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United States General Accounting Office
Washington, DC 20548

December 6, 2000

The Honorable Duncan L. Hunter
House of Representatives

Subject: Department of the Army: Unauthorized Activity Codes Used to Requisition New DOD Property

Dear Mr. Hunter:

This letter is part of our continuing effort to address inventory management activities within the Department of Defense (DOD) as a high-risk area.¹ During our recent investigation of the vulnerability of DOD activity address codes,² we determined that Army activity codes designated as unauthorized to requisition³ had been inappropriately used to requisition excess property. Subsequently, you asked that we determine whether this type of Army activity code had been used to requisition new government property through the military supply system. As discussed with your office, we will report separately on our investigations of whether the Air Force, Navy, Marine Corps, and federal agencies (such as the General Services Administration) used unauthorized activity codes to requisition excess and new government property.

We interviewed Army service point personnel and activity code coordinators. We obtained a list of Army activity codes, identified as unauthorized to requisition, from the Defense Automatic Addressing System Center and asked the Center to determine whether any of the codes had been used to requisition new government property. We obtained a list of all requisitions associated with these codes from the Defense Automatic Addressing System Center. We performed our investigative work from March 2000 to August 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.

In brief, about 15 percent of Army activity codes identified as unauthorized to requisition, according to Army regulation, were inappropriately used to requisition over \$2.6 billion in

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 Army activities and contractors are assigned activity codes to requisition property in the military supply system. In some instances, activity codes are identified as unauthorized to requisition and are primarily used as a ship-to address—to transport an item from one location to another. These codes are not to be used to requisition property.

new government property during the past 5 years. This situation existed, in part, because some activity coordinator personnel have inadequate job training or are inexperienced due to a high level of turnover in these positions. In addition, there are no safeguards in the Defense Automatic Addressing System Center to prevent such unauthorized activity codes from being used to requisition government property. This lack of internal controls creates a situation in which government property is vulnerable to fraud, waste, and abuse.

We are recommending actions to address problems in the Army's assignment and use of activity codes to requisition new government property. In response to our recommendations, the Army has begun reviewing procedures for the use of activity codes. In addition, we will make information on the identity and requisition history of these activity codes available to DOD's Office of the Inspector General for a determination of whether requisitioned property was legally obtained and properly inventoried.

Background

Use of Activity Codes for Requisitioning Property

To requisition property in the military supply system, a DOD customer—such as the military services, DOD activities, federal agencies, and contractors—must have an activity code. The activity code is a distinct, six-position alphanumeric code that identifies a specific unit, activity, organization, non-DOD government element, or private contractor authorized by DOD to requisition material, receive supplies, or receive billing. The Defense Automatic Addressing System Center receives activity code transaction data from all services and agencies and broadcasts it to the individual services and agencies daily. Each service and agency is responsible for the accuracy of the data it submits to the Defense Automatic Addressing System Center. Army activities are primarily assigned activity codes, which are identified as unauthorized to requisition, for transporting an item from one location to another. The codes are designed to provide a ship-to address and are not to be used to requisition. An Army service point official referred to these codes as nonrequisitioning codes.

Army Procedure for Obtaining an Activity Code Assignment

The Army service point located at the U.S. Army Missile Command, Redstone Arsenal, Alabama, assigns Army activity codes.⁴ The procedure starts when the Army unit submits a request for activity code assignment to the unit activity address coordinator and states whether the code will be for requisitioning or nonrequisitioning purposes. The coordinator validates information submitted by the unit and, in appropriate cases, verifies with the unit that a "U" code is not to be used to requisition government property. The coordinator forwards codes to the Army service point for official code assignment. In turn, the service point forwards the data to the Defense Automatic Addressing System Center for inclusion in the master activity code file.

Unauthorized Army Codes Requisitioned Over \$2 Billion in New DOD Property

According to Table E-329 (Format for Army Additions/Revisions to the DOD Activity Address File) of Army Regulation 725-50, chapter 9, and Army service point personnel, activity codes with the requisitioning authenticity classification of "U" are not authorized to requisition

⁴ The U. S. Army's Logistics Support Analysis Agency manages this process.

property. The Defense Automatic Addressing System Center told us that as of March 2000, 2,723 of the approximately 50,000 Army activity codes were assigned this classification. According to the Defense Automatic Addressing System Center, 414 of the 2,723 codes (approximately 15 percent) were used to requisition over \$2.6 billion in new government property during the past 5 years. The majority of these codes were assigned to Army activities. However, 27 of them were assigned to contractors working for the Army and were used to requisition over \$2 million of the \$2.6 billion in new property. Army personnel we interviewed were unaware that these codes could be used to requisition government property and indicated that they had assumed safeguards were in place to prevent such requisitions. However, according to Defense Automatic Addressing System Center personnel, there are no safeguards to prevent the use of these codes to requisition government property.⁵ DOD and Army officials said this issue is under review.

Army officials said they believe most of the activity in question involved requisitioning by Army Total Package Fielding (TPF) entities.⁶ TPF is the Army's standard materiel fielding process. It provides an entire support package of equipment and materiel to field units. It was designed to relieve the major commands and subordinate units of logistical burdens associated with getting materiel to the field. However, according to Army service point personnel, TPF activity codes with a requisition authenticity classification of "U" are designed to receive materiel but not to requisition.

Inadequate Procedures for Assigning Activity Codes

According to Army service point personnel, activity code coordinators are responsible for validating the accuracy of code data and for communicating proper code usage to activities. However, we were told that activity code assignment procedures and the role of the activity code coordinator are often overlooked because personnel in the activity coordinator ranks have inadequate training and are inexperienced due to high turnover in these positions. Those unfamiliar with the use and control of codes often fail to realize the need for accuracy and strict accountability. For example, a number of the activity code coordinators we interviewed were unfamiliar with the "U" requisition authenticity classification.

Conclusions and Recommendations for Executive Action

Army activity codes identified as unauthorized to requisition were used to requisition over \$2.6 billion in new government property during the past 5 years. This was due, in part, to inexperienced or inadequately trained Army activity code coordinator personnel. In addition, there were no safeguards in the Defense Automatic Addressing System Center to prevent the unauthorized activity codes from being used to requisition government property. This lack of internal controls creates a situation in which government property is vulnerable to fraud, waste, and abuse.

⁵ According to Defense Automatic Addressing System Center staff, the Army decided to denote the unauthorized to requisition classification in the first line of the address rather than request a Department of Defense Activity Address Directory change. They noted that the "U" in the first line of the address to indicate that the code was unauthorized to requisition was a unilateral decision by the Army and that no other service or agency was made aware of its purpose.

⁶ Of the 414 unauthorized codes used to requisition new property, 151 (or 36 percent) were TPF codes, according to information provided by the Defense Automatic Addressing System Center. These 151 codes were used to requisition \$1.78 billion in new property, according to data provided by the Center. The remaining codes were assigned to a variety of entities, such as military property custodians and senior Army instructors at high schools, professors of military science at universities, and military museums. Due to the level of requisition activity associated with Army TPF entities and the entities' noncompliance with Army regulation, we will conduct a limited review to test the reliability of the TPF process regarding accountability of requisitioned materiel. We will report our findings to you at a later date.

To correct these problems, we recommend that the Secretary of Defense direct the Secretary of the Army to

- verify whether the requisitioning authority for all Army activity codes is categorized accurately;
- review procedures, including personnel training requirements, for assigning activity codes to ensure that assignments are appropriate, made in accordance with regulation, and routinely inspected to ensure compliance; and
- incorporate safeguards in appropriate databases to ensure that activity codes established as unauthorized to requisition are not used to requisition government property.

Agency Comments and Our Evaluation

DOD and the Army provided comments on a draft of this letter and the database used in its preparation. They partially concurred with the letter, stating that while it is technically accurate, they believe the level of vulnerability is minimal. Based on a limited review of the database, DOD and Army officials indicated that there is no evidence of fraud, waste, or abuse. For instance, they noted that many of the activity codes in question were authorized “receiving activities.” They explained that transactions were generated as a management tool by the Army’s Weapon Systems Project Managers to reposition material in preparation for fielding new equipment to tactical units. However, they acknowledged that it was an error to use these particular activity codes to requisition material. According to one official, the Project Managers were probably unfamiliar with the activity codes in question. The officials concurred with the intent of the letter’s recommendations and noted that, as a result of our letter, the Army is reviewing procedures for the use of these types of activity codes.

We included DOD and Army comments where appropriate. However, based on the amount of requisition activity associated with these Army codes, we continue to believe that a significant vulnerability exists. We will make information on the identity and requisition history of the codes available to DOD’s Office of the Inspector General. We also modified our recommendations to explicitly include a review of personnel training requirements.

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 Secretary of the Army, and the Director of the Defense Logistics Agency. The letter will also be available on GAO's home page at www.gao.gov. If you have any questions, please call Robert H. Hast at (202) 512-7455 or David R. Warren at (202) 512-8412. John Ryan, Richard Newbold, Mark Little, Brian Chan, and James Loschiavo made key contributions to this investigation and letter.

Sincerely yours,



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Office of Special Investigations



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