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4 June 2012

MEMORANDUM FOR Recruiting Assistance Program Task Force

SUBJECT: Audit of Recruiting Assistance Programs – Reserve Components
(Project Number A-2011-ZBT-0403.000), Report: A-2012-0115-IEF

1. **Introduction.** This report presents the results of our audit of Recruiting Assistance Programs in the Reserve Components. U.S. Army Criminal Investigation Command (CID) asked us to review program payments made to recruiter assistants who mentored candidates to enlist in the Army National Guard and the U.S. Army Reserve. Enclosure 1 presents the detailed results of our audit. Enclosure 2 presents the official Army position on the report.

2. **Audit Standards.** We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

3. **Background.**

a. After FY 05, the Army National Guard and U.S. Army Reserve were below their congressionally approved end strengths by 16,823 and 15,995, respectively. The Army National Guard developed the Recruiting Assistance Program to meet end-strength goals. An adaptation of civilian contract recruiting, the program leveraged Soldiers, Families, and military retirees to identify, mentor, and refer potential candidates for enlistment.

b. To create and administer the program, in 2005, the Army National Guard's contracting office awarded a contract to Document and Packaging, Incorporated (DOCUPAK). The program initially commenced in the first quarter of FY 06 using an indefinite-delivery, indefinite-quantity task order awarded against an existing marketing contract. Subsequently, the Guard awarded a new contract with a period of performance of 28 June 2007 through 27 June 2008, and 4 option years. The minimum value of the contract was \$500,000 and the maximum value was \$472.5 million. As of

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March 2012, the estimated value of recruiting assistance-related contracts was \$366 million.

c. Individuals eligible to participate in the program used DOCUPAK's on-line system to register as a recruiter assistant. After completing training requirements, recruiter assistants became civilian subcontractors of DOCUPAK. Recruiter assistants were eligible to receive a payment for referring citizens who later enlisted in the Army National Guard. Assistants used DOCUPAK's on-line system to enter names of potential enlistees. Using Army personnel systems, DOCUPAK verified the new Soldier's enlistment and accession (travel to basic training). Depending on the enlistee's grade and military occupational specialty, recruiter assistants received a payment ranging from \$2,000 to \$7,500. DOCUPAK made payments using two electronic funds transfers, paying the assistants half after enlistment and half after accession. DOCUPAK invoiced the Army National Guard monthly. DOCUPAK billed the Army for reimbursement for these payments. DOCUPAK's fee included \$345 for processing each enlistment.

d. In June 2007, U.S. Army Reserve established a Recruiting Assistance Program using a task order awarded against the Army National Guard contract. The maximum payment authorized for recruiter assistants was \$2,000 (slide 8 in Enclosure 1 shows payments authorized under the Guard and Reserve programs). The remaining program rules and processes to implement the U.S. Army Reserve's program were identical to the Guard program.

e. Beginning in 2007, CID received information from DOCUPAK that contained information showing Army National Guard and Army Reserve recruiters and recruiting assistants potentially committed fraud. After investigating and confirming fraud, CID asked us to do an Armywide audit to determine whether the conditions identified were systemic and to evaluate whether there were weaknesses in the program's internal controls.

3. Objective and Conclusion.

a. **Objective.** To verify that the Recruiting Assistance Programs had appropriate controls in place and operating to ensure that only legitimate recruiting assistance payments were made for enlistments.

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b. **Conclusion.** Controls for the program weren't operating effectively or recruiting personnel circumvented controls. We conducted a fraud-risk assessment of all recruiting assistance payments made by electronic funds transfer from inception of the Army National Guard and U.S. Army Reserve Recruiting Assistance Programs through July 2011. In total, we reviewed about \$339 million in payments associated with 151,333 enlistments. Using information from CID, we established criteria for our fraud-risk assessment. We categorized individuals and payments in three categories: the high- and medium-risk categories represented potentially fraudulent payments, and the low-risk category represented potential violations of program rules. Our results of our fraud-risk assessment showed:

- 705 recruiters (601 Army National Guard and 104 Army Reserve) were affiliated with potentially fraudulent Recruiting Assistance Program payments. These payments were at a high risk for fraud. Prior to our audit, CID had already investigated 21 of these individuals and confirmed fraud.
- 551 recruiters (444 Army National Guard and 107 Army Reserve) were affiliated with suspicious Recruiting Assistance Program payments. These payments were at a medium risk for fraud.
- 2,022 recruiter assistants received payments that potentially violated program rules. Of these assistants, 611 were affiliated with potentially fraudulent or suspicious Recruiting Assistance Program payments discussed in the preceding bullets. We categorized these as low risk for fraud.

(Slides 16-28 of Enclosure 1 discuss the methodology for our fraud-risk assessment, the criteria for each risk category, and our audit results.)

These conditions occurred primarily because:

- Internal controls weren't in place or operating as intended. Working with the Army National Guard, DOCUPAK established controls to ensure that every enlistment represented a valid Soldier. We didn't identify any instances of "Ghost" Soldiers. However, other controls weren't in place or effective. For example, the Army National Guard and the Army Reserve didn't establish controls to verify the identity eligibility of recruiter assistants. We did a statistical sample to evaluate the overall effectiveness of 12 key controls we identified. For 88 percent of the payments sampled, at least one key control wasn't in place or operating effectively.

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- Recruiters potentially stole the identity of personnel to circumvent controls or colluded with recruiter assistants to bypass controls. As with any internal control system, individuals can use access to key information or engage in collusive activity to circumvent controls.
- Contracts weren't written or overseen effectively. The contracts assigned responsibility for implementing and monitoring controls to the contractor; responsibility for internal controls is inherently governmental. The Army National Guard didn't have a quality assurance surveillance plan and the Army Reserve's surveillance plan didn't have sufficient detail. Also, surveillance that contracting officers representatives did was insufficient.

(Slides 29-34 of Enclosure 1 discuss the causes we identified in more detail.)

As a result of these conditions, the Army didn't have assurance that recruiting assistance payments for enlistments were legitimate. In addition, because controls and oversight of the program weren't sufficient, the program was susceptible to fraud and abuse.

4. Actions Taken. During the audit, the Army canceled all recruiting assistance programs, suspended future program funding requirements, and created a task force to oversee ongoing investigations. Specifically, on:

- 18 January 2012, the Army Reserve suspended the program. The Army Reserve's Office of the Deputy Chief of Staff, G-8 began working with the Defense Finance and Accounting Service and the Army National Guard's contracting office to recoup \$486,682 in overbillings our audit identified.
- 23 January 2012, the National Guard Bureau suspended the program.
- 1 February 2012, the Assistant Secretary of the Army (Manpower and Reserve Affairs) terminated the program and suspended about \$45 million in programmed requirements for FYs 13-17.

After we briefed the Secretary of the Army, on 9 February 2012, the Secretary directed Army organizations to initiate appropriate corrective action and preventive measures. The Secretary directed:

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- CID to investigate all recruiters and affiliated recruiter assistants identified as involved with potentially fraudulent and suspicious recruiting assistance payments.
- The Assistant Secretary of the Army (Manpower and Reserve Affairs) to review all ongoing incentive programs for effectiveness and susceptibility of fraud.
- The Assistant Secretary of the Army (Acquisition, Logistics and Technology) to conduct a procurement management review of the contract and task orders associated with the Recruiting Assistance Program.
- The Assistant Secretary of the Army (Financial Management and Comptroller) to investigate whether a violation of the Anti-deficiency Act occurred.
- The Army Auditor General to conduct audits of the Active Army's Recruiting Assistance Program and the contract vehicle used for that program.

The Secretary established a Task Force on Recruiting Assistance Programs and appointed the Director of the Army Staff to lead the task force and synchronize corrective and preventative measures.

On 22 February 2012, we provided CID with fact sheets for 705 recruiters and affiliated recruiter assistants that our fraud-risk assessment identified as involved with potentially fraudulent payments to recruiter assistants (that is, individuals and transactions we determined were at high risk for fraud). On 15 March 2012, we provided CID the fact sheets for the remaining 551 recruiters and affiliated recruiter assistants that our assessment identified as suspicious (these are individuals and transactions we determined were at medium risk for fraud). The total value of the potentially fraudulent and suspicious payments could be as high as tens of millions of dollars. These numbers are preliminary and could go up or down as CID and the Components do their investigations.

In addition, in May 2012, we provided the Army National Guard and Army Reserve with the names of an additional 1,411 recruiter assistants who may have violated program rules. Working as part of the Recruiting Assistance Program Task Force, the Director of the Army Staff tasked the Components to conduct investigations pursuant to Army Regulation 15-6 (Procedures for Investigating Officers and Boards of Officers).

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5. **Recommendations.** This section summarizes the specific recommendations included in Enclosure 1. Verbatim comments and the official Army position are in Enclosure 2.

a. **For the Assistant Secretary of the Army (Manpower and Reserve Affairs)**

Recommendation 1. Cancel the Recruiting Assistance Program.

Command Actions Taken During the Audit. After our 1 February 2012 briefing, the Assistant Secretary canceled the program. On 9 February, the Secretary of the Army issued a memorandum that also directed that the program be canceled.

Official Army Position. The Assistant Secretary provided the official Army position for this recommendation. In addition to the actions describe above, the Assistant Secretary, in conjunction with the Headquarters, DA Deputy Chief of Staff, G-1, canceled remaining FY 12 funding for the program and eliminated all requirements and funding for FYs 14-18. The Assistant Secretary said funding for FY 13 was pending legislative approval. The Assistant Secretary said any funding approved for the program would be removed.

Agency Evaluation of Actions Taken and Official Army Position. These actions fully meet the intent of the recommendation. Therefore, we'll close the recommendation for followup purposes.

Recommendation 2. Task the CID to investigate the 705 individuals in the high-risk category and the 551 individuals in the medium-risk category to confirm whether fraud or illegal acts occurred. Also, task the Army National Guard and Army Reserve to conduct AR 15-6 investigations of the individuals in the low-risk category to determine if they committed program violations or potential fraud. Instruct the two Components to refer any instances of potential fraud to CID.

Command Actions Taken During the Audit and Official Army Position. On 9 February, the Secretary of the Army directed the CID, Army National Guard, and Army Reserve to take the recommended actions.

Agency Evaluation of Actions Taken and Official Army Position. These actions fully meet the intent of the recommendation. Therefore, we'll close the recommendation for followup purposes.

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b. For the Director of the Army Staff

Recommendation 3. Use the Recruiting Assistance Program Task Force to continue coordinating and overseeing the efforts of Army organizations involved in meeting the Secretary of the Army's directives in his 9 February 2012 memorandum. Provide regular updates to the Secretary until all tasks are completed and provide an after-action report summarizing lessons learned and the outcomes of the coordinated effort.

Command Comments and Official Army Position. The Director of the Army Staff provided the official Army position for this recommendation. The Director agreed with the recommendation and stated he chairs the Recruiting Assistance Program Task Force, which meets biweekly at executive and working group levels. The task force includes representation from multiple Army organizations, including CID, the Army National Guard, and the U.S. Army Reserve, which are responsible for investigations.

Agency Evaluation of Command Comments and Official Army Position. The Director's actions meet the intent of our recommendation. Therefore, we'll close the recommendation for followup purposes.

c. For the Chief, U.S. Army Reserve

Recommendation 4. Collect the remaining \$486,682 for canceled accessions.

Command Actions Taken During the Audit. On 15 February 2012, the Army Reserve advised the Defense Finance and Accounting Service to stop payment on \$1.4 million of pending invoices. The Army Reserve was working to recoup the \$486,682 in overbillings identified.

Command Comments and Official Army Position. The Office of the Chief, U.S. Army Reserve agreed. The office targeted implementation of recoupment actions for 30 April 2012. The office stated that its Office of the Deputy Chief of Staff, G-8 monitors unliquidated balances for recruiting assistance payments monthly and is working with Defense Finance and Accounting Service to recoup the full balance.

Agency Evaluation of Actions Taken and Official Army Position. The Office of the Chief's actions meets the intent of our recommendation.

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6. **Reply Process.** The verbatim comments constituting the Army's official position on the facts, conclusion, recommendations, and potential monetary benefits are in Enclosure 2.

7. **Remarks.** I appreciate the courtesies and cooperation extended to us during the audit. If you have questions, please contact Mr. Bruce B. Miller at DSN 328-6768 or e-mail: bruce.b.miller.civ@mail.mil.

FOR THE AUDITOR GENERAL:



JOSEPH P. MIZZONI

Principal Deputy Auditor General

2 Encls

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Recruiting Assistance Programs—Reserve Components

Briefing Report:
4 June 2012

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Enclosure 1

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Agenda



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What We Audited

- We performed the audit at the request of the U.S. Army Criminal Investigation Command (CID).
- Beginning in 2007, CID began receiving complaints of fraud referred by Document and Packaging, Inc. (DOCUPAK) concerning the Recruiting Assistance Program (RAP). After investigating several cases involving personnel from the Army National Guard (ARNG) and U.S. Army Reserve (USAR), CID asked us in February 2011 to conduct an audit of the Guard's Recruiting Assistance Program (G-RAP) and the Army Reserve's Recruiting Assistance Program (AR-RAP).
- We conducted a fraud risk assessment for recruiting assistance payments made by electronic funds transfer (EFT) for the G-RAP and AR-RAP from program inception in October 2005 through July 2011.
- This is the first in a series of audits we're doing on RAPs and contracts.

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Other Matters



- This report has information related to potentially fraudulent or abusive activities.
- We omitted details of specific individuals potentially involved in suspicious transactions from this report.
- As with any audit, once we identify potential fraud, Army internal audit policies require us to refer the matter to CID for investigation.
- We do not investigate or confirm whether fraud or illegal acts occurred. That is a law enforcement responsibility. Instead, our audit provides information on whether sufficient and credible evidence exists to warrant investigation.

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Background

Program Intent



- After FY 05, the ARNG and USAR were short of their congressionally authorized end strengths by 16,823 and 15,995, respectively.
- This was a period of rapid end-strength growth and unfavorable recruiting conditions.
- The RAP was intended to be an adaptation of civilian contract recruiting and infuse the ARNG with new Soldiers to assist in meeting end-strength requirements.
- The program was designed to leverage Soldiers, Families, and military retirees to identify potential Soldier recruits.
- ARNG managed G-RAP and USAR managed AR-RAP.

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Background Contract



- ARNG initially contracted for G-RAP using a task order awarded against an existing umbrella marketing contract (W9133L-05-D-0011) with DOCUPAK.
 - The ARNG awarded this marketing contract in September 2005 and the program commenced during the 1st quarter of FY 06.
 - Task Order 15 created G-RAP. This task order was an indefinite-delivery, indefinite-quantity contract.
- ARNG awarded the current base contract (W9133L-07-D-0007) to DOCUPAK as an indefinite-delivery, indefinite-quantity performance-based contract.
 - The period of performance for the contract was 28 June 2007 to 27 June 2008 with 4 option years available that enabled the Government to extend the contract until 27 June 2012.
 - The minimum contract cost was \$500,000 and the maximum contract value was \$472.5 million.
 - In June 2007, ARNG awarded a task order on behalf of USARC for DOCUPAK to create and manage AR-RAP.
- The value of G-RAP and AR-RAP since September 2005 was about \$366 million.

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Background

Eligibility



- ARNG and USAR established program requirements, including eligibility requirements for recruiter assistants (RAs).
 - The requirements for each program differed.
 - Program rules required face-to-face mentorship with potential enlistees.
 - Neither program permitted recruiters to receive an RAP payment.
- G-RAP payments to RAs ranged from \$2,000 to \$7,500 depending on the position of the Soldier who joined ARNG.
 - RAs received higher payments for officers or enlistments in hard-to-fill military occupational specialties (MOS).
- AR-RAP payments to RAs were \$2,000.
- The next slide provides a detailed comparison of eligibility requirements and payments for G-RAP and AR-RAP.

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Background

Comparison of G-RAP and AR-RAP

| As of May 2009 | G-RAP | AR-RAP |
|--------------------|--|--|
| Payment | \$2,000 -\$7,500 for referrals. | \$2,000 for referrals. |
| Eligible Referrals | Referrals with or without previous service in the ARNG. | Referrals with or without previous service in the USAR. |
| Eligible RAs | Traditional drill status ARNG Soldiers and officers, Active Guard and Reserve Soldiers, Soldiers assigned on Active Duty operational support orders, and ARNG retirees who voluntarily apply to become eligible to serve as a RAs. | Off-Duty status Soldiers, including those who are on troop program unit status, Active Guard and Reserve Soldiers, Soldiers assigned on Active Duty operational support orders, individual mobilization augmentee, mobilized Soldiers, military technicians, as well as retirees of the USAR with 20 or more years of service. |
| Ineligible RAs | Active Guard and Reserve officers, officers assigned on Active Duty operational support orders, military technicians, Reserve Officer Training Corps instructors, any member of the ARNG assigned to recruiting and retention, and immediate family members of the full-time recruiting force. | Active Guard and Reserve officers, mobilized officers, officers assigned on Active Duty operational support orders, Inactive Ready Reserve Soldiers, Department of the Army civilians, Reserve Officer Training Corps instructors, any member of the USAR assigned to recruiting and retention, and immediate family members of the full-time recruiting and retention force. |
| Payment | Upon verified enlistment, the RA will receive an initial \$1,000 payment, with a second \$1,000 payment upon verification of the Soldier's successful shipment to basic training (if required) or once the prior service recruit completes 120 days with the unit. | Upon a validated contract, the RA will receive an initial payment of \$1,000, with a second \$1,000 payment upon successful shipment of a non-prior service recruit to basic training or to the Basic Officer Leadership Course. As for a prior-service recruit, the RA will receive the initial payment of \$1,000 upon contracting in the USAR, and the second \$1,000 payment upon successful drilling of 120 days in the enlistee's unit and have attended a battle assembly in the last 60 days |

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RAP Process



- Eligible individuals signed up to be an RA using DOCUPAK's Web site.
 - DOCUPAK was responsible for verifying RA eligibility.
 - DOCUPAK hired RAs as civilian subcontractors (in other words, RA duties didn't correspond with their military job assignment).
- DOCUPAK provided one-time, on-line training for the RA on program rules.
 - The training consisted of modules for responsibilities, eligibility requirements, program purpose and function, RA payment information, and ethics.
 - After completing each module, DOCUPAK required the RA to pass a short quiz.
- RAs would then identify potential enlistees, promote the benefits of service in the ARNG or USAR, work with recruiters to prepare their potential enlistees for processing, and mentor the potential enlistees.

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RAP Process

(Continued)



- Once an RA identified a potential enlistee, they entered the following into DOCUPAK's online system:
 - The potential enlistee's personal information to include name and social security number (SSN).
 - Their own SSN and bank account information.
- DOCUPAK made two payments to the RA using EFT:
 - The first-half of the payment occurred after the new Soldier signed an enlistment contract.
 - The second payment occurred after the Soldier's accession (travel to basic training).
- DOCUPAK billed the Army for reimbursement of the RAP payment and a \$345 administration fee for each accession.

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RAP Criteria



- The program established a list of prohibited conduct for RAs. These actions violated program rules and could result in DOCUPAK suspending or terminating the subcontractor relationship with the RA:
 - Recruiting on high school property without permission from the school.
 - Initiating mass advertising campaigns including booths, billboards, and commercials; or advertisements in newspapers.
 - Advertising on social media websites such as Facebook, Craigslist, or MySpace.
 - Actively recruiting in uniform.
 - Using a nominee's personal information without the informed consent of the nominee.
 - Providing false or misleading information to a nominee.
 - Allowing a third party to have access to a personal G-RAP account.
 - Entering pre-accession nominations (program rules prohibited an RA from inputting a potential enlistee on the same day as the Soldier's enlistment contract).
 - Sharing RAP payments with potential enlistees and/or recruiters.
 - Obtaining referrals for potential enlistees from recruiters.
 - Performing RA activities while on duty for the ARNG or USAR.
- We used these program rules as part of our fraud-risk assessment.

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Audit Objective and Conclusion



- Objective: To verify that Recruiting Assistance Programs had appropriate controls in place and operating to ensure that only legitimate program payments were made for enlistments.
- Conclusion: Controls for Recruiting Assistance Programs weren't operating effectively or recruiting personnel circumvented controls. We conducted a fraud-risk assessment of all Recruiting Assistance Program payments made by EFT for the ARNG and USAR (\$339.1 million in payments for 151,333 enlistments) and found that:
 - 705 recruiters (601 ARNG and 104 USAR) were affiliated with potentially fraudulent RAP payments (CID had already investigated 21 prior cases and confirmed fraud).
 - 551 recruiters (444 ARNG and 107 USAR) were affiliated with suspicious RAP payments that warranted further investigation.
 - 2,022 RAs received payments potentially associated with program abuse.

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Audit Objective and Conclusion

(Continued)



- These conditions occurred primarily because:
 - Internal controls weren't in place or operating as intended.
 - Recruiters potentially stole the identity of personnel to circumvent controls or potentially colluded with RAs to bypass controls.
 - Contracts were not effectively written or overseen.
- As a result, the Army didn't have assurance that program payments for enlistments were legitimate. In addition, because controls and oversight of the RAP weren't sufficient, the opportunity for fraud, waste, and abuse was elevated. As of February 2012 (when we briefed our results), CID had conducted 21 investigations of 48 individuals for RAP-related fraud or collusion.
- On 22 February 2012, we provided CID with fact sheets for 705 recruiters and affiliated RAs that our fraud-risk assessment identified as receiving potentially fraudulent recruiting assistance payments. On 15 March 2012, we provided CID with fact sheets for the remaining 551 recruiters and affiliated RAs that our assessment identified as being involved in suspicious activities. The total value of the potentially fraudulent and suspicious payments could be as high as tens of millions of dollars (however, these numbers are subject to change based on the outcomes of investigations and could go up or down as investigations are completed).

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Noteworthy Actions



- After briefings in January and February 2012, the Army took several actions:
 - On 18 January, USAR suspended AR-RAP.
 - On 23 January, ARNG suspended G-RAP.
 - On 1 February, the Assistant Secretary of the Army for Manpower and Reserve Affairs (ASA (M&RA)) terminated all RAPs and suspended the \$45 million in funding programmed for FYs 13-17.
- Additionally, on 2 February 2012, we briefed the Secretary of the Army. The Secretary took a number of actions documented in a memorandum issued on 9 February 2012. In the memorandum, the Secretary directed Army organizations to initiate corrective actions and preventive measures, including:
 - CID to investigate all recruiters and affiliated RAs identified at risk for potentially fraudulent and/or suspicious recruiting assistance payments.

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Noteworthy Actions

(Continued)



- Actions Taken by the Secretary of the Army (continued):
 - ASA (M&RA) to review all ongoing incentive programs for effectiveness and susceptibility of fraud.
 - Assistant Secretary of the Army for Acquisition, Logistics and Technology (ASA (ALT)) to conduct a procurement management review of contract and task orders associated with RAPs.
 - Assistant Secretary of the Army for Financial Management and Comptroller (ASA (FM&C)) to investigate whether a violation of the Anti-deficiency Act occurred.
 - Army Audit Agency to conduct audits of the Active Army's RAP and the contract vehicle used for the program.
- ✓ The Secretary of the Army also tasked the Director of the Army Staff to establish and lead a task force to coordinate the efforts of the various Army organizations involved in these actions.

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Fraud Risk Assessment Scope



- We assessed all RAP payments made by EFT for the ARNG and USAR from program inception through July 2011. The contractor provided the payment information which included the RA's SSN and bank account number, the potential Soldier's SSN, and the affiliated recruiters as documented in the Army Recruiting Information Support System.

| Program | Enlistments | Payments in millions |
|---|-------------|----------------------|
| AR-RAP | 11,893 | \$25.9 |
| G-RAP | 134,842 | \$301.5 |
| G-RAP Officer | 4,598 | \$11.7 |
| Total | 151,333* | \$339.1 |
| *A small number of recruits were processed through these programs more than one time. | | |

- We didn't obtain or assess payments made via debit card. In March 2012, we initiated a separate audit of payments made using debit cards.

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Fraud Risk Assessment Methodology



- We assessed all RAP payments to identify high-risk recruiting personnel using tests designed to detect “red flags” such as potential indicators of identity theft and collusion.
- We used a methodical approach to search for transactions and individuals to identify “red flags.” Specifically, we used data mining to search for transactions and individuals consistent with fraud schemes that CID identified in its initial investigations.
- To perform our tests, we used information from DOCUPAK’s automated system, the Army Recruiting Information Support System, Defense Finance and Accounting Service (DFAS) pay records, and ARNG and USAR personnel records.
- Using the fraud schemes CID identified and our understanding of the business system used to make payments, we developed specific criteria for categorizing transactions and individuals as high risk, medium risk, and low risk for potential fraudulent activity. We explain the specific criteria for these categories on the next few slides.

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High-Risk Criteria Strong Suspicion of Fraud



High Risk. Individuals and transactions in this category met one or more of four criteria indicating a high potential for fraud.

- Potential identity theft. A common fraud scheme CID identified. In these cases, the bank account number in DOCUPAK's payment system associated with an RA matched a recruiter's bank account in the DFAS pay system. However, the SSNs in both systems differed, indicating the strong probability that the recruiter stole the RA's SSN and input it into DOCUPAK's system with an enlistment to receive a payment.
- Potential collusion. A common scheme CID identified. Collusion allows employees to circumvent control procedures and provides the illusion that a system or controls are operating as intended. Prior CID cases identified fraud schemes in which a recruiter shared enlistment information with several RAs. This group colluded to inappropriately receive RAP payments. Our results identified instances in which groups—from the population of recruiters and RAs—shared one bank account number (we removed married RAs).

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High-Risk Criteria Strong Suspicion of Fraud



High Risk (continued).

- Terminated by DOCUPAK for fraud or collusion. CID's initial investigations resulted from tips from DOCUPAK associated with individuals the contractor terminated for fraud or collusion. The resulting investigations led to prosecutions and convictions, indicating a strong probability that other individuals DOCUPAK terminated but hadn't referred to CID may have engaged in fraud.
- Recruiters who signed up as RAs. These recruiters received RAP payments while simultaneously serving as a recruiter. This violated the law authorizing payments. There was no attempt to conceal this, but program controls didn't prevent or detect this from occurring.



Medium-Risk Criteria Suspicious Activities



Medium Risk. Individuals in this category met one or more of 17 criteria associated with suspicious transactions or activities indicating the potential they may have engaged in fraudulent activity. A suspicious transaction or activity contained unresolved “red flags.” These medium-risk transactions were based on RAs terminated by DOCUPAK or those affiliated with fraudulent enlistments.

- Tax issues. Includes the potential situation in which RAs notified DOCUPAK that they had received an IRS Form 1099 identifying taxable income for a payment they didn’t receive, indicating potential identify theft.
- Conflict of interest. DOCUPAK defined this as a situation for Active Guard or Reserve employees who had a “full-time responsibility to manage Soldier retention or recruitment” (violating 18 USC 203 and 205).
- Unethical behavior. DOCUPAK definitions included: entering pre-accession nominations in the referral system, using the potential enlistee’s information without notification, providing false information to a nominee, recruiting on high school grounds without permission, and recruiting while in uniform, as well as several other conduct issues.
- Ineligibility. DOCUPAK terminated accounts for eligibility violations when it identified individuals who were not authorized to be RAs (that is, the RA didn’t qualify to participate in the program).
- Fraudulent enlistments. In these situations, the Army canceled the enlistment contract for fraud, but DOCUPAK made the RAP payment. We included recruiters affiliated with more than one fraudulent enlistment in this category.
- Other suspicious activity included: RAs who weren’t in the Standard Installation/Division Personnel System, the use of multiple SSNs by one RA, and advertising through social media (advertising on Facebook, Craigslist, or other social media indicating intent to circumvent mentoring requirements and possibly split RAP payments).

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Low-Risk Criteria Program Violations



Low Risk. Individuals in this category received a RAP payment while deployed or were affiliated with enlistment contracts that the Army later canceled (the Army refers to these as fraudulent enlistments. The Army canceled enlistment contracts for these enlistees for “fraud,” which could include false information on the contract or a criminal background that precluded the individual from enlisting).

- RAP payment while deployed. The contract required RAs to “physically speak” with potential Soldiers based on the purpose of mentoring potential enlistees. In addition, the RA was expected to visit a recruiting office with the potential enlistee. While we recognize that RAs could have participated in RA activities during mid-tour leave, further investigation is warranted to determine whether potential fraud occurred or there was another kind of program violation.
- Fraudulent enlistments. In these situations, the Army canceled the enlistment contract for fraud, but DOCUPAK issued the RAP payment. Because fraudulent enlistments may occur due to a potential enlistee’s actions, we moved any RAs or recruiters affiliated with only one of these to the low-risk category.

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Fraud Risk Assessment Results



- For transactions with a high and medium risk of fraud, CID asked us to present information by recruiter. Prior CID investigations showed that a recruiter or recruiters were involved in orchestrating the fraud scheme(s). Low-risk transactions were indicative of program abuse by an RA. Therefore, in the table below, we present high- and medium-risk results by recruiter and low-risk results by RA.
- Based on the results of our assessment, the following number of recruiters were affiliated with potentially fraudulent or suspicious RAP payments, and the following number of RAs received RAP payments potentially in violation of program rules:

| Program | High-Risk Recruiters | Medium-Risk Recruiters | Low-Risk RAs |
|---|----------------------|------------------------|--------------|
| G-RAP | 601 | 444 | 2,015 |
| AR-RAP | 104 | 107 | 7 |
| Total | 705 | 551 | *2,022 |
| *611 of these RAs were included in the fact sheets for the 1,256 high-risk or medium-risk individuals we provided to CID. | | | |
| Numbers represent "red-flag" indicators; they are subject to change based on investigation results. | | | |

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CID Coordination



- On 9 February 2012, the Secretary of the Army directed CID to investigate all high- and medium-risk cases
- On 22 February 2012, we provided CID with detailed fact sheets for the 705 high-risk recruiters.
- On 15 March 2012, we provided CID with detailed fact sheets for the 551 medium-risk recruiters.
- The fact sheets include:
 - Potential fraud scheme.
 - Recruiters affiliated with potentially fraudulent or suspicious payments.
 - All RAs & RAP payments affiliated with the recruiters.
- We've provided CID with locations associated with the high- and medium-risk individuals.

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High-Risk Results Strong Suspicion of Fraud



High Risk

- We assessed the RA payments to identify high-risk recruiting personnel using tests designed to detect identity theft and collusion. We identified 705 recruiters (601 ARNG and 104 USAR) potentially participated in these fraud schemes (CID has already investigated 21 cases and confirmed fraud). We tested for identity theft and collusion by: i) matching an RA's bank account number to a recruiter's and/or other RAs, ii) identifying RAs & affiliated recruiters terminated by DOCUPAK for fraud or collusion, and iii) identifying RAs receiving RAP payments while serving as a recruiter. Here's a summary of our results:

| Potential Fraud Scheme | High Risk Recruiters | Explanation of Potential Fraud Scheme |
|--|----------------------|--|
| Identity Theft | 47 | Recruiters shared a bank account with an RA. |
| Identity Theft / Collusion | 212 | Recruiters used the same bank accounts to deposit referral bonus payments. |
| Terminations for Potential Fraud/ Collusion | 384 | Recruiters affiliated with RAs terminated by DOCUPAK for potential fraud or collusion. |
| RAP Payments to Recruiter | 106 | RAs received RAP payments while assigned as a recruiter. |
| *Some recruiters were identified in multiple tests. Number of unique high-risk recruiters is 705. | | |
| Numbers represent "red-flag" indicators; they are subject to change based on investigation results. | | |

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High-Risk Results Strong Suspicion of Fraud



High Risk

- 47 recruiters shared a bank account with an RA:
 - Potential Fraud Scheme. Recruiters enrolled individuals as RAs without their knowledge in the RAP. Recruiters used their own bank information associated with the RA's SSN to divert RAP payments to the recruiters' personal bank accounts. The recruiters received payments from RAP for referring Soldiers (whom they never met) and shared the payments with other recruiters who actually recruited the Soldiers.
- 183 RAs affiliated with 212 recruiters used the same bank accounts to deposit RAP payments (102 bank accounts):
 - Potential Fraud Scheme. The recruiter stole the SSNs of multiple Soldiers and signed them up (without their knowledge) to be RAs. The recruiter rotated payments among the RA SSNs in an attempt to conceal the fraud. Another variation of this scheme involved collusion between a recruiter and several RAs. The recruiter shared enlistee information with RAs and colluded to inappropriately receive payments. The group used one bank account for payments. In both schemes, recruiters gathered information on enlistees in their role as a recruiter.
- 245 RAs affiliated with 384 recruiters terminated by DOCUPAK for potential fraud or collusion:
 - DOCUPAK reported 25 of the 245 RAs to CID for investigation.
 - ARNG's contract office wasn't able to provide evidence the remaining 220 RAs were reported to any Army official.
- 106 RAs received referral payments while assigned as a recruiter (thus, ineligible to participate).

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Medium-Risk Results Suspicious Activities



Medium Risk

- 551 recruiters (444 ARNG and 107 USAR) were associated with suspicious activities.
- Although transactions and individuals associated with these activities weren't at the highest risk, we believe they warrant further investigation.
- With the exception of fraudulent enlistments, all suspicious activities in this category were associated with DOCUPAK terminating RAs from future program participation.
- We list the suspicious activities in the table on the following slide in order of whether or not we believe they warrant further investigation (from highest to lowest).

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Medium-Risk Results Suspicious Activities

| Suspicious Activity | Number of Recruiters | Explanation of Suspicious Activity |
|--|----------------------|---|
| Tax Issues | 186 | RA terminated for tax issues such as Soldiers notifying DOCUPAK that they had erroneously received an IRS Form 1099 for a RAP payment in error or the RA had a tax lien. |
| Unethical Behavior | 178 | RA terminated for: entering pre-accession nominations in the referral system, using a potential Soldier's information without notification, providing false information to a nominee, recruiting on high school grounds, recruiting while in uniform, and so forth. |
| Conflict of Interest | 193 | RA terminated for participating as an RA while having a full-time responsibility to manage Soldier retention or recruitment serving as RAs (violating 18 USC 203 and 205). |
| Ineligible | 57 | RA terminated after being found ineligible to participate in the RAP. |
| Fraudulent Enlistments | 12 | Recruiter affiliated with more than one fraudulent enlistment (this is an Army term referring to fraud by the enlistee, not RAP fraud. (See slide 21 for the definition) |
| Other Suspicious Activities | 99 | RAs who weren't in the Standard Installation/Division Personnel System, the use of multiple SSNs by one RA, and advertising through social media (advertising on Facebook, Craigslist, or other social media indicating intent to circumvent mentoring requirements and possibly split RAP payments). |
| <p>52 recruiters were affiliated with more than one suspicious activity. 119 recruiters were reported under high-risk, potentially fraudulent results.</p> | | |

Numbers represent "red-flag" indicators; they are subject to change based on investigation results.

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Low-Risk Results Program Violations



Low Risk

- 1,810 RAs received RAP payments while deployed (1,803 ARNG and 7 USAR). The RA contract required the RA to “physically speak with the potential Soldier.” Since these RAs were deployed, it is unlikely that they fulfilled the mentor requirements associated with being an RA.
- 219 RAs (ARNG) received RAP payments for fraudulent enlistments. The Army canceled enlistment contracts for these enlistees for “fraud,” which could include false information on the contract or a criminal background that precluded the individual from enlisting. However, in these instances, the RA received either a partial or full payment for the enlistee from DOCUPAK.

We weren’t able to verify by audit the potential for fraud associated with these transactions or individuals; however, we believe the Reserve Components should conduct AR 15-6 investigations to assess whether there was potential fraud or a violation of program rules. If these investigations identify potential criminal activity, the Components should refer the individuals to CID.

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Internal Controls

- To determine why the fraud-risk assessment resulted in questionable transactions, we reviewed a statistical sample of 108 payments dated 1 October 2009 through 28 July 2011.
- For each, we evaluated the following 12 key controls to determine whether they were in place and operating:
 1. RA Eligibility
 2. RA Training completed
 3. Potential Soldier's Eligibility
 4. Attempted Verification of Program Participation (by potential Soldier in RAP)
 5. Evidence of Mentor Relationship
 6. Contract Date Matched
 7. No Pre-Accessions
 8. Ship Date Matched
 9. Payment Amount Verification
 10. IRS Form 1099 (Amount Matched or Greater)
 11. Invoiced amounts accurate
 12. Vicinity / Sphere of Influence (RA was within physical proximity of potential Soldier)
- Internal controls over payments to RAs generally weren't in place or weren't operating for 88 percent of the RAP payments we reviewed. In addition, the controls couldn't prevent some external risks associated with identity theft and collusion.

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Internal Controls

- **Controls for validating enlistments and accessions were sufficient.**
 - Working with the Army National Guard, DOCUPAK established controls to ensure that every enlistment and accession represented a valid Soldier.
 - We didn't identify any instances of "ghost" Soldiers.
- **The top internal control breakdowns were:**
 - Poorly written contract.
 - Lack of Government oversight of the contract.
 - Lack of verification that potential Soldier participated in RAP.
 - No evidence of mentor relationship in RA automated notes.
 - Vicinity/sphere of influence (RA not within geographical proximity of potential Soldier).
- **We believe these breakdowns occurred because the contract was not effectively written and contract oversight was limited.**
 - Performance work statements for G-RAP and AR-RAP assigned responsibility for implementing and monitoring internal controls to the contractor; responsibility for internal controls is inherently governmental.
 - The contractor couldn't implement sufficient preventive or detection controls because it didn't have access to Army information systems (for example, the contractor would need access to information showing the names and bank accounts of recruiters to prevent them from signing up to be RAs and diverting payments to their bank accounts).
- **Because these internal controls either weren't in place or operating as intended, RAP payments were at a heightened risk for fraud or abuse. As a result, the Army didn't have assurance that RAP payments were legitimate.**

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Internal Controls

- DOCUPAK billed the USAR for accessions that were canceled.
- This occurred because USAR asked DOCUPAK to bill them for enlistment and accession at the same time. This resulted in overbilling when a potential enlistee signed an enlistment contract but didn't access. In these situations, DOCUPAK needed to reimburse the USAR the second payment of \$1,000 and half the contract administration fee of \$172.50.
- We identified that DOCUPAK overbilled USAR by about \$793,782. At the time of our audit, DOCUPAK had identified a portion of the overbillings during an internal audit of the 2007 task order. DOCUPAK reimbursed about \$307,100 of this amount, but hadn't reviewed later task orders.
- We recommended that USAR work with DOCUPAK to collect the remaining \$486,682 for canceled accessions. USAR advised DFAS to stop payment on \$1.4 million of pending billings and was working with DOCUPAK to recoup \$486,682 in the overbillings we identified.

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Contract Oversight

- ARNG and USAR contracting officers didn't develop sufficient quality assurance surveillance plans to provide necessary governmental oversight of the RAP contract.
- We evaluated the contract terms and oversight as a potential cause for the questionable transactions and found the contract was not well written and oversight wasn't sufficient to ensure internal controls were in place and operating. Specifically:
 - The contract assigned the responsibility for implementing and monitoring controls to the contractor.
 - The ARNG didn't have a quality assurance surveillance plan and the USAR plan didn't have sufficient detail. The USAR plan didn't explain specific actions required to conduct surveillance over the contract.
 - Reports DOCUPAK provided to the contracting officers representatives were based on accessions or daily/monthly recruiting activity. DOCUPAK did report termination of some RAs for fraudulent activity to CID, but neither the contracting officer or contracting officers representative could provide any reports of suspicious or potentially fraudulent transactions or individuals.

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Contract Oversight

- According to AR 70-13 (Management and Oversight of Service Acquisitions), sufficient contract oversight consists of creating a plan for surveillance and then performing surveillance efforts in accordance with the surveillance plan. A surveillance plan provides the foundation for comprehensive, systematic monitoring of contract performance and a standard against which actual surveillance efforts can be measured.
- Contracting officers are responsible for ensuring performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the United States in its contractual relationships.
- Contracting officers representatives are responsible for quality assurance surveillance and for maintaining files based on the surveillance reviews.
- According to the Federal Acquisition Regulation, the contractor shall disclose, in writing, to the Office of the Inspector General, and with a copy to the contracting officer, that the contractor has credible evidence that a principal, employee, agent, or subcontractor of the contractor has committed a violation of Federal criminal law involving fraud or a conflict of interest.

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Contract Oversight



- Oversight was also limited because contracting officer representatives:
 - Received limited training on contract oversight.
 - Turned over about once per year.
 - Relied on contractor-produced information versus downloading information directly from the system of record.
- As a result, contracting officer representatives didn't conduct sufficient quality surveillance reviews of the RAP and didn't know the contractor terminated 245 RAs for potential fraud and 92 RAs for conflicts of interest.
- As a result, the ARNG and USAR were unaware of fraudulent activity associated with RAP. Had the ARNG or USAR been aware of these issues, they may have established more comprehensive oversight and prevented some of the problems we identified.

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Recommendations

Recommendation 1 (To ASA (M&RA)). Cancel the RAP.

Command Actions Taken During the Audit. After a 1 February 2012 briefing, ASA (M&RA) canceled the RAP and reprogrammed the \$45 million in future funding. On 9 February, the Secretary of the Army issued a memorandum that also directed the RAP be canceled.

Official Army Position. The Assistant Secretary agreed with our recommendation and canceled the program. In addition, the Assistant Secretary, in conjunction with the Deputy Chief of Staff G-1, canceled funding for the program through the remainder of FY 12 and eliminated all requirements and funding of about \$35.5 million for FYs 14-18. FY 13 funding of about \$9.2 million was in legislation for funding consideration, but the Assistant Secretary stated it would be removed.

Agency Evaluation of Command Actions and Official Army Position. These actions meet the intent of the recommendation. Therefore, we will close the recommendation for follow-up purposes.



Recommendations

Recommendation 2 (To ASA (M&RA)). Task the CID to investigate the 705 individuals in the high-risk category and the 551 individuals in the medium-risk category to confirm whether fraud or illegal acts actually occurred. Also, task the Reserve Components to conduct AR 15-6 investigations of the 2,022 individuals in the low-risk category to determine if they committed fraud or program violations. Instruct the Components to refer any instances of potential fraud to CID.

Command Actions Taken During the Audit and Official Army Position. On 9 February, the Secretary of the Army directed CID and the Reserve Components to take the recommended actions.

In addition, the Secretary of the Army directed:

- ASA (M&RA) to review all ongoing incentive programs for effectiveness and susceptibility of fraud.
- ASA (AL&T) to conduct a procurement management review of contract and task orders associated with the RAP.
- ASA (FM&C) to assess the need for a flash report of potential Anti-Deficiency Act violations.
- Army Auditor General to conduct audits of the Active Army's RAP and associated contracts.

Agency Evaluation of Command Actions Taken and Official Army Position. These actions meet the intent of the recommendation. Therefore, we will close the recommendation for follow-up purposes.

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Recommendations

Recommendation 3 (To Director of the Army Staff). Use the RAP Task Force to continue coordinating and overseeing the efforts of Army organizations involved in meeting the Secretary of the Army's directives in his 9 February 2012 memorandum. Provide regular updates to the Secretary until all tasks are completed and provide an after-action report summarizing lessons learned and the outcomes of the coordinated effort.

Command Comments and Official Army Position. The Director of the Army Staff agreed. The Director chairs the RAP Task Force, which meets biweekly at the executive and working group levels. The task force includes representation from multiple Army organizations and includes CID, ARNG, and USAR, which are responsible for investigations.

Agency Evaluation of Command Comments and Official Army Position. The Director's actions meet the intent of our recommendation.

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Recommendations

Recommendation 4 (To Chief, U.S. Army Reserve). Collect the remaining \$486,682 for canceled accessions.

Command Actions Taken During the Audit. On 15 February 2012, the USAR advised DFAS to stop payment on \$1.4 million of pending invoices. USAR was working with DOCUPAK to recoup \$486,682 in overbillings identified.

Command Comments and Official Army Position. The Office of the Chief, U.S. Army Reserve agreed. The office targeted implementation of recoupment actions for 30 April 2012. U.S. Army Reserve Command's G-8 monitors unliquidated balances for RAP payments monthly and has requested DFAS to provide a monthly status on fund recoupment until the full balance is collected.

Agency Evaluation of Command Actions Taken and Official Army Position. The Office of the Chief's actions meets the intent of our recommendation.



Scope and Methodology



- We performed our audit of RAP for Reserve Components from June 2011 to March 2012. We conducted interviews with key personnel at DOCUPAK, ARNG, and USARC. We analyzed and reviewed RAP payments for G-RAP, G-RAP Officer, and AR-RAP made using EFT from program inception through July 2011.
- We conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusion based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objective.

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Scope and Methodology



- Using data-mining techniques, we performed a fraud-risk assessment of all EFT payments (151,333 enlistments affiliated with payments of about \$339.1 million). We developed the risk assessment in coordination with CID to identify recruiting personnel and payments at the highest risk for fraud. To perform our assessment, we obtained RAP payment data that included SSNs and bank account numbers from DOCUPAK. DOCUPAK maintained payment data for each program in its automated system. We compared payment data to recruiting data recorded in the Army Recruiting Information Support System provided by DOCUPAK and U.S. Army Recruiting Command to identify affiliated recruiters. We also used exception data and RA termination records maintained and provided by DOCUPAK, contract cancellation records, and personnel data for military occupational specialty and deployment dates obtained from the ARNG, USARC, and USAREC to complete our assessment. Based on the “red flags” our assessment detected, we categorized recruiting personnel into one of three categories: high, medium, or low risk.

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Scope and Methodology



- We also statistically sampled 108 enlistments affiliated with RAP payments that we randomly selected based on the program and payment date. The statistical sample helped us to determine the cause of the “red flags” identified as part of our fraud-risk assessment.
- To select our statistical sample, we identified 49,426 enlistments affiliated with RAP payments processed by DOCUPAK between 1 October 2009 and 3 August 2011. We sampled each RAP separately to ensure our sample included a fair representation of enlistments and payments.
- Our sample parameters included a confidence level of 95 percent with an achieved sampling precision of 10 percent.
- We compared the sampled enlistments and payments to automated and hard-copy source documents consisting of recruiting records obtained from the ARNG and USARC and personnel records obtained from the ARNG, USARC, the Interactive Personnel Electronic Records Management System, and the Integrated Total Army Personnel Database.

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Scope and Methodology

- We tested the reliability of computer-generated data and found it to be reliable for the purposes of this audit based on a comparison of the data to source documents. Although we noted some inconsistencies during our tests, these inconsistencies weren't material. For instance:
- RAP payment date inaccuracies. DOCUPAK recorded payment dates in its automated system that were outside the performance period of the contract (for example, 1/1/1900 and 10/4/4965). We only used these dates for informational purposes and didn't base our results or conclusion on them.
 - Contract enlistment dates recorded in DOCUPAK's automated system and the Army Recruiting Information Support System weren't consistent with hard-copy source documents. DOCUPAK used the Army system as the primary source to verify the contract date as required by the contract. During our internal control review, we compared hard-copy source documents to DOCUPAK's system and the Army Recruiting Information Support System. We found contract date inconsistencies for 34 of 108 enlistments reviewed. However, none of the inconsistencies affected the legitimacy of payment data.

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Scope and Methodology



- To answer our objective we:
- Obtained and reviewed prior CID investigations to identify the scope of investigations and common fraud schemes related to RAPs.
 - Obtained and reviewed prior audit reports to identify potential areas of concern and management control and internal control issues.
 - Reviewed statutory and regulatory guidance pertaining to RAPs and contract oversight.
 - Interviewed key contracting and Government personnel.
 - Obtained downloads of automated RAP payment data for ARNG and USAR from DOCUPAK.
 - Obtained downloads of automated data and hard-copy source documents from Army recruiting and personnel systems.
 - Conducted a fraud-risk assessment over all RAP payment transactions using fraud schemes identified by CID and program rules and requirements.
 - Evaluated the sufficiency of internal controls over RAP processes.

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Abbreviations



- ARNG – U.S. Army National Guard
- AR-RAP – Army Reserve Recruiting Assistance Program
- ASA (ALT) – Assistant Secretary of the Army for Acquisition, Logistics and Technology
- ASA (FM&C) – Assistant Secretary of the Army for Financial Management and Comptroller
- ASA (M&RA) – Assistant Secretary of the Army for Manpower and Reserve Affairs
- CID – U.S. Army Criminal Investigation Division
- DFAS – Defense Finance and Accounting Service
- DOCUPAK – Document and Packaging, Inc.
- EFT – Electronic Funds Transfer
- G-RAP – Guard Recruiting Assistance Program
- MOS – Military Occupational Skill
- RA – Recruiter Assistant
- RAP – Recruiting Assistance Program
- SSN – Social Security Number
- USAR – U.S. Army Reserve
- USARC – U.S. Army Reserve Command

Providing Solutions for Army Challenges

OFFICIAL ARMY POSITION AND VERBATIM COMMENTS BY COMMAND



Reply to
Attention of

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
MANPOWER AND RESERVE AFFAIRS
111 ARMY PENTAGON
WASHINGTON DC 20310-0111

15 MAY 2012

SAMR

MEMORANDUM FOR Office of the Deputy Auditor General, US Army Audit Agency,
Forensic and Applied Technology, 3101 Park Center Drive, Alexandria, VA 22302-1596

SUBJECT: Response to US Army Audit Agency Memorandum, Subject: Draft Report
on the Recruiting Assistant Programs – Reserve Components (Project Number A-2011-
ZBT-0403.0000), dated March 15, 2012

1. The Assistant Secretary of the Army (Manpower and Reserve Affairs) provides the enclosed comments for the subject draft report.
2. If additional assistance is required please contact LTC Shawn G. McCurry at (703) 693-3840.

A handwritten signature in black ink, appearing to read "Tom Lamont", is positioned above the typed name.

THOMAS R. LAMONT
Assistant Secretary of the Army
(Manpower and Reserve Affairs)

Encl

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Enclosure 2

Audit Location: US Army Reserve Command, US Army National Guard Bureau

Objective Designation: A

Objective Title: Recruiting Assistance Program – ASA (M&RA)

Objective:

To verify that the Recruiting Assistance Program had appropriate controls in place and operating to ensure that only legitimate recruiting assistance payments were made for enlistments.

Conclusion:

Controls for the program weren't operating effectively or recruiting personnel circumvented controls. We conducted a fraud risk assessment of all recruiting assistance payments made by electronic funds transfer for the Army National Guard and Army Reserve (\$339 million in payments for 151,333 enlistments). We found:

- 705 recruiters (601 Guard and 104 Army Reserve) were affiliated with potentially fraudulent recruiter assistants' payments (CID had already investigated 21 cases and confirmed fraud).
- 551 recruiters (444 Guard and 107 Army Reserve) were affiliated with suspicious recruiter assistance payments that warranted further investigation.
- 2,022 recruiter assistants received payments potentially associated with program abuse.

These conditions occurred primarily because:

- Internal controls weren't operating in place or operating as intended. Working with the Army National Guard, DOCUPAK established controls to ensure that every enlistment represented a valid Soldier. However, controls over referral payments weren't effective. We did a statistical sample to evaluate the effectiveness of the 12 key controls we identified for referral payments. For 88 percent of transactions we sampled, at least one key control wasn't in place or operating effectively.
- Recruiters potentially stole identity of personnel to circumvent controls or potentially colluded with recruiter assistants to bypass controls. As with any internal control system, individuals can use access to key information or engage in collusive activity to defeat controls.
- Contracts weren't written or overseen effectively. The contracts assigned the responsibility for implementing and monitoring controls to the contractor and didn't require reports for potentially fraudulent transactions or individuals. Additionally, the Army National Guard didn't have a quality assurance surveillance plan and the Army Reserve's surveillance plan didn't have sufficient detail.

As a result, the Army didn't have assurance that recruiting assistance payments for enlistments were legitimate. In addition, because controls and oversight of the program weren't sufficient, the program was susceptible to fraud and abuse. As of February 2012, CID had conducted 21 investigations encompassing 48 individuals suspected of identity theft or collusion.

On 22 February 2012, we provided CID with fact sheets for 705 recruiters and affiliated recruiting assistants that our fraud risk assessment identified as potentially fraudulent recruiting assistance payments. On 15 March 2012, we will provide CID the remaining 551 recruiters and affiliated recruiter assistants that our assessment identified as suspicious recruiting assistants. In addition, we plan to provide the Army National Guard and Army Reserve with the names of an additional 2,022 individuals so they can conduct AR15-6 (Procedures for Investigating Officers and Boards of Officers) investigations. The total value of potentially fraudulent and suspicious payments could be as high as tens of millions of dollars. However, these numbers are preliminary and could go up or down as investigations are completed.

Recommendation for the Assistant Secretary of the Army (Manpower & Reserve Affairs)

Recommendation 1: Cancel the Recruiter Assistance Program.

Concur. As noted in the report, the ASA M&RA cancelled the RAP program which was also followed by the Secretary of the Army DTM, SUBJECT: Review, Investigation and Corrective Action-Active Army and Army Reserve Component Recruiting Assistance Programs, dated 9 February 2012. This memorandum from the Secretary of the Army formally directed the same action. Additionally, the ASA M&RA in conjunction with DCSPER G1 cancelled funding for the program through the remainder of FY12, and eliminated all requirements and funding for FYDEP FY14-18. FY 13 funding was at that time in legislation and if it is in the NDAA, we will have all funding removed upon receipt.

Target Date of Implementation: On 9 February 2012, the Army cancelled the program. Upon passage of the NDAA 2013 and if funding has been provided for RAP, the Army will remove all funding from that program for FY13.



DEPARTMENT OF THE ARMY
OFFICE OF THE CHIEF OF STAFF
200 ARMY PENTAGON
WASHINGTON DC 20310-0200

MAY 10 2012

DACS-ZD


MEMORANDUM FOR U.S. Army Audit Agency, Office of the Principal Deputy Auditor General,
3101 Park Center Drive, Alexandria, VA 22302-1596

SUBJECT: Draft Report of the Audit of Recruiting Assistance Program—Reserve Component
(Project Number A-2011-ZBT-0403.000)

1. This memorandum is to respond to the two recommendations in the draft report that fall directly under the DAS.
2. Both listed below, in the draft report, are being actioned at this time.
 - a. Headquarters, Department of the Army (HQDA) direct Commander, United States Army Criminal Investigation Division (USACID) to investigate individuals to confirm whether fraud or illegal acts occurred. Also direct the Army National Guard and Army Reserves to conduct AR 15-6 investigations of individuals to determine if they committed fraud or program violations.
 - b. HQDA use the Recruiting Assistance Program Task Force (RAP TF) to continue coordinating and overseeing the review, investigation, and corrective actions of the Army Recruiting Assistance Programs.

3. The point of contact for this response is LTC Riley J. Cheramie at (703) 614-2993; email at riley.j.cheramie.mil@mail.mil

ARMY STRONG!


WILLIAM J. TROY
Lieutenant General, U.S. Army
Director of the Army Staff



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
HEADQUARTERS, UNITED STATES ARMY RESERVE COMMAND
4710 KNOX STREET
FORT BRAGG, NC 28310-5010

AFRC-IRR

APR 13 2012

MEMORANDUM FOR Office of the Deputy Auditor General, US Army Audit Agency,
Forensic and Applied Technology, 3101 Park Center Drive, Alexandria, VA 22302-1596

SUBJECT: US Army Audit Agency, Audit of Recruiting Assistance Programs

1. The US Army Reserve provides the enclosed comments for the subject draft report.
2. For additional information contact Mr. Jimmy L. Barker at (910)-570-8079 or jimmy.barker@usar.army.mil.

Encl


KEITH L THURGOOD
Major General, US Army
Deputy Commanding General (Support)/
Chief of Staff

Audit Location: US Army Reserve Command
Objective Designation: A
Objective Title: Recruiting Assistance Program - USARC

Objective:

To verify that the Recruiting Assistance Program had appropriate controls in place and operating to ensure that only legitimate recruiting assistance payments were made for enlistments.

Conclusion:

Controls for the program weren't operating effectively or recruiting personnel circumvented controls. We conducted a fraud risk assessment of all recruiting assistance payments made by electronic funds transfer for the Army National Guard and Army Reserve (\$339 million in payments for 151,333 enlistments). We found:

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These conditions occurred primarily because:

- Internal controls weren't operating in place or operating as intended. Working with the Army National Guard, DOCUPAK established controls to ensure that every enlistment represented a valid Soldier. However, controls over referral payments weren't effective. We did a statistical sample to evaluate the effectiveness of the 12 key controls we identified for referral payments. For 88 percent of transactions we sampled, at least one key control wasn't in place or operating effectively.

- Recruiters potentially stole the identity of personnel to circumvent controls or potentially colluded with recruiting assistants to bypass controls. As with any internal control system, individuals can use access to key information or engage in collusive activity to defeat controls.

- Contracts weren't written or overseen effectively. The contracts assigned the responsibility for implementing and monitoring controls to the contractor and didn't require reports for potentially fraudulent transactions or individuals. Additionally, the Army National Guard didn't have a quality assurance surveillance plan and the Army Reserve's surveillance plan didn't have sufficient detail. As a result, the Army didn't have assurance that recruiting assistance payments for enlistments were legitimate. In addition, because controls and oversight of the program weren't sufficient, the program

was susceptible to fraud and abuse. As of February 2012, CID had conducted 21 investigations encompassing 48 individuals suspected of identity theft or collusion.

On 22 February 2012, we provided CID with fact sheets for 705 recruiters and affiliated recruiting assistants that our fraud risk assessment identified as potentially fraudulent recruiting assistance payments. On 15 March 2012, we will provide CID the remaining 551 recruiters and affiliated recruiting assistants that our assessment identified as suspicious recruiting assistants. In addition, we plan to provide the Army National Guard and Army Reserve with the names of an additional 2,022 individuals so they can conduct AR 15-6 (Procedures for Investigating Officers and Boards of Officers) investigations. The total value of the potentially fraudulent and suspicious payments could be as high as tens of millions of dollars. However, these numbers are preliminary and could go up or down as investigations are completed.

Recommendation for the Commander, U.S. Army Reserve Command:

Recommendation 4: Work with DOCUPAK to collect the remaining \$486,682 for cancelled accessions.

Concur: As directed, USAR HQ G-8 have been in coordination with DFAS-Indy to establish an offset (stop pay) for all subject contracts (valid) with DOCUPAK vendor to recoup the balance \$486,682 as prescribed in USAAA Audit Report: A-2012-0XXX-XXX. The proper AR memorandums and supporting documentation to establish offset were submitted to DFAS for approval in February 2012. Approval to offset was granted by DFAS General Counsel. Un-liquidated Balances (ULO) balances for subject Vendor is monitored by HQ G-8 on a monthly basis. Additionally, HQ G-8 have requested that DFAS provide a monthly update on fund recoupment until full balance cited in audit report is collected and funds remain in suspense account pending further guidance.

Target Date for Implementation: 30 April 12



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