31, 2010."

Congress enacted P.L. 109-290 to protect members of the Armed Forces from unscrupulous practices regarding sales of insurance, financial, and investment products. The congressional findings section of the law stated that the members of the Armed Forces perform great sacrifices in protecting our Nation. The intent of Congress was to ensure that Service members are offered first-rate financial products. Congress found that financial services companies offered members of the Armed Forces high-cost securities and life insurance products and engaged in abusive and misleading sales practices. Such practices included the mutual fund contractual plan and life insurance products being marketed as investments. The mutual fund contractual plan charges a 50-percent sales commission on the first year of contributions, whereas an average commission on other securities products is less than 6 percent. The mutual fund contractual plans largely disappeared from the civilian market in the 1980s because of this excessive sales charge. Congress also found that certain life insurance products being offered to members of the Armed Forces are improperly marketed as investment products; these products often provide minimal death benefits in exchange for excessive premiums that are front-loaded in the first few years, making them inappropriate for most military personnel.

State Government Role and the National Association of Insurance Commissioners. State Government entities are the primary regulators of insurance companies and agents. When establishing operations, an insurance company must obtain a charter and license to write insurance policies. The State that issues the license becomes the company's State of domicile or legal residence. Because the insurance company may market products in multiple States, the sales are overseen by multiple State regulatory bodies. However, the financial solvency of each insurance company is primarily overseen by the company's State of domicile. Some insurance companies market their products using their own sales force; others use agents employed by independent firms.

The State insurance regulators oversee the insurance companies and agents in several ways, including reviewing and approving products for sale and examining the operations of companies to ensure their financial soundness or proper market conduct. Although each State has its own insurance regulations and laws, the National Association of Insurance Commissioners (NAIC) was created in 1871 to coordinate the regulation of multi-State insurers. NAIC consists of insurance regulators from the 50 States, the District of Columbia, and the 5 U.S. territories. NAIC provides a national forum for addressing and resolving major insurance issues and for allowing regulators to develop consistent policies on the regulation of insurance when consistency is deemed appropriate. NAIC has a close working relationship and consulted with the Office of the Under Secretary of Defense for Personnel and Readiness on a model regulation that will set forth standards to cover commercial solicitation both on and off military installations. The NAIC report to Congress, "Life Insurance Sales to Members of the Armed Forces," September 28, 2007, identified 15 States that have enacted legislation and accepted the model regulation.

Securities and Exchange Commission. The Securities and Exchange Commission (SEC) is a Government agency whose mission is to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. Also, the Commission focuses on promoting the disclosure of important market-related information, maintaining fair dealing, and protecting against fraud. In addition, the SEC oversees key participants in the securities world, including securities exchanges, securities brokers and dealers, investment advisors, and mutual funds.

P. L. 109-290 requires the SEC to issue a report to Congress on refunds, sales practices, and revenues from periodic payment plans no later than 6 months after enactment. According to the Investment Company Act of 1940, section 2 (a) (27), periodic payment plans are any certificate, investment contract or other security providing for a series of periodic payments by the holder, and representing an undivided interest in certain specified securities or in a unit or fund of securities purchased wholly or partly with the proceeds of such payments.

Servicemembers' Group Life Insurance. All military members are automatically enrolled in the Servicemembers' Group Life Insurance (SGLI) program upon joining the Armed Forces. SGLI is a federally sponsored program that for $28 a month provides $400,000 of group term life insurance coverage, plus a mandatory $1 per month for traumatic injury protection coverage. If the Service member wants less life insurance, the cost is $3.50 per $50,000 in coverage. In addition, at no cost to Service members, in the event of their death while on active duty, members' beneficiaries receive $100,000.

Objectives

The overall audit objective was to review the effects of DoD Instruction 1344.07, "Personal Commercial Solicitation on DoD Installations," and the reforms included in Public Law 109-290, "Military Personnel Financial Services Protection Act," on the quality and suitability of sales of securities and insurance products marketed to members of the Armed Forces.

Review of Internal Controls

We identified a material internal control weakness for Naval Station Great Lakes (NSGL) in the supervision and enforcement of commercial solicitation activities and practices on base, as defined by DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," January 4, 2006. The NSGL did not have effective communication channels or internal controls to prevent inappropriate solicitations for unneeded insurance products from occurring on the installation. Recommendations B.1., B.2., and B.3., if implemented, will improve NSGL oversight of personal commercial solicitations of Service members on and off the installation and boost consumer awareness of inappropriate life insurance sales practices and products. A copy of this report will be provided to the senior official responsible for internal controls at NSGL.

A. Improvements in Commercial Solicitation of Military Personnel on DoD Installations

The reforms of P.L. 109-290 and the impact of revised DoD Instruction 1344.07 have been partially effective in reducing commercial solicitations of inappropriate life insurance products to military personnel by sales agents on the DoD installations visited. The Military Services are providing personal financial readiness training. However, commercial solicitations and sales of inappropriate life insurance products are occurring off base because consumer awareness training was not adequate for military personnel to identify inappropriate life insurance sales practices and products. In addition junior enlisted Service members, facilitated by insurance agents, are starting life insurance allotments through the MyPay system, circumventing many of the safeguards established for on-base commercial solicitations to buy supplemental life insurance. As a result, junior enlisted Service members are still purchasing high-cost life insurance products that are considered inappropriate and may threaten their financial stability.

Public Law Reforms

The reforms included in P.L. 109-290 regarding the quality and suitability of sales of insurance products marketed to members of the Armed Forces have been implemented. The reforms include improving life insurance product standards, developing military protection standards, and the identifying and reporting of barred insurance companies and agents. In addition, it prohibits periodic payment plans.

Improving Life Insurance Product Standards. P.L. 109-290 states that NAIC should conduct a study and report to Congress on ways to improve the quality of, and sale of, life insurance products sold on military installations and the compliance with State law of the marketing of life insurance products to Service members. NAIC issued a report "Life Insurance Sales to Members of the Armed Forces," to Congress on March 29, 2007. The NAIC report analyzes the deceptive and improper sales practices uncovered by the Government Accountability Office (GAO), Department of Justice, DoD, SEC, and State insurance regulators. The report also discusses coordination between NAIC and DoD. The coordination efforts resulted in NAIC developing a planned database to track and share actions taken against life insurance agents soliciting on military installations, a Web site link and a brochure providing information that Service members should consider when purchasing life insurance and related issues, and the addition of a complaint code in the NAIC complaint database to track complaints by Service members.

Developing Military Personnel Protection Standards. In response to the P.L. 109-290 requirement to develop life insurance standards to protect Service members, NAIC tasked its Military Sales Working Group to write a model regulation for implementation within each State, the District of Columbia, and Puerto Rico. The working group was appointed December 2006 to address the directives set forth in P.L. 109-290 pertaining to NAIC. In consultation with the Office of the Under Secretary of Defense for Personnel and Readiness, the

working group drafted and NAIC unanimously adopted the Military Sales Practices Model Regulation (the model regulation) on June 4, 2007.

The purpose of the model regulation is to identify standards to protect active-duty Service members of the U.S. Armed Forces from dishonest and predatory insurance sales practices. The model regulation identifies acts or practices by an insurer or insurance producer that are declared to be false, misleading, deceptive, or unfair. See Appendix B for solicitation practices the model regulation prohibits on base.

Each State's regulatory insurance commission must adopt the model regulation to enforce it. The State's insurance commission sets its own fines for violation of the regulation and establishes criteria for the revocation of State insurance licenses and other related penalties. In its second report to Congress, "Life Insurance Sales to Members of the Armed Forces," September 28, 2007, NAIC gave the status of the States' efforts to implement the model regulation. The report identified 15 States that have enacted legislation and accepted the model regulation. In addition, the report addresses an educational outreach project and the on-line reporting system. Further, NAIC, in conjunction with DoD, has developed a "red flag" advisory to alert members of the Armed Forces to deceptive life insurance marketing and sales practices typically used by agents selling life insurance policies as an investment or savings plan. The advisory, a one-page message, will be forwarded to military installations. The advisory encourages Service members who have encountered deceptive sales practices to contact their Financial Readiness Office or State insurance regulator for assistance.

Also, on September 25, 2007, NAIC implemented a new Web-based Military Sales Online Reporting System to provide a centralized system to receive reports from insurers, Federal agencies, and State entities regarding disciplinary actions taken against persons that solicit or sell life insurance products on U.S. military installations anywhere in the world. The information collected by the Military Sales Online Reporting System will be available to all State insurance departments and the DoD.

Reporting Barred Insurance Companies and Agents. DoD already addressed this reform with the development of the Personal Commercial Solicitation Report in May 2005. The military installations report up their chain of command when individuals and companies have had their privileges to solicit on base suspended. The Services' headquarters then report the information to the Principal Deputy Under Secretary of Defense for Personnel and Readiness for inclusion in the Personal Commercial Solicitation Report. This report identifies the company and or agents barred, the reason for debarment, and the length and location of debarment. The Principal Deputy monitors and posts the report on the Commanders Page quarterly at www.commanderspage.com, giving all installations information on barred companies and agents. The Commanders Page is a Web site for news and information pertaining to personnel and readiness for flag and general officers.

According to the Personal Commercial Solicitation Report, in FY 2007 four insurance or financial companies were banned from military installations worldwide and two companies were placed off-limits to Fort Benning and Fort Jackson soldiers. In addition, five agents banned as a result of our review were added to the report. Four agents had their commercial solicitation permits rescinded at NSGL, and one agent was banned from Fort Jackson. All issues pertaining to NSGL are in Finding B.

Prohibiting Periodic Payment Plans. P.L. 109-290, section 4, prohibits future sales of periodic payment plans as of October 29, 2006. In addition, it required the SEC to issue a report to Congress on refunds, sales practices, and revenues from periodic payment plans no later than 6 months after enactment of the Act. The SEC issued a report in March 2007 stating that only one company offered voluntary refunds. The SEC also reported that broker-dealers selling periodic payment plans during the report period (2002 to 2006) generated approximately $192 million in revenue. The SEC found that the number of sponsors offering periodic payment plans has dropped significantly since June 1970, when approximately 80 firms sponsored the plans; at the time of the 2007 report, only 9 were in operation. The report cited several problems with sales to military members, including misstatements regarding periodic payment plans, misstatements regarding the wealth-building potential of certain other securities products, and the marketing of periodic payment plans to low-ranking personnel who might not be able to maintain the payments.

The SEC has reported that eight of the nine companies had ceased selling periodic payment plans prior to the sales prohibition. The SEC report also stated that the problems associated with periodic payment plans are no longer a significant issue because of statutory prohibition. The SEC has a comprehensive program to address illegal and abusive practices targeting military personnel. The program includes enforcement, examination, coordination with DoD and the National Association of Securities Dealers, and investor education and other outreach activity.

We found no evidence of current sales of periodic payment plans at any of the six sites visited during the audit. The sites included Fort Benning, Fort Jackson, Naval Station Great Lakes, Marine Corps Base Camp Lejeune, Lackland Air Force Base, and Keesler Air Force Base.

DoD and Service Policies

DoD revised and reissued DoD Instruction 1344.07,"Personal Commercial Solicitation on DoD Installations," on March 30, 2006, and the Services have finalized or are in the process of finalizing their supplemental guidance to the DoD Instruction.

DoD Instruction. DoD Instruction 1344.07,"Personal Commercial Solicitation on DoD Installations," March 30, 2006, is the guidance on policy and procedures for personal commercial solicitations on DoD installations. It is DoD policy to safeguard and promote the welfare of DoD personnel as consumers by setting forth a uniform approach to the conduct of all personal commercial solicitation and sales to them by dealers and their agents. The Instruction defines personal commercial solicitation as personal contact, to include meetings, meals, or telecommunications contact, for the purpose of seeking private business or trade. The Instruction establishes policies and procedures for personal commercial solicitation on DoD installations. These policies require that the solicitor be duly licensed to sell his product, have an appointment with the individual to be solicited, and provide the personal commercial solicitation evaluation form and a written reminder that free legal advice is available from the Office of the Staff Judge Advocate. The Instruction also requires installation commanders to report concerns or complaints involving the quality or suitability of financial products,

as well as concerns or complaints involving marketing methods used to sell these products, to the appropriate State and Federal regulatory authorities.

The Instruction describes the use of the allotment of pay system. For personnel in pay grades E-4 and below, in order to obtain financial counseling, at least 7 calendar days shall elapse between the signing of a life insurance application and the certification of a military pay allotment for any supplemental commercial life insurance. Installation Finance Officers are responsible for ensuring this 7-day cooling-off period is monitored and enforced. The purchaser's commanding officer may grant a waiver of the 7-day cooling-off period requirement for good cause, such as the purchaser's imminent deployment or permanent change of station. The Instruction also describes responsibilities of the Principal Deputy Under Secretary of Defense for Personnel and Readiness. The Principal Deputy must maintain and have available to installation commanders the current master file of all individual agents, dealers, and companies who had their privileges withdrawn at any DoD installation. In addition, the Principal Deputy must maintain a list of all State Insurance Commissioners' points of contact for DoD matters and forward this list to the Services. The Instruction also outlines prohibited practices for soliciting on DoD installations. See Appendix B.

Military Services' Policies. All of the Military Services have or are in the process of updating personal commercial solicitation policies to implement the changes to DoD Instruction 1344.07. The Army published revised policies in Army Regulation 210-7, "Personal Commercial Solicitation on Army Installations," on October 18, 2007. The Air Force published Instruction DoDI1344.07_AFI36-2917, "Personal Commercial Solicitation on Air Force Installations," on November 7, 2007, implementing and extending the DoD Instruction. The Department of the Navy's updated policy was still in draft. All of the Services' policies include requirements from the DoD Instruction and provide additional Service-specific requirements for personal commercial solicitations on the installations. For example, the Army guidance requires that solicitors perform a suitability assessment before recommending securities to soldiers. The draft Department of Navy guidance, when implemented, will provide additional safeguards for Department of the Navy personnel. One of the safeguards states that the installation commander shall presume that any life insurance product that has high premiums or a side fund, or that does not meet the standards established in the NAIC "Military Sales Practices Model Regulation" and any standards adopted by the State in which the installation are located is inappropriate for the needs of his military community. The Air Force guidance includes guidelines specific to solicitation by academic institutions.

Installation Policies. The Army and Marine Corps installations we visited had published supplemental guidance reiterating the guidance found in the DoD Instruction 1344.07 and the Services' guidance. Fort Benning had issued Policy Memorandum 210-7-5, dated 24 January 2005. This policy memorandum largely restates the Army Regulation, with an added requirement that bans solicitation in training units or areas. The Fort Jackson Supplement 1 to AR 210-7, dated June 1, 2005, expands and details the responsibilities outlined in AR 210-7. It also states in subparagraph (30) that the Commander may deny an application for a permit or suspend any previously issued permits to an agent or company that has been barred or whose permit to solicit has been withdrawn at any military installation. Marine Base Order 1741.1G for Camp Lejeune restates the guidance found in the DoD Instruction 1344.07 and the Navy Instruction SECNAVINST 1740.2D

"Solicitation and the Conduct of Personal Commercial Affairs on Department of the Navy Installations." The Air Force bases visited used DoD Instruction 1344.07 without supplementing it.

Personal Financial Training

The Services are providing some personal financial training, but could improve their consumer awareness training to alert Service members of unscrupulous practices and inappropriate products before Service members arrive at their first duty station.

Five Army, Air Force, and Marine Corps bases we visited provide 2 to 16 hours of personal financial education from the time recruits begin training until they are assigned to their first duty station. This personal financial education covers a basic understanding of pay and entitlements, banking and allotments, and checkbook management. However, the bases did not provide adequate consumer awareness training to military Service members prior to arriving at the first duty station on sales practices that have been declared false, misleading, deceptive, or unfair for life insurance products considered inappropriate for most junior enlisted Service members.

While there is consumer information available to Service members through the DoD and NAIC Web sites, the Military Services must ensure the current financial education programs provide appropriate consumer awareness education to junior enlisted Service members to enable them to identify inappropriate life insurance practices and products.

Off-Base Solicitations and Allotment Practices

Commercial solicitations of Service members for inappropriate life insurance products are taking place off base, and the junior enlisted Service members' use of the MyPay system to process insurance allotments circumvents military protection safeguards established by DoD Instruction 1344.07.

Off-Base Solicitations. All of the safeguards established by DoD Instruction 1344.07 pertain to commercial solicitations on DoD installations. Two of the five installations we visited had instances of off-base solicitations or sales. Soliciting off base circumvents many of the safeguards established by DoD for on-base solicitations of life insurance products to junior enlisted Service members. GAO Report 06-23, "Actions Needed to Better Protect Military Members," in November 2005, stated that insurance companies that market primarily to military members have been frequently accused of using inappropriate sales practices by regulators, DoD, and others. These companies were accused of misrepresenting the products as investments or savings funds.

Our review at Camp Lejeune and Fort Jackson confirmed that these claims and practices are ongoing, with the only difference being the actual solicitation or sale takes place off the military installation. At Camp Lejeune, command personnel were aware of the inappropriate solicitation and sale of life insurance products to

young and financially inexperienced Service members. Their Marines were being approached off base in the nearby commercial district by a company selling life insurance with a side savings feature. They were being enticed into listening to the sales approach with the promise of a free pizza or dinner, and then an attempt was made to sell them questionable life insurance.

The Staff Judge Advocate / Legal Assistance office at Camp Lejeune had conducted an investigation and reported the agency to the Armed Forces Disciplinary Control Board (AFDCB), a committee that decides whether a business will be placed off-limits to Marines. The Staff Judge Advocate office presented a case to ban this agency. The case identified an insurance agency that was approaching Marines at the nearby mall or local restaurants. Statements were taken by the Staff Judge Advocate office from single Marines about some of the deceptive practices, including offering free food, disseminating misinformation concerning SGLI, and extolling the product as an investment. The company maintained that its product was appropriate for junior Service members. However, the command's financial specialist advised that the product was inappropriate for young, single Marines who already have $400,000 SGLI and another $100,000 death gratuity. These inappropriate life insurance products, with an accumulation fund, cost significantly more than other life insurance coverage available to the Service members. At the March 14, 2007, hearing the AFDCB voted against placing the company on the off-limits list. No reason was given in the report, but subsequent to the hearing the Staff Judge Advocate office met with the AFDCB president to get an understanding of the Board's thinking. The Board was concerned about putting the agency off-limits because the company was selling a lawful product.

Although the ruling was not favorable, at the time of our visit, the Staff Judge Advocate Office had not contacted the North Carolina State Department of Insurance to report the questionable life insurance sales practices occurring near the installation. Since the State is the regulatory authority for insurance, problems associated with life insurance should be raised to the State Department of Insurance for action. Subsequent to our visit and recommendation, the Staff Judge Advocate office contacted the North Carolina State Department of Insurance, and officials from both have met a couple of times to discuss the situation in the Camp Lejeune area, share information, and establish closer relations.

In addition, in June 2007, the Camp Lejeune legal assistance office sent a consumer advisory to Marine Corps leaders responsible for training junior enlisted Marines. The Marine Corps leaders were to further disseminate the information on sales approaches as they deem appropriate.

Allotments and MyPay. Service members, facilitated by insurance agents, are using the MyPay system to initiate allotments for inappropriate life insurance. Service members access the system using computers at the financial planning agency or other off-post locations. MyPay is an automated system containing personally identifiable information and is operated by the Defense Finance and Accounting Service. Allotments made through the MyPay system can be sent only to checking or savings accounts. The use of the MyPay system for life insurance allotments circumvents historical safeguards, such as the 7-day cooling-off period for financial counseling, established for on-base solicitations.

Past GAO reviews identified irregular activities in submitting pay allotment forms to finance offices that process pay transactions to the Defense Finance and Accounting Service. The Service member would fill out the allotment form that authorized the receiving banking institution to withdraw the funds to pay the insurance premium. To provide safeguards for junior enlisted Service members, the DoD Instruction 1344.07 requires that at least 7 days shall elapse for counseling between the signing of a life insurance application and the certification of an allotment for personnel in pay grades E-4 and below. Our review found that when the Service members sign up for life insurance at off-post locations, the insurance allotments are processed through the MyPay system to a banking institution without completing an allotment form. This can be done anywhere that a computer terminal can be connected to the Internet, such as at an insurance sales office. Starting the allotment through MyPay bypasses the 7-day cooling-off period established in DoD Instruction 1344.07. In addition, the DoD Instruction provides for the installation commander to deny, suspend, or withdraw permission for a company and its agents to conduct commercial activities on base for various causes. One such cause is the possession of, and any attempt to obtain supplies of, direct deposit forms or any other form or device used by Military Departments to direct a Service member's pay to a third party, or possession or use of facsimiles thereof. This includes using or assisting in using a Service member's MyPay account or other similar Internet medium for the purpose of establishing a direct deposit for the purchase of insurance or other investment product.

On-Base Solicitations and Their Oversight

There have been few requests in the past year from insurance or financial service companies to sell their products on military installations we visited.

Requests To Solicit. At Lackland Air Force Base and Marine Corps Base Camp Lejeune, there were no requests from insurance or financial services companies to sell their products on the installations. Fort Benning received five requests, Fort Jackson two, and Keesler Air Force Base had one. All the installations that had requests checked to see if life insurance agents had State licenses to sell their products. All requestors have to certify that they will abide by and fully comply with the guidance, either the DoD Instruction 1344.07 or the Service regulation that supplements the DoD Instruction. The agents and companies that were approved for permits to solicit on base were not listed on the Commanders Page as having their rights to any installations suspended.

Oversight of Commercial Solicitations. At Fort Jackson we found minimal oversight of commercial solicitations once the permits were approved. Fort Jackson has conducted three command investigations regarding Commercial Solicitation since 2001. The most recent one was initiated in August 2006 and completed in October 2006. This investigation was initiated when the Defense Pay Office at Fort Jackson reported that in May and June 2006 it found numerous allotment forms from different soldiers being directed to the same bank account, suggesting the solicitation of a mass or captive audience. On August 14, 2006, the Chief of Staff at Fort Jackson initiated an investigation on adherence to Army Regulation 210-7,"Commercial Solicitations on Army Installations," April 22, 1986. The focus of the review was two insurance agents. At the time of the investigation, neither agent had permission to solicit insurance on base since

their permits had expired in April 2006; however, according to the latest investigation, these agents were involved in soliciting on base. The solicitors were agents for an insurance company that is currently listed on the Commanders Page as off-limits indefinitely to all Fort Benning soldiers for improper solicitation practices including soliciting soldiers in training units, in mass and captive audiences, and while soldiers were on duty.

The investigators issued a report on October 6, 2006, identifying multiple violations. These violations included insurance agents who did not have solicitation permits for Fort Jackson, initial contact or marketing done in prohibited areas and facilitated by higher ranking Service members who received benefits for their actions, and unauthorized possession of DD Form 2558, "Authorization to Start, Stop or Change an Allotment." The initial contact took place on the post, but the sales presentation and the purchase of the life insurance took place off post. The investigation recommended that the two agents be barred from Ft. Jackson for 2 years. However, even though there have been three command investigations regarding commercial solicitation in the recent past at Fort Jackson, officials failed to take action against the insurance agents for an additional 9 months. After our visit in June 2007, the Commanding General, United States Army Training Center and Fort Jackson barred the agents from entering Fort Jackson for 5 years effective July 11, 2007, 9 months after the report that recommended they be barred for violation of Army Regulation 210-7 and its Fort Jackson supplement. When Ft. Jackson did report, they posted the name of only one agent to the Commanders Page as being barred from Ft. Jackson. During the 9 months between the issuance of the Fort Jackson investigation and the agents' being barred, one of the agents was allowed to be a sponsor at the Annual Retiree Appreciation Day in April 2007. Not banning the agent promptly allowed the agent to appear credible as an official sponsor of the event. The delays in taking prompt action to ban both agents for multiple violations of commercial solicitation policy on Fort Jackson increased the risk to junior enlisted members that they would be solicited and would purchase inappropriate life insurance.

In addition, the Fort Jackson Inspector General conducted a review in January 2007 that determined that most senior leaders were familiar with commercial solicitation and private organizations; however, many junior leaders and enlisted training instructors were not. The report "Result of Fort Jackson Inspector General Assessment on Commercial Solicitation and Private Organizations," March 2007, made several recommendations to educate junior leaders and enlisted training instructors on commercial solicitation rules.

Coordination With State Insurance Regulators

Installations did not notify the State Insurance Commissioner's office when they identified inappropriate insurance solicitations and activities.

Government Accountability Office Report 06-23, "Actions Needed to Better Protect Military Members," November 2005, states that a lack of routine complaint-sharing between financial regulators and DoD was one reason that regulators did not identify problematic sales of financial products to Service members before such issues were raised in press accounts. The States are the primary regulators of insurance companies and agents. The current DoD

Instruction addresses personal commercial solicitation activities on the installation and requires installation commanders to report concerns or complaints involving the quality or suitability of financial products, as well as concerns or complaints involving marketing methods used to sell these products, to the appropriate State and Federal regulatory authorities. Also, installation commanders shall report any suspension or withdrawal of insurance or securities products solicitation privileges to the appropriate State or Federal regulatory authorities.

Our review showed that reporting inappropriate activity is still a problem. Neither Fort Jackson nor Camp Lejeune had contacted the appropriate State insurance commissioner at the time of our visit to report inappropriate insurance sales to Service members. Although officials at Fort Jackson and Camp Lejeune had taken some actions against the insurance agencies, they did not contact the appropriate insurance regulators. Fort Jackson did not report the agents and their violations to the South Carolina State Insurance Office after suspending their solicitation privileges in accordance with section 6.5.5 of DoD Instruction 1344.07, "Personal Commercial Solicitation on DoD Installations," March 30, 2006: "Installation commanders shall report any suspension or withdrawal of insurance or securities products solicitation privileges to the appropriate State or Federal regulatory authorities." DoD needs to reemphasize policy that requires installation personnel to notify State insurance offices when they learn of inappropriate insurance solicitations and activities occurring on post. In addition, DoD needs to establish policy stating that inappropriate life insurance sales occurring off the installation should be reported to the State insurance commissioners. Installation officials must work with State insurance commissioners to protect junior enlisted Service members from continued solicitation by insurance agents selling inappropriate life insurance products. The insurance commissioner can obtain refunds for Service members, as well as take disciplinary action against complicit companies, agencies, and agents.

Conclusion

Public Law 109-290 and the revised DoD policy provide safeguards and promote the welfare of DoD personnel as consumers by setting forth a uniform approach to the conduct of all personal commercial solicitation and sales by insurance dealers and their agents on military bases. These safeguards, however, are being circumvented through off-post commercial solicitation of junior enlisted Service members and through the processing of allotments using the MyPay system instead of the allotment form. To combat the new tactics being used by some insurance companies, DoD installations need to contact their State insurance commissioner's office when any inappropriate insurance sales are discovered, whether on the installation or off the installation. DoD needs to reemphasize to the military installations that they should use the Commanders Page for individuals, agencies, or companies who have been banned. Also, additional consumer awareness education should be made available that apprises Service members of inappropriate practices and products.

Management Comments on the Finding and Audit Response

Management Comments. The Acting Assistant Secretary of the Navy (Manpower and Reserve Affairs) recommended that we make minor editorial changes to the report for clarity and accuracy.

Audit Response. We agreed and made the recommended changes. See the full text of the comments in the Management Comments section.

Recommendations, Management Comments, and Audit Response

A.1. We recommend that the Under Secretary of Defense for Personnel and Readiness:

a. Develop standards for additional consumer awareness education to junior enlisted Service members to identify inappropriate life insurance practices and products.

Management Comments. The Deputy Under Secretary of Defense for Military Community and Family Policy, responding on behalf of the Under Secretary of Defense for Personnel and Readiness, concurred. She stated that her office will work with the appropriate offices to incorporate material that will help Service members identify inappropriate life insurance practices and products. Additionally, she indicated that a wealth of material is available online at Service portals and on the web site of the National Association of Insurance Commissioners.

Audit Response. The Deputy Under Secretary of Defense for Military Community and Family Policy comments are responsive. The proposed actions satisfy the intent of the recommendation.

b. Issue policy that requires installations to report both on-base violations of DoD Instruction 1344.07 and off-base insurance products and sales solicitation practices directed at junior enlisted Service members and considered inappropriate to the appropriate State insurance commissioner's office.

Management Comments. The Deputy Under Secretary of Defense for Military Community and Family Policy, responding on behalf of the Under Secretary of Defense for Personnel and Readiness, partially concurred. She cited current policy directing Armed Forces Disciplinary Control Boards to consider all applicable information and take action the Boards deem appropriate. She also stated that any violations that occur off-base are being handled appropriately by the Boards and that the State commissioners have access to this information, which is maintained online. In addition, the Deputy stated that the Defense Department will reiterate the need for the Services to ensure the State insurance commissioners are informed of inappropriate practices targeting military personnel off-base as well as including this information in the quarterly Personal Commercial Solicitation Report.

Audit Response. The Deputy Under Secretary of Defense for Military Community and Family Policy comments are responsive. We agree the current policy directs the Armed Forces Disciplinary Control Boards to take action as they deem necessary but we found that one installation Board was reluctant to ban a company selling a product that was not illegal. However, the proposed actions satisfy the intent of the recommendation.

Unsolicited Comments. While not required to comment, the Air Force Assistant Deputy Chief of Staff for Manpower and Personnel stated that he will coordinate the Air Force's current training initiative with the Under Secretary of Defense for Personnel and Readiness and will support and comply with the Under Secretary's direction.

A.2. We recommend that the Commandant of the Marine Corps, the Commanding General of the U.S. Army Training and Doctrine Command, and the Air Force Commander of the Air Education and Training Command ensure the current financial educational programs provided to junior enlisted Service members include appropriate consumer awareness education to enable them to identify inappropriate life insurance practices and products.

Navy Comments. The Acting Assistant Secretary of the Navy (Manpower and Reserve Affairs) responded for the Marine Corps and concurred. She stated that the Marine Corps Personal Financial Management Program currently offers a standardized training curriculum that includes a module titled "Your Insurance Needs."

Audit Response. The Navy comments are responsive. The Financial Management Program satisfies the intent of the recommendation.

Air Force Comments. The Air Force Assistant Deputy Chief of Staff, Manpower and Personnel concurred, stating that the instructors for basic training are educating trainees on unscrupulous insurance sales practices under the current lesson plan and that these practices will be formally included in the new Financial Management Lesson (and Basic Trainee Study Guide), which is part of the expanded 8.5-week program beginning in November 2008. The lesson will discuss abusive insurance and investment practices and safeguards that exist to help our Service members. In addition, the Assistant Deputy Chief of Staff, Manpower and Personnel stated that the Technical Training schools have an Airmen and Family Readiness Center with a Personal Financial Manager who has for years included in the personal financial management lessons information on unscrupulous sales tactics as it related to insurance and securities. Also, Air Education and Training Command periodically reviews lesson plans to ensure they remain consistent with Air Force and DoD guidance.

Audit Response. The Air Force comments are responsive. The actions taken and the proposed actions satisfy the intent of the recommendation.

Management Comments Required. Because the Commanding General, U.S. Army Training and Doctrine Command did not respond to the draft audit report, we request that he provide comments on the final report by May 7, 2008.

B. Inappropriate Life Insurance Solicitations at Naval Station Great Lakes

The Navy must take additional steps in protecting junior enlisted naval personnel at NSGL from the sale of inappropriate life insurance products and dishonest and predatory sales practices. Problems identified in 2005 and 2006 with inappropriate sales of life insurance products continue because NSGL did not provide adequate oversight of solicitation permits for a courier service, alert new sailors to potential inappropriate insurance practices and products, instruct them to control access to their military identification and their MyPay accounts, or communicate with other naval offices concerning inappropriate insurance solicitation. As a result, junior enlisted personnel were transported off post to the financial planning agency and persuaded to sign up for supplemental life insurance products that are considered inappropriate. In addition, unauthorized access by the financial planning agency employees to MyPay, a DoD information system, subjects the information contained on the system to undue risk of alteration and compromise. Junior enlisted sailors could be hurt financially by having allotments taken from their pay for inappropriate life insurance products.

Department of Defense Policy

DoD Instruction 1344.07,"Personal Commercial Solicitation on DoD Installations," March 30, 2006, is the primary guidance on policy and procedures for personal commercial solicitations on DoD Installations. It outlines a uniform approach for dealers and agents to conduct personal commercial solicitation and sales on base. The Instruction defines personal commercial solicitation as personal contact, to include meetings, meals, or telecommunications contact, for the purpose of seeking private business or trade.

DoD Instruction 1344.07 states that the solicitor must be duly licensed to sell the product, have an appointment with the individual to be solicited, and must provide the personal commercial solicitation evaluation form and a written reminder that free legal advice is available from the office of the Staff Judge Advocate. The Instruction requires installation commanders to report concerns or complaints involving the quality or suitability of financial products, as well as concerns or complaints involving marketing methods used to sell these products, to the appropriate State and Federal regulatory authorities. The Instruction states that for personnel in pay grades E-4 and below, in order to allow time to obtain financial counseling, at least 7 calendar days shall elapse between the signing of a life insurance application and the certification of a military pay allotment for any supplemental commercial life insurance. The Instruction also requires the installation finance officers to monitor and enforce the 7-day cooling-off period for allotments for military personnel in pay grades E-4 and below. The Instruction requires the heads of DoD Components to ensure implementation of the instruction and compliance with its provisions.

Naval Station Great Lakes

NSGL is home to the Naval Service Training Command. It is the largest training center in the Navy. Also located at NSGL are three region commands, four additional training commands, six support commands, and two tenants. One of the training commands is the Recruit Training Command where newly enlisted Navy recruits report and train for 8 weeks. The training includes classes on personal development, physical fitness, seamanship, and other basic sailor skills. After graduation, sailors transfer to the Training Support Center at NSGL, which is part of the Navy Education and Training Command and is where they receive advanced training in their assigned career field.

Commercial Solicitation Problems in 2005 and 2006

Predatory sales practices by purveyors of life insurance were reported to the Navy in 2005 and 2006.

GAO Cited Problems at NSGL in 2005. GAO Report 06-23, "Actions Needed to Better Protect Military Members," November 2005, states that the legal advisors at Great Lakes Naval Training Center reported not having received many complaints from Service members. The legal advisor reasoned this was because sailors were often being solicited shortly before they transferred to other installations. The legal advisor showed GAO documentation related to five complaints that were made by Service members between January and June 2005 and pertained to insurance products. Navy finance office personnel at NSGL informed GAO that they had become concerned about the sale of insurance to Service members because more than 100 allotments occurred between June and September 2004. The allotments were pay deductions for products purchased by Service personnel from three different insurance companies. GAO recommended that the Secretary of Defense revise the DoD solicitation policy to require that information on Service members' complaints be provided to State and Federal regulators. GAO also recommended that the Secretary of Defense include in the personal financial training information and material that explains how and to whom Service members should raise concerns involving potentially inappropriate sales of financial products. DoD officials concurred with both recommendations.

Also in 2005, staff in the Office of the Under Secretary of Defense for Personnel and Readiness expressed concerns in e-mails to those in the Office of the Assistant Secretary of the Navy (Manpower & Reserve Affairs) about actions taken at NSGL to address problems with life insurance products and sales practices. At that time, an official from the office of the Assistant Secretary said NSGL had taken all the actions that it could and would be contacting the Illinois Insurance Department. However, the Office of the Under Secretary of Defense for Personnel and Readiness believed there was ample statutory and policy authority for NSGL to do much more to address the problems with life insurance products and sales practices.

Naval Legal Service Office (NLSO) identified Problems in 2006. In September 2006, the NLSO at NSGL, a detachment of the NLSO, North Central located in the Washington Navy Yard, Washington, D.C., obtained affidavits

from sailors regarding deceptive investment and insurance sales practices and payment of fees for referring sailors to a financial planning agency. The NLSO provides legal assistance and counseling to Service members requesting help in legal matters such as wills, estate planning, consumer affairs, and other personal legal problems. Some of the affidavits explained how an investment company approached sailors and obtained their military identification information. NLSO sent the affidavits to the Region Legal Service Office (RLSO) at NSGL. RLSO, part of the Naval Legal Service Command, provides services such as court martial prosecution and legal advice and support to the Commander, Navy Region Midwest, at NSGL. On September 11, 2006, NLSO suggested to RLSO in an e-mail that RLSO should prepare a plan to ensure that sailors are alerted to illegal business practices. NLSO suggested quick response, but there is no record of any further action. The following month in an e-mail dated October 20, 2006, the Training Support Center at NSGL notified the Naval Criminal Investigative Service of the ongoing unscrupulous sales practices including taking control of the sailors' MyPay accounts, but again no action was taken to remedy the problems.

Solicitation Problems Continue in 2007

During our visit to NSGL, we observed that problems continued. These included using commercial solicitation permits to come on base and transport sailors to a financial planning agency office. We found there was no oversight of permit holders' activities after solicitation permits are issued.

Commercial Solicitation Permit Requests for 2007. RLSO manages the permit application process for commercial solicitation on NSGL. To solicit on base at NSGL, commercial solicitors must apply for a permit. The application they submit includes personal information on the individuals performing solicitation, the purpose of the solicitation, the type of business, supervisor's name and agent's name, and applicable State or Federal license. Applicants must agree to comply with DoD and Navy Instructions and certify that they comply with the Federal and State consumer safety and protection standards. On receiving the application, an official from the RLSO informed us that RLSO personnel conduct a background check, validate licenses with the Illinois Division of Insurance if soliciting insurance, and notify base security. Once a solicitor's application is approved, base security issues a vehicle permit for access to the base. The RLSO official informed us RLSO does not oversee the activities of the individuals who are granted permission to solicit unless it receives complaints.

Officials provided documentation showing that there were 14 current permits as of July 10, 2007. The permits cover a 12-month period and must be renewed when they expire. Four of the permits issued were for document delivery and courier service, four were for financial services or life insurance, and six were for nonfinancial services**.** Despite the complaints against one particular insurance agency in 2006, RLSO issued four permits to this company in 2007 to act as a document and courier service**.**

Solicitation Practices. After graduating from 8 weeks of basic training at the Recruit Training Command, new recruits are permitted leave during the interim weekend before reporting to the Training Support Center Great Lakes for the

second phase in their training process. A place that recruits frequently visit is the local mall in Gurnee, Illinois. This is where recruits are initially contacted by financial companies.

An official at NSGL Personnel Support Activity Detachment (PSAD) provided details of recruits' experiences with financial companies as told by the recruits. While at the mall, the male sailors were approached by an "attractive girl." She requested they complete a questionnaire on financial services; the questionnaire asked their name and contact information. Then they received a call from the company representative telling them they had won a prize. To collect the prize, the sailors had to make an appointment to be picked up in the barracks area and transported to the financial planning agency's office off base. The sailors were not aware that they would be subjected to an insurance or financial planning sales presentation in order to collect their prizes. We interviewed 11 recruits who had similar experiences with a financial planning agency.

According to the PSAD employee, the sailors stated that the vans that transported them from the barracks area to the sales office were government vehicles that had the installation vehicle decals. However, the RLSO official stated the vans were not government owned; they were vans provided by the same agency that was permitted on base to provide courier service. The financial planning agency admitted they used the courier service to transport the sailors to the agency's off-base office.

Use of Common Access Card and MyPay. According to the PSAD employee, some sailors had gone to the PSAD office to cancel allotments for life insurance. These sailors described their experiences with a financial planning agency. When the sailors arrived at the company sales office, they were given a sales presentation to purchase a financial product touted as an investment and life insurance. The sailors were told that they needed to present their military identification (common access card [CAC]). The agency cited a Homeland Security requirement to present ID for banking transactions. The CAC has the sailor's Social Security number and date of birth on the back. The CAC is a DoD smartcard issued as standard identification for active-duty military personnel, selected reserve personnel, DoD civilian employees, and eligible DoD contractor personnel. Some sailors stated that the agency's sales representatives used the CAC to gain access to the sailors' MyPay payroll account and start an automatic payroll allotment. We interviewed sailors who stated that they agreed to an allotment amount of $100 only to find later that $250 was actually being taken out of their pay, and some sailors who stated they did not even know what company they were dealing with. In addition, three sailors stated that the sales representatives told them they had a contract with the military to provide these products or were endorsed by the military, when in fact the agency only has commercial solicitation permits with NSGL to provide document delivery, pickups, and courier service.

The reported access by the financial planning agency using the CAC could place DoD systems and personnel identification information at risk. In addition, section 1030, title 18, United States Code, "Fraud and Related Activity in Connection with Computers," states that whoever intentionally accesses a computer without authorization or exceeds authorized access and thereby obtains any information contained in financial records, information from any department or agency, or information from any protected computer is subject to a fine or imprisonment. Exceeding authorized access means to access a computer and to obtain or alter

information in the computer that the accesser is not entitled to obtain or alter. In addition, section 701, title 18, United States Code, "Official Badges, Identification Cards, Other Insignia," states that whoever manufactures, sells, or possesses any badge, identification card, or other insignia or makes any photograph of such shall be subject to a fine or imprisonment.

The Navy and the NSGL must now establish adequate controls to oversee the actions of those provided permits to solicit, and to monitor access to the base of persons affiliated with financial products to ensure these persons are meeting the requirements under DoD Instruction 1344.07. In addition, the Navy and NSGL must emphasize to the sailors not to give anyone access to their CAC or MyPay account.

Personal Financial Training

Navy basic training did not alert sailors to inappropriate insurance practices or products.

Recruit Training Command. The Recruit Training Command at NSGL did not alert sailors to potential inappropriate insurance practices and products and did not adequately instruct them to control access to their military identification and their MyPay accounts.

Recruit Training Command personnel stated that the recruit training or boot camp for NSGL is in a closed section of the base. Recruits do not have access to computers or cell phones during this 8-week period and are not allowed off the installation. During boot camp, the recruits receive a total of 6.5 hours of financial training. The training covers military pay and benefits, direct deposit, the Montgomery GI Bill, and the Thrift Savings Plan.

This training does not specifically address predatory lenders, financial scams or deceptive sales practices. After graduation from boot camp, recruits move to the next level of training at the Training Support Center. As mentioned earlier, before beginning school, the sailors receive liberty. Off-base, their lack of exposure to suspect practices leaves new sailors vulnerable to such practices.

After receiving training at the Recruit Training Command, the sailors move on to the Training Support Center. While there, they are provided an additional 16 hours of personal financial training. This training addresses insurance sales tactics, predatory lending practices, and the DoD 7-day cooling-off period for allotments.

Although the Training Support Center seems to provide the type of training needed to be aware of questionable insurance practices, the Recruit Training Command did not have those lessons included in its training curriculum. The Commanding Officer, Recruit Training Command, must take action to establish training on consumer awareness for recruits on deceptive insurance practices and products and emphasize the resources available on the installation.

Communication Among Naval Offices

Communication problems among offices at different commands and inaction at NSGL allowed ongoing problems with on- and off-base commercial solicitations of new recruits to continue.

Legal Office Communications and Action. As mentioned earlier, in 2006 the NLSO sent affidavits to RLSO that explained the process of a company van coming on base and picking up the sailors outside the Base Enlisted Quarters. The affidavits also explained the payments given to sailors for recruiting other sailors to be picked up to attend these sales presentations, as well as how the company accessed and used the MyPay system to start allotments. On September 11, 2006, NLSO responded in an e-mail suggesting RLSO prepare a plan to inform sailors of inappropriate sales practices. NLSO suggested a quick response. However, no support was provided that action was taken. The following month in an e-mail dated October 20, 2006, the Training Support Center at NSGL notified the Naval Criminal Investigative Service of the ongoing deceptive sales practices and unauthorized access of the sailors' MyPay accounts, and again no action was taken to remedy the problems.

Personnel and Legal Offices. Although the PSAD payroll office was helping new recruits stop unwanted insurance allotments, the sailors were frustrated in how to obtain refunds from the financial planning agency for money already paid. NLSO offered to write letters to cancel the insurance but only when requested. The Command at NSGL did not file complaints with the Illinois Insurance Commissioner as required by DoD Instruction 1344.07, nor did RLSO revoke the financial planning agency's permits for courier service and base access, allowing the problem to continue.

According to an NLSO official, throughout this period, when sailors cancelled their allotment at PSAD, they were referred to NLSO to cancel the policy and obtain a refund. These sailors informed NLSO staff that they wished to cancel their allotments. Officials at NLSO instructed them to go back to PSAD. After several requests of this nature, NLSO staff contacted PSAD officials to request they not send over any sailors seeking to cancel allotments, as this is not a function NLSO can perform. This communication appears to have been construed as an instruction not to send over any sailors with issues of any kind related to these insurance policies.

This misunderstanding led to the two offices' not coordinating their efforts and not communicating to curtail this practice, which in the end was costly to the new sailors. At the same time, the RLSO was still issuing permits to the agency. By issuing base permits to the financial planning agency, the NSGL was giving approval for commercial solicitors to enter the base, access that the permit holders used to imply to the sailors we interviewed that the installation endorsed the solicitors.

We contacted the Illinois Department of Financial and Professional Regulation (Insurance Division). An official there stated that he had contacted the NSGL numerous times during 2005 and 2006 to obtain access to the base to offer assistance but had been unsuccessful. Since our visit, the Illinois Division of Insurance has informed us that it has started a review of the financial planning agency's practices for possible action.

Navy officials must establish procedures at NSGL to coordinate actions on commercial solicitations among the appropriate offices including the RLSO; NLSO; Naval Criminal Investigative Service; PSAD; Training Centers; and most importantly, the Commander. In addition, officials must report to the Illinois Division of Insurance any instances of inappropriate solicitation of insurance products whether on post or off.

Navy Actions

We briefed the Commander, Navy Region Midwest on the issues and problems we identified. At the outbrief we were told the Navy Region Midwest Chief of Staff opened an investigation into the financial planning agency's solicitation of Navy recruits. On July 26, 2007, the AFDCB at NSGL implemented actions against the agency based on the results of the investigation. The permits of the agency employees were rescinded, and they were no longer given access to the base. The investigation concluded that, based on the number of sailors who have alleged wrongdoing on the part of the agency and the number of its employees who have been identified as having misled sailors, the business practices of the agency are adversely affecting the welfare of the military personnel in the Navy Region Midwest area of responsibility. On August 30, 2007, the AFDCB sent a letter by certified mail to the agency that addressed the findings and eight corrective actions the agency must take to avoid being placed on the off-limits list. The agency eventually agreed to the eight corrective actions and has not been placed off-limits to the installation personnel.

The Recruit Training Center has developed a training and liberty weekend brief to incorporate inappropriate insurance products and sales activities.

NSGL has contacted the Illinois Division of Insurance for help in obtaining refunds for sailors who bought unnecessary life insurance products and to have the financial planning agency's practices reviewed.

According to the Commanding Officer, NLSO, North Central, when the misunderstanding was discovered by NLSO through our site visit, NLSO Officer in Charge met with the PSAD Officer in Charge. They have since clarified that sailors with legal questions regarding their allotments would be referred to NLSO, but not sailors seeking simply to cancel allotments, because this is a function of PSAD. The NLSO Officer in Charge and PSAD Officer in Charge have agreed that, if any concern over services offered arises in the future, there will be improved communication between the offices to ensure services continued to be properly provided to sailors.

Conclusion

There is a history of questionable sales practices and solicitations of inappropriate financial products being sold to sailors at the NSGL. GAO issued a report that states junior enlisted Service members have been sold a product that combines life insurance with a savings fund promising high returns. Financial regulators were

generally unaware of the problematic sales to military members because DoD personnel rarely forwarded Service member complaints to regulators.

Through 2007 the complaints continued without any action by the Navy. This inaction was because of the lack of communication and inaction by some Navy offices at NSGL. Contributing to this was the lack of consumer awareness training provided to the sailors on unscrupulous practices of insurance companies once basic training was complete. The continued inappropriate life insurance sales practices at NSGL by a financial planning agency after numerous reports identifying these problems are unacceptable.

The Navy and NSGL need to take steps to improve oversight of commercial solicitations for life insurance products offered to junior enlisted Service members in and around NSGL. Specifically, the Navy and NSGL need to establish procedures within NSGL to coordinate actions on inappropriate commercial solicitations. Coordination should include RLSO; NLSO; Naval Criminal Investigative Service; PSAD; Training Commands; and most importantly, the Commander. The Navy and NSGL also need to establish controls to monitor access to the base and activities of persons affiliated with financial products to ensure they are meeting the requirements under DoD Instruction 1344.07.

The current action taken by the Navy at NSGL based on the results of our review is a vast improvement over what was done before. To protect the financially inexperienced Service members at NSGL, NSGL needs to develop procedures, processes, and controls to prevent these problems from occurring in the future. NSGL also needs to maintain contact with the Illinois Division of Insurance, the regulatory authority on all insurance matters. NSGL also needs to include in basic training proper handling and protection of the CAC. In addition, NSGL needs to provide consumer awareness training and update this training as needed. Finally, NSGL needs to develop a communication process among all Commands and Offices at NSGL to alert all when something inappropriate is occurring.

Recommendations, Management Comments and Audit Response

B.1. We recommend that the Chief of Naval Operations ensure the current financial education programs provided to junior enlisted Service members include appropriate consumer awareness training to enable them to identify inappropriate life insurance practices and products.

Management Comments. The Acting Assistant Secretary of the Navy (Manpower and Reserve Affairs) concurred, stating that the Navy Personal Financial Management Standardized Curriculum, developed, maintained, and distributed by the Commander, Navy Installations Command (N91), was completely revised in November 2007. The revision contains a Consumer Awareness training module focusing specifically on deterring, detecting, and defending against consumer fraud in the marketplace. It was designed with the junior sailor in mind. Although appropriate for all audiences, this interactive program also focuses on basic steps all consumers should take to ensure they get the most for their money. The new curriculum has been distributed to all Navy training school commands and all Navy Fleet and Family Support Centers.

Audit Response. The Navy comments are responsive. The actions taken address the recommendation.

B.2. We recommend that the Commander, Naval Station Great Lakes:

a. Establish procedures at the Naval Station Great Lakes to coordinate actions of the Region Legal Service Office, Naval Legal Service Office, Naval Criminal Investigative Service, Personnel Support Activity Detachment, Training Commands, and the Commander on inappropriate commercial solicitations.

Management Comments. The Acting Assistant Secretary of the Navy (Manpower and Reserve Affairs) concurred, stating the discussion of inappropriate commercial solicitations and business practices has been made a standing agenda item at the Monthly Host/Tenant Installation meeting. The meeting is hosted by the Commanding Officer and includes representatives from various commands on base.

Audit Response. The Navy comments are responsive. The action taken addresses the recommendation.

b. Communicate to the Illinois Division of Insurance any instances of inappropriate solicitation of insurance products, whether on or off post.

Management Comments. The Acting Assistant Secretary of the Navy (Manpower and Reserve Affairs) concurred, stating the Region Legal Service Office Midwest contacted the Illinois Division of Insurance in August 2007 concerning the financial planning agency. Contact is ongoing, as the need arises.

Audit Response. The Navy comments are responsive. The action taken addresses the recommendation.

c. Establish controls to monitor access to the base of persons affiliated with financial products to ensure they are meeting the requirements under DoD Instruction 1344.07.

Management Comments. The Acting Assistant Secretary of the Navy (Manpower and Reserve Affairs) concurred, stating that controls to monitor base access by persons affiliated with financial products were formally established on May 31, 2002, and updated on October 19, 2007. The Commanding Officer, NSGL has determined that persons affiliated with financial products will no longer be eligible for commercial solicitation permits. As of February 21, 2008, NSGL has no current or outstanding commercial solicitation permits issued to persons affiliated with financial products.

Audit Response. The Navy comments are responsive. The actions taken address the recommendation.

B.3. **We recommend that the Commanding Officer, Recruit Training Command:**

a. Establish training to boost recruits' awareness of both deceptive insurance practices and financial resources available on the installation.

b. Enhance training on proper handling and protection of the recruits' Common Access Card.

Management Comments. The Acting Assistant Secretary of the Navy (Manpower and Reserve Affairs) concurred, stating corrective actions have been completed. The Recruit Training Command Legal Department incorporated a Recruit Liberty Orientation Lecture in Recruit Training Command's standard operating procedures. Also, the Recruit Training Command Legal Department drafted and provided more formal training to the Recruit Division Commanders on addressing predatory lending and other deceptive sales practices in their liberty briefs. The practices include insurance, investments, and solicitation of "MyPay" information. The Recruit Division Commanders were able to effectively counsel and warn their recruits about these topics prior to their first liberty weekend. On January 23, 2008, Recruit Training Command Instruction 3000.1A, Change 3, was approved, signed, and distributed to the command.

Audit Response. The Navy comments are responsive. The actions taken address the recommendations.

Appendix A. Scope and Methodology

We conducted this performance audit from April 2007 through December 2007 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We performed this audit as required by Public Law 109-290, "Military Personnel Financial Services Protection Act," dated September 29, 2006. We reviewed the impact of DoD Instruction 1344.07, "Personal Commercial Solicitation on DoD Installations," and the reforms included in the Public Law at the following installations: Fort Benning, Fort Jackson, Naval Station Great Lakes, Marine Corps Base Camp Lejeune, Lackland Air Force Base, and Keesler Air Force Base. At each location, we interviewed officials responsible for approving commercial solicitation permits on the installations as well as officials from the legal, payroll, financial counseling, and commercial sponsorship offices. We examined installation procedures for allowing commercial solicitors on the installations and reviewed documents pertaining to current and past investigations into unscrupulous commercial solicitation practices on the installations. We also reviewed financial training provided to military personnel.

We contacted personnel at the Office of the Under Secretary of Defense for Personnel and Readiness; the Defense Criminal Investigative Service; U.S. Army Installation Management Command; Navy Installation Command; Judge Advocate Division, U.S. Marine Corps; Personal and Family Readiness Division, U.S. Marine Corps; the Office of the Secretary of the Air Force for Force Management and Personnel; and the Office of the Judge Advocate General, U.S. Air Force.

We also contacted personnel at the National Association of Insurance Commissioners, the Office of the Georgia Insurance and Safety Fire Commissioner, and the Illinois Division of Insurance to determine their coordination with DoD and their efforts to protect military personnel from dishonest and predatory insurances sales practices.

Use of Computer-Processed Data. We did not use computer-processed data to perform this audit.

Government Accountability Office High-Risk Area. The Government Accountability Office has identified several high-risk areas in DoD. This report does not provide coverage of any high-risk areas.

Prior Coverage

During the last 5 years, the GAO has issued two reports related to personal commercial solicitation on DoD Installations. The Office of Inspector General DoD has not issued any reports in the last 5 years related to personal commercial solicitation on DoD Installations. Unrestricted GAO reports can be accessed over the Internet at http://www.gao.gov/.

GAO

Report No. GAO-06-023, “Financial Product Sales: Actions Needed to Better Protect Military Members,” November 2005

Report No. GAO-05-696, “Military Personnel: DoD Needs Better Controls Over Supplemental Life Insurance Solicitation and Policies Involving Servicemembers,” June 2005

Appendix B. Prohibited Solicitation Practices

Prohibited Practices Included in DoD Instruction 1344.07. DoD Instruction 1344.07. Section 6.4, outlines the following 15 prohibited practices for soliciting on military installations.

- Solicitation of recruits, trainees, and transient personnel in a group setting or "mass" audience and solicitation of any DoD personnel in a "captive" audience where attendance is not voluntary.

- Making appointments with or soliciting military or DoD civilian personnel during their normally scheduled duty hours.

- Soliciting in barracks, day rooms, unit areas, transient personnel housing, or other areas where the installation commander has prohibited solicitation.

- Use of official military identification cards or DoD vehicle decals by active duty, retired, or reserve members of the Military Services to gain access to DoD installations for the purpose of soliciting. When entering the installation for the purpose of solicitation, solicitors with military identification cards and/or DoD vehicle decals must present documentation issued by the installation authorizing solicitation.

- Procuring, attempting to procure, supplying, or attempting to supply non-public listings of DoD personnel for purposes of commercial solicitation, except for releases made in accordance with DoD Directive 5400.7.

- Offering unfair, improper, or deceptive inducements to purchase or trade.

- Using promotional incentives to facilitate transactions or to eliminate competition.

- Using manipulative, deceptive, or fraudulent devices, schemes or artifices, including misleading advertising and sales literature. All financial products, which contain insurance features, must clearly explain the insurance features of those products.

- Using oral or written representations to suggest or give the appearance that the DoD sponsors or endorses any particular company, its agents, or the goods, services, and commodities it sells.

- DoD personnel making personal commercial solicitations or sales to DoD personnel who are junior in rank or grade, or to the family members of such personnel, except as authorized in the Joint Ethics Regulation, DoD 5500.7-R.

- Entering into any unauthorized or restricted area.

- Using any portion of installation facilities, including quarters, as a showroom or store for the sale of goods or services, except as specifically authorized by DoD Directive 1330.17 and DoD Instructions 1015.10, 1000.15, and 1330.21. This does not apply to normal home enterprises that comply with applicable State and local laws and installation rules.

- Soliciting door-to-door or without an appointment.

- Unauthorized advertising of addresses or telephone numbers used in personal commercial solicitation activities conducted on the installation, or the use of official positions, titles, or organization names, for the purpose of personal commercial solicitation, except as authorized in DoD 5500.7-R, "Joint Ethics Regulation (JER)," August 30, 1993.

- Contacting DoD personnel by calling a Government telephone, faxing to a Government fax machine, or by sending e-mail to a Government computer, unless a pre-existing relationship exists between the parties and the DoD member has not asked for contact to be terminated.

NAIC Model Regulation Prohibited Practices. The NAIC model regulation includes the following prohibited practices:

- submitting or processing or assisting in the submission or processing of any allotment form or device, including MyPay, to direct a Service member's pay to a third party for the purchase of life insurance,

- using DoD personnel in any manner as a representative or assistant in the solicitation or sale of life insurance to a Service member junior in rank or grade, or to the family members of such personnel,

- making any false, misleading, or deceptive representation regarding the SGLI, or suggesting that a Service member cancel his or her SGLI,

- using "any lead generating materials that do not clearly and conspicuously disclose that the recipient will be contacted by an insurance producer for the purpose of soliciting the purchase of life insurance," and

- offering or selling a life insurance product with a side fund to Service members in pay grades E-1 through E-4 who are enrolled in SGLI, for whom the life insurance with the side fund is presumed unsuitable, until a complete needs assessment has been completed and demonstrates that the SGLI death benefit, along with other military benefits, savings and investments, survivor's income, and other life insurance are insufficient.

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Personnel and Readiness

Department of the Army

Commanding General, Army Training and Doctrine Command
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Manpower and Reserve Affairs)
Naval Inspector General
Auditor General, Department of the Navy

Department of the Marine Corps

Commandant of the Marine Corps

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 Finance and Accounting Service

Non-Defense Federal Organization

Office of Management and Budget

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Banking, Housing, and Urban Affairs
Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Homeland Security and Governmental Affairs
House Committee on Financial Services
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Oversight and Government Reform
House Subcommittee on Government Management, Organization, and Procurement, Committee on Oversight and Government Reform
House Subcommittee on National Security and Foreign Affairs, Committee on Oversight and Government Reform

Office of the Deputy Under Secretary of Defense for Personnel and Readiness Comments

OFFICE OF THE UNDER SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-4000

PERSONNEL AND READINESS

MAR 21 2008

Mr. Thomas S. Bartozek
Program Director, Readiness
and Operations Support
400 Army Navy Drive
Arlington, Virginia 22202-4704

Dear Mr. Bartozek:

This is the Department of Defense (DoD) response to the DoDIG Report on Personal Commercial Solicitation of Military Personnel on DoD Installations (Project No. D2007 –D000LD-0131). The Department acknowledges receipt of the Draft Report for review and inclusion of its comments attached. Sufficient guidance exists within DoD Instruction 1344.07, "Personal Commercial Solicitation on DoD Installations," dated 30 March 2006 to address deficient areas identified in the report. The Department intends to remain vigilante in enforcing the provisions of DoD Instruction 1344.07.

Sincerely,

Leslye A. Arsht
Deputy Under Secretary of Defense
(Military Community and Family Policy)

Enclosure:
As stated

OSD COMMENTS TO THE DODIG DRAFT REPORT
(Project No. D2007 –D000LD-0131)

Recommendations

1. Draft Report. Develop standards for additional consumer awareness education to junior enlisted Service members to identify inappropriate life insurance practices and products.

OSD Response: Concur. The consumer awareness piece is addressed in DoDI 1342.27, Personnel Financial Management for Service Members. We will work with the appropriate offices to incorporate material that will help Service members to identify inappropriate life insurance practices and products. Additionally, a wealth of material is already available on-line to Servicemembers on Service portals and by the National Association of Insurance Commissioners on the military portion of their web page.

2. Draft Report: Issue policy that requires installations to report both on-base violations of DoDI 1344.07 and off-base insurance products and sales solicitation practices, directed at junior enlisted Service members and considered inappropriate to the appropriate State insurance commissioner's office.

OSD Response: Partially concur. DoDI 1344.07, Para 6.5.8. states that: "The Secretaries of the Military Departments may direct the Armed Forces Disciplinary Control Boards in all geographical areas in which the grounds for withdrawal action have occurred to consider all applicable information and take action the Boards deem appropriate."

Any violations, which occur off-base are being handled appropriately using this vehicle and the State Commissioners have access to this information, which is maintained on-line at http://www.commanderspage.dod.mil. The Department will reiterate the need for the Services to ensure the State Insurance Commissioners are informed of inappropriate practices targeting military personnel off-base as well as including this information in the Personal Commercial Solicitation Report, which is updated quarterly.

Department of the Navy Comments

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
1000 NAVY PENTAGON
WASHINGTON, D.C. 20350-1000

MAR 5 2008

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Report on Commercial Solicitation of Military Personnel on DoD Installations (Project No. D2007-D000LD-0131)

As requested in your memorandum of February 6, 2008, subject as above, we have reviewed the draft report and our specific comments are provided at the attachment. To ensure the final report issued by the DoD IG is as accurate as possible, we request your consideration and inclusion of these comments.

Thank you for providing the opportunity to review and comment on the draft report. My point of contact for this issue is Mr. Ed Pratt, who can be contacted at (703) 614-3572 or Edwin.pratt@navy.mil.

Anita K. Blair
Assistant Secretary of the Navy
(Manpower and Reserve Affairs)
Acting

Attachment:
As stated

cc:
CMC
CNO

DEPARTMENT OF THE NAVY COMMENTS ON DOD IG REPORT ON COMMERCIAL SOLICITATION OF MILITARY PERSONNEL ON DOD INSTALLATIONS (Project No. D2007-D000LD-0131)

General Comments

Page 6, "Prohibition of Periodic Payments Plans", Third Paragraph. Comment: Recommend adding "Marine Corps Base" prior to "Camp Lejeune." Rationale: Provides greater clarity and accuracy.

Page 7, "Military Services' Policies", Eighth Line. Comment: Recommend adding "Department of the Navy's" prior to "...updated policy was still in draft." Rationale: Provides greater clarity and accuracy.

Comments on DoD IG Recommendations

Recommendation A.2. We recommend that the Commandant of the Marine Corps, the Commanding General, U.S. Army Training and Doctrine Command, and the Air Force Commander, Air Education and Training Command, ensure the current financial educational programs provided to junior enlisted Service members include appropriate consumer awareness education to enable them to identify inappropriate life insurance practices and products.

Comment: Concur. The Marine Corps Personal Financial Management Program currently offers a standardized training curriculum that includes a module titled "Your Insurance Needs." This module meets the intent of the recommendation.

Recommendation B.1. We recommend that the Chief of Naval Operations ensure the current financial educational programs provided to junior enlisted Service members include appropriate consumer awareness education to enable them to identify inappropriate life insurance practices and products.

Comment: Concur, with following amplifying information. The Navy Personal Financial Management Standardized Curriculum, developed, maintained, and distributed by Commander, Navy Installations Command (N91), was completely revised in November 2007. The revision contains a Consumer Awareness training module focusing specifically on deterring, detecting, and defending against consumer fraud in the marketplace. Designed with the junior Sailor in mind, although appropriate for all audiences, this interactive program also focuses on basic steps every consumer should take to ensure they get the most for their money.

The Consumer Action Handbook, published by the Federal Trade Commission, is a critical part of this program. Learning objectives for this training module include enabling participants to:

- Identify consumer misrepresentations, scams, and frauds.
- Differentiate between misleading and reputable advertising practices.
- Identify methods for resolutions of consumer complaints and issues.
- Detect, deter, and defend against internet fraud, predatory lending, and identity theft.
- Demonstrate knowledge of consumer rights.
- Identify consumer resources, both military and community.

The new curriculum has been distributed to all Navy Fleet and Family Support Centers. Additional distribution was made to all Navy training school commands, including RTC Great Lakes.

Recommendation B.2. We recommend that the Commander, Naval Station Great Lakes:

a. Establish procedures at the Naval Station Great Lakes to coordinate the actions of the Region Legal Service Office, Naval Legal Service Office, Naval Criminal Investigative Service, Personnel Support Activity Detachment, Training Commands, and most importantly, the Commander on inappropriate commercial solicitations.

Comment: Concur. The discussion of inappropriate commercial solicitations and business practices has been made a standing agenda item at the Naval Station Great Lakes (NSGL) Monthly Host/Tenant Installation meeting. This meeting is hosted by the Commanding Officer, NSGL, and includes representatives from Region Legal Service Office Midwest, Naval Legal Service Office, Naval Criminal Investigative Service, Personnel Support Activity Detachment, and the various training commands.

b. Communicate to the Illinois Division of Insurance any instances of inappropriate solicitation of insurance products, whether on or off post.

Comment: Concur. Region Legal Service Office Midwest contacted the Illinois Division of Insurance in August 2007 concerning [redacted].* Contact is ongoing, as the need arises.

c. Establish controls to monitor access to the base of persons affiliated with financial products to ensure they are meeting the requirements under DoD Instruction 1344.07.

Comment: Concur. Although controls to monitor base access by persons affiliated with financial products were formally established on May 31, 2002, and updated on October

* Company named redacted

Final Report Reference

19, 2007, Commanding Officer, NSGL, has determined that persons affiliated with financial products will no longer be eligible for commercial solicitation permits. As of February 21, 2008, NSGL has no current or outstanding commercial solicitation permits issued to persons affiliated with financial products.

Recommendation B.3. We recommend that the Commanding Officer, Recruit Training Command:

a. Establish training to boost recruits' awareness of both deceptive insurance practices and financial resources available on the installation.

b. Enhance training on proper handling and protection of the recruits' Common Access Card.

Comment: Concur with both recommended actions. Corrective actions have been completed. On July 15, 2007, following the DoD IG audit visit to Recruit Training Command (RTC) immediately caused the RTC Legal Department to incorporate a Recruit Liberty Orientation Lecture to RTC's Standard Operating Procedures. RTC Legal drafted and provided more formal training to the Recruit Division Commanders (RDCs) addressing predatory lending and other deceptive sales practices in their liberty briefs, to include insurance, investments, and solicitation of "MyPay" information. The RDCs were than able to effectively counsel and warn their recruits about these topics prior to their first liberty weekend. On January 23, 2008, RTCINST 3000.1A, Change 3, was approved, signed, and distributed to the command. A copy is provided at enclosure (1).

Enclosure was not provided with comments.

Department of the Air Force Comments

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON, DC

MAR 0 3 2008

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

FROM: HQ USAF/A1
1040 Air Force Pentagon
Washington DC 20330-1040

SUBJECT: DoDIG Draft Audit Report, Commercial Solicitation of Military Personnel on DoD Installations (Project No. D2007LD-0131)

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) to provide Air Force comments on subject report.

Recommendation A.1—We recommend that the Under Secretary of Defense for Personnel and Readiness:

a. Develop standards for additional consumer awareness education to junior enlisted Service members to identify inappropriate life insurance practices and products.

b. Issue policy that requires installations to report both on-base violations of DoD Instruction 1344.07 and off-base insurance products and sales solicitation practices, directed at junior enlisted Service members and considered inappropriate to the appropriate State insurance commissioner's office.

Status: The Air Force will coordinate its current training initiatives with USD P&R, and stand ready to support and comply with their direction.

Recommendation A.2—We recommend that the Commandant of the Marine Corps, the Commanding General, U.S. Army Training and Doctrine Command, and the Air Force Commander, Air Education and Training Command ensure the current financial educational programs provided to junior enlisted Service members include appropriate consumer awareness education to enable them to identify inappropriate life insurance practices and products.

Status: The Air Force concurs with this recommendation and has taken the following steps to better educate our junior enlisted:

Basic Military Training: Instructors are educating trainees on unscrupulous insurance sales practices as part of personalization under the current lesson plan. This will be formally included in the new Financial Management Lesson (and Basic Trainee Study Guide) under the expanded 8.5 week program beginning November 2008. The following material is discussed:

Abusive Insurance and Investment Practices: Some financial service companies are offering military members high-cost securities and life insurance products. The abuse comes into play when companies charge up to a 50% sales commission instead of the 6% or less standard fee (called contractual plans or systematic investment plans). Also, certain life insurance products offered to military personnel are improperly marketed as investment products (e.g., policies with extra high premiums that provide low death benefits and are front-loaded with fees for the first few years). A better option is to use the Servicemembers' Group Life Insurance (SGLI) program that the federal government subsidizes.

Safeguards exist to help our Service members: Congress enacted, "The Military Personnel Financial Services Protection Act" to prevent the sale of abusive insurance and investment products to military personnel. This act mandates that state securities regulators maintain a list of the abusive companies. Additionally, the base legal office maintains a listing of individuals who are banned from selling on base.

Technical Training (TT) Schools: Each school has an Airmen and Family Readiness Center with a Personal Financial Manger who has for years included in their personal financial management blocks information on unscrupulous sales tactics as it relates to insurance and securities. Air Education and Training Command (AETC) provided the DoDIG Audit Team with samples of what is taught at TT to include SGLI comparisons to other insurance. AETC periodically reviews lesson plans to ensure they remain consistent with AFI 36-3009 and DoD's guidance.

The Air Force's POC for Commercial Solicitation is Lt Col Justin Hall, AF/A1SF; (703) 664-0287, DSN 664-0287.

TIMOTHY A. BEYLAND
Asst DCS, Manpower and Personnel

Team Members

The Department of Defense Office of the Deputy Inspector General for Auditing, Readiness and Operations Support prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

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Inspector General
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