

Fiscal Year (FY) 2007 Budget Estimates Office of the Inspector General (OIG)



February 2006

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**OFFICE OF THE INSPECTOR GENERAL
Fiscal Year (FY) 2007 Budget Estimates**

Office of the Inspector General (Dollars in Thousands)

	<u>FY 2005</u> <u>Actuals</u>	<u>Price</u> <u>Change</u>	<u>Program</u> <u>Change</u>	<u>FY 2006</u> <u>Estimate</u>	<u>Price</u> <u>Change</u>	<u>Program</u> <u>Change</u>	<u>FY 2007</u> <u>Estimate</u>
OIG	198,325	4,326	6,386	209,037	4,672	2,588	216,297

* The FY 2005 Actual column includes \$148.0 thousand of FY 2005 Supplemental funds (PL 109-13).

* The FY 2006 Estimate, excludes \$263.0 thousand of FY 2006 Hurricane Supplemental funds (PL 109-148).

I. Description of Operations Financed: The Office of Inspector General (OIG) audits, inspects, evaluates, and investigates the programs and operations of the Department of Defense (DoD) and as a result recommends policies and process improvements that promote economy, efficiency, and effectiveness in DoD programs and operations. For the last three years, the OIG has achieved \$7.7 billion in savings and \$1.7 billion in recovery for the nation. The Inspector General (IG) is the only DoD Official qualified to issue opinions on the financial statements of the DoD. The OIG also informs DoD management and Congress about the problems and deficiencies in programs and operations and the progress of corrective actions.

Narrative Explanation of Changes:

FY 2006 to FY 2007: Civilian full-time equivalents (FTEs) decreased by 18 to 1,403 FTEs in FY 2007 to support the within-in-grade buy in of civilians as the OIG agency converts to pay banding under National Security Personnel System (NSPS). Additional program growth in civilian pay and compensation is a result of increased employer contribution to benefits as the workforce's primary retirement plan shifts from the Civil Service Retirement System (CSRS) to the Federal Employee Retirement System (FERS). The OIG expects to realize continued growth in this area as the CSRS workforce retires and is replaced with FERS employees.

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The recent mission and staffing review resulted in the restructuring of two components: The Policy and Oversight component (formerly Inspections and Policy) includes four divisions from the Auditing component. The restructuring promotes efficiency and effectiveness through the centralization of common support resources. The Office of the Chief of Staff is renamed the Office of the Assistant Inspector General for Administration and Management. In addition, the Auditing component's consolidation of the acquisition and contract management directorates, for strategic and synergistic advantages, reflects recognition that audits must be approached from a total systems standpoint.

The OIG is statutorily responsible for the conduct of audits and investigations for the DoD. In accordance with the Inspector General Act of 1978, as amended¹, the purpose of the OIG is to serve as an independent and objective office to:

- 1) conduct and supervise audits and investigations relating to the programs and operations of the DoD;
- 2) provide leadership and coordination and recommend policies for activities designed to
 - a. promote economy, efficiency, and effectiveness in the administration of, and
 - b. prevent and detect fraud and abuse in, such programs and operations; and
- 3) provide a means for keeping the head of the establishment and the Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for and progress of corrective action.²

In addition to the other duties and responsibilities specified in the Act, the Inspector General shall:

¹ Section 1117 of the FY 1983 National Defense Authorization Act (Public Law 97-252) established an Inspector General for the Department of Defense by amending Public Law 95-452, the Inspector General Act of 1978 (5 USC Appendix 3).

² IG Act, as amended, Section 2

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- 1) be the principal adviser to the Secretary of Defense (SECDEF) for matters relating to the prevention and detection of fraud, waste, and abuse in the DoD programs and operations;
- 2) initiate, conduct, and supervise such audits and investigations in the DoD (including the military departments) as the Inspector General considers appropriate;
- 3) provide policy direction for audits and investigations relating to fraud, waste, and abuse and program effectiveness;
- 4) investigate fraud, waste, and abuse uncovered as a result of other contract and internal audits, as the Inspector General considers appropriate;
- 5) develop policy, monitor and evaluate program performance, and provide guidance with respect to all Department activities relating to criminal investigation programs;
- 6) monitor and evaluate the adherence of DoD auditors to internal audit, contract audit, and internal review principles, policies, and procedures;
- 7) develop policy, evaluate program performance, and monitor actions taken by all DoD components in response to contract audits, internal audits, internal review reports, and audits conducted by the Comptroller General of the United States;
- 8) request assistance as needed from other audit, inspection, and investigative units of the DoD (including military departments); and
- 9) give particular regard to the activities of the internal audit, inspection, and investigative units of the military departments with a view toward avoiding duplication and insuring effective coordination and cooperation.³

The Inspector General's vision is 'one professional team strengthening the integrity, efficiency, and effectiveness of Department of Defense programs and operations.' A key tenet of the OIG strategy is to link resources to the achievement of mission-based results.

Auditing: Section 3 (d) of the Inspector General Act establishes the requirement for the audit function within the OIG. The Office of the Deputy Inspector General for Auditing

³ IG Act, as amended, Section 8(c)

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(ODIG-AUD) conducts audits on all facets of DoD operations. The work results in recommendations for reducing costs, eliminating fraud, waste, and abuse of authority; improving performance; strengthening internal controls; and achieving compliance with laws, regulations, and policies. Audit topics are determined by law, requests from the SECDEF and other DoD leadership, Hotline allegations, congressional requests, and OIG risk analyses of DoD programs. In addition to all of the ongoing auditing requirements, OIG auditors continue to focus effort on Base Realignment and Closure (BRAC) by performing additional assessments that are related to the BRAC implementation process, and are also performing unanticipated audits to review the support being provided by DoD to relief efforts related to Hurricane Katrina and how providing such support impacts DoD operations.

In FY 2006 and FY 2007, OIG auditors will review issues related to Operation Iraqi Freedom (OIF) as a result of increased congressional focus on issues related to the Global War on Terrorism (GWOT) and to properly fulfill the statutory requirement to keep the Secretary of Defense and Congress fully and currently informed. This effort includes establishing a physical presence in theater to augment existing oversight of programs and activities in support of the GWOT. There are seven projects, planned or ongoing, that provide coverage for issues related to OIF.

In FY 2007, auditors will place particular emphasis on the President's Management Agenda (PMA) and related SECDEF and congressional interest items, dedicating resources to the high-risk areas of major acquisitions, contracting, information technology, information security, charge cards, readiness, and Homeland Security. The National Defense Authorization Act for FY 2006, Title VIII, expanded statutory requirements on major acquisitions programs. As of September 30, 2005, the DoD has 1,312 acquisition category I-IV programs, at a total estimated cost of \$2.3 trillion. OIG auditors also continue to lead DoD-wide and joint IG audits. An ongoing effort involves a statutory requirement to review non-DoD agencies (such as the General Services Administration (GSA)) that perform a significant number of contracting actions for DoD. The FY 2006 National Defense

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Authorization Act expands this requirement to include similar reviews of Department of the Treasury, National Aeronautics and Space Administration, and Department of the Interior. Auditors also continue to assist in investigations and related litigation, and participate as non-member advisors (at DoD management request) on a variety of task forces, process action teams, and studies.

Defense Financial Auditing Service: The OIG limited its FY 2005 financial statement audit work to comply with Section 352 of the FY 2005 National Defense Authorization Act, which prohibited the expenditure of FY 2005 funds on financial improvement initiatives including financial systems audits. The OIG redirected the Defense Financial Auditing Service staff to work on the review of Air Force acquisition contracts associated with the Boeing Aircraft Tanker Lease Program.

In November 2005, the auditors issued an unqualified opinion on the Military Retirement Fund; a qualified opinion on the Medicare Eligible Retiree Health Care Fund, and disclaimers of opinion on the DoD Agency-wide FY 2005 financial statements and seven of the components statements that support the Agency-wide statements. In addition, the auditors provided contractor oversight on six financial systems audits and completed approximately 30 other audits on internal controls, compliance with laws and regulations, and other financial-related issues.

In December 2005, DoD submitted the Financial Improvement and Audit Readiness (FIAR) Plan to congressional defense committees in accordance with the FY 2006 National Defense Authorization Act. The FIAR Plan is a roadmap to fix internal controls and correct processes necessary for financial statement audit readiness. The OIG serves in an advisory role to the FIAR Committee in updating and executing the FIAR plan.

In FY 2006 and FY 2007, the OIG will continue to work with the DoD components to identify deficiencies and recommend corrective actions, focusing on financial statement, system, internal control, compliance, and other financial-related audits to assist the Department

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to achieve auditable financial statements. DoD annually produces at least 65 individual financial statements, many of which are larger and more complex than most public corporations. The OIG is the sole DoD audit organization authorized to review those statements and issue opinions on them. The OIG will, in regard to the reliability of DoD financial statements, conduct audits that are consistent with Public Law 107-107, Section 1008⁴. As more components assert financial statement reliability, more effort will be required to audit financial statements in FY 2006 and future years.

Investigations: The Office of the Deputy Inspector General for Investigations (ODIG-INV) comprises the criminal and administrative investigations component of the OIG. The Defense Criminal Investigative Service (DCIS) protects America's warfighters by investigating suspected major criminal violations, focusing mainly on terrorism, computer crimes, substandard and defective products destined for the use and protection of our warfighters, illegal transfer of technology and protected weapon systems and equipment, and public corruption such as major DoD procurement fraud, bribery, corruption, kickbacks, and major thefts. DCIS also provides fraud awareness presentations DoD-wide on the resource and program impacts of fraud.

As a direct result of the terrorist attacks of September 11, 2001, the Inspector General expanded DCIS' traditional concentration on major procurement fraud, substitution of substandard and defective products, and bribery/corruption with the addition of anti-terrorism operations and the build-up of efforts to combat illegal technology transfer. DCIS participates with the Federal Bureau of Investigation (FBI) in the Joint Terrorism

⁴ Section 1008(d) "Limitation on Inspector General Audits," states that "[o]n each financial statement that an official asserts is unreliable . . . the Inspector General of the Department of Defense shall only perform the audit procedures required by generally accepted government auditing standards consistent with any representation by management." Complying with Section 1008(f), "Termination of the Applicability," audits will be conducted "[if] the Secretary of Defense certifies to the Inspector General of the Department of Defense that the financial statement for the Department of Defense or a financial statement for a Component of the Department of Defense, for a fiscal year is reliable"

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Task Forces (JTTFs) at the FBI headquarters and across the U.S. to protect DoD programs and operations. DCIS also works with U.S. Immigration and Customs Enforcement to stem the illegal transfer of DoD technology, weapon systems, and equipment through an intense criminal investigative effort and by participation in the Shield America Program, which provides awareness and indicators training regarding this type of criminal activity.

DCIS is an active participant in the Law Enforcement/Counter Intelligence Center (LECIC), which is part of the Joint Task Force - Global Network Operations (JTF-GNO) established to protect the Global Information Grid. The DCIS provides administrative support to JTF-GNO, LECIC, and serves, in coordination with the Secretaries of the Military Departments, as the Defense law enforcement community focal point for the design, development, and maintenance of information systems and databases that facilitate law enforcement operations and LECIC requirements, and provide data to the JTF-GNO and the common operational picture databases as appropriate.

In FY 2007, DCIS will continue to pursue the Global War on Terrorism, strengthen joint warfighting capabilities through continued participation in the JTTFs, and focus investigative resources on cyber crimes, computer intrusion, illegal technology transfer, and product substitution /defective parts. Additionally, DCIS is an active member of the President's Council on Integrity and Efficiency (PCIE)/ Executive Council on Integrity and Efficiency (ECIE) and Department of Justice Hurricane Katrina Task Forces which are investigating criminal activities (procurement fraud, public corruption, kickbacks) associated with the multi-year Gulf Coast reconstruction.

The DCIS continues to investigate DoD procurement fraud, including fraud and corruption, and defective and hazardous military equipment. Major fraud investigations, such as the Boeing Tanker Lease case, result in an extensive effort by criminal investigative and audit components that can lead to additional investigations and audit requirements, initiated internally by the IG or externally by Congress and the Departments of Defense

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and Justice. The publicity of these investigations also leads to an increase in the reporting of similar types of criminal activity.

The ODIG-INV is also responsible for all DoD reprisal and senior official investigations, conducted by the non-criminal investigative directorates that are founded on specific statutory directives aimed at enhancing the integrity of the Department and ensuring oversight of senior officials, and protecting whistleblowers:

- Investigations of Senior Officials (ISO) ensures, through aggressive investigations, that ethical violations, abuses of authority, or misuses of public office do not undermine the credibility of the national command structure. ISO is the only DoD component that possesses the independence needed to ensure that allegations against top DoD leaders are credibly investigated and to provide effective oversight of Service IG senior official investigations. When faced with congressional and public concerns over senior official conduct, the Department and members of Congress routinely turn to ISO to provide authoritative resolution. The close cooperation between ISO and Service IGs on senior official matters effectively leverages OIG resources and facilitates completion of over 400 investigations annually with minimal resources.

ISO was established in 1991 after members of Congress expressed concern about the quality of senior investigative work conducted by the Service IGs. Congressional committee language at the time specified that ISO should be staffed with 18 investigators to enable greater involvement in DoD senior official matters. In FY 2007, ISO will continue to address allegations of senior official misconduct that demoralize warfighters and undermine public confidence in DoD leadership. ISO will focus on alleged use of Government resources for personal benefit, conflicts of interest, abuses of authority, and behavior that fails to meet standards for exemplary conduct established by Congress in Sections 3583 (Army), 5947 (Navy), and 8583 (Air Force) of Title 10, United States Code.

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- Military Reprisal Investigations (MRI) conducts and oversees investigations of whistleblower reprisal under three federal whistleblower protection statutes: 10 U.S.C. 1034 (military members); 10 U.S.C. 1587 (nonappropriated fund employees); and 10 U.S.C. 2409 (DoD Contractor employees). MRI conducts or oversees investigations of alleged violations of DoD Directive 6490.1, "Mental Health Evaluations of Members of the Armed Forces." For military whistleblower reprisal allegations, which comprise more than 80 percent of MRI's workload, MRI must approve all decisions by the Military Departments to decline investigation, and all investigative conclusions of the Military Departments regarding reprisal allegations. MRI must also approve all Military Department investigative findings regarding improper mental health evaluation referrals of military members. In FY 2007, MRI will continue the aggressive investigation of alleged reprisal against DoD whistleblowers, who risk personal career damage to make their reports. Improved timeliness in resolving an ever-increasing number of allegations will continue to be the MRI focus. MRI also seeks to implement streamlined processes and expand outreach and training to the Military Department IGs to improve timeliness.

- Civilian Reprisal Investigations (CRI) reviews and investigates whistleblower reprisal allegations submitted to the DoD Hotline by DoD civilian appropriated fund employees. CRI remains the sole centralized resource for investigating reprisals against DoD intelligence and counter-intelligence whistleblowers. In FY 2007, CRI will continue the aggressive investigation of alleged reprisal against DoD whistleblowers and will take proactive measures to emphasize the protection available to DoD employees who report fraud, waste and abuse, and violations of rule, law, and/or regulation. CRI's first cases in the DoD Intelligence and Counterintelligence Communities have made it the center of compliance oversight and investigation with respect to whistleblower reprisal in the National Security Agency (NSA), Defense Intelligence Agency (DIA), National Geospatial-Intelligence Agency (NGA), National Reconnaissance Office (NRO), and the service intelligence communities. Following the public release of information regarding prisoner abuse at Abu Ghraib prison in Baghdad, Iraq, OIG DOD determined that

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the lack of a coordinated, seamless system of whistleblower protection programs with the DoD Intelligence and Counterintelligence Communities led to an untimely relay of information about prisoner abuse. In FY 2007, CRI will expand whistleblower protections available to employees in the intelligence community.

Policy and Oversight: The Office of the Deputy Inspector General for Policy and Oversight (ODIG-P&O) conducts inspections and evaluations, manages the DoD Hotline, and provides the oversight and policy for Audit and Investigative activities within DoD as required by Section 8 of the IG Act.

- At the request of Congress, the SECDEF, the IG, and other senior DoD officials, the Inspections and Evaluations (IE) Directorate inspects and evaluates DoD-wide programs to facilitate improved management efficiency and enhanced program effectiveness. The IE Directorate conducts a wide array of systemic assessments, including joint operations, homeland defense, strategic force management, Reserve Component forces, safety, occupational health, environment, and engineering.
- Uniquely in the Federal IG community, the Audit Policy and Oversight (APO) Directorate provides audit policy direction, guidance, and oversight for the ODIG-AUD, the Military Departments, the Defense Contract Audit Agency (DCAA), other Defense audit organizations and public accounting firms under the Single Audit Act. The APO provides guidance and oversight for over 6,000 auditors in DoD, which is nearly 40 percent of all auditors in Federal IG audit organizations. APO reinforces and oversees the implementation of the highest professional auditing standards within the DoD audit community. The APO directorate also develops policy, provides guidance, monitors actions, and evaluates program performance taken because of contract audit report recommendations, and reports the results as required to the SECDEF. As of October 1, 2005, APO provided oversight of 1,295 open contract audit reports with over \$4 billion in potential savings.

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- The Investigative Policy and Oversight (IPO) Directorate evaluates the performance and develops policy for the DoD law enforcement community and the non-criminal investigative offices of the DoD. The IPO Directorate also manages the IG Subpoena Program for the Defense Criminal Investigative Organizations (DCIOs) and administers the DoD Voluntary Disclosure Program, which allows contractors a means to report potential civil or criminal fraud matters. Recently, this office has responded to complex congressional and other agency requests to determine accountability for problems throughout the Department's criminal justice system (e.g., sexual assault policy at the Air Force Academy, and sufficiency of detainee abuse investigations). DoD Hotline receives reports from DoD personnel and the public on allegations of mismanagement, fraud, waste and abuse of authority. The Hotline conducts inquiries and tracks cases referred to other DoD investigative, audit, and operational organizations resulting from DoD Hotline contacts. The Hotline also provides oversight of hotlines operated by Inspectors General of other DoD components.

Due to increased congressional interest, ODIG-P&O expects an increase in FY 2007 in the number of independent reviews relating to the Department's criminal justice system. Inspections and evaluations of DoD-wide programs will increase in order to improve management efficiency and enhance program effectiveness. Additionally, increased oversight and policy of audit activities is essential to prevent significant deficiencies. In the aftermath of Hurricanes Katrina and Rita, the DoD Hotline will play a significant role in the investigation of allegations of fraud, waste, abuse of authority and mismanagement.

Intelligence: The Office of the Deputy Inspector General for Intelligence (ODIG-INTEL) audits, reviews, evaluates, and monitors the programs, policies, procedures, and functions of the DoD Intelligence Community, including intelligence-related activities within the DoD components and Combatant Commands, Special Access Programs, and Nuclear Surety Issues within the DoD, to ensure proper, effective, and efficient management of intelligence and intelligence-related resources. ODIG-INTEL provides independent,

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objective and relevant information to the Department, Congress, and other Government agencies and is the OIG's primary advisor to the SECDEF on intelligence audit matters. ODIG-INTEL provides recommendations to improve the efficiency and effectiveness of DoD intelligence personnel, programs and operations; reduce costs, strengthen internal controls, and achieve compliance with laws and regulations. ODIG-INTEL external audit, review, and evaluation topics are determined by law, requests from the SECDEF and other DoD leadership, Hotline allegations, congressional requests, and internal analyses of risk in DoD programs. The ODIG-INTEL strategically focuses its reviews based on goals of the PMA, SECDEF Priorities, DoD Management Challenges, and Government Accountability Office (GAO) High Risk Areas.

ODIG-INTEL personnel also assist the Office of the Director of National Intelligence Inspector General (ODNI-IG) to administer, coordinate, and oversee the functions of the Intelligence Community Inspectors General (ICIG) Forum. The ICIG Forum promotes and improves information sharing among those Inspectors General whose duties include audits, inspections, evaluations, or investigations associated with programs and operations of Intelligence Community elements within their respective Departments and agencies. It also enables each Inspector General to carry out the duties and responsibilities established under the Inspector General Act of 1978, as amended, to avoid duplication and ensure effective coordination and cooperation. As the advisor to the DoD Inspector General, who is the Forum Co-Chair, the ODIG-INTEL advocates developing and assessing metrics to measure the performance of the Intelligence Community's programs and operations in attaining the President's National Security Strategy and the SECDEF's pronouncements on improving intelligence. Along with information sharing and coordination, the ICIG Forum members conduct projects of mutual interest. The ODIG-INTEL anticipates that the requirement for joint projects will increase, especially until the ODNI-IG is staffed to a sufficient level to enable it to conduct meaningful audits and evaluations. Topics under deliberation are Counterespionage Information Sharing, Counterterrorism Information Sharing, Human Intelligence Information Sharing, Open Source Intelligence, and all Intelligence Community issues critical to national security.

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As the issue area coordinator for the DoD Joint Intelligence Oversight Coordination Group (JIOCG), the ODIG-INTEL advocates improving the effectiveness and efficiency of DoD intelligence oversight activities by identifying areas needing more emphasis and eliminating redundancy. The JIOCG is planning to conduct joint projects that will enable the DoD intelligence oversight activities to leverage limited resources.

As the DoD coordinator on all Intelligence Community Whistleblower Protection Act (ICWPA) cases, the ODIG-INTEL serves a time-sensitive role in the determination process for alleged wrongdoings of urgent concern. The ICWPA provides a means for intelligence and counterintelligence employees of the four Defense intelligence organizations to communicate classified information to the Congress on allegations. The ODIG-INTEL transmits the initial determination, together with the complaint information, to the SECDEF within 14 days of receipt; the SECDEF forwards the transmittal to the congressional intelligence committees within seven days. There has been a significant increase in the number of inquiries about the ICWPA process. With continued scrutiny of intelligence community activities, the ODIG-INTEL anticipates an ICWPA workload increase.

Other Components, OIG:

1. **The Office of Communications and Congressional Liaison (OCCL)** also includes the Freedom of Information Act (FOIA)/Privacy Act Office, the OIG Web Development Team, and Strategic Planning. The Assistant Inspector General for Communications and Congressional Liaison is dual-hatted as the OIG Public Affairs Officer. OCCL personnel review and analyze pending and proposed legislation that affects the Department and the OIG, provide support for OIG witnesses who testify at congressional hearings, process responses to congressional correspondence, coordinate meetings with congressional staff, manage and maintain the OIG internet and intranet operations, implement a communication plan regarding external communication issues, process FOIA requests, and oversee the development and implementation of the OIG strategic plan. OCCL also provides staff support and serves as the liaison for the OIG to the PCIE and the Defense Council on Integrity and Efficiency (DCIE). The Inspector General established

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the DCIE in 2002 to ensure effective coordination and cooperation between and among the activities of the OIG and Defense agencies. OCCL is also responsible for providing input into the Department's annual Performance and Accountability Report (PAR) and for publishing the Semiannual Report to Congress.

2. **The Office of Legal Counsel**, which consists of nine billets including one Senior Executive Service (SES), is a relatively new component of the OIG. By SECDEF directive, the legal staff from the Office of General Counsel, DoD, that provided support to the OIG was transferred to the Office of Legal Counsel, OIG, effective December 13, 2004.

3. **The Office of Administration and Management (OAM)** serves as a *force multiplier* for the OIG operational components by providing common support for personnel, security, training, administration, logistics, and information technology. The OAM's customer service helps the operational components reduce cycle times, increase efficiency, and improve both the quality and effectiveness of their resulting audits, investigations, inspections and evaluations. The OAM also conducts proactive liaison and coordination with various DoD components to ensure timely resolution of budget, personnel, security, training, logistical, and information technology issues. OAM comprises six directorates: Administration and Logistics Services; Office of the Comptroller; Human Capital Management; Information Systems; Training; and Office of Security. These directorates supervise and carry out administrative and logistical functions in support of the OIG's day-to-day operations.

II. Force Structure Summary: N/A

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III. Financial Summary: (Dollars in Thousands)

	FY 2006						
	FY 2005 <u>Actuals</u>	Budget <u>Request</u>	<u>Congressional Action</u>			Current <u>Estimate</u>	FY 2007 <u>Estimate</u>
			<u>Amount</u>	<u>Percent</u>	<u>Appropriated</u>		
A. <u>Subactivities</u>							
Financial Statement Audits	18,344	32,500	-325	-1.0	32,175	32,175	34,736
Audits - Other	52,699	56,249	-262	-0.5	55,987	55,987	58,561
Investigations	65,529	64,293	1,428	2.2	65,721	65,721	68,484
Policy and Oversight	8,990	8,857	807	0.9	9,664	9,664	10,097
Intelligence	3,825	3,634	396	1.1	4,030	4,030	4,350
Other OIG	47,838	43,154	-4,141	-9.6	39,013	39,013	38,669
Procurement	1,100	1,000	0	0	1,000	**2,447	1,400
Total	198,325	209,687	-2,097	-1.0	207,590	209,037	216,297

* The FY 2005 Actual column includes \$148.0 thousand of FY 2005 Supplemental funds (PL 109-13).

* The FY 2006 Estimate column excludes \$263.0 thousand of FY 2006 Hurricane Supplemental funds (PL 109-148).

** Procurement, FY 2006 Current Estimate, includes \$1,447.0 thousand of carryover.

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B. Reconciliation Summary:

	<u>Change</u> <u>FY 2006/FY 2006</u>	<u>Change</u> <u>FY 2006/FY 2007</u>
Baseline Funding	209,687	209,037
Congressional Adjustments (Distributed)		
Congressional Adjustments (Undistributed)		
Adjustments to Meet Congressional Intent		
Congressional Adjustments (General Provisions)	-2,097	
Subtotal Appropriated Amount	207,590	
Fact-of-Life Changes (CY to CY Only)	1,447	
Subtotal Baseline Funding	209,037	
Anticipated Supplemental	263	
Reprogrammings		
Price Change		4,672
Functional Transfers		
Program Changes		2,588
Current Estimate	209,300	216,297
Less: Wartime Supplemental	-263	
Normalized Current Estimate	209,037	

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III. Financial Summary: (Dollars in Thousands) (Continued)

	Amount	Totals
C. Reconciliation of Increases and Decreases		
FY 2006 President's Budget Request		209,687
<i>Memo: Procurement</i>		1,000
1. Congressional Adjustments		-2,097
a. Distributed Adjustments		
b. Undistributed Adjustments		
c. Adjustments to meet Congressional Intent		
d. General Provisions	-2,097	
e. Congressional Earmarks		
FY 2006 Appropriated Amount		207,590
2. War-Related and Disaster Supplemental Appropriations:		263
Hurricane Katrina		
3. Fact of Life Changes: Carryover Procurement		1,447
FY 2006 Baseline Funding		209,300
4. Reprogrammings		
Revised FY 2006 Estimate		209,300
5. Less: Item 2, Hurricane Katrina Supplemental		-263
FY 2006 Normalized Current Estimate		209,037
<i>Memo: Procurement</i>		2,447
6. Price Change		4,672
7. Functional Transfers		
8. Program Increases		4,288
a. Annualization of New FY 2006 Program		
1) Federal Law Enforcement Training Center:	123	
Assessment for partner organizations to pay 50% of		
instructors' salaries. (Baseline \$153.0 thousand)		
2) Continued installation of additional SIPRNET lines	88	
to DCIS field offices. (Baseline \$259.6 thousand)		
b. One-Time FY 2007 Increase		
c. Program Growth in FY 2007		

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III. <u>Financial Summary:</u> (Dollars in Thousands) (Continued)		
1)	Increase equipment purchases per planned replacement cycle. Planned FY 2007 level supports cyclic replacement requirements to avoid end user interruptions and additional maintenance and repair. (Baseline \$1,463.3 thousand)	2,088
2)	Personnel cost increases after NSPS implementation. (Baseline \$146,531.0 thousand)	1,789
3)	Minor construction associated with the buildout of space to accommodate the plus-up of Defense Financial Statement auditor staff. (Baseline \$300.0 thousand)	200
9.	Program Decreases	-1,700
a.	Annualization of FY 2006 Program Decrease	
b.	One-Time FY 2006 Increases	
1)	Costs associated with Soft Skills and technical training of OIG employees to prepare the agency for NSPS implementation. (Baseline \$0.6 thousand)	-600
2)	Renewal of 3 year Microsoft License to access Microsoft software and products. (Baseline \$1.1 thousand)	-1,100
c.	Program Decreases in FY 2007	
	FY 2007 Budget Request	216,297
	<i>Memo: Procurement</i>	<i>1,400</i>

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IV. Performance Criteria and Evaluation Summary:

The OIG's Strategic Plan supports the President's Management Agenda (PMA) and the Department's mission. Its key goal is to improve DoD operations by promoting efficient, effective, and economical operations, including full and timely implementation of the PMA's primary goals and objectives, the Secretary's top priorities, and the GAO's High Risk Areas.

The OIG Strategic Plan's first objective states, "Above all, 'lead by example' in efforts to implement the President's Management Agenda initiatives of: strategic management of human capital; competitive sourcing; improved financial performance; expanded electronic government; and budget and performance integration." The Annual Performance Plan includes goals for each of the PMA objectives that relate to: employee retention rate; on-board fill rate (recruitment related); mandatory training, employee exit surveys, competing 15 percent of commercial jobs; the full implementation of the Defense Audit Management Information System; and the implementation of an integrated performance and budget-based management system. To monitor performance against the plan, the OIG complies with the Government Performance and Results Act of 1993, as amended, and tracks goal attainment on a quarterly basis to help ensure progress and results are realized to ensure a return on investment of taxpayer dollars.

The Audit component assists the Department in managing institutional risk in accordance with the strategic tenets supporting the Department's policy goals as identified in the Quadrennial Defense Review Report. A prime objective of the OIG Strategic Plan and the Audit Strategic Plan is to assess the risks and weaknesses in the Department and recommend the development or strengthening of management practices and controls to ensure the efficient use of resources and promote effective operations. One of the key measurements of Audit success is the identifying potential monetary benefits. In FY 2005, the ODIG-AUD produced 112 reports which claimed potential monetary benefits

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IV. Performance Criteria and Evaluation Summary: (Continued)

totaling \$95.8 million. In FY 2005, Audit also achieved \$2.173 billion in monetary benefits from reports issued in FY 2005 and earlier (i.e., funds were put to better use because of actions completed on audit recommendations), which included \$1.755 billion from congressional budgetary adjustments based on a report relating to a significant acquisition program. As of September 30, 2005, the Department has 1,312 acquisition category I-IV programs with an estimated total cost of \$2.3 trillion. Increased audit coverage of major acquisition programs and contracting issues could lead to greater monetary benefits for the Department and the mitigation of institutional risk. The Congress and senior DoD officials requested and used the IG audit products on BRAC, Homeland Security, information system projects, readiness, chemical and biological defense, acquisition processes, information assurance, maintenance, supply management, use of government credit cards, financial management, health care, and environmental issues. One initiative in progress is the implementation of customer satisfaction surveys to ensure that the result of Audit's work adds maximum value to the Department. The OIG goal is 100 percent on-time completion of audits that have a statutory due date; in FY 2005, the Audit component achieved that goal.

Priority demands on audit resources include:

- The Chief Financial Officer's Act of 1990, as amended by the Federal Financial Management Act of 1994;
- The Intelligence Authorization Act for FY 2002 which requires the OIG to audit the form and content of the financial statements of the National Security Agency, National Geospatial-Intelligence Agency, and Defense Intelligence Agency;
- Reports required or requested by Congress and senior DoD officials, or resulting from Hotline allegations (totaling approximately 80 percent of all reports); and
- Efforts to improve DoD processes which, while beneficial, do not result in reports that can be reflected in IG productivity statistics.

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IV. Performance Criteria and Evaluation Summary: (Continued)

The budget request funds the mandatory financial statement auditing requirements and some audits of high-risk operations. DoD operations are experiencing a period of higher than normal risks due to the disruptions caused by ongoing military operations; continued restructuring; ever-increasing reliance on automated information systems; security vulnerabilities; and the introduction of new processes, many of which are untried in DoD settings and not well understood by the workforce. The OIG will focus its audit efforts on high-risk areas including weapon and information systems acquisition, contract management, and inventory management, within the limits of available resources.

Previously, the criteria for evaluating the OIG's investigative operations included the number of indictments, convictions, fines; the amount of recoveries and restitutions; and the number of administrative investigations conducted or overseen. Using those criteria in FY 2005, DCIS had one of its most productive years since inception: 415 indictments; 362 convictions; and over \$929 million in investigative recoveries. Since inception, DCIS has been responsible for over \$9.9 billion in criminal, civil and investigative recoveries. The current measure of the DCIS' effectiveness is to conduct significant criminal investigations in support of crucial national defense priorities. The DCIS accomplishes this by: ensuring that investigative resources are used effectively and efficiently; placing primary emphasis on investigations of terrorism, product substitution/defective parts, computer crimes targeting the Global Information Grid, illegal technology transfer, and public corruption; and identifying offenders and/or detecting, disrupting, or dismantling the associated criminal activities.

It is difficult to quantify the results of criminal investigative operations. For example, in bribery and kickback cases, the dollar impact on the cost of a major contract is not readily identifiable, yet bribes and kickbacks undermine the integrity and efficiency of departmental programs and operations. The OIG also identifies areas of criminal vulnerability regarding DoD activities and ensures that the Department takes action to correct deficiencies. Another valuable byproduct of criminal investigative

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IV. Performance Criteria and Evaluation Summary: (Continued)

activities is the deterrent effect, which results from an awareness of the vigorous pursuit of violations of the law. The OIG attempts to ensure that the Department takes appropriate administrative action, whether or not prosecutions are obtained. The IG seeks to have disreputable contractors suspended or debarred and to recover monies due to the Department.

Whistleblower protection for military service members, DoD nonappropriated fund employees, and DoD contractor employees is the statutorily-mandated mission of the Directorate for Military Reprisal Investigations (MRI). In FY 2005, MRI closed 447 cases that included in-house cases and oversight reviews of Service IG cases. Of these, 332 cases were closed after preliminary inquiries and 115 cases received full investigations. Twenty-six full investigations resulted in one or more substantiated reprisal allegations, and 15 investigations found procedural violations under the DoD directive pertaining to referral of military members to involuntary mental health evaluations. Faced with a continuing increase in whistleblower reprisal allegations received by both the OIG and the Military Department Inspectors General (from 320 complaints received in FY 1997 to 552 complaints received in FY 2005), the MRI strives to implement policies and procedural efficiencies to improve the timeliness in processing and resolving such allegations. The Directorate conducts training workshops on the conduct of military whistleblower reprisal investigations for representatives of the Military Services, the Joint Chiefs of Staff, and other defense agencies.

Whistleblower protection for civilian appropriated fund personnel is the primary mission of the Directorate for Civilian Reprisal Investigations (CRI). In FY 2005, its first year of operation, the Directorate closed two cases, and docketed 18. The two cases closed included the first case under a joint protocol with the NSA IG for the review of security clearance decisions alleged to be a pretext for reprisal. In FY 2006, CRI expects 50 preliminary inquiries and 20 accepted cases, with the highest priority given

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IV. Performance Criteria and Evaluation Summary: (Continued)

to contractor fraud and abuse within the Defense Intelligence and counter-intelligence communities.

The Directorate for Investigations of Senior Officials (ISO) completed 68 inquiries or investigations in FY 2005. ISO also oversaw 400 investigations by DoD components. ISO is also evaluated by the impact that those investigations may have on public confidence in DoD leaders and ultimately on national security. Investigative impact may be evaluated by the percentage of investigations that were of significance to DoD or congressional leaders, and the percentage of investigations that substantiated alleged misconduct. Fully 50 percent of investigations conducted by ISO in FY 2005 had significant media, SECDEF, or congressional interest, with results provided directly to the SECDEF or members of Congress. Over 18 percent of the investigations substantiated allegations against senior officials and resulted in immediate removal from command, reprimands, reductions in rank, and reimbursement to the Government, thereby demonstrating that the Department holds senior leaders accountable for misconduct. Both statistics reflect increases over previous years and indicate the increasing complexity of allegations involving senior officials and associated requirement for comprehensive, manpower intensive investigative work. Recent examples in the area of senior official inquiries include substantiated allegations of using Government property for unauthorized purposes, engaging in conduct unbecoming an officer and gentleman, taking official action for private gain, accepting of gifts from prohibited sources, and taking unauthorized personnel actions. As part of its responsibility to fully inform the President and Senate of adverse information concerning senior officials being nominated for promotion, reassignment, or other action, the office conducted almost 3,000 name checks on DoD senior officials in the past year. The Senate Armed Services Committee relies exclusively on checks completed by ISO before confirming military officer promotions.

Policy and Oversight operations are evaluated on the reviews conducted, as measured by the number of reports issued; the Hotline activities reported; voluntary disclosures

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IV. Performance Criteria and Evaluation Summary: (Continued)

processed; subpoenas processed; and outcomes achieved. Policy and Oversight conducts evaluations of DoD-wide programs and reviews to ensure the quality of the performance of other DoD audit agencies, outside public accounting firms, DoD law enforcement and criminal investigative agencies, and other Defense activities. Inspectors and evaluators consult to identify recommendations to prevent fraud, waste, abuse and mismanagement. The follow-up phase of every evaluation project emphasizes measuring the impact of the recommendations implemented by management. Inspectors and evaluators also facilitate process improvement activities that do not result in separate formal reports, such as advising the Iraqi Ministry of Defense Inspector General, assisting the coalition forces in Afghanistan build self-sustaining Afghan institutions, developing joint doctrine and training for Combatant Command IGs, recommending safety initiatives to prevent accidents, advising DoD managers, and promoting communications and collaboration among the various DoD IG communities. In FY 2005, Audit Policy and Oversight (APO) issued eight reports with recommendations for overall improvements and efficiencies in the audit process and two reports that addressed adequacy and timeliness of implementation of contract audit recommendations. APO provided training to 100 federal and non-federal auditors for the PCIE sponsored National Sampling Initiative, to DCAA auditors on OMB Circular A-133, Single Audit, and external peer review processes to DoDIG and Service auditors. In addition, APO assisted the OIG for Health and Human Services in its reviews of Maine and Alaska single audits by reviewing the state-related National Guard program.

Investigative Policy and Oversight (IPO) accepted eight voluntary disclosures, closed nine cases and issued 227 subpoenas. In FY 2004 and FY 2005, IPO evaluated the accountability of 32 senior officials for decisions that hid sexual assaults at the Air Force Academy. The IPO designed and conducted sexual assault and leadership surveys at the Department's military academies, surveying 5,105 male and female cadets and midshipmen and achieved a 96.9 percent response rate. That, in turn, improved the opportunity for future annual measurements enabling Congress to improve its oversight responsibilities at these taxpayer supported institutions. In FY 2005, IPO completed a

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IV. Performance Criteria and Evaluation Summary: (Continued)

review that validated the accidental nature of the death of an Army soldier in Iraq. The office continues oversight of criminal investigations of prisoner and detainee abuse investigations in Iraq, Afghanistan and Cuba, the examination of the investigation, arrest and imprisonment of a Muslim chaplain that touches a broad range of US Government agencies, the evaluation of multiple investigations of a friendly fire death of an Army soldier who was a professional football star, and the evaluation of an Army investigation into the apparent suicide of an Army soldier in Afghanistan. In FY 2005, the DoD Hotline handled an average of 1,068 calls and letters per month, reflecting approximately a workload increase of 35 percent since September 11, 2001.

The ODIG-INTEL focuses on assessing the efficient, effective, and appropriate use of intelligence personnel and resources with emphasis on support to the warfighter and national command authority. In FY 2005, ODIG-INTEL provided DoD leadership and Congress a record 20 intelligence evaluation and audit reports such as Nuclear Command and Control; Defense Human Intelligence; Intelligence Capabilities Related to the Terrorist Attacks of September 11, 2001; National Security Agency programs and initiatives; Special Access Programs; Counterintelligence and Counterespionage; and BRAC for the Defense Intelligence Community. Congressional directed actions or requests, management requests, or DoD Hotline complaints initiate 70 percent of ongoing projects. The other 30 percent comes from a proactive process of identifying projects to promote effective operations and ensure efficient use of resources in vital intelligence and related mission areas in support of the Department's goals and the OIG Strategic Plan.

In FY 2005, the ODIG-INTEL developed and implemented new standardized policies and procedures, including internal quality assurance mechanisms. The ODIG-INTEL also met its performance measure to plan, staff, and manage projects so that projects are completed within an average of 330 days (actual average was 323 days, which is 20 percent less than the average of 402 days for the prior period). ODIG-INTEL will continue to define project scope and objectives for FY 2006 and FY 2007 projects in order to effect an

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IV. Performance Criteria and Evaluation Summary: (Continued)

additional five percent decrease in project cycle time. In FY 2006, ODIG-INTEL will also determine a meaningful goal for average number of work hours. ODIG-INTEL will continue participating in quarterly meetings of the Intelligence Community Inspectors General (ICIG) Forum and chair the Joint Intelligence Oversight Coordination Group (JIOCG) to prevent duplication and overlap between the OIG, Service audit agencies, Military IGs, and other Intelligence Agencies components, or jointly with DoD intelligence agency IGs and Intelligence Community IG Forum members.

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IV. Performance Criteria and Evaluation Summary: (Continued)

	FY 2005 Actual	FY 2006 Estimate	FY 2007 Estimate
<u>AUDIT</u>			
Reports issued	112	120	120
Potential monetary benefits (\$ Millions) (* Monetary benefits can not be estimated)	\$95.8	*	*
Achieved monetary benefits (\$ Millions)	\$2,173.0	-	-
GAO surveys and reviews processed	215	*	*
GAO draft and final reports processed (* Function moved to Policy and Oversight as part of OIG reorganization)	308	*	*
<u>DEFENSE FINANCIAL AUDITING SERVICE INITIATIVE</u>			
Reports issued	9	15	15
<u>CRIMINAL INVESTIGATIONS</u>			
Indictments and Charges	415	300	351
Convictions	362	280	300
Fines/penalties/restitutions, etc. (\$ Millions)	\$929	\$452	\$521
<u>NONCRIMINAL INVESTIGATIONS</u>			
Civilian Reprisal - Investigations opened	18	20	20
Civilian Reprisal - Investigations closed	2	15	15
Civilian Reprisal - Investigations oversight	1	5	10
Military Reprisal - Investigations opened	567	575	600
Military Reprisal - Investigations closed	447	500	550
Military Reprisal - Investigations oversight	263	300	300
Investigations of Senior Officials - opened	72	70	70
Investigations of Senior Officials - closed	68	70	70
Investigations of Senior Officials - oversight	403	450	450

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IV. Performance Criteria and Evaluation Summary: (Continued)

	FY 2005 Actual	FY 2006 Estimate	FY 2007 Estimate
<u>POLICY and OVERSIGHT</u>			
Audit oversight reports	10	8	8
Investigative policy and oversight reports	3	8	8
Hotline calls/letters received	13,300	14,000	14,000
Substantive cases generated	2,500	3,500	4,000
Voluntary disclosures-new disclosures	9	8	8
Voluntary disclosures-admitted	8	6	6
Annual monetary benefits from disclosures (\$ Millions)	.058	1.5	.7
Subpoenas issued	227	250	300
Inspection & Evaluation Reports	6	6	6
Improved program effectiveness	*	*	*
GAO surveys and reviews processed		215	215
GAO draft and final reports processed		308	308
<u>INTELLIGENCE</u>			
Reports issued	20	16	16
Potential monetary benefits (\$ Millions)	0	0	0

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V. Personnel Summary	FY 2005	FY 2006	FY 2007	Change FY 2005/2006	Change FY 2006/2007
Active Military End Strength (E/S)					
(Total)	29	29	29	0	0
Officer	27	27	27	0	0
Enlisted	2	2	2	0	0
Civilian End Strength (Total)	1,383	1,468	1,334	85	-134
U.S. Direct Hire	1,382	1,467	1,333	85	-134
Total Direct Hire	1,382	1,467	1,333	85	-134
Foreign National Indirect Hire	1	1	1	0	0
Memo: Reimbursable Civilians Included	1	1	1	0	0
Active Military Average Strength					
(A/S) (Total)	29	29	29	0	0
Officer	27	27	27	0	0
Enlisted	2	2	2	0	0
Civilian FTEs (Total)	1,293	1,422	1,404	129	-18
U.S. Direct Hire	1,292	1,421	1,403	129	-18
Total Direct Hire	1,292	1,421	1,403	129	-18
Foreign National Indirect Hire	1	1	1	0	0
Average Annual Civilian Salary	111,517	113,161	118,294	1,644	5,133

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VI. OP 32 Line Items as Applicable (Dollars in Thousands):

	FY 2005 <u>ACTUALS</u>	Change from FY 2005 to FY 2006		FY 2006 <u>ESTIMATE</u>	Change from FY 2006 to FY 2007		FY 2007 <u>ESTIMATE</u>
		PRICE <u>GROWTH</u>	PROGRAM <u>GROWTH</u>		PRICE <u>GROWTH</u>	PROGRAM <u>GROWTH</u>	
<u>CIVILIAN PERSONNEL COMPENSATION</u>							
Executive, General and Spec. Schedules	143,303	3,339	13,521	160,163	3,732	1,310	165,205
Wage Board	30	1	11	42	1	0	43
Voluntary Separation Incentive Pay	0	0	0	0	0	0	0
Disability Compensation	462	0	17	479	0	121	600
Total Civilian Personnel Compensation	143,795	3,340	13,549	160,684	3,733	1,431	165,848
<u>TRAVEL</u>							
Travel of Persons	7,063	148	-12	7,199	155	202	7,556
Total Travel	7,063	148	-12	7,199	155	202	7,556
<u>DEFENSE WCF SUPPLIES & MATERIALS PURCHASES</u>							
GSA Managed Equipment	3,022	63	-2,470	615	13	38	666
Total Fund Equipment Purchases	3,022	63	-2,470	615	13	38	666
<u>TRANSPORTATION</u>							
Commercial Transportation	305	6	-3	308	6	1	315
Total Transportation	305	6	-3	308	6	1	315
<u>OTHER PURCHASES</u>							
Foreign National Indirect Hire	22	0	53	75	1	1	77
Rent Payments to GSA (SLUC)	14,349	301	73	14,723	309	0	15,032
Purchased Communications (Non-Fund)	2,870	60	97	3,027	64	0	3,091
Rents (Non-GSA)	25	1	77	103	2	0	105
Postal Services (U.S.P.S.)	20	0	0	20	0	1	21
Supplies & Materials (Non-Fund)	3,128	66	-271	2,923	61	1	2,985
Printing & Reproduction	22	0	1	23	0	0	23
Equipment Maintenance - Contract	2,180	46	-57	2,169	46	-1	2,214
Facility Maintenance - Contract	3,027	64	-2,579	512	11	193	716

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VI. OP 32 Line Items as Applicable (Dollars in Thousands):

	<u>Change from</u> <u>FY 2005 to FY 2006</u>			<u>Change from</u> <u>FY 2006 to FY 2007</u>				
	FY 2005	PRICE	PROGRAM	FY 2006	PRICE	PROGRAM		FY 2007
	<u>ACTUALS</u>	<u>GROWTH</u>	<u>GROWTH</u>	<u>ESTIMATE</u>	<u>GROWTH</u>	<u>GROWTH</u>		<u>ESTIMATE</u>
Equipment Purchases (Non-Fund)	6,022	140	-1,477	4,685	99	1,072	5,856	
Management & Professional Support Services	11	0	-11	0	0	0	0	
Studies, Analysis & Evaluations	292	6	-298	0	0	0	0	
Other Intra-government Purchases	3,520	74	-878	2,716	57	-2	2,771	
Other Contracts	5,882	124	217	6,223	131	-412	5,942	
Other Costs	682	14	141	837	18	-16	839	
Total Other Purchases	42,052	896	-4,912	38,036	799	837	39,672	
<u>INFORMATION SERVICES</u>								
DISA Information Systems (Megacenters)	0	0	0	0	0	0	0	
Communications Svcs Tier 2	254	4	2	260	6	-1	265	
Total Information Services	254	4	2	260	6	-1	265	
<u>PRINTING AND PUBLICATION SERVICES</u>								
Defense Publication & Printing Service	70	-1	2	71	2	0	73	
Total Printing and Publication Services	70	-1	2	71	2	0	73	
<u>FINANCIAL OPERATIONS</u>								
Defense Finance & Accounting Svc	1,287	-35	129	1,381	-134	162	1,409	
Total Financial Operations	1,287	-35	129	1,381	-134	162	1,409	
<u>OTHER</u>								
PRMRF Purchases	477	-95	101	483	92	-82	493	
Total PRMRF Purchases	477	-95	101	483	92	-82	493	
TOTAL	198,325	4,326	6,386	209,037	4,672	2,588	216,297	

* The FY 2005 Actual column includes \$148.0 thousand of FY 2005 Supplemental funds (PL 109-13).

* The FY 2006 Estimate column excludes \$263.0 thousand of FY 2006 Hurricane Supplemental funds (PL 109-148).