Testimony

STATEMENT OF
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BEFORE THE
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT
INFORMATION AND TECHNOLOGY
HOUSE GOVERNMENT REFORM COMMITTEE,
UNITED STATES HOUSE OF REPRESENTATIVES
ON
DEFENSE FINANCIAL MANAGEMENT

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Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to be here today to discuss the significant challenges facing the Department of Defense (DoD) in the financial management area and the progress made since your last hearing on these matters, just over a year ago.

I would like to begin by underscoring both the critical importance of sound financial management and the unavoidable complexity of finance and accounting operations in an organization as large as the DoD. It is useful to keep in mind that the Department is the largest holder of U.S. Government physical assets ($1.3 trillion), has the most employees (2.2 million), owns the most automated systems (28,000), administers the most complicated chart of accounts, and manages the most diverse mix of operating and business functions of any Government agency.

The average monthly finance and accounting workload includes making 9 million personnel payments; processing 2 million commercial invoices; paying 675,000 travel settlements; issuing 550,000 savings bonds; handling 340,000 transportation bills of lading; disbursing $22.2 billion; and reporting commitments, obligations, expenditures and other data for many thousands of accounts.

A Decade of Change

The end of the Cold War and the downsizing of the Defense budget in the early 1990’s caused many profound changes in the DoD. For example, it was evident that administrative processes of all kinds, including finance and accounting, in their current forms were neither affordable nor capable of keeping pace with rapidly changing management practices and information technology. Likewise, the individual DoD components had been allowed to develop several hundred finance and accounting automated systems, whose interoperability among themselves and with non-financial systems was generally poor. To begin turning this situation around, the decision was made to centralize those operations and systems in the Defense Finance and Accounting Service (DFAS), which was activated in January 1991. Along with all other DoD functional communities, the financial management activities began a long term effort to reengineer their own processes, participate in the reinvention of other DoD processes, and develop a new generation of modern and interoperable information systems.

In my office’s estimation, achieving full integration of DoD support operations, including financial management, is far from complete, will require sustained and probably even intensified commitment by both the Congress and the Department, and will certainly take several more years.

During the 1990’s, a combination of factors highlighted many longstanding DoD financial management problems and created new challenges. Those factors included:

- the Chief Financial Officers (CFO) Act of 1990 and related subsequent legislation that introduced commercial type financial reporting requirements, for which DoD was entirely unprepared;

- the dramatic expansion of financial statement auditing, which was mandated by the CFO Act and drove DoD financial audit coverage from one or two dozen workyears in 1989 to over 600 in 1998; and

- the consolidation of many inefficient and outmoded finance and accounting practices into one customer funded organization, DFAS, where those inefficiencies were far more visible and customer dissatisfaction was more focused.

Financial Reporting

The DoD has not been able to comply with the requirements for audited financial statements levied by the Chief Financial Officers (CFO) Act of 1990, the Government Management Reform Act of 1994 and the Federal Financial Management Improvement Act of 1996. Its accounting systems were designed mostly for funds control, not financial statement reporting. Those systems lack integrated, double-entry, transaction-driven general ledgers. They cannot produce an audit trail from the occurrence of a transaction, through recognition in accounting records, until incorporation into financial statement data. There are numerous internal control problems in the accounting systems and the non-financial “feeder” systems, which are operated by the acquisition, logistics and other program management communities and provide 80 percent of the financial statement data. These and other fundamental problems have been repeatedly and candidly acknowledged in DoD management representation letters, annual Secretary of Defense management control assessments and congressional hearings, including those held by this subcommittee.

The financial reporting challenges also include: the steady stream of expanded statutory requirements, new and still evolving Federal Accounting Standards Advisory Board (FASAB) principles, the Administration's goal of unqualified audit opinions on the Government-wide Consolidated Statements for Fiscal Year 1999, and increasingly detailed Office of Management and Budget (OMB) guidance. Each of these has generated very significant new workload requirements for the managers who are trying to make systems "CFO compliant," for the preparers of financial statements, and for the auditors. Because of FASAB and OMB guidance, the number of statements for each reporting entity jumped from 3 for FY 1997 to as many as 8 for FY 1998. The DoD prepared and we audited financial statements for 11 reporting entities in FY 1998; no other Federal agency had more than four reporting entities, and many had just one. Currently, we are working with the Under Secretary of Defense (Comptroller) to reconsider the number of separate DoD reporting entities, so that the statement preparation and audit workload can be kept within reasonable bounds.

The results of the audits of the DoD financial statements for FY 1998, when viewed solely in terms of audit opinions, were identical to the previous poor results. My office and the

Auditors General of the Army, Navy and Air Force issued opinion reports earlier this year. Only the Military Retirement Trust Fund received an unqualified “clean” audit opinion. Disclaimers of opinion were necessary for the consolidated DoD statements, as well as all other major fund statements.

The DoD continues to lack systems capable of compiling financial reports that comply with Federal accounting standards and laws, nor will those systems be in place for several more years. Likewise, the labor intensive workarounds currently being used to formulate the annual statements are fundamentally ineffective, but will not be replaced until more efficient automated approaches are feasible. This year, partially because of the significantly increased workload and complexity related to the new financial statement preparation requirements, DoD final statements were more untimely than ever. In addition, a record $1.7 trillion of unsupported adjustments were made in preparing the statements. In addition to 11 opinion reports, the DoD audit community detailed the Department’s progress and continuing deficiencies in 178 other financial audit reports issued between April 1, 1998 and March 31, 1999. Examples are summarized in the attachment to this statement.

Much effort is being expended to compensate for inadequate systems and to achieve improvement. It is fairly likely that one or more of the major fund entities below the DoD level will achieve clean or qualified opinions during the next one to three years, and various smaller entities are quite likely to do so as well. Although such indicators of progress may be good for morale, favorable opinions on fragments of the Department's financial reports have very limited actual importance if the consolidated statements remain fundamentally flawed. The prospects for favorable audit opinions on the consolidated DoD financial statements in the near term are not good.

Measuring Progress

We believe that focusing on audit opinions as the primary indicator of financial management improvement may well incentivize some Federal managers merely to want to shop around for favorable audit opinions on annual statements, instead of focusing on the usefulness of all financial reports and the adequacy of management controls. An agency could conceivably develop workaround procedures, actually bypassing its official accounting systems, that would function well enough to achieve a favorable audit opinion on its consolidated financial statements. Unfortunately, failure to fix those accounting systems and related control weaknesses would leave program managers still unable to rely on the various financial reports that they need to conduct day to day business. We would consider the achievement of favorable audit opinions on annual financial statements, under those circumstances, to be a Pyrrhic victory.

Several other sources of insight into the Department's progress should be considered in addition to audit opinions. First, the previously mentioned extensive audit reporting provides considerable information. These reports are far from being carbon copies of each other. Because their sheer number can appear overwhelming, we will continue our past practice of issuing annual summary reports that highlight major deficiencies preventing favorable audit opinions on DoD financial statements. We are currently compiling the summary report addressing the statements for FY 1998 and will issue it this summer.

Second, numerous action plan milestones have been created in the effort begun by the Office of Management and Budget, General Accounting Office, DoD Chief Financial Officer and my staff in mid-1998 to develop sound action plans for implementing the new Federal accounting standards. Although not all issues on how to interpret and implement the standards have been resolved, the degree of consensus is much broader now than ever before. Progress toward meeting the agreed-upon implementation milestones can be tracked and we intend to do so closely.

Third, progress toward making financial and non-financial feeder systems compliant with applicable laws, regulations and new accounting standards is an excellent indicator of how well the system deficiencies that are the root cause of inaccurate financial reporting are being addressed. The Federal Financial Management Improvement Act of 1996 and the National Defense Authorization Act for FY 1998 focused on system improvement. The latter Act added a new section to Title 10 that required detailed reporting on system status in a DoD Biennial Financial Management Improvement Plan.

Biennial Plan

My office published an extensive evaluation of the September 1998 version of the DoD Biennial Financial Management Improvement Plan on April 2, 1999. We concluded that DoD had made a valid first attempt to compile the extensive data required by law. We strongly support the DoD concept of folding all data required on financial management system status by the Federal Managers Financial Integrity Act of 1982, the Chief

Financial Officers Act of 1990, the Federal Financial Management Improvement Act of 1996, and the National Defense Authorization Act of 1998 into one publication, the Biennial Plan. We understand that the Department intends to update the Biennial Plan annually, which will facilitate that consolidation.

Our report also indicated numerous areas where the first version of the Biennial Plan could be improved, both to comply with the variety of statutory requirements it is intended to address and to become a good tool for managing the financial management systems development effort in an intensive and fully integrated way. In addition to ensuring that the next version includes vital data like interim milestone dates for systems being developed or modified to attain compliance, for example, we recommended taking a major step toward establishing management control over the whole process by requiring written agreements between DFAS and owners of non-financial feeder systems.

Another major step would be to develop more effective management oversight mechanisms. It is useful to compare the well focused reporting now being provided to senior managers and Congress on the Y2K compliance status of several thousand DoD systems with the rather unfocused information available on the CFO compliance status of about 200 of the same systems. As you know, the DoD struggled at first with the Year 2000 conversion because definitions of terms like “compliant” and “certified” were unclear, there was insufficient management control of the overall program and many functional managers and commanders initially remained uninvolved. So far, the same kinds of problems have hampered the financial management system improvement effort. We are pleased, therefore, that the Under Secretary of Defense (Comptroller) data call for the next Biennial Plan implemented most of our recommendations. We look forward to helping the Department learn from the Y2K experience and establish a systems management approach that will allow senior managers and Congress to know exactly how well each DoD management sector is supporting the DoD system improvement goals.

Once a viable status reporting process is established, updates should be provided as a management tool for the Defense Management Council, other oversight groups, DoD Chief Financial Officer, DoD Chief Information Officer, and senior managers who “own” feeder systems. This information should be reviewed much more frequently than annually. We suggest, in other words, that the Biennial Plan be used as a catalyst for more visible, accountable and effective management of the financial management systems improvement effort. Just as Y2K conversion is not a problem that information technologists can solve alone, so too is “CFO compliance” not a goal that DoD accountants can achieve without a strong commitment from the rest of the Department.

Systems Security

Turning to other challenges confronting the DoD financial community, I would like to emphasize my concern about information assurance. As the recent hacker attack against the NATO website and the so-called Melissa Virus incident demonstrated, any automated system may be attacked or misused. Motives can include vandalism, sabotage, thrill seeking, propaganda, pranks, invasion of privacy and fraud. DoD financial systems that process tens of millions of disbursements worth nearly $300 billion annually are clearly at risk for individuals with any of those motives.

My office has been working closely with the Defense Information Systems Agency and the DFAS over the past several years to address this problem. Fortunately, one byproduct of DoD efforts to reduce the number of separate financial management systems will be somewhat reduced exposure from a security standpoint. To minimize risk, however, it is imperative that security awareness be stressed, adequate training be provided, periodic security audits be performed for every system and processing center, and prudent measures be taken to detect, react to and learn from unauthorized intrusions.

We have issued 20 audit reports during the 1990’s on security matters related to DFAS systems and about 185 of our 220 recommendations to address weaknesses have been implemented. Most of the others were made just recently and actions are either planned or still ongoing. As demonstrated by those numbers, the Department has been quite responsive to audit advice.

The Defense Criminal Investigative Service, the investigative arm of my office, recently established an Information Infrastructure Team. This new unit works in partnership with other law enforcement organizations and DISA to react immediately to system penetration incidents. Additionally, we have a special agent assigned full time to the FBI National Infrastructure Protection Center.

Year 2000 Conversion

During FYs 1998 and 1999, supporting the DoD efforts to avoid mission disruptions because of the so-called Millenium Bug has been my office’s top discretionary audit priority. As part of the coverage provided in all DoD functional areas, we have been auditing the DFAS "Y2K" conversion program continuously since mid-1997. DFAS has been responsive to audit advice and has made progress in ensuring that its 41 mission-critical systems will be able to function; however, much remains to be done. Thirteen of those systems missed the OMB compliance goal of March 31, 1999 and DFAS still faces formidable challenges in terms of ensuring robust end to end testing of its systems, coping with the varying degrees of Y2K readiness of non-financial systems that are linked to DFAS systems, coordinating with the Defense computing centers to assure Y2K compliance of the mainframe computer platforms on which DFAS depends, and formulating realistic contingency plans.

At the present time, absent any end to end test results, it is somewhat premature to make forecasts about Y2K outcomes. I can report to you, however, that DFAS has taken the Y2K challenge very seriously and has been one of the more innovative and aggressive DoD organizations in terms of contingency planning and coordination with public and private sector data exchange partners. The Deputy Secretary of Defense has made it very clear that DoD intends to meet January 2000 payrolls. Recently, OMB directed special emphasis on military retirement pay processes to demonstrate Y2K readiness. It is also important, of course, to avoid disruptions in payments to suppliers and to financial reporting, including the DoD financial statements for FY 1999.

Vulnerability to Fraud

Numerous factors have contributed to the vulnerability to fraud of DoD finance operations. Those factors have included a weak internal control environment, staff turbulence and lack of sufficient fraud awareness training for finance personnel. Congressional hearings in September 1998 before the Senate Committee on the Judiciary graphically identified control weaknesses and the damage done by a few unscrupulous individuals who exploited those weaknesses.

The DCIS has primary investigative jurisdiction concerning allegations of fraud that directly impact the DFAS, including fraudulent conduct by contractors and government employees. The Military Criminal Investigative Organizations have primary investigative jurisdiction concerning allegations of fraud pertaining to DFAS services provided at individual military installations, as well as pay, allowance and travel fraud committed by a civilian employee or Service member of a Military

Department. DCIS currently has 84 open investigations involving DFAS, 21 of which are theft or embezzlement cases. DCIS efforts over the past 5 years have resulted in 73 convictions and recovery of $4.9 million from cases related to DFAS operations. Examples of recently closed cases are in the attachment to this statement.

We have been working with DFAS to improve the capability to detect fraud in DoD finance operations. Since 1994, OIG, DoD, auditors and investigators have supported Operation Mongoose, a Deputy Secretary of Defense initiative involving the use of computer matching techniques to detect fraud. Problems with data base accuracy have been an inhibiting factor; however, the project has been a useful laboratory for determining the viability of various matches as internal controls and fraud detection tools.

More recently, DCIS has conducted over 60 fraud awareness briefings for DFAS personnel, reaching audiences of about 6,500 employees and including participation in a DFAS stand down day for such training last year. We are working with DFAS on new training initiatives specifically addressing vulnerability in the vendor pay area and on improving fraud referral procedures.

DFAS Management Controls

The key to preventing fraud, waste and mismanagement in DoD finance operations is improving management controls. Although the DFAS candidly reports more material management control weaknesses in its annual assurance statements than any other DoD component, those disclosures are driven by external audit findings, not internal self-assessment. The enormous workload involved in mandatory financial statement audits has shifted my office's audit coverage almost entirely away from the finance side of DFAS-—where payments are made-—to the accounting side. If our coverage priorities were driven solely by risk assessment, we would earmark about 50 auditor workyears annually for intensive review of internal controls in DFAS personnel and contractor pay operations for three to four years, systematically covering all centers and operating locations.

The initial organizational plan for DFAS included provision for a strong Office of Internal Review. Pressures to reduce personnel strength and overhead costs, as well as lack of sustained management emphasis, have prevented the DFAS Office of Internal Review from becoming a meaningful factor in the DFAS management control structure. Lacking sufficient coverage of its most high risk operations from either external or internal auditors, DFAS will remain vulnerable to fraud and other problems in those operations, despite the recent commendable initiatives on fraud awareness.

Problem Disbursements

To maintain proper fiscal control and have reliable information on amounts available for obligation and expenditure, DoD needs to be able to match disbursements reported to the U.S. Treasury with obligations shown in DoD accounting records. Unfortunately, the disbursing and accounting functions are performed by separate activities, which are not linked in fully integrated systems and often are not collocated. Disbursement data therefore must “transit” to the accounting stations. Excessive delays and errors can occur in recording the disbursements in the accounting systems. DFAS uses the term “aged intransit disbursements” to denote excessive delays. If attempts to match disbursement and obligation data fail, the term “problem disbursements” is used.

The DoD has been working to reduce aged intransit and problem disbursements for several years. DFAS reported a decrease in aged intransit disbursements from $22.9 billion in June 1997 to $9.6 billion in June 1998. DFAS also reported a reduction in problem disbursements from $34.3 billion in June 1993 to $11.1 billion in June 1998. Despite those significant decreases, unmatched disbursements will remain a DoD financial management challenge until fully integrated systems are fielded and the backlog of unmatched disbursements is eventually eliminated. Until then, the Department must make the best of a bad situation and try to minimize its exposure to Antideficiency Act violations and undetected improper payments.

We recently completed an audit of the reporting for aged intransit disbursements and problem disbursements between June 1996 and June 1998. The audit indicated that, while there continued to be overall progress, some DoD components were actually losing ground and the unmatched disbursements in their accounts were increasing. Efforts to match pending disbursements to corresponding obligations before making payments, commonly referred to as “prevalidating disbursements,” have been only partially implemented because significant payment delays were encountered when trying to prevalidate all disbursements over $2,500 at DFAS Columbus Center. In addition, DFAS needs to improve the accuracy of its reports to senior managers and the Comptroller needs to decide whether to enforce his policy that currently available funds must be obligated to cover certain aged intransit and problem disbursements. Not to do so increases the risk of Antideficiency Act violations, which carry potential criminal penalties. Obligating funds to cover these accounting problems, on the other hand, ties up 2 to 3 billion dollars that are urgently needed for other purposes and therefore some Services and Defense agencies are resistant to the policy. This seemingly arcane accounting issue has very real program impact.

Other Contractor Pay Issues

During the past year, the Department has stepped up efforts to assure appropriation integrity when making progress payments to contractors; encourage managers not to add to the accounting burden by creating unnecessary extra accounts; and introduce mass use of credit cards for purchasing goods and services. These significant initiatives are still new and there has been little feedback on how they are progressing. We have not had sufficient audit resources available recently to provide an independent evaluation. We continue to support all four concepts, however, and hope to provide at least some audit coverage later in FY 1999 or 2000.

Summary

The DoD financial management community faces major challenges and needs the active support of senior Departmental managers and the Congress to meet them. The DoD audit and investigative communities understand the importance of achieving the Department’s goals in this area and the difficulties involved. We will continue putting heavy emphasis on DoD finance and accounting operations, while keeping all stakeholders—-the Department, Congress, OMB and the public-—informed of our audit and investigative results. Thank you.

Selected Audit Reports and
Criminal Case summaries

Inspector General, DoD, Audits

Report No. 99-135, Trends and Progress in Reducing Problem Disbursements and In-Transit Disbursements, April 16, 1999. Between June 30, 1996 and June 30, 1998, DFAS reported that problem disbursements decreased by $1.9 billion to $11.1 billion. Aged in-transit disbursements decreased by $13.3 billion, from $22.9 billion to $9.6 billion between June 30, 1997 and June 30 1998. The Navy, the Air Force, and the Marine Corps reported progress in reducing delays in properly matching disbursements to corresponding obligations. However, no progress was made in reducing aged in-transit disbursements and problem disbursements for the Army and some Defense agencies. For those entries, aged in-transit disbursements increased $0.6 billion between June 1997 and June 1998. Because DoD continued to have at least $20.7 billion in disbursements that were not properly recorded in accounting records, financial statements showing the status of budgetary resources were unauditable and may have been materially misstated. Risk of over disbursement and Antideficiency Act violations remained unacceptably high. In addition, there were problems with the accuracy and consistency of data being reported to management.

Report No. 99-128, Computing Security for the Defense Civilian Pay System, April 8, 1999. Because of their sensitive nature, the deficiencies discussed in this report were presented in general terms. The Defense Finance and Accounting Service and Defense Information Systems Agency needed to improve security for the Defense Civilian Pay System and the mainframe computer platforms on which it runs. This was the second in a series of two reports on this subject.

Report No. 99-123, Assessment of the DoD Biennial Financial Management Improvement Plan, April 2, 1999. In the September 1998 Biennial Plan, DoD made a valid attempt to compile and report all the necessary data on financial management systems. The Biennial Plan could be improved if it better identified the deficiencies for each financial management system and disclosed the remedies, resources, and intermediate target dates necessary to bring DoD financial management systems into substantial compliance. The Biennial Plan should also identify an overall milestone date for all financial management systems to achieve full compliance, and should better address the Special Interest Items directly related to financial management systems, as required by the National Defense Authorization Act for FY 1998. The Biennial Plan should also be purged of unsupported opinions that have nothing to do with planned actions to overcome impediments to financial management improvement.

The role of the DoD components other than the Office of the Under Secretary of Defense (Comptroller) in formulating the Biennial Plan was limited, underscoring the need for more emphasis on a fully integrated management approach. The Biennial Plan could be developed into an excellent management tool for controlling and reporting on the status of the financial management systems improvement effort, but all major DoD components need to take an active role in formulating and executing the Biennial Plan.

Report No. 99-097, Internal Controls and Compliance with Laws and Regulations for the DoD Agency-wide Financial Statements for FY 1998, March 1, 1999. Internal controls were not adequate to ensure that resources were properly managed and accounted for, that DoD complied with applicable laws and regulation, and that financial statements were free of material misstatements. The internal controls did not ensure that adjustments to financial data were fully supported and that assets and liabilities were properly accounted for and valued. The material weaknesses and reportable conditions we identified were also reported in the management representation letter for the DoD Agency-wide Financial Statements for FY 1998, the DoD Annual Statement of Assurance for FY 1998, and the DoD Biennial Financial Management Improvement Plan.

Report No. 99-013, Summary Report on Financial Reporting of Government Property in the Custody of Contractors, October 15, 1998. This report summaries the weaknesses identified by a DoD-wide audit performed by the Inspector General, DoD; Army Audit Agency, Naval Audit Service; and Air Force Audit Agency on the financial reporting of Government property in the custody of contractors. The reported amount of Government property in the custody of contractors has remained about $90 billion (acquisition value) over the last 3 fiscal years. Since our review of the Contract Property Management System and the FY 1996 DoD financial statements, financial managers in each Military Department have adjusted the way data from the Contract Property Management System are used for financial reporting. However, the system and the way the data are entered into financial statements have not changed. The DoD financial statements for FYs 1996 and 1997 did not accurately report Government property in the custody of contractors. Although the Contract Property Management System does report Government property, financial statement requirements are not met because the system: does not apply capitalization thresholds; does not compute depreciation; does not distinguish between assets of the General Fund and the Working Capital Fund; and does not provide data in time to meet financial statement reporting milestones. The amount of Government property in the custody of contractors remains material to the DoD financial statements, and the National Defense line on the Government-wide financial statements is material to the Consolidated Financial Statements of the United States. The inability of DoD to resolve the reporting of Government property in the custody of contractors will impede the ability of the DoD and the Federal Government to obtain a favorable opinion on future financial statements.

Report No. 99-028, Major Deficiencies Preventing Favorable Audit Opinions on the FY 1997 DoD Financial Statements, October 30, 1998. Auditors identified and DoD financial managers acknowledged major deficiencies that prevented favorable audit opinions on most FY 1997 DoD Financial Statements. The overarching deficiency continued to be the lack of adequate accounting systems for compiling accurate and reliable financial data. Specifically, auditors were unable to render favorable audit opinions on the FY 1997 DoD Consolidated Financial Statements and supporting financial statements prepared for nearly all reporting entities. The reasons were deficient accounting systems, insufficient audit trails, delays in providing auditors with final versions of the financial statements and management and legal representation letters, lack of effective internal management controls, and the consequent scope limitations that prevented auditors from auditing material lines on the DoD financial statements. Except for the unqualified audit opinions rendered on the DoD Military Retirement Trust Fund Financial Statements, which accounted for 10.8 percent of DoD Consolidated assets and 4.4 percent of DoD Consolidated revenues in FY 1997, auditors have been disclaiming opinions on major DoD financial statements since FY 1988.

In response DoD financial managers have acknowledged significant problems with financial data and have been attempting to correct the problems. This report identifies numerous corrective actions taken and ongoing initiatives. Although DoD continues to evaluate its options for achieving adequate and compliant DoD accounting systems, progress in correcting deficiencies in accounting systems has been slow and has had mixed results. For example, DoD completed deployment of a new accounting system, the Corps of Engineers Financial Management System, throughout the U.S. Army Corps of Engineers. However, the Defense Property Accountability System, which was proposed as the answer to unreliable reporting of DoD real and personal property, has fallen short of expectations. Until DoD deploys accounting systems that comply with the Federal Financial Management Improvement Act of 1996, auditors will not be able to perform sufficient tests on material financial statement line items to warrant favorable audit opinions on the DoD financial statements.

Defense Criminal Investigative Services Cases

Air Force Staff Sergeant Robert L. Miller, Jr., was convicted and sentenced by a general courts-martial to 12 years in prison, a dishonorable discharge, reduction in rank to E-1 and forfeiture of all pay and allowances. This was a result of Miller’s theft of 17 U.S. Treasury Checks totaling $436,684 and attempted theft of 2 checks totaling $501,851, from the DFAS, Dayton, Ohio, where he was assigned. Miller caused bogus U.S. Treasury checks to be issued to Payling Scott, of Atwater, California, a co-conspirator, who cashed the checks, kept a portion of the funds for herself and sent the remainder to Miller. Scott pled guilty to conspiracy and was sentenced to 3 years probation and ordered to make restitution for her portion of the stolen funds. This investigation was worked jointly by DCIS and AFOSI.

Teasa Hutchins, Jr., Fort Myer, Virginia, pled guilty to theft of Government funds and was sentenced to 21 months incarceration and ordered to pay $168,772 restitution. Hutchins, a former pay supervisor in the Finance and Accounting Office, Military District of Washington, embezzled approximately $169,000 by establishing an account in the name of a fictitious military member. Hutchins used the ghost account to effect electronic funds transfers to bank accounts owned or controlled by Hutchins and a civilian acquaintance. This investigation was worked jointly by DCIS and the Army Criminal Investigation Command.

Argent Research & Recovery, Limited (Argent), Weymouth, Massachusetts, was sentenced to 12 months probation. Mathew M. Drohan, executive vice president, was sentenced to 48 months incarceration. Argent and Drohan were jointly ordered to make restitution in the amount of $2,127,481. Raymond J. Keegan, Plymouth, Massachusetts, former president and co-owner of Argent, pled guilty to two counts of Federal income tax evasion and was sentenced to 11 months incarceration, 24 months probation and ordered to pay a $3,100 fine. Argent had been engaged in the business of identifying Federal, state and local government funds that had not been received by the payees, and collected the funds for a percentage of the proceeds. Both Argent and Drohan were embezzling funds collected from DFAS on behalf of payees. Keegan failed to report income derived from criminal activity

Investigation disclosed that checks stolen from DFAS, Columbus, Ohio, by a former employee were deposited into fraudulent business accounts at several banks. Funds were then withdrawn by co-conspirators using false identification. To date, nine subjects have been convicted and sentenced to incarceration totaling over 103 months, with monetary recoveries of $246,000. The longest sentence was meted out to Richard E. Watkins, Columbus, Ohio, who pled guilty to conspiracy to commit bank fraud and was sentenced to 37 months incarceration and ordered to pay $10,000 restitution.

Sonya R. Fernandez, Santa Ana, California, pled guilty to theft, embezzlement and submitting false statements and was sentenced to 24 months confinement and ordered to pay $269,488 restitution. Investigation disclosed that Fernandez failed to notify the Government for 10 years of the 1987 death of her adoptive father and continued to receive Federal retirement benefits destined for him. DFAS paid over $97,000 of retirement benefits that Fernandez illegally converted to her own use.

Mark J. Krenik, an Air Force Contracting Officer’s Technical Representative, at Reese Air Force Base, Texas, created false invoices for automated data processing equipment. Due to downsizing of his office, he became responsible for generating the requirements, placing the orders, certifying delivery, and authorizing payments. He opened two accounts at a local bank under a fictitious business name and placed himself as sole signature authority on the accounts. Eleven Government checks totaling $505,941 were deposited to the accounts. The bank notified Federal authorities. Krenik was found guilty of three counts of filing false claims, received three years probation, was fined and ordered to pay restitution. The entire $505,941 deposited to the accounts was recovered. Krenik was able to accomplish his crime because of little or no oversight on the contracts in which he was involved. Consolidation of responsibilities of three staff positions and violating the internal control principle of separation of duties allowed the opportunity for Krenik to develop the scheme to defraud the Government.