ATTACHMENT 9

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United States Government Accountability Office
Washington, DC 20548

July 10, 2006

The Honorable Chris Shays
Chairman
Subcommittee on National Security,
Emerging Threats and International Relations
Committee on Government Reform
House of Representatives

Dear Mr. Chairman:

At your request we have been conducting a follow-up investigation of the Department of Defense (DOD) controls over excess property. Today, we sent DOD a draft of our report, titled *DOD Excess Property: Control Breakdowns Present Significant Security Risk and Continuing Waste and Inefficiency* (GAO-06-943) for its review and comment, and their comments are expected on July 17, 2006. At your request, and in accordance with our protocols, enclosed is a copy of the draft report for your information.

As the cover page indicates, the draft is subject to revision. Therefore, it must be safeguarded to prevent premature disclosure. Please do not show or release its contents for any purpose. This copy and all others belong to the U.S. Government Accountability Office and must be returned on demand. We appreciate your cooperation in this matter.

Sincerely yours,

Gregory D. Kutz
Managing Director,
Forensic Audits and Special Investigations

Enclosure

cc: Nicholas Palarinos
Vincent Chase

United States Government Accountability Office

GAO

Report to Congressional Requesters

July 2006

DOD EXCESS PROPERTY

DRAFT

Control Breakdowns Present Significant Security Risk and Continuing Waste and Inefficiency

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GAO-06-943

July 2006

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Highlights

Highlights of GAO-06-943, a report to congressional requesters

DOD EXCESS PROPERTY

Control Breakdowns Present Significant Security Risk and Continuing Waste and Inefficiency

Why GAO Did This Study

GAO's previous work found problems in security controls over sensitive excess military equipment that resulted in lost and stolen items, some of which were sold to the public, and significant waste and inefficiency in the Department of Defense (DOD) excess property reutilization program. GAO was asked to perform follow-up investigations to determine whether (1) unauthorized parties could obtain sensitive excess military equipment that requires demilitarization (destruction) when no longer needed by DOD and (2) system and process improvements are adequate to prevent sales of new, unused excess items that DOD continues to buy or that are in demand by the military services.

What GAO Recommends

GAO briefed DOD and military service management on the results of its investigations and provided perspectives on ways to resolve the control breakdowns that resulted in public sales of sensitive excess military equipment and new, unused excess items that the military services are continuing to use. In addition, GAO asked DOD to comment on a draft of its report. In its comments, DOD stated that given the time allotted to comment, the department was not able to do a detailed review and has no comments at this time. DOD also commented that it continues to implement changes to procedures based on GAO's May 2005 report (GAO-05-277).

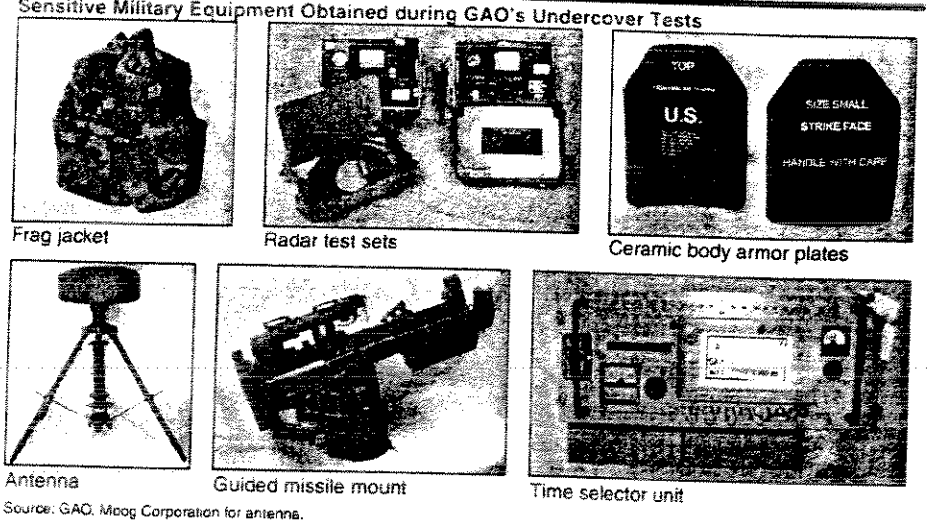
www.gao.gov/cgi-bin/getrpt?GAO-06-943.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Gregory D. Kutz at (202) 512-7455 or kutzg@gao.gov.

What GAO Found

GAO investigators posing as private citizens to disguise their identity purchased several sensitive military equipment items from DOD's liquidation sales contractor, indicating that DOD has not enforced security controls for preventing sensitive excess military equipment from release to the public. GAO investigators at liquidation sales purchased ceramic body armor inserts currently used by deployed troops, a cesium technology timing unit with global positioning capabilities, a universal frequency counter, 2 guided missile radar test sets, 12 digital microcircuits used in F-14 fighter aircraft, and numerous other items. GAO was able to purchase these items because controls broke down at virtually every step in the excess property turn-in and disposal process. GAO determined that thousands of military items that should have been demilitarized (destroyed) were sold to the public. Further, in June 2006, GAO undercover investigators posing as DOD contractor employees entered two excess property warehouses and obtained about $1.1 million in sensitive military equipment items, including 2 launcher mounts for shoulder-fired guided missiles, several types of body armor, a digital signal converter used in naval surveillance, an all-band antenna used to track aircraft, and 6 circuit cards used in computerized Navy systems. At no point during GAO's warehouse security penetration were its investigators challenged on their identity and authority to obtain DOD military property. The table below shows examples of sensitive military equipment obtained during GAO's undercover operations.

Sensitive Military Equipment Obtained during GAO's Undercover Tests



Frag jacket | Radar test sets | Ceramic body armor plates

Antenna | Guided missile mount | Time selector unit

Source: GAO, Moog Corporation for antenna.

GAO investigators posing as private citizens also bought several new, unused items currently being purchased or in demand by the military services from DOD's excess property liquidation sales contractor. Although military units paid full price for these items when they ordered them from supply inventory, GAO paid a fraction of this cost to purchase the same items, demonstrating continuing waste and inefficiency.

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Abbreviations

CCLI	Commerce Control List Item
C.F.R.	Code of Federal Regulations
DAISY	DRMS Automated Information System
DLA	Defense Logistics Agency
DLIS	Defense Logistics Information System
DOD	Department of Defense
DRMO	Defense Reutilization and Marketing Office
DRMS	Defense Reutilization and Marketing Service
EUC	End-Use Certificate

FedLog	Federal Logistics System
GSA	General Services Administration
IT	Information Technology
JSLIST	Joint Service Lightweight Integrated Suit Technology
MLI	Military List Item
NSN	National stock number
OMB	Office of Management and Budget
PDA	Personal Digital Assistant
SAPI	Small Arms Protective Inserts
U.S.C.	United States Code

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United States Government Accountability Office
Washington, D.C. 20548

July 25, 2006

The Honorable Tom Davis
Chairman
Committee on Government Reform
House of Representatives

The Honorable Christopher Shays
Chairman
Subcommittee on National Security,
Emerging Threats and International Relations
Committee on Government Reform
House of Representatives

Our May 2005 report[1] stated that the Department of Defense (DOD) reported $466 million in lost, damaged, and missing excess property from fiscal years 2002 through 2004, including property with demilitarization restrictions,[2] such as chemical and biological protective suits, body armor, and guided missile warheads. Some of the restricted items had been sold to the public. Further, our May 2005 report noted that during fiscal years 2002 and 2003, the military services needlessly spent at least $400 million to purchase new items instead of reusing identical excess items in new and unused condition (A-condition).[3] As a result, the new, unused excess items were sold for pennies on the dollar. In response to our May 2005 report, at the June 2005 oversight hearing by the Subcommittee on National Security, Emerging Threats and International Relations, DOD officials stated that controls were adequate to prevent items requiring demilitarization from being released to unauthorized parties. In addition, DOD officials promised to have system enhancements in place in January 2006 to assure that excess items in new and unused condition that the military services are continuing to use are returned to inventory and reutilized within DOD to avoid unnecessary purchases.

[1] GAO, *DOD Excess Property: Management Control Breakdowns Result in Substantial Waste and Inefficiency*, GAO-05-277 (Washington, D.C.: May 13, 2005).

[2] DOD policy related to controls over items with significant military technology application, is defined in app. I.

[3] DOD condition codes are defined in app. II.

This report responds to your request that we perform follow-up investigations to determine whether (1) unauthorized parties could obtain sensitive excess military equipment that requires demilitarization when no longer needed by DOD and (2) systems and process improvements are adequate to prevent liquidation sales of A-condition items that DOD is continuing to buy or that are in demand by the military services.

Using investigative techniques and acting in an undercover capacity to disguise our identity, we tested DOD systems and controls to see if we could obtain sensitive excess military equipment and technology items that require demilitarization and should not be available to the public. We used DOD's Federal Logistics (FedLog) system information to identify and validate the population of military equipment and technology items that require demilitarization. We then identified public sales of excess military items that required demilitarization by total destruction when no longer needed by DOD to prevent these items from falling into the wrong hands. Next, we tested the systems and controls by making undercover purchases of military equipment and technology items from DOD's liquidation sales contractor.[4] In making these purchases we used a fictitious identity to obtain End-Use Certificates (EUC)[5] where this documentation was required as a condition of sale. For sales where we were outbid, we tracked the bid activity to identify the winning bidders. We are referring these purchases and numerous other public purchases of items that should have been demilitarized to federal law enforcement agencies for further investigation. In addition, we used publicly available information to develop undercover techniques to penetrate Defense Reutilization and Marketing Office (DRMO) excess property warehouses.

To determine whether DOD was continuing to sell A-condition items that were still being purchased or were in demand by the military services, we monitored DOD's liquidation contractor sales to identify new, unused items. We targeted items for undercover purchases where our research identified ongoing or recent procurements and active supply inventory

[4] In concert with the federal government's E-government policy to use information technology (IT) investments to deliver services and information to citizens electronically, DOD's excess property liquidation sales are conducted over the Internet. Office of Management and Budget, *Implementation Guidance for the E-Government Act of 2002*, M-03-18, at att. A, ¶ B, 1 (Aug. 1, 2003).

[5] An EUC is a form used by DOD to document the intended destination and disposition of sensitive, controlled items released from the department.

status of these items. We also monitored DOD actions to implement improvements in excess property systems, processes, and controls in response to our May 2005 audit recommendations. We analyzed Defense Reutilization and Marketing Service (DRMS) data to determine if reutilization rates of A-condition excess property increased during the first three quarters of fiscal year 2006. We conducted our investigations from November 2005 through June 2006 in accordance with quality standards for investigators as set forth by the President's Council on Integrity and Efficiency.

Summary of Investigation

We used a fictitious identity posing as a private citizen to purchase numerous sensitive excess DOD military technology items that should have been demilitarized instead of being sold to the public. Sensitive excess military equipment purchased by our investigator at DOD liquidation sales auctions included ceramic body armor inserts currently used by deployed troops; a time selector unit used to ensure the accuracy of computer-based equipment, such as global positioning systems and system-level clocks; a universal frequency counter used to ensure that the frequency of communication gear is running at the expected rate; 2 guided missile radar test sets, at least 12 digital microcircuits used in F-14 fighter aircraft; and numerous other sensitive electronic parts. We were able to purchase these items because controls broke down at virtually every step in the excess property turn-in and disposal process.

In addition, posing as DOD contractor employees[6] our undercover investigators were able to easily penetrate security at two separate excess property warehouses in June 2006. There, they were able to obtain, at no cost, numerous sensitive military equipment items valued at about $1.1 million that should not have been released outside of DOD. The items we obtained included two launcher mounts for shoulder-fired guided missiles, several types of body armor, a digital signal converter used in naval electronic surveillance, an all-band antenna used to track aircraft, six circuit cards used in computerized Navy systems, and several other items in use by the military services. The body armor could be used in terrorist or other criminal activity. Many of the other military items have weapons applications that also would be useful to terrorists. Our undercover investigators were able to obtain these items because DRMO personnel did

[6] Under DOD's excess property reutilization program, DOD contractors are treated the same as DOD units and are not charged for excess property items they requisition for reuse.

not confirm their identity and authorization to requisition excess DOD property items. The DRMO personnel even helped our undercover investigators load the items into our van.

We also made several undercover purchases of new, unused A-condition excess DOD items, including wet-weather parkas, cold-weather desert camouflage parkas, a portable field x-ray processing enclosure, high-security locks used to secure the back bay of trucks, a gasoline engine, and a refrigerant recovery system used for servicing automotive vehicles. The items we purchased at DOD liquidation sales were being ordered from supply inventory by military units at or near the time of our purchases. In the case of one supply-depot-stocked item—the portable x-ray enclosure—no items were in stock at the time of our purchase. At the time we made our purchase, DOD's liquidation contractor sold 40 of these x-ray enclosures with a total reported acquisition cost of $289,400 for a liquidation sales price of $2,914—about a penny on the dollar. In another example, we purchased a gasoline engine in March 2006 for $355. The Marine Corps ordered 4 of these gas engines from Defense Logistics Agency (DLA) supply inventory in June 2006 and paid $3,119 each for them. At the time of our undercover purchase, 20 identical gasoline engines with a reported acquisition cost of $62,380 were sold to the public for a total liquidation sales price of $6,221. Our investigation demonstrated that the problems we reported in May 2005 have not been fully resolved and that there is continuing waste and inefficiency in DOD's excess property reutilization program.

Our May 2005 report included 13 recommendations to address problems in accountability over sensitive military items and the economy and efficiency of DOD's excess property reutilization program. Thus, we are making no new recommendations in this report. We provided a corrective action briefing to DOD on June 28, 2006, and we provided a draft of our report to DOD for comment on July 10, 2006. The Deputy Under Secretary of Defense for Logistics and Materiel Readiness responded that given the time allotted to comment, the Department was not able to do a detailed review and has no comments at this time. DOD's comment letter is reprinted in appendix III.

Background

Over the past several years, we reported[7] that serious breakdowns in management processes, systems, and controls have resulted in substantial waste and inefficiency in DOD's excess property reutilization program. Our June 2002 testimony and our November 2003 report documented instances where DOD sold to the public items such as Joint Service Lightweight Integrated Suit Technology (JSLIST)[8] and other chemical and biological protective suits and related gear that should have been restricted to DOD use only. Our November 2003 report also identified several examples that showed that at the same time DOD excessed biological equipment items in good or excellent condition and sold many of them to the public for pennies on the dollar, it was purchasing the same or similar items. Our May 2005 report stated that DOD reported $466 million in lost, damaged, and missing excess property from fiscal years 2002 through 2004, including property with demilitarization restrictions, such as chemical and biological protective suits, body armor, and guided missile warheads. Some of the restricted items had been sold to the public. We also reported that during fiscal years 2002 and 2003, the military services purchased at least $400 million of identical items instead of using available excess items in new and unused condition.

At the time of our May 2005 report, waste and inefficiency occurred because condition codes were assigned to excess property that incorrectly identified it as unusable and DOD lacked adequate systems and processes for assuring that excess items in A-condition were reused to avoid unnecessary purchases. We also found that DOD lacked adequate security over excess items requiring demilitarization, resulting in losses reported by DRMOs of nearly 150 chemical and biological protective suits, over 70 units of body armor, and 5 guided missile warheads. Losses reported by DLA

[7] GAO, *DOD Excess Property: Management Control Breakdowns Result in Substantial Waste and Inefficiency*, GAO-05-277 (Washington, D.C.: May 13, 2005); *DOD Excess Property: Risk Assessment Needed on Public Sales of Equipment That Could Be Used to Make Biological Agents*, GAO-04-15NI (Washington, D.C.: Nov. 19, 2003); and *DOD Management: Examples of Inefficient and Ineffective Business Processes*, GAO-02-873T (Washington, D.C.: June 25, 2002).

[8] JSLIST is a universal, lightweight, two-piece garment (coat and trousers) that when combined with footwear, gloves, and a protective mask and a breathing device, forms the warfighter's protective ensemble. Together, the ensemble is to provide maximum protection to the warfighter against chemical and biological contaminants without negatively affecting the ability to perform mission tasks. JSLIST is the current model protective suit used by the military services.

supply depots included thousands of sensitive military items, such as weapons system components and aircraft parts.

Undercover Acquisitions of Sensitive Excess Military Items Identifies National Security Risk

Our undercover investigators purchased several sensitive excess military equipment items that were improperly sold to the public at DOD liquidation sales. These items included 8 ceramic body armor inserts identified as small arms protective inserts (SAPI), which are the ceramic inserts currently in demand by soldiers in Iraq and Afghanistan; a time selector unit used to ensure the accuracy of computer-based equipment, such as global positioning systems and system-level clocks; 12 digital microcircuits used in F-14 *Tomcat* fighter aircraft; guided missile radar test sets used to check the operation of the data link antenna on the Navy's *Walleye* (AGM-62) air-to-ground guided missile; and numerous other electronic items. In instances where DOD required an EUC as a condition of sale, our undercover investigator was able to successfully defeat the screening process by submitting bogus documentation and providing plausible explanations for discrepancies in his documentation. We identified at least 79 buyers for 216 sales transactions involving 2,669 sensitive military items that DOD's liquidation contractor sold to the public between November 2005 and June 2006. We are referring information on these sales to the appropriate federal law enforcement agencies for further investigation.

Posing as DOD contractor employees, our investigators also entered DRMOs in two east coast states, and obtained about $1.1 million in excess military items that required demilitarization as well several other items that are currently in use by the military services. DRMO personnel even helped us load the items into our van. These items included 2 launcher mounts for shoulder-fired guided missiles, an all-band antenna used to track aircraft, 16 body armor vests, body armor throat and groin protectors, 6 circuit card assemblies used in computerized Navy systems, and 2 Palm V personal data assistant (PDA) organizers.

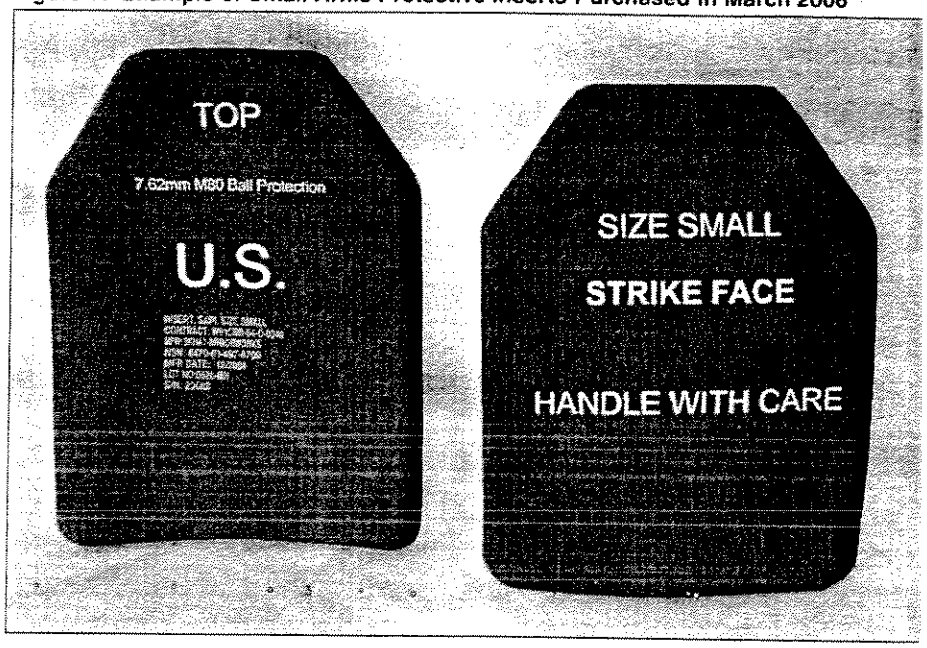
Sensitive Excess Military Items Purchased at DOD Excess Property Liquidation Sales

Using a fictitious identity as a private citizen, our undercover investigator applied for and received an account with DOD's liquidation sales contractor. The undercover investigator was then able to purchase several sensitive excess military items that were being improperly sold to the public. During our undercover purchases, our investigator engaged in numerous conversations with liquidation sales contractor staff during warehouse inspections of items advertised for sale and DRMS and DLA

Criminal Investigative Activity (DCIA) staff during the processing of our EUCs. On one occasion our undercover investigator was told by a DCIA official that information provided on his EUC application had no match to official data and that he had no credit history. Our investigator responded with a plausible story and submitted a bogus utility bill to confirm his mailing address. Following these screening procedures, the EUC was approved by DCIA and our undercover investigator was able to purchase targeted excess military items. Once our initial EUC was approved, our subsequent EUC applications were approved based on the information on file. The following discussion presents the case study details of our undercover purchases of sensitive excess military items that should have been destroyed when no longer needed by DOD and should not have been sold to the public. Although these items had a reported acquisition cost of $461,427, we paid a liquidation sales price of $914 for them—less than a penny on the dollar.

Small arms protective insert. In March 2006, our undercover investigator purchased 3 ceramic body armor inserts identified as small arms protective inserts (SAPI), which are the ceramic inserts currently in demand by soldiers in Iraq and Afghanistan. SAPI are designed to slide into pockets sewn into the front and back of military vests in order to protect the warfighter's chest and back from small arms fire. The SAPI had been improperly included in a batch lot of items that did not require demilitarization. The batch lot reportedly contained 609 items, including shelter half-tents, canteens and canteen covers, small tools, first aid pouches, insect nets, barracks bags and waterproof bags, small arms cases, miscellaneous field gear, and the SAPI. We paid $129 for the batch lot, which had a reported acquisition cost of $1,471. The SAPI have a demilitarization code of D, which requires them to be destroyed when no longer needed by DOD rather than being sold to the public. Figure 1 shows a photograph of one of the SAPI that we purchased.

Figure 1: Example of Small Arms Protective Inserts Purchased in March 2006



Source: GAO

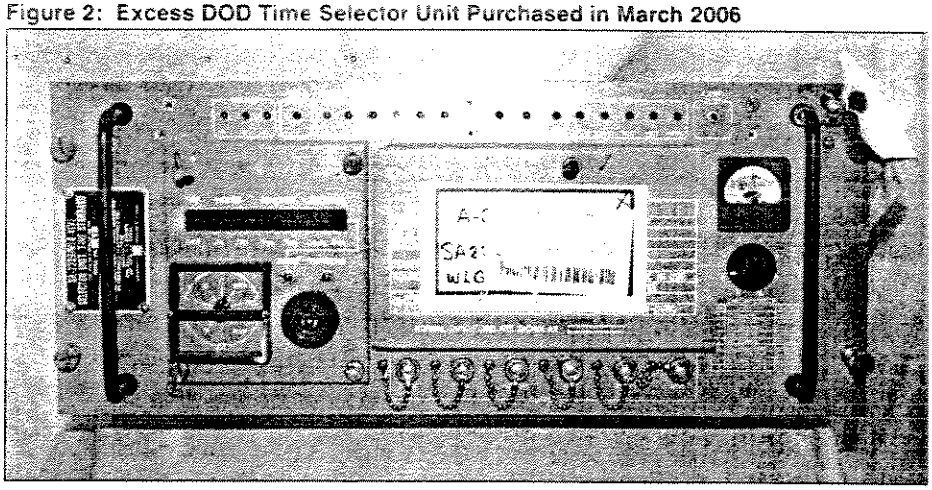
Time selector unit. In March 2006, our undercover investigator purchased an excess DOD time selector unit used to ensure the accuracy of computer-based equipment, such as global positioning systems and system-level clocks. According to our Chief Technologist, this technology is important because it prevents users in the battlefield from exposing their position to get timing signals from outside sources. We paid $65 for the time selector unit, which had an original acquisition cost of $343,695. Also, although the unit was listed as being in F7 condition (unserviceable, reparable condition), it appeared to be in working order.

The time selector unit had a demilitarization code of D, which required it to be destroyed when no longer needed by DOD. The unit also had a FedLog controlled inventory item code (CIIC) of 7, which indicates it is a classified

item that requires protection in the interest of national security, in accordance with DOD 5200.1-R, *Information Security Program*.[9]

Although the link on the national stock number (NSN)[10] included on DOD's liquidation contractor's Internet sale Web site showed this item was assigned a demilitarization code of D, it was sold to the public as a trade security controlled item—demilitarization code B. As such, we were required to complete an application and obtain an approved EUC. Our undercover investigator submitted bogus information on his EUC application. A DCIA official contacted our undercover investigator and told him that the information on his application did not match official data and he had no credit history. After responding with a plausible story and submitting a bogus utility bill to document our mailing address, our EUC for the time selector unit was approved in April 2006. Figure 2 shows a photograph of the excess DOD time selector unit we purchased.

Figure 2: Excess DOD Time Selector Unit Purchased in March 2006



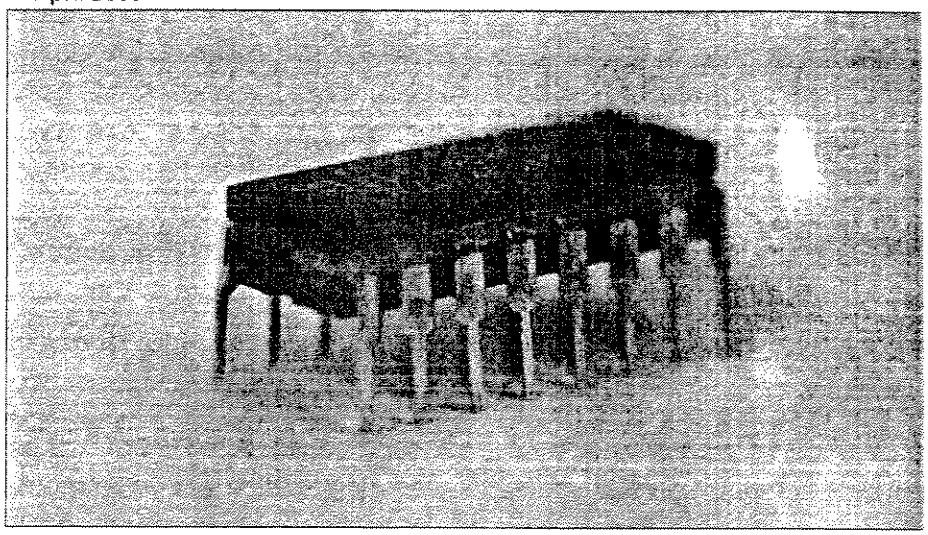
Source: GAO.

[9] DOD 5200.1-R, *Information Security Program* (January 1997), established the DOD Information Security Program to promote proper and effective classification and protection in the interest of national security.

[10] An NSN is a unique 13-digit number that identifies standard use inventory items.

Digital microcircuits. Our undercover investigator purchased a total of 82 excess DOD digital microcircuits, including 12 microcircuits used on the F-14 *Tomcat* fighter aircraft. Because of their sensitive technology, the microcircuits had a demilitarization code of D, which requires their total destruction when they are no longer needed by DOD. The 12 microcircuits also had a CIIC of 7, which indicates they are classified items that require protection in the interest of national security, in accordance with DOD 5200.1-R. In violation of DOD demilitarization policy for D coded items, the microcircuits were improperly included in a batch lot with several other electronic items that did not require demilitarization. Further, only 12 of the 82 demilitarization code D microcircuits that we purchased were listed on the liquidation sale advertisement. We paid approximately $58 for the entire batch lot, which included a total of 591 items with a reported acquisition cost of $112,700. Because several items in the batch lot had demilitarization codes that designated them as trade security control items restricted by the U.S. Munitions List or the Commerce Control List of the U.S. Department of Commerce, an EUC was required for approval of our purchase. Our EUC for the digital microcircuits was approved in May 2006 based on our bogus information already on file. Figure 3 shows an enlarged photograph of one of the microcircuits that were improperly sold to our undercover investigator.

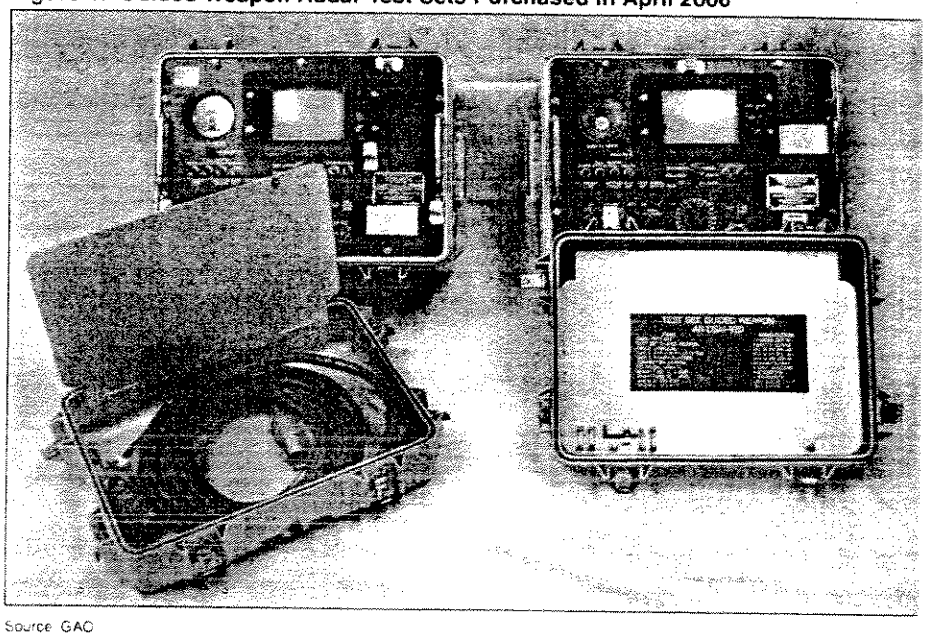
Figure 3: Enlarged Photograph of One of the Excess DOD Microcircuits Purchased in April 2006



Source: GAO

Guided weapon radar test sets. Two guided weapon radar test sets were included in the batch lot with the digital microcircuits that our undercover investigator purchased from DOD's liquidation sales contractor in April 2006. The test sets, which were advertised for sale as radar test sets, are used to check the operation of the data link antenna on the Navy's *Walleye* (AGM-62) air-to-ground guided missile delivered by the F/A-18 *Hornet* fighter aircraft. The *Walleye* is designed to deliver a self-guided high-explosive weapon from an attack aircraft to a surface target. Because of their sensitive technology the test sets have a demilitarization code of B, which requires an EUC for trade security purposes. Figure 4 shows a photograph of the guided weapon test sets that we purchased and obtained using bogus EUC documentation.

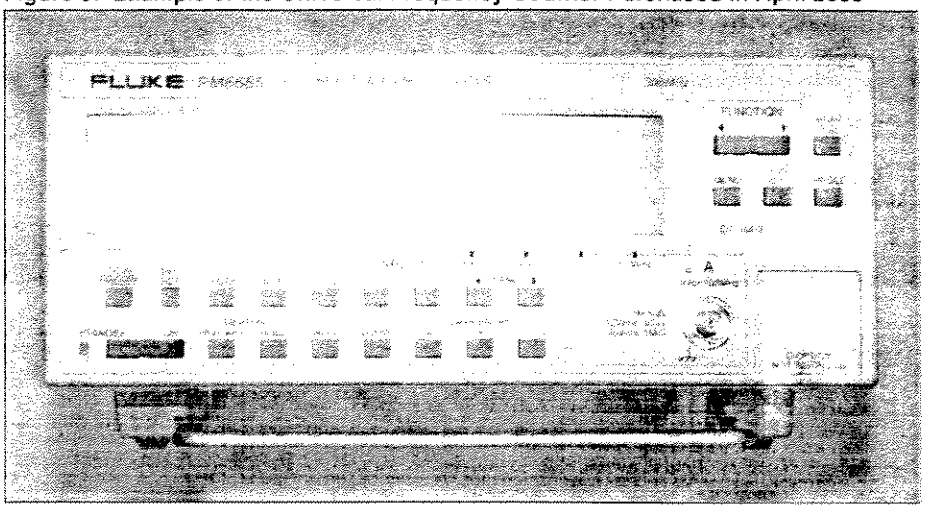
Figure 4: Guided Weapon Radar Test Sets Purchased in April 2006



Source: GAO

Universal frequency counter. The new, unused universal frequency counter purchased by our undercover investigator was manufactured (initially calibrated) in February 2003. DOD awarded a contract to Fluke Corporation in 2002 for 67 of these items, which are designed to count the speed at which an electrical system fluctuates. According to a manufacturer official, this item's military application is to ensure the frequency of communication gear is running at the expected rate. The universal frequency counter has a demilitarization code of B, which requires trade security control under the U.S. Munitions List. We paid a total of $475 for this item, which had a reported acquisition cost of $1,685. In April 2006, when we purchased the universal frequency counter, DOD's liquidation sales contractor sold a total of 15 of these items for $5,506, or about $367 per unit. The 15 items had a reported total acquisition value of $25,275, or $1,685 per unit. The bogus paperwork that we submitted with our EUC application was approved by DCIA in May 2006. Figure 5 shows a photograph of the unit that we purchased.

Figure 5: Example of the Universal Frequency Counter Purchased in April 2006



Source: GAO

Directional coupler. In March 2006, our undercover investigator purchased an excess military item advertised as a directional coupler from DOD's liquidation sales contractor. We paid $186 for the sales lot, which contained a total of 8 electronic equipment and supply items with a listed acquisition cost of $1,200. According to FedLog, the directional coupler advertised had an actual acquisition cost of $1,876. This directional coupler is used in the F-14 *Tomcat* fighter aircraft to monitor, measure, isolate, or combine electronic signals. Because of its technology, this directional coupler has a demilitarization designation code of D, which required it to be destroyed when no longer needed by DOD. The directional coupler also had a CIIC of 7, which indicates it is a classified item that requires protection in the interest of national security, in accordance with DOD 5200.1-R. However, after receiving the item, we discovered that it was not the item identified by the national stock number in the sales advertisement. As a result, it appears that DOD not only lost accountability over the actual item identified in its excess property inventory, but advertised and recorded a public sale of a sensitive military item on the U.S. Munitions List, which was required to be disposed of by destruction in accordance with DOD demilitarization policy.[11]

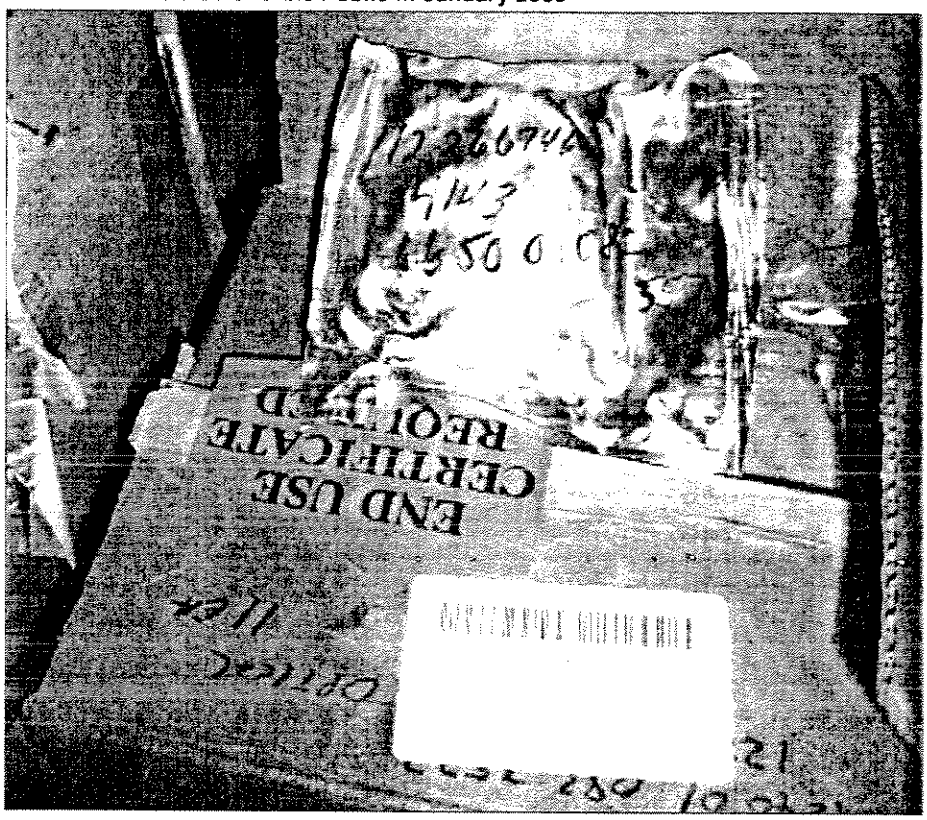
[11] DOD 4160.21-M-1, *Defense Demilitarization Manual (1995)*, at Appx. 3, "Demilitarization Codes to Be Assigned to Federal Supply Items and Coding Guidance."

Additional Sales of Sensitive Excess Military Items Targeted for Undercover Purchase

We observed numerous sales of additional excess sensitive military items that were improperly advertised for sale or sold to the public, including fire control components for weapon systems, body armor, and weapon system components. The demilitarization codes for these items required either key point or total destruction rather than disposal through public sale. Although we placed bids to purchase some of these items, we lost to higher bidders. We identified at least 79 buyers for 216 public liquidation sales transactions involving 2,669 sensitive military items. We are referring these sales to federal law enforcement agencies for further investigation and recovery of the sensitive military equipment. The following discussion highlights the details of sales of sensitive military equipment items that we observed or targeted for purchase but did not obtain because we were outbid during the respective sales auctions.

Optical fire control items. Our investigative team identified a January 2006 sale of excess U.S. Army Armament Command optical instrument prisms and optical lenses. DOD data showed that these optical instruments are components of the fire control sighting mechanism used in the M-901A Improved Armored Anti-tank vehicle. The M-901A fires the TOW 2 series missiles. Our Chief Technologist advised us that both the prisms and lenses are high-quality optical sighting equipment used in the fire control system of the M-901A. We made an undercover visit to one of DOD's liquidation contractor sales facilities to inspect the prisms in January 2006. Our inspection of the items listed for sale disclosed that the property label on the boxes listed 11 optical instrument prisms with an acquisition cost of $93,093. Although the demilitarization code of Q listed on the property label for the prisms identified them as requiring trade security control as an item on the Commerce Control List, the NSN listed for the prisms in fact related to a demilitarization code of D, which required their total destruction when no longer needed by DOD. Upon further inspection, we found that the items labeled as prisms were in sealed manufacturer packages that listed them as optical instrument lenses, not prisms. The NSN associated with the 11 lenses indicated that they had a total acquisition cost of $1,859 and a demilitarization code of D, requiring their total destruction rather than disposal by public sale. The mislabeling of these items indicates that DOD may have lost accountability over both the prisms and the lenses. Both the prisms and the lenses have a controlled CIIC code of 7, which indicates they are classified items that require protection in the interest of national security, in accordance with DOD 5200.1-R. We bid $550 for the lenses and lost to a higher bidder, who paid $909 for them. Figure 6 is a photograph of one of the boxes labeled as containing prisms that actually contained lenses.

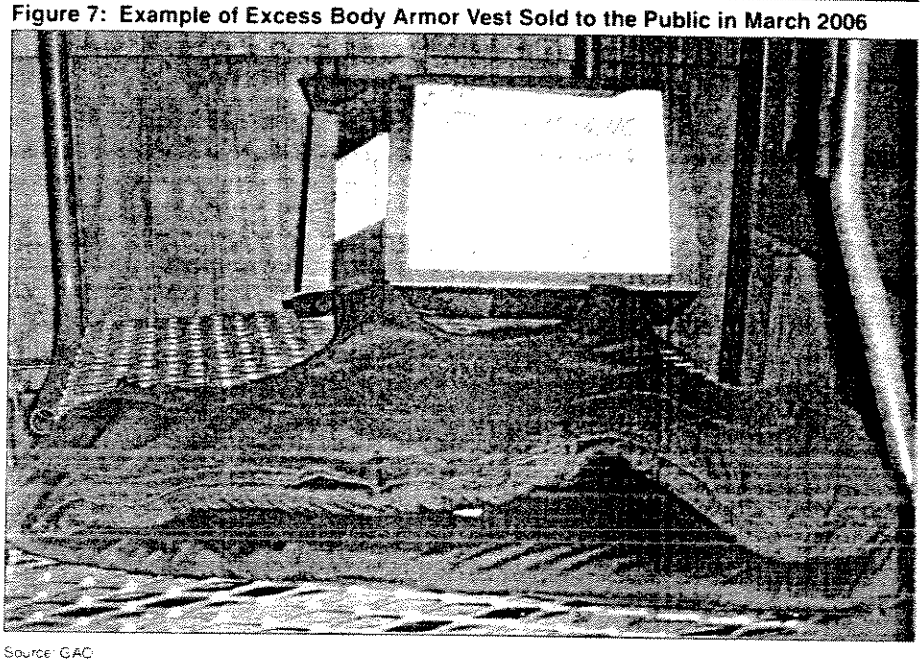
Figure 6: Optical Instrument Lenses Used in Fire Control Technology on the M-901A Anti-tank Vehicle Sold to the Public in January 2006



Source: GAO.

Body armor. Our investigative team also identified a March 2006 liquidation sale of body armor fragmentation vests. Upon our visit to the sales warehouse, we identified a total of four body armor fragmentation protective vests in two separate sales lots. According to the NSN, all of the items sold had a demilitarization code of E, which required either key point or total destruction of the item when no longer needed by DOD. We did not bid on this sale, but have included it in our referrals to federal law enforcement agencies for follow-up investigations. Figure 7 shows a photograph of the actual body armor vest that that we observed for sale in March 2006.

Figure 7: Example of Excess Body Armor Vest Sold to the Public in March 2006



Source: GAO

During our undercover operations, we also noted 13 advertised sales events, including 179 items that were subject to demilitarization controls, where the items were not sold. In 5 of these sales involving 113 sensitive military parts, it appears that DOD or its liquidation sales contractor caught the error in demilitarization codes and pulled the items from sale. One of these instances involved an F-14 fin panel assembly that we had targeted for an undercover purchase. During our undercover inspection of this item prior to sale, a contractor official told our investigator that the government was in the process of changing demilitarization codes on all F-14 parts and it was likely that the fin panel assembly would be removed from sale. Of the remaining 8 sales lots containing 66 sensitive military parts, we could not determine whether the items were not sold because DOD or its contractor caught the demilitarization coding errors or because minimum bids were not received during the respective sales events.

Sensitive Military Items Obtained Through Inside Penetrations of DRMO Security

Our investigators used publicly available information to develop fictitious identities as DOD contractor personnel and enter DRMO warehouses (referred to as DRMO A and DRMO B) in two east coast states on separate occasions in June 2006, to requisition excess sensitive military parts and equipment valued at about $1.1 million. Our investigators were able to search for and identify excess items without supervision. In addition, DRMO personnel assisted our investigators in locating other targeted items in the warehouse and loading these items into our van. At no point during either visit did DRMO personnel attempt to verify with the actual contractor that our investigators were, in fact, contractor employees.

During the undercover penetration, our investigators obtained numerous sensitive military items that were required to be destroyed when no longer needed by DOD to prevent them from falling into the wrong hands. These items included two guided missile launcher mounts for shoulder-fired missiles, several types of body armor, an all-band antenna used to track aircraft, six circuit card assemblies used in Navy computerized systems, a digital signal converter used in naval electronic surveillance, and two Palm V personal digital assistants (PDA) that were certified as having their hard drives removed.

Shortly after leaving the second DRMO, our investigators received a call from a contractor official whose employees they had impersonated. The official had been monitoring his company's requisitions of excess DOD property and noticed transactions that did not appear to represent activity by his company. He contacted personnel at DRMO A, obtained the phone number on our excess property screening letter, and called us. Upon receiving the call from the contractor official, our lead investigative agent explained that he was with GAO and we had performed a government test.

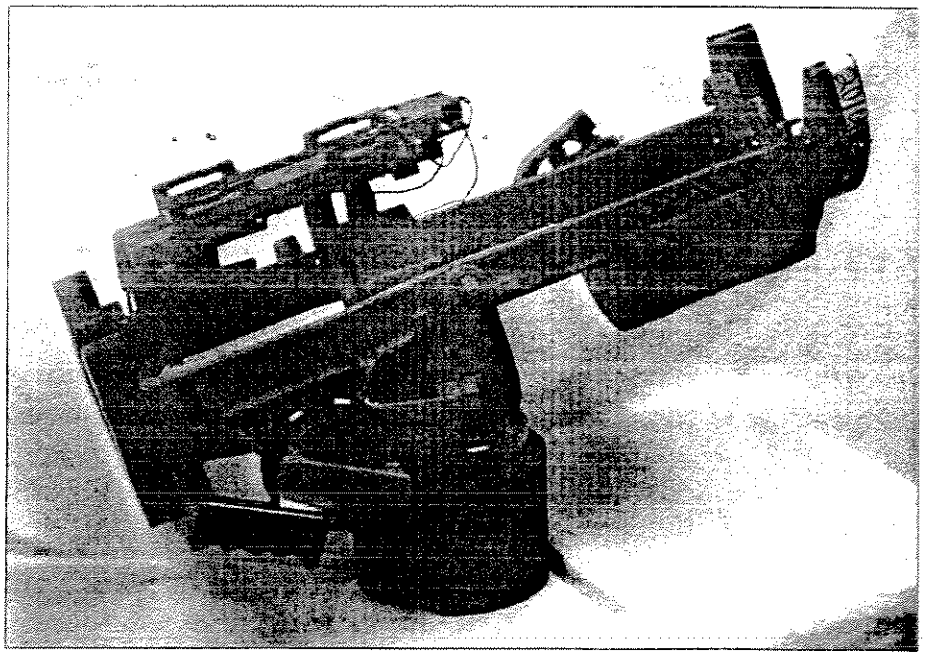
DRMO A Penetration

The following discussion presents the details of our case study requisitions of sensitive military items we obtained during our penetration of the first east coast DRMO.

Guided missile launcher mounts. Posing as DOD contractor employees, our undercover investigators entered DRMO A in June 2006 and requisitioned two excess DOD shoulder-fired guided missile launcher mounts with a total reported acquisition cost of $6,246. The missile launcher mounts provide the electrical connection between the round and the tracker and contain a remote firing mechanism for the wire-guided *Dragon* missiles. While the *Dragon* has been replaced by newer technology

missiles, it is a man-portable, shoulder-fired, medium antitank weapon system that can defeat armored vehicles, fortified bunkers, concrete gun emplacements, and other hardened targets. Under department demilitarization policy, missile launcher mounts have a demilitarization code of C, which requires removal and/or demilitarization of installed key point(s) or lethal parts, components, and accessories to prevent them from falling into the wrong hands. The missile launcher mounts also have a CIIC code of 7, which indicates they are classified items that require protection in the interest of national security, in accordance with DOD 5200.1-R. Figure 8 shows a photograph of one of the guided missile launcher mounts obtained by GAO.

Figure 8: Guided Missile Mount Obtained from DRMO A during the June 2006 Undercover Penetration



Source: GAO.

Kevlar body armor fragmentation vests. Our undercover investigators obtained six Kevlar body armor fragmentation vests with a total reported acquisition cost of $2,049 from DRMO A during our June 2006 security penetration. This body armor has a woodland camouflage pattern and was designed for use by ground troops and parachutists. Although the Kevlar

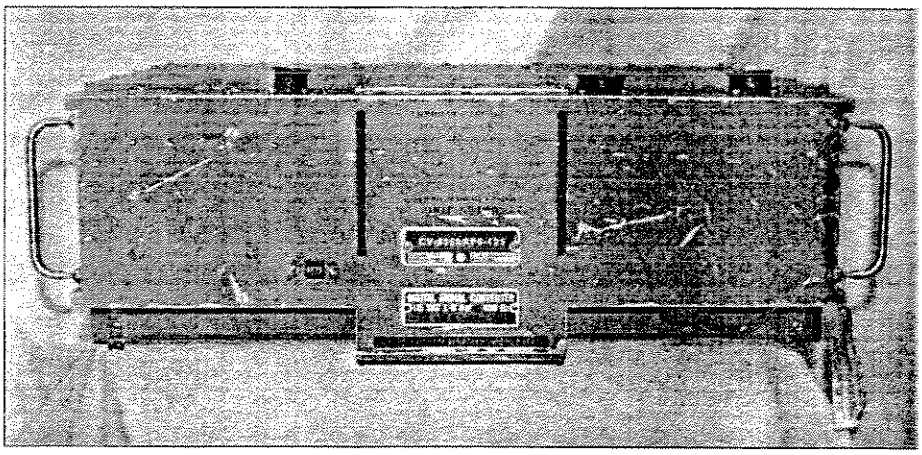
fragmentation vest has been replaced by newer technology, it is still considered a sensitive military item and has a demilitarization code of E, which identifies it as critical items/materiel determined to require demilitarization, either key point or total destruction. The Kevlar fragmentation vests also have a CIIC code of 7, which indicates they are classified items that require protection in the interest of national security, in accordance with DOD 5200.1-R. Figure 9 shows a photograph of one of the fragmentation vests obtained during our undercover penetration.

Figure 9: One of the Kevlar Body Armor Fragmentation Vests Obtained from DRMO A during the June 2006 Undercover Penetration

Source: GAO.

Digital signal converter. During the undercover penetration at DRMO A, our investigators also obtained a DOD digital signal converter with a reported acquisition cost of $882,586. The digital signal converter is used as part of a larger surveillance system on the Navy's E2C *Hawkeye* early warning and control aircraft. Under department demilitarization policy, this digital signal converter has a demilitarization code of D that requires it to be destroyed when no longer needed by DOD. This signal converter also has a CIIC code of 7, which indicates it is a classified item that requires protection in the interest of national security, in accordance with DOD 5200.1-R. Figure 10 shows a photograph of the digital signal converter our investigators obtained from DRMO A.

Figure 10: Digital Signal Converter Obtained from DRMO A during the June 2006 Undercover Penetration



Source: GAO.

All-band antenna. Our undercover investigators identified and requisitioned a new, unused all-band antenna during their June 2006 security penetration at DRMO A. According to manufacturer information, the antenna is a high-powered portable unit that is used by the Air Force to track aircraft. The antenna can be tripod-mounted or mounted on a portable shelter. The new, unused all-band antenna, which was purchased by DOD in 2003, had a reported acquisition cost of $120,000. A manufacturer representative told our investigator that this antenna is currently in production. Under department demilitarization policy, this all-band antenna has a demilitarization code of D that requires it to be destroyed when no longer needed by DOD. This antenna also has a CIIC