DEPARTMENT OF DEFENSE
OFFICE OF THE INSPECTOR GENERAL

AUDIT OVERSIGHT REVIEW AND REPORT CARDS
FOR FY 2009-2011

Prepared by the staff of
Senator Chuck Grassley

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Whistleblowers Trigger Oversight Review

In early 2009, Senator Grassley began receiving anonymous letters alleging gross mismanagement in the Audit Office within the Office of the Inspector General (OIG) at the Department of Defense. In response to these reports, Senator Grassley's staff initiated an in-depth oversight review.[1] This is the third in a series of reports. The goal of this review is to assess audit quality in 2011 and make recommendations for improvement.

Senator Grassley is focusing on audit quality for one important reason. Like investigations, audits are a primary oversight tool. The auditors' core mission is to detect fraud, waste, and theft as well as to report it promptly to Congress and the Secretary of Defense along with recommendations for corrective action. How well are they doing this job? Are they on the "money trail" 24/7, watch-dogging how the taxpayers' money is being spent? The taxpayers, who spend $2.1 billion a year for government-wide investigations and audits by inspectors general,[2] expect and deserve nothing less.

First Oversight Report - Revelations

Senator Grassley's first assessment of audit quality was published on September 7, 2010. It reviewed 113 audits issued in FY2009. This report clearly showed that audit oversight capabilities at the Defense Department Inspector General's Office were seriously degraded.

Early-on in the review, Senator Grassley's staff was confronted by several revelations that continue to adversely affect audit quality and relevance.

First, the staff was astonished to hear auditors confess that they "**can't audit contracts.**" In their words: **"We don't examine contract payments. It's impossible. It's too hard to find transaction-level data. There are no audit trails to follow**."[3] Because of these problems, auditors are unable to match contract requirements with payments.[4] That is the time-honored method for detecting and verifying fraud and waste, which is their core mission. The obstacles blocking contract audits are: 1) the Defense Department's broken accounting system is incapable of generating accurate and complete data ready for examination by auditors; 2) accountants routinely fail to record transactions in the books of account as they occur; and 3) contract officers routinely fail to retain supporting documentation for contracts under their purview. These conditions produce **the "no audit trail" scenario, which is alive and well today**.[5] These problems – when taken together – obstruct effective audit work, leaving a gaping hole in oversight. From an IG's perspective, these problems are totally unacceptable and must be eliminated without delay.

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[1] Senator Grassley received the first in a series of anonymous letters from OIG auditors on January 31, 2009; these communications have continued right up to the present time;
[2] Congressional Research Service Memo, May 11, 2011; DOD OIG audits cost $100 million/year;
[3] Oversight Review of Audit Reporting by OIG, September 7, 2010, pp. 27 and 34;
[4] One audit – 2009-108 – attempted to match contract requirements with payments but documentation was either non-existent or of such poor quality that the effort failed, leaving $161.1 million in potentially fraudulent payments in limbo; It documented blatant violations of law, gross mismanagement, and waste; **DCAA has audited the contract and is developing plans to recover in excess of $l00 in unauthorized payments to DynCorp**;
[5] Report 2011-066 indicates that the "no audit trail" scenario persists today;

The second revelation pertained to **the explosion of "soft" policy audits** that followed the shelving of contract audits. As auditors drifted away from their core mission, they began producing large numbers of audits that appeared to be nothing more than quasi-academic studies and analyses of policies and procedures with little or no tangible benefit to the taxpayers.

Conclusions & Recommendations

As part of the process of responding to Senator Grassley's first report, the Inspector General's Office asked two independent consulting firms to conduct an "organizational" assessment of the Audit Office and its reports.[6] Their work is known as the Qwest Report. Their conclusions, which matched those reached in Senator Grassley's first report, were as follows: **"We do not believe the Audit Office is selecting the best audits to detect fraud, waste and abuse; The organization doesn't audit what truly needs to be audited; Some audits hold little value in the end;**"[7] **And the auditors have lost their way and need to "take a step back and refocus and redirect resources on the core mission**."[8]

Guided by these conclusions, Senator Grassley's staff urged the IG to hit the reset button. The staff offered 12 proposals for bringing the audit organization back into alignment with the core mission. Their recommendations addressed three main issues: 1) re-couple contracts and payments and verify payments using primary source accounting records; 2) reduce audit production times from 2 years to 6 to 9 months; and 3) strengthen recommendations to include calls for accountability where justified.

Response to First Report – Reforms Promised

In the wake of the first oversight report, the IG at the time, Gordon Heddell, promised comprehensive reform. IG Heddell made a firm commitment to "hit the reset button" and "transform the Audit organization," consistent with many of the recommendations contained in Senator Grassley's oversight report.[9] The new Deputy IG for Auditing, Mr. Dan Blair, produced a roadmap for achieving reform. Dated December 15, 2010, Blair's report outlined a plan for improving the "timeliness, focus, and relevance of audit reports." Blair promised to create "a modern, world-class oversight organization providing benefit to the Department, Congress, and taxpayer."[10] Those reforms were set to kick in during the 2012 reporting cycle, staring October 1, 2011. However, since formal discussions about the need for reform began three years ago,[11] some early signs of reform were visible in the 2010 reports.

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[6] Audit Organizational Assessment report was prepared by Qwest Government Services and Knowledge Consulting Group (KCG), dated October 7, 2010;
[7] Qwest Report, pp. 28-29;
[8] Qwest Report, pp. 5, 18, 20, 28, 29;
[9] Letter to Senator Grassley dated December 17, 2010;
[10] Office of the Deputy IG for Auditing Implementation Plan: Improving Relevancy and Timeliness, December 15, 2010 [introduction];
[11] Interviews with former Deputy IG for Auditing Mary Ugone, June 17, 2009, and June 25, 2009;

Second Report -- Report Card on FY 2010 Audits

In order to establish a solid baseline for assessing the reform and transformation effort, Senator Grassley's staff took a second snapshot of more recent audits. This second oversight review is best characterized as an "Audit Report Card." It was issued on June 1, 2011.

Each of the 113 unclassified reports issued in FY 2010 was reviewed, evaluated and graded in five categories.[12] Those categories were as follows: 1) Relevance; 2) Connecting the dots on the money trail; 3) Strength and accuracy of recommendations; 4) Fraud and waste meter; and 5) Timeliness.[13] Grades of A to F were awarded in each category. Using numerical equivalent scores, these were averaged and given an overall score called a "Junk-yard Dog index." All the scores from every report were then added up and averaged to create a composite score.

The composite score for all 113 audit reports issued in 2010 was 2.1 or D-.

The low overall score was driven by the very same deficiencies pinpointed in the Qwest Report and Senator Grassley's first report. Instead of being hard-core, fraud-busting contract audits, most reports were policy and compliance reviews with little or no attempt to even verify the exact dollar impact of the misguided policies examined. Such reports offered zero benefit to the taxpayers. Many, however, were mandated by Congress.

The 27 best reports involved commendable and credible -- and in some cases -- nitty gritty audit work. Each one deserved a job well done. Were it not for their long completion times, these reports would have earned top scores. Unfortunately, the rest of the 2010 reports earned grades of D or F.

At the conclusion of the second report, the staff presented a list of the "Top Nine Audit Roadblocks." These barriers stood in the way of more top quality reports.

IG Heddell's Criticism

Immediately after the Report Card was published, IG Heddell issued a sharp rebuttal. He criticized the report for failing to give full credit for the $4.2 billion in "Potential Monetary Benefits" identified in 18 reports issued in 2010.[14] While IG Heddell challenged its accuracy and fairness, there appeared to be little or no disagreement about the urgent need for improvement in audit quality.[15]

[12] Most of these reports are available on the DOD OIG web site: www.dodig.mil; However, 5 additional reports were classified and were not reviewed in this report;
[13] The yardsticks used for evaluating and grading performance is these 5 categories are described in the Appendix of this report under "Audit Check List."
[14] One report was classified, so only 18 audits were evaluated in the Report Card;
[15] Letter from IG Heddell to Senator Grassley, dated June 16, 2011;

After a careful examination of all pertinent documents,[16] the staff concluded that IG Heddell had a legitimate gripe about the report. Mr. Heddell was partially correct. The report gave insufficient credit for detecting and reporting of $4.2 billion in potential waste. These findings were spread across 18 different audits. Following a re-evaluation, the staff upped the score of 12 reports from D- to a solid C. Since 6 of the 18 reports received relatively high scores in the Report Card as originally issued on June 1, 2011, the higher scores awarded to the other 12 reports were not enough to move the composite score for 113 reports out of the D range.

In responding to Mr. Heddell's rebuttal, Senator Grassley noted that the record clearly indicated that the entire $4.2 billion in savings were spent on other projects, and all potential savings were lost. This statement was interpreted as reflecting poorly on the Inspector General's audit performance. **The decisions to reallocate all the money to other programs in no way detracted from the scores awarded or the excellence of the audit work performed that produced the potential monetary benefits that made the reallocation of money possible.**

Third Report -- Report Card on FY 2011 Audits -- Overview

In FY 2011, a total of 128 reports were published. Since 7 reports were classified, the Report Card evaluated only 121 reports. They covered a broad spectrum of issues from financial statements, to spare parts pricing by Boeing and Sikorsky, to "Stimulus projects," and Afghan National Police Training programs.

The 121 unclassified reports received a composite score of 3.51 or C.

As Table I below clearly indicates, there was across-the-board improvement in every category except one – timeliness.

Table I

Improving Audit Quality: Reports for 2011 Compared with 2010[17]

Rating Categories	2010*	2011**	Difference
Relevance	2.7 or D+	4.33 or B	+1.63
Connecting Dots on Money Trail	2.0 or D-	3.66 or C	+1.66
Strength & Accuracy of Recommendations	1.9 or F	3.64 or C	+1.74
Fraud & Waste Meter	1.6 or F	3.43 or C	+1.83
Timeliness (13/16 months)	2.3 or D	2.06 or D-	-0.24
Junkyard Dog Index	2.1 or D-	3.51 or C	+1.41

*Composite Score for 113 Reports
**Composite Score for 121 Reports

[16] On 6/20/11, via email, OIG provided a "crosswalk" table that linked each projected saving or benefit to a page in a report;
[17] 2010 column does not reflect upward adjustment of score for 12 reports that identified potential monetary benefits after report was issued;

In 2011, the number of top quality reports more than doubled. In 2010, there were just 27, compared to 57 reports earning top scores in 2011. Seven reports received B scores with the best one receiving a grade of 4.4 or a solid B.[18] There were at least 13 other excellent reports that would have received top scores were it not for excessively long completion times.[19] Among the very best reports were 9 reports that appeared to verify exact dollar amounts using Defense Finance and Accounting Service records[20] -- up slightly from 2010. Verifying payments against primary source accounting records enhances the credibility and completeness of reports.

Among the top scoring reports were most of the 16 audits that found **$735 million in potential monetary benefits**.[21] All but one received high marks. Report 2011-093 was the exception. It received a D+ because it took 17 months to complete. The staff found that it was difficult to match potential dollar savings in individual reports with those displayed on the spreadsheet provided by the Inspector General's Office (OIG). Moreover, the staff believes that the OIG document covering just 16 audits may actually underestimate potential monetary benefits. The staff counted at least 45 reports that identified potential monetary benefits, though in many cases, dollar amounts involved were not fully developed and verified.

The progress achieved in producing more high quality reports in 2011 is commendable. The auditors deserve recognition and praise for this accomplishment. However, much more needs to be done. **There are still trouble spots requiring more management attention.**

The most significant problem continues to be the number of reports that do not meet the minimum standards prescribed in this report. While it is no longer accurate to say that most reports fell into that category, at 40%, the proportion of low scoring reports is still unacceptably high. Though required by law and regulation, some of these reports appeared to be highly questionable as follows: 1) One report merely summarized old reports;[22] 2) The purpose of two reports on computer security was far from clear and might have been combined;[23] 3) One report appeared to examine a problem that didn't exist;[24] 4) Several reports touched on critical issues but postponed in-depth audit until 2012 because audit work was not in sync with test and contract schedules;[25] and 5) Some audits appeared to be more like analyses of management and staffing issues that were more appropriately conducted by in-house contract or study groups. [26]

Another troublesome area appears to be **a lack of attention to fraud**. The official OIG audit manuals instruct auditors to "think fraud and plan audits to provide a reasonable assurance of detecting fraud."[27] To some extent, auditors do not seem to follow this guidance.

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[18] Report 2011-080 received the highest score; The other high scoring reports were: -016, -017, -050, -101, -104, RAM-003;
[19] Excellent reports dragged down by low timeliness scores: 2011-33; -046; -047; -059; -061; -071; -077; -082; -091; -101; -104; -106; -116;
[20] Reports that apparently used DFAS records were: 2011-022; -049; -050; -059; -075; -082; -084; -104; -110;
[21] OIG Report provided by email on 12/14/11;
[22] Report 2011-114;
[23] Reports 2011-079, -089;
[24] Report 2011-060 was necessary only if there were credible reports of missing weapons but none were noted;
[25] Report 2011-019, --073, -087, -118;
[26] Reports 2011-058, -092, -095;
[27] Audit Manual No. 7600.07M, February 13, 2009, p. 45; and Handbook on Fraud Indicators, March 31, 1993, p. I;

Only 5 audits generated referrals to the Defense Criminal Investigative Service (DCIS).[28] A comparable number of referrals were made last year. Just 5 DCIS referrals is quite astonishing in view of the egregious findings cited in this year's reports. **Surely there was enough grist in those reports to warrant additional referrals to DCIS and/or the Justice Department.**

And finally, long production times adversely affect the quality of most reports.[29] From the time an audit is first proposed to final publication could take up to 1.5 years or more.[30] Table I indicates that audit completion times actually jumped in 2011 as compared to 2010 from 13 to 16 months, and other data indicates that audit reports are getting shorter in length. Shorter reports should help to push audit completion times down not up. Long completion times reduce audit impact. Old reports contain stale information and become irrelevant.

<u>Important Signs of Improving Quality</u>

The most important area of improvement in audit quality in 2011 was in the strength of recommendations. The surge in this key area is clearly reflected in pertinent categories shown on Table I. The surge was propelled by calls for accountability coupled with calls for recovering wasted money.

Tougher report recommendations are a clear sign of improving audit quality. Tough recommendations flow naturally from probing audits. In order to be positioned to make recommendations for accountability and recovery of wasted money, auditors must have laid a solid foundation based on credible audit work. To meet that standard, they must have laid out the case for blatant violations of law and regulations, gross mismanagement and waste, and potential negligence or fraud. They must have documented and verified the scope of the problem in terms of dollars and cents. Strong recommendations are the consequences of solid findings, and accountability should be the bottom line of hard-hitting findings. When justified by rock-solid evidence, strong recommendations are a sure sign that auditors are once again starting to perform their core mission. **Management needs to build on these strengths as models for the future.**

At least 50 reports documented blatant violations of law and regulation, gross mismanagement and waste, and even negligence and possible theft and fraud. [31] These 50 reports **could have** provided a rock-solid platform for launching 50 sets of hard-hitting recommendations. But instead of 50, there were only 16. Just 16 of the 50 reports recommended that responsible officials be considered for administrative action. [32] A comparable number of reports called for the recovery of improper payments. Many of these recommendations were aimed at contracting officials, who are often military personnel. Adverse action flowing from administrative review can be a career-ending outcome for military officers. Such

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[28] DCIS referrals were generated by Reports 2011- 033; -073; -093; -101; and -119, OIG email report, "Fraud Referrals and Reports," 2/21/12;
[29] Grading for timeliness is described in Appendix under "Audit Check List;"
[30] Anonymous source suggested it takes 4 to 6 months from initial proposal to audit start date, phone call, 9/21/11, but DIG for Audit Blair challenges that estimate, saying it could be a few weeks or months, meeting, 3/8/12;
[31] Only one report – 2011-034 – actually used the word **WASTE** to characterize the results of mismanagement;
[32] Reports calling for accountability included: 2011-28; -032; -033; -036; -037; -043; -047; -066; -071; -081; -082, -101; -105; -106; -108; -110;

recommendations can have teeth – if pursued to final closure.

In addition, 10 reports contained truly bold initiatives. They recommended wasteful projects be canceled or considered for cancelation. Proposals to terminate ongoing programs are rare in modern-day OIG reports. In fact, they may be unique. Eight of the 10 potential terminations pertained to Recovery Act or "Stimulus" projects.[33]

Unless these outstanding recommendations are somehow converted into concrete actions, they will amount to nothing more than a bunch of auditors "howling in the wilderness." They will simply "fall through the cracks." Converting tough recommendations into concrete action takes determination and relentless follow-up. The key is making sure agencies do what they agreed to do at the conclusion of an audit. Having an aggressive follow-up unit in place is essential to succeeding in that task. Anonymous sources indicate that the existing follow-up unit "may be dead in the water."[34] **This critical area may need top-level management attention.**

Sixteen calls for accountability and 9 proposed terminations are a breakthrough compared to the last two years. These efforts are commendable, but they don't confer world-class status on the audit shop. Within the grand totality of 2011 audits, they are just a drop in the bucket. Most reports still contain weak recommendations. In about 35 of the 50 reports that reached rock-solid findings of mismanagement and waste, there were no calls for accountability, and in 31, there was no call for the recovery of wasted money. Many merely asked their targets to do what they were already required to do under existing laws and regulation. When recommendations are not in sync with credible findings of waste and mismanagement, good audit work gets poured down the drain.

<u>Weak Recommendations Undercut Rock-Solid Findings</u>

Here are 8 classic examples of how outstanding audit work was undercut by weak recommendations – and most especially by a failure to call for appropriate levels of accountability:

- This 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. [**<u>Report 2011 – 021]</u>** [35]

[33] Terminations were either proposed or explored in the following reports: 2011-015; -045; -048; -053; -072; -082; -108; -109; -116; and RAM-003;
[34] Anonymous email, 6/8/11;
[35] ADA violations could lead to some accountability but would not cover contact officers, who were directly responsible for waste and mismanagement;

- 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.[36] 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. W**hy 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]**

- These 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]**

- 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,[37] 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]**

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[36] Email report, "FY 2011 Audit Reports and Associated Potential Monetary Benefits, 12/14/11;
[37] OIG email report, dated 12/14/11;

- 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]**

These 8 reports will probably yield near zero accountability even though accountability was clearly justified by the evidence presented**. Until there are meaningful consequences and real penalties for such gross waste and mismanagement, the culture of the organizations involved will not change. Without accountability, there will be no results. There will be no impact, and good audit value will be lost.**

Recovery Act or "Stimulus" Reports

The "Stimulus" audits are one of the bright spots in the latest crop of reports. They represent a dramatic turnaround compared to 2010 performance in this arena.

In 2010, the staff characterized the 27 memo-style "Stimulus" audits as the "worst of the worst." Most of these reports offered no findings or recommendations and few even disclosed the costs of the projects audited. The taxpayers were deeply concerned about the value of these so-called "shovel-ready jobs." Aggressive oversight was needed to ensure that money was not wasted. None of those concerns were addressed. They offered no benefits whatsoever to the taxpayers. Instead of being probing audits, they were more like an OIG stamp of approval.

Management appeared to have taken last year's criticism to heart. Management did an abrupt about-face. It seems like management may have assigned "Tiger Teams" to this year's "Stimulus" audits. They were aggressive and clearly demonstrate the potential impact of doing good audit work. Of the 41 reports on Recovery Act projects, 17 earned top scores.[38]

For starters, the auditors did some excellent work uncovering "inequities" in the way 7 child development centers, costing $80 million, were distributed geographically to selected states.[39] They reported cost overruns and doubtful need for a $16 million medical facility renovation in Maryland[40] and for a $54 million family housing project in Alaska.[41]

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[38] DOD received $12 billion in "Stimulus" funds; these 41 reports examined projects valued at $1.2 billion;
[39] Report 2011-046
[40] Report 2011-003
[41] Report 2011-082

Part of the problem with these projects was insufficient time to properly plan and prepare supporting documentation needed to justify the need for large sums of money. For example, the Air Force had only 48 hours to develop the DD-391 form – a key justification document -- to support the need for the family housing project in Alaska. The rush resulted in flawed cost analysis work. The audit work on these three projects had a positive impact. It led to two possible cancelations and a more equitable distribution of child development centers.

The best work, however, focused on a large number of Energy Conservation Investment (ECI) and Near Term Energy-Efficient Technology (NTEET) projects costing $420 million. Eleven audits examined a selected number of these projects, which were valued at $315 million. Of the 11 energy-related audits, only one failed to uncover significant problems. The rest identified projects that were deemed unjustified, unneeded and wasteful and poorly managed. Three called for accountability. Eight of 11 reports either recommended outright cancelation of projects or opened the door to possible cancellation. That is a very high cancelation rate. In fact, it may be unprecedented by Defense Department standards. So many proposed cancellations is a red warning flag.

A brief look at 8 reports helps to shed light on why the need for so many of them was questioned:

- This 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."[42] **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. [Report 2011-045]**

- This was 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]**

- This was 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**]

[42] 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;

- This report examined the $18.3 million solar array R&D project at the Air Force Academy (USAFA), Colorado Springs, Co. It 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 to facilitate a single advance payment to the Colorado Springs Utilities Company, 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 even though the contract was falling months behind schedule. The record appears to show that USAFA officials should have known that the $18.3 million 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. 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 Senator Grassley's 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**]

- This 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.[43] [**Report 2011-106]**

- This was a review of a $9.12 million geothermal energy development project at Naval Air Station, Falon, 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]**

[43] 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;"

- This 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]**

- This report examined a $14.1 million Air Force wind turbine project 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 potential fraud and should be referred to DCIS for further investigation and possible prosecution.

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.[44] 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**." Clearly, 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 helped to identify the good ones weed 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 simply dumped 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. The audit reports appear to direct accountability primarily at contracting officials. However, this may be misdirected, 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.

[44] This email response is dated 1/17/12 and pertains to Report 2011-106;

And why wasn't the Recovery Accountability and Transparency Board (RATB) watch-dogging these projects? It was created for this very purpose. Was it asleep at the switch?

Conclusions and Recommendations

This review clearly indicates that audit quality is improving. The best possible indicator is the doubling of top-rated reports. That number jumped from 27 reports – or 25% of production – in 2010 to 70 reports – or 58% of total production – in 2011.[45] That's better than a two-fold increase. This is a commendable breakthrough. The apparent trend is promising, but the Inspector General's audit capabilities are not yet out of the woods. More remains to be done.

The most important area of improvement in audit quality was in the strength of recommendations offered in some reports. There was a surge in this key area. It was propelled by specific calls for accountability coupled with calls for recovering wasted money. These calls for accountability – though modest and limited in number – were based on rock-solid findings. At least 50 reports arrived at findings that documented flagrant mismanagement, waste, negligence, fraud, and even potential theft. Sixteen of those reports recommended that responsible officials be considered for administrative review. A comparable number contained recommendations aimed at recovering improper payments. Nine reports – largely those on "Stimulus" projects – recommended that wasteful projects be terminated. All of that is quite remarkable, but 50 reports with rock-solid findings should generate 50 – not 16 -- sets of hard-hitting recommendations. Sixteen sets of tough recommendations is a very good beginning, but it doesn't confer world-class status on the Audit Office. Within the grand totality of the 121 reports published in 2011, they are a drop in the bucket. Most reports still contain weak recommendations.

F**our distinct trouble spots exist that require intense management attention.**

The biggest problem continues to be the number of unsatisfactory reports. While it is no longer correct to say that most reports fell into that category, at 40%, the proportion of low scoring reports remains unacceptably high. This factor, along with the other ones mentioned below, acted together to drag the composite score for all 121 reports down to 3.51 or a C. The low scoring reports continue to suffer from the same deficiencies identified in the Qwest report: They did not **"detect fraud, waste and abuse. They don't audit what truly needs to be audited. Some audits hold little value in the end**."[46] In short, as I said in my first and second reports, these audits offered little or no benefit or value to the taxpayers.

Timeliness is another big problem. Long completion times continue to weaken the power and relevance of audit reports. Old reports contain stale information. Stale information reduces audit impact to zero over time. Between 2010 and 2011, the average time to complete reports jumped from 13 to 16 months, and that does not include the extra weeks or months needed for planning before audit work actually begins. The Qwest Report pinpointed a root cause of this problem: **"it is apparent that in the planning phase of audit selection, audits are written to fit a team, as opposed to a team established to conduct a needed audit."[47]**

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[45] The 2011 figure includes reports that would have earned top scores were it not for long completion times.
[46] Qwest Report, pp. 28-29;
[47] Qwest Report, p.18;

Such organizational inflexibility drives long completion times. Audit teams need to be organized to support top priority audit tasks. Mr. Blair seems to be moving in this direction.[48]

There are two other problems that need to be addressed.

Auditors appear to have **verified actual payments, using primary source accounting records, in only 9 reports**. Failing to nail down exact dollar amounts of waste and mismanagement, including those resulting from misguided policies, undermines the credibility and completeness of audit reports. Using invoices, contracts or vouchers provided by contractors being audited, for example, to verify actual payments may not meet the most stringent audit standards. Going to primary source payment records is critically important in view of the Defense Finance and Accounting Service's documented track record of making overpayments, underpayments, duplicate payments, erroneous payments, and unauthorized payments. Under such conditions, verification of actual payments should be mandatory.

Lastly, robust referral rates to the Defense Criminal Investigative Service were essentially nonexistent. Only five reports generated potential criminal referrals,[49] which appears to point to a **lack of concern about fraud**. Surely there was enough grist in the 50 reports, which documented egregious violations of law, potential fraud, and theft, to warrant additional referrals to DCIS and/or the Justice Department. Several audits standout as credible candidates for criminal investigation and possible prosecution.

Clearly, significant progress was achieved in 2010-11. But more work remains to be done to get audits back on the right track. Management needs to build on the strengths exemplified by the 50 reports containing rock-solid findings and 16 sets of hard-hitting recommendations. Those reports could be used as models for improving audit quality in the future.

Without some high-level intervention, Senator Grassley fears that most – if not all – accountability measures contained in 16 audit reports, which document egregious waste and alleged misconduct, will be slowly and quietly quashed in the bureaucracy. A recent report from the Navy, referenced in the "Stimulus" section of this report, clearly indicates that this fate awaits at least one report and probably all the others, as well.

In order to assist the Inspector General's Office in the process of converting good audit work into concrete action, Senator Grassley has asked Secretary Panetta to conduct a top-level review of all the allegations contained in 16 reports. In that letter, he urged Secretary Panetta to establish a reasonable path forward on the unresolved recommendations contained in these very disturbing reports. The evidence presented in these reports demands accountability. Until there are meaningful consequences and real penalties for such gross waste and misconduct, the culture of the organizations involved will not change. Without accountability, there will be no results. There will be no impact, and good audit value will be lost.

In order to start producing more top quality reports, management needs to address and resolve the following issues:

[48] Meeting with Dan Blair, 2/8/12, on Grassley-Coburn ERP audit request;
[49] OIG email report 2/21/12;

- **Bring report recommendations into balance with findings;**
- **increase calls for accountability and recovery of improper payments;**
- **verify all payments using primary source accounting records;**
- **organize audit teams to match more complex and challenging tasks;**
- **pick-up the pace of fraud referrals to DCIS;**
- **develop a more effective audit follow-up strategy;**
- **Follow-up to ensure that prosecution occurs where warranted or necessary;**

These adjustments should be achieved using available resources. Correct these problems, and top quality reports will be the norm. All these goals are within easy reach. Once accomplished, audits will be fully aligned with the core mission.

APPENDIX

Audit Check List[50]

- Was the audit's objectives aligned with the IG's core mission?
- Was audit scope broad enough to produce meaningful results?
- Did auditors connect all the dots in the cycle of transactions?
- Did they match contract requirements with payments?
- Did the audit answer two key oversight questions: 1) did the government receive what it ordered (goods and services) at the agreed upon price and schedule; or 2) did the government get ripped off.
- Did the audit detect and report fraud, waste and mismanagement? Was waste characterized as waste?
- Did the audit verify the exact dollar amounts of alleged fraud and waste, using primary source accounting records?
- If a compliance audit, did it provide dollar impact of misguided policies examined?
- Were the recommendations tough and appropriate consistent with the findings?
- Did the auditors recommend appropriate levels of accountability for waste and mismanagement?
- Did they propose workable remedies for recovering improper payments?
- Did the audit make referrals to DCIS?
- How quickly were audits completed?

  Scoring for Timeliness:

  --Audits completed in 6 months or less earn a 5.0 or A
  --Audits completed in 7 to 9 months earn 4.0 or B
  --Audits completed in 10 to 12 months earn a 3.0 or C
  --Audits completed in 13 to 15 months earn a 2.0 or D
  --Audits completed in over 15 months earn a 1.0 or F

[50] These are the yardsticks used to evaluate and grade performance in the five categories: 1) relevance; 2) connecting dots on the money trail; 3) strength and accuracy of recommendations; 4) fraud and waste meter; and 5) timeliness;

United States Senate

COMMITTEE ON THE JUDICIARY

WASHINGTON, DC 20510–6275

BRUCE A. COHEN, *Chief Counsel and Staff Director*
KOLAN L. DAVIS, *Republican Chief Counsel and Staff Director*

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 to16 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.

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[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]**

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[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 cancelation. So many proposed cancellations should have been viewed as a red warning flag.

[4] OIG 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 <u>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</u>. <u>[Report 2011-045]</u>**

- 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. <u>[Report 2011-048]</u>**

- 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. **<u>[Report 2011-053]</u>**

- 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 "<u>administrative review to determine accountability" for this matter – if warranted.</u>** 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. **<u>[Report 2011-071]</u>**

[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, Falon, 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]**

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[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,

Chuck Grassley

Charles E. Grassley
Ranking Member