

GAO

Briefing Report to the Honorable
William V. Roth, Jr., U.S. Senate

January 1988

DOD FRAUD INVESTIGATIONS

Characteristics, Sanctions, and Prevention



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General Accounting Office
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Accounting and Financial
Management Division

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January 20, 1988

The Honorable William V. Roth, Jr.
United States Senate

Dear Senator Roth:

At your request, we reviewed fraud investigations that the Department of Defense (DOD) referred to the Department of Justice or state and local authorities for prosecution. As agreed with your office, we conducted detailed reviews at the Departments of Health and Human Services (specifically the Medicare and Medicaid programs), Agriculture, Labor, and Defense and the General Services Administration. On July 7, 1987, we briefed your staff on Medicare and Medicaid fraud and subsequently issued a report¹ on the results of our review. On January 20, 1988, we briefed your staff on the results of our work at DOD. This report is a written version of that briefing. We will brief you or your staff on our work at the other agencies later.

The purpose of this review was to identify (1) the characteristics of fraud, including theft, being referred for prosecution by the DOD Inspector General (IG) and the military services, in terms of the most prevalent types and the functions or activities most affected, (2) actions taken against those who have been caught defrauding the government, and (3) whether DOD's investigative agencies determine the underlying causes of detected fraud and provide this information to program officials so that action can be taken to reduce vulnerabilities.

In conducting this review, we used information in the DOD Office of Inspector General (OIG) Defense Investigative Management Information System data base on fiscal year 1984 and 1985 investigations involving losses of \$1,000 or more

¹Health Care Fraud: Characteristics, Sanctions, and Prevention (GAO/AFMD-87-29BR, July 15, 1987).

conducted by DOD's four investigative agencies: the Defense Criminal Investigative Service (located within the DOD Inspector General's office), the Army Criminal Investigation Command, the Naval Security and Investigative Service, and the Air Force Office of Special Investigations. At the time we began our review, which was conducted primarily from May 1986 through December 1986, cases from this time period represented the most current readily available data on closed DOD fraud referrals for prosecution. In order to make our analysis as current as possible, we updated selected information during the period June through August 1987. We also identified trends in investigative activity over a 4-year period, fiscal years 1983-86, in terms of the (1) functions (such as procurement and pay and allowances) in which investigations occurred and (2) punitive actions that were taken. Our focus was on aggregate data, and, accordingly, we did not evaluate the quality of any particular investigation.

We also talked with officials in each of the agencies about the characteristics of fraud they investigated, trends in investigations, and initiatives to identify and report underlying causes of fraud. In addition, we identified the number of referrals of suspected procurement fraud made by the Defense Contract Audit Agency (DCAA). Further details about our scope and methodology and the results of our work are in appendix I.

FRAUD CHARACTERISTICS IN DOD

DOD investigated 794 cases of fraud which had losses of \$1,000 or more and had been referred for prosecution and were closed during fiscal years 1984 and 1985, according to the most readily available information from the DOD OIG data base. We did not look at smaller cases. DOD data shows that losses totaled \$66.2 million from the 794 cases during the 2-year period that we reviewed. DOD data also shows that fines and recoveries in these cases totaled about \$39 million.

Our review found that theft was the most prevalent type of DOD case, accounting for about one-third of DOD's referrals. However, the second most prevalent type-- procurement fraud, which accounted for 29 percent--was responsible for about 81 percent of the dollar losses.

Our review also found that 55 percent of fraud cases, with losses totaling \$44 million, resulted in legal and/or administrative action against those who were caught

defrauding the government. These actions included 376 criminal convictions. Other actions taken included restitutions, job terminations, and contractor suspensions and debarments. All the actions taken on this group of cases resulted in fines and recoveries totaling about \$33 million.

In 45 percent of the cases referred for prosecution, with losses totaling \$22 million, DOD records show the cases were declined for prosecution and that no action was taken against the subjects investigated. The most common reason for declination of prosecution was that the cases were "below a U.S. Attorney's dollar threshold for prosecution or the case involved a minimal federal interest." Nevertheless, DOD recouped about \$6 million in these cases through recoveries made during investigations. In some future cases, DOD will be able to apply new authority provided by the Program Fraud Civil Remedies Act of 1986 which provides for administrative penalties and recoveries in certain cases even though they may be declined for prosecution. Under the act, administrative proceedings can be brought, with approval of the Attorney General, against persons who make, present, or submit false claims and statements involving up to \$150,000. If the subject is found liable, a civil penalty of not more than \$5,000 can be assessed for each false claim or statement, plus double any amount of such claim the government paid.

RECENT INVESTIGATION TRENDS

We noted that DOD investigators more than doubled the number of procurement fraud investigations in fiscal year 1986 (1,919 investigations) compared to fiscal year 1983 (870 investigations). In addition, investigations of suspected fraud in nonappropriated fund and pay and allowance activities have decreased substantially. In this regard, nonappropriated fund investigations decreased from 1,300 in fiscal year 1983 to 688 in fiscal year 1986, while pay and allowance investigations decreased from 3,186 to 1,661 over the same period. DOD OIG officials attribute these changes to investigator efforts to focus on more significant cases as recommended in an earlier GAO report.² Another reason for the increase is additional referrals for

²DOD Can Combat Fraud Better By Strengthening Its Investigative Agencies (GAO/AFMD-83-33, March 21, 1983).

investigation from DCAA auditors--up to 325 referrals in fiscal year 1986 from 60 in fiscal year 1983. DOD OIG officials told us that many of these cases were very significant and that the number of cases had increased dramatically just prior to our review. Therefore, we reviewed the most significant cases under investigation in the 1-year period ending March 31, 1986, in order to see how DOD's emphasis has shifted to procurement fraud. Many of these cases had been referred for investigation by DCAA. In total, 173 cases were being investigated that the DOD OIG characterized as significant because estimated losses were \$50,000 or more and/or for other reasons. Most of the cases (86 percent) involved procurement fraud. These procurement cases involved losses totaling almost \$400 million, or 97 percent of the estimated losses associated with the 173 cases. One case alone involved estimated losses over \$100 million because a contractor allegedly mischarged for spare parts over a 6-year period. As of August 12, 1987, this case was still pending. We were told it will be presented to a grand jury.

The increase in referrals of alleged procurement fraud for investigations has prompted the DOD OIG to adopt a best case selection strategy. Because many of DOD's largest contractors faced multiple cost mischarging/defective pricing cases, the DOD OIG directed that only the best one or two cases (those most likely to result in criminal prosecution) against any one DOD contractor be investigated. As part of the DOD OIG strategy, the cases not pursued criminally will be handled with civil and administrative remedies. We also noted that DOD has increasingly used debarments and suspensions to keep troublesome contractors from conducting business with the government. From fiscal year 1983 to fiscal year 1987, suspensions and debarments more than tripled from 280 to 898.

Currently, the highest priority is given to the investigation and prosecution of product substitution procurement fraud because malfunctioning defective parts in weapon systems can jeopardize DOD missions and personnel.

DOD OIG ACTIONS TO IDENTIFY AND REPORT
UNDERLYING CAUSES OF FRAUD

We found that the DOD OIG has initiated both short-term and long-term efforts to use information developed during criminal investigations of internal control or management weaknesses that allowed or contributed to fraud. The

short-term efforts include two special studies for which teams were formed to review closed criminal investigations involving product substitution and the illegal diversion and exportation of DOD property. These studies identified control weaknesses that allowed such activities to occur. The weaknesses were reported to DOD management so that corrective action could be initiated. The long-term effort includes a DOD IG requirement that the DOD investigative agencies identify underlying causes of fraud and provide this information to appropriate managers so that corrective action can be taken to protect DOD resources. At the time of our review, the investigative agencies were in the early stages of planning their implementation of this initiative.

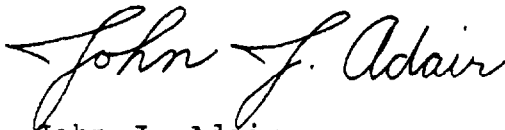
In our opinion, it is too soon to determine the effectiveness of the long-term initiative. We believe that, if properly carried out, it could be an important step in the prevention of fraud.

AGENCY COMMENTS

We obtained official written comments from the DOD Inspector General in December 1987. She essentially agreed with the report and provided more current data which we included where appropriate. A copy of her comments is included in appendix V.

We would be pleased to discuss this information with you at your convenience. Unless you publicly announce the contents of this report earlier, we will not distribute it until 30 days from its date. At that time, we will send copies to the Director of the Office of Management and Budget, the Secretaries of Defense, the Army, Navy, and Air Force, and interested congressional committees. We will make copies available to others on request. If you or members of your staff have any questions about the results of our work, please call me on 275-9359.

Sincerely yours,



John J. Adair
Associate Director

C o n t e n t s

		<u>Page</u>
APPENDIX		
I	INTRODUCTION AND BACKGROUND	8
	Objectives	12
	Scope and Methodology	14
II	CHARACTERISTICS OF DOD FRAUD CASES REFERRED FOR PROSECUTION	18
	Defective Pricing	22
	Cost/Labor Mischarging	22
	Product Substitution	23
	Theft	23
	Recent Investigation Trends	25
III	ACTIONS TAKEN AGAINST SUBJECTS REFERRED FOR PROSECUTION	32
	Legal Actions	33
	Administrative Actions	35
	Punitive Actions Are Increasing	37
	Reasons for Declinations	38
IV	DOD OIG EFFORTS TO IDENTIFY AND REPORT WEAKNESSES THAT CONTRIBUTE TO FRAUD	42
	Special Short-Term Studies	43
	Long-Term Efforts	44
V	COMMENTS FROM THE DEPARTMENT OF DEFENSE	46
FIGURES		
II.1	Closed DOD Fraud Cases Referred for Prosecution, by Activity, Fiscal Years 1984 and 1985	19
II.2	Dollar Losses by Type of Closed DOD Fraud Cases Referred for Prosecution, Fiscal Years 1984 and 1985	20
II.3	Dollar Losses by Type of Closed DOD Procurement Fraud Cases Referred for Prosecution, Fiscal Years 1984 and 1985	21

II.4	Dollar Losses by Type of Theft Cases Referred for Prosecution, Fiscal Years 1984 and 1985	24
III.1	Administrative Actions Taken Against DOD Employees	36
III.2	Administrative Actions Taken Against Contractors/Vendors	37
III.3	Reasons Justice Declined 433 Subjects of Fraud Cases	39

TABLES

I.1	Staffing Levels and Operating Cost of DOD Criminal Investigative Agencies as of September 30, 1987	9
I.2	Number of DOD Agents Trained in Fraud Investigations, Fiscal Year 1982 and 1987	10
II.1	Types of Open Procurement Cases Reported to the Secretary of Defense (April 1, 1985, Through March 31, 1986)	28
III.1	Prison Sentences	34
III.2	Suspended Sentences	34
III.3	Probation Periods	35
III.4	Selected Punitive Actions Taken Against Those Who Defrauded DOD Programs, Fiscal Years 1983-87	38

ABBREVIATIONS

AFOSI	Air Force Office of Special Investigations
CIDC	Army Criminal Investigation Command
DCAA	Defense Contract Audit Agency
DCIS	Defense Criminal Investigative Service
DOD	Department of Defense
IG	inspector general
NIS	Naval Security and Investigative Command
OIG	Office of Inspector General

INTRODUCTION AND BACKGROUND

Senator William V. Roth, Jr., requested that we review fraud investigations that statutory inspectors general (IG) referred to the Department of Justice for prosecution. Specifically, he asked us to analyze fraud investigations referred by the IGs at the Departments of Agriculture, Defense, and Labor and the General Services Administration as well as the Department of Health and Human Services for those cases involving the Medicare and Medicaid programs. This briefing report presents the results of our examination of Department of Defense (DOD) fraud investigations that were referred to Justice or state and local authorities for prosecution.

In order to upgrade DOD-level audit, investigation, and inspection activities, the Congress established a statutory IG in the Department of Defense Authorization Act of 1983. The DOD OIG was patterned after the civilian agency IG offices created by the Inspector General Act of 1978 (Public Law 95-452). The Authorization Act also combined several existing DOD-level audit and investigative organizations under the DOD IG. The DOD IG performs audits, conducts criminal investigations of fraud throughout DOD, recommends action to the appropriate management levels to correct program deficiencies, and reports the status of actions being taken to correct these deficiencies. The DOD IG is also responsible for providing policy guidance and oversight of the Army, Navy, and Air Force audit and investigative agencies. Resource levels as of September 30, 1987, for the investigative agencies are shown in table I.1.

Table I.1: Staffing Levels and Operating Costs of DOD Criminal Investigative Agencies as of September 30, 1987

	Investigative professionals ^a <u>on board</u>	Total operating <u>costs</u>
DOD OIG Defense Criminal Investigative Service (DCIS)	270	\$ 18,506,000
Army Criminal Investigation Command (CIDC)	1,085	72,218,000
Naval Security And Investigative Command (NIS)	1,173	94,184,000
Air Force Office of Special Investigations (AFOSI)	<u>1,558</u>	<u>86,678,000</u>
Total	<u>4,086</u>	<u>\$271,586,000</u>

^aWith the exception of the DOD IG investigative function, which is totally civilian, professionals include both military and civilian personnel.

While DCIS investigators are dedicated to criminal fraud investigations involving major theft, fraud, and corruption in the procurement process, the military investigative agencies have other responsibilities in addition to criminal fraud investigations. The three military investigative agencies also investigate other types of crime including homicide, assault, and drug violations. Also, NIS and AFOSI conduct counterintelligence investigations.

According to DOD IG officials, the number of agents fully trained to conduct fraud investigations has increased dramatically since fiscal year 1982. Table I.2 shows that the number of trained fraud agents has increased by about 150 percent.

Table I.2: Number of DOD Agents Trained In Fraud Investigations,
Fiscal Years 1982 and 1987

	Number of fraud agents	
	<u>Fiscal year 1982</u>	<u>Fiscal year 1987</u>
DCIS	110	279
Army CIDC	60	226
NIS	38	135
AFOSI	<u>167</u>	<u>291</u>
Total	<u>375</u>	<u>931</u>

APPENDIX I

APPENDIX I

OBJECTIVES

IDENTIFY CHARACTERISTICS OF FRAUD

IDENTIFY PUNITIVE ACTIONS

DETERMINE WHETHER INVESTIGATORS IDENTIFY AND REPORT UNDERLYING CAUSES OF FRAUD TO PROGRAM MANAGERS SO THAT ACTIONS CAN BE TAKEN TO PREVENT FUTURE FRAUD

OBJECTIVES

The objectives of this review were to identify (1) the characteristics of fraud being referred for prosecution by the DOD OIG and the military services in terms of the most prevalent types and the functions or activities most affected, (2) the types of punitive actions taken against those referred for prosecution, and (3) whether the DOD investigative agencies identified and reported the underlying causes of fraud to program officials so that actions could be taken to reduce vulnerabilities. In addition, we identified trends in investigative activities in terms of the types of DOD functions in which investigations occurred and the actions taken against those who commit fraud. We focused on aggregate data and, accordingly, did not evaluate the quality of any particular investigation or the rationale for Department of Justice prosecutorial decisions.

SCOPE AND METHODOLOGY

ANALYZED DATA ON 794 FISCAL YEAR 1984 AND 1985 CLOSED FRAUD CASES WITH DOLLAR LOSSES OF \$1,000 OR MORE

REVIEWED CASE FILES FOR 208 OF 794 INVESTIGATIONS

REVIEWED DOD OIG FISCAL YEAR 1983-86 SEMIANNUAL REPORTS ON ALL CASES INVESTIGATED TO IDENTIFY TRENDS IN (1) FUNCTIONS AFFECTED BY FRAUD AND (2) PUNITIVE ACTIONS TAKEN

REVIEWED SUMMARIES OF 173 SIGNIFICANT OPEN FRAUD CASES

IDENTIFIED MECHANISMS USED BY INVESTIGATORS TO IDENTIFY UNDERLYING CAUSES OF REPORTED FRAUD

SCOPE AND METHODOLOGY

In order to identify the characteristics of fraud and theft cases referred for prosecution and determine the type of action taken against those investigated, we obtained information on 794 cases that had been referred for prosecution and were closed during fiscal years 1984 and 1985, each of which had losses of \$1,000 or more. These cases were referred for prosecution by DOD's four investigative agencies.³ We obtained this information from the Defense Investigative Management Information System data base which is maintained by the DOD OIG. The 794 cases included 235 cases investigated by the Army's CIDC, 154 investigated by the Air Force's Office of Special Investigations, 211 cases investigated by the Navy's NIS, and 194 cases investigated by the DOD OIG's DCIS. We used this information because at the time we began our review it was the most current readily available information on closed DOD fraud referrals for prosecution. Using DOD OIG definitions, we analyzed this information to determine the types of fraud and activities most affected, as well as the outcome of cases in terms of prosecution results and/or any other action taken.

In order for us to more clearly understand the types of fraud referred for prosecution, as well as how fraud affects DOD functions, we reviewed the case files for 208 of the 794 cases referred for prosecution. We judgmentally selected cases for review with the greatest weight on large dollar losses and the most prevalent types of fraud. This review of 208 case files identified missing information and numerous inaccuracies in the DOD OIG data base. We pointed out these problems to the OIG staff, who corrected the problems we identified as well as others they had identified as part of their ongoing efforts to improve the accuracy of the management information system. We then used printouts of the corrected data to analyze totals as to type of fraud, disposition, and dollar losses.

Furthermore, because of a significant increase in the volume of procurement fraud investigations during our review, we examined summaries of 173 open fraud cases which had been reported to the Secretary of Defense during the last half of fiscal year 1985 and the first half of fiscal year 1986. Many of these involved suspected procurement fraud referred for investigation by the

³Out of the 794 cases, 38 cases were referred to state and/or local governments.

Defense Contract Audit Agency (DCAA). These cases included indications of fraud which were still under active investigation. They were reported to the Secretary of Defense because of their significance in that they involved (1) potential losses of at least \$50,000,⁴ (2) high-ranking DOD officials, and/or (3) extensive media coverage. Of the 173 significant cases, 148 involved alleged procurement fraud.

To identify patterns of DOD fraud, investigative trends, and punitive actions taken, we analyzed but did not verify information submitted to the DOD OIG for the semiannual report on all fiscal year 1983-86 fraud cases investigated and closed by the four investigative agencies. This information included aggregate totals on types of fraud investigated, functional areas affected, and sanctions taken against those investigated, regardless of value associated with the case or whether it was referred for prosecution.

In order to determine whether the investigative agencies identified the underlying causes of fraud and provided this information to program managers so that corrective action could be taken to protect DOD resources, we (1) reviewed and discussed guidance and requirements for investigators with responsible officials and (2) identified mechanisms used to notify program managers of vulnerabilities to fraud and abuse discovered during criminal investigations.

We also talked with officials in each of the agencies about the characteristics of fraud they investigated, trends in investigations, and initiatives to determine and correct underlying causes of fraud. In addition, we identified statistics on referrals of suspected procurement fraud made by DCAA.

Our work was conducted from May through December 1986 at the DOD IG headquarters as well as the headquarters of each service's investigative agency. We also updated selected information during June through August 1987 in order to make our analysis as current as possible.

⁴Since our review, the \$50,000 threshold has been increased to \$100,000.

CHARACTERISTICS OF DOD FRAUD
REFERRED FOR PROSECUTION

THEFT IS MOST PREVALENT TYPE OF FRAUD (ABOUT 33 PERCENT OF CASES)

PROCUREMENT FRAUD IS MOST COSTLY (81 PERCENT OF TOTAL LOSSES)

**-- DEFECTIVE PRICING VIOLATIONS ACCOUNTED FOR THE HIGHEST
PROCUREMENT LOSSES**

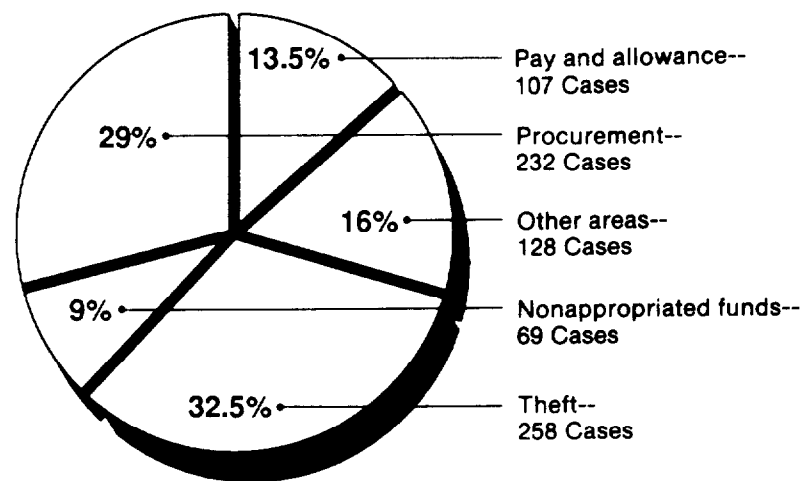
DETECTION OF SUSPECTED PROCUREMENT FRAUD IS INCREASING

EMPHASIS INCREASED ON INVESTIGATING MORE SIGNIFICANT FRAUD

CHARACTERISTICS OF DOD FRAUD CASES
REFERRED FOR PROSECUTION

As shown in figure II.1, theft cases (property theft/larceny/embezzlement) accounted for the largest percentage (32.5) of cases with losses of \$1,000 or more that were referred for prosecution. Procurement and procurement related fraud cases made up 29 percent of the cases, pay and allowance fraud cases which include travel fraud accounted for 13.5 percent, and nonappropriated fund activities fraud cases such as alleged fraud against military exchanges or morale, welfare, and recreation programs accounted for 9 percent of the fraud cases. Other areas, including fraud in the Civilian Health and Medical Program of the Uniformed Services and commissary/subsistence activity fraud, made up 16 percent of the cases.

Figure II.1: Closed DOD Fraud Cases Referred for Prosecution, by Activity, Fiscal Years 1984 and 1985^a

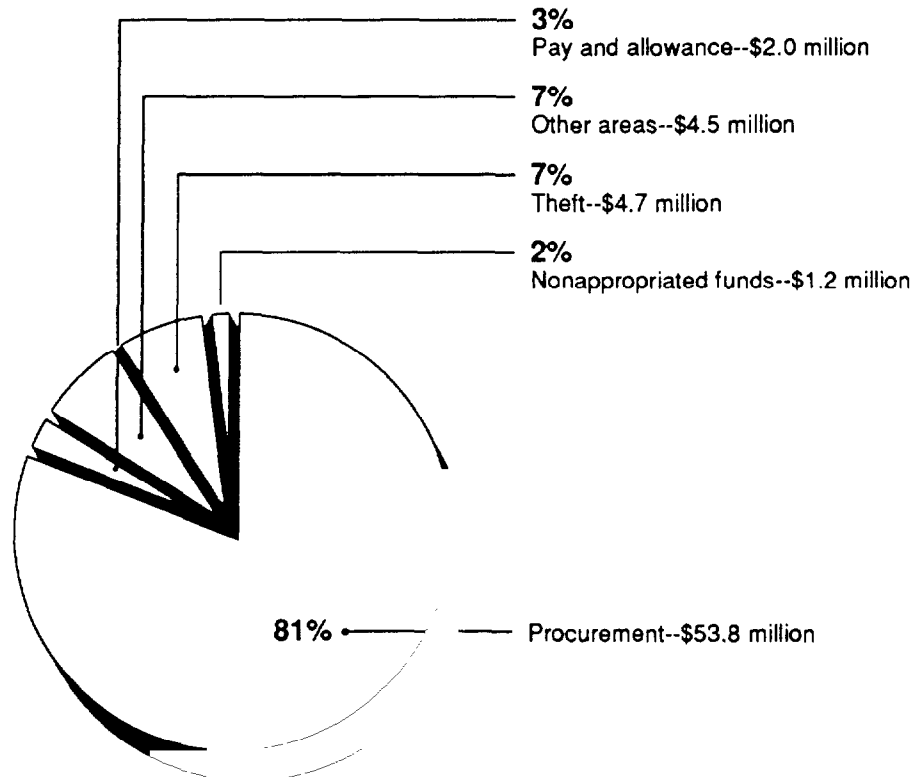


Cases: 794

^aData on closed DOD fraud cases referred for prosecution for fiscal years 1986 and 1987, provided by the DOD OIG in its comments on this report, showed that of 789 closed cases during that period, 43.5 percent were procurement, 22.9 percent, theft; 14.7 percent, pay and allowance; 4.2 percent, nonappropriated funds; and 14.7 percent, other areas. Thus, the theft category has decreased the most as a percentage, while procurement has increased the most.

Figure II.2 shows, for the cases we reviewed, the amount of reported losses by type of fraud for fiscal years 1984 and 1985.

Figure II.2: Dollar Losses by Type of Closed DOD Fraud Cases Referred for Prosecution, Fiscal Years 1984 and 1985^a



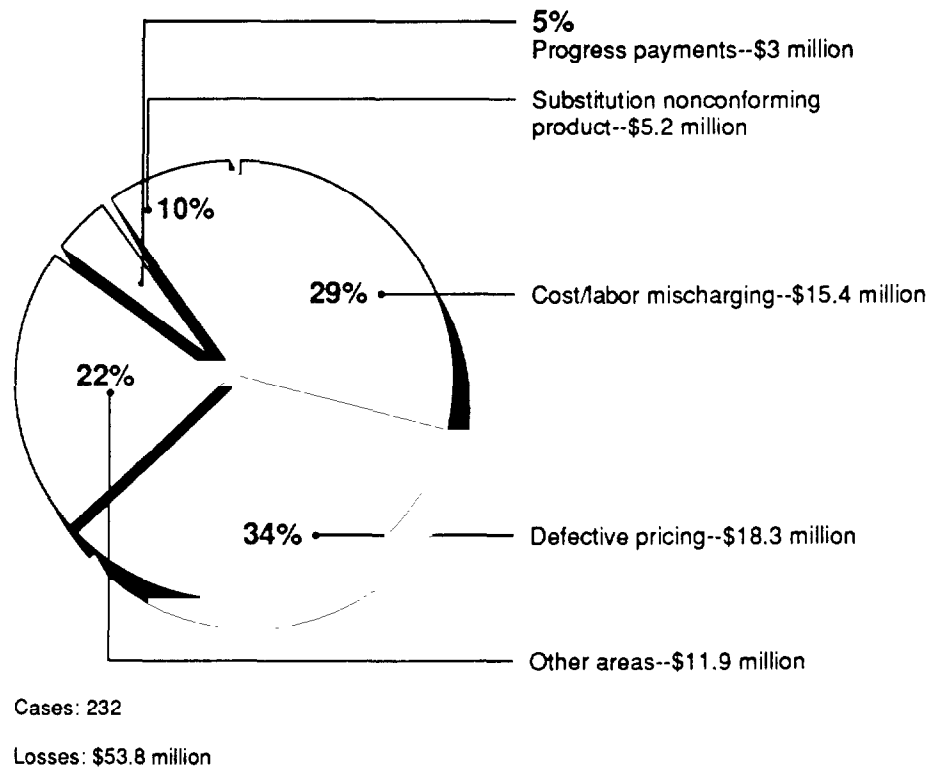
Cases: 794

Losses: \$66.2 million

^aData for fiscal years 1986 and 1987 provided by the DOD OIG showed that losses of \$134.5 million were 73.7 percent from procurement; 13.1 percent, pay and allowances; 5.6 percent, theft; 0.1 percent, nonappropriated funds; and 7.5 percent, other areas. Thus, since the data we analyzed for fiscal years 1984 and 1985, procurement losses have decreased as a percentage of losses and those for pay and allowances have increased. The total losses of \$134.5 million for the 789 cases in fiscal years 1986 and 1987 are substantially larger than the \$66.2 million reported for about the same number of cases in fiscal years 1984 and 1985.

Figure II.3, breaks down the procurement cases investigated. Examples of the major categories follow. ("Other areas" includes bribery, conflict of interest, kickbacks, undelivered products, fast pay program claims, misuse/diversion of government-furnished material, false statements, mail fraud, false claims, antitrust violations, and misrepresentations.)

Figure II.3: Dollar Losses by Type of Closed DOD Procurement Fraud Cases Referred for Prosecution, Fiscal Years 1984 and 1985^a



^aFor fiscal years 1986 and 1987, DOD informed us that there were 343 procurement cases involving total losses of \$99.1 million. The percentage of dollar losses was 30.4 percent for substitution/nonconforming product; 26.3 percent, cost/labor mischarging; 18.5 percent, defective pricing; 4.3 percent, progress payments; and 20.5 percent, all other areas. Thus, the percentage for the substitution/nonconforming product category has increased substantially, while that of the defective pricing category has gone down.

DEFECTIVE PRICING

Under the Truth in Negotiations Act (Public Law 87-653), defense contractors generally are required to submit cost or pricing data and certify that such data are accurate, complete, and current. Fraud associated with defective pricing involves the deliberate concealment or misrepresentation of significant cost elements. This includes falsification or alteration of supporting data and/or submission of inaccurate, incomplete, or noncurrent cost or pricing data.

In one DOD defective pricing procurement case investigated jointly by the Federal Bureau of Investigation and DCIS, a contractor was found to have inflated the cost of spare parts for diesel heaters and air compressors, resulting in overpayments in excess of \$1.7 million on 33 separate contracts. For one part, the contractor paid \$60.62 per unit and submitted a pricing proposal showing \$166.40 per unit. For another, the proposal showed a cost of \$1,074 when the contractor had paid only \$444. In still another instance, the contractor charged DOD \$58 per unit for an item that cost 41 cents. The largest overcharge, \$236,151, occurred when the contractor sold over 4,500 ignition boxes costing \$43.49 each to the government over a 2-year period, charging as high as \$123 each. According to the case file, the defective pricing was discovered when an administrative contracting officer began reviewing small details of the pricing proposals and found indications of false pricing support documents. An officer of the contractor was sentenced to five consecutive 2-year prison terms. Also, criminal fines and penalties amounted to \$3 million, and a civil judgment was ordered that enables DCAA and DCIS to maintain strict oversight of the contractor's pricing policies and claims under future awards.

COST/LABOR MISCHARGING

Cost and/or labor mischarging occurs whenever a contractor charges the government for costs which are not allowable, not reasonable, or which cannot be directly or indirectly allocated to the contract. In one DOD cost/labor mischarging procurement case, a contractor involved in missile targeting processes mischarged labor costs, travel costs, and related expenses resulting in a loss of about \$325,000 to the government. For example, some of the contractor's employees falsified the time distribution on their time cards, but their supervisor certified them as being correct. The contractor pleaded guilty to three counts of false statements and was ordered to pay \$650,000 (for double the amount of damages), \$167,000 in interest, and a fine of \$30,000.

PRODUCT SUBSTITUTION

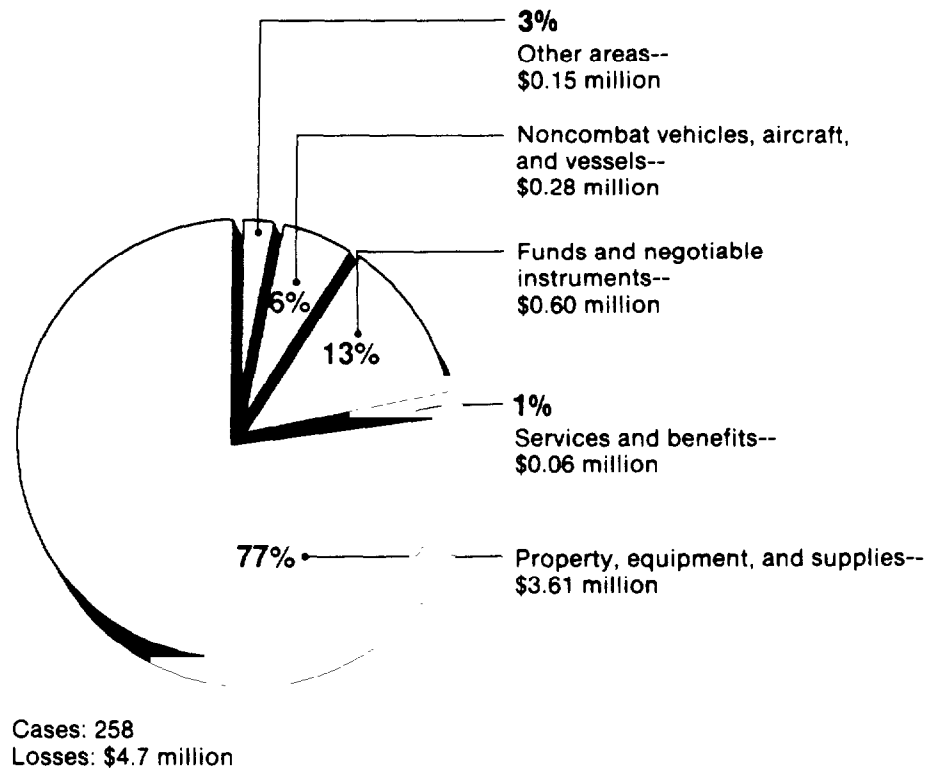
Product substitution refers to attempts by contractors to deliver goods or services which do not conform to contract requirements. Contractors do not inform DOD of the discrepancies and seek reimbursement based upon delivery of conforming products or services.

One of DOD's product substitution investigations involved a contractor who allegedly supplied almost 2 million yards of substandard parachute suspension cord resulting in an estimated loss of about \$685,000. The contractor submitted false laboratory test reports to government inspectors showing the cord had met contract specifications. After he presented quality assurance inspectors a cord that met specifications, the contractor shipped DOD another cord that was 25 years old. The fraud was discovered after an allegation was received. According to the case file, very serious neck and back injuries could occur if shock were absorbed by the neck and back instead of by the parachute cord. The firm's owner pleaded guilty to two counts of mail fraud and received a 2-year prison sentence, was ordered to perform 200 hours of community service, and was fined \$7,000. The vice president pleaded guilty to making false statements and received a 1-month jail sentence. In addition, the vice president was placed on probation for 4 years and 9 months and was ordered to perform 800 hours of community service. The firm was fined \$26,000 and was ordered to pay a \$225,000 restitution.

THEFT

As noted previously, the largest number of cases referred for prosecution involved theft. Figure II.4 shows the dollar losses by types of theft. Examples of the major theft categories are in succeeding paragraphs. "Other areas" includes weapon systems hardware, computer hardware and software, and computerized data. The services/benefits category includes such items as medical benefits.

Figure II.4: Dollar Losses by Type of Theft Cases Referred for Prosecution, Fiscal Years 1984 and 1985



An example of a theft of government supplies involved employees of a company that delivered copier paper to 53 DOD facilities. The individuals stole almost 900 cases of paper valued at about \$30,000 by removing the paper from various facilities without authorization in some instances and shorting deliveries in others. Four individuals pleaded guilty to the theft. Their sentences included fines and restitutions of \$4,764 and various probation and community service terms.

Another example involved four individuals who stole about \$43,000 worth of aluminum landing mats from firing ranges and sold the items to a steel company for almost \$6,000. This case was declined for prosecution due to weak or insufficient evidence. The case file did not include evidence of any action taken.

A theft in the noncombat vehicle category occurred when a youth entered an unsecured office, stole athletic uniforms and the keys to a van, and drove off in the van. He was later stopped by

the police for improper driving, leading to the recovery of the van and uniforms. The juvenile was placed on indefinite probation and enrolled in a residential treatment and training program.

In one theft of funds/negotiable instruments case, four contractor employees, who worked in an Army/Air Force exchange service florist shop, were stealing funds by not ringing up sales and by destroying invoices to conceal sales. The investigation revealed that the thefts had been going on for 3 years, with an estimated loss totaling over \$30,000. This case was declined for prosecution in favor of civil/administrative action. The individuals made restitution of \$45,270 to the exchange service.

RECENT INVESTIGATION TRENDS

To identify the relative trends of investigative activities in DOD functional areas, we reviewed information on all fraud investigations--regardless of whether they were referred for prosecution--conducted by DOD's four investigative agencies. (This information had been submitted to the DOD OIG for input into the semiannual report to the Congress as required by the Inspector General Act of 1978, as amended.) Our analysis showed the following.

- Nonappropriated fund fraud investigations decreased 47 percent, from 1,300 in fiscal year 1983 to 688 in fiscal year 1986.
- Pay and allowances fraud investigations decreased about 48 percent, from 3,186 in fiscal year 1983 to 1,661 in fiscal year 1986.
- Overall theft of government property fraud investigations decreased about 8 percent, from 6,453 in fiscal year 1983 to 5,960 in fiscal year 1986.
- Procurement fraud investigations increased about 121 percent, from 870 in fiscal year 1983 to 1,919 in fiscal year 1986.

Most (76 percent) of the decrease in nonappropriated fund fraud investigations occurred in the Army's CIDC. According to a CIDC official, this decrease resulted because in 1985 CIDC began investigating only nonappropriated fund fraud allegations involving losses of \$1,000 or more, whereas before that time CIDC investigated all cases with losses totaling \$250 or more. (The Army's military police now investigate nonappropriated fund fraud allegations under \$1,000.) Also, initiatives to identify fraudulent activity decreased in retail areas such as

nonappropriated funds. Currently, CIDC is focusing more on areas that affect combat readiness--major contract fraud and supply diversion.

A large portion (85 percent) of the decrease in the number of fraud investigations in the pay and allowance area is attributable to the Air Force and Navy investigative agencies. According to AFOSI and NIS officials, pay and allowance investigations have decreased because their investigative agencies have established agreements with their respective accounting and finance offices whereby the offices handle the smaller dollar cases and only refer the most significant cases for criminal investigation.

The emphasis on investigating more significant fraud cases is due to a response to a report we issued in 1983--DOD Can Combat Fraud Better By Strengthening Its Investigative Agencies (GAO/AFMD-83-33, March 21, 1983)--which indicated that Army, Navy, and Air Force fraud cases often involve relatively minor allegations. The report stated that minor fraud allegations may be more appropriately handled by commanding officers, military inspectors general, or the military police because courts-martial or Department of Justice prosecutions are unlikely and the matters can be dealt with administratively. We recommended that the DOD IG issue guidelines to the Department's criminal investigators that require them to investigate only fraud allegations that will (1) probably result in prosecutions if substantiated, (2) meet a minimum dollar loss, or (3) indicate larger or systemic problems that must be investigated and refer the remaining allegations to commanding officers, military inspectors general, or military police for investigation.

In response to this recommendation, DOD issued Instruction 5505.2, entitled "Criminal Investigations of Fraud Offenses," which requires that the military departments (1) establish procedures providing for the investigation of less significant fraud allegations by alternative investigative resources, including military or security police or command authorities and (2) ensure that all allegations of significant fraud are referred promptly for investigation to the appropriate DOD criminal investigative organization.

DOD OIG officials also cited numerous publications developed by their office and the services that are distributed to quality assurance representatives and contracting officials that (1) identify conditions that have been indicators of fraud and abuse in the contracting process and (2) emphasize reporting such indications of suspected irregularities to investigative agencies.

The OIG officials also told us that procurement fraud referrals from DCAA to the DOD investigative agencies have increased substantially. Such referrals more than quintupled, from 60 in fiscal year 1983 to 325 in fiscal year 1986. When we discussed this increase with a DCAA official, especially the dramatic increase between fiscal years 1985 and 1986 (from 154 to 325), we were told that the increase was due to (1) better education of DCAA employees as to what should be referred and (2) new procedures designed to ensure that all suspected fraud or other irregularities are reported directly to the appropriate investigative authority. He cited an August 29, 1985, DCAA Office of General Counsel memorandum to all employees which outlined procedures for reporting suspected fraud and stipulated that no delays in referrals are allowed.

Most of the referrals from DCAA involve suspected cost mischarging and defective pricing. DOD OIG officials told us that these types of cases were very significant and had increased dramatically just prior to our review. Therefore, we reviewed case summaries for 173 cases under investigation that had been reported to the Secretary of Defense during the last half of fiscal year 1985 and the first half of fiscal year 1986. Many of these investigations resulted from DCAA referrals. The DOD OIG's procedures include reporting significant open cases to the secretary. Significant cases are defined as those cases that involve (1) potential losses of at least \$50,000⁵, (2) high ranking DOD officials, and/or (3) extensive media coverage. We found that most of these open cases (148, or 86 percent) involved procurement matters. In addition, procurement cases accounted for almost \$400 million or 97 percent of the total estimated dollar losses in this group of cases. As shown in table II.1, cost/labor mischarging is the most prevalent type of case, accounting for more than a third of the procurement cases and about 72 percent of the procurement losses from this set of cases.

⁵Since our review, the \$50,000 threshold has been increased to \$100,000.

Table II.1: Type of Open Procurement Cases Reported to the Secretary of Defense (April 1, 1985, Through March 31, 1986)

<u>Type</u>	<u>Number of cases</u>	<u>Percentage</u>	<u>Estimated dollar loss</u>	<u>Percentage</u>
Cost and/or Labor mischarging	50	33.8	\$278,632,831	71.9
Defective pricing	21	14.2	56,554,202	14.6
Product substitution nonconforming product	32	21.6	32,068,222	8.3
Progress payment claims	15	10.1	11,549,000	3.0
Contractor kickbacks	6	4.1	3,650,000	.9
Bribery/solicitation of bribe	11	7.4	1,000,000	.3
Undelivered product	3	2.0	486,240	.1
Conflict of interest	5	3.4	400,000	.1
Other procurement cases	<u>5</u>	<u>3.4</u>	<u>3,056,504</u>	<u>.8</u>
Total	<u>148</u>	100.0	<u>\$387,396,999</u>	100.0

In one of the cost and/or labor mischarging open cases, a DCAA audit uncovered suspected cost escalations on over 300 spare parts in 3,200 contracts, resulting in an estimated loss of over \$100 million. The contractor had allegedly been manipulating cost transfers from one contract to another over a 6-year period. As of August 12, 1987, the case was pending and will be presented before a grand jury.

In one of the defective pricing open cases, a subcontractor was allegedly overpricing spare parts for a missile warning system contract. Based on the subcontractor's overpricing, the contractor was charging from 70 percent to 2,472 percent more than the Federal Supply Schedule prices, resulting in an estimated loss to the government of \$2 million.

Recently, the DOD IG established the investigation and prosecution of product substitution procurement fraud as its number one priority because malfunctioning defective parts in critical components of weapons systems can jeopardize both DOD missions and personnel. According to DOD IG officials, since January 1986, DCIS product substitution fraud investigations have resulted in 85 indictments. In addition, as of October 1987, DCIS was investigating 231 fraud cases involving product substitution. One open case involved a contractor who provided portable bridge kits for military tanks. The case summary indicated that an investigation ensued after a former contractor employee alleged that the contractor provided 144 defective kits to DOD, resulting in an estimated loss of \$14.2 million. According to the summary, five former employees indicated that steel was not preheated as required, certification documents for inspection and stress reaction were falsified, rust was not cleaned from steel prior to welding, joints were improperly fitted, welding was accomplished with substandard wire, and holes in hydraulics were covered to hide them from government inspectors.

During our review, 55 of the DOD's top 100 contractors, those that received the largest dollar volume of defense contract awards, were being investigated in 274 cases of alleged procurement fraud. The majority of these cases involved alleged fraud for cost mischarging (133 cases), defective pricing (57 cases), and product substitution (25 cases).

The increase in referrals of alleged procurement fraud for investigations involving contractors has prompted the DOD OIG to adopt a best case selection strategy. In this regard, because many of DOD's largest contractors faced multiple cost mischarging/defective pricing cases, the DOD OIG directed that the best use of investigative resources included choosing the best one or two cases--those most likely to result in criminal prosecution--against any single DOD contractor and devoting investigative resources only to those cases. As part of the DOD OIG strategy, the remaining cases not pursued criminally will be handled with civil and administrative remedies.

As discussed earlier, information furnished by the DOD OIG in commenting on this report demonstrates the increased emphasis on investigating and referring for prosecution suspected procurement fraud. DOD IG data on 789 closed fiscal year 1986 and 1987 cases with losses of \$1,000 or more that were referred for prosecution showed that

- procurement cases made up a higher percentage of fraud referrals (about 44 percent for this period vs. 29 percent of fiscal year 1984 and 1985 cases);

-- theft cases referred decreased from almost one-third of fiscal year 1984 and 1985 cases referred to 23 percent in 1986 and 1987.

Moreover, DOD OIG's data for the fiscal year 1986 and 1987 cases referred for prosecution also showed a significant increase in dollar losses--\$134.5 million for 789 fiscal year 1986 and 1987 cases versus about \$66 million for 794 fiscal year 1984 and 1985 cases referred. Procurement losses continued to make up the largest portion of the losses in the later cases (about 74 percent). The data also reflected DOD's concentration on its number one investigative priority--suspected product substitution fraud. Losses identified in these types of procurement fraud cases had increased to \$30.1 million or 30 percent of total procurement losses versus \$5.2 million or 10 percent of total losses in fiscal year 1984 and 1985 cases.

ACTIONS TAKEN AGAINST SUBJECTS
REFERRED FOR PROSECUTION

LEGAL AND/OR ADMINISTRATIVE ACTION TAKEN AGAINST THOSE REFERRED FOR PROSECUTION IN 435, OR 55 PERCENT, OF THE CASES

-- 418 LEGAL ACTIONS TAKEN ON DOD REFERRALS FOR PROSECUTION

-- 434 ADMINISTRATIVE ACTIONS TAKEN ON DOD FRAUD REFERRALS

NO ACTION REPORTED TAKEN AGAINST THOSE REFERRED FOR PROSECUTION IN 359, OR 45 PERCENT, OF THE CASES

LEGAL AND ADMINISTRATIVE ACTIONS HAVE INCREASED FROM FISCAL YEAR 1983 TO FISCAL YEAR 1987

ACTIONS TAKEN AGAINST SUBJECTS
REFERRED FOR PROSECUTION

Fraud cases that are referred for prosecution are either accepted or declined. If the case is accepted, legal action, such as criminal prosecution or civil proceedings, may be taken against individuals or organizations. If subjects are found guilty of criminal fraud, sentences can include court imposed monetary assessments, imprisonment, and/or probation. According to a DOD OIG official, civil actions may be pursued by Justice in some DOD cases where financial loss has been incurred and/or civil penalties can be levied for false claims against the government or for other fraud. In civil cases, a person cannot be sent to prison as in a criminal case. DOD may also take administrative action against subjects of fraud investigations in addition to any criminal prosecutions and civil actions. If prosecution is declined, administrative action may be taken. These administrative actions include requiring repayment of losses, suspensions or termination of employment, and suspension or debarment of contractors from participating in the DOD procurement process. As discussed on pages 39 and 40, the range of administrative options should soon increase as DOD implements the Program Fraud Civil Remedies Act of 1986, which authorizes recoupment of the government's losses and administrative fines for certain cases.

The 794 cases that were referred for prosecution involved 1,353 subjects. We found that action was taken against 707 subjects in 435, or 55 percent of these cases. Reported losses in these cases totaled \$44 million and actions taken in these cases resulted in fines and recoveries of about \$33 million. In the 435 cases, 852 actions were taken, including 418 legal actions and 434 administrative actions.

LEGAL ACTIONS

We found that 418 legal actions, criminal or civil, were taken in 313 cases. These actions resulted in 376 criminal convictions, 13 civil actions, and 29 pretrial diversions. In the latter, the subject and prosecutor signed an agreement that diverted the subject from traditional criminal justice processing into a program of supervision for a specified period. If the subject successfully completes the established requirements, prosecution is declined. If not, prosecution can be initiated.

An individual convicted of fraud against the government may or may not be sentenced to prison. In addition, if a prison sentence is levied, all or part of it may be suspended. Moreover, an

individual may be sentenced to probation in addition to prison or probation without prison. Of the 376 criminal convictions, we found that

- 254 individuals received prison sentences,
- 151 individuals had all or part of their sentences suspended, and
- 273 individuals were placed on probation, either in addition to a prison sentence or as the only sentence.

The following three tables show the length of punishment received by defendants as well as other relevant data.

Table III.1: Prison Sentences

<u>Length</u>	<u>Number of individuals</u>	<u>Percentage of individuals</u>
6 months or less	64	25
7 months to 1 year	50	20
13 months to 2 years	55	22
25 months to 3 years	34	13
More than 3 years	<u>51</u>	<u>20</u>
Total	<u>254</u>	100

Table III.2: Suspended Sentences

<u>Length</u>	<u>Number of individuals</u>	<u>Percentage of individuals</u>
6 months or less	26	17
7 months to 1 year	33	22
13 months to 2 years	40	26
25 months to 3 years	30	20
More than 3 years	<u>22</u>	<u>15</u>
Total	<u>151</u>	100

Table III.3: Probation Periods

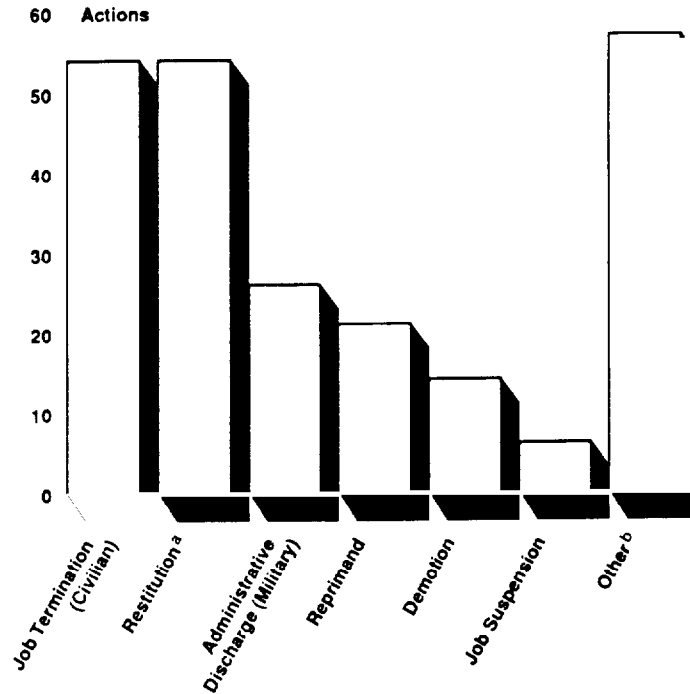
<u>Length</u>	<u>Number of individuals</u>	<u>Percentage of individuals</u>
6 months or less	12	4
7 months to 1 year	41	15
13 months to 2 years	67	25
25 months to 3 years	77	28
More than 3 years	<u>76</u>	<u>28</u>
Total	<u>273</u>	100

The 313 cases in which legal action was taken had reported losses of about \$41 million. As a result of criminal penalties, 304 subjects were assessed fines and restitutions of about \$25.4 million, about \$8.5 million of which included civil actions taken against 13 subjects. In addition to the above \$25.4 million in assessments, investigative recoveries and seizures for these cases totaled \$3.2 million. Thus, the government recovered \$28.6 million of its \$41 million in losses in this group of cases where legal action was taken.

ADMINISTRATIVE ACTIONS

Administrative actions were taken against subjects referred for prosecution in 235, or 30 percent, of the cases. In total, 434 administrative actions were taken against 388 subjects in our study period. These actions included those taken against individuals as shown in figure III.1 and those taken against DOD contractors and vendors as shown in figure III.2. Dollar recoveries resulting from administrative actions totaled \$4.1 million.

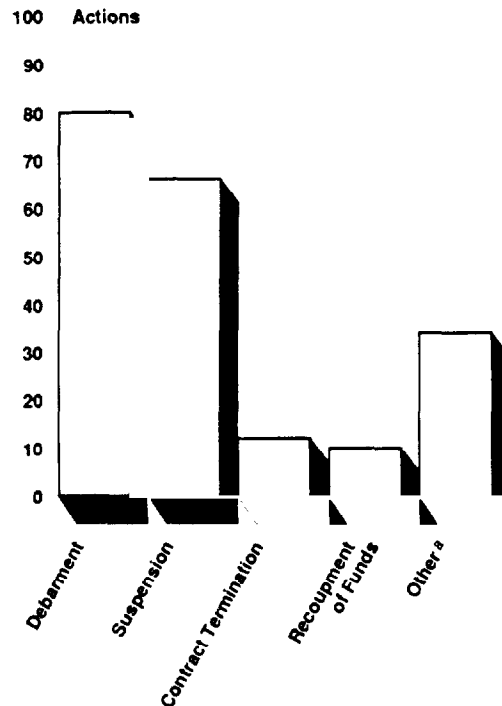
Figure III.1: Administrative Actions Taken Against DOD Employees (232 Actions)



^aIncludes garnishment of wages.

^b"Other" includes such things as increased supervision and being temporarily transferred to another job.

Figure III.2: Administrative Actions Taken Against Contractors/
Vendors (202 Actions)



^aAccording to a DOD OIG official, the other category includes such actions as additional contract supervision, increased audit activity, withholding additional orders, and in the future holding the contractor/vendor as a nonresponsible bidder.

PUNITIVE ACTIONS ARE INCREASING

As discussed previously, for our fiscal year 1984 and 1985 study period of closed cases with losses totaling \$1,000 or more, there were 376 criminal convictions, 66 suspensions of DOD contractors, and 80 debarments of DOD contractors. Our analysis of these activities resulting from all cases regardless of dollar loss for a 5-year period (fiscal years 1983-87) showed that these types of punitive actions have increased significantly. Table III.4 shows that over this time period, criminal convictions by the Department of Justice increased almost 50 percent from 207 in fiscal year 1983 to 307 in fiscal year 1987. In addition, DOD's total suspensions and debarments of contractors totaled 898 in fiscal year 1987, over three times the 280 such actions taken in fiscal year 1983.

Table III.4: Selected Punitive Actions Taken Against Those Who Defrauded DOD Programs, Fiscal Years 1983-87

<u>Fiscal year</u>	<u>Suspensions</u>	<u>Debarments</u>	<u>Total suspensions and debarments</u>	<u>Justice criminal convictions</u>
1983	195	85	280	207
1984	134	260	394	192
1985	225	357	582	333
1986	470	415	885	344
1987	<u>393</u>	<u>505</u>	<u>898</u>	<u>307</u>
Total	<u>1,417</u>	<u>1,622</u>	<u>3,039</u>	<u>1,383</u>

DOD OIG officials told us that suspensions and debarments have increased because of the high-level emphasis placed on using those actions as an administrative tool to protect the government against fraudulent or irresponsible contractors and because more fraudulent contractors are being prosecuted by the Department of Justice.

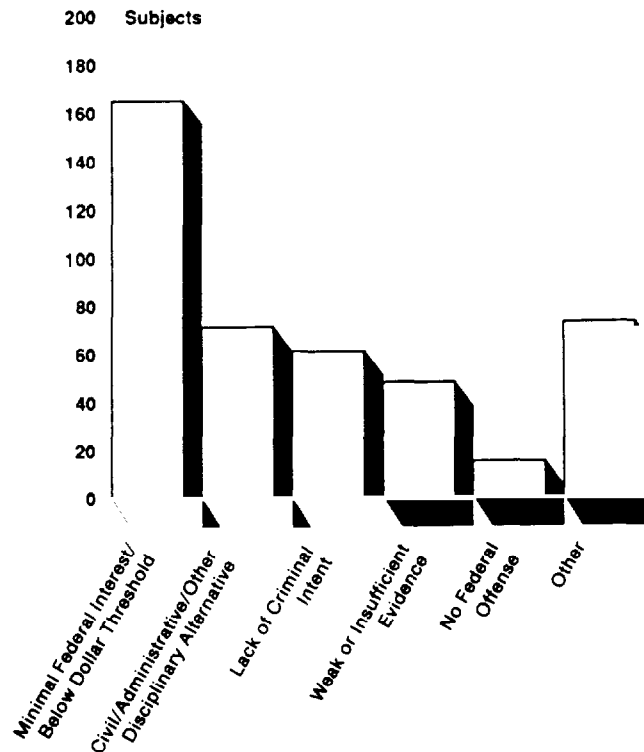
DOD is also implementing a coordinated fraud remedies program to ensure that all fraud cases related to procurement are referred for action and that all appropriate remedies, including suspensions and debarments, are pursued. The program calls for DOD components to monitor all investigations of procurement fraud that involved alleged losses of \$50,000 or more and all procurement corruption cases that involve bribery, gratuities, or conflicts of interest to ensure that all possible criminal, civil, administrative, and contractual remedies are identified and that the cases are referred to appropriate officials and pursued promptly.

REASONS FOR DECLINATIONS

For the 794 closed fiscal year 1984 and 1985 fraud cases, a total of 710 subjects in 393⁶ cases were declined for prosecution by Justice. We were able to determine Justice's reasons for the declinations for 433 subjects. The reasons are shown in figure III.3. The "other" category in the figure included reasons such as the offender's age, health, personal history, or other personal circumstances.

⁶The 393 cases include all cases where at least one subject was declined for prosecution. Other subjects within these cases could have been accepted for prosecution.

Figure III.3: Reasons Justice Declined 433 Subjects of Fraud Cases



We found that in many of the cases that were declined for criminal prosecution, little or no action was taken against the subjects investigated. In 359, or 45 percent of the cases, no legal or administrative action was taken against those referred for prosecution. Reported losses in these cases totaled \$22 million, while recoveries made during investigations totaled about \$6 million. We believe that in the future, DOD will have more authority to act in such cases because of the Program Fraud Civil Remedies Act of 1986, especially in those instances where cases are declined because the loss involved is below a U.S. attorney dollar threshold. This act, which was passed in October 1986 (while our review was ongoing) as Section 6103 of the Omnibus Budget Reconciliation Act of 1986, provides federal agencies with an administrative remedy for recouping losses by assessing penalties on those who knowingly submit false claims and/or statements. Under the act, administrative proceedings can be brought, with the approval of the Attorney General, against persons who make, present, or submit false claims and statements. For false claims and false statement cases involving up to \$150,000 that the Department of Justice has declined to prosecute, the act has

established an administrative remedy. If the person is found liable, a civil penalty of not more than \$5,000 can be assessed for each false claim or statement, plus double any amount of such claim the government paid.

In passing the act, the congressional conferees noted that while judicial remedies are available to penalize and deter fraud against the government, the cost of litigation often exceeds the amount recovered, thus making it economically impractical for the Justice Department to go to court. Before the new law was enacted, the government was frequently left without a practical remedy for the small dollar cases.

OIG officials also informed us that recent legislation amending the Truth in Negotiations Act will provide another tool for deterring wrongdoing. In this regard, the act was amended by the National Defense Authorization Act for Fiscal Year 1987 to prevent unearned and excessive contractor profits. The amendments made contractors liable for double the amount paid by the government when an overpayment was based on the intentional submission of defective cost or pricing data. The double damage penalty for the intentional wrongdoing was not part of the original Truth in Negotiations Act.

DOD IG EFFORTS TO IDENTIFY AND REPORT
WEAKNESSES THAT CONTRIBUTE TO FRAUD

DOD IG HAS INITIATED BOTH SHORT-TERM AND LONG-TERM EFFORTS TO IDENTIFY AND REPORT INTERNAL CONTROL WEAKNESSES THAT ALLOW OR CONTRIBUTE TO FRAUD

TWO 1986 SPECIAL STUDIES, BY REVIEWING CLOSED FRAUD CASES, IDENTIFIED CAUSES OF PRODUCT SUBSTITUTION FRAUD AS WELL AS ILLEGAL DIVERSION AND EXPORTATION OF DOD PROPERTY

RECENT DOD IG INITIATIVE REQUIRES INVESTIGATIVE AGENCIES TO
(1) ROUTINELY IDENTIFY WEAKNESSES THAT ALLOW FRAUD TO OCCUR AND
(2) REPORT THEM TO MANAGERS

DOD OIG EFFORTS TO IDENTIFY AND REPORT
WEAKNESSES THAT CONTRIBUTE TO FRAUD

In keeping with the DOD IG's legislative mandate to make recommendations that will prevent fraud and other illegal activity, the DOD IG has initiated both short-term and long-term efforts to identify and report to managers information developed during criminal investigations concerning internal control or management weaknesses that allowed or contributed to fraudulent activity.

SPECIAL SHORT-TERM STUDIES

Using internal control weakness information developed in criminal investigations, the DOD IG conducted two studies in 1986 that identified underlying causes of fraud in two areas. In the first study, the DOD OIG was concerned about whether criminal investigations involving contractor product substitution practices pointed to systemic weaknesses in DOD's quality assurance. Thus, an audit team reviewed selected criminal investigations that substantiated the substitution and delivery of nonconforming products. The team found poor quality assurance practices that had contributed to fraud. These conditions included (1) government quality assurance representatives relying on documents falsified by contractors as to the adequacy of quality assurance, (2) prescribed quality assurance procedures not being followed during inspections and testing, and (3) contractors shipping rejected or uninspected items. For example, in 58 percent of the cases, the team found that government quality assurance personnel had relied on documents falsified by contractors to verify the adequacy of quality assurance. The contractors provided government quality assurance personnel (1) false documents to conceal the substitution of inferior and foreign-made parts and (2) falsified parts lists, certificates of conformance, test procedures and records, welding certifications, drawings, purchase orders, and invoices.

Because the quality assurance representatives were not required to systematically verify the contractors' records, the representatives did not detect inferior products the contractors introduced into the DOD supply system. According to the study report, in each case, additional verification and control of documentation could have permitted early detection of problems. In one case cited as an example, the contractor submitted test reports showing that required testing of microcircuit devices had been done. However, had the quality assurance representative checked the test logs, he would have found that the testing required by the contract specifications was not done. Consequently, millions of improperly tested and potentially faulty microcircuits were accepted by the government.

A report depicting indicators and conditions conducive to unauthorized quality assurance practices was provided to DOD management in order to highlight a category of weaknesses conducive to potential fraud. The team found that the Defense Logistics Agency was actively pursuing several actions to identify and reduce the number of nonconforming products entering the DOD supply system. In addition, the military departments and Defense Logistics Agency were training DOD quality assurance personnel to identify and report for investigation indicators of product substitution.

In the second special study conducted in 1986, a joint DOD OIG and Customs Service team was formed to investigate and develop recommendations to curtail the illegal diversion and exportation of DOD disposal material to prohibited countries. In its review of closed fraud investigations and audit and inspection reports, it found, among other things, weaknesses in controls over items requiring export licenses and inadequate procedures for tracking munition items and ensuring required demilitarization of controlled items so that they cannot be sold as usable items. The deputy IG reported these problems to the Secretary of Defense and indicated that actions were underway to correct the problems and to strengthen internal controls and accountability for Defense disposal material.

LONG-TERM EFFORTS

In still another effort to correct the underlying causes of fraud, the DOD IG directed the establishment of a comprehensive DOD crime analysis program in April 1986. The program requires each DOD investigative organization to establish an organizational capability to (1) perform criminal fraud analysis, (2) identify from their investigations, systemic weaknesses and vulnerabilities which allow fraudulent activity and loss to occur, and (3) provide this information to appropriate managers so that they can implement measures to protect DOD resources. The investigative agencies are also required to develop computerized systems to collect and use these data for trend analyses and identifying systemic weaknesses.

As of August 6, 1987, the four DOD investigative agencies were in the process of implementing this requirement. According to the DOD IG project director, all four had agreed to accept the responsibility to fulfill this requirement. They had established organizational entities responsible for implementing such a program and were working out the details of how to meet the requirement. We believe that this program, if carried out properly, can be an important step in the prevention of fraud.

COMMENTS FROM THE DEPARTMENT OF DEFENSE

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



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DEC 4 1987

Mr. Frederick D. Wolf
Director
Accounting and Financial
Management Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Wolf:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) Draft Report, "DoD FRAUD INVESTIGATIONS: Characteristics, Sanctions, and Prevention," dated October 19, 1987 (GAO Code 911589/OSD Case 7435). It generally confirms the information provided at the November 3 meeting with the GAO staff.

The Department has no substantial objection to any portion of the report. There are, however, a few additions and corrections at Appendix A that would add to the overall report. In addition, more current data than was available to the GAO during its review would be useful, as follows:

Appendix B - Convictions--FY 1982-FY 1987
Appendix C - Overall Monetary Outcomes--
FY 1982-FY 1987
Appendix D - Criminal Fines and Restitutions--
FY 1982-FY 1987
Appendix E - Fraud Agent Strength--FY 1982-FY 1987
Appendix F - Suspensions and Debarments--
FY 1984-FY 1987

In addition, a brief narrative is included at Appendix G (with statistics and examples), outlining the progress made, since 1986, with respect to the top DoD law enforcement priority--i.e., the investigation and prosecution of product substitution cases. The statistics reflect a current emphasis not discernible from the cases reviewed as part of the report.

The report incorrectly described an antitrust case at page 22-23, which was not actually prosecuted as such. The GAO reliance on the case resulted from an inaccurate case description in the DoD data base that was only recently discovered. As a

DOD IG appendixes are not included here but were considered in finalizing this report. They are available from us upon request.

See page 38.
See comment 1.
See comment 2.
See page 10.
See page 38.

See pages 4
and 29.

See comment 3.

substitute example of the DoD antitrust effort, a summary of antitrust cases involving dredging contractors is provided at Appendix H. Also included are recent statistics reflecting the level of effort within the Office of the Inspector General relative to antitrust cases.

See pages 20 and 21.

Updated and corrected charts are also provided for those appearing as Figures II.2 and II.3 in the GAO draft report. The revisions (included at Appendices I and J, respectively) are necessary due to a change regarding an erroneously reported \$15.2 million loss (which should have been \$152,000) and the change of one case involving a \$15 million loss from antitrust to cost mischarging.

See page 19 and comment 4.

The inclusion of the updated data available for FY 1986 and FY 1987 would emphasize the increased DoD efforts that are outlined in the report. The updated data are provided, as follows:

Appendix K - Closed DoD Fraud Cases Referred for Prosecution, by Activity, FY 1985 and FY 1986

See page 20.

Appendix L - Dollar Losses by Type of Closed DoD Fraud Cases Referred for Prosecution, FY 1986 and FY 1987

See page 21.

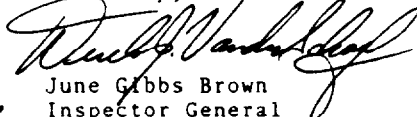
Appendix M - Dollar Losses by Type of Closed DoD Procurement Fraud Cases Referred for Prosecution, FY 1986 and FY 1987

See comment 5.

Appendix N - Comparison of Fraud Data, FY 1984-FY 1985 and FY 1986-FY 1987.

The Department appreciates the opportunity to comment on the draft report.

Sincerely,


June Gibbs Brown
Inspector General

Enclosures
(Appendices A-N)

The following are GAO's comments on the Department of Defense letter dated December 4, 1987.

GAO COMMENTS

1. We did not include this data because it includes monetary outcomes on all cases whether or not they were referred for prosecution.
2. We did not include this information in our report because it does not specifically relate to the cases included in our review.
3. An example of antitrust fraud case is no longer needed because--due to DOD IG's erroneous classification of an antitrust fraud case--this category of fraud is no longer one of the largest for fiscal year 1984 and 1985 fraud referred for prosecution.
4. The information actually provided by the DOD IG was for fiscal years 1986 and 1987.
5. We did not include this data in our report because it repeats information already provided and also includes information not within the scope of our review.

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