



DEPARTMENT OF THE NAVY  
HEADQUARTERS UNITED STATES MARINE CORPS  
WASHINGTON, DC 20380-0001

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FOREWORD

1. PURPOSE

This handbook is designed to heighten the awareness of commanders and functional managers to the potential for fraud and waste within their activities. Commanders are responsible to ensure functional managers are aware of the contents of this publication.

2. CANCELLATION

NAVMC 2768 of 27 June 1983.

3. BACKGROUND

Our common objective is the detection and prevention of fraud and waste. This is possible only through a combination of increased sensitivity on the part of commanders and resource managers to those activities indicative of fraud and waste, and the swift and accurate application of resource, evaluation and analysis staff (REA), inspection, law enforcement, investigative and legal expertise.

4. INFORMATION

Each member of the Marine Corps community must be committed to fighting fraud and waste. Although the Inspector General of the Marine Corps has been designated as the Marine Corps focal point in combating these problems, the ultimate success or failure of the program rests upon the involvement of each Marine Corps commander and manager.

5. ACTION

You are encouraged to use this handbook and to seek professional support when you recognize the potential for fraud and waste in your area of responsibility.

6. RECOMMENDATIONS

Recommendations are invited and should be submitted to Commandant of the Marine Corps (FDR).

7. RESERVE APPLICABILITY

This Handbook is applicable to the Marine Corps Reserves.

NAVMC 2768

8. CERTIFICATION

Reviewed and approved this date.



E. T. Comstock  
Fiscal Director of the Marine Corps

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COMMANDANT OF THE MARINE CORPS (CODE FDR), WASHINGTON, D.C. 20380,  
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## PREFACE

Combating fraud and waste is a personal and professional responsibility. A number of significant events have occurred in recent years to heighten public awareness of fraudulent, wasteful, or abusive activities within the Federal Government. From the President on down, a number of actions have been taken or are planned to counter these activities. The most important element in this fight is you--the commander or functional manager. Without your full cooperation, we cannot succeed in our fight against fraud and waste.

The key to prevention and detection of fraud and waste is a recognition of conditions that allow these practices to go undetected. For the commander or functional manager, there are "indicators" of these conditions which provide the initial warning and show the need for further attention. It is important to remember that these indicators often appear on the surface as minor administrative or managerial irregularities; therefore, you should look below the surface.

Each indicator set forth in this handbook is taken from audits, inspections, and investigations. In a number of cases, the functional manager's recognition of the indicator was the primary reason fraud and waste was uncovered.

This handbook provides a list of indicators that you, as commander or functional manager, can use in overseeing your operations. Your participation in this effort is encouraged. The handbook is not meant to be all-inclusive by any means. If you have indicators that you feel should be added to the list, send them to the Commandant of the Marine Corps (Code FDR) Washington, D.C. 20380.

A Word of Caution: Due to the explicit manner in which this handbook is written, there is a potential for misuse of the information. Although it is vitally important that the indicators be given to the right people, it is equally important that you ensure this information is not disseminated in such a manner that it will be misused by unscrupulous individuals. Additionally, the indicators are not evidence that fraud or waste exists. They are simply situations which may need further review to determine if Marine Corps resources are being lost. During this "further review" process, you are encouraged to use command resource, evaluation and analysis (REA), investigative, legal, law enforcement, and inspection resources available to you.

## CHAPTER 1

### COMMANDER'S CHAPTER

This chapter discusses the unique, yet strategically important role of the Marine Corps Commander in preventing and detecting fraud, waste, and abuse in Marine Corps activities and operations. While overall responsibility for combating fraud, waste and abuse is a function of command, most command positions are sufficiently broad as to preclude the detailed day-to-day personal involvement needed to detect fraudulent, wasteful and abusive actions. The commander is ultimately responsible when these actions occur.

The other chapters in this Handbook provide a number of specific suggestions for detecting and preventing potential fraud, waste, and abuse. Because these suggestions require in-depth involvement, the busy commander must normally rely on subordinate managers and staff to ensure the suggested actions are taken.

This chapter provides 10 suggestions for fulfilling commanders' responsibilities in the fraud, waste, and abuse area. The suggestions are, by their nature, broad because commanders' responsibilities are broad. They are, however, the result of specific observations made by inspectors, investigators, and Resource, Evaluation and Analysis Staff (REA) when dealing with fraudulent or wasteful conditions.

1. Commander's Attitude Toward Fraud, Waste, and Abuse Prevention and Detection. Attitudes and actions of subordinate units and personnel often mirror those of the commander. When a commander chooses to emphasize or pay particular attention to specific areas, people under the commander will generally follow suit. Conversely, commanders who consciously or unconsciously de-emphasize or ignore particular areas may find later that these areas have also been neglected by their subordinates. The same situation exists for fraud, waste, and abuse. A commander who downplays the importance of detection and prevention may later find the same attitude existing throughout the command. As a consequence, the vulnerability to fraud, waste, and abuse increases.

Suggested Action: Recognize that no activity is immune from fraud, waste, or abuse. Promote through sincere attitude and actions a positive attitude among subordinates toward prevention and detection. In dealing with subordinates, recognize negative attitudes toward the program. (A common attitude is that the whole program is "political".) Further, recognize that areas where negative attitudes exist are often the most susceptible to fraud, waste, and abuse. Commanders should publish a policy

statement on what fraud is and that fraud will not be tolerated. This policy when applied by private corporations regarding thefts, has resulted in a decrease in losses.

2. Importance of Standard Procedures and Controls. Over the years, the Marine Corps has adopted numerous procedures and controls which are designed to protect and safeguard resources. When properly followed and practiced, these procedures and controls significantly reduce an activity's susceptibility to fraudulent and wasteful actions. Conversely, REA, inspectors and investigators have found that most fraud and waste occurs when activities have been allowed to deviate from normal control procedures. In addition, two common reasons have been found for deviations, either people did not understand the reasons for the control or procedure, or deviations were permitted to "get the job done."

Suggested Action: Insist on adherence to standard procedures and controls. When deviations are necessary to fulfill mission requirements, ensure subordinates understand that the deviation is only temporary. When temporary deviations are permitted to fulfill mission requirements, provide an additional control through special attention to the area. Ensure the activity returns to normal operations as soon as possible. When the reasons for specific procedures and controls are not understood, find out why the procedures or controls exist and explain the reasons. (Call on the REA staff and investigators to explain the reasons.)

3. Use of Trend Reports to Monitor Operations. Evaluation of static information does not normally disclose indications of potential fraud or waste. Rather, the evaluation of information over a period of time is more likely to disclose significant problems. Two conditions are often indicative of fraudulent or wasteful practices: (1) sudden or dramatic shifts in trends, and (2) persistent deviations from a known norm or standard. Examples include:

- a sudden increase in expenditures in a given activity.
- a sudden shift in an activity's ability to fulfill mission.
- persistent inventory losses in a supply operation.
- a sudden increase in absenteeism or a perceived drop in morale.
- persistent out-of-stock conditions or poor service to customers/users.

Trend reports also serve as a deterrent because subordinates know the commander is interested and is getting information about activity operations

Suggested Action: Determine which activities are most conducive to trend reports. Establish procedures for periodic trend reports on activities selected. Use a format acceptable to your own particular needs. Also consider the effort that will be needed to collect information - make it as simple as possible. Investigate sudden shifts or trends and persistent deviations from established norms.

4. Use of Independent Sources. A key control in most operations is independently reporting and evaluation. A commander can serve in the role of the independent evaluator. However it is important that the information used for evaluation is not provided solely by the activity being evaluated. There are numerous sources of information available which can provide "independent" information.

For example:

- use accounting and REA staff to obtain financial/supply information about command activities.
- use command inspector to verify adherence to armory regulations.

In addition, comparative information obtained from two or more different sources can be beneficial.

Suggested Action: Determine and use sources of independent information for tracking activity operations. Investigate differences in information obtained from two different sources.

5. Identification of Sensitive Areas. Activities and areas under a commander's purview vary significantly in their susceptibility to fraud and waste. As a general rule, activities which manage items that can be put to personal use are the most susceptible. Cash operations require the most stringent controls while other operations vary according to personal demand/marketability of resources managed. For example, commissary and exchange operations stocks are normally more vulnerable than aircraft parts.

Suggested Action: Identify those command activities most susceptible to fraud and waste. Be visible in these activities and operations which are most vulnerable, periodic, unscheduled visits serve as a deterrent as well as an assurance that the commander is interested.

6. Corrective Action on Inspections and Audits. A key to fraud and waste prevention is appropriate corrective action on known deficiencies. The longer deficiencies exist, the more vulnerable the activity is to fraudulent and wasteful practices. In addition, a reluctance to correct deficiencies can be a signal that something more serious is occurring.

Suggested Action: Ensure, through followup by REA staffs, that known deficiencies are corrected. Pay special attention to activities or operations that fail to correct deficiencies. Use independent sources to determine if more serious problems exist when deficiencies are not corrected.

7. Administrative and Judicial Actions. The lack of appropriate administrative and judicial actions can jeopardize a commander's ability to prevent future fraudulent and wasteful actions. While a vast majority of people do what is right because they are conscientious, there are some who need the reassurance that appropriate punitive or administrative actions will be taken in response to improper actions. The mere thought of being suspended or debarred from doing business with the Government is a deterrent in itself for contractors.

Suggested Action: Ensure appropriate administrative or punitive action is taken against perpetrators. Ensure that decisions not to pursue apparent cases of fraud or waste are conscious decisions based on sound rationale. Periodically evaluate judicial and administrative actions in the command to ensure they are fair and consistent.

8. Administrative Requirements: Missing, Lost, Stolen, Recovered (MLSR) Program. MCO 4340.1 requires commands having custody of DOD-owned property to report all incidents where specific types of Government property are missing, lost, stolen, or recovered. The program is primarily limited to reporting of losses of Government property valued over \$500, serialized items over \$100, and all losses of firearms, ammunition, and explosives coded as sensitive. Additionally, any unspecialized Government property considered to be sensitive regardless of value is included in this program. The MCO provides the complete format for preparation of the MLSR report.

The thrust of the MLSR Program is to:

(a) Keep the Commandant of the Marine Corps abreast of the extent of Government property missing, lost, stolen, or recovered.

(b) Report all incidents which fall under the purview of SECNAVINST 5500.4 to the Installation Provost Marshal for further investigation by the Criminal Investigation Division (CID)/Naval

Investigative Service (NIS), and entry of appropriate serialized property (i.e., firearms) into the FBI's National Crime Information Center (NICK) files.

(c) Identify physical security deficiencies with a goal of correcting them and sustaining a successful loss prevention program.

Suggested Action: Ensure that the MLSR report/message is submitted in accordance with MCO 4340.1 and that followup is accomplished by the Installation Provost Marshal with subsequent referral to the NIS. Aggressively identify physical security deficiencies and/or negative trends and correct them.

9. The Commander's "Watchful Eye." One of the most effective deterrents to fraud and waste is the "watchful eye." Oftentimes, commanders are too busy to perform detailed analyses of operations. However, simply observing or listening serves a very useful purpose. In addition, the inquisitive commander can often spot unusual conditions needing further attention. Recognize that observations may only be symptomatic of more deep-rooted problems. For example, continual complaints about an activity's service to its customers/users may be caused by unsurpassed fraudulent or wasteful operations. Establish an active command hotline program through which subordinates assist the commander in detecting fraud, waste, and abuse and a command fraud council to review significant cases. In accordance with MCO 7510.5, the development of a Remedies Plan (when appropriate) will ensure accountability.

Suggested Action: Be alert to unusual conditions and continuous complaints. Look beyond the resolution of the surface condition or complaint to ensure nothing more serious exists.

10. The Management Control Program. The Management Control Program as promulgated in MCO 5200.24 when properly implemented will identify for the commander areas where improvement in management controls are needed. The performance of vulnerability assessment and management control evaluations of the commands areas of responsibilities as outlined in MCO 5200.24 will identify areas where material management control weakness exist. Adequate management controls give the commanding officer reasonable assurance that applicable laws, regulations and policies are being adhered to. They promote operational economy and efficiency and ensure the accuracy and reliability of information. A commander who downplays the importance of management controls and the adherence to them increases the susceptibility to fraud, waste, abuse and mismanagement in all areas of the command.



Suggested Action: Perform the required Vulnerability Assessments and Management Control Evaluation as required by MCO 5200.24 and take corrective action to correct all material weaknesses identified by these actions.

## CHAPTER 2

### FRAUD

This chapter discusses various aspects of fraud, including a definition of fraud, auditor's responsibility for the prevention and detection of fraud, tips for fraud investigators, and laws relating to fraud.

#### \*\*What is Fraud?\*\*

1. At the very beginning we must explain what we mean when we discuss the term fraud. The following are several definitions of fraud:

--Any willful or conscious wrongdoing that adversely effects the Government's interests or integrity.

--The intentional, wrongful obtaining of either money, or some other advantage or benefit from Government programs.

--The obtaining of something of value, unlawfully, through willful misrepresentation.

Fraud is used loosely here to indicate criminal conduct. "Fraud" has a specific definition in criminal law; here it is being used to refer to wrongdoing. Fraud embraces theft, embezzlement, false statements, illegal commissions, kickbacks, conspiracies, obtaining contracts through collusive arrangements, and similar devices. The following are some examples of fraud: falsification of documents, such as time cards or purchase orders; charging personal expenses to Government contracts; diversion of Government property or funds for unauthorized uses; submission of false claims, such as invoices for services not performed or material not delivered; intentional mischarging or misallocation of contract costs; deceit by suppression of the truth; regulatory or statutory violations, such as bribery, theft of Government property, graft, conflict of interest, and acceptance of gratuities; and any attempt or conspiracy to engage in or use the above.

#### \*\*Tips for Fraud Investigations\*\*

2. The following information is provided as a general guide in the investigation of fraud.

##### A. PROOF

(1) Provability. Provable fraud can most often be equated with larceny by deception. Look for a clear profit motive and opportunity to commit a crime if fraud is suspected. If no one

stood to benefit by the act, then it probably was not a criminal act of fraud. Not to be overlooked, however, is the fact that acts of omission (failing to perform) can also be a criminal act of fraud, particularly when someone has been influenced not to perform a required function.

(2) Audit trail. There should be a visible audit trail to trace the flow of funds. Each bend in the trail or diversion from it should be well documented to affix responsibility. If the trail becomes uncertain, fraud is indicated and it may be time to secure the records. On the other hand, a perfect audit trail may also be an indicator of deliberate manipulation to cover illegal activity. Examination of supporting documentation for the audit trail, questioning as to why things were done the way they were and when they were, as well as a knowledge of how the system is designed to function, may disclose the presence of illegal activity. In short, look beyond and behind the paper trail to what happened and why it happened in a particular way at a particular time.

(3) Intent. The crime of fraud requires criminal intent. In law, this is known as "mens rea" (literally, "a guilty mind"). Look for what was gained or intended to be gained by the act. Is there a clear and definite profit motive? It may be that the "mens rea" involved was an attempt to curry favor with a particular contractor or other individual in the interest of friendship, to create a bond for future possibility of employment, or simply because the subject does not recognize the validity of a restricting regulation. It is difficult to prove an attitude or state of mind if no tangible reward is visible. A series of specific acts, however, can often go towards showing the intent of an individual to commit a crime.

While it may be good investigative practice to assume the worst and look for evidence to prove it, we should not lose sight of the possibility that the whole thing may contain more smoke than fire. In any event, first determine what happened and why it happened at a particular time. Determine what the elements of proof are. Intent should be examined last. A series of specific acts can often show that there was an intent to commit a crime.

(4) The "Cover-Up" Syndrome. When a large scale fraud case surfaces, everyone seems eager to presume that the boss is involved. They say that the top man must have known about the corruption and covered it up. This is seldom true. We should not allow this attitude to prevail if there is no evidence of direct connection or involvement.

(5) Evidence. An audit or other circumstances may disclose strong indications of fraud but nothing strong enough to survive courtroom scrutiny. Look for possible violations of the

"Standards of Conduct," SECNAVINST 5370.2 and MCO 5370.3 which may be easier to prove. Most large scale frauds involve Standards of Conduct violations in order to succeed.

(6) Disciplinary Actions. Reluctance to take disciplinary actions can jeopardize a commander's ability to prevent future illegal and abusive actions. Appropriate disciplinary action should be taken against those responsible. Decisions not to pursue apparent cases of illegal and/or abusive acts need to be based on sound rationale. Periodically evaluate disciplinary and administrative actions in the command to ensure they are fair and consistent. Appropriate publicity should be given to disciplinary actions to the extent permitted by the Privacy Act.

## B. PURCHASES

(1) Contracts. All Marine Corps purchases and sales involve some type of contract. A contract is an agreement enforceable by law. All contracts contain four basic elements:

- a. An offer and acceptance of the offer;
- b. Mutual consideration (giving up something of value or some legal right to do or not do something);
- c. Legality (a contract that involves a violation of law is not enforceable);
- d. Contracted by competent (authorized) parties (e.g., non-contracting officers can not obligate Marine Corps funds for the Government).

(2) Some examples of fraud indicators in this area include:

- a. Award of a contract to a contractor who is not the lowest responsible, responsive bidder.
- b. Material changes in the contract shortly after award.
- c. Advance information concerning who is going to win a major competition can give advantage to persons trading in the stock of both the winning and losing companies.
- d. Awards made to contractors with an apparent history of poor performance.
- e. Awards that include items other than those contained in bid specifications.
- f. Contractor misrepresentation as to cost during negotiations.

g. Information given to one contractor which is not given to others which give it a competitive advantage.

(3) The Federal Acquisition Regulations (FAR). The FAR and its supplements provides guidelines for military purchase contracts. A permanent committee resolves disputes and promulgates changes.

The FAR can be confusing even to lawyers who are not extensively trained in contract law. Your local office of Counsel for the Commandant is responsible for providing advice about the FAR. That office is responsible for providing advice about and legal review of contract matters.

(4) Types of Purchases. There are two basic types of military purchases:

- a. Sealed bidding;
- b. Competitive negotiation.

#### C. SALES

(1) Defense Property Disposal System (DPDS). Sale of military property is the direct responsibility of the Defense Property Disposal System (DPDS). The DPDS is broken down into five Defense Property Disposal Regions (DPDR) and Defense Property Disposal Offices (DPDO). DPDR's approve and supervise sales. DPDO's have physical possession of excess and surplus property turned in for disposal. The DPDS is self-supporting through sales.

(2) General Services Administration (GSA). Overall supervision of DOD disposal of property (other than real estate) is the responsibility of the GSA. In 1949, Congress gave GSA the authority to dispose of surplus Federal property, including military property. GSA delegated authority to DOD to dispose of its own surplus property under GSA guidelines.

(3) Excess/Surplus. "Excess" property is not needed by a particular Government agency. "Surplus" property is not needed by any Federal agency. Property may not be sold until it progresses from an "excess" state to "surplus" after all agencies of the Federal Government have been canvassed for possible utilization of the property. DOD first screens all other Government agencies. If the property still cannot be put to Government use, it is declared "surplus" and is eligible for authorized donation or sale.

(4) Disposal Policies. In the order listed:

- a. Reutilization (DOD & GSA);
- b. Donation to authorized donees (GSA);
- c. Sale (for maximum proceeds) (DOD);
- d. Abandonment/Destruction (last resort) (DOD).

(5) Sales. The most common type of sale is by sealed bid. Below are the types of sales used by DPDR's:

- a. Sealed bid - (competitive; sealed bid);
- b. Spot bid - (competitive; sealed bid);
- c. Auction - (competitive; sealed bid);
- d. Negotiated - (Competitive negotiation ; unable to sell sealed bidding or other reasons);
- e. Retail Sales - (Fixed prices; noncompetitive. Too costly to sell through formal advertising, or only local interest.)

(6) Indicators of fraud in the bidding process include:

- a. Improper acceptance of a late bid.
- b. Change in a bid after other bidders prices are known.
- c. Accepting nonresponsive bids from preferred contractors.
- d. Withdrawal of the low bidder who may become a subcontractor to the higher bidder who gets the contract.
- e. Revealing one bidder's price to another.
- f. False certifications by contractor.
  - (1) Small business certification.
  - (2) Minority business certification.
  - (3) Information provided to other agencies to support special status.
  - (4) Certification of independent price determination.

(5) Buy-American Act certification.

g. Deliberate discarding or "losing" the bid proposal of an "outsider" who wants to participate. (May be part of a conspiracy between Government official and a select contractor or group of contractors.)

h. Improperly disqualifying the bid or proposal of a contractor.

i. Seemingly unnecessary contacts with contractor personnel by persons other than the contracting officer during the solicitation, evaluation and negotiation process.

j. Any exercise of favoritism toward a particular contractor during the evaluation process.

k. Using biased evaluation criteria or using biased individuals on the evaluation panel.

D. MISCELLANEOUS

(1) Jurisdiction. There are three factors that determine who has jurisdiction over a suspect:

- a. Law or regulation;
- b. Status of the suspect;
- c. Geographic location.

Federal laws apply to military and civilians alike. Overseas, persons subject to the UCMJ are also subject to 18 U.S.C. (civilians overseas are generally only subject to the laws of the country in which the civilians are located. Generally, Federal law is not applicable to civilians overseas unless the Federal law has extraterritorial application.)

(2) Liaison. Effective coordination is a continuous requirement in the investigation of fraud cases and should continue to some degree until prosecution action is completed. Liaison that may be expected:

- a. Federal agencies;
- b. Other governments (state, local or foreign);
- c. Commanders and their staff. (It is not enough to just contact the commander. Get down to the working level and work with the staff members responsible for doing the job. They should know more about the situation than the commander and have

access to original documents and work papers. But remember that anything you tell them may get back to the commander.)

(3) Surveys. A crime prevention survey may be the appropriate vehicle to uncover sufficient evidence for an investigation. At the least, an investigation or a survey can document the allegations for future reference when there may be more to go on.

(4) Documentation. Detail each step of the investigation, particularly anything controversial or unusual. In large fraud cases, the suspect probably will be influential--expect a fight.

(5) Report Writing. Reports of investigations must be clear, concise, and to the point. Consider logical versus chronological reporting of the facts. Consider topical/subtopical headings about specific issues/elements of proof. Clearly identify issues/elements of proof and report facts concerning them. Clearly identify and report the value lost (money/time/material), so recoupment action may be taken by the command.

(6) Patience. It may take even the best investigator several months or a year or more to complete a complex fraud investigation. Sometimes you reach a plateau that requires you to wait for a particular development to unfold before doing anything else. If you charge ahead, you may end up with half a case or less.

The above information should serve as a good general guide or "refresher" regarding major points of fraud investigations. It should be a useful training resource when used in this context.

#### \*\*Laws Relating to Fraud\*\*

The following laws are related to fraud, and are often used in prosecuting individuals or corporations who are suspected of violating the law in their dealings with the United States Government.

#### A. FALSE STATEMENTS

(1) FALSE STATEMENTS 18 U.S.C. 1001 provides in part:

"Whoever, in any matter within the jurisdiction of any department or agency of the United States knowingly and willfully makes or uses any false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry, shall be..." guilty of an offense against the laws of the United States.



(2) PROGRAM FRAUD CIVIL REMEDIES ACT, 31 U.S.C. 3801 et. seq. allows Federal agencies to adjudicate small-dollar cases arising out of false claims.

(3) ANTI-KICKBACK ACT, 41 U.S.C. 51-54 prohibits the payment of any fee from any subcontractor to the prime-contractor on a Government contract.

(4) CONSPIRACY, 18 U.S.C. 371 prohibits any conspiracy to defraud the United States Government.

(5) TRADE SECRETS ACT, 18 U.S.C. 1905 prohibits the release of any confidential information a Federal employee receives in the course of his employment. This statute covers information such as trade secrets, prices and advance procurement information.

#### Essential Elements of the False Statement Offense

Three essential elements are required to be proved in order to establish the offense charged in the indictment:

First: That the defendant made and used, or caused to be made and used a false writing or document in relation to a matter within the jurisdiction of a department or agency of the United States, as charged;

Second: That such act or acts were done with the knowledge of the accused that the writing or document was false or fictitious and fraudulent in some material particular, as alleged; and

Third: That such act or acts were done knowingly and willfully.

#### B. FALSE, FICTITIOUS OR FRAUDULENT CLAIMS

18 U.S.C. 287 provides in part:

"Whoever makes or presents to any person or officer in the civil, military, or naval service of the United States, or to any department or agency thereof, any claim upon or against the United States, or any department or agency thereof, knowing such claim to be false, fictitious, or fraudulent,..." is guilty of an offense against the United States.

#### Essential Elements of the Offense

First: That the defendant knowingly and willfully made or presented a claim to a Government agency or aided and abetted or caused another person to make such claim;

Second: That such claim was made or presented upon or against a department or agency of the United States;

Third: That such claim was false, fictitious and fraudulent; and

Fourth: That the defendants knew that such claim was false, fictitious and fraudulent.

C. BRIBERY OF PUBLIC OFFICIALS AND WITNESSES

18 U.S.C. 201 provides in part:

"Whoever, directly or indirectly, corruptly gives, offers or promises anything of value to any public official...with intent... to influence any official act; or... to influence such public official...to commit or aid in committing...or allow any fraud...on the United States..., " shall be guilty of an offense against the laws of the United States.

Essential Elements of the Offense

Three essential elements are required to be proved in order to establish the offense charged in the indictment:

First: The act or acts of directly or indirectly offering or promising to a public official a sum of money or thing of value, as charged in the indictment;

Second: Doing such act or acts willfully and corruptly, and

Third: Doing such acts with the intent to influence some official act of said public official, as charged.

D. CONSPIRACY TO COMMIT OFFENSE OR TO DEFRAUD THE UNITED STATES

18 U.S.C. 371 provides in part:

"If two or more persons conspire either to commit any offense against the United States, or to defraud the United States, or any agency thereof in any manner or for any purpose, and one or more of such persons do any act to effect the object of the conspiracy, each..." is guilty of an offense against the United States.

Essential Elements of the Offense

Four essential elements are required to be proved in order to establish the offense of conspiracy charged in the indictment:

First: That the conspiracy described in the indictment was willfully formed, and was existing at or about the time alleged;

Second: That the accused willfully became a member of the conspiracy;

Third: That one of the conspirators thereafter knowingly committed at least one of the overt acts charged in the indictment, at or about the time and place alleged; and

Fourth: That such overt act was knowingly done in furtherance of some object or purpose of the conspiracy, as charged.

#### E. MAIL FRAUD

18. U.S.C. 1341 provides in part:

"Whoever, having devised or intending to devise any scheme or artifice to defraud, or for obtaining money or property by means of false or fraudulent pretenses, representations, or promises...for the purpose of executing such scheme or artifice or attempting so to do, places in any post office or authorized depository for mail matter, any matter or thing whatever to be sent or delivered by the Post Office Department...", shall be guilty of an offense against the laws of the United States.

#### Essential Elements of the Offense

Three essential elements are required to be proved in order to establish the offense charged in the indictment:

First: The act or acts of having devised, or having intended to devise, a scheme or artifice to defraud, or to attempt to defraud, certain wholesalers out of property or money or credit by means of false or fraudulent representations as to the net financial worth of \_\_\_\_\_ corporation, as charged;

Second: The act or acts of placing, or causing to be placed, in an authorized depository for mail matter a letter intended to be sent or delivered by the U.S. Postal Service, as charged; and

Third: The act or acts of so using or causing the use of the United States mails willfully, and with specific intent to carry out some essential step in the execution of said scheme or artifice to defraud, or to attempt to do so, as charged.

#### F. THEFT OF GOVERNMENT PROPERTY

Embezzlement and Theft

18 U.S.C. 641 provides in part:

"Whoever embezzles, steals, purloins, or knowingly converts to his use or the use of another, or without authority, sells, conveys or disposes of any record, voucher, money, or thing of

value of the United States or of any department or agency thereof, or any property made or being made under contract for the United States or any department or agency thereof; or

Whoever receives, conceals, or retains the same with intent to convert it to his use or gain, knowing it to have been embezzled, stolen, purloined or converted-

Shall be fined not more than \$10,000 or imprisoned not more than 10 years, or both; but if the value of such property does not exceed the sum of \$100, he shall be fined not more than \$1,000 or imprisoned not more than 1 year, or both.

The word "value" means face, par, or market value, or cost price, either wholesale or retail, whichever is greater."

## CHAPTER 3

### CONTRACTING AND ACQUISITION

Over half of the annual Marine Corps budget is obligated by contracts. The Marine Corps clearly cannot afford fraud, waste, and abuse in accomplishing its contracting function. In order to minimize Marine Corps losses, commanders and managers should be aware of the following indicators of fraud.

#### \*\*Indicators\*\*

1. Companies Conducting Business Under Several Different Names. Company officials may attempt to conceal a reputation of poor contract performance by conducting business under several different names simultaneously. Such companies may also submit more than one bid or offer in response to a solicitation, thus restricting competition.

Suggested Action: Know your vendors. Be alert to such things as separate bids typed on the same typewriter, mailed from the same address or signed in the same handwriting. Check any apparent irregularities.

2. Unqualified or Inexperienced Personnel Assigned to Monitor Services Contractor Performance. Without adequate inspection, services contractors have an opportunity to be paid for more work than actually performed.

Suggested Action: A qualified person should be assigned to monitor and evaluate each services contractor's compliance with contractual requirements. The Navy requires a training course for all contracting office technical representatives. MCO P12306.1 provides policies and procedures for the management and control of engineering and technical services procured and administered by HQMC and used by field activities.

3. Items Included in a Contract that are not Supported by a Valid Requirements Document. Contracts that include quantities of supplies or services not specifically requested by valid requirements documents may indicate that a buyer is fabricating requirements in order to get available funds to a favored contractor.

Suggested Action: Contracting officers should assure, by checking documents, that any contract or order is for only those supplies or services requested prior to executing the document.

4. Inadequate Documentation of Contract Violation. In actions to find the contractor in default, deny claims, or otherwise protect Marine Corps interests, the Marine Corps' position is

weakened if contract violations committed by a particular contractor are not adequately documented. Needless loss of Marine Corps funds may result from this weakened position.

Suggested Action: Quality Assurance Inspectors and Contract Administrators must fully document violations in a timely manner.

5. Adequate Enforcement of Contract Provisions. Failure to enforce normal contractual requirements such as labor checks on construction contracts, starting dates, insurance requirements and contract completion dates weakens the Marine Corps contractual position and may allow contractors to receive full payment for less than full performance.

Suggested Action: Aggressive contract administration will identify such situations. Further, the self-inspection program is an excellent management tool to periodically review the adequacy of contract administration functions.

6. Stock Consumption Records for Government-Furnished Materials (GFM) in Possession of Contractor are Updated Infrequently or are Adjusted Based Upon Estimates. The value of Government furnished materials can only be established when all material transferred to the contractor is properly documented. Stock consumption records must account for materials used to complete work. Failure to properly account for and control Government materials in possession of the contractor can lead to fraud, waste, and abuse. Procedures for administration of such materials are set forth in FAR, Part 45.

Suggested Action: Periodically take inventory of all Government-owned parts, supplies, and materials in possession of the contractor. Use personnel who are trained in inventory techniques. Ensure that the contractor is complying with requirements to maintain accurate material consumption records. Determine whether the Government administrator reviews consumption records periodically to determine reasonableness of GFM consumption in relation to the contractor's total output of Government work that requires said materials.

7. Government Furnished Equipment Used by Contractor on Commercial Work. Investigations have disclosed instances where contractors falsified records showing non-use of Government furnished equipment when, in fact, the equipment was being used on commercial or non-Government work and no rental fees were paid to the Government. There have been many cases when Government-furnished equipment is no longer needed by the contractor and has not been properly disposed of.

Suggested Action: Government personnel responsible for Government-furnished property, equipment, or material must ensure that contractors have and use specific property management

procedures. These procedures should include the necessary controls to preclude the use of such property on non-Government work without the assessment of appropriate rental fees. Property management personnel should closely monitor the acquisition, use, and disposal of Government furnished property, equipment, and material

8. Same Individual Authorized to Order and Receive Goods/Services. Individuals authorized to schedule deliveries under requirements contracts have an opportunity to defraud the Marine Corps when they can also obtain authority to receive the deliveries. Persons controlling both the ordering and receiving functions can arrange for diversion of supplies or services for their own benefit or they can sign for short shipments in exchange for money or favors from the contractor.

Suggested Action: Management should ensure adequate operational controls to preclude any one individual being authorized to both order and receive goods and services.

9. Unvarying Patterns in Small Purchases Abstracts. Unvarying patterns in small purchases abstracts of quotations may indicate a buyer is awarding contracts to favored vendors without soliciting competitive offers from additional firms. Problems such as tie offers, no offers, and awarding to other than the low offer or for justifiable reasons are the norm in small purchases. The buyer may be entering fictitious competitive quotations and consistently awarding to a favored vendor at inflated prices, if the abstracts fail to show these normal problems over a period of time.

Suggested Action: Contracting officers should be briefed on this indicator. Further, the requirement to look for such unvarying patterns could be incorporated into a contracting activity's scheduled self-inspection program.

10. Apparently Low Value Items Purchased at High Prices. Items that common sense or general knowledge would appear to have low value but which appear on orders or contracts at a high price may indicate that the Marine Corps is paying more than a reasonable price as a result of collusion between the buyer and the vendor.

Suggested Action: Inform the contracting activity responsible for conducting the procurement. The contracting activity should investigate the reasons for the apparent overpricing.

11. Frequent Complaints by Users of Supplies or Services. Frequent user complaints about the quality or level of performance of supplies or services provided by contract may indicate that contractors are delivering something less than the Marine Corps is paying for. The cause of this indicator could be

a poorly written contract (usually the cause), weak contract administration, or fraud involving contractors and/or Marine Corps employees.

Suggested Action: Contracting officials and quality assurance personnel should take timely action to determine the cause of user complaints, and initiate whatever resolution is appropriate.

12. Malfunctions Exist with New Office Machines. A pattern of malfunctions with new office machines delivered by a particular contractor may indicate the contractor is defrauding the Marine Corps by substituting used machines for new ones. Contractors who have attempted this type of fraud have tried to conceal it by placing new covers on used machines.

Suggested Action: Arrange for a competent, objective examination of the office machines in question.

13. Bid Schedule Items for Which There is Little or No Demand Included in Service Contract Solicitations. The Marine Corps may be paying more than necessary for contract services when bid items for which there is little or no demand are included in annual recurring service contracts. Individuals working in requirement generating an/or contracting activities may be in collusion with incumbent contractors by including such items in bid solicitations. As a result, incumbent contractors can gain an unfair advantage by bidding "no charge" or "token" prices for the item, thus restricting competition. For example, in a solicitation which has 30 bona fide, separate line items on the schedule, Government personnel, in collusion with an incumbent contractor, could insert 10 additional bid items for which they know there will be no demand. Competing contractors, being unaware of the collusive situation, will most likely bid on each of the items based upon their estimate of the cost of actually furnishing the service to the Government. The incumbent contractor will bid little or nothing, therefore giving him/her the low aggregate bid. This unfair advantage to incumbent contractors restricts competition and allows the incumbent to overcharge for bona fide items.

Suggested Action: Review the abstract of bids or proposals in current service contracts. Determine the reason for any schedule items which were bid either "no charge" or "token amounts" by the successful contractor. Verify the requirement for any such items.

14. More Than One Contract Awarded for Either Concurrent Work on What Appears to be One Project or for Same Item. Contracting or requirement generating activity personnel may be splitting requirements to avoid the scrutiny required for larger dollar value contracts, when the same items or services are purchased



repetitively by small purchase methods. Requirements splitting wastes Marine Corps funds because the economic advantages of volume purchasing are lost. Volume purchase is advisable if shelf life and inventory space permits. Favoritism or other forms of fraud are easier to conceal when small purchase methods are used.

Suggested Action: Contracting personnel should always be sensitive to apparent split requirements. Recurring requirements which fall into the small purchase category should always be suspect. A review for this indicator should be incorporated into your self-inspection program.

15. Options Exercised, Notwithstanding Poor Contractor Performance. Exercising options to extend contracts for services when the contractor's record of performance has been poor may indicate Marine Corps members or employees are involved in conflict of interest, favoritism, or forms of fraudulent activity such as collusion or bribery.

Suggested Action: Contract administration procedures should ensure that a careful review of a contractor's past performance is made, prior to exercising contractual options for additional performance.

16. Government Estimates and Contract Award Prices are Consistently Very Close. Marine Corps personnel or employees may be releasing advance purchasing information to favored contractors, in violation of conflict of interest, bribery, or antitrust statutes, when contract award prices for base services and construction contracts are consistently very close to Government estimates. Additionally, the unauthorized release of advance purchasing information may be evident when one contractor is receiving the preponderance of contract awards for a specific requirement, where competition exists. Such violations restrict competition and could result in waste of Marine Corps funds.

Suggested Action: Contracting personnel and management should be alert for this indicator. When recognized, instances of bids or proposals which are very close to Government estimates should be examined to determine the cause of this situation. The basic requirement to safeguard acquisition information is set forth in FAR Part 514.

17. Private Business Dealings Or Close Social Relationships with Marine Corps Contractors. Private business dealings or close social relationships between Marine Corps contractors and Marine Corps personnel or employees who are in positions to influence the award of Marine Corps contracts increases the possibility of fraud in contract awards. Close social relationships between Marine Corps contractors and Marine Corps members increase the likelihood that proposal, quotation or other contracting

information might be improperly disclosed during the pre-award period to contractor personnel. This indicator applies equally to family members of Marine Corps personnel or employees.

Suggested Action: Know your people. Managers of requirements generating and/or contracting activities should be particularly sensitive to even the appearance of a conflict of interest. Technical personnel who are called up to provide evaluations of proposals must also be careful of what they provide to or discuss with their counterparts in private industry.

Personnel employed by such activities should be briefed frequently on their responsibilities as Marine Corps employees or personnel. SECNAVINST 5370.2 and MCO 5370.3 prescribes Department of Navy and Marine Corps policy dealing with standards of ethical conduct for Marine Corps personnel.

18. Extensive Contract Modifications. Collusion may exist between Marine Corps members or employees and contractors in the pre-award and/or contract administration phase(s) of the acquisition cycle, if contract prices are increased through a number of large dollar modifications or numerous small dollar modifications totaling a large sum of money. As a result, the Marine Corps could lose money through the restriction of competition.

Suggested Action: Management personnel in both buying and contract administration activities should establish/maintain procedures which will keep them informed of the number of and type of and size of amendments and modifications. As appropriate, management should require justification and/or explanation for pertinent changes.

19. Contractor Complaints of Late Payment. Complaints from contractors or suppliers that they are not being paid in a timely manner may indicate fraudulent manipulations and diversion of Government resources through supply or finance operations.

Suggested Action: Contract administrators and contracting officers should take timely action to determine the reason for any complaints of late payment and resolve them. At a minimum, this action would include tracing the transaction from the receiving activity through the Public Voucher section of the Disbursing Office.

20. Contractor Makes Substitution for Item that Contract Specifications Require be Provided or Used. Substitutions usually affect costs. Other reasons may dictate that a particular item or raw material be used.

Suggested Action: Notify contracting officer to ascertain whether use of a substitute has been approved. If approved, was contract modified and cost factors considered?

21. Specification or Statement of Work Requires the Use of a Proprietary Process. Requiring the use of a proprietary process can be a device to restrict competition. If the requirement is concealed in the specification or there is no identification or explanation in the contract file documentation, collusion may exist between the drafter of the specification and the firm that owns the rights to the proprietary process.

Suggested Action: Validate that the proprietary process is the only way to achieve the desired result. Legal review of solicitations to assure that competition is not being restrictive is essential.

22. Purchase Request, or Other Presolicitation Documentation, Indicates that the Services/Supplies are to be Purchased from One Specific Company. A sole source does not necessarily imply fraud, but in some instances, it lends itself to suspicion of fraud or favoritism. A sole source situation obviously restricts competition and this usually results in a higher cost.

Suggested Action: Consideration should be given to the reasonableness of the information contained in the Determination and Findings and the sole source memorandum, both signed by the contracting officer explaining the reason for the sole source restriction (ref DAR par 3210.3).

23. Deficiencies Experienced in Weapon Systems. Deficiencies such as counterfeit engine seals and bolt heads popping off can occur because of inadequate source inspection, qualified vendor material commingled with unqualified material, and limited amount of inspection done by prime contractors.

Suggested Action: where fraud and deception are suspected, contact appropriate DOD technical authority and investigative agencies. If no fraud is suspected, demand contractor quality improvement of product via contracting office.

24. Cost and Pricing Data Submitted by Contractor to Support Contract Prices are Inaccurate, Incomplete or Noncurrent as of the Effective Date of the Certificate of Current Cost or Pricing Data. These problems have been found most often for negotiated contracts in excess of \$100,000. Only submission of accurate, complete and current cost and pricing data enables Government negotiators to establish a price that is fair and reasonable to both the contractor and the Government.

Suggested Action: Such matters, when discovered during audits or through other means, may be indicative of more than mismanagement. An investigator might be able to discern an intent to submit inaccurate or incomplete data or provide the Government negotiator with information that could help the Government obtain a satisfactory settlement.

25. Contractor Submits Documentation to Support Greater Progress Payment than Justified by Actual Progress. Some contracts contain provisions authorizing progress payments. In connection with payment claims, contractors have submitted documentation indicating greater than actual progress. This has caused the Government to pay more money than contractors are entitled to at the particular point in their contracts' lives. This becomes especially serious when the contractor is in danger of defaulting on the contract.

Suggested Action: Verify contractor's progress before approving payments.

## CHAPTER 4

### SUPPLY

The Marine Corps Supply System is a multi-million dollar business, which conducts on a daily basis high dollar value sales, receipt processing, issues and storage functions. If fraud amounts only to a fraction of the issues alone, the loss could be substantial

#### \*\*Indicators\*\*

1. Numerous Reverse Post Transactions. A large number of reversal transactions could be an indication that untrained supply clerks are making mistakes in processing transactions, or it could be a method to cover the diversion of supplies and equipment.

Suggested Action: Have management analyze the situation to identify reasons for a number of transactions. If they cannot determine a plausible reason for the excessive number of transactions, the possibility of fraudulent issues should be explored.

2. Numerous Warehouse Refusals. Warehouse refusals occur when an inventory imbalance exists between computer quantities and stocks physically on hand. Numerous warehouse refusals, especially of highly desirable items or items from the same warehouse may indicate a problem.

Suggested Action: Check warehouse refusals carefully to determine if there appears to be an excessive number of highly desirable items involved or if there appears to be an excessive number of refusals from the same warehouse. Analyze the results of these checks to determine if fraud appears to be a possibility.

3. Manual Transactions. It is easy for a false document to be used to steal property. A person preparing a false document would normally not be questioned while the computer is nonoperational. The false document would then be destroyed and not entered into the computer when it becomes operational.

Suggested Action: Determine if the computer was in fact down when manual transactions occurred and whether issues could have waited until the computer was on line. If transactions are attributable to valid computer outages, evaluate the failures to determine if downtime could be reduced by improvements in the physical environments or operating procedures. Downtime consistently attributable to human error or unnecessary processing of issues frequently occurring during computer downtime indicates that manual transactions could have been used to cover diversions of the property.

4. Local Purchases: One time requirements for local purchased expendable supplies with an extended cost of less than \$100 could be a method of trying to bypass normal ordering procedures. The procedure can be exploited to obtain property for personal gain.

Suggested Action: Check with the requestor to determine whether requirements are valid.

5. Significant Losses of Property Sent Via Parcel Post. Parcel post shipments are difficult if not impossible to trace. Any loss occurring in parcel post shipments is probably an indication of theft. A pilot program was started recently to send parcel shipments via traceable means, due to the losses using this transportation method.

Suggested Action: Develop local procedures to document shipments lost or destroyed in transit. Use current directives for processing lost shipments.

6. An Unusually High Number of Identity Changes. Fraudulent activities in base supply can be covered up by making item change. The following methods could be used to manipulate identity changes and should be monitored closely.

a. Changing Unit Cost. Items can be stolen by changing the unit cost from several hundred dollars to \$10; making an inventory adjustment to decrease the on-hand balance and then changing the unit price back to the original cost. The action takes about 10 minutes, and item accountability is dropped from the account.

b. Changing Warehouse Locations. Changing the warehouse location of property in the computer, without changing its physical location, can conceal theft. The procedure makes it appear that the property is lost.

c. Changing Condition Codes. Changing the condition code from a serviceable condition code to an unserviceable condition code will cause items to be moved from one location to another (e.g., Code A to Code H). This procedure will cause an item accountability to be dropped.

d. Changing Pilferage Codes. Changing pilferage codes of sensitive security items will cause items to be moved from a security cage to the warehouse. The procedure eases access to the items and increases the possibility of theft.

Suggested Action: Review daily history transactions to find data changes (identity, unit, cost, warehouse location, condition codes, etc.). Check with the appropriate section of the supply office to determine the validity of the changes. Ascertain who has access to records for making changes.

7. Numerous Due in Cancellations from the Same Organizations. When an organization cancels a requirement for property ordered through the base supply, base supply will normally cancel their requisition with the source of supply. If the asset has not been shipped, the computer will attempt to cancel the demand regardless of status. A knowledgeable person, with access to the computer can remove the due in from the files by retiring the entire record. Upon receipt the property can be diverted. The theft would go undetected since supply records would not reflect the item as due in.

Suggested Action: Review due in status files for each supply account. Determine if the cancelled items were shipped prior to cancellation. If the items were shipped, determine the disposition of the items.

8. Items Being Transferred to Defense Property Disposal Officer (DPDO). A check should be made to ensure that items are not dropped from supply accountability before DPDO accepts item accountability. A breakdown in this procedure could result in a person stealing items under the cover of transferring the property to DPDO.

Suggested Action: Review daily history transaction listing to ascertain if 1348-1s are being processed for items turned into DPDO. Trace those items to DPDO to see if they have actually been received by DPDO.

9. Transfer of New Items to Property Disposal Officer. A person in supply could generate a transfer document to transfer an item from supply to DPDO even though a current base requirement exists for the item. This action could make new property available, at greatly reduced prices, to civilian or military conspirators acting in collusion with the supply person.

Suggested Action: Periodically review turn-ins with a high potential for resale or personal use. If the situation exists, it is possible supply personnel are diverting new property to civilian conspirators via the turn-in process.

10. Downgrading Serviceable Property to Scrap. Property in serviceable condition can be downgraded to scrap with the intent to defraud the Government. The procedure would result in property being written off as scrap for transfer to DPDO, losing its identity as an item, and easing access and subsequent theft of the item.

Suggested Action: Review daily transactions to identify those items coded as scrap. Have DPDO certify that scrap is on report. Check with the activity that turned in the item to determine the condition of the item when turned into supply. If in the opinion

of the supply activity personnel, the item was not to scrap, check with the inspectors to determine why the item was downgraded to scrap.

11. Diversion of Property from Authorized Delivery Destinations.

Each organization has a specific delivery destination(s) identified for delivery of its items from base supply; however, property can be fraudulently diverted from authorized delivery destinations. For example, a requester could identify a delivery destination other than the approved one, in an attempt to divert supplies. The supply pickup and delivery driver would deliver the property to the fraudulent location, obtain a receipt from the requester, and take the signed receipt back to supply. The diversion of property will not be detected unless the organization notices and questions the issue and charge, on their records.

Suggested Action: Issue points should periodically verify whether the supply account has in fact received items indicated as issued to the account.

12. Overcharges at the Base Self-Service Store (BSSS).

Overcharges not noticed and questioned by customers within 3 workdays must remain and cannot be deducted from the customers account. A BSSS clerk could feasibly overcharge customers, maintain track of the overcharges, and steal a like amount of supplies without detection. This procedure could also be used to cover losses to the BSSS account.

Suggested Action: Establish a local procedure for BSSS customers to list items and their cost when using the BSSS. Review shopping list of accounts that consistently have no corrections. Verify accuracy of BSSS issues with the unit supply officer. Verify validity of customer list.

13. False Issue Document and Walk-Through Issues. False issue documents can be processed in the following ways:

a. The computer remote terminal can be used in the "local mode" to type an issue document. When the remote is operating in this mode, it only functions as a typewriter and will not update the computer's internal records. The document can then be used to have property pulled from stock and removed from the supply complex.

b. Certain typewriter elements can be used to type an issue document. The type characteristics of these elements give the appearance of a computer remote generated issue document. An unsuspecting supply warehouseman could honor the typewritten request and issue the item(s) from stock.



NOTE: The two methods above would most probably be used in a "walk-through" issue; hence, all "walk-through" issues should be screened very carefully.

Suggested Action: Since most false documents will be charged against a supply account, the supply officer should always verify the validity of all walk-through transactions with high priorities.

14. Destruction of Computer Input Documents. Individuals making computer inputs can attempt to hide an unauthorized diversion of items by destroying/altering computer input documents. For example, in one case, fictitious Requisition Worksheets were sent to the computer section causing property to be sent to a Marine Corps contractor, listed legitimately as an authorized receiver. After input to the computer, the worksheets were destroyed. Prior to the property arriving at the contractor's facility, the perpetrators informed the contractor the property was being shipped to him by mistake and would be picked up, upon its arrival, by the caller.

Suggested Action: Require the Supply Systems Branch and units with remote terminals to review computer input documents for legitimacy. If actions are inappropriate or questionable, trace them to determine disposition of items.

15. Failure to Count Palletized Items. The Marine Corps may be paying for items not received, if individuals responsible for receiving property shipments fail to carefully count palletized items. Contractors or shippers can stack pallets to conceal shortages by not placing items in the middle of the pallet or by mixing empty containers with full containers on pallets.

Suggested Action: Periodically and randomly observe how receiving personnel process incoming shipments.

16. Inadequate Inspection of Technical Equipment. Contractor deliveries of technical items to on-base delivery locations, where technically competent inspectors are not available, can result in the Marine Corps' inability to claim for short deliveries or receipt of unserviceable items.

Suggested Action: Review daily transactions to identify unserviceable turn-ins of items issued to supply accounts within a day or two of the turn-in. Recurring transactions of this type indicate supply inspectors are not identifying problems upon receipt of the property. Review data for reorder of material claimed to have been shipped. This condition would indicate short deliveries or pilferage at the site.

17. Abnormally High Consumption of Supply Items. Abnormally high consumption of common supply items with pilferage codes such as automotive parts, tools, and individual equipment, indicates the items could have been diverted for personal use or resale.

Suggested Action: Review the transaction history of selected items to determine if consumption is reasonable. The Daily Transaction Register is one method of auditing item history. If consumption appears unreasonable check with the unit's supply officer to determine if there are valid reasons for the high rate.

18. Physical Environment Facilitates Diversion of Government Property. Conditions such as poor warehouse lighting, insecure storage areas and allowing private vehicles to park adjacent to storage areas are examples of weaknesses in the physical environment that encourage or contribute to diversion of Government property for unauthorized use.

Suggested Action: Periodically visit supply activities to identify physical conditions that could facilitate the diversion of Government property for unauthorized use. Make use of physical security and crime prevention surveys conducted by physical security specialist assigned to the crime resistance unit of the Provost Marshal's office.

19. Low Value Supply Items with Unreasonably High Prices. Low value items carried in the Marine Corps supply inventory at unreasonably high prices may indicate that the Marine Corps is paying more than necessary for the items.

Suggested Action: Unusually high prices for what appear to be low priced items should be investigated for accuracy. Sometimes higher prices are simply a result of human error; e.g., misplacing a decimal point on an item (referred to as "slides") can result in a \$.10 item being recorded as \$1.00.

20. Excess Supply Items or Equipment not Turned in to Base Supply or Defense Disposal Activities. Excess supply or equipment items that are not turned in to Base Supply or Defense Disposal unnecessarily increase storage and accountability costs and enhance the capability to divert the items.

Suggested Action: Periodically visit unit maintenance and storage areas to identify supplies and equipment that appear to have little or no use. Action should be initiated to turn-in the excess items to Base Supply.

21. Receipt of Items that cannot be Traced to a Valid Requisition. Items received that cannot be traced to a valid requisition could have been ordered for personal use or resale and

the requesting paperwork destroyed. These items should be returned to the intermediate level remote storage activity/source of supply or disposed of in accordance with current directives.

Suggested Action: Periodically request that supply personnel produce documents that provide proof of disposition of these items.

22. Current Listing of Authorized Pick-Up and Delivery Personnel is not Available at Loading Facilities. If a current listing of personnel authorized to pickup and deliver supplies and equipment is not available at loading facilities there is a potential for unauthorized personnel to receipt for and divert Government property.

Suggested Action: Periodically review authorized pickup and delivery personnel listings to verify their existence and accuracy.

23. Personal Clothing Issued to Civilian Personnel. Although in certain situations civilians may be authorized items of individual equipment such as clothing, the potential exists to abuse the system.

Suggested Action: Review individual equipment records and issues to civilian personnel to determine if such issues are, in fact, authorized.

24. Excessive Number of Billed-Not-Received Records. When GSA ships a large number of items in a single consolidated package, the control of individual document numbers is lost because all items are shipped under a single lead document number. The potential for theft of these items exists at any point during the shipping cycle. Subsequent tracer action would show that the consolidated shipment was received under the lead document number and the receipt will be processed so the bill can be paid. The bill-not-received records will show items from this source and any other source where receipt has not been acknowledged, but where the source indicates shipment. A large number of billed-not-received records may be an indication of fraud, waste, or inefficiency on either the shipping or receiving end.

Suggested Action: Inspecting activity should review these billed-not-received records and identify items that could be considered pilferable. These should be reviewed to see how they are being resolved. Also, if any inventory adjustments of past billed-not-received items should be reviewed using the same criteria.

25. Document Control Loss Show Numerous "After Hours" Issue Transactions for Other than Mission Essential Items. Issues made after normal duty hours should only be made for priority mission

essential items. Such issues for other than essential items may require further investigation to determine if they are legitimate or attempts to steal Government property.

Suggested Action: Review Document Control Log for evidence of "after hours" transactions. Contact the individuals listed as requesting the items to determine the validity of the issues.

26. Transactions Processed Incorrectly to Improve Performance Indicators. A supply overage disclosed during inventory can be processed as a "receipt not due-in" to cause inventory balances on accountable records to agree with the actual count. Also a customer requisition for five units can be processed as five separate requisitions for one each. This latter action will result in favorable inflation of the supply effectiveness rate. Such practices result in making supply's handling of transactions appear to be more effective overall. However, management's ability to assess existing problems within the supply function is reduced, since reports do not reflect these deficient conditions.

Suggested Action: Spot check supply transaction registers for these type transactions or other transactions appearing to be manipulative in nature, if any are found, review authenticity of source documents, and verify whether transactions were appropriately processed.

27. Sample Inventory Adjustments. Sample Inventories are often conducted to determine need for taking inventory of the entire warehouse. A potential exists for individuals to avoid selecting items with proven shortages to avoid detection of thefts or other deficiencies.

Suggested Action: Management should ensure that individuals who have access to material do not manipulate sample inventory lists. If samples are statistically identified, management should note changes (e.g., NSN, quantity, ERRC, etc.) using listings. Then, appropriate examinations should be made to determine motives for tampering with statistics of items to be sampled.

28. Withholding Inventory Adjustment Cards. Inventory adjustment cards are prepared throughout the inventory process. When processed, these cards result in adjustments to item records. Destruction of a card for an item could prevent a shortage from being posted. The reason for destroying a card could be pure carelessness or desire to cover up a theft.

Suggested Action: Obtain a list of original inventory cards. Compare items on the list with items finally selected for inventory. Research causes for missing cards.

29. Changes in Security/Pilferable Codes. Changes to security/Pilferable codes could indicate compromise or theft of highly desirable items (e.g., firearms, ammunition, drugs, precious metals, individual clothing, equipment, etc.)

Suggested Action: Management should be continually alert to sudden or repeated changes of codes on items designated as security/Pilferable. Any changes should be validated.

## CHAPTER 5

### TRANSPORTATION

The movement of household goods (HHG) provides a lucrative area for fraud. A considerable amount of money is also spent for the repair and maintenance of Government vehicles and specialized machinery. The Marine Corps, with its need to move people and property anywhere in the world, cannot afford to overlook the potential for fraud, waste and abuse in its transportation programs.

#### \*\*Indicators\*\*

1. Frequent Carrier Complaints or Rumors Concerning Unequal Distribution of HHG Shipments Among Carriers. A Transportation Management Office (TMO) clerk may not be recording all HHG shipments because of favoring one or more carriers for personal gain.

Suggested Action: Review the Government Bill of Lading (GBL) Register-Outbound to identify the number of GBL's issued. Check the Tonnage Distribution Roster to determine if all the HHG shipment GBL's have been included. Then compare tonnage totals to determine if all the HHG shipment GBL's have been included. Then compare tonnage totals to determine if HHG shipments are being equally distributed to all eligible carriers. The fact that all GBL's are not included on the Tonnage Distribution Roster or there is an appearance that one or more carriers are being favored could indicate that the clerk is a poor record keeper, has a strong personal bias for or against personal carriers, or is favoring carriers for personal gain.

2. Overstatement of Household Goods Shipment Weights.

a. Carriers can defraud the Government by artificially inflating the weight of a shipment. Carriers use the following methods to "bump" or increase the true weight of a shipment:

(1) Body Bumping. Seat a light-weight driver in the van when getting the tare weight and a heavier driver gets the gross weight of the van. The net gain could be about 100 pounds. Crew members could be weighed with the vehicle when the gross ticket is made.

(2) Fuel Bumping. Get the tare weight with less than a full tank of gas and the gross weight with a full tank. If the tank was 1/4 full for tare and full for gross, a net increase of 450 to 500 pounds could result.

(3) Packing/Equipment Bumping. Get the tare weight without the required packing/equipment (blankets, dollies,

ladders, snow chains, etc.) and get the gross weight with the equipment included. The net increase could be several hundred pounds.

(4) Double Billing on Small Shipments (500 to 3,000 pounds). Get two tare weight tickets for the moving van, pick up the two small shipments, then get two gross weight tickets for the combined weight of both shipments and submit both tickets for payment. The net increase in weight would be equivalent to one of the shipments.

(5) Weight Bumping. Adding pallets, lead ingots, etc., to the shipment to equal the weight allowance of the service member. The net increase can vary from several hundred to several thousand pounds.

(6) False Tickets. Pay the weighmaster to provide a false weight ticket or have a supply of blank or false weight tickets. If blank tickets are used, the weight will usually be the handwritten rather than the printed.

(7) Switching Trucks. Switching from a lighter truck/tractor or trailer to a heavier one after obtaining the tare weight.

b. Indicators that carriers may be artificially inflating the weight of a shipment include:

(1) Evidence that a particular carrier has a higher percentage of shipments which are at or close to service members maximum weight allowances than other carriers.

(2) Indicators from reviews of inventories by experienced TMO personnel that the items listed would not normally weigh as much as indicated.

(3) Customer complaints that they feel their shipment weight is excessive.

(4) Extraneous heavy material noted on trucks.

(5) Delivering a service member's HHG shipment without a reweigh, when a reweigh is required.

(6) Weight entries on weight tickets are not machine printed.

(7) Truck or trailer license number(s) appearing on tare weight tickets differ from corresponding license number(s) on gross weight tickets.

Suggested Action: Require that HHG carriers use Government scales. Inform military members of techniques used by carriers to bump weights so that members can look after their own interests and protect the Government. Closely monitor carriers who consistently provide suspicious weight tickets, have engaged in questionable practices or use their own scales.

3. Do-It-Yourself (DITY) Movers Using a Larger Van than Necessary. Intent to fraud may be present if service members on the DITY moves request a larger trailer or van than required. The service member may want to bump the weight of the shipment to gain a profit. For example, a member could increase the weight by adding an automobile or 55-gallon drums filled with water, sand bags, cinder blocks, or other material. Since payment to the service member is based upon the shipment weight, the added weight would increase the amount the service member would receive.

Suggested Action: Review DITY move records to identify shipments that are close to the maximum weight authorization based on number of dependents, etc.; determine if the weight data appears valid. If the shipment composition, size, or weight data appears excessive, an indication of fraud exists.

4. Most Do-It-Yourself Rentals Obtained From Same Contractor. Fraud through favoritism may occur when most of the contacts for the rentals on "Do-It-Yourself" moves are with the same vendor.

Suggested Action: Review Do-It-Yourself move records and compare number of moves and type of equipment involved for each eligible vendor. If a few vendors receive a greater percentage of business compared to other vendors there is an indication of inadequate controls over the vendor selection process.

5. Allowing Space-Available Travel without Proof of Orders. Space-available travel procedures that only require the service member to show an ID Card, rather than also providing a set of orders, are susceptible to fraud. The member can then go PCS ~ while pocketing the travel pay.

Suggested Action: Periodically ensure that passenger specialists at base operations are physically comparing a set of orders with an ID Card before allowing travel.

6. Frequent Complaints About Quality of Service by Personal Property Carriers. TMO personnel may be covering up favoritism to certain carriers, for personal gain, by failing to file or act on complaints of poor service.

Suggested Action: Review the GBL Register-Inbound to identify incoming shipments for which a DD Form 1781, Property Owner's Report on Carrier Performance should have been submitted. Review incoming shipment files to determine if DD Forms 1781 are on file



and to identify recurring complaints against a carrier. Then determine if letters of warning/suspension have been issued to the carrier. Then determine if letters, when recurring complaints have been identified, indicate TMO personnel are performing their job poorly or are favoring carriers for personal gain.

7. Frequent Billing for Excessive Waiting Time During Local Moves. Carriers may bill for excessive waiting time during local moves. Carriers can charge for waiting time if other activities, not the responsibility of the carrier, such as customer unpreparedness, cause the delay.

Suggested Action: Determine through records review if any carriers appear to have an abnormally high amount of such billings. Check with customers to ensure waiting time was legitimately the responsibility of the military member.

8. Unwarranted Access Service or Packing Material Charges. Carriers receive additional payment for Accessorial services performed and for packing used. The customer should sign a DD Form 619, Statement of Accessorial Services Performed indicating exactly what services were performed. Sometimes the customer is asked to sign a blank form "to save time" thus allowing the carrier to fill in whatever he desires. The customer is also required to certify the number and types of cartons used but is sometimes given a blank form to sign. Indicators that the carriers charged for unwarranted accessorial services or packing material include:

a. Government billed for servicing charges for washers, dryers, pianos, or organs when such items are not listed on the inventory.

b. Excessive numbers of the higher-priced dish packs have been used as opposed to the cheaper medium or larger cartons.

c. Government is being charged for more mattress cartons than mattresses or box springs being shipped.

d. Carrier charged for an excessive number of the more expensive wardrobe cartons.

Suggested Action: TMO personnel should discuss what services the carrier performed and what cartons the carrier used with a sampling of military members who have been moved.

9. Unusually Large Shipments of Professional Books, Papers and Equipment. Members may attempt to boost their authorized weight allowances by declaring items as professional equipment or books.

Suggested Action: Review outbound/inbound shipment records to isolate unusually large shipments of professional books, papers and equipment. Perform a check upon delivery at destination to determine if unauthorized items have been added to the approved list.

10. Improperly Classifying Freight. Over-classifying freight results in higher charges by the carrier. This could be an error or collusion. In any case, it causes excessive expenditure by the Government.

Suggested Action: Interview the freight supervisor to determine if they are aware of the potential excess cost to the Government for improperly classifying freight. Check some completed GBL's and have freight personnel "walk-through" their thought process. It should be evident, based on the supply document item description and the classification, whether the item was properly classified.

11. Freight Distribution Unevenly Distributed Among Carriers. Surface freight activities are supposed to distribute freight as equitably as possible among carriers if they serve the same destination and are providing the same service within the same timeframe. Freight personnel could favor a carrier.

Suggested Action: Check freight distribution using both GBL's and a tonnage distribution roster. They should match, and they should also reflect equal distribution by destination, and during peak and slow seasons.

12. Freight Losses/Damages Not Documented on Bill of Lading at Time of Delivery. Surface freight personnel should annotate shortages and damages on bill of lading at time of delivery. An employee, through neglect or collusion with a carrier, could sign a "clear" delivery thus relieving the carrier of liability.

Suggested Action: Determine whether the freight supervisor and personnel are aware of responsibility in this area. They should be able to produce evidence of damage/short shipments over a period of time if there is an active program; no damages/shortages might indicate negligence or collusion. Make sure Discrepancy in Shipment Reports (DISREP) have been prepared when carriers are liable for the loss or damage.

13. Freight Services Ordered and not Rendered. Surface freight personnel can order special services such as exclusive trailer use, air-ride trailer, or signature service, and not receive the service.

Suggested Action: See if freight personnel routinely check to ensure services are rendered when the Government bill of lading

reflects services ordered. Is other freight on an exclusive use trailer? The signature service record on file should reflect intermediate hand-to-hand exchanges.

14. Shortshipping Freight. Freight personnel and a carrier could agree to bill a multi-piece shipment when in fact they know there is a piece count discrepancy; or some containers are actually empty.

Suggested Action: Review DISREP, Standard Forms 364, Report of Discrepancy, on file from consignees to see if there appears to be repetitive shortages, especially of desirable items (tools, clothing, etc.).

15. Excessive Parts Replacements in Vehicle Maintenance. Maintenance personnel may charge unnecessary parts to vehicle maintenance and divert these parts for personal use or gain. In one example, vehicle maintenance records identified 14 tire replacements in 8,148 miles, 5 new batteries in 100 miles and 7 tune-ups in 8,000 miles.

Suggested Action: Review vehicle history jackets to identify illogical repetitive parts replacements. Match mileage and periodical maintenance schedules against repair/replacement purchases.

16. Government Funds Used for Replacement Parts in New Vehicles. New vehicle warranties usually provide for replacement of many failed parts at no cost to the Government. Check vehicle maintenance records to see if they show that parts procured with Government funds are being diverted for personal use or gain; or, that Government funds are being spent unnecessarily.

Suggested Action: Review new vehicle history jackets to determine if Government funds are being used for replacement parts which are covered by the manufacturer's new car warranty.

17. Large Expenditure for Extendable-Non-Accountable Vehicle Maintenance Parts. Many vehicle parts issued by the vehicle maintenance material control section are expendable, nonaccountable items. Issue, receipt and use of these items are not annotated on vehicle work orders. The fact that they are nonaccountable items presents the opportunity for them to be diverted for personal use or gain. The lack of control over these items is compounded when the number of personnel having access to parts issued from the material control section is unlimited.

Suggested Action: Check to see whether a material control section access list has been developed. Check the size/makeup of the list to see how many and which personnel are on the list. A good rule of thumb would be to limit the list to a few shop

supervisors. A final check should be able to observe the material control section operation and determine if the access list is actually used.

18. Use of Military Leave Airfare for Official Travel. Special reduced airfares are authorized only for personnel in a leave status. Airline personnel are supposed to obtain a signature certifying the travel is for leave. Personnel could obtain advance travel pay for official travel, purchase a special fare rather than the normal fare ticket, and pocket the difference.

Suggested Action: Ensure scheduled airline ticket office (SATO) personnel are obtaining member certifications. Check names on certifications with member's unit to verify travel status. (Must be done on a daily basis as certifications are forwarded to airline home office daily.)

19. Over Building Crates in Packing and Crating. Building crates with excessive blocking and bracing, and heavier lumber than necessary increases the total weight of the crated item. This causes increased freight charges.

Suggested Action: Ensure packing and crating personnel are aware of the additional costs "over crating" incurs. Compliance with transportation packaging orders (TPO's) should preclude "over" crating.

20. Personal Use of Packaging and Crating Material. Many items in packing and crating are desirable for personal use; e.g., foam rubber sheets for use under sleeping bags, fastpacks for cold or hot container insulators, lumber, etc.

Suggested Action: Ensure the packing and crating supervisor is conscious of the pilferage problem, has secured the storage area as much as possible, and has impressed upon all the assigned personnel a need to report abuses. Possible indication would be high consumption of the desirables reflected in supply records.

21. Uncalibrated Packing and Crating Scales. Scales should be calibrated every 12 months in accordance with MCO P4600.14. Uncalibrated scales cause incorrect weight on items shipped from the base. All shipment charges are based on weight. Incorrectly documented weights will lead to over/under charges.

Suggested Action: Check the scale calibration certification sticker on the scale to determine if the calibration is current.

22. Dwindling Supply of 463 L Pallets is Noted. Pallets are an essential part of the 463 L air-cargo handling system. Their use reduces aircraft groundtime and increases airlift capability. They are also costly items at about \$780 each.

Suggested Action: Make sure a base-level maintenance capability has been established and is used to service and repair the pallets. Maintain currency of pallet logs. Follow recovery process when pallets have been placed on loan or borrowed status for more than 30 days.

23. Complaints made against Marine Corps Shipping Activities Regarding Packaging of Industrial Plant Equipment. Packaging Improvement Reports (DD Form 6) that have been submitted against Marine Corps shipping activities have identified problems in packaging of Industrial Plant Equipment (IPE). Sometimes IPE accessories/attachments are shipped attached to the equipment rather than detached, preserved, and individually wrapped and other times, most of the improperly packaged equipment is dirty, or shows extensive corrosion.

Suggested Action: Transportation officers ensure packing and crating personnel are trained for the preparation of IPE for shipment.

24. Improper Utilization of Container Volume. The current criteria for container utilization, based on a percentage of use factor regardless of commodities involved, results in difficult and time consuming problems encountered by the consignee, discharge ports, and breakbulk points in connection with the unstuffing.

Suggested Action: Do not break down palletized cargo to fill all of the cracks and crevices in the container. This materially affects the effort to unload and repalletize the cargo. The high rate of breakage and damage to cargo more than offsets the fact that a high utilization factor was achieved.

25. Use of Commercial Bills of Lading for Small Domestic Shipments. The alternative use of commercial bills of lading vice Government bills of lading for the movement of small domestic shipments meeting the criteria established in MCO P6400.14A, Chapter 214, Section XVII, for the most part, results in reduced administrative costs.

Suggested Action: The use of commercial bills of lading for the movement of small domestic shipments should be considered for those shipments meeting the requirements set forth in MCO P4600.14.

26. Improperly Consolidating Freight Shipments. The practice of making several individual shipments within a short course of time to the same general area results in higher charges by the carrier.

Suggested Action: Hold shipments as long as possible in order to maximize shipment consolidation.

27. Improper Consignee Information. On CONUS shipments, it is important that consignees are fully and correctly identified on GBL's in accordance with MCO P6400.9, Terminal Facilities Guide. Incorrect consignee information on GBL's can result in additional transportation costs and delays in receipt of shipments.

Suggested Action: Traffic management officers ensure that the Terminal Facilities Guide is up-to-date, and used to determine consignee information.

28. Inadequate Planning of Travel. Travelers and/or activities do not plan or identify travel requirements to transportation officers in sufficient time to enable arrangement of discount fare transportation to the maximum possible extent. It is not unusual for travelers to report for arrangement of transportation 1 or 2 days prior to the travel date.

Suggested Action: Establish local controls and procedures to ensure that planned temporary additional duty travel requirements are identified to the transportation officer a minimum of 14 working days prior to travel date.

29. Failure to Procure Cost Effective/Discount Air Fares. Transportation officers are not taking maximum advantage of available discount fares offered by commercial air carriers, including special/promotional fares.

Suggested Action: Acquire carrier tariffs, such as North American Passenger Tariff, and become familiar with discount fares offered by commercial air carriers. The proliferation of discount fares offers a variety of low-cost travel options. Where the volume of traffic meets one of the criteria contained in enclosure (1) of MCO 4650.36, consider leasing a Tele-writer Ticket Receiver, Electronic Reservation and Ticketing System, or submitting a request for establishment of a Scheduled Airline Traffic Office, as appropriate. These travel support systems have proven to be important aids in arranging/obtaining economical transportation.

30. Inadequate Control of Transportation Procurement Documents. Transportation officers may not be maintaining procedures for control and accountability of Government Transportation Requests (GTR's). Proper controls are necessary to prevent theft and unauthorized use of GTR's.

Suggested Action: Establish a log book and enter the serial numbers of GTR3s when received from the Marine Corps Logistics Base, Albany, GA, and when they are issued to travelers. Ensure GTR's are issued in numerical sequence and kept under lock and with restricted access. Issue GTR's only to those persons who present valid travel orders.

31. Use of High-Cost Rental Vehicles. Travelers authorized use of rental cars may not be arranging rental car service through those agencies that offer discount rates for Government travel.

Suggested Action: Transportation officers should counsel travelers on the requirement to use General Services Administration (GSA) motor pool/contract rental cars or to obtain cars from other agencies offering Government rates. Transportation officer's should maintain a current copy of the Federal Supply Schedule, Industrial Group 751, Motor Vehicle Rental, to identify locations where discount rental service is available.

32. Untimely Processing of Unused Tickets. Transportation officers may not be processing unused tickets in a timely manner. Some travelers are surrendering unused tickets to carriers.

Suggested Action: Establish controls to ensure that unused tickets are cancelled and submitted to the Commanding General (Code 470), Marine Corps Logistics Base, Albany, GA, for refund action not later than 15 days after receipt from travelers. Counsel travelers on the proper disposition of unused tickets. Maintain control of unused tickets by keeping them under lock and key. Truck Control Points (TCP) should be located adjacent to one or two gates going onto the installation. TCP's should check documentation and cargo (to include any hazardous material), provide directions to pick up/drop off location, instruct drivers on route (not to be deviated), and provide date/time visitor pass to drivers. At the on base destination, check the visitors pass date/time of the vehicle. When the vehicle departs, the visitors pass is to be stamped with the date/time and the driver instructed to use the same route to return to the TCP. TCP's should check visitor's pass date/time, documents and cargo/vehicle.

## Chapter 6

### DISBURSING/PAYMENTS/ENTITLEMENTS

All monies spent at base level for base operations are paid by the local disbursing office. Each command should monitor public voucher payments, travel vouchers, transportation requests, civilian and military pay and entitlement transactions, and leave accounting for indicators of fraud and abuse.

#### \*\*Indicators\*\*

1. Cashiers Fail to Return a Copy of Paid travel Vouchers to Marine Corps Employees. Cashiers may embezzle funds by shortchanging Marine Corps employees if the cashiers do not return a copy of paid travel vouchers to the employee. Cashiers have attempted such embezzlement, when making payments, by folding under the "AMOUNT PAID" corner of the travel voucher so the employee does not see it, and later disposing of the employee's copy of the voucher.

Suggested Action: Periodically and during surprise cash counts, review "PAID" travel vouchers on hand at the cashiers cage to determine if any employee's copies are on hand or if voucher copies don't contain entries in the "AMOUNT PAID" block. The review should include an inspection of trash can contents and any desk/cage drawers within the cashiers cage.

2. Discharged Members Request Dependent Travel Pay be Mailed to an Address Other than the Dependent's Claimed Travel Destination. A false claim may be made by a recently discharged Marine Corps member who files for dependent travel with the disbursing office at point of discharge and certifies dependent's travel to a distant location, when, in fact, the dependents travel only a short distance or not at all.

Suggested Action: The disbursing officer should suspect instances where the former member requests the check to be mailed to an address other than the claimed travel destination of the dependents. An additional check may be made with the local Transportation Management Office in order to determine where the individual's household goods were shipped. Also, contact can be made with the telephone companies at the point of discharge and at the claimed travel destination of the dependents, to verify a telephone listing.

3. Acceptance of Government Transportation Request Packets Without an Individual Count. Weak procedures in accepting receipt of Government Transportation Request (GTR) forms packets by custodians may result in fraud if they accept receipts of GTR's personally or through the mail and accept the listed numerical



quantity without making an individual count. Such procedures make it possible for personal use or sale, without timely detection.

Suggested Action: Perform periodic reviews to ensure GTR forms in packets are individually counted upon receipt.

4. Disbursements not Processed Into the Accounting System on a Timely Basis. Employees could be making unauthorized disbursements and trying to hide or delay detection of the disbursements by not processing the transaction in a timely manner.

Suggested Action: Review transaction logs and other related documentation for date of transaction. Numerous untimely inputs may indicate system manipulation.

5. Accounts Receivable not Promptly Collected. Employees may be in collusion with debtors to defer the collection of accounts receivable and either provide the debtor with additional time to use the money or defer it in such a way as to re-identify the debt as an uncollectible account. In addition, a large number of old accounts receivable may indicate payments have been received and not recorded.

Suggested Action: A review of the aging status of accounts receivable may provide indicators of manipulation or at least identify problem areas.

6. Excessive Numbers of Travel Claims for Expenses that can be Accepted Without a Sundering Receipt. Personnel may be submitting fraudulent travel vouchers by including fictitious expenses that do not have to be supported with a receipt (e.g., taxi fares, etc.). Excessive numbers of such expenses in vouchers may indicate fraudulent claims.

Suggested Action: Review travel claims for excessive numbers of expenses not needing support receipts. Brief commanders on possible abuses in these types of claims.

7. Ineligible Members Receiving Payments for BAO or Single Members Receiving BAO Payments at the "Married With Dependents". Employees may be in collusion with members to authorize and make payments of BAQ to ineligible members or increase the BAQ payment to the "married with dependents" rate to single members.

Suggested Action: A review of internal procedures used to certify, authorize and followup on BAQ payments may indicate procedural weaknesses which would increase the propensity for fraud. Eligibility of members for BAQ or increase of BAQ rate payments/actions should be reviewed on a periodic basis.

8. Unit Leave Records are Poorly Prepared and Maintained. Employees may be in collusion with members to alter inclusive leave dates certified by supervisors and have less days of leave charged than actually taken. Poorly prepared or maintained leave records may be kept in an effort to mask the situation.

Suggested Action: Supervisors should periodically review unit leave records for known "leaves" to ensure they are accurately posted and maintained. Unit commanders should periodically check procedures used for the preparation and maintenance of unit leave records to ensure proper controls over leave exist in their respective units. Periodic reviews might be made to determine if unusually low leave charges exist for a unit as compared to equivalent units.

9. Fraudulent Receipt of BAO by Divorced Military Members. The area of concern is with the potential fraudulent receipt of BAQ at the "with dependent" rate by a divorced member whose minor dependent(s) live in Government quarters due to the remarriage of the member's former spouse to another service member.

Suggested Action: Conduct a test of a representative number of personnel drawing BAQ at the "with dependent" rate in order to validate the entitlement. Steps to be taken include:

- a. The identification of divorced members with children who reside outside of the members household.
- b. The location of the divorced member's children.
- c. Cases determined to be doubtful would be referred to the members commanding officer with the servicing disbursing officer being notified for information.

While the BAQ identification code resident in the central file would indicate the condition of a member's entitlement (i.e., spouse in service, legitimate children, etc.) it should not be used as the only source to conduct the test of proper entitlement. A representative sampling of all codes should be used to determine validity.

10. Review of Travel Vouchers. Those who review travel vouchers, including personnel assigned to the traveler's unit, must be alert for indicators of improprieties such as:

- a. Altered lodging receipts.
- b. Hotel or credit card receipts, which include food, drink, telephone calls, etc., in addition to the lodging cost.
- c. Rooms, taxicabs, or privately owned vehicles shared with co-workers, with each claiming full rate fare, or mileage.

d. Personnel resided with relatives or friends and submitted false receipts which reflected lodging at hotels/motels.

e. Traveled with spouse and submitted claims for lodging at the "double" rate rather than the "single" rate.

f. Returned home during the TDY, but did not reflect this on the voucher and therefore collected per diem.

g. Significant differences in claims made by personnel who traveled together.

h. Traveler was also approving official on travel order.

i. Lengthy leave taken over short term TDY.

j. Excessive TDY's over weekend or holiday periods.

k. Purpose for travel reflected on orders appears questionable or frivolous.

Suggested Action: Supervisory personnel should periodically brief or counsel their people on the importance of accurately completing travel vouchers. In addition, each Marine Corps member must exercise the utmost personal integrity in submitting and reviewing claims and report suspected or actual improprieties to the authorities.

11. Employees Who are Consistently Tardy. Employees can be falsifying their time cards if they consistently arrive for work late and a review of their time cards indicates that they are being paid for a 40-hour work week. The employee arriving less than an hour late can cover the minute section of the time card with tape, get the card punched, remove the tape and cover the hour section, wait until the next time the punch clock was in the hour mark and get the time card punched with 00 in the minute column. They can then remove the tape and the card will reflect the employee clocked in on time.

Suggested Action: Close monitoring of employee time card management may reduce the opportunity for manipulation. Supervisors should keep track of employees who are consistently tardy and review their time cards for evidence of manipulation. The placement of the time "punch" clock mechanism should be within the visual surveillance of a responsible time accounting monitor.

12. Repeated Changes to Time Cards/Excessive Overtime. Repeated erasures or changes on an individual's card, amended time cards, repeated instances of prior periods of overtime earned, or little or no use of annual leave may indicate possible time card manipulation by an employee in a timekeeper position.

Suggested Action: Supervisors should periodically check timekeeping procedures and records at their units for evidence of the above mentioned conditions.

13. Fraudulent Certification for Marine Corps Tuition Assistance and Veterans Administration Education Entitlements. Certain aspects of the Marine Corps Tuition Assistance (TA) program and Veteran's Administration (VA) entitlements are susceptible to false claims by participants in off-duty education programs. Manipulation of educational benefits can lead to the duplication of Federal payments. For example, a student might obtain the education officer's approval for VA educational allowance at other than the formal on-base school registration session; then, during the on-base registration, the student may submit a request for tuition assistance for the same course approved under a VA payment. This double application should be spotted at the education office.

Suggested Action:

a. Through discreet interview and/or observation of procedures used by education personnel (particularly during school registration periods) determine the current procedures used to complete, certify, and account for tuition assistance and in-service VA educational allowances.

b. Review records at the accounting/finance office to identify individuals receiving tuition assistance, to include specific schools, courses, and accounts.

c. Review records at the VA Regional Office, or appropriate campus Veteran's Administration Office; compare this information with that obtained from the accounting/finance office.

d. The aforementioned review can prove invaluable in detecting false or fraudulent claims. Once alerted, a command or NIS investigation should be considered.

## CHAPTER 7

### RESALE AND CASH HANDLING ACTIVITIES

Activities that produce revenue or are involved in handling cash have traditionally been especially vulnerable to fraud, waste, and abuse. These activities today are big business. Preventing losses in these activities is particularly important, because of the potential for large dollar losses to the Marine Corps.

#### \*\*Indicators\*\*

1. Failure to "Ring-Up" Sales. Sales revenue can be diverted by not "ringing" all sales in the cash register and not recording or keeping copies of the related sales invoices. The cash register detail tape and sales invoices will balance when under ringing techniques are used, and the cash register operator can pocket the unrecorded revenue.

Suggested Action: Supervisors should closely monitor all cashier operations to ensure all sales are "rung." In addition, a concerted effort should be made to inform customers to be alert and ensure all sales made to them are appropriately "rung-up." Instances of under-ringing should be reported to management.

2. Over-ordering/Overstocking of Merchandise. Employees may be in collusion with vendors to over order and overstock certain items in return for gifts, gratuities, or kickbacks.

Suggested Action: The consumption rate per week of the suspected items should be compared against the quantity in the warehouse to determine if an inordinate quantity of the questioned items are being ordered and/or maintained.

3. Cashiers working Out of an Open Cash Drawer. Implications are obvious. Cashiers can then have access to ready cash, manipulate receipts, keep track of sales and "pocket" sales not rung, etc.

Suggested Action: Supervisors and managers should monitor cashier operations. Customers should be alerted to ensure all sales are rung up accurately.

4. Close Relationship between Marine Corps Employees and Vending Machine Contractors. The possibility of collusion between vending machine contractor personnel and Marine Corps employees increases when employees assigned to accompany vending machine operators (in order to verify the amounts collected from vending machines) are not rotated frequently. As a result, a too friendly "relationship" could develop with the vending machine

representative which may result in a collusive arrangement to shortchange the Marine Corps on funds collected.

Suggested Action: Supervisors and managers should ensure Marine Corps employees assigned to accompany vending machine operators are rotated at reasonable intervals.

5. Vending Machines Fail to Dispense Product or Return Money. Vending machines can be manipulated/alterd to fail to dispense the product (coffee, candy, etc.) and not return the money when the coin return is pushed. A slug or foreign coin can be placed on the magnetic plate which will render the machine inoperative. As a result, all future coins will be blocked within the machine and will not be returned. Vending machine operators, when they refill the machine, can then pocket the coins blocked by the slug.

Suggested Action: Supervisors, managers, and custodians should be alert to customer complaints indicating vending machines have failed to dispense the product or return money. Numerous complaints may indicate the machines are being manipulated.

6. Poor Inventory and Sales Record. Unrecorded sales for cash/negotiable instruments may take place and the proceeds "pocketed" if internal controls over records and inventory are not properly maintained. For example, employees who receive proceeds for the sales of agency publications to the public can "pocket" the proceeds and not record sales transactions if they are not required to maintain a record of publication sales and inventory.

Suggested Action: Managers should review sales procedures and related records on a continuing basis to ensure proper internal controls are established and followed.

7. Collection of Imprest Funds. When two or more imprest funds are maintained by the same individual or by two separate individuals occupying the same office, there is a possibility that funds could be "loaned" from one fund to another to cover shortages occurring in either of the funds.

Suggested Action: Managers should ensure funds are not collocated. This can be avoided by the physical separation of both the funds and the individuals handling the funds. Surprise cash counts should be performed periodically on all imprest funds.

8. Financial Statements for Resale Activities that Show Large Inventory Shortages Offset by Large Overages or Activities that Never Show Inventory Overages or Shortages. Employees may be stealing items and then manipulating records to cover the shortages or balance-out the inventory.

Suggested Action: Periodic inventories or surprise inventories should be performed by persons other than those working in the activity. The personnel selected to perform the inventory should be acquainted with proper inventory procedures.

9. Financial Statements Show Wide Fluctuations in Gross Profit Percentages and Income Accounts (e.g. Amusement Machine Income). Employees could be manipulating income/revenue accounts or stealing cash and trying to cover-up the thefts through the manipulation of records.

Suggested Action: Wide fluctuations in gross profit percentages, income accounts or large cash shortages offset by large overages should be examined by management for a satisfactory explanation. If a pattern is disclosed or the fluctuations become the norm rather than the exception, an audit or investigation should be requested.

10. Weaknesses in Cash Handling Procedures and Cash Accountability Records. Employees can take advantage of weak cash handling/accountability controls and procedures to steal money without detection.

Suggested Action: Managers should make a concerted review of their internal control procedures for the handling and accounting of cash. Internal controls should include, but not be limited to, ensuring surprise cash counts are conducted; cash registers cash counts are operated with the cash drawer closed after each transaction; sales are rung up in sight of customers; cash receipts are deposited daily; receipts are provided cashiers for cash collected from them prior to deposit; formal receipt procedures and records are maintained for all transfers of funds; deposits in-transit are kept to a minimum and controlled until confirmed; cash and safes are never left unattended; cashiers properly reconcile their receipts to records, and all transactions are accurately and timely posted to the records of accountability.

11. Cashiers have Access to Cash Register Read and Reset Keys. By having access to the keys, cashiers can clear registers and/or determine total sales figures for the day. This enables them to accumulate overages and remove them at the end of the day.

Suggested Action: Read and reset keys must be tightly controlled and should not be left in the register during operating hours.

12. Cash Register Read Window Blocked from View of Patrons. By blocking the read window it is possible for the cashier to not ring them to cover losses or thefts.

Suggested Action: Observe register read windows to determine if prices can be seen.

13. Unauthorized Items such as Personal Checks, Predated or Postdated, and Employee IOU's, Commingled with Cash. The cashier can cause losses by not checking such things as the date of checks. IOU's are strictly prohibited as they may never be paid back and could cause cash drawer shortages.

Suggested Action: During surprise cash counts, watch for the items listed above. Apprise management of any irregularities noted.

14. Person Accomplishing the Verification of Sales Receipts is not Independent of Cashier Function, and has Access to Cash. When one person performs both tasks it is possible for sales receipts to be altered and money removed. Cashiers should never be allowed to consolidate the day's transactions and prepare documentation for accountability.

Suggested Action: Managers should ensure that two separate people perform these tasks.

15. Unannounced Cash Verification: During an unannounced cash verification the Fund Treasurer accompanied the Auditors to the annexes and branches coming under the control of a centralized system. After counting the money in one annex the Treasurer intentionally delayed the auditors before allowing them to move to the next annex for another cash verification. On arrival at the next annex the auditors began to verify cash and found that they were counting the same bills counted at the previous annex. At the first annex the auditors had placed a green check mark on all large bills. The Treasurer admitted to manipulating the change fund which resulted in a shortage of \$20,000.

Suggested Action: Frequent cash counts should be performed. In consolidated operations bills should be marked to identify them in order to avoid counting them twice. Personnel counting cash should be alert to any stall techniques.

16. Excessive Delays in Deposited Cash Receipts. Receipts were not deposited daily in the bank intact or on the first business day following a weekend or holiday. The Treasurer had established a trend of depositing cash receipts in the bank approximately once a week. However, at the end of the accounting period receipts were in possession of the Treasurer for as long as 73 days. At the close of business for the year, 34 days of receipts, totaling \$8,809.05 were in possession of the Treasurer. The delays in deposits are evidence that funds could have been used as a temporary borrowing medium. This situation creates undue security risk for the safeguarding of cash assets.

Suggested Action: Timely deposits should be verified by periodic review of deposits slips and daily activity records. Unannounced cash counts should be performed at least quarterly.



17. Additional details concerning fraud, waste, and abuse are contained in MCO P4066.17, Marine Corps Exchange Security and Loss Prevention Manual.

## CHAPTER 8

### COMMISSARIES

Marine Corps commissaries are a multi-million dollar business. Although some procurement of resale products are conducted at geographically separate Complex levels the majority of fraud, waste, and abuse offenses occur at individual stores. Preventing losses and protecting the integrity of commissary operations are critical because of the important role played by commissaries in the morale and welfare of Marine Corps personnel.

#### \*\*Indicators\*\*

1. Cash Given for Food Stamp Purchases. Food stamp purchases must be given smaller denomination food stamps as change. If cash is given, customers could purchase items other than eligible food items for consumption. Cash can only be given when the amount of change is less than \$1.

Suggested Action: Review cashiers' drawers over a period of several days to determine whether food stamps on hand are consistently in \$20, \$10, or \$5 denominations (very few, if any, are \$1 denominations) \* Repeated incidence probably indicates that cashiers are returning cash instead of stamps as change. Also, attempt during food stamp transactions to discreetly observe cashiers to determine if dollars instead of food stamps are returned in change to customers.

NOTE: If operating change funds include book stamps in \$1 denominations (needed to make change), and examination indicates none are used, there is a good basis for questioning cashier practices.

2. Large Variances in Department Sales Percentages, by Cash Register. Studies have determined that a cash register operator should ring up cash sales of which approximately 75 percent should be credited to the grocery department, 20 percent to the meat department and 5 percent to the produce department. If these percentages vary greatly between cash registers for any given day, it could indicate intentional "cross ringing" (i.e., ringing a meat item as a grocery item) or under ringing by register operators.

Suggested Action: Review cash register tapes to identify potential problems. Unannounced verification of purchases after customers have processed through a register or "ghost shopping" should determine if cashiers are cross ringing to cover losses in other departments or under ringing to give friends lower grocery prices.

3. Large Numbers of Customers Waiting in One Line when Other Cashiers Lanes are Open. This could indicate collusion between the cashier and a customer who is a friend or relative. The cashier simply rings up a lesser amount than is stated on the item; or moves items past the register without ringing them up. This practice is known as "under ringing" or "sweethearting."

Suggested Action: Have the checker supervisor spend a good deal of time on the floor near the cashiers, moving up and down the line. Store managers should consider making unannounced verifications of purchases after customers have processed through the cash registers. Often analysis of department sales percentages could lead to a cashier who is sweethearting, as ringing up lower prices would usually distort percentages.

4. The Following are Irregularities Indicative of Fraud, Waste or Abuse in the Acceptance of Food Coupons

a. Expired coupons were accepted.

b. Coupons were used for items not in stock or were accepted even though the customer did not have the item to which the vendor coupon applied.

c. Refunding the difference between the coupon and the selling price to the patron.

d. Merchandise coupons were not considered as cash received from sales.

Suggested Action: Management should educate cashiers on the loss of money that can occur when these actions are committed. Also, management should periodically determine compliance with requirements through observation of practices.

5. Presence of the Words "Invalid Receipt" on Customer's Receipt Tape. Cash registers can be used in the training mode (e.g., register terminal is not connected to the main computer), and subsequent sales would not be included in daily receipts. Sales revenue can be diverted by using the cash register in this mode, allowing managers and cashiers acting together to steal all money collected for a given period. The presence of "Invalid Receipt" on the tape indicates the register is to be used for training purposes only and should not be processing legitimate customers.

Suggested Action: Customers should scan their register tape receipts to ensure key phrases which would indicate irregular practices are not present. If there is cause for suspicion, customers should report the situation to management.

6. Commissary Daily Checker Records (NAVMAC 10437) Seldom Reflect Existence of Shortages or Overages. This condition may indicate the existence of a "slush fund" maintained by cash control personnel to cover losses. When overages are experienced, the extra money is placed in this fund. Checkers could commit petty thefts knowing that the "slush fund" would cover shortages.

Suggested Action: Review daily NAVMC 10437 to determine whether overages and shortages are being recorded. If they are not, question personnel about the existence of a "slush fund."

7. Abnormal Gains or Losses of Sales in the Meat or Produce Department. This could indicate that cross ringing is occurring. It could also indicate that department managers are not properly pricing merchandise.

Suggested Action: Review internal controls or management procedures to ensure department managers are not transferring sales from one department to cover another (cross ringing). Examine pricing procedures in meat and produce departments. Review Processed Item Tests for meat department and ensure that produce department manager is pricing produce in accordance with MCO P4065.1.

8. Failure of Veterinarian To Check Produce or Meat. Commissary personnel may take steps to preclude veterinarians from checking incoming items, or veterinarian personnel themselves may not perform necessary inspections. Failure to discover spoilage or damaged materials upon receipt could result in higher prices to cover costs associated with spoiled or damaged goods.

Suggested Action: Review pertinent documents to ensure veterinarians are checking and rejecting substandard meat and produce.

9. Higher Fat Count in Ground Beef than Labeled Content: By putting more fat in the hamburger and selling it for the same price as leaner ground beef, meat can be diverted or the inventory padded.

Suggested Action: Ensure that veterinarian personnel conduct periodic and random tests of ground beef to determine fat content.

10. Vendor Given Access to Delivery Receipt Documentation After an In-Checker Has Receipted for Merchandise. Vendor could change the documentation to inflate delivery amounts. The commissary could pay for additional items when in fact they were not received. If receiving personnel do not properly safeguard tickets after they have been signed, vendors could, for example, make a "7" from a "1," or an "8" from a "3." Also, zeroes could

be added to denote a higher quantity. Since the ticket has already been signed, the Government will pay for more items than actually received.

Suggested Action: Commissary manager should brief in-checkers on the importance of safeguarding delivery documentation after the items have been received. In-checkers should be trained on indicators/weaknesses to look for.

11. Discovery of Empty Boxes Among Delivered Items. Vendors can deliver products with items missing from the middle section. Also, empty boxes can be delivered as full boxes. Some merchandise, such as snack items, come in sealed boxes with several bags to a box. If these boxes are not opened and the items counted, the shortage cannot be detected if the vendor stocks the items on the shelves. Vendors may also cut out a panel in sealed boxes, remove items, and in-check resealed boxes. The items removed can then be sold to local stores by the vendor.

Suggested Action: Schedule sufficient personnel during peak receiving periods to ensure that receivers are able to follow correct receiving practices. Supervisors should be spot checking and making quality control checks of the receiving process.

12. Receiving Documents are Signed and a Copy Provided Vendor Before Merchandise Enters Stores. It is essential to wait until all merchandise is counted and enters the store before receiving personnel sign documentation to acknowledge receipt. By operating in this manner, vendors will be less inclined to short the shipment.

Suggested Action: Ensure that the commissary manager briefs the in-checkers on their duties and responsibilities. Spot check some deliveries to determine compliance.

13. Vendors Provide Snacks for Commissary Personnel. By providing free snacks, vendors may try to ingratiate themselves with commissary personnel. They then may try to take advantage of this situation by seeking a more advantageous location for their merchandise, reduced examination of the merchandise by receiving personnel, etc.

Suggested Action: Vendors should never be allowed to provide any free items to employees.

14. Vendors Not Provided Name Tags Which are Logged by Number and Controlled by the Store Manager. If the vendors are allowed free access to the stockroom or warehouse areas, pilferage of items stocked or short deliveries could occur.

Suggested Action: Store manager should ensure vendors are provided name tags, and that they log in and out. Vendors should be escorted whenever in a stock area.

15. In-checkers not Identified in Writing or Rotated Periodically. If not rotated and assigned in writing, in-checking personnel can commit fraud. Employees who become friendly with vendors could conspire with them to short deliveries.

Suggested Action: Management should ensure personnel are assigned in writing, properly trained, and periodically rotated. Management should periodically examine merchandise after receipt to verify that items reflected on the invoice have actually been received.

16. Receiving Documents not Sent to Control Section on a Daily Basis. If documentation is allowed to collect at the receiving points, the vendor or a commissary employee may have access to it and could change it to reflect other than the true delivery amount. It is also important to meet suspense dates for payment to preclude lost prompt payment discounts and to expedite publishing price changes.

Suggested Action: Brief the commissary managers so they can ensure that receiving documents are sent to the Control Section daily.

17. Meat not Weighed upon Receipt. Vendor can short the shipment. Some in-checkers will simply "eyeball" the shipment and sign for it without verification of exact weight.

Suggested Action: Covertly observe several meat deliveries to ensure product is weighed upon receipt.

18. Contracting Documents do not Provide for the Credit or Return of Unsold Products (Such as Bakery Items) to Vendor. If the contract does not specify credits or returns of old items, the Marine Corps must pay for what it does not sell, except for special orders.

Suggested Action: Conduct a contract review to determine if a clause is present to allow receipt of credit for old merchandise. If it is not, ascertain whether there is an amendment, and if not, why not. If the clause is present, but credits are still issued, contractor may be in violation of the contract.

19. Vendors Remove Goods from Commissary that Exceed Their "Use by" Date, but Fail to Credit the Commissary for these Goods. Almost all vendors that supply items to the commissary are obligated to pick up and credit the commissary for goods that exceed "use by" date.

Suggested Action: Commissary personnel must carefully monitor the removal of goods from the commissary and ensure that credit tickets are being prepared. Periodic spot checks of particular vendors can establish exactly what merchandise was removed by the vendor and whether the commissary received proper credit.

20. Processed Item Tests Reflect Excessive Amounts of Bones, Fat, or Suet. A rough rule of thumb is that waste in converting a carcass into package-size meat should equal about 30 percent of the invoice weight. Since the Processed Item test is used to establish and adjust sale prices for cuts of meat, an excessive amount of waste (bones and fat) would cause prices of most items to be higher. By understanding yield, meat could be diverted or the inventory padded.

Suggested Action: Management should witness a cutting test to establish prices which will enable the meat department to recoup invoice costs and remain within allowable loss/gain limits.

21. Processed Item Test does not Contain a Price for Bones, Fat, and Suet. Contracts awarded by the Defense Property Disposal System can return revenues to the commissary for bones and fats. These revenues reduce costs to the consumers for meat products and are good practices.

Suggested Action: Contact a representative of the Defense Property Disposal to establish a contract for pick-up of bones and fats. If such a contract exists, revenues should be reflected on the Processed Item Test.

22. Meat Department or Produce Department Managers Obtain All Sales Figures Before Completing an Inventory. A meat department or produce department manager who knows all sales figures can determine what inventory figures need to be in order to keep gains or losses within allowable limits. If the meat or produce department managers do not conduct an inventory but only enter inventory figures to stay within allowable gain/loss percentages the information recorded on the NAVMC 10435 Operating Statement will not be useful.

Suggested Action: Do not provide meat or produce department managers with information on sales credited to their respective departments. The practice may tend to result in manipulation of inventory statistics.

23. Produce Items, Sold by Weight, Appear more Wet or Moist than Usual. If items are sold by weight, instead of items, they could be watered down prior to or during display. This obviously increases the weight. Dishonest managers may attempt to use this method to make up for previously discovered shortages in the produce department, or to cover theft of produce.

Suggested Action: Periodically spot-check produce display to ensure unnecessary watering or artificial weight-bumping is not occurring.

24. Sales Receipts not Deposited Daily. This condition may indicate that deposits are being manipulated for personal gain with current day's receipts and to cover fund shortages.

Suggested Action: Managers must ensure that deposits are made at the end of the day, verify the deposit with the daily record of sales and cash register reports and periodically review the personal checks in the deposit.



## CHAPTER 9

### FOOD SERVICES

The Marine Corps subsistence budget is approaching the \$100 million level per annum. This includes "A" rations, "B" rations, and Packaged Operational Rations (POR's). Commencing FY82, a new POR was introduced (Meal, Ready to Eat (MRE)) which takes the place of the familiar Meal, Combat, Individual (MCI), and which is more than twice the cost of the MCI. This occurrence, when coupled with the significant food service management discrepancies cited in various audit agency reports, make it imperative that proper management of the Marine Corps Food Service Program be exercised at all levels of responsibility. These audit discrepancies have resulted in a sizable reduction to the DOD subsistence budget, a portion of which must be borne by the Marine Corps.

#### \*\*Indicators\*\*

1. Lax Control and Accountability of Meal Cards (DD Form 714). Meal cards represent an annual cash value of approximately \$1350 when used by personnel in receipt of commuted rations. The possession of a meal card by personnel in a TAD or PCS status could represent an even greater cash value as these individuals would normally be entitled to per diem and, therefore, must pay higher rates for Government meals.

Suggested Action: Promptly serialize all meal cards upon receipt and keep unused stocks secured. Issue meal cards only to personnel authorized Subsistence in Kind (SIK) and withdraw the cards upon change of subsistence entitlement status. Stolen cards should be promptly reported to the dining facility. It is intended that the status of all meal cards be maintained current in a central register.

2. Improper Administration of Meal Signature Records (Form NAVMC 10789). Meal signature records can be altered to reflect the feeding of more meals than actually occurred.

Suggested Action: Meal signatures must be closely supervised by responsible persons at the point of entry to the dining facility. Signature records must contain valid and legible names and meal card numbers. Persons having meal cards must be identified by their military identification card and meal card when using the dining facility.

3. Incomplete Administration of Cooks' Worksheets (Form NAVMC 36). Cooks' Worksheets do not reflect an accurate audit trail of food items served. In many instances there are greater quantities of food served than meal attendance records reflect.

Suggested Action: Cooks' Worksheets are to accurately reflect each item to be served, quantity of food actually prepared, disposition of leftovers, and proper portion control.

4. Improper Controls over Field Feeding Exercises. Personnel participating in field feeding exercises are not always properly charged for meals consumed in the field. Proper cash handling procedures are not always observed to preclude the loss of Government funds. In some instances, erroneous man-day fed credits are recorded on Meal Signature Records for personnel that did not attend the meal(s).

Suggested Action: Military pay records of all officers and enlisted personnel are to be checked for the field daily food allowance when participating in a field exercise of more than 10 days. For lesser periods, officers and enlisted personnel on COMRATS must pay cash prior to the consumption of Government meals. Appropriate controls are to be established to ensure that the dining facility operation receives accurate man-day fed credits for all credits for all meals served.

5. Unauthorized Personnel Issued Midnight Meals and Bag Lunches. Midnight meals and bag lunches are being provided as a convenience to personnel who miss a regular meal at their own choosing. In some instances, personnel receiving the midnight meal or bag lunch have already attended the dining facility, and the extra meal represents an unauthorized fourth meal and/or exceeds the authorized daily food allowance.

Suggested Action: Establish controls to ensure that only authorized personnel receive the midnight meal or bag lunch. Personnel must be encouraged to attend the regular scheduled meals, as extra resources are expended and abuse may occur when additional meals are provided. Other carry-out (walk-away) type operations are not authorized.

6. Dining Facility Patrons are being Provided an Unauthorized Serving of Second Portions of Food. Erroneous man-day fed credits can be reported by individuals signing a Meal Signature Record each time a second serving of food is provided. This practice would accommodate the serving of significantly more food than required for the personnel actually attending the meal(s).

Suggested Action: Second servings are only appropriate when some personnel did not take their full portion or some personnel selected less expensive items. Unlimited seconds and the practice of counting individuals more than once during the same meal period is not authorized, as the Basic Daily Food Allowance (BDFA) does not include such a monetary allowance.

7. Picnic Meals are Provided in Excess of Actual Requirements. Subsistence in excess of authorized portions is issued to personnel for Picnic Rations. This practice results in an unauthorized and excessive food cost for the picnic meal and offers the potential for unlimited portions and/or noncollection of meal charges from unidentified attendees.

Suggested Action: Picnic meals are to be issued by portion and only for the number of individuals identified as attendees. The quantity of food provided each individual shall not exceed portions prescribed in MCO P10110.16.

8. Food Service Personnel Are Not Always Paving For Meals Consumed. Personnel working in the dining facility are not authorized to consume meals unless their names are recorded on the Meal Signature Record (NAVMC 10789) or the Paid Supernumerary Ration Register (NAVMC 10298).

Suggested Action: Appropriate control procedures will be established at each dining facility which will prevent personnel from eating small portions of food without charge.

9. Inadequate Controls are Exercised over Subsistence Inventories. Significant differences exist between the actual physical inventory and the quantitative inventory recorded on the Stock Record and Inventory Control Card (NAVMC 708). Deliveries are not verified by count and weight at the time of receipt. Subsistence issues are effected and not recorded on the Subsistence Issue Receipt (NAVMC 10568).

Suggested Action: It is intended that all subsistence items received, issued, consumed, and discarded be accurately documented in the dining facility. Inventory controls will be established to ensure that the physical inventory agrees with the quantity recorded on the NAVMC 708 cards.

10. More Food Service Attendants are Assigned than are Authorized. Food Services Attendants are assigned in greater numbers than one attendant per 25 average man-days fed authorizes. Excessive attendants increase the overhead expenses associated with the provision of dining facility meals.

Suggested Action: Food services attendants will only be assigned on the basis of one attendant per 25 average man-days fed. The only exception to this is authorized when a local manpower analysis is conducted, and retained on file, to justify the increase. The bussing of tables by such personnel is not authorized.

11. Subsistence Items are being Provided without Reimbursement to Flight Crews/Passengers Aboard Government Aircraft. Flight crews and passengers are provided subsistence items for

consumption during flight operations. Reimbursements are not being effected for such items by personnel in a BAS status and the cost is borne by the enlisted dining facility/food service system.

Suggested Action: Subsistence items must be sold at cost to authorized personnel and accounted for on a separate Paid Supernary Ration Register (NAVMC 10298). This amount is then reported along with the flight meal costs on the Activity's Subsistence Operational Analysis Report (NAVMC 10369), line 12.

## CHAPTER 10

### "FEDERAL EMPLOYEES' COMPENSATION ACT" - WORKERS' COMPENSATION

Marine Corps civilian employees injured while performing their official duties are eligible to obtain compensation under provisions of the Federal Employees' Compensation Act (FECA). Although the FECA is administered by the Department of Labor's Office of Workers' Compensation Programs (DOL/OWCP), payments are charged back to the individual employing agencies; e.g., the Marine Corps, for reimbursement. For FY90, FECA payments budgeted by the Marine Corps will exceed \$17 million. Recent audits and investigations concerning FECA claims have disclosed a significant number of fraudulent claims and widespread abuse of the program. A copy of all information relating to each compensation case must be kept on file in the civilian personnel office. Referral of suspected fraud or criminal activity will be in accordance with MCO P5580.2, Marine Corps Law Enforcement Manual.

#### \*\*Indicators\*\*

1. Numerous Employees Utilize Same Physician to Establish Job Related Injury. Collusive agreements may be in evidence when numerous claimants have used the same physician to establish job related injury claims. This could also indicate employees may have conspired to commit fraud.

Suggested Action: Review claims files to determine if the same physician appears to be certifying job-related injury claims for employees. Suspicions of conspiracy and false medical certification should be referred immediately. Attempts should be made to educate physicians on their responsibilities under the Act, and to make them aware of alternatives to full compensation where appropriate; e.g., return to work at light duty.

2. Medical Insurance Carrier Encourages Employee to Improperly Claim Injuries Were Job Related. Some representatives of medical insurance carriers may attempt to have employees, covered by their insurance, reflect that their injuries were job-related, when in fact they were not. In this way, the Government will pay for the injury.

Suggested Action: Review claims files to determine if a specific medical insurance carrier insures a significant number of the employees who are claiming job-related injuries.

3. Concealed Employment While Receiving Compensation. Claimants who are only partially disabled are permitted to obtain outside employment while receiving Workers' Compensation benefits. However, all income from such employment must be reported to OWCP. This is done via a DOL form 1032 which is periodically sent to each claimant for this purpose. The claimant's payments

are then adjusted on the basis of this income. However, claimants occasionally conceal this income and continue to receive compensation to which they are not yet entitled.

Suggested Action: Review claims files for evidence of employment on the part of the claimant. Suspicions regarding undisclosed earnings should be immediately reported. Every effort should be made to restore to employment injured workers who cannot occupy their former positions; to maintain continuing contact with injured workers; and to ensure that supervisors respect any constraints on work performance.

4. Claim Contains Evidence of Falsification or Alteration of Forms. A claimant may provide false information on documents initiating a claim or alter information provided by supervisors or witnesses on initial or succeeding documents. Also, the claimant may make a false statement on the DOL Form 1032, referred to previously, by intentionally omitting income (from outside employment) earned while receiving compensation payments. Further, claimants may have access to physician's reports (which are subsequently sent to OWCP) and thus be able to alter medical information pertaining to the severity of the injury, the manner in which it occurred and/or what effect it will have on claimant's ability to perform the Marine Corps job. These forms may also be acquired independently and forwarded to OWCP with the false information and forged signature of the physician.

Suggested Action: It is recognized that review of most of the above documents may not be possible since all, except the form initiating the claim, pass directly between the claimant (or the attending physician) and OWCP. However, available documentation should be reviewed for indications of falsifications. Such misrepresentation constitutes a violation of Federal statutes. Any evidence or information regarding a claim should be submitted to OWCP for review.

5. Claim Involves Third Party Liability. The FECA states that, when circumstances of the injury create a legal liability upon Third Party (i.e., an entity other than an employee or agency of the Government), the DOL or the claimant can initiate legal action against the Third Party. Resulting settlements would defray compensation benefits paid by the Government to the injured employee. Further, the Act states that if a claimant, upon being so requested by the DOL, refuses to either personally sue the Third Party or to assign the right of prosecution to the Government, the individual is not entitled to compensation Benefits. Claimants may intentionally conceal the involvement of a Third Party and/or purposely fail to notify OWCP of settlements received from such individuals. This oversight could constitute a false claim/statement. In addition, the OWCP regional office

may fail to initiate recovery action due to an administrative oversight or lack of initiative. Both of the above problems can result in a loss to the Government.

Suggested Action: Review claims files in an effort to identify those involving Third Parties. Ascertain from the appropriate OWCP regional office if recovery action has been initiated. If information is developed which indicates a false claim/statement, notify appropriate agencies.

6. Supervisor Recommends Claim be Denied. The CA-1 (Report of Injury) indicates that the claimant's supervisor has the right to "controvert" (refute) Continuation of Pay (COP). However, this may be done only if at least one of nine conditions, listed on the CA-1, exist. Further, the supervisor may only oppose COP. The OWCP makes the final determination concerning eligibility. Nevertheless, such a recommendation may be indicative of a false/unauthorized claim.

Suggested Action: Interview supervisor to ascertain why the recommendation was denied. Although the supervisor's rationale for controverting the claim may not have met statutory requirements for termination, there may have been other relevant factors which have a bearing on the legitimacy of the claim. Once the supervisor is interviewed, other logical steps may surface.

7. Injury does not Appear to be Job-Related. Employees are eligible for the benefits provided by the FECA only if their injuries occurred as a result of their employment with the Federal Government. Employees must establish that the injury was casually related to their job, or that a pre-existing injury/illness was accelerated or aggravated as a direct result of the employment.

Suggested Action: Claimant's description of how the injury occurred (Item 13, CA-1), as well as the statements of witnesses, must be scrutinized. If no witnesses were listed on the CA-1, efforts should be made to identify and interview individuals who might have been in a position to witness the injury or cause questions to be raised concerning plausibility of the claimant's statement.

8. Claimant has History of Leave Abuse or at Time of Injury Leave Balance was Very Low. In cases involving traumatic injuries, claimants are authorized continuation of their regular pay (COP), for up to 45 calendar days, without loss of leave or break in pay. These payments, which precede initiation of compensation benefits, can act as an incentive for employees to remain away from their Government jobs. They may attempt to substitute COP for leave. Either of the above-mentioned factors may be an indication that the injury was feigned or its severity exaggerated.

Suggested Action: Review claimant leave records to identify those with previous leave problems. Interview supervisors, co-workers, witnesses to the injury or the treating physician(s) in an effort to develop information which may be indicative of feigned injury.

9. Temporary Employee Claims Injury at or Near End of Employment Period. Such employees are entitled to compensation, as well as COP, which may extend beyond the date their employment was to have been terminated. A claim for an injury at or near the end of the temporary employment period might indicate that the claimant feigned the injury in order to continue drawing an income.

Suggested Action: Review claims files to identify claimants who were part-time employees injured near the end of the term of employment. Interview supervisors, co-workers, witnesses to the injury or the treating physician(s) in an effort to develop information which may be indicative of a feigned injury.

10. Injury Reported in the First Pay Period of Employment. An injury reported in the first pay period of employment may indicate the possibility the claimant had a preexisting injury which the individual failed to report.

Suggested Action: Examine employment date of all new claims for job-related injury. Discuss with employee the possibility of forgetting to report a previous injury. Interview co-workers to determine if condition existed at onset of work.

11. "Injured" Employees Engaged in Physically Demanding Outside Activities. Claims presented without witnesses and claims presented by employees who are known to engage in outside activities (sports, reserve military, or other employment) may indicate the claimed injury was non-job-related.

Suggested Action: Interview co-workers and/or individuals who are known to participate with the claimant in their outside activity to determine their knowledge of the claimant's injury.

12. Recovery Time Appears Excessive Based on Nature of Injury. Fraud or abuse might be present if the type of injury claimed does not justify the length of time a claimant has been receiving compensation.

Suggested Action: Review claim records to determine if the alleged injury appears or does not appear to be of the type which would require a lengthy recovery period; e.g., sprained ankle or bruise. Consider the age and physical condition of the claimant in making your determination.



13. Employee Claims Disability for Easily Feigned Injury. Employees might be fraudulently claiming injuries when the alleged injury involves soft tissue damage (e.g., back or muscle strain). These types of injuries could be feigned or have occurred off-duty.

Suggested Action: The claim reviewer should concentrate on obtaining reliable medical information and a statement from the attending physician, if possible. In addition, interviews of co-workers or personnel involved in the same off duty activities as claimant are desirable.

14. Claimant Changes Physicians Without Apparent Justification. An unjustified change of physicians may indicate the claimant received a "fit for work" diagnosis from the attending physician and changed physicians to stay on compensation.

Suggested Action: The claim receiver should attempt to obtain a statement from the previous attending physician if no apparent reason exists for the change. The Marine Corps also has the right to conduct physical or psychiatric examinations and other specialized tests of employees who claim to be disabled by occupational illness or injury. Refer to guidance in FPM chapters 339 and 831, and 5 C.P.R. 831.1203. Efforts should be made to obtain specialists' evaluation of conditions that are difficult to verify; e.g., "lower back problems."

15. Employee Claims Injury on Monday or Immediately Following a Holiday. Employee could fraudulently claim a job-related injury on Monday or immediately following a holiday or vacation, when the injury actually occurred during the off-duty period.

Suggested Action: Review claims for injuries occurring on a Monday, after a holiday, or immediately following a claimant's leave period. Interview the claimant's supervisor, witnesses to the injury incident and/or co-workers. The claimant might have influenced others to support the claim when they did not actually witness the injury incident.

16. Employee has Submitted Multiple Claims for Different Injuries and Returns to Work Immediately Prior/Following the 45th Day of Absence from Work. Fraud could exist if a claimant has submitted multiple claims for different injuries for which the person received only COP and that COP always amounted to 40-45 days. Frequent use of COP followed by a return to work just prior to or immediately following the 45th day is, by itself, one of the most reliable indicators of fraud. Concurrent with this, a correlation of dates when COP was taken may indicate the claimant has a seasonal employment or is vacationing during the same period each year. Lastly, this indicator might point to a recurrence rather than new injuries, which may affect the claimant's eligibility for COP.

Suggested Action: Review historical claims records for the claimant to determine if the indicators discussed above are present. Interview supervisor, co-workers and witnesses to the injury, to obtain additional information on circumstances surrounding the injury and make a determination whether the claim was for a new injury or a recurrence due to an old injury.

17. Claimant is Continued in Disabled Status Due to Non-Job-Related Injury Incurred Subsequent to Original Job-related Injury. Although a claimant may have initially been granted compensation benefits due to a legitimate, job-related injury, instances have been discovered in which claimants have been continued on compensation on the basis of a subsequent, non-job-related injury for which no claim documentation is prepared. Medical bills for the new, unauthorized injury are included with those for the original injury and are paid due to lack of scrutiny by OWCP.

Suggested Action: If such information is received, attempt to interview the attending physician and determine if the claimant is being treated for a subsequent injury. If the claimant returned to work between injuries, supervisors and co-worker may be knowledgeable of the second injury and its circumstances. The servicing OWCP regional office should be apprised of the allegations.

18. Claimant was Receiving Identical Medical Treatment Prior to the Claimed Injury. The FECA provides for coverage of disabilities resulting from an aggravation of a pre-existing condition. The only stipulation is that the aggravation must be directly attributable to conditions of the employment. If a claimant is suspected of having received the same medical treatment before the job-related injury, this claim could indicate that the injury (aggravation) was not job-related or was feigned.

Suggested Action: Contact the claimant's physician and ascertain if claimant was receiving medical treatment prior to the date of the job-related injury. If so, attempt to determine details. Inquiries concerning the question of claimant receiving prior medical treatment could also be made with claimant's supervisor(s) and co-workers.

19. The Same Individual(s) Acts as a Witness for Numerous Injuries Claimed by an Employee; Claimant, Shortly Before Own Injury, Acts as a Witness for Another Employee. Both of these situations could be indicators of claimant/witness collusion or conspiracy.

Suggested Action: Review claim files to identify employees who appear as witnesses for each other. Also, for employees who have submitted numerous claims in the past, attempt to determine if

the same individual(s) act as witnesses. If patterns are disclosed, review CA-1's for details of the injuries and how they occurred.

20. Traumatic Injury not Witnessed Despite High Probability it Should Have Been. There is, of course, no provision that a witness be identified in order for a claim to be honored. Further, there is no requirement that witnesses actually observe the injury occur; their knowledge may be limited to hearing the accident or observing the results. However, the circumstances of some claims make the lack of a witness extremely suspect.

Suggested Action: Identify and interview co-workers or others who could be considered potential witnesses. If they did not witness the injury, attempt to determine if there was anything unusual about the claimant's behavior prior to or after the time claimant was allegedly injured.

21. Employees Within the Same Work Area Who Are Simultaneously Receiving Compensation. These claims should be examined to identify possible doctor/claimant collusion as well as collusion among claimants.

Suggested Action: Review claims files to identify claimants who are assigned to the same work area. Determine if the same physician is treating several/all of the individuals. Review claim documentation for indications of collusion. Contact claimant's supervisor(s) and discuss details of the injuries. Contact the Marine Corps Safety Office (CMC (MPH)) for review of safety practices at the worksite.

## CHAPTER 11

### MORALE. WELFARE. AND RECREATION

Marine Corps Morale, Welfare, and Recreation (MWR) activities generate millions of dollars annually in nonappropriated fund (NAF) revenues. Preventing losses in these activities is particularly important because these funds are derived from activity participation fees and charges paid by members of the Marine Corps community. Many of the indicators apply equally to all three categories of nonappropriated fund instrumentalities (NAF's).

#### \*\*MWR Operations and Management\*\*

1. Excess MWR Equipment is Allowed to Accumulate Without Proper Controls. Unusually large amounts of excess appropriated and NAF equipment create control problems which offer a potential for theft and fraud. While this is a potential problem Marine Corps-wide, it is a particular problem in Defense Property Disposal Office acquired property which is controlled by property record accountability.

Suggested Action: Periodically spot-check equipment records and compare them against the items on hand to ensure that all issue/item turn-in transactions are properly recorded. Ensure that all MWR equipment is properly marked and appears on inventory records.

2. Failure to Place Distinctive Markings on MWR Equipment. If sports equipment checked out to users and tools used in hobby shops are not permanently marked and signed in and out, patrons could take the item and/or substitute a cheaper item.

suggested Action: Tools and equipment used or checked out by patrons should be marked, and a system used to sign the items in and out. Alert employees to be on the lookout for switched items.

3. Lack of Proper Procedures During Inventories. Lack of proper supervision over individuals conducting resale inventories may produce improper unit pricing, inflated inventories, and a lower than actual cost of goods, which could lead to misappropriation of food and beverages.

Suggested Action: Ensure all items are counted and recorded, unit prices checked against invoices, and any changes/corrections initialed by the person making the change and approved by the supervisor. Utilize experienced personnel for inventories when possible.

4. Lack of Control over Keys. In activities where there are no controls over door keys, it is possible for disgruntled or former employees to gain unauthorized access to MWR funds or equipment.

Suggested Action: Ensure that keys are provided to only those personnel with an actual need. Storeroom and equipment storage keys should remain within the facility. Keys should also be marked with information indicating local reproduction is not authorized without permission of the Government. Keys should be receipted for by employees and turned in upon termination of employment or extended absence.

5. Vending/Amusement Machine Collection Boxes Have No Separate Locking Device. There have been instances when the cash collection box has been located inside the vending/amusement machine without a locking device. The key to the machine is usually in the possession of the vendor, who can enter the activity at will and make unauthorized removals of cash causing significant losses of funds.

Suggested Action: Cash collection boxes should have a separate locking device. The key to this container must remain in the possession of the activity manager or designated representative at all times. When the vendor desires to remove funds from the machines, the manager or a representative accompanies vendor.

6. Vending Machines Fail to Dispense Product or Return Money. Vending Machines can be manipulated/set to fail to dispense product (coffee, candy, etc.) and not return the money when the coin return is pushed. A slug or foreign coin can be placed on the magnetic plate which will render the machine inoperative. As a result, all future coins will be blocked within the machine and will not be returned. The machine operator, when refilling the machine, can then pocket the coins blocked by the slug.

Suggested Action: Supervisors, managers, and custodians should be alert to customer complaints indicating vending machines have failed to dispense product or return money. Numerous complaints may indicate manipulation.

7. Over-ordering/Overstocking of Merchandise. Employees may be in collusion with vendors to over order and overstock certain items in return for gift, gratuities, or kickbacks.

Suggested Action: The consumption rate per week of the suspected items should be compared against the quantity in the warehouse or stockroom to determine if an inordinate quantity of the questioned items are being ordered and/or maintained.

8. Hiring of Extra Employees For Special Parties or Functions. Often personnel, who do not appear on lists of authorized NAF employees, will be hired as extra help for special functions.

Their time is often placed on the payroll card of a legitimate employee who returns the excess pay to the manager for the extra employee. Dishonest managers could use this system to divert money for their own use by "hiring" nonexistent extra employees.

Suggested Action: Managers should ensure that only authorized employees, with fully documented personnel folders, are hired to work at MWR facilities, in accordance with SECNAVINST 5300.22.

9. Fictitious Employee/Payee. During a 12-month period an amount of \$2,311 was paid to a fictitious employee. The fictitious employee, a janitor, was added to the regular payroll. Time sheets and individual earnings records were falsified by the treasurer and bookkeeper, with applicable payroll taxes withheld. The payroll checks for the janitor were endorsed by the bookkeeper and cashed by the activity. The scheme was detected when the Assistant Manager was observed performing janitorial duties. When queried about the civilian janitor, his response was that there was no civilian janitor.

Suggested Action: The practice of cashing employee checks must be strictly prohibited. This should be monitored by periodic inspection of the fund's canceled checks. At least once a year a person not associated with payroll disbursements should distribute the payroll checks, requiring identification of each employee before distribution of checks. Periodic employee interviews should be conducted.

10. Sale Of Unauthorized Merchandise at MWR Resale Outlets. Employees or managers of MWR activities having resale merchandise (e.g., base marinas, roller rinks, bowling alleys, etc.) can stock items for sale which are not a part of the official inventory. In this way, they can collect money for personal profit.

Suggested Action: Supervisory personnel should conduct periodic inventory checks to ensure that only authorized merchandise is offered for sale.

11. Concessionaires Are Operating in MWR Facilities And Have Not Been Placed Under Contract or Approved by the Nonappropriated Fund Advisory Council or the Commanding Officer. Management personnel could allow certain concessionaires to operate within the facility in return for a share of the profits.

Suggested Action: Checks should be made to ensure that a legitimate contract has been negotiated with every vendor operating a concession in an MWR activity.

12. Purchases from Petty Cash Funds For Which There Are Improper or No Receipts. Petty cash funds can be removed by dishonest personnel who are allowed to utilize handwritten notes in place

of bona fide cash register receipts or sales slips to account for expenditures, or who claim receipts were lost or misplaced.

Suggested Action: Periodically review petty cash vouchers to ensure proper procedures are being followed and that purchases are not being made without proper receipts.

13. Accounts Receivable not Promptly Collected. When accounts receivable are not promptly collected, considerable funds can be tied up in "no interest" loans to members. Club members for example, can be discharged, depart PCS, etc., resulting in considerable effort and expense in collecting delinquent debts.

Suggested Action: Aggressive collections, to include legal action should be taken by the MWR activity when applicable. Timely accounts receivable collections will reduce costs and provide additional cash patron programs.

14. NAF Employee Allowed to Sign-in Early and Sign-out Late. NAF employees can gain increased pay by signing in early and out late. This can greatly increase payroll expenses. Access to time clocks and time cards should be controlled.

Suggested Action: Scheduled work hours should be posted in advance of work week. Shift and work schedules should be annotated on the time and attendance cards. Timekeepers should review times and check time cards for early/late clock discrepancies against established schedules.

15. Collection of Imprest Funds. When two or more imprest funds are maintained by the same individual or by two separate individuals occupying the same office, there is a possibility that funds could be "loaned" from one fund to another to cover shortages.

Suggested Action: Managers should ensure funds are not collocated. Surprise cash counts should be performed periodically on all imprest funds.

16. Imprest Fund Reimbursements not Properly Documented or Supervised. In some instances imprest funds have been misused by paying unauthorized vouchers that have outdated, altered, duplicated, and/or forged receipts. These unauthorized purchases cause additional expenses to the NAFI.

Suggested Action: NAVCOMPT Form 743 (Petty Cash Vouchers) should be properly completed for any payments from the imprest fund. Receipts should be marked "paid" with proper receiving and approval signatures on the petty cash form. A close review of the date and other entries on the original back-up documents

(i.e., register tape, invoice, receipt, etc.) should be accomplished to ensure data are current, authentic, and unaltered.

17. Internal Controls. In many instances, documentation supporting transactions for cash receipts and expenditures are not retained for audit and verification functions. Prescribed prenumbered purchase orders are not issued to cover initial procurement and delivery of merchandise. It is a generally accepted practice for many managers/treasurers to sign blank or after-the-fact purchase orders to cover deliveries of goods and services already received. Approved purchase orders, as approved by the manager/treasurer, are in many instances incomplete as to specification for goods and services being ordered. The procedures described above allows for the circumvention of prescribed internal control procedures and systems which provides an opportunity for withholding purchases and liabilities information from accounting records. This in turn provides an opportunity to retain cash payments without preparation of sales documents and without making deposits to the bank account.

Suggested Action: Require all purchase orders to be prenumbered and properly completed before the purchase transaction is completed. A periodic review of purchase order open files and purchasing procedures should be accomplished. Ensure that there is a separation of duties between purchasing, receiving, and payments where possible.

\*\*Food and Hospitality Operations\*\*

18. "Short-Pouring" By Bartenders. Bartenders may divert funds by "short-pouring" drinks and charging the customer the regular price. The bartender keeps track of the drinks "short-poured." As soon as the amount saved by short pouring equals that required for a sale, the money for that drink can be pocketed without ringing up the sale. In this manner, the inventory will be in balance.

Suggested Action: Managers, supervisors, and customers should watch bartender operations to include observation of amounts poured.

19. Failure to Itemize Drinks Bought by the "Round". The system used to charge for the "rounds" of drinks to club card accounts lends itself to fraudulent manipulation. When a member wishes to charge a "round" of drinks to own account, the bartender prepares a sales ticket imprinted with the member's club card data for the member's signature. Subsequent "rounds" are added to the ticket, however, the member does not normally see the additional entries. Overcharges can thus be made and pocketed by the bartender.



Suggested Action: Customers need to ensure their sales tickets are accurate and that drinks bought by the "round" are itemized. Managers should review sales tickets to ensure that the customer signs the ticket only upon completion of the order and not in advance.

20. Lack of Control over Party Contracts. Fraud may occur in club party contracts if controls and surveillance are not maintained. Monies can be "pocketed" from undisclosed differences in cash payments received while over or under-booking party contracts.

Suggested Action: A periodic verification of amounts charged customers may disclose manipulation of records and theft of receipts. Amounts charged and received should be verified with selected customers. Verification should be handled by other than the one handling the contract records.

21. Waiver of Fees by Club Employees. Intent to defraud may be indicated when a club employee exhibits a willingness to waive a fee or quote two prices for the same service or party.

Suggested Action: Managers should ensure only established fees are quoted for the same service or party. Preprinted price lists could be handed prospective customers as a preventive measure.

22. Kickbacks Paid Club Supervisors by Newly Hired Servers. Internal club policies requiring newly hired waiters/waitresses to turn over tips to a person over an extended period of time could lead to some sort of kickback scheme with new employees being victimized by experienced employees or by the person who has the power to hire servers.

Suggested Action: Civilian Personnel officials should ensure that newly hired servers and other NAF employees are advised of the illegality of such kickback schemes. New employees should be advised to report any kickback requests to the club officer, Command Club Management System Office or Civilian Personnel Office.

23. Additional Items Indicative of Fraud in Club Operations

a. Custodians, treasurers, contracting officers, stewards, or management personnel are consistently dealing with one vendor, supplier or entertainment booking agent although others are available.

b. There are amusement or vending machines in operation for which there is no contract.

c. A service contract is being used to pay a person more than the person would be entitled to as an employee.

d. Purchase orders are being made up after the fact.

e. Employees are illegally removing food from the kitchen facilities for their own consumption.

f. Physical inventories of bar stocks are not conducted by someone independent of bar operation.

g. Individual register receipts are not being provided customers with each order.

h. Prices for drinks are not posted in a prominent part of the bar.

24. Deception/False Advertising. Draught beer (Budweiser) was advertised and sold as "Michelob." The official physical inventory results did not have Michelob draught beer listed. A review of the beer invoices revealed that Michelob draught beer was not purchased during this period. However, sales slips indicated that Michelob beer was sold. A similar situation was discovered with Old Milwaukee sold as Schlitz. The tappers on the bar's draught beer were for Michelob and Schlitz. This procedure was detected by observing that Michelob and Schlitz draught beer back-up kegs were not physically on hand to replenish bar stock and was later confirmed by reviewing the inventory sheets and vendors invoices.

Suggested Action: Managers/command could look for this event by physically sighting the bar's draught beer stock and comparing it to the bar's menu. Auditors could verify this fraud by using cutoff procedures similar to those used for bank confirmations; i.e., tracing invoices to actual stock on hand.

25. Manipulation Inventory and Bonus Merchandise. Auditors detected the theft of mess inventory and bonus merchandise by a club manager who owned and operated a restaurant in the local community. An audit of vendors invoices disclosed larger quantities of merchandise being delivered and billed to the club than was posted to appropriate inventory accounts. Also, conversation with vendors produced evidence that quantities of free merchandise were provided but were not entered in the records of the club.

Suggested Action: Management should closely scrutinize employees' personal activities to ensure no conflict of interest exists and should be extremely sensitive to individuals engaged in a business on personal time that is similar in any manner to the job they perform for the employer. Through direct contact with vendors, interested parties are able to obtain confirmation or record of free or bonus merchandise provided to their customers.

\*\*Retail Operations\*\*

26. Excessive Purchases of Package Store Items by an Authorized Patron. Due to the tax-free status of liquor sold on military installations it is often profitable for persons to buy unusual quantities of liquor for resale on the local economy. Retired or active duty service members who operate businesses have also attempted to purchase their liquor through package outlets.

Suggested Action: Purchases which appear to exceed those necessary for normal personal consumption, particularly over extended periods, should be reported to supervisory personnel.

27. Theft of Liquor from Package Store. During a routine analysis of a Consolidated Package Store significant differences between management physical inventory balances and the retail accountability control balances for merchandise were noted. These differences, over several months, were approximately \$1,000 per month. Detailed examination of records and onsite observation of operations failed to reveal any significant discrepancies. A camera was installed in the store to determine if shoplifting was the cause for the variances. The results of this process did not indicate that shoplifting existed. Then a camera was installed in the warehouse area where it confirmed that a warehouseman was putting bottles of alcoholic beverages in empty boxes and transporting them to waste dumpsters for pick up at a later time.

Suggested Action: Management should periodically, check items going to disposal containers. Physical inspection of the disposal sites can isolate problems simply because employees will know that the facility is inspected.

\*\*Recreation Operations\*\*

28. Theater Cashiers Fail to give Tickets to Patrons. Box office cashiers perpetrate fraud by failing to give the patron a ticket and either pocketing the money or reselling the ticket and splitting the sale with the ticket taker. Ticket takers can also fail to tear the ticket in half, return it to the cashier for reissue, and split the money with the cashier.

Suggested Action: Post information to patrons instructing them to ensure tickets paid for are received and later torn in half when they are admitted into the theater. Managers should periodically spot-check ticketing procedures by surprise visits. Managers should "count noses" of entering theater patrons for several nights and compare the number with the daily receipts.

29. Bowling Alley Operations. During a routine financial analysis of bowling alley operations a significant decrease in income during the year was noted, while patronage showed an

increase of 20 percent from the previous year. Bowling alley meter readings compared to income collected disclosed a decrease in projected income of \$10,000. The bowling meters were checked for accuracy and reliability. The meters were all operable and functioning properly. By observing the bowling alley operations it was determined that employees were charging patrons for lane fees but were "pocketing" the money. Employees would delay ringing sales on the cash register until after the patron departed from the cash register area.

Suggested Action: Require employees to ring sales on the cash register immediately upon the receipt of cash. Cashiers should be spot checked to ensure this is accomplished. Periodic analysis of lane meters to cash sales would help detect variances.

### \*\*Bingo Operations\*\*

Several NAF activities conduct Bingo games to raise money and provide entertainment for customers. The following are indicators of fraud in these operations.

30. Bingo Cards Are Not Date Stamped at Time of Purchase. Regulations call for date stamping of the cards at the time of purchase and this stamp is to be used as verification of purchase should a winner be claimed. Since, in most cases, customers are allowed to select cards from large stocks placed on convenient tables and then required to pay for them at a separate cash collection point, it is possible for customers to use cards for which no payment was made.

Suggested Action: A date stamp and distinctive color ink should be provided bingo employees just prior to placing the cards on sale. Numbered tickets for each card sold should also be provided as a control over all cash collected being received by the activity. All winning cards should bear the correct date stamp.

31. Review of Special Events Report (Local Form) Shows Certain Players Winning Most Large-Dollar Games. By reviewing the Special Events Report for perhaps a 6-month period, it may become apparent that certain players are winning a disproportionate number of games. This could indicate collusion between the caller and the player. This scheme is particularly effective when the caller alone verifies all winning cards.

Suggested Action: Disinterested party should observe bingo operations where this indicator is present to look for indications that callers are calling numbers irrespective of those actually drawn from the machine.

## CHAPTER 12

### AUTOMATIC DATA PROCESSING OPERATIONS

With an annual budget in excess of \$213 million, a work force of more than 2,500, and an inventory exceeding 600 owned or leased central processing units, Marine Corps automatic data processing (ADP) operations represent big business. Computers are used to account for and control assets, to perform automatic decision making functions, and to accomplish numerous other complex tasks. Virtually all Marine Corps activities and organizations are supported by and rely on ADP systems and products. Unfortunately, users of these systems and products are extending them far beyond the scope of legitimate Marine Corps operations. Often, elaborate internal controls are developed to help reduce opportunity for misuse and, theoretically, in those instances these controls should be effective. However, even the best internal controls can be circumvented or simply ignored to satisfy an individual's motives. In the final analysis, the only real deterrents to misuse are effective management and awareness training on the part of all personnel who have access to or use of ADP systems.

#### \*\*Program Deficiencies\*\*

1. Unscheduled Programs Being Run on a Recurring Basis Particularly During Hours of Low Computer Use. Programs being run that have not been scheduled may be for personal benefit. Examples include programs to analyze investments or to support a business venture. Insiders, such as users, programmers, managers, and operators, are prone to running such programs.

Suggested Action: Periodically, the supervisor should review transaction logs and compare jobs processed with those scheduled for processing. Deviations, especially the appearance of unscheduled, nonstandard programs, should be thoroughly investigated. Running unauthorized programs may also be deterred by ensuring no shift is worked by a lone operator.

2. System Crashing Excessively. A system will inevitably crash from time to time. However, this situation should not be occurring frequently. If it does, possibly someone is intentionally making the system crash or is attempting to alter the operating system in order to effect data or transaction losses.

Suggested Action: Ensure that a program exists for logging system crashes. Analyze the crash log, and look for evidence of intentional crashing. Also, analyze computer activity occurring just prior to crashes. Analyze which systems were online and what files and programs were in use.

3. Programming Changes Being Made Without Going Through Review And Approval Process. Program maintenance activities have been estimated to amount to as much as 80 percent of an organization's total programming effort. It is essential that program changes be evaluated for necessity and propriety. Failure to follow established program maintenance authorization and review procedures could result in wasted effort or other undesirable results. For example, programmers could tamper with automatic decision making routines. "Trojan Horse" programs, that perform actions unrelated to the user's intent, could be implanted within an authorized program. Similarly, trap doors can be inserted into authorized programs resulting in unauthorized system entry points that can be used by anybody at a later time.

Suggested Action: Require use of a structure approach for new/revised program code. Basically, this procedure would require a programmer to have their own program logic and performance factors reviewed by another person (possibly a programming team chief or a system analyst). Computer-aided flowcharting of the programs could also be used to identify and present logic paths. Management should also ensure strict procedures are in effect to prohibit programmers from accessing operational versions of systems or operational data bases using programs under development.

4. Excessive Use of Edit Overrides. When programmatic edits to data input can be bypassed, functional area personnel have the opportunity to input fraudulent transactions or to otherwise impair data integrity. Action may be taken for personal gain, out of ignorance, or to sabotage the system.

Suggested Action: Controls over edit override procedures should commensurate with the sensitivity and importance of the information system. Conditions may call for supervisory approval before edit bypass routines are used in order to restrict knowledge of bypass routines to selected personnel. There should be an audit listing printed every time an edit bypass routine is used.

\*\*Physical Access for Unauthorized Purposes\*\*

5. Personnel Consistently Refuse Leave, Promotion, or Job Changes. Many times fraud and abuse are discovered when an employee is absent for an extended time (one processing cycle or during end-of-cycle processing) and substitute personnel detect an irregularity. During such absences, the perpetrator is unable to perform actions critical to avoiding detection of fraudulent/abusive practices. For example, an employee may have to input a fraudulent transaction on a recurring basis to prevent general ledger/detail record reconciliation's for disclosing fund manipulations relative to accounts receivable or accounts payable.

Suggested Action: Adopt personnel policies that require employees to take leave, and identify jobs where periodic rotation of incumbents would be beneficial. Scrutinize job activities of personnel who resist these policies. When jobs are rotated, immediately have the person assuming the new job verify the integrity of any files that may be involved. Also, implement procedures to ensure at least one "backup" person for every system.

6. Remote Terminals Left Unattended While On-Line. Many on-line systems such as the Data Base Management System (DBMS) have relatively simple procedures for remote users to make inquiries and also to update records. When personnel who are not authorized access to the system know how to make record inquiries and updates, a threat exists to the integrity and privacy of the data base. Therefore, remote terminal access control is very crucial.

Suggested Action: Position remotes so they are not readily accessible to customers and visitors in the work area. Train employees to be security conscious and to challenge strangers attempting to use terminals. Obtain remotes with keyboards that can be locked when not in use. Also, consider use of software controls such as password identification programs and access control lists.

\*\*Documentation Storage Media Deficiencies\*\*

7. Hardware Maintenance Not Being Documented. Regardless of whether automatic data processing equipment (ADPE) is leased or purchased, available ADPE time must be maximized. To ensure that this objective is achieved, two types of ADPE maintenance are essential: (1) preventive maintenance (PM) and (2) remedial maintenance (RM). ADP management must ensure that PM is performed on a scheduled basis and RM performed only when required to keep ADPE in proper operating condition. Under contract lease terms, the contractor may be liable for rental credits covering the period when ADPE is inoperative; for purchased ADPE, the contract may allow credit to be applied against maintenance charges. PM should be scheduled without jeopardizing the mission. A record of all maintenance (PM and RM) should be kept to ensure that the Marine Corps is receiving all allowable credits and the contractor is fulfilling the terms of the contract.

Suggested Action: Data processing management should continually review maintenance sources and practices and the written documentation to maximize available utilization time and to attain maximum benefits at minimum cost. Management should be familiar with the specific terms of the current contracts/agreements for all ADPE. Contracting officers must

also ensure that maintenance contracts are written in cooperation with data automation officials. Many maintenance abuses become "legal" because of poor contract contents.

8. Files with Little or No Access History Being Kept On-line. Files which are seldom used can be kept on tape and transferred to disk, if necessary, when needed for processing. Keeping files with low utilization on disk can be wasteful, especially if it results in procurement of disk storage capacity that would be avoidable otherwise.

Suggested Action: Resource managers can monitor file utilization reports and identify low use files that are being maintained on disk. Managers should contact users and determine if the files are actually needed and, if needed, determine if off-line storage will suffice.

9. Lack Of System Documentation. Complete and well written documentation will serve as a system road map. Use of such documentation will make it easier for maintenance programmers to code software modifications and corrections. Good documentation will also make it easier for anyone who needs to verify the propriety of system programs. Poor system documentation may, in fact, be indicative of deeper problems. For example, programmers could consciously refrain from preparing documentation to maintain job security or to make detection of program improprieties more difficult.

Suggested Action: Establish procedures requiring all system, program, and user operational procedures to be documented. For example, make accomplishment of documentation mandatory before a program will be certified as operational or allowed to be put into use. Consider using computer-aided documentation programs.

\*\*Rejects/Unwarranted Adjustments\*\*

10. Significant Changes in Reject Rates. An input transaction undergoes a series of edits prior to acceptance for processing. If an input fails to meet one or more of the edits, a reject notice will be sent to the originator of the transaction. An increase in the reject rate could indicate carelessness on the part of the originator, improper training, or repeated attempts to process fraudulent transactions. Each results in waste and inefficient use of valuable resources.

Suggested Action: Management should review written procedures/instructions for preparation of input transactions to determine if they are adequate. The training provided originators of transactions should be evaluated to determine if originators can reasonably be expected to properly prepare input transactions upon completion of this training. If the problem is



one of carelessness on the part of the originator, counseling on the need for accuracy should be provided. Selectively but routinely review rejected transactions to determine validity.

11. Adjustments Being Made to Automated Records to Force Agreement Between Automated and Manual Record Keeping.

Adjustments may be made to automated records as a result of reconciliation discrepancies to force agreement. Such activities may indicate serious program errors, failure to adequately research discrepancies, or cover up of shortages due to a fraudulent activity such as record manipulation.

Suggested Action: Compare historical computer products with current reports. Note significant discrepancies or trends in adjustments (frequency and quantity) not explained by legitimate transactions in the intervening time period. Generate a separate listing of adjustment records to be reviewed by management.

12. No Control System to Ensure Re-Input of Reflected Transactions. It is critical that all transactions affecting data used for making decisions or resource expenditure be processed accurately and timely. When a transaction is rejected, a well designed system will provide for the preparation of some type of reject notification. The notification should be returned to the transaction originator. Also, a record of the rejected transaction should be maintained by a quality control unit. Lack of these controls could indicate that not all transactions affecting the data in the system are being properly processed--an open invitation to fraud.

Suggested Action: Due to the impact on decisions and the opportunity for fraud, data processing managers should be extremely interested in controls over rejected transactions. They should assure themselves that a control system has been provided and that it is being properly carried out. Functional managers, aware of the impact of rejected data, should also be keenly interested in the proper handling of rejected transactions.

\*\*Unwarranted/Unauthorized Computer Products\*\*

13. Computer Products Printed That Are Not Needed. A considerable amount of resources can be wasted if printed computer products currently prepared are not needed. In some instances a valid need may have once existed for a listing, but subsequent changes in mission and information requirements render the product obsolete. However, the listing may continue to be produced and distributed. Reasons for not stopping the listing is someone else's responsibility.

Suggested Action: Periodically conduct a survey of listings prepared and the uses of them. Have users explain and justify use of reports. Avoid accepting a "yes" or "no" response to inquiries about whether listings are needed or used. One technique to verify organizational use of a listing is to withhold distribution of it to see if it is requested.

14. Unauthorized Computer Products Appearing in Work Areas. Personnel may be using ADP resources to produce such products as sports pool sheets, golf/bowling handicap reports, calendars, computer art, etc. These activities constitute inappropriate uses of operator and programmer time, central processing unit (CPU) time (including the use of PC's), paper, and cards. Such activities may also be indicative of excessive employee idle time and poor supervision. If condoned, the situation can lead to more significant computer abuses.

Suggested Action: Tape utilization/retention records should be reviewed. Examine contents of tapes run only at Christmas, just before New Years, and at other times coinciding with special events. Review and compare workload with manning levels. Spot check output being prepared on the printers. Management should check to see if unauthorized software are in the computer directories. Management should check waste paper baskets to see if unauthorized software was used on the computer.

\*\*Timesharing Irregularities\*\*

15. Unexplained Increases in Timesharing Costs. In addition to maintaining an in-house data processing capability, the Marine Corps frequently contracts for timesharing services, particularly in support of special applications. Timesharing systems are susceptible to fraud, waste, or abuse which could be indicated by a sudden, unexplained increase in timesharing costs. For example, inefficient programming and processing can cause programs to run longer than necessary. Such conditions may be the result of carelessness or even insufficient training. System abuse can occur when the timesharing service is used to develop and run programs for personal applications.

Suggested Action: Budgeting should be accomplished for timesharing services. Amounts billed for the services should be compared with budgeted amounts, and significant variances should be investigated. Ideally, the billing system should identify individual users along with the amount of timesharing resources each one consumes. Data of this type should provide the basis for trend analysis, etc.

**\*\*Other\*\***

Additional information on the safeguarding of information, management, or operation of Marine Corps ADP activities is contained in the current edition of the following manuals:

- a. MCO P5510.14, Marine Corps ADP Security Manual.
- b. MCO P5233.1, Marine Corps ADP Management Standards Manual.

## CHAPTER 13

### FUELS

Audits, inspections, investigations and the results of Field Supply and Maintenance Analysis Office analyses reveal conditions that foster theft, misappropriation, and fraud. Management at all levels must be continuously aware of any indicators that tend to reveal irregularities, or possibilities of any fraud, waste, or abuse of fuel products. Prudent use of our fuel resources is a fundamental requirement to our securing continued appropriations from Congress to meet our future years' requirements.

#### \*\*Indicators\*\*

1. Fuel Lost Through Inadequate or Improper Documentation. Current directives require that Base Fuels personnel inspect each vehicle delivering fuel to ensure that compartment seals are intact, that meters are operational on the vehicle, and that the quantity being hauled/sold to the Government is accurate. In addition to the check by fuel personnel, escorts for contractor carriers are required to accompany the vehicle to the destination for discharge of the fuel into the base tanks. Potential for collusion exists when the same personnel make both the quantity and security check on delivery vehicles.

Suggested Action: All Marine Corps fuel managers should ensure that organizational tank custodians/service personnel have received proper training. Proper training and adherence to directives can help deter a contractor or vendor from defrauding the Government. Rotation of escorts who accompany the contract vehicles further reduces the opportunity for fraud or collusion, or for drivers to "make deals." Periodic unannounced inspections by organization commanders can serve to keep all personnel aware of their custodian responsibilities. Properly posted records of inspections and random reviews will help reduce the possibility of theft or misuse of fuels, and create an awareness among all personnel that deters theft and misappropriation. Check the delivery trucks "master gage" readings at the gate entering and departing the installation. If the suspension is arise (i.e., truck which delivered 6000 gallons of fuel is "heavy" on the tires), require the fuel manager to verify the contents of the truck prior to departure.

2. Significant Variations in Fuel Consumption by Registered Vehicles. Each vehicle driver utilizes NAVMC 10027, Trip Ticket, to record vehicle data. This form is used to maintain usage as well as fuel purchased/issued. A comparison should be made of vehicle fuel consumption and miles operated with vehicle fuel consumption and miles operated of similar vehicles.

Suggested Action: Review vehicle records and reports of organizations having large vehicle fleets. If records are not available, compare miles per gallon for like vehicles. When a significant variation exists; review the mileage records of each registered vehicle to determine if false or misleading mileage is being recorded. Indications of abnormal consumption should be identified for continued monitoring and review. Individual purchase/issue transactions must also be compared to the vehicle tank capacity.

3. Theft, Misappropriation, or Fraud From Organization Tanks. The most common incidents of theft, fraud, and misappropriation of ground fuels occur in conjunction with organizational fuel tanks. Some methods employed include "windblowing" which advances the delivery meter when the truck engine is accelerated which pumps air from the truck's empty storage chambers. Another method is simply to recirculate the fuel by placing the hose from the truck's delivery pump into the truck's fuel intake hatch. It is the responsibility of the organization commander to maintain receipt, issue, and inventory records on a daily basis, for all fuels in the organizational tanks.

Suggested Action: The commander of each organization having organizational fuel tanks is required to appoint both a custodian, and an alternate, for each tank. The custodian must ensure that all tank fill and issue openings are secure. Suggested security methods include: locking caps and valves and antisiphon devices, pump or dispensing nozzles, and the power sources for issue tanks, when unattended; low point drains should also be locked; meters and gauges should be calibrated annually after any repairs, or at any other times when accuracy is in doubt. Certificates of calibration must be maintained by the custodian. The organization commander must keep records of all tank custodian training and alternate custodian training. The base logistics officer is responsible for providing this training. Fuel deliveries to the tanks should be witnessed and the receipt signed by the custodian. Escorts accompanying contractors or vendors making deliveries to the organizational tanks should be approved by the base commander. The base logistics officer is responsible for briefing and training escorts on their duties and responsibilities. Escorts are not permitted to sign for fuel deliveries; only the tank custodian or the alternate may sign the receipt document. Random security reviews should be made by the base security forces/military police of all organizational fuel tank areas. Fuels Management personnel are required to inspect all incoming and outgoing fuel delivery vehicles and record meter readings both before and after delivery of fuel. One copy of the verified receipt document must be retained at the receiving site, reflecting the date, time, and inspector's signature. Exceptions to this procedure are only authorized by the base logistics officer.

4. Security of Parked Vehicles. Most vehicles are refueled after use and parked with full fuel tanks. All vehicles are susceptible to fuel pilferage. Particular attention should be paid to construction equipment, heavy trucks, tractors, and other vehicles that are generally idle overnight, on holidays, and on weekends, and often parked in unattended areas.

Suggested Action: All such vehicles should have an antisiphon devices installed in their fuel tanks. The vehicles should be parked in a well lighted secure area, preferably fenced, with locked gates. Inspect areas where such vehicles are normally parked. There should be either routine or random surveillance visits by security forces/military police, especially at night, during holidays, and on weekends.

5. Fuel Issues to Small Containers. Small gasoline or diesel powered equipment, such as lawn mowers and engine driven pumps are usually refueled from small containers. In addition to the usual safety precautions that must be taken with such issues, the base maintenance office, or other using activity that requires fuel to be issued into small containers must obtain written authorization from the base logistics officer. Documenting issues to small containers from organizational tanks, or from the base service station is mandatory, and should be in accordance with standard issue procedures.

Suggested Action: Verify that all issues are authorized and adequately controlled. Check to see if issues to small containers are within the reasonable limitations for the type of equipment being refueled. Look for seasonal peculiarities such as issues to snow removal equipment during summer months. Emergency vehicles that are normally operated on base should not require a spare can of gasoline or other fuel on the vehicle. The number of people who are authorized to receipt for fuel issues to small containers should be limited to an absolute minimum. Physical security inspection by military police (MP) of location where fuel in small containers is stored.

6. Daily Losses Which Roughly Equal the Maximum Allowable Write-Off. Personnel may be stealing fuel by using maximum allowable "write-off" amounts as a guide of how many gallons to steal. The present fuels accountability system permits a maximum allowable loss due to temperature variations, evaporation, etc. Daily losses consistently equal to or slightly less than the allowable "write-off" amount may indicate the possibility of fraud.

Suggested Action: Review fuel inventory records to identify inventory results that consistently reflect losses that are very close to allowable maximums. Verify the accuracy of the allowable write-offs.

7. Failure by Receiving Personnel to Consider Temperature of Fuel or Air When Determining Amount of Fuel Received. Contract vendors could cheat the Government when making fuel deliveries, if responsible personnel do not ensure volume variations due to temperature are taken into consideration. The volume of fuel delivered is directly affected by fuel temperature at time of delivery. Hence, a contractor could cheat the Government by either preheating the fuel or delivering it during the hottest part of the day.

Suggested Action: Managers should ensure appropriate actions are taken to verify volume of fuel deliveries by contractors prior to making payment. As a minimum, the verification of the amount of fuel delivered should include computations using the American Petroleum Institute (API) conversion charts, the computerized vendor delivery ticket (which shows the fuel temperature and API indicator at time of loading).

8. Fuel Truck Loading Seal Numbers Do Not Agree With Seal Numbers on the Invoices. Charges for fuel deliveries could be fraudulent if the numbers on the fuel truck locking seal and fuel seal invoice are different or if there are extra seals in the truck. All trucks delivering fuel should have locking seals on all caps. The seal number(s) should be listed on the invoice.

Suggested Action: Be sure that Government representatives accompanying fuel delivery trucks are aware of the requirement for locking seals on all caps. The Government's personnel should also be advised to watch for evidence of extra seals which may be available to the driver. Further, management should arrange for periodic random sampling of fuel delivery trucks, to verify that seal numbers on the invoice reconcile with the seal numbers on each cap.

9. Same Individual Continually Volunteers to Escort Contractor Fuel Trucks. When the same person always volunteers to be an escort for a contractor's fuel truck, there could be collusion with the driver, in overcharging the Government for fuel not dispensed.

Suggested Action: Management should stay aware of which personnel are serving as escorts. Procedures should be implemented which will ensure that such escort duty is rotated among available personnel and do not continually assigned the same individual. At random intervals, observe fuel truck escorts for a period of several days to determine if the same individual frequently escorts contractor fuel trucks.

10. Amount of Fuel Delivered is Close to or Exceeds Tank Capacity. Fuel deliverers may be fraudulently claiming more fuel than what actually was delivered. Normally, fuel tanks are refueled while there is still some fuel in them. Delivery

documents indicating fuel delivered is close to tank capacity should be suspect. Amount delivered shown in excess of known tank capacity is one of the clearest indicators of fraud.

Suggested Action: A major asset in curbing fraudulent delivery claims is to always measure and witness the deliveries. In addition, checks should be made to ensure amounts claimed as delivered per respective invoices are accurate and reasonable.

11. Energy Awareness. Every installation should have a formal energy awareness and energy conservation program. The Marine corps goal is to improve the efficiency of all operations and minimize fuel consumption. Visibility should be maintained over aviation, vehicle, and facility energy consumption in supporting mission requirements. The base supply computer produces both daily and monthly transactions, registers and special management reports that compile and summarize all transactions that have occurred involving fuels, within each organization. The commander and the staff should be aware of the amount of fuel projected as required for the current year. Based upon monthly usage factors and actual mission requirements, the commander should be able to determine whether fuel being consumed exceeds the budgeted or forecasted quantities.

Suggested Action: Review transaction history files of organizations with large fuel consumption. Determine if fuel issued to an organizational tank exceeds the capacity of the tank. See if managers and commanders are stressing fuel conservation. Ask if any fuel has been reclaimed by organizations and returned to the fuels account. Are waste petroleum products reclaimed or turned in to disposal for resale? Are all organizational tanks properly justified, with documentation on file? Have all such tanks been inspected as required by directives? Are environmental and pollution control protective measures practiced and enforced? How effectively is the existing training program for the entire base? Are all managers and commanders aware of their responsibilities for management and control of public property? Any findings that warrant further review or followup should be reported to the installation commander.