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United States General Accounting Office
Washington, DC 20548

December 6, 2000

The Honorable Duncan L. Hunter
House of Representatives

Subject: Concerns Raised About Use of Unreconciled Activity Codes to Requisition
New and Excess Government Property

Dear Mr. Hunter:

This letter is part of our continuing effort to address inventory management activities within the Department of Defense (DOD) as a high-risk area¹ because of vulnerabilities to fraud, waste, abuse, and mismanagement. We recently completed a vulnerability investigation² of the DOD activity address code master file. During that investigation, Defense Logistics Agency (DLA) personnel told us that many service points³ do not reconcile their activity code files to the Defense Automatic Addressing System Center master file on a yearly basis as required by DOD publication 4000.25-6-M.⁴ This can result in questionable activity codes. These are activity codes that appear either in the agency record but not the master file maintained by the Defense Automatic Addressing System Center or in the Center's master file but not the agency record. The existence of questionable codes makes it possible for an unauthorized person or activity to request and receive property. You asked that we determine the extent to which DOD 4000.25-6-M is being followed regarding activity code reconciliation.

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

² *Inventory Management: Better Controls Needed to Prevent Misuse of Excess DOD Property* (GAO/OSI/NSIAD-00-147, Apr. 28, 2000).

³ Military services, DOD activities, and federal agencies have service points that assign activity address codes to organizations that are authorized to requisition property. Service points provide updated code data (additions, changes, and deletions) to the master file maintained by the Defense Automatic Addressing System Center.

⁴ The procedures in DOD publication 4000.25-6-M are mandatory for military services and federal agencies that make changes to the master file. DOD 4000.25-6-M requires reconciliation of service and agency activity code files with the master file each year and certification of reconciliation results to be reported to DLA.

The objectives of our work were to (1) determine compliance with DOD 4000.25-6-M requirements regarding activity code reconciliation, (2) identify questionable activity codes and determine whether any such codes were used to requisition new and excess government property, and (3) determine whether government activities' internal activity address code files contain questionable activity code data that were used to requisition new and excess government property.

To address our objectives, we contacted each of the 62 service point representatives⁵ and obtained information on their knowledge of and adherence to DOD 4000.25-6-M. We also interviewed personnel associated with internal activity code files maintained by some DOD and federal agencies. Specifically, we interviewed officials of DLA's Defense Distribution Center, Defense Supply Centers, and Defense Reutilization and Marketing Service and officials of the General Services Administration (GSA) and the Department of the Navy to obtain information on the purpose and history of the internal files.

Where appropriate, we asked service points to reconcile their service/agency activity codes with the Defense Automatic Addressing System Center's master file. We also requested the DOD and GSA activities with internal activity code files to reconcile those files with the Addressing System Center's master file. Service points and Addressing System Center personnel provided the reconciliation results to us. We then provided the activity codes identified as questionable to the Defense Reutilization and Marketing Service and the Addressing System Center to determine whether any had been used to requisition excess and new government property during the period January 1995 to June 2000. We obtained a list of all transactions associated with the questionable codes.

We performed our investigative work from March 2000 to September 2000 in accordance with investigative standards established by the President's Council on Integrity and Efficiency. Our audit work was conducted during the same period and in accordance with generally accepted government auditing standards.

Results in Brief

DLA service points substantially complied with DOD 4000.25-6-M requirements by reconciling their activity codes with the master file and certifying reconciliation results with DLA. Twenty-eight of the 29 DLA service points complied with the requirement. Conversely, nearly all military service and other federal agency service points—31 of 33 service points—failed to fully comply with the requirement. Most of the noncomplying service points were unaware of the requirement.⁶

Based on our preliminary work, Defense Automatic Addressing Service Center analysts, in coordination with the noncomplying service points, attempted to reconcile service point activity codes with the master file. This reconciliation

⁵ The service point representatives were identified by the Defense Logistics Agency.

⁶ These service points represented military services and federal agencies, such as the Army, Air Force, Navy, Coast Guard, GSA, and Postal Service.

process identified 27,879 questionable activity codes.⁷ This situation makes the inventory management system vulnerable to fraud, waste, and abuse. Preliminary indications are that some of these questionable activity codes were used to requisition millions of dollars worth of excess property and new property. The full extent, value, and recipients of requisitioned items have yet to be determined and will require further review.

Further, a number of government activities maintain their own internal activity code files for use in validating activity codes during the requisitioning process, and such files are not routinely reconciled with the Defense Automatic Addressing System Center's master file. During our investigation, we reviewed the internal activity code files maintained by the Defense Distribution Center, Defense Supply Centers, Defense Reutilization and Marketing Service, GSA, and Department of the Navy. All of the internal activity code files we reviewed contained questionable codes. Specifically, 97,450 questionable activity codes were identified. This situation makes the inventory management system vulnerable to fraud, waste, and abuse. Again, preliminary indications are that many of these codes were used to requisition millions of dollars worth of excess property and new property. Neither the full extent, the value, nor the recipients of the requisitioned items are known. Determination of that data will require further review.

We are making recommendations to help DOD and GSA correct the problems that allow questionable activity codes to be used to requisition new and excess government property. Based on the amount of requisition activity associated with these questionable activity codes, we believe a significant vulnerability exists. We will therefore make information on the identity and requisition history of the codes available to the appropriate Offices of the Inspector General for determinations of whether requisitioned property was properly obtained.

Background

The Defense Automatic Addressing System Center was created in 1965 to address problems with the routing of transactions. Customers—such as the military services, DOD activities, federal agencies, and contractors—use the Addressing System Center through an interactive network of gateways and databases. The Addressing System Center is linked to over 100 databases and serves 177,000 customers. To requisition government property (excess and new), a customer must have an activity address code. Service points are required to assign activity address codes and provide updated data (activity code additions, changes, and deletions) to the Addressing System Center. The Center updates the master activity address code file and provides updated information on a daily basis to designated DOD activities and federal agencies so that they can update their records.

⁷ Questionable activity codes are activity codes that appear either in the agency record but not the master file maintained by the Defense Automatic Addressing System Center or in the Defense Automatic Addressing System Center's master file but not the agency record.

Most Military Service and Other Federal Agency Service Points Do Not Comply With DOD 4000.25-6-M Regarding Activity Code Reconciliation and Certification

DOD 4000.25-6-M requires that military services and agency heads (1) designate an activity within their respective service/agency to act as the service point and (2) validate/reconcile their internal activity code files with the master activity code file each year and certify the reconciliation with DLA. The master file is maintained by the Defense Automatic Addressing System Center located at Wright Patterson Air Force Base, Dayton, Ohio.

Of the 62 service points designated by military services, DOD activities, and federal agencies, all but 1 of the 29 that represented DLA complied with DOD 4000.25-6-M regarding activity code reconciliation and certification. Also, all DLA activity codes under the purview of the 29 service points (approximately 1,500 codes) matched the master file maintained by the Addressing System Center. However, 31, or 94 percent, of the remaining 33 service points failed to comply with DOD 4000.25-6-M regarding activity code reconciliation and certification. These service points represented military services and federal agencies such as the Army, Air Force, Navy, Coast Guard, GSA, and Postal Service.

Noncomplying Service Points Have Questionable Activity Codes

We asked each of the noncomplying agencies to reconcile their activity codes with the Defense Automatic Addressing System Center's master file.⁸ It was determined that 22,538 activity codes were questionable. The actual number of questionable codes was 27,879; but according to Air Force officials, 5,341 of them had been inadvertently destroyed during the reconciliation process by inexperienced Air Force programming staff. Most, or 20,993, of the 22,538 codes were located in the master file and not in the agency records. The remaining 1,545 activity codes were located in agency records but not in the Center's master file.

We asked the Defense Automatic Addressing System Center and the Defense Reutilization and Marketing Service to determine whether any of the 22,538 questionable codes had been used to requisition new or excess government property. According to the Addressing System Center analysis, 518 of the questionable codes were used to requisition \$2.5 billion in new government property from January 1995 to June 2000. The Defense Reutilization and Marketing Service analysis revealed that during that same period, 229 of the questionable codes were used to requisition excess government property with an acquisition value of \$341 million.

Our preliminary review of questionable activity codes identified by the Defense Automatic Addressing System Center showed that some invalid codes had been used to requisition millions of dollars worth of government property. For example, a GSA activity code identified as questionable was used to requisition \$4 million worth of government property from January 1995 to June 2000. GSA service point personnel told us they had no record of this code. In another instance, a DOD activity code that

⁸ In many instances, analysts with the Addressing System Center coordinated with the service points, performed the reconciliation, and provided the reconciliation results to us.

the Addressing System Center's reconciliation process also identified as questionable was used to requisition \$130 million worth of government property from January 1995 to June 2000. Our preliminary review of the matter showed that although the code was valid at the beginning of the period during which property was requisitioned, it was reportedly deleted as of March 28, 1996. From March 29, 1996, to June 2000, this code was used to requisition \$12 million worth of government property. The full extent, value, and recipients of requisitioned items have yet to be determined and will require further review.

Our review also revealed that some of the activity codes initially identified as questionable appeared valid at the time requisitions occurred.⁹ A reason for this, according to Addressing System Center staff, is that once a military service or federal agency deletes an activity code, a record of it remains in the master file for 3 years to provide an address for unresolved billing issues. Three years after a code is deleted, all information on the deleted code is purged and a query of the Center's master file on that code will result in a "no record on file" message. Further, once information on an activity code is purged, the Addressing System Center is unable to create a history of that code. Staff noted that a code is not supposed to be used to requisition once it is deleted.¹⁰

Internal Activity Address Code Files Contain Questionable Codes

We investigated internal activity address code files maintained by the Defense Distribution Center, Defense Supply Centers, the Defense Reutilization and Marketing Service, GSA, and the Department of Navy to validate activity codes during the requisitioning process. Representatives of the agencies told us that although originally derived from the Addressing System Center master file, their internal files were not routinely reconciled with the master file. The DLA official responsible for administering the Activity Address Directory agreed that this situation makes the inventory management system vulnerable to fraud, waste, and abuse. Further, this official noted that all activity codes, including those existing within internal address files, should be reconciled with the master file.

We asked each of the agencies to compare their internal activity address code files to the Addressing System Center master file. The agencies' comparisons identified a total of 97,450 questionable codes¹¹ at the DLA activities we reviewed, GSA, and the

⁹ For example, according to Navy service point personnel, a Navy activity code identified as "no record on file" by the Addressing System Center was valid when it was used to requisition \$99 million worth of government property during 1995 and 1996.

¹⁰ We previously reported an instance in which requisitions for property were submitted and processed after the activity code used had been deleted. See *Inventory Management: Better Controls Needed to Prevent Misuse of Excess DOD Property* (GAO/OSI/NSIAD-00-147, Apr. 28, 2000).

¹¹ Initially, 109,165 questionable activity codes were identified as existing in the internal address files. However, some codes were duplicated in several agency files. After removing the duplicate codes, 97,450 questionable activity codes remained. The Defense Automatic Addressing System Center was asked to identify only those activity codes that were not on record in the master file; 83,371 codes matched that description. For the purpose of this investigation, we reviewed requisition activity associated with these 83,371 codes. A number of invalid Military Assistance Program Address Codes (MAPAC) appeared within the questionable codes identified by the Addressing System Center. The Addressing System Center also serves as the central processing point for the Military Assistance Program Address Directory. This directory contains MAPACs and their associated addresses.

Navy. We then asked the Defense Reutilization and Marketing Service and the Addressing System Center whether any of the questionable codes had been used to requisition government property. According to these activities, since January 1995, 293 questionable codes were used to requisition \$811 million worth of excess government property. Also, 1,352 questionable codes were used to requisition \$813 million worth of new government material. The full extent, value, and recipients of requisitioned items have yet to be determined. That determination will require further review.

Defense Distribution Center

The Defense Distribution Center was established in October 1997 when the Defense Distribution Region East and the Defense Distribution Region West were consolidated. The distribution center is responsible for the receipt, storage, issuance, packing, preservation, worldwide transportation, and in-transit visibility of all items placed under its accountability by DLA and the military services. It is accountable for such items as clothing; textiles; electronics; industrial, general, and construction supplies; and subsistence and medical material.

The Defense Distribution Center's 24 distribution depots, which are located throughout the United States and Europe, process over 25 million transactions annually. Each of the 24 depots maintains its own internal address file to validate activity codes during the requisitioning process. The depots' comparison of the address files with the Addressing System Center's master file identified 50,246 questionable activity codes.

Defense Supply Centers

DLA's five Defense Supply Centers consolidate requirements and obtain materials and supplies in sufficient quantities to meet customers' projected needs. Many of DLA's procured items are delivered directly from a commercial vendor, and the remainder of the procurements are stored and distributed through a nationwide complex of depots.

Each supply center has maintained an internal activity address code file as part of the Material Management System since 1968 when the system was established. Originally, the internal address file, known as the Standard Automated Material Management System Combined Address File, was a copy of the Addressing System Center's master address file. In discussing the failure of one Defense Supply Center to routinely reconcile its file with the master file, an official of the activity told us that there needs to be a complete and thorough review throughout DLA in regard to reconciling internal address files, noting that nothing has been done in years and that "they are in bad shape." As an example, the official noted that the recent reconciliation performed as a result of our investigation revealed an outdated activity code that had been assigned to the 1968 Republican National Convention. The comparison that we requested identified 24,246 questionable activity codes.

Defense Reutilization and Marketing Service

The Defense Reutilization and Marketing Service disposes of excess property received from the military services. Its inventory changes daily and includes a variety of items. Property is first offered for reutilization within DOD, transferred to other federal agencies, or donated to state and local governments and other qualified organizations. Property that is not reutilized, transferred, or donated is sold to the public as surplus.

The Reutilization and Marketing Service has maintained an internal activity address file as part of the Defense Reutilization and Marketing Automated Information System since 1990. The internal activity address file was derived from the Addressing System Center's master address file. The comparison of the Service's internal activity address file with the Addressing System Center's master file identified 162 questionable activity codes.

General Services Administration

GSA is one of the three central management agencies in the federal government. It provides products and services to support the work of the federal government.

GSA created its internal activity address file in 1976. A GSA service point official recognized that (1) one purpose of the internal address file is to validate activity codes during the requisitioning process and (2) its internal address file is to be reconciled with the Addressing System Center's master file annually. However, even though it has had a mass reconciliation program in place since 1993, GSA's internal file has never been reconciled with the master activity address file. When compared to the master file, 2,947 questionable activity codes were identified in GSA's internal address file.

Department of the Navy

The Navy maintains an internal address file known as the DOD Activity Address Code Batch Maintenance File. The file is used for transaction validation purposes. It was created in the 1960s using the Defense Automatic Addressing System Center's master file as the source database and has been in its current format for about 10 years. The Inventory Control Point Management System is the primary user of the file. According to the Navy, the internal file is updated weekly to maintain file integrity; and it is reconciled with the Addressing System Center's master file once a year. However, the Navy indicated there is "no definitive document" that sets forth the requirement to reconcile the internal file with the master activity code file. The comparison of the internal file with the Addressing System Center's master file identified 31,564 questionable activity codes.

Conclusions and Recommendations for Executive Action

Many service points failed to comply with DOD 4000.25-6-M regarding activity code reconciliation and certification. Most indicated that they were unaware of the

requirement. This failure resulted in 27,879 activity codes that appear either in the agency record but not the Addressing System Center's master file or in the Center's master file but not the agency record. In addition, agencies that have their own internal activity code files, such as GSA, do not routinely reconcile to the master file. This failure resulted in 97,450 activity codes being identified as questionable. In both situations, inventory management is vulnerable to fraud, waste, and abuse. In fact, preliminary indications are that such questionable activity codes were used to requisition millions of dollars worth of excess and new property.

We recommend that the Secretary of Defense and the GSA Administrator direct that actions be taken to ensure that

- military services, DOD activities, and federal agencies regularly (1) reconcile their activity address codes (to include internal activity address code files) with the master activity address code file maintained by the Defense Automatic Addressing System Center and certify results to DLA and (2) review for the possible elimination of any unmatched codes from their internal files and
- all personnel responsible for reconciling activity address codes are appropriately trained regarding the reconciliation and certification process; with regard to GSA, this would mean that all involved personnel should understand reconciliation procedures.

Agency Comments and Our Evaluation

DOD and GSA provided separate comments on a draft of this letter. DOD concurred with the letter and its recommendations and provided us a copy of a September 11, 2000, memorandum from the Office of the Under Secretary of Defense to the Assistant Secretaries of the Army, Navy, and Air Force; the Director, Defense Agencies; and the Director, Field Activities. The memorandum directs that service points comply with DOD 4000.25-6-M and review procedures for updating inventory and management data in the Defense Automatic Addressing System Center master file in order to ensure that the system is maintained, up to date, and accurate. In addition, DOD provided technical corrections; and where appropriate, we have made those corrections.

GSA had no significant issues with this letter. With regard to our first recommendation to ensure regular reconciliations, GSA informed us that, as a result of our work, it has "fine-tuned" its existing reconciliation program and incorporated it into its regular system schedule. However, regarding our second recommendation concerning training on the reconciliation process, GSA commented that it reconciles activity address codes with the master file using a computer program and that for GSA, reconciliation is therefore not a personnel/training issue. GSA asked that the second recommendation be removed. However, GSA is required to certify its reconciliation with DLA; therefore, we modified our recommendation to reflect that GSA personnel need to be knowledgeable of these procedures.

Based on the amount of requisition activity associated with the questionable activity codes, we believe a significant vulnerability exists. We will make information on the

identity and requisition history of the questionable codes available to the appropriate Offices of the Inspector General.

As arranged with your office, unless you announce its contents earlier, we plan no further distribution of this letter until 30 days after the letter's date. At that time we will send copies of this letter to interested congressional committees; the Office of the Secretary of Defense; the Administrator of GSA; the Director of DLA; the Secretaries of the Army, Navy, and Air Force; and the Commandant of the Marine Corps. The letter will also be available on GAO's home page at www.gao.gov. If you have questions about this report, please call Robert H. Hast on (202) 512-7455 or David R. Warren on (202) 512-8412. John Ryan, Richard Newbold, Kenneth Feng, Brian Chan, James Loschiavo, and Mark Little made key contributions to this investigation and letter.

Sincerely yours,



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Managing Director
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