

GAO

Report to the Honorable
Charles E. Grassley, U.S. Senate

August 1991

INTERNAL CONTROLS

Theft at Three Defense Facilities in Utah



144857

National Security and
International Affairs Division

B-237390

August 22, 1991

The Honorable Charles E. Grassley
United States Senate

Dear Senator Grassley:

In response to your request, we reviewed the results of Operation Punchout, a sting operation designed to identify and apprehend surplus dealers that bought and sold stolen government property from Department of Defense facilities in Utah. Our objectives were to (1) identify the results of the operation and (2) determine the weaknesses in the facilities' internal controls that enabled the thefts and trafficking to occur.

Results in Brief

As of March 1, 1991, Operation Punchout had uncovered 65 cases of unlawful sale or suspected theft and trafficking of government property. During Operation Punchout, according to Federal Bureau of Investigation (FBI) records, undercover agents purchased 7,422 items of military equipment with a total replacement value of about \$13.8 million. These items included ammunition, clothing, ready-to-eat meals, fishing kits, backpacks, helmets, boots, radios, gas masks, chemical warfare gear, weapon parts, generators, compressors, night vision devices, computers, and F-16 jet engines.

Of the 65 cases, 54 involved three Utah defense facilities: 49 at Hill Air Force Base, 3 at Tooele Army Depot, and 2 at the Utah National Guard. (This report does not address the other 11 cases.) The cases at the three Utah facilities involved 54 people: 20 were prosecuted by the Department of Justice or were court-martialed (17 were found guilty), 27 military personnel received nonjudicial punishments, 3 were involuntarily separated from military service or fired instead of being prosecuted, and 4 either had no action taken against them or were found not to have engaged in illegal activities.

Internal control weaknesses at the three facilities allowed the thefts to occur. Among these weaknesses were inadequate supervision and lack of separation of duties, inadequate resource control and accountability, and lack of vigilance in security matters. Although some of the thefts occurred through collusion, which is difficult to prevent, ineffective internal controls provided opportunities for thefts to occur and prevented them from being detected promptly. The control structure did

not break down because of a lack of regulations but rather because the regulations were not being followed.

Officials at the three facilities have taken actions to strengthen the internal controls. For example, they have increased supervision, instituted or increased physical security, and emphasized to staff the importance of security vigilance. However, it is too early to assess the effectiveness of these actions.

Background

Operation Punchout was a sting operation conducted by the FBI in cooperation with the Air Force's Office of Special Investigations and the Defense Criminal Investigative Service. To conduct the operation, the FBI opened a store that bought surplus government property.

Since sting operations are covert in nature, incidents of theft or questionable activity cannot be immediately pursued, as they normally would be, by military commanders or law enforcement agencies. Instead, suspects are allowed to continue their activities so that prosecutable cases can be developed against them and the operation can continue. For example, although the FBI already had evidence of previous thefts by the two security policemen who subsequently stole three jet engines, it allowed the jet engine theft to occur. Also, when various military personnel and security police complained that the store was a front for illegal trafficking of stolen property and requested the Air Force's Office of Special Investigations to investigate it, the Ogden Air Logistics Center Commander, who was aware of and supported the sting operation, said that the store would be investigated.

However, when three F-16 fighter jet engines were stolen from Hill Air Force Base in July 1989, word of Operation Punchout got out. The operation effectively ended at that point, although the FBI continued to gather and document the evidence necessary to indict additional individuals suspected of stealing and selling government property.

The three Utah defense facilities from which government property was stolen have different functions within the military supply system. With about 19,000 employees, the Ogden Air Logistics Center, collocated with Hill Air Force Base, maintains and repairs tactical aircraft and strategic missiles. Tooele Army Depot, with over 4,000 employees, is the primary worldwide overhaul and repair center for the Army's tactical wheeled vehicles and power generation equipment. The Utah National Guard,

with about 8,000 members in 65 units in Utah, is responsible for providing trained and equipped units that would be available for service in times of war or national emergency or when needed to augment the active Army.

Results of Operation Punchout

As of March 1, 1991, Operation Punchout had identified 65 cases of suspected theft and trafficking of military equipment. Of these cases, 54 involved personnel from the three Utah defense facilities, 6 involved surplus dealers, 4 involved civilians, and 1 involved a soldier from a facility in another state. Undercover agents had purchased 7,422 items with a total replacement value of \$13.8 million. The equipment ranged from low-cost items such as lip balm to high-cost items such as F-16 jet engines (replacement value \$2.7 million each). Other items purchased by undercover agents and their approximate replacement values included helmets (\$229), gas masks (\$118), computers (\$1,100), radios (\$3,070), and night vision devices (\$4,300).

Although the FBI documented and pursued each case separately, some individuals worked in collusion to steal government property. Of the 54 individuals suspected in the cases at the Utah defense facilities, 50 were either active duty, reserve, or National Guard members, and 4 were civilians. Fifteen of the individuals were Air Force security police.

The severity of the cases ranged widely. In some cases, military personnel sold clothing or equipment that had been issued to them; in other cases, security police broke into locked warehouses and stole equipment. In one case, an organized ring colluded to steal entire shipments of valuable items; in another case, two security police stole three F-16 jet engines.

As of March 1, 1991, 20 of the 54 people suspected in these cases had been prosecuted by the Department of Justice or had been court-martialed. Most were charged with stealing government property, illegally selling such property, or conspiring to steal or sell such property. Of the 20 individuals, 17 were found guilty and ordered to serve jail sentences and/or pay fines or restitution ranging from \$100 to \$24,749. The other three individuals were acquitted.

Of the remaining 34 people, 27 were Hill Air Force Base personnel that had sold property, mostly clothing, issued to them. According to Air Force regulations, military personnel are not allowed to sell issued items. All 27 received nonjudicial punishments in the form of reduction

in rank, forfeiture of pay, or letter of reprimand. To help prevent this situation from recurring, Hill Air Force Base officials have emphasized to personnel that Air Force regulations prohibit the sale of issued items.

Three of the remaining seven people were involuntarily separated from the military or fired, and four either had no action taken against them or were found innocent of engaging in illegal activities.

Internal Control Weaknesses Enabled Thefts to Occur

Although the circumstances of each case were unique, several common internal control weaknesses enabled the thefts to occur and not be promptly detected: inadequate supervision and lack of separation of duties, inadequate resource control and accountability, and lack of vigilance in security matters. Officials of the three Utah facilities have taken actions to improve internal controls.

Inadequate Supervision and Lack of Separation of Duties

Inadequate supervision increases opportunities for theft, particularly in situations in which the same individual controls all aspects of a transaction. At Hill Air Force Base, poor supervision was exercised over sergeants in charge of two supply areas. These sergeants, with the knowledge of their supervisor, allowed employees to take military clothing for personal use, which violates Air Force regulations. At Tooele Army Depot, little day-to-day supervision was given to three employees working in a shipment receiving area, which enabled these employees to steal government property without being detected. At the Utah National Guard, a supply sergeant who ordered materiel, received it, and maintained the inventory records was not adequately supervised and, as a result, was able to steal government property undetected.

The lack of adequate supervision and separation of duties conflicts with Department of Defense Directive 5010.38 and government internal control standards,¹ which require supervisors to continuously review and approve the assigned work of their staff and provide their staff with the necessary guidance and training to reduce the risk of errors, waste, and wrongful acts. The directive and standards also state that one individual should not control all key aspects of a transaction.

All three facilities have taken actions to improve supervision. At Hill Air Force Base, personnel have been reminded by their supervisors that Air Force regulations prohibit personal use of property, and, according to

¹Standards for Internal Controls in the Federal Government (GAO, Washington, D.C.: 1983).

Hill Air Force Base officials, this practice has stopped. At Tooele Army Depot, supervision has been increased in the areas in which shipments are received. In addition, at the Utah National Guard, officials have increased their review and monitoring of supply requisitions to ensure that one individual does not control all aspects of a transaction.

Inadequate Resource Control and Accountability

Resource control, including physical security, and accountability are essential to prevent and quickly detect the theft or misuse of government property. At two of the three Utah facilities, however, resources were not properly controlled or accounted for, and thefts were not promptly detected. At Hill Air Force Base, physical security was not sufficient to protect assets from theft. At the Utah National Guard, discrepancies between items shipped and items received were not always reported, and some of the ammunition and explosives not used during training sessions were stolen rather than returned to the supply custodian. Also, an August 1990 internal review of the National Guard found weaknesses in the reconciliation of on-hand and recorded inventories of ammunition.

According to Department of Defense Directive 5010.38 and government internal control standards, access to resources and records is to be limited to authorized individuals, and accountability for the custody and use of resources is to be assigned and maintained. The directive and standards also state that resources on hand and records are to be compared periodically to determine whether they agree.

The two facilities have taken actions to improve physical security and resource accountability. For example, Hill Air Force Base officials told us that they have installed more secure locks, increased the number of security checks on warehouses, and fenced off storage areas in warehouses to separate each unit's materiel. Utah National Guard officials stated that they plan to appoint and train individuals to receive direct shipments and report any discrepancies between items shipped and received. The officials have also implemented stricter controls over ammunition used during training sessions. In addition, in response to the internal review, Utah National Guard officials have implemented and provided training in the use of appropriate ammunition management and inventory procedures and have conducted unannounced inventories.

Lack of Vigilance in Security Matters

Although many of the thefts occurred through collusion, the lack of vigilance in security matters at Hill Air Force Base enhanced the opportunity for theft and contributed to its nondetection. Even when unusual circumstances should have alerted personnel to the potential breach of security, they assumed everything was all right. Such inattentiveness to security was illustrated by the events following the theft of F-16 engines and other equipment by Air Force security police. When unusual circumstances related to these thefts were detected by other Hill Air Force Base personnel, they were not reported. For example, Hill personnel did not report three F-16 jet engines as missing for several days because they assumed that the engines had been borrowed by another unit.

Hill Air Force Base officials have taken actions to increase employees' awareness of unusual situations and vigilance in security matters. For example, according to Hill Air Force Base officials, the security police commander has increased the amount of supervision given to security police. The commander now checks on personnel during different shifts to make sure they are doing their jobs, instructs new security police officers on how to handle and report unusual situations, and emphasizes to all security personnel the importance of following security procedures.

Agency Comments

In its comments on a draft of our report, the Department of Defense agreed with our findings and said that the report fairly and accurately portrays the undercover sting operation.

Scope and Methodology

To accomplish our objectives, we visited Hill Air Force Base, Ogden, Utah; Tooele Army Depot, Tooele, Utah; and Utah National Guard Headquarters, Draper, Utah, where we inspected the facilities from which items were stolen and interviewed military officials about the thefts. We also interviewed officials of the FBI, the U.S. Attorney for Utah, the Defense Criminal Investigative Service, and the Air Force's Office of Special Investigations, which were the organizations that participated in planning or implementing Operation Punchout.

We reviewed information on Operation Punchout, including transcripts of recorded conversations between undercover agents and suspects, arrest interviews, and investigative reports. We also reviewed military regulations and directives governing the activities and functions at the three Utah facilities.

We conducted our review between May 1990 and April 1991 in accordance with generally accepted government auditing standards.

Appendix I contains additional details about the thefts, the internal control weaknesses, and the corrective actions taken by officials. Appendix II contains the Department of Defense's comments.

Unless you announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies of this report to the Secretaries of Defense, the Army, and the Air Force; the Adjutant General, Utah National Guard; and the Director, Office of Management and Budget. We will also make copies available to others on request.

Please contact me at (202) 275-8412 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix III.

Sincerely yours,



Donna M. Heivilin
Director, Logistics Issues

Information on Thefts at the Three Utah Defense Facilities

Although the circumstances of each case were unique, several common internal control weaknesses enabled the thefts to occur and not be promptly detected: inadequate supervision and lack of separation of duties, inadequate resource control and accountability, and lack of vigilance in security matters. Officials of the three Utah facilities have taken corrective actions to improve internal controls.

Inadequate Supervision and Lack of Separation of Duties

At Hill Air Force Base, sergeants in charge of two supply areas allowed other employees to take military clothing for personal use, which is in violation of Air Force regulations. The clothing had been turned in to the supply area for disposition (disposal, redistribution, or restocking). The sergeants' supervisor knew of this situation but did nothing to stop it. According to several employees, taking military clothing was a common occurrence. Hill Air Force Base personnel have since been reminded that Air Force regulations prohibit personal use of property turned in for disposition, and, according to Hill officials, this practice has stopped.

At Tooele Army Depot, during 1987 and 1988, at least three employees worked in collusion to steal entire shipments of materiel, such as generators and compressors, and sell the materiel to undercover agents. Many of the shipments were sent to Tooele in large containers from overseas commands. According to Tooele officials, the containers often arrived without the required prior notification or accompanying documentation of their contents. When this occurred, the employees who received the shipment counted and recorded the contents of the container. This became the only record of the number and type of items received. Thus, it was relatively easy for the employees to steal profitable items and then record only the remaining items as having been received. According to FBI files, employees sometimes stole entire shipments, destroyed the paperwork, and claimed to have never received the shipments. The employees used their personal vehicles to remove the stolen materiel from the receiving area, often during early morning hours.

Tooele Army Depot officials told us that during Operation Punchout, bulk shipments were received in two buildings, and personnel in both buildings were not adequately supervised. Since the operation, bulk shipments have been received in only one building, and personnel receiving the shipments have been under constant supervision. In addition, employees can no longer park close to the building, supervisors have been checking on the employees who open the receiving facilities during early morning hours, supervisors have been verifying each shipment discrepancy found during the receiving process, and procedures

for processing shipments received without accompanying paperwork have been developed.

Inadequate supervision and the lack of separation of duties also posed problems at the Utah National Guard. Supervisors did not review supply requisitions to determine whether the correct type and quantity of materiel was ordered. As a result, a supply sergeant was able to order materiel that was not needed, such as fishing kits, as well as excess quantities of needed materiel. The sergeant then stole and subsequently sold the unneeded and excess materiel.

Utah National Guard officials have increased their review and monitoring of supply requisitions. Additionally, these officials have performed two unannounced inventories in the last year to detect deficiencies in supply operations.

Inadequate Resource Control and Accountability

Examples of inadequate resource control and accountability fall into two categories: poor physical security and poor reconciliation of assets and records.

Poor Physical Security

According to FBI records, two security police at Hill Air Force Base broke into a warehouse more than once by prying a sliding door off its rail. They then came out through another door and put the door back on the rail to hide any sign of forced entry. According to FBI records, many high-dollar items were stolen from the warehouse during Operation Punchout, including computers, tools, gas masks, and extreme cold weather clothing. Another suspect admitted to the FBI that he and two other security police had broken into three buildings at Hill, including this warehouse.

In another building at Hill Air Force Base, materiel maintained at the unit level had been stolen from the storage area over an 18-month period during Operation Punchout before any of the thefts were detected, according to FBI records. The stolen materiel, which included automatic life preservers, chemical agent detection and decontamination kits, gas masks, sunglasses, helmets, field jackets, and gloves, had been poorly secured. For example, access to security cages could be gained by climbing over fencing. (The security cage fencing was 12 feet high but did not reach the ceiling, in some locations by as much as 8 feet.) In

addition, some equipment was stored in walled-off areas with doorways but no doors, and some was stored in open areas.

Additionally, the collocation of equipment within this storage area heightened the risk of theft. Many units had items stored in the same area, giving many people access to the building and to all the units' materiel. According to a sergeant, his commander had instructed him to order winter clothing items for the unit. The sergeant was opposed to doing so because he was concerned about other units' access to the items, since security in the storage area was inadequate. Accordingly, he tried to find an alternate, secure area in which to store the items but was unsuccessful.

After thefts from this storage area had gone undetected for 18 months, a sergeant discovered that some of his unit's automatic life preservers were missing. The sergeant alerted the other units, which found that some of their life preservers were also missing. The sergeant reported this to the security police, who conducted a preliminary investigation and referred the matter to the Air Force's Office of Special Investigations. Because the Office of Special Investigations was cooperating with the FBI in conducting Operation Punchout, a suspect had already been identified but was not arrested at that point so that the sting operation could continue. The suspect continued to steal other materiel from the storage area without being detected by the units.

Hill Air Force Base officials have taken several actions to improve physical security. For example, more secure locks have been installed, the number of security checks has been increased, one storage area has been separated from the central inventory area, and storage areas for unit-maintained equipment have been fenced off within the warehouses. In the storage area in which several units' materiel is collocated (the area from which the life preservers were stolen), doors have been installed, and three storage areas have been built. Also, Air Force officials told us that they plan to enclose the remaining security cages using funds that will be available at the end of the fiscal year 1991.

Poor Reconciliation of Assets and Records

At two of the Utah facilities, poor reconciliation of assets and records enabled thefts to occur and go undetected. At Hill Air Force Base, no record was maintained of computers stored in a warehouse. At the Utah National Guard, discrepancies between items shipped and those received were not always reported. Also, ammunition and explosives not used

during training sessions were not always returned to the supply custodian but were stolen and removed from the area in personal vehicles. Further, an internal review at the Utah National Guard cited weaknesses in resource control and accountability.

At Hill Air Force Base, two security police stole and subsequently sold 17 personal computers. Several months after the theft, the FBI called the Air Force's Office of Special Investigations at Hill Air Force Base and advised them that the computers had been stolen from a Hill warehouse. The Office of Special Investigations advised responsible Hill officials of the theft. After the officials conducted an inventory, they told the Office of Special Investigations that no computers were missing. The Office of Special Investigations told these officials to check again. The officials were finally able to verify that 17 computers were missing only after they conducted several additional inventories and received the serial numbers of the stolen computers from the Office of Special Investigations and the serial numbers for all Hill computers of this particular model from the computer manufacturer.

According to one of the officials, hundreds of computers were being temporarily stored in this warehouse. The computers belonged to two different base organizations at Hill. One of the organizations had no record of the total number of computers it had received or issued, and neither organization had recorded the serial numbers of the computers in storage. Consequently, the two organizations did not know how many computers were actually being stored in this warehouse and could not determine whether any were missing without the additional information provided by the FBI and the computer manufacturer.

At the Utah National Guard, discrepancies between items shipped and received were not always reported, as required by Army regulations. The majority of shipments are received directly by individual units, rather than by the Utah National Guard's central receiving area. No control was in place to ensure that the units reported discrepancies between the items received and those shown as having been shipped. To correct these problems, the Utah National Guard plans to appoint and train individuals to receive direct shipments and to prepare discrepancy reports when appropriate.

Also, two Utah National Guard members stole and sold ammunition and explosives. The members did not return the munitions that were not used during training exercises to the supply custodian. Utah National

Guard officials have since instituted stricter controls over the ammunition and explosives issued and used during training exercises.

Additionally, an August 1990 internal review of ammunition management in the Utah National Guard found that quarterly inventories of ammunition were not being conducted, issues and expenditures were not being reconciled, and ammunition expenditures were being certified before the ammunition was used. Consequently, Utah National Guard officials have implemented and provided training in the use of appropriate ammunition management and inventory procedures.

Lack of Vigilance in Security Matters

Because of a lack of attentiveness to unusual circumstances, thefts were not promptly detected and reported. At Hill Air Force Base, two security policemen stole night vision equipment from a storage area by cutting off a lock and replacing it with another one. When another security policeman tried to enter the storage area, he found that neither his key nor a spare key would open the lock. Assuming that the lock was inoperative, he cut it off and put on yet another lock. He did not report or pursue the matter. The Hill security police did not realize the equipment was missing until the Air Force's Office of Special Investigations told them that the equipment had been stolen. Even then, the initial inventory taken by the security police unit did not disclose the loss because the personnel conducting the inventory counted only the boxes in which the equipment had been stored. However, the thieves had removed the equipment from the boxes and left the empty boxes in the storage area.

Another example of inattentiveness occurred following the nighttime theft of F-16 jet engines from Hill Air Force Base over the 1989 Fourth of July holiday weekend. Taking advantage of the base's closure over the long weekend, two security policemen attempted to steal four engines, each on a trailer, from a repair squadron hangar where the engines had recently been repaired. The policemen hooked the trailers carrying the engines together with homemade hitches, like a train, and began pulling them off the base with a tractor. A few blocks from the hangar, the last trailer's hitch broke, separating it from the others. The security policemen left that trailer and the jet engine sitting in the road. One policeman returned to his duty post while the other, who was not on duty, proceeded off the base with the remaining three trailers, cutting off and replacing gate locks as he went. At one interior gate, however, he did not replace the cut-off lock with another.

Appendix I
Information on Thefts at the Three Utah
Defense Facilities

The next morning, on a routine security check, a repair squadron sergeant found the engine and its trailer in the road. The sergeant assumed that a training unit had left the engine there after borrowing it several days earlier but admitted that units had never before left borrowed engines unsecured. Additionally, even though the sergeant knew the serial number of the engine that had been borrowed, he did not check the serial number of the engine in the road. Instead, he called another sergeant in his unit at home and asked him to come in and put the engine back in the repair squadron's hangar. While doing so, the second sergeant noticed that two doors of the repair squadron's hangar were unlocked and slightly open. He also noticed that three F-16 engines were missing from the hangar. Rather than reporting that the engines were missing, the sergeant assumed that a maintenance unit had taken the engines to be installed in aircraft and had left the doors open after taking them. Yet, according to the sergeant, the maintenance unit had never before removed an engine without first notifying the repair squadron.

After the holiday weekend, repair squadron personnel, including the two sergeants, checked with the maintenance unit and found that the unit had not borrowed the engines. After unsuccessfully searching all the buildings in the area, they reported that the engines were missing.

In addition, a volunteer who worked at the base museum noticed that the interior gate had no lock. The employee replaced the missing lock but did not report it.

Hill Air Force Base officials have taken actions to improve the security police's attentiveness to unusual situations and raise all employees' awareness of the importance of being vigilant in security matters. For example, according to Hill Air Force Base officials, the security police commander has increased supervision over security police, instructs new security police how to handle and report unusual situations, and emphasizes to all security personnel the importance of following security procedures, such as routinely checking infrequently used gates. Additionally, the security police now patrol alleys and side streets in addition to major streets and warehouse areas and check doors and locks more often. Further, four officials (the security police commander, his deputy, the base commander, and his deputy) now randomly check on personnel during different shifts to make sure they are doing their jobs.

**Appendix I
Information on Thefts at the Three Utah
Defense Facilities**

Hill Air Force Base officials are also educating employees on the serious consequences of stealing government property and the importance of accountability for government property. Officials held staff meetings for all employees to discuss these issues. Additionally, all staff were issued memorandums that detailed the criminal activities exposed during Operation Punchout and reiterated employees' responsibilities for safeguarding government property and reporting unusual situations.

Comments From the Department of Defense

Note: GAO comment supplementing those in the report text appears at the end of this appendix.



PRODUCTION AND
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(L/SD)

ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, DC 20301-8000

July 15, 1991

Mr. Frank C. Conahan
Assistant Comptroller General
National Security and International
Affairs Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "INTERNAL CONTROLS: Theft at Three Defense Facilities in Utah," dated June 18, 1991 (GAO Code 398018) OSD Case 8630. The Department agrees that the GAO draft report fairly and accurately portrays the events surrounding undercover sting operation "PUNCHOUT," conducted in and around the Ogden, Utah area.

Operation PUNCHOUT was a successful undercover effort to target, apprehend, and punish those who seek to defraud the Government. While the perpetrators of the thefts represented less than two one-hundredths of one percent of the 31,000 employees at the three installations, the operation emphasized that constant vigilance, at all levels, is required to safeguard Government property properly. The Department is pleased that the GAO found that DoD policies and regulations are adequate and that the local Commanders of the installations involved have instituted the necessary actions to ensure they are properly enforced.

The Department recognizes that internal control weaknesses existed at those activities. As the GAO acknowledges, all the necessary corrective actions have been taken or are ongoing. Since this was a covert operation, it would not have been prudent to draw attention to the operation by reporting it in the Financial Integrity Act Report. The DoD Components have, however, included inventory control weaknesses in prior Financial Integrity Act Reports.

The Department appreciates the opportunity to comment on the draft report. The Department will continue to emphasize the control and security of its property, using all the tools available to it, including participation in sting operations when warranted.

Sincerely,

David A. Berteau
David A. Berteau
Principal Deputy

See comment 1.

The following is GAO's comment on the Department of Defense's letter dated July 15, 1991.

GAO Comment

1. GAO acknowledged that the three facilities have taken actions to strengthen their internal controls. However, it is too early to assess the effectiveness of these actions.

Major Contributors to This Report

**National Security and
International Affairs
Division, Washington,
D.C.**

John J. Klotz, Assistant Director

**Denver Regional
Office**

Ted B. Baird, Evaluator-in-Charge
Sandra P. Davis, Evaluator
Pamela K. Tumler, Reports Analyst

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