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February 28, 2012

The Honorable Leon E. Panetta
Secretary of Defense
Pentagon
Washington, D.C. 20301

Dear Mr. Secretary:

I am writing to draw your attention to 16 audit reports that uncovered egregious waste and misconduct at the Department of Defense (DOD).

The audit reports in question were produced by the Office of the Inspector General (OIG) in FY2011. I discovered these audits during the course of my ongoing oversight review of OIG audit quality. If I had to use two words to characterize what I found in those 16 reports, they would be **scandalous and disgraceful**.

Right now, the findings and recommendations presented in those 16 reports are being processed through the Pentagon meat grinder. Only you can save them from oblivion.

You have indicated that you want to find places in the defense budget to save nearly \$500 billion over the next 10 years. Well, I think I have found the perfect place for you to begin your belt-tightening campaign. The IG claims that these and other 2011 reports identified \$735 million in potential efficiencies. All this money will be lost unless the findings and recommendations in those reports are somehow converted into concrete action. Right now, they face a most uncertain future.

These 16 reports put the public spotlight on the most egregious kinds of waste and misconduct that I have ever seen. The officials who are responsible for what happened must be held accountable and improper payments need to be recovered. Unfortunately, accountability does not appear to be close at hand. Without accountability, all this good work will amount to nothing more than a bunch of auditors "howling in the wilderness." It will just fall through the cracks. Without high-level intervention, most – if not all – accountability measures will be slowly and quietly quashed in bureaucracy. A recent report from the Navy clearly indicates that this fate awaits at least one of the reports and probably all the others, as well.¹

As I said, there are 16 disturbing reports – 8 pertain to hard-core contract-related issues and 8 zero-in on wasteful "Stimulus" projects.

¹ Official Navy response to inquiry regarding Report 2011-106, email dated 1/17/12;

In a nutshell, here is what the 8 contract-related audits exposed:

- Audit examined DOD purchases made through the Department of Energy uncovered widespread abuses, lax oversight, failure to maintain supporting documentation, no “audit trails,” and potential waste and mismanagement of billions of dollars, including 31 possible violations of the Anti-deficiency Act (ADA). **Yet there was no call for accountability** or recovery of improper payments. It merely suggested that “**individuals must be designated to read invoices.**” Now that is so elementary it’s disgraceful. Heads should roll for what was uncovered in this audit. [Report 2011 – 021]²
- The highly touted and publicized audits of **Boeing and Sikorsky spare parts pricing practices** documented gross mismanagement, waste, and lax oversight that allowed **unjustified mark-ups on parts of 50% to 130% that led to hundreds of millions of dollars in overpayments.** The OIG claimed that these two audits identified potential monetary benefits of \$338 million.³ Yet **neither report called for accountability.** Who knew about the unsupported price mark-ups and allowed them to go unchecked for years? [Reports 2011-061 and -104]
- In the face of billions of dollars in discrepancies detected in DFAS accounts payable balances, this audit recommended that DFAS “**develop new procedures for producing more accurate reports.**” That recommendation is so weak it is laughable. DFAS was created 20 years ago to fix such problems. **Why was no one held accountable** for such disgraceful accounting errors and waste? Heads should roll in the upper levels of DFAS management until such gross accounting errors stop. [Report 2011-022]
- Two audits **evaluated the effectiveness of Interceptor Body Armor (IBA).** They found: **the program manager lowered minimum ballistic velocity requirements after samples failed to meet performance requirements.** Required tests were not performed. Test results were not properly documented. Contractors were allowed to approve test results. Overall, test results were found to be unreliable and provided only limited assurance IBA components met requirements. **Testing and verification of body armor effectiveness is a solemn responsibility to military personnel engaged in combat.** These findings point to extremely lax oversight and possible negligence. Yet **neither report called for accountability.** **Such egregious actions could have led to a loss of life on the battlefield. At a minimum, a recommendation for disciplinary action should have been considered if warranted by the evidence.** [Reports 2011-030 and -088]

² Provided ADA violations are investigated, some accountability is possible, but it would not cover contract officers, who were directly responsible for waste and mismanagement;

³ OIG email report, “FY 2011 Audit Reports and Associated Potential Monetary Benefits, 12/14/11;

- This audit examined **Defense and State Department funding of the Afghan National Police Training Program**. It uncovered **extensive, egregious, and pervasive mismanagement and misconduct by Defense Department, State Department, Bureau of International Narcotics and Law Enforcement Affairs (INL) and contractor personnel, including DynCorp**. It documented **overpayments, erroneous payments, unauthorized payments, and potentially fraudulent payments**. **It even raised the possibility of outright theft**. In addition, it found **\$75 million in potential Anti-Deficiency Act (ADA) violations**. This report makes an extensive set of recommendations that stretch over 30 pages of the report. These request a DCAA follow-up audit that could lead to the recovery of large sums of money. Despite \$125 million in potential monetary benefits claimed by OIG,⁴ there is **no call for accountability** of any kind. Some accountability could flow from investigation of the ADA violations but that would probably not cover contract officers, who engaged in the unlawful and improper practices cited in this report. **[Report 2011-080]**
- This audit examined Defense Logistics Agency (DLA) fuel contracts in Korea valued at \$550.8 million. It documented gross mismanagement, lack of oversight, waste, and possible negligence and even theft. Based on a thorough review of receiving reports and receipts and DFAS payment data, it found: **“payments were made for work not performed; recorded cash sales that never took place; and payments to contractors for services not provided;”** To make matters far worse, **the contracting officers involved appeared to know that contractors were being paid for services not rendered**. These findings are totally unacceptable. The report did call for a review of the performance of the contracting officials involved, but that appears weak in the face of the evidence presented, which seems to suggest negligence and possible conspiracy to commit theft. The report directed DLA to “recoup” improper payments of \$712,166.00 from the contractor. Two follow-up inquiries regarding the status of corrective action remain unanswered. **[Report 2011-110]**

Without top-level management oversight, these 8 reports will probably yield near zero accountability even though accountability is clearly justified by the evidence presented.

In 2011, the OIG also produced 41 audits on various “Stimulus” projects. Eleven of them focused on energy-efficiency ventures known as Energy Conservation Investment (ECI) and Near Term Energy-Efficient Technology (NTEET) projects. They had an estimated cost of \$315 million. **These were the worst-of-the-worst**. Of the 11 energy-related audits, only one failed to uncover significant problems. The rest put the public spotlight on egregious waste and misconduct. At least one report appeared to identify potential negligence and/or fraud. Three called for accountability. And 8 of 11 recommended that projects be considered for possible cancellation. So many proposed cancellations should have been viewed as a red warning flag.

⁴OIG email report, dated 12/14/11;

A brief look at 8 reports on “Stimulus” projects helps to shed light on why the need for so many of them was questioned. The magnitude of waste cited in these reports is outrageous:

- Audit examined a \$1.022 million solar lighting project at the Naval Station, Norfolk, VA. The Navy reported that it had a payback period of 448 years and SIR of .03, making the project “very cost ineffective and contrary to the intent of federal regulation, DOD guidance, and Recovery Act requirement for prudent use of funds.”⁵ **The report recommended termination.** The Defense Department and Navy non-concurred, saying it “was in the best interest of the government.” The auditors hung tough for cancelation. **There was no call for accountability despite a recommendation to terminate the program which the Navy agreed to do. Simply cancelling a bad program will do nothing to deter the bureaucracy from approving future programs that are equally as wasteful.** [Report 2011-045]
- An audit of a \$1.5 million wind turbine project at Fort Wainwright, AKA. The audit found 200% in cost growth; no wind studies at proposed site where severe wind turbulence existed; and no revised SIR and payback estimates to reflect major cost growth. **The project was canceled, but there was no call for accountability.** [Report 2011-048]
- A review of 10 Air Force NTEET energy-efficient R&D projects valued at \$38.9 million. The Aft-Body Drag Reduction project valued at \$1.53 million was “**withdrawn**” for reasons that are not altogether clear – perhaps because the contractor refused to comply with Recovery Act requirements. [Report 2011-053]
- Report examined the \$18.3 million solar array R&D project at the Air Force Academy (USAFA), Colorado Springs, Co. The report determined that the project was properly justified, but planning, funding and execution was incorrect, improper, and inappropriate. The USAFA categorized all project costs as a utility company connection charge in order to facilitate a single advance payment to the Colorado Springs Utilities Company and thereby exempting it from the FAR rule regarding Advance Payments for Non-Commercial Items. The full \$18.3 million was paid at contract award, leaving the USAFA with no leverage on the contractor. The contract was determined to be 7 months behind schedule as of 10/20/10. The record appears to show that USAFA officials should have known that the \$18.3 covered far more than a connection fee. A cost breakout for the project, including purchase and installation of panels, shows that the connection fee was just \$1.2 million [page 7]. The decision to classify the whole project as a “utility company connection charge” was totally inappropriate. At a minimum, it was deceptive. But was it also negligence or fraud? **The report recommended an “administrative review to determine accountability” for this matter – if warranted.** The AF did not provide official comments in response to the audit, which is always a bad sign. Follow-up emails from my staff on 11/10/11 and 2/14/12, regarding potential fraud and other issues on this project, remain unanswered by the Air Force. [Report 2011-071]

⁵ The official cost-effectiveness standards that projects were supposed to meet were a saving-to-investment ratio (SIR) of over 1.0 and payback threshold of less than 10 years;

- Audit examined 3 photovoltaic (PV) projects valued at \$62.3 million, which were located at 12 Navy and Marine Corps bases. The report determined that the Navy officials “did not select and plan cost-effective PV projects” in line with applicable laws and standards. They “incorrectly concluded that cost effectiveness was not required for planning Recovery Act projects.” An overall Navy energy strategy did not exist. Contracts were awarded before planning and cost analysis work was done, and supporting documentation was “misleading.” The Navy was incapable of meeting “quick timelines.” As a result, at least \$26 million invested in PV projects was presumably wasted. **The report calls for a review of the actions of officials responsible for approving PV projects that were not cost-effective and to take administrative action as needed.** The Navy remained dead set against taking administrative action for the alleged misconduct, but thankfully the auditors continued to disagree. Unfortunately, despite continued OIG non-concurrence, the Navy considers the matter closed.⁶ **[Report 2011-106]**
- Review of a \$9.12 million geothermal energy development project at Naval Air Station, Fallon, NE. The report determined that the Navy awarded a \$7.3 million contract and “started drilling before a decision was made that drilling was, in fact, needed or justified by high geothermal potential at [these] sites.” The report concluded that “there was no assurance that these funds were used appropriately” and questioned whether the project constituted a “valid use of RA funds.” This project appeared to be a total waste. **The report called for a review of the actions of those responsible for awarding the drilling contracts and to consider appropriate “corrective actions” as justified.** **[Report 2011-108]**
- Audit reviewed a \$19.25 million Heating, Ventilation, and Air Conditioning (HVAC) project at the Naval Support Activity, Norfolk, VA. The report determined that there was “insufficient documentation supporting the HVAC replacement project.... It was lacking.” The contracting officer suggested that oversight was not necessary and was willing to rely exclusively on “the contractor’s quality control plan.” The report concluded that “DOD did not have reasonable assurance that these funds were used appropriately.” This project appeared to be unjustified and potentially wasteful. **There was no call for accountability.** **[Report 2011-109]**

⁶ A Navy response contained in an email dated 1/17/12 clearly indicated that there will be no accountability for such blatant waste. It stated: “it is not necessary to take administrative action against officials responsible for selecting the projects and considers the recommendations closed;”

- Report examined a \$14.1 million Air Force wind turbine projects in Alaska. The report found: payback and SIR data were invalid and not documented; essential wind studies were not completed; there was a \$1 million cost overrun; and excessive turbulence at one site made it impossible to produce usable power. The report concluded: these projects were “not viable” and “not shovel ready.” The audit recommended that the Air Force go back to square one on the project and revalidate SIR and payback data. There was no call for accountability, but it **recommended cancelation of one project**. The lack of Air Force comments does not augur well for a satisfactory resolution. [**Report 2011-116**]

These 8 reports point to a total breakdown of management controls that allowed huge sums of money to be shoveled out the back door without the benefit of due diligence. **The level of waste and mismanagement cited in these reports is scandalous.** At least one of these reports –2011-071 – may involve fraudulent activity and should be referred to DCIS for further investigation and possible prosecution.

Most shockingly, a Navy response to Senator Grassley’s inquiry about the \$62.3 million photovoltaic projects helps to put the spotlight on the real goals of these projects.⁷ The official response states flat-out: **“There is no absolute requirement on federal agencies that renewable energy projects be cost effective in order to be executed.”** The real objective was not energy efficiency. It was to open the money spigot. The Navy memo put it this way: the goal was to “expend the money as quickly as possible.” To accomplish that goal, energy-efficiency projects were placed on an ultra fast track with “compressed schedules and short turn-around times.” By wrapping these projects in a false aura of urgency, it was possible to bypass normal vetting procedures that might have expedited the best ones but weeded out the wasteful ones. However, with normal oversight and controls sidelined, the door was left wide open to waste and fraud, and all these dubious projects were thrown into the boiling caldron.

These audits clearly indicate that energy-efficiency projects were a license to waste the taxpayers’ money. Responsible officials should be held accountable for this atrocious mess. The audit reports appear to direct accountability primarily at contracting officials. However, this may be misplaced accountability, since “political appointees at the secretarial level” were reportedly the prime movers behind these projects. The high-speed execution of these programs was directed from the top. So perhaps responsibility lies at a much higher level like with the Assistant Service Secretaries and senior Administration officials at the Office of Management and Budget, who actually approved these questionable programs. And why wasn’t the Recovery Accountability and Transparency Board (RATB) watch-dogging these projects? It was created for that very purpose. Was the RAT Board asleep at the switch?

⁷ This email response is dated 1/17/12 and pertains to Report 2011—106;

Mr. Secretary, I respectfully request that you take the time to read the enclosed summaries of the findings in these 16 reports and tell me whether you are angered and disturbed by what you read. If you see what I see, then please initiate a top-level review of all the allegations in these disturbing reports. Please urge those assigned this task to find a reasonable path forward on the unresolved recommendations. The evidence presented in these reports demands accountability and the recovery of wasted money. Until there are meaningful consequences and real penalties for such gross waste and misconduct, the culture of the organizations involved will never change. Unabated waste of the taxpayers' money will continue. Without accountability, nothing good will come from these fine reports. They will have no impact. And may I remind you that those reports cost \$100 million a year to produce, and they are directed to us – the Secretary of Defense and Congress. It is incumbent on all of us to act on their findings. If we ignore them, we, too, become party to the waste they exposed.

Your consideration of this matter would be deeply appreciated.

Sincerely,


Charles E. Grassley
Ranking Member