OVERSIGHT REVIEW OF AUDIT REPORTING BY THE DEPARTMENT OF DEFENSE, OFFICE OF INSPECTOR GENERAL

PREPARED BY THE STAFF OF

SENATOR CHARLES E. GRASSLEY

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ACRONYMS & ABBREVIATIONS:

ACM --ACQUISITION AND CONTRACT MANAGEMENT DIRECTORATE
CFO -- CHIEF FINANCIAL OFFICER
DBO – DEFENSE BUSINESS OPERATIONS DIRECTORATE
DFAS --DEFENSE FINANCE AND ACCOUNTING SERVICE
DCIS – DEFENSE CRIMINAL INVESTIGATIVE SERVICE
GAO – GOVERNMENT ACCOUNTABILITY OFFICE
GWOT -- GLOBAL WAR ON TERROR
IPA – INDEPENDENT PUBLIC ACCOUNTING FIRM
JSAO – JOINT AND SOUTHWEST ASIA OPERATIONS DIRECTORATE
NDAA --NATIONAL DEFENSE AUTHORIZATION ACT
OIG -- OFFICE OF THE INSPECTOR GENERAL
ROS – READINESS, OPERATIONS, AND SUPPORT DIRECTORATE

I. INTRODUCTION

This oversight review was initiated after Senator Chuck Grassley received a series of anonymous letters alleging mismanagement, low productivity, and misconduct within the Department of Defense (DOD) Inspector General's (OIG) Audit Office. It attempts to examine all the pertinent factors bearing on these and related matters.

Early-on in the review, the staff identified one all-important, central element that is adversely affecting every facet of the OIG audit program -- the DOD's broken accounting system. This dysfunctional system is driving the audit freight train. The success or failure of an audit turns on the quality of financial data available for audit by competent examiners. Unfortunately, the quality of the financial data presented to OIG auditors by DOD during the period reviewed by the staff should probably be rated as poor to non-existent. Having lost control of the money at the transaction level, DOD's broken accounting system is incapable of generating accurate financial records. The consequences are predictable. Most of the time, OIG auditors report: "no audit trail" found.

The OIG Audit Office has allowed the "no audit trail" scenario to hinder and, in some cases, to obstruct the completion of credible audits. The situation is so bad that OIG senior managers readily admit that existing audit teams are no longer able to conduct full-scope, end-to-end contract audits. Auditors no longer verify payments at the primary source – the Defense Finance and Accounting Service (DFAS). . "It's impossible …. We can't do it," they say. If the OIG Audit Office is not checking payments and matching them with contracts and deliveries, it will never find much fraud and waste. OIG Audit needs to be on the "money trail" 24/7. That is where most fraud occurs. To get contract audit oversight back on track, OIG Audit needs to re-tool and create much larger audit teams – consisting of 25, 50, or 100 auditors -- to tackle DOD's most egregious contract problems. Today's small teams, consisting of 5 or 10 auditors, are slow to publish reports and are simply not up to the demanding "audit trail reconstruction" task encountered on most jobs.

Instead of searching for fraud on the "money trail," OIG auditors have strayed far from the core mission. Now, they frequently review DOD policies and procedures, which yields zero benefits to the taxpayers. They deserve the title: "DOD Policy Police." Discovering that the DOD IG no longer does genuine contract audits was a startling revelation but one that helps to explain why 765 OIG auditors could not document any measurable fraud in FY 2009.

Continuing the status quo is unacceptable.

The inability of senior management to overcome these challenges has caused the Audit Office to lose sight of the IG's core mission: to detect, report, and deter fraud, waste, and abuse and to make appropriate recommendations for corrective action. Until the DOD accounting system is fixed, the department will continue to fight an uphill battle with failing audit opinions and a total lack of fiscal accountability. The continuing disconnects between DOD accounting data and OIG audit capabilities disables one of the IG's primary oversight weapons. If audit capabilities are seriously degraded or crippled, as suggested in this report, then OIG oversight is gravely impaired, leaving huge sums of the taxpayers' money vulnerable to fraud and outright theft. The OIG Audit junkyard dog has been de-fanged and rendered harmless.

Fixing the broken accounting system must therefore be the number one top priority for several reasons: 1) it is a fiduciary responsibility under the Constitution; 2) it is required by the Chief Financial Officers (CFO) Act; 3) it would enable routine OIG audits to detect and deter fraud and waste; 4) it would establish internal controls over taxpayer's money where there are none; and 5) it would support the preparation of credible financial statements that could serve as an annual barometer reading on DOD's overall fiscal health.

DOD CFO Robert F. Hale issued a directive in August 2009, which clearly specified that fixing the broken accounting system must be a top priority. If fixing the broken accounting systems is CFO Hale's top priority, then auditing the plans and programs for reaching that goal should be a high OIG Audit Office priority. While DOD has not provided the estimated price tag for CFO Act compliance, it will surely be high. The upfront costs to taxpayers have already been enormous as the DOD continues to spend billions of dollars each year on new computer systems, software, legacy data transfers, audits by Independent Public Accounting (IPA) firms, OIG audits, preparation of financial statements, and employee training. These efforts need much more audit scrutiny.

II. EXECUTIVE SUMMARY

A. GENESIS OF OVERSIGHT

On May 28, 2008, the *Wall Street Journal* published a piece titled, "Pentagon Auditors Cite Scant Staff" by Yochi J. Dreazen. The *WSJ* article stated:

> "Defense Department auditors said they have been unable to oversee tens of billions of dollars in military spending because of manpower shortfalls, leaving the Pentagon 'more vulnerable to fraud, waste, and abuse.'"[1]

The article referenced an internal DOD OIG report entitled, "Department of Defense Inspector General Growth Plan for Increasing Audit and Investigative Capabilities Fiscal Years 2008-2015." The report is a self-assessment of the DOD OIG's current and future audit and investigative capabilities.[2] To keep pace with the growth of the DOD budget and world-wide responsibilities, the OIG recommended its staffing be increased by 481 employees by FY 2015. It was suggested 235 of these would be specifically assigned to auditing. The DOD OIG stated in the report their auditors had identified monetary benefits of an average of $5.2 million per auditor from 2004 thru 2007. They asserted that with more audit resources the chances of achieving monetary benefits would be greater.[3]

[1] *WSJ*, May 28, 2008, pg. 2
[2] This report was directed by the NDAA for FY 2008.
[3] "Department of Defense Inspector General Growth Plan for Increasing Audit and Investigative Capabilities Fiscal Years 2008-2015," March 31, 2008, p. 6.

The OIG Growth Plan reinforced by the *WSJ* article provoked some sharp criticism apparently from within the OIG Audit Office. Following its publication, a series of anonymous letters and reports were addressed to Senator Chuck Grassley. Some were slipped over the transom at night. Senator Grassley has been a long time DOD IG watchdog. These unsigned documents made a number of allegations pertaining to the DOD OIG Audit Office as follows:[4]

a) Despite increased staffing, the number of OIG audit reports published yearly is in decline; The OIG used to publish over 200 audits a year when there were 100 fewer auditors; Production has been reduced to just over 100 audits per year; But 100 reports for 650 auditors doesn't say much; That's 6 auditors per job per a full year;

b) A whole directorate of over 150 auditors didn't publish a single report in the First Quarter of FY 2009. If you figure an average salary of $75K X 150 people divided by 1/4 [four months] , that is $2.8 million spent for nothing;

c) The problem isn't lack of staff but a lack of getting work done;

d) Management is more interested in protecting its backside than in teaching people to do things right in the first place;

e) Reports and other documents sit on managements' desks for weeks and even months;

f) The 350 auditors at the Business Operations division spend all their time watching poor Defense organizations struggle to have financial statement audits or watching hired accounting firms do the audits rather than making recommendations to help them;

g) When Congress asked about the lack of Global War on Terror (GWOT) audits, unoccupied auditors immediately became available to conduct dozens of GWOT contract audits; That's a good thing but what were those auditors doing before that they could just stop;

h) The planning process is backwards; Where is the real look at what is most important? Instead, they pick easy or interesting audits or ones that get them "to travel to cool places;" Where are the priorities?

i) You gave DOD auditors another $25 million but you need to watch what they do with it; Are we fixing our processes to be more efficient otherwise it will be like the bank bailout – good money after bad; Put some accountability in the hand out; Audit management needs to be held accountable for its resources; It's a disgrace now; The mismanagement of Audit is palpable and borders on gross incompetence;"

j) Morale at the audit directorates is worse than ever; Management doesn't care so the auditors don't either; "Help, please!"

Because of the seriousness of these allegations, in June 2009, Senator Grassley's staff began rigorous oversight of DOD OIG audit reporting and alleged mismanagement of audit resources.

[4] Summaries and quotes from the five letters and reports received; only the first one was dated – January 31, 2009.

In addition, Sen. Grassley received several allegations of misconduct by specific senior audit managers at the DOD OIG. The allegations involved danger pay fraud, leave abuse, managerial favoritism in promotions, and broad mismanagement of on-going audits. These accusations were all turned over to the DOD IG to handle through appropriate investigative channels. The IG investigated the allegations and reported to Sen. Grassley that his office was unable to substantiate any of the reported misconduct.

B. SCOPE

The purpose of this oversight review was to determine the scope, role, and impact of DOD OIG audit reporting on the department's financial accountability. It focused mainly on FY 2009 audit findings, recommendations and methodologies. With several exceptions, the published reports for other fiscal years were not examined. The staff believes that a 12-month sample of audits should represent a consistent and well-balanced approach for targeting high-risk programs and operations. A series of recommendations to improve overall audit reporting are presented at the end of the report.

Senator Grassley's staff interviewed numerous senior-level managers to assess audit work at each one of the four audit directorates. Although requests were made to interview non-supervisory staff, project directors, and line audit personnel about specific reports, only senior-level managers were permitted to speak to congressional staff. To some extent, this prevented the staff from examining the reasons behind a number of serious audit deficiencies identified later in the report. However, the staff received important materials and information through unofficial channels that helped to fill in some of these gaps. In addition, all the pertinent issues addressed during the interviews were explored in much greater depth through extensive written follow-up question and answer documents.

C. BACKGROUND

1. Overview of the DOD OIG Audit Office

A Deputy Inspector General (DIG) leads the DOD OIG Audit Office. She has held this position since 2006. A core management group consists of a Principal Deputy IG, three Senior Executive Service (SES) level Assistant IGs (AIG), an SES Principal Deputy AIG, and a General Schedule (GS) 15. They make up the Front Office. The three AIGs in the Front Office also head-up the three largest directorates comprised of Defense Business Operations (DBO), Acquisition and Contract Management (ACM), and Readiness, Operations, and Support (ROS). The fourth directorate, Joint and Southwest Asia Operations (JSAO), is managed by the GS-15. These four directorates consist of 18 divisions, which are broken down into small audit teams.

2. Audit Types

The audit teams produce two types of audits: 1) Audits of financial statements mandated by the CFO Act; and 2) Routine audits of programs, policies, and operations.

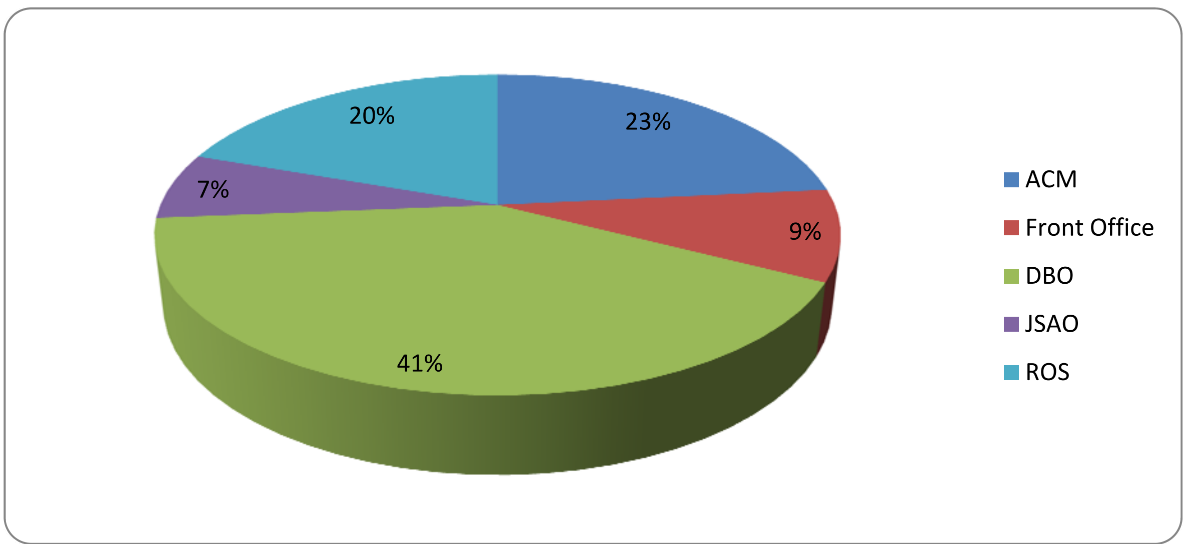
The vast majority of audits should be classified as routine audits. A total of 92 such audits were published in FY 2009. These were produced by all four directorates.

The audits mandated by the CFO Act, however, are produced exclusively by the DBO Directorate. With 186 auditors, this is by far the largest directorate. In FY 2009, it produced just 21 reports on the department's financial statements. Nine of these simply announced that DOD's financial statements were unfit for audit. The others pertain to financial statements thought to be nearing "audit readiness" as well as "endorsements" of external audits being performed by private audit firms – the Independent Public Accounting Firms (IPAs). These companies are performing the only legitimate, in-depth audits of financial statements. They do it under the watchful eye of the OIG. These audits examine minute cross-sections of the larger DOD financial statement universe that remain in an un-auditable condition. All FY 2009 OIG audits are reviewed and evaluated in Section III of this report.

3. Audit Budget

The total OIG Audit budget for FY 2009 was $89,079,100. To support audits in dangerous locations, the DOD OIG spent an additional $1,153,619.00 on hazardous duty pay for personnel assigned to conduct audits in Afghanistan and Iraq. Figure 1 below provides the percentage of the budget allocated to each of the four audit directorates.[5]

Figure 1 - Percentage of FY 2009 Budget by Audit Directorate, total $89,079,100



4. Audit Staffing

The Audit Office employed approximately 765 employees in 2009.

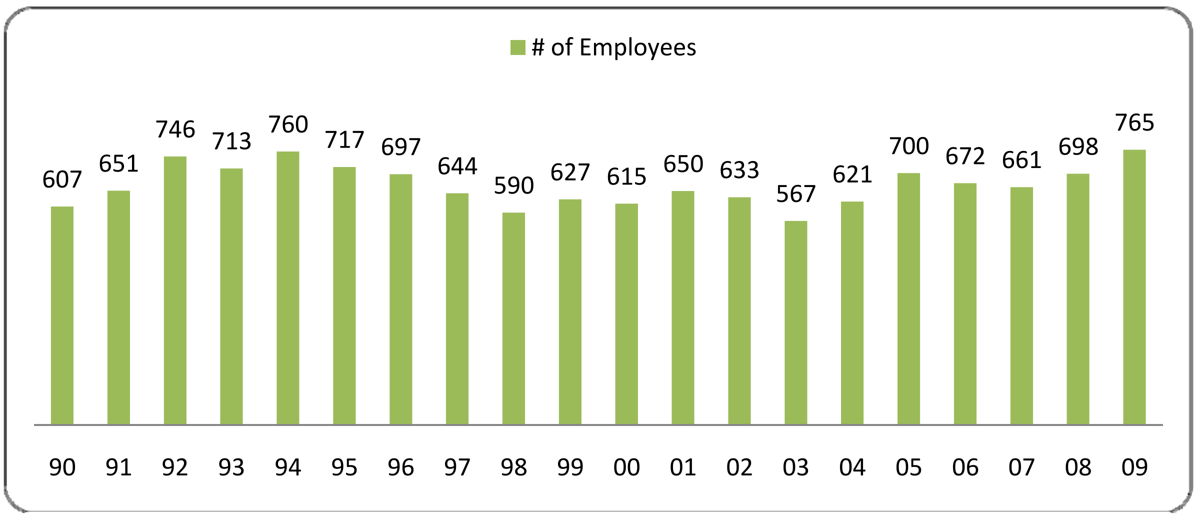
[5] The information in Figure 1 was provided by the OIG Audit office, March 30, 2010.

As would be expected of any large organization, the number of audit staff has fluctuated since 1990. The lowest staffing level was 567 in 2003. The highest was 765 employees in 2009. The OIG has employed an average of 666.7 audit personnel per year since 1990. The OIG has hired 210 new audit staff since October 2007. Entry-level YA-1 auditors make up 36% of the staff,[6] while 44% are more experienced YA-2s and YA-3s. The balance – 20% -- are management and support staff.

In order to receive certification as a full-fledged audit shop, the OIG has professionally certified personnel to conduct audits, including 115 Certified Public Accountants (CPA) and 71 Certified Fraud Examiners (CFE).

Figure 2 shows staffing as reported by the OIG from the period of 1990 through 2009. [7]

Figure 2 - DOD OIG AUDIT STAFFING, 1990 - 2009



The anonymous letters sent to Senator Grassley in 2009, which triggered this oversight review, contained a number of allegations regarding low employee morale, high staff turnover, and dissatisfaction with leadership. To determine if these allegations had merit, the OIG was asked to provide statistics regarding the number of audit personnel who had resigned, retired, been fired, or transferred to other agencies. Since October 2007, the OIG indicated 21 employees had retired. A total of 81 had transferred to other federal agencies. Another 25 had resigned, and 5 had been fired. In FY 2009, the overall OIG turnover rate was reported to be 7.9% -- down slightly from prior years.[8] The steady loss of experienced audit staff and a high proportion of inexperienced YA-1 staff in some divisions are potential trouble spots for top managers. A lack of adequate numbers of highly trained and experienced auditors may be adversely impacting the quality and scope of OIG audits - especially as they pertain to contracts and payments discussed later in the report.

[6] DOD OIG Human Capital Strategic Plan, FY2010-2014, p.13, indicates that 43.4% were YA-1s in FY2009.
[7] Ibid
[8] DOD OIG Human Capital Strategic Plan, FY 2010-2014, p.14.

D. CRITICAL AUDIT ISSUES

1. *Impact of Audit-Accounting Disconnect*

The availability of pertinent data is so poor that the OIG auditors readily admit that they are unable to conduct end-to-end contract performance and payment audits. Full scope contract audits should position the OIG to address 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. Such audits are the conventional method for detecting fraud. The OIG's inability – or unwillingness – to perform comprehensive contract audits – and link contract requirements to deliveries and payments – was a startling revelation. The OIG Audit Office has apparently not conducted legitimate audits of the large contracts in a number of years. There was one half-hearted attempt in FY 2009. This surfaced in Report No. D-2009-108. Auditors apparently tried unsuccessfully to match payments with contract requirements, but the methodology used was flawed from the start and the outcome was inconclusive. Instead of verifying payment data at the primary source – DFAS, the auditors opted for an unacceptable shortcut. They chose to rely on payment data provided by DynCorp, the target of the audit. Even using this unauthorized audit procedure, the audit team was still unable to connect the dots and determine whether the taxpayers were cheated out of $161.1 million.

The top executives in the OIG Audit Office provided a litany of excuses why they could not do end-to-end contract audits. They complained repeatedly during interviews that full scope contract audits are: "too difficult" or "too big" or "impossible. We just can't do them" or words to that effect. They accept the "no audit trail" scenario as an insurmountable barrier to effective contract audit work. In making those astonishing admissions, they were expressing a sense of helplessness in the face of the "no audit trail" scenario found on just about every job. Such findings are usually followed by toothless recommendations – a response that could be interpreted as reluctant acceptance on the part of the OIG. Conducting an audit without an audit trail or essential documentation is a non-starter and must never be tolerated. Officials responsible for such conditions must be held accountable. When the "no audit trail" scenario is encountered where a high-probability for fraud exists and large sums of money are involved and auditors can't connect the dots – like in report 2009-108, the auditors should consider "locking the doors and calling the law." Unfortunately, instead of taking the bull by the horns, OIG Audit has given up and relinquished contract audit responsibilities to the Defense Contract Audit Agency (DCAA). This is not an acceptable option, because DCAA reports to the DOD CFO and is not an independent audit agency like OIG. Moreover, OIG and Government Accountability Office (GAO) reports consistently show that DCAA oversight is weak and ineffective.

While OIG auditors are waiting for DOD to deploy a modern accounting system, they need to get on the "money trail" where fraud and theft is occurring and stay there 24/7. They need to do what the private accounting firms are doing with DOD's financial statements. The OIG must aggressively attack the problem with large, highly trained audit teams, consisting of 25, 50, 100 or more auditors – if necessary, and do the "pick and shovel work" necessary to re-create missing audit trails and match contract requirements with deliveries (goods and services) and payments and nail down all the pertinent facts. This will undoubtedly reduce the number of audits published annually. However, if the IG is interested in performing the IG's core mission, then the audit department must get back to basics by doing more aggressive "gumshoe" audit work on contracts-payment issues.

2. *Shift to Policy Reviews*

As the OIG has drifted away from its core mission of conducting contract audits, it chose to move in an ill-advised direction. Today, the majority of audits appear to be nothing more than quasi-academic reviews of DOD policies and procedures. The DOD OIG has become the department's "policy police." Most – 75% to 80% -- of the FY 2009 routine audits focused on policy and regulatory matters with little or no tangible benefit to the taxpayers. The Audit Office appears to consistently demonstrate little or no interest in finding fraud and waste. That attitude was clearly reflected in the response given by senior management to this question raised at each interview: "How much fraud was detected by your directorate in FY 2009?" Without exception, the answer was a disinterested: "I don't know." That answer will not change until contract audits are "front and center" once again.

3. *Detection of Fraud*

The shift to policy reviews has had predictable results. Very few OIG audits result in criminal investigation. The OIG Audit Office made a grand total of 9 referrals to the Defense Criminal Investigative Service (DCIS) in FY 2009. None resulted in criminal prosecution. In most instances, OIG auditors prematurely "kick" cases to DCIS without fully developing or examining all the pertinent information bearing on the issue. When indicators of fraud are detected, the OIG Audit Manual instructs auditors to consult with investigators to determine what additional work needs to be done to properly document the case and nail down all the facts. OIG auditors appear to ignore that rule.

Three FY 2009 reports exemplify the practice of stopping short on audits where potential fraud is detected and readily apparent: wireless contract [D-2009-036], TRICARE [D-2009-037], and PowerTrack [D-2009-072]. There are others. This is brinkmanship at its worst. The auditors never quite get on the "money trail" where most fraud occurs. They just stop at the fraud threshold. It's almost like they witness a "robbery in progress" but report it to no one. "Kicking" it to DCIS prematurely is like kicking a can down the road. It accomplishes nothing. DCIS does not have the resources to conduct audits. DCIS is an investigative agency – not an audit shop. The Audit Office should not be asking DCIS to do its unfinished audit work. The auditors should do all the necessary leg-work to nail down all the relevant facts and then present DCIS with credible evidence of fraud or theft – as specified in the OIG Audit Manual.

4. *Downhill Slide in Production and High Costs*

The anonymous letters to Senator Grassley also alleged very low OIG Audit Office productivity. This issue was subsequently examined in-depth.

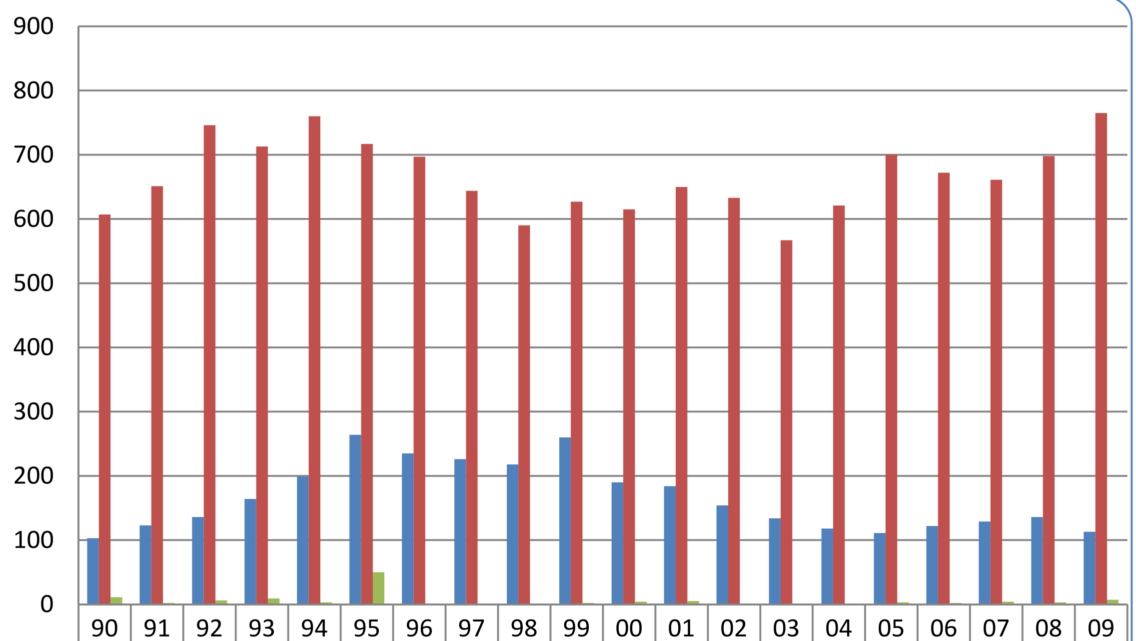
The simplest way to measure the output of the Audit Office is to tally the publication of audit reports by year. The variation in annual production rates shown in Figure 3 may have been influenced by a number of internal and external factors such as new leadership, Congressional report requests, staff turnover, staff experience, audit scope, and availability of resources.

As OIG Audit has shifted away from costly, labor-intensive contract audits to less challenging policy reviews, there has been a drastic, downhill slide in productivity. The shift to policy-oriented reviews should tend to push the production numbers up not down, but the opposite is happening.

An analysis of report production indicates the existence of two distinct high points -- FY 1995 and FY 1999. In 1995, 717 auditors published 264 reports, while in 1999, 90 fewer auditors produced just four fewer report or 260 in all. So, beginning in 1995, with the exception of the noted one-year spike in 1999 and a slight "bump" in 2006-08, OIG Audit output began a steady slide downhill. At times, the reduction in output coincided with a reduction in personnel, but this was not a reliable trend. In 1999, for example, a reduction in manpower was accompanied by higher productivity. The slide in production halted briefly from FY 2006 through FY 2008, when an average of 129 reports were published in each of those three years. Then in 2009, production dropped down to a near all-time low of 113 reports. Only 1990 and 2005 were lower with 103 and 111 reports respectively.

Figure 3 below portrays trends in DOD OIG published report totals compared to staffing levels from FY 1990 to FY 2009.[9]

Figure 3 - DOD OIG Published Audits, Staffing, and Report Average, 1990-2009



	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09
Audits Published	103	123	136	164	199	264	235	226	218	260	190	184	154	134	118	111	122	129	136	113
FTEs	607	651	746	713	760	717	697	644	590	627	615	650	633	567	621	700	672	661	698	765
Missing	11	2	6	9	3	50	0	1	0	2	4	5	0	0	0	3	2	4	3	7

First, it is remarkable that peak production – 264 reports -- and the near all-time low – 113 reports – were both achieved with roughly the same number of auditors on hand. In other words, with comparable numbers of auditors, the 1995 team was able to produce 2.34 times as many reports as the 2009 team. That raises serious questions about current OIG audit productivity and need for more staff.

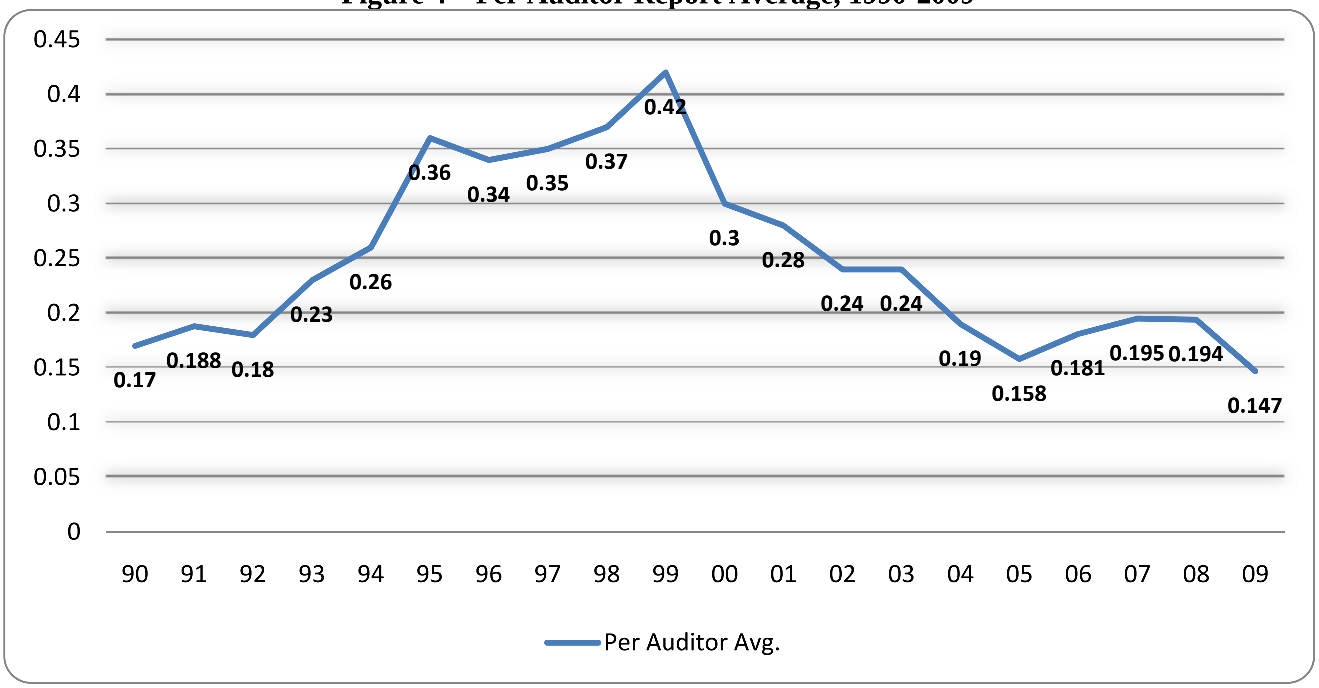
[9] Information in Figure 3 was derived from audit reporting data on the DOD OIG web site www.dodig.mil and OIG information papers

Second, there is still an unresolved issue regarding at least 112 missing reports for the period covered in Figure 3, including 50 in 1995 alone. For example, for FY 2009, the last report issued was dated September 30, 2009 and numbered 2009-120. On the surface, that suggests that 120 reports were issued in FY 2009, when, in fact, only 113 reports were issued. Seven numbers were skipped, leaving sequential gaps at various points in numbering from #1 to #120. Clarification of this matter was requested on April 28, 2010. A response provided by OIG on April 30th does not appear to square with the report totals shown on the OIG web site. Are these numbers being manipulated to inflate production totals? The staff was unable to make a final determination on this issue.

The production trends shown in Figure 3 above track closely with productivity data portrayed in Figure 4 below.[10]

Figure 4 below indicates that auditor productivity peaked in FY 1999 at 0.42 reports per staff. In FY 2009, by comparison, productivity was pegged at 0.147 reports per auditor, a twenty year low.

Figure 4 – Per Auditor Report Average, 1990-2009



Which specific factors led to the overall decline in audit production at the OIG are not known. Senior management suggested that it was caused by the steady loss of experienced auditors combined with a sudden influx of inexperienced YA-1 entry-level auditors. In 2009, 43.4 % of the audit workforce was reported to have less than 5 years of service.[11] Some directorates, however, have a higher proportion of YA-1s. In Acquisition and Contract Management (ACM), for example, 50% of audit staff is classified as YA-1s. That is considered high. So this theory appears plausible as it is unlikely that new YA-1s possessed the necessary skills to meet the demands of auditing complex DOD contracts. And this apparent problem may also help to explain the shift to "soft" policy-oriented reports.

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[10] Ibid; FTEs are full-time employees

[11] DOD OIG Human Capital Strategic Plan, FY 2010-2014, p. 13.

At the same time, it seems like management could have taken decisive action to reduce the impact of these adverse trends. Management could have restructured the organization to ensure that each audit team had the right skill set and experience mix to accomplish all assigned audit tasks in a way that was consistent with the core OIG mission.

Nevertheless, FY 2009 remains the low water mark for OIG audit productivity and appears to be a continuation of the general downward slide in published reports that began 1995. If this downhill trend continues without an increase in reporting on fraud and waste, Congress may be reluctant to provide more money to pay the 235 additional auditors OIG Audit says it will need in the next 5 years.

5. *Comparative Performance of Other Large Audit Offices*

The DOD OIG operates the largest and most costly OIG audit office in the government. However, so as not to evaluate DOD OIG in a total vacuum, other large OIG audit offices were polled to gather comparable data on budgets, production, staffing, and costs. Those include the following: Health and Human Services (HHS), Housing and Urban Development (HUD), and the Department of Homeland Security (DHS). Having this information should help put the DOD OIG audit performance in better perspective.

The HHS OIG Office of Audit Services (OAS) reported a budget of $83.3 million in FY 2009.[12] Its OAS employed 729 staff at the end of September 2009. This figure reflects the hiring of 50 full-time personnel during the 2nd half of the year related to the American Recovery and Reinvestment Act (ARRA). By the end of FY 2009, OAS reported publishing 479 financial reports. About 200 of these audits resulted in questioned costs totaling more than $725 million. Using a rough calculation for financial report costs, it is estimated that each published HHS OAS report cost the taxpayers approximately $173,903.00. The average output per auditor was .65 audits per year. If potential savings are offset by total audit costs, this operation may have saved the taxpayers a total of $642 million.

The HUD OIG audit budget for FY 2009 was nearly $36 million. An audit staff 312 full-time employees completed approximately 197 financial audits in the requested period.[13] Each HUD OIG fiscal audit cost about $182,000.00. The average output per auditor was .63 audits a year.

At DHS OIG, the audit office had a total budget of almost $15 million and 160 auditors on board in FY 2009. [14] The DHS OIG indicated they conducted 88 financial audits and provided the following audit breakdown:

- 5 Financial Grant Management Audit Reports;
- 9 Financial Statement Audit Reports;
- 4 Information Technology Audits Related to Financial Statements
- 15 Other Financial Audit Reports
- 55 Financial Grant Assistance Reports

[12]HHS OIG/IO email, April 29, 2010; This total does not include administrative costs.
[13]HUD OIG email, April 21, 2010; The total audit production was much higher; HUD OIG was only asked to provide totals for financial audits.
[14] DHS OIG email, April 28, 2010

The cost of each DHS financial audit was approximately $170,000.00, while the average output per auditor at DHS was estimated at .55 audits per year.

In sum, for the three other audit offices – HHS, HUD, and DHS – in FY 2009, the average audit cost was $170,000.00 to $182,000.00, while average output per auditor per year was .55 to .65. By comparison, the overall DOD OIG auditor productivity was much lower at 0.147, while the average cost per audit was much higher at $788,311.00.[15]

The information from HHS, HUD and DHS reinforces concern about the steady downhill slide in DOD OIG Audit Office production for the past 15 years. It shows that DOD OIG auditors are apparently being significantly outperformed by their peers -- and by very substantial margins. Their peers in the other audit offices may be four times more productive than they are and able to produce audits at a fraction of their costs.

It is recognized that this may not be a fair "apples-to-apples" comparison of audit productivity between these four OIGs. Each has a unique mission, statutory requirements, and audit concentrations. Some of these OIGs may focus more on auditing federal grantees rather than on high dollar contracts programs. Hence, the scope and size of audits by the three other OIGs may not be on the grand scale found in the DOD universe. In addition, the three other OIGs were not credited for non-financial audits, which often are carried out by the same audit personnel, whereas the DOD numbers included all audits.

6. Timeliness of Audit Reporting

One reason DOD OIG audits are ineffective is that most take 1.5 years to complete. For example, one directorate published 57 audits in FY 2009. The average time to publish those audits was 18 months. Some audit reports took 30-38 months to finish. Some of the on-going projects listed in the 2009 Audit Plan were still pending completion four years after being announced in 2006. Others took so long that they had to be scrapped. These aborted audits reportedly cost taxpayers 1,770 staff days and $759,139.00. Aside from being a blatant waste of money, such tardy reporting is a recipe for irrelevance. It is highly unlikely that recommendations presented in such outdated reports could have much – if any -- impact after the passage of so much time.

Top OIG managers recognize that audit timeliness is an area needing improvement. During interviews, managers were asked to rate their performance on a scale of 1 to 10 in four areas. For timeliness, these self-evaluations ranged from a low of 5 to a high of 7.5. All managers agreed that timeliness was the weakest area of performance for their respective organizations. These comments would appear to be in-line with comments made by a top Audit Office official. This official said a report should be published in less than one year. Six months may be a reasonable goal. Prompt publishing of OIG recommendations should help to achieve greater savings and efficiencies for taxpayers.

[15] Total budget divided by total audits produced

7. *Audits Mandated by Chief Financial Officers Act*

It has been 20 years since Congress passed the CFO Act. This law was designed to bring reform to the federal government's finance and accounting systems. In 2009, 20 of the 24 agencies covered by the CFO Act successfully achieved the top audit rating, an unqualified or clean audit opinion on their financial statements. DOD is one of only four agencies, which earned a disclaimer or failing grade again this year. The continued failure by DOD to meet the requirements of the CFO Act, along with all its other fiduciary responsibilities, keeps DOD at the top of Government Accountability Office's (GAO) list of "high-risk" agencies. The GAO high-risk designation flags DOD programs as vulnerable to waste, fraud, abuse, mismanagement and outright theft.[16] This year marks the 15th year that DOD has appeared on this list of delinquent agencies.

The Defense Business Operations (DBO) Directorate is responsible for conducting and/or supervising audits mandated by the CFO Act. These audits are prime examples of failed audits caused by unreliable accounting data. Because of this pervasive and continuing problem, DOD's financial statements -- in toto -- are simply un-auditable. In spite of the disconnect between the quality of DOD accounting data and audit capabilities, DBO continues the wasteful annual exercise of issuing boilerplate[17] disclaimers of opinion on DOD financial statements that are unfit for audit. Nonetheless, DBO is ramping up that process.

As a good faith effort to comply with the CFO Act in the face of unreliable or non-existent accounting data, the DOD OIG has shifted the burden to Independent Public Accounting (IPA) firms. Under contracts supervised by the OIG, the IPA firms are receiving large sums of money to audit very small slices of the financial statement universe – like the U.S. Army Corps of Engineers (COE) or even the IG's office itself. The OIG Audit Office readily admitted that these audits were way beyond its capability. IPA audits of financial statements are more art than science. The IPA firms have to re-construct missing audits trails. This type of work requires IPAs to use hundreds of highly paid auditors to engage in prolonged "pick and shovel" work. Auditors often have to manually comb through the data and records to "reverse engineer" an audit trail. OIG managers refer to this manual labor as "audit trail reconstruction work." This kind of audit work is labor intensive and very expensive. The Corps of Engineers audits took several years and cost about $50 million. The Marine Corps now claims that portions of its financial statements are "audit ready." The Marine Corps audit will be larger and more expensive. OIG estimates that auditing the massive general or working capital fund financial statements could cost $105 million a year to audit. In short, earning clean opinions on IPA audits of very small cross-sections of the DOD financial statement universe is feasible, but the cost is becoming prohibitive and will remain unsustainable until DOD deploys a modern, fully integrated finance and accounting system that can generate accurate information on demand.

Congress is becoming impatient with DOD's failure to comply with the CFO Act. Last year, in Section 1003 of Defense Authorization Act, Congress established a new deadline for cleaning up its fiscal mess. This law directs the DOD CFO to ensure that "the financial statements of the Department of Defense are validated as ready for audit by no later than September 30, 2017."[18]

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[16] GAO, *High Risk Series: An Update*, GAO-09-271 (Washington, D.C.: January 2009)
[17] The language in these reports changes very little from year-to-year
[18] NDAA, Section 1003, PL 111-84.

Few, including OIG, believe the DOD will be able to meet this deadline.[19] Many such deadlines have come and gone in the past. The continuing inability to achieve these goals is due mainly to the continued dominance of budgetary fiefdoms that rule the Pentagon with an iron fist. Each military Service marches to its own drummer and each apparently remains uncommitted to the goals spelled out in the CFO Act. The result is continuing fiscal chaos.

8. *Routine Audits*

The other important type of audit conducted by OIG are routine audits of the department's programs, policies, and operations. These appear to suffer from the same debilitating disease that plagues the CFO audits but on a larger scale and in more damaging ways, because fraud, waste and theft may be going undetected. OIG FY 2009 audits often fell short because the auditors were unable to overcome the ever-present barriers posed by the broken accounting system.

a. Audit Plan and Priorities

While audits constitute one of OIG's primary weapons for exercising strategic oversight of the department's programs and operations, the annual selection of audits provides the OIG oversight roadmap for the coming year. There are two important aspects to this process. First, the selected audits should reflect the IG's core mission and top priorities. Second, the IG and it staffs must decide how aggressive audits will be in probing the depths of known high-risk areas.

A former DOD OIG Principal Deputy Inspector General for Auditing announced the planned audits for FY 2009 in October 2008. [20] In this document, he offered some insights as to the audit selection process: "The ODIG-AUD Plan takes into consideration the priorities identified by the department, the management challenges identified through our previous oversight efforts, and GAO high-risk areas. A significant focus for the remainder of FY 2009 are projects related to the Department's continued operations associated with Operation Iraqi Freedom and Operation Enduring Freedom, the American Recovery and Reinvestment Act, and financial management."[21]

The FY 2009 audit plan, in general, did not point out which projects were based on the high-risk priority areas identified by GAO or the DOD OIG, or why these particular programs or activities were selected for OIG audit. Instead, the plan targeted a broad array of programs, policies, and operations. Twenty-one audits pertained to oversight of financial statements as required by the CFO Act. Another 28 reports – or 25%, pertained to contracts, billing and payments, and cash management. None were aggressive, in-depth, end-to-end contract performance and payment audits. This issue is discussed at length in Section III B of the report. The balance of the 2009 reports could be characterized as reviews of policy and procedures and regulatory matters, including contract and acquisition policies, that offer zero benefits to the taxpayers. Some touched on high-risk areas, but none probed the depths of known problem areas or constituted in-depth contract performance and payment audits that documented and verified the magnitude of alleged fraud and waste.

[19] Report No. D-2009-097, pp 3-4
[20] This plan was later updated on April 1, 2009.
[21] DOD OIG, FY 2010 Audit Plan as of April, 2009; Both plans were available on the DOD OIG web site but are not archived there.

b. Audit Deficiencies

The review of published FY 2009 audits revealed deficiencies in several key areas as follows: 1) Contract audits are so limited in scope that the probability of detecting fraud and waste is near zero; 2) Payments are not being matched with contract requirements and verified against primary source documents at the Defense Finance and Accounting Service (DFAS); 3) None provided significant and effective recommendations for fixing DOD's dysfunctional accounting systems to support a full-range of credible OIG audits; 4) None offer hard-hitting recommendations to hold responsible persons accountable for financial mismanagement or the "no audit trail" scenario encountered on every audit job; and 5) Reports take so long – anywhere from 1 to 3 years or longer - to complete that they are usually irrelevant by the time they are published.

Many of these deficiencies are clearly illustrated in the following audits examined later in this report:

- Report entitled, "The Acquisition of the Air Force Second Generation Wireless Local Area Network" [D-2009-036];
- Report entitled **"**U.S. Air Forces Central War Reserve Material Contract" [D-2009-108];
- Report No. D-2009-037, "TRICARE Controls Over Claims Prepared by Third-Party Billing Agencies";
- Report No. D-2009-096, "Contracts for the U.S. Army Heavy-Lift VI Program in Kuwait."
- Report No. D-2009-031, U.S. Air Force Real Property Accountability;
- Report No. D-2009-115, Summary of Information Operations in Iraq;

One directorate, which focused on overseas operations, also engaged in the practice of issuing Quick Reaction Memos (QRM) to tackle immediate problems detected during the course of audit work in war theaters. Eight FY 2009 QRMs examined as part of this review – in some cases -- directed military commands to take specific and immediate courses of action. Under the IG Act, OIGs are only permitted to recommend corrective action. Clearly, they are not authorized to issue orders directly to military commanders. Although at times the QRM's appear to have been well intentioned, by directing military commanders to address a problem immediately, the OIG is inserting itself into the chain of command. In doing this, the OIG may be assuming ownership of command decisions. This could compromise its independence and credibility. If a QRM had some unfortunate outcome – like loss of life in a war zone, an investigation would surely follow. How would the OIG play an independent and impartial oversight role in such an inquiry? Probably the best remedy for "Quick Reaction" needs is to produce regular audit reports on accelerated schedules.

9. Returning to Core IG Mission

The DOD OIG needs to change the direction of its Audit Office and re-direct its focus back to the core IG mission: to detect, report, and deter fraud, waste, abuse and outright theft of tax money and make recommendations for corrective action.

The OIG policy audits are out of touch with the present budgetary realities. Mounting pressure to reduce the exploding federal debt will surely cause some belt tightening at the Pentagon. In, fact, it's already started. On May 8th, Secretary of Defense Gates announced that "the gusher has been turned off," and it's time to start looking for "substantial savings."[22] Then, on August 16th, Secretary Gates provided specific direction to the military services to find $100 billion in wasteful spending.[23] OIG Audit should play a constructive role in this process. OIG Audit should help Secretary Gates identify wasteful and unnecessary expenditures. But OIG Audit cannot play an effective role in this process until it begins to verify payment data at the primary source – DFAS. Once OIG Audit starts doing that, it will be in a position to help Secretary Gates estimate real costs and, in turn, potential contract savings. It is therefore incumbent on the IG to re-tool and re-focus the audit effort on two priority areas consistent with the core OIG mission; 1) resume full scope contract audits to root out fraud, waste, and theft; and 2) audit plans and programs for fixing DOD's broken accounting system.

Until the DOD can fully integrate its financial systems, OIG auditors must fill in the gaps with labor intensive "gumshoe" audit work. To get contract audit oversight back on track, OIG Audit may need to assign 25, 50, 100 or more auditors to a team to tackle just one big contract. And above all OIG needs to start making meaningful recommendations for corrective action. Historically, OIG report recommendations have focused on "quick fixes" that address symptoms versus root cause problems. The time has come for OIG to start making meaningful recommendations for corrective action that offer real long-term solutions to restore DOD fiscal health.

[22] Remarks by Secretary Gates delivered at the Eisenhower Library, Abilene, Kansas, May 8, 2010.
[23] Memorandum for Secretaries off the Military Departments, August 16, 2010.

III. THE OVERSIGHT OF DOD OIG AUDIT REPORTING FOR FISCAL YEAR 2009: AUDIT DIRECTORATES

A. DEFENSE BUSINESS OPERATIONS (DBO)

1. Mission

The primary mission of the Defense Business Operations (DBO) Directorate is to audit the financial statements required by the Chief Financial Officers (CFO) Act of 1990. As a secondary mission, DBO conducts financial management audits of Department of Defense (DOD) policies and programs as well as operations of the Defense Finance and Accounting Service (DFAS) centers.[24]

2. Organization and Personnel

DBO is the largest OIG audit directorate. It is led by an AIG. This AIG was interviewed along with the Principal Deputy AIG on August 4, 2009. Much of the information presented in this section of the report was derived from that meeting and written responses to a series of follow-up questions.[25] In addition, many of these issues were also addressed with the top Audit Office official in meetings on June 17 & June 25, 2009 and subsequent interviews with other directorate AIGs.

To perform this mission, DBO has 287 auditors assigned to 14 divisions, which are further split into 44 specialized branches. There are another 19 staff members assigned to the DBO Front Office, including two senior SES executives and three senior managers.[26]

The organizational charts suggest that DBO is structured to meet the requirements of the CFO Act. However, that organization does not seem to be aligned with the actual work being performed, since the vast majority of DBO's reports are not audits mandated by the CFO Act. DBO's organizational set-up appears to be out of whack with the reporting process.

A total 186 auditors -- or 65% of the directorate's audit staff -- are assigned to 9 divisions established to examine or oversee audits of the annual financial statements. This 9-division group produced just 21 CFO-related reports in FY 2009, of which 9 of those were "boilerplate" reports. These merely announce that DOD is audit un-ready. They are very short – maybe 11 pages in length -- and use essentially the same language year-after-year. Annual "boilerplate" reports are not labor intensive jobs. After adjusting output for the "boilerplate" reports, that means this 9-division group with 186 auditors produced just 12 legitimate CFO-related reports. That equates to 21% of the DBO's total output last year. In addition, it is important to note that the lion's share of CFO audit work is not performed by DBO. It is being done by Independent Public Accounting (IPA) firms at a high cost to the government. DBO oversees that work.

[24] Found at www.dodig.mil, March 12, 2009.
[25] DBO Response Packages dated September 18, 2009, January 27, 2010, February 24, 2010, and March 30, 2010.
[26] Organizational Chart dated March 1, 2010.

Two other divisions, Automated Financial Systems and Automated Financial Systems II, are ideally structured to focus on the single most important aspect of the CFO Act – the creation of a modern, fully integrated finance and accounting system. There are 44 auditors or 15% of the audit workforce assigned to these two divisions. In FY 2009, they produced 7 reports – 12% of total DBO output -- on general information technology-related subjects and routine internal control deficiencies. Only one published audit focused on 'big picture" strategic plans to fix DOD's troubled finance and accounting system (report no. D-2009-097).

The three remaining divisions constitute a financial management oversight group, including the Contract Pay and Fraud Auditing Division. There are 63 auditors assigned to these three divisions or 22% of the DBO audit workforce. This group produced 29 reports in FY 2009. That is about 51% of the directorate's total output. Many of these reports were produced by divisions that exist to do audit financial statements. Eight of the reports produced by the financial group pertain to contract payments, which are addressed in the ACM section of this report.

Given the type of financial audits DBO is required to conduct, it is imperative that its auditors have training, qualifications and professional certifications to bring credibility to their work products. The DOD OIG reported thirty-six percent of the DBO audit staff possesses "professional certifications," including 14% who are certified fraud examiners. Thirty-nine percent of DBO auditors are categorized as YA-1s with less than 4 years of experience.

3. Productivity

In FY 2009, DBO's 14 divisions produced a total of 57 reports. That averages out to 1.3 reports per branch, 4.0 reports per division, or .199 reports per auditor per year. The average recorded time needed to complete a DBO report was 18 months. Three reports took 30 to 38 months. However, some audits took so long to complete that they had to be cancelled by top audit managers. The DOD OIG estimated all cancelled audit projects -- not just DBO -- costs taxpayers 1,770 staff days and $759,139.[27] This was a complete waste of finite DOD OIG audit resources and taxpayer dollars, not to mention it is counterproductive to furthering the OIG's mission of making substantive recommendations to improve the Department's ailing financial systems.

4. Budget and Costs

In FY 2009, DBO had a budget of $36.8 million. DBO reported an average audit cost of $469,000.00, including personnel and travel costs. However, OIG audit managers acknowledged they do not have a system that accurately tracks the costs of conducting audits. DBO's reported average audit cost is based on estimated man hours or man years utilized to complete an audit. It is estimated that the overall average cost in FY 2009 for DBO's 57 reports was closer to $645,614.00.[28]

[27] This OIG cost estimate did not include travel or special pay costs.
[28] FY 2009 DBO total budget divided by its 57 published audits.

5. CFO Audits: DOD's Long-trail of Disclaimers

DOD has received a disclaimer of opinion or failing grade every year since the IG began attempting to audit its statements in 1993.

Because DOD has lost control of the money at the transaction level, DOD's finance and accounting systems are unable to generate accurate, complete and up-to-date financial data. DBO issued a total 45 reports in FY2009 alone that highlighted the flawed data produced by the broken system. They tell the same old story: the books are un-auditable; there are no audit trails; there is no supporting documentation; and internal controls are weak or non-existent. Without reliable financial data, DOD cannot produce a credible financial statement within a reasonable length of time – or not at all.

The DOD's financial books are suspect from top-to-bottom. In fact, it is hard to believe that they are even worthy of any type of audit opinion. The U.S. Army's FY 2009 financial statement is a prime example of the un-auditable condition of these documents. "Pervasive material weaknesses" render these statements unfit for audit. The OIG provided the following qualifying language in its disclaimer of opinion on the Army's financial statements:

> The Assistant Secretary of the Army (Financial Management and Comptroller) acknowledged to us that the Army Working Capital Fund FY 2009 and FY 2008 Financial Statements would not substantially conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and that Army financial management and feeder systems were unable to adequately support material amounts on the financial statements as of September 30, 2009 …… Accordingly, we did not perform auditing procedures required by the U.S. Government Accountability Office, "Government Auditing Standards," and Office of Management and Budget (OMB) Bulletin 07-04 ……. Prior audits have identified, and the Army has acknowledged, the long-standing material internal control weaknesses identified in the Summary of Internal Control. These pervasive material weaknesses may affect the reliability of certain information contained in the annual financial statements, much of which is taken from the same data sources as the Basic Financial Statements. Therefore, we are unable to express, and we do not express, an opinion on the Basic Financial Statements." [29]

The CFO audit process only makes sense if it proceeds within the framework of a functioning accounting system. What we have today are failed OIG audits and prohibitively expensive audits produced by private firms, which tell us what we already know – the DOD accounting system is broken. The CFO audit process is not in sync with the quality of available accounting information. CFO audits only make sense when credible financial statements are within the realm of possibility.

6. Hale's CFO Memorandum

According to a memorandum issued by DOD CFO Hale on August 11, 2009, fixing the broken DOD finance and accounting system is the top CFO Act priority. He directed DOD components "to

[29] Report No. D-2009-020, pp 121-122.

adjust their current plans for improving financial information and processes." The DOD IG was copied on Mr. Hale's directive.

If fixing the accounting systems is Mr. Hale's top priority, then reviewing and auditing plans and programs for reaching that objective should be a high DBO priority.

7. Fixing the Accounting System

In concert with Mr. Hale's August 11, 2009 memorandum on future audit and accounting priorities, DBO needs to undertake top-to-bottom assessments of DOD financial reform projects such as the Financial Improvement and Audit Readiness (FIAR), Business Enterprise Architecture (BEA), Enterprise Transition Plan (ETP) and all other related efforts. DBO issued only one strategic assessment in this crucial area in FY 2009 (report no. D-2009-097).

These plans and programs are designed to monitor the department's progress toward achieving audit ready financial statements. To advance the department's transactional level accountability, the Business Transformation Agency (BTA)[30] was established to oversee the implementation of the Business Enterprise Architecture (BEA) and the Enterprise Resource Planning (ERP). The BEA and ERP plans are intended to tackle issues related to the integration of end-to-end business processes and to coordinate the implementation of Information Technology (IT) systems. However, due to the complexities and massive deficiencies in DOD financial management systems, the success of these efforts remain in serious doubt.[31] OIG needs to aggressively audit these programs to continuously assess progress, costs and performance.

In July 2009, DBO issued Report No. D-2009-097 entitled "Data Migration Strategy and Information Assurance for the Business Enterprise Information Services (BEIS)." It cited a number of "show stopper" issues and appears to suggest that these ongoing efforts managed by the Pentagon's Business Transformation Agency (BTA) may not be viable. It indicates that there is no effective data migration strategy for moving finance and accounting information from current DFAS "legacy" systems to the modernized BEIS systems. There is a "potential conflict of interest in the information assurance certification and accreditation process." Plans fail to meet accepted financial reporting standards and a projected completion date of 2020 is "unrealistic" [32]– not to mention the 2017 "audit readiness" date adopted last year in Section 1003 of the FY2010 Defense Authorization Act.

The above-mentioned report focused primarily on high-level policy-related matters. Although those issues need to be addressed, OIG recommendations to correct policy and procedures don't offer much in the way of concrete solutions for root cause problems. The core issues here pertain to software and hardware and how to integrate a vast array of complex component parts into a coherent whole that will eventually become a centralized financial management system. OIG auditors need to grapple with all the moving parts and make sure the strategy for making them play together like a symphony orchestra is feasible. Even the starting point for this whole process is not clearly established. None of the experts appear able to provide a complete inventory of all the systems that need to be replaced

[30] On August 16, 2010, Secretary Gates announced plans to eliminate the BTA.
[31] GAO, *U.S. Government Financial Statements: Fiscal Year 2009 Audit Highlights Financial Management Challenges and Unsustainable Long-Term Fiscal Path*, GAO-10-482T (Washington, D.C.: April 14, 2010).
[32] Report No. D-2009-097, pp I, 2-9.

and/or modernized. This is not a good beginning. OIG Audit may need to hire some technical experts who are experienced in the art of setting up modern, integrated finance and accounting systems.

On January 27, 2010, DBO provided assurances that it was on top on this problem and will position itself in 2010 to assess the feasibility of DOD's plans and programs to reach the audit readiness goals.

8. DBO Audit Plan

In the face of uncertain progress on creating a modern, fully integrated finance and accounting system and the continued lack of credible accounting data, DBO is nonetheless gradually ramping up the CFO audit process. DBO is proceeding on two distinct tracks: 1) continue issuing disclaimer or "Boilerplate" reports for un-auditable financial statements; and 2) gradually expanding contractual arrangements with private accounting firms to audit small cross-sections of the DOD financial statement universe -- or small agencies that have been declared "audit ready."

For FY2009, DBO produced 21 reports assessing DOD financial statements. Nine were conventional DBO disclaimer or "boilerplate" reports; 7 addressed "audit readiness" and related issues; and 5 pertained to audits performed by private accounting firms.

Nine DOD financial statements are required by the CFO Act: the DOD-wide statements plus the general and working capital funds of the military services. When all these are declared "audit ready," they will encompass all DOD financial holdings and transactions. Today, those financial statements are in an audit un-ready condition and are the subject of "Boilerplate Reports."

a. *"Boilerplate" Reports*

The FY2008 DOD Financial Report No. D-2009-021, dated November 17, 2008, typifies DOD OIG approach to major DOD financial statements. The report is a DOD product authored by the Pentagon's CFO.   DBO presents an Independent Auditor's insert to the larger DOD report. This year's Independent Auditor's report – like all the others -- neither audited nor expressed an opinion on the DOD financial statements. This was due to the "massive material weaknesses" and unreliable information generated by DOD accounting systems. The dollar amounts presented in the financial statements were simply unsupportable.[33] A separate OIG report on the DOD-wide financial statement found $172 billion in unsupported journal voucher adjustments.[34] These are nothing more than "plug" figures to make the books balance. This and other disclaimer reports make up the bulk of DBO's output pertaining to financial statements. The staff decided to call them "boilerplate" reports, because the wording remains essentially unchanged from year-to-year, except for minor adjustments to reflect organizational and date changes, etc.

DBO claims that it allocates just 9 staff years or 3% of audit resources to produce the "boilerplate" audits. The cost of a "boilerplate" report is still high -- $58,692.00 per page, assuming an average unit cost of $645,614.00 per DBO report and 11-page average length. These "boilerplate" reports are obviously expensive and appear to have no value whatsoever – except as a yearly reminder

[33] Report NO. D-2009-021, pp 21-32.
[34] Report NO. D-2009-044, p. 14.

that DOD's books of account are un-auditable and that DOD is not accountable for all the taxpayer money that it spends.

b. *IPA Audits*

Due to the continuing futility of issuing "boilerplate" reports," DBO is still making a good faith effort to comply with the CFO Act. About five years ago, DBO began contracting with private firms – IPAs -- to conduct bona fide audits of financial statements produced by nine very small DOD components. The DOD components under review fund the contracts and OIG Audit administers and oversees them. None of these agencies or programs are must-do audits mandated by the CFO Act. They are merely small cross-sections of the much larger DOD financial statement universe. These audits cover such entities as the Military Retirement Fund, U.S. Army Corps of Engineers; Medicare-Eligible Retiree Health Care Fund, and even the Inspector General's office itself. DBO claims to use 83 staff years and 27% of audit resources to oversee audits done by the various private accounting firms.

So far, IPA audit work has resulted in a total of 9 unqualified or "clean" opinions on minor financial statements. Five "clean" opinions were reported in FY2008 and 3 in FY2009, including the Corps of Engineers (COE), DFAS working capital fund, and the Military Retirement Fund to name a few. The DOD Medicare-Eligible Retiree Health Care Fund earned a qualified opinion last year. Other "clean" opinions have been reported in prior years. Their cost is very high. The total cost of the IPA contracts since FY2006 is about $80.0 million. Since this work began before 2006, the total is actually higher. The FY2008-09 cost for IPA contracts -- plus OIG support -- was $48.0 million or an average of $6.0 million for each of the 8 "clean" opinions given in those two years.

9. Corps of Engineers (COE)

The COE financial statements are by far the most ambitious CFO audit tackled by the IG to date. Yet in terms of the DOD financial statement universe, COE is "a drop in the bucket." Moreover, the COE is not a good model. It is a "self-contained" unit. It is not "plugged into" or integrated with the DOD finance and accounting system. It is totally independent.

Since the Corps of Engineers audit was considered to be way beyond the audit capabilities of DBO, this job was first contracted out to Price Waterhouse Coopers (PWC) and now KPMG. In addition, DBO established a separate "COE Financial" division of 22 auditors dedicated to oversee and support the audits being conducted by these two IPA firms. Seven other DBO component-oriented divisions exist to audit and oversee financial statements that may not be produced for another 5-10 years.

The joint Corps of Engineers audit team has generated several reports: 1) a disclaimer of opinion in FY2008 [report no. D-2008-019]; 2) an unqualified or "clean" opinion in FY2009 [report no. D-2009-024] but with significant internal control deficiencies noted; and 3) a second clean opinion in 2010 [report no. D-2010-018]. To date, these two contracts, which generated three opinions, are projected to cost at least $47.4 million. That is $15.8 million for each opinion.

The "clean" opinions being issued to the small DOD components, like the Corps of Engineers are, in fact, partial or limited opinions. They are incomplete because they render no opinion on internal controls. A "clean" opinion on a financial statement where internal controls are weak or non-existent would appear to be an oxymoron.

Two separate reports on Corps's finances [reports no. 2009-103 and -105], for example, point to continuing internal control weaknesses – despite its recent "clean" opinion. If Corps' internal controls are weak or nonexistent like throughout the rest of the DOD financial network, then its financial statements could very well be inaccurate and unreliable. Such internal control "work-arounds" place these audits on very shaky ground. Internal controls must be part of any healthy accounting system. Internal controls are the first-line of defense against theft and misuse of funds. The lack of internal control testing and verification raises questions about the overall integrity of the CFO audit process.

10. "Audit Trail Reconstruction Work"

The Corps of Engineers audits have clearly served a very useful purpose. They have helped to expose the sheer enormity of the task at hand. And the difficulty of meeting this challenge leads right back to the root-cause problem identified earlier -- DOD's broken accounting system.

Until DOD has a modern, fully integrated finance and accounting system that produces reliable and accurate data, auditors will have to "rely on work-arounds and manual compilations of financial data that are prone to errors," as a senior DOD OIG Audit manager put it during a series of interviews. That same official has characterized the ongoing audits by private accounting firms as "audit trail reconstruction work." It is manual labor. Some call it "pick and shovel work." Hundreds of highly paid auditors at the IPA firms have to dig up and track down supporting documentation that has "gone missing." These hand-crafted audits attempt to close the gaps and balance the books with brute force. How the IPA firms close the gaps between stated balances and supporting documentation, which is largely missing, remains an area of great concern.

The "Audit trail reconstruction work" described above is also very expensive. The $47.4 million spent in 2008-09 on the Corps' CFO audits is insignificant compared to what it would cost to audit the big general and working capital financial statements. On February 24, 2010, OIG Audit provided a cost estimate for auditing all six major statements: **$**105 million per year. The IG says "these costs would be required each and every year to audit these funds." [35] If these audits took five years, the total cost would be in excess of $500 million. Tackling those statements is simply not feasible until the accounting system is fixed in 10 to 20 years. The smaller financial statements, like those of the Corps, are no more or less auditable than the larger ones. It's just that the scope of its accounting records mess is smaller and more manageable than for the large ones. With the application of enough audit manpower and money, a partial audit of a small component is feasible.

11. Progress and Sustainability

This is the key question: In the 17 years that have passed since the CFO audit process began, has the IG made measureable progress toward achieving a DOD-wide "clean" opinion?

If you believe the "clean" opinions flowing from commercial audits are truly sustainable from one year to the next, then the answer to this question is <u>yes</u>. If, on the other hand, you believe that these

[35] OIG Information paper, February 24, 2010.

“clean” opinions are not sustainable but are just more doable because they are smaller, then the answer to the question is probably no.

The OIG Audit Office believes that these opinions are indeed sustainable and that progress is being made. To back up this assertion, it reports that six DOD components have “sustained” clean opinions for one or more years. In the purest sense, ongoing audits do not appear to be sustainable from one year to the next. If they were sustainable, there would be no need for “audit trail reconstruction work.”

True sustainability will not be achieved until the DOD has a modern, fully integrated finance and accounting system up and running and producing accurate data. The Corps’ “clean” opinion in FY2009 does not mean, for example, that the its finance and accounting system will suddenly start spitting out accurate financial data on command; or that its books of account are now in order; or that it is ready to earn “clean” opinions in the future with a minimal amount of audit work. The Corps still relies on the same Financial Management System (CEFMS) that was “deployed” in 1998 – long before the CPA audits began. The continuing need for high-priced IPA “audit trail reconstruction work” is driven by the inability of CEFMS to generate accurate and complete accounting data.

“Audit trail reconstruction work” surely helps to establish a more efficient routine for collecting and organizing supporting documentation for the balances under review, but that is still just a one-time snapshot that has no long-term impact on accounting deficiencies. Each new audit will have to begin at “square one” down in the trenches with picks and shovels. Future Corps of Engineer audits will still require a large number of highly paid PWC or KPMG auditors to do the “audit trail reconstruction work” for each audit. However, once a modernized accounting system is in place, it should be a simple matter of punching the right computer buttons and a credible financial statement would roll off the printer, and the audit would be relatively quick and easy. “Audit Trail Reconstruction Work” would be a thing of the past.

12. CFO Act Audit Relief?

The cost of CFO audits is very high and rising and may soon be prohibitive. They are consuming huge chunks of audit money and manpower with questionable results. There are legitimate concerns about the future prospects for the CFO audit process.

The latest DBO report on the Corps of Engineers underscores concerns about the potential impact of rising costs and the continued feasibility of these audits:

> “Based on the pervasive internal control weaknesses related to the COE’s reporting process and the extensive effort needed to audit these basic financial statements, we have concerns about whether the COE will be able to sustain the level of effort necessary to continue the annual audit process.”[36]

This is a red flag about the future of the CFO audit process.

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[36] Report No. 2010-018, p. 75.

While the IG "continually evaluates the cost/benefit" of the CFO audit effort, there are no plans to scale it back right now. In fact, the plan is to ramp it up. For example, the Marine Corps claims that a component of its financial statements -- Statement of Budgetary Resources (SBR) -- is "audit ready."

The FY 2010 contract cost for Marine Corps SBR audit is $7.1 million and at least $12 million a year thereafter. The Army anticipates that it will spend $217.9 million on SBR statement preparations over the next five years, including at least $15 million per year for audits. Add to that the $105 million per year the OIG says it needs to audit 9 large DOD funds required by the CFO Act. The projected costs of all this CFO audit work appears to be snowballing.

The DOD CFO will have to devote an increasing percentage of the department's budget to meet the 2017 deadline. Currently, most of the military services have received increases in their FY 2010 budgets to cover the costs of achieving audit readiness, and more will be needed in future years. There aren't any indications that the DOD or OIG have placed a price tag on CFO Act compliance, though an estimate of those costs was requested on April 16, 2009.[37] If current trends continue, DOD could soon be spending $200 million a year or more on the preparation and auditing of financial statements. The high cost of this audit work could very well deter other components from requesting CFO audits – or declaring "audit readiness" -- in the future – unless forced by the DOD CFO to do so.

Some years ago, Congress passed a law that gave the CFO and IG discretionary authority to "minimize" audit work on "unreliable" financial statements and to re-direct audit resources to the "improvement of systems underlying financial management." That was Section 1008 of the FY2002 Defense Authorization Act. In response to this legislation, a senior OIG Audit official testified on June 25, 2003: "We have long advocated that resources should not be expended to conduct costly audits to produce a disclaimer of opinion at year-end."[38] This statement seemed to suggest that DBO would roll back the CFO audits consistent with the guidance in Section 1008. Unfortunately, that has not happened. CFO Hale's August 11, 2009 directive appears to revive the spirit and intent of this legislation. Eight years have passed since the revised CFO audit authority was granted. Yet a review of the FY2009 audit reports appears to suggest that DBO has not brought its CFO audit operations into line with the guidance contained in Section 1008. Perhaps, CFO Hale's recent guidance will get DOD and OIG Audit moving in the right direction.

Admittedly, DBO has limited "Boilerplate" reports to a low-level. They could probably be eliminated entirely. At the same time, however, it has been pouring huge sums of money into the audits performed by private accounting firms.

These audits merely examine a smaller cross-section of the same flawed accounting data underlying the un-auditable financial statements that are the subjects of the "Boilerplate" reports. By applying enough money and manpower, private firms somehow manage to plug the gaps with "audit trail reconstruction work." These audits are simply not sustainable and will not be sustainable until DOD deploys a modern accounting system. Instead of trying to ramp-up the CFO audit process, DBO should curtail those efforts and launch top-to-bottom audits on DOD's plans for modernizing its finance and accounting systems – consistent with Section 1008 and CFO Hale's August 2009 recommendations.

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[37] Email to DOD Office of Legislative Affairs and OIG, April 16, 2010.
[38] Prepared testimony before the House Reform Committee on Defense Financial Management, June 25, 2003, p.6.

The same senior OIG audit official, who testified in June 2003 on the need to curtail wasteful disclaimer reporting, recently warned, however, that "GAO has said that the DOD IG is already at the minimum required level of CFO audit output," and Congress has informed the IG "not to expect CFO relief anytime soon." [39]

13. The 2017 Deadline

At the moment, the year 2017 is the "magic" date established in law. That is the year in which the financial systems of the DOD are supposed to be fixed and cranking out credible financial statements that are ready for audit. This is a noble goal but tenuous at best. Similar dates have come and gone in the past. As discussed earlier, the biggest, single obstacle standing in the way of achieving that goal is the deployment of a modern accounting system that can generate reliable information on demand.

There is yet another stumbling block looming on the horizon – availability of audit resources. According to the OIG, there are only 3 large private audit firms, which are willing to engage in the audit of federal financial statements at prices dictated by the government. At the present time, 100% of private audit resources may already be committed. Eventually, larger DOD components will begin to assert "audit readiness." Auditing these components will require massive amounts of audit manpower. The Corps of Engineers audits required 100 to 200 auditors per year. The Corps' audit was "small fry" compared to what is coming down the pike. The General Funds of the military services, for example, may require 100 to 200 times more manpower. The DOD FIAR plans all show that FY 2015 will be the year that most components are expected to assert audit readiness. The private accounting firms would probably be able to audit only a small fraction of those financial statements. DOD appears to have no plan for meeting this contingency. Its broken accounting system is coming home to roost.

The rapidly snowballing cost of CFO audits and the projected lack of private audit resources available for CFO audit work all point right back to the root cause problem identified at the front-end of this report: DOD's broken accounting system. Without a modern accounting system, auditing DOD financial statements will remain prohibitively expensive and simply not feasible.

[39] Interview of senior OIG official, August 4, 2009.

B. ACQUISITION AND CONTRACT MANAGEMENT (ACM)

1. Mission

Acquisition and Contract Management's (ACM) primary mission is to review and audit a wide-range of contract issues pertaining to DOD programs, policies, and operations, including major weapons systems.[40]

2. Organization and Personnel

An AIG leads this directorate. He was interviewed on September 30, 2009 and November 4, 2009. Much of the information presented in this section of the report was derived from those interviews along with a series of written responses to follow-up questions.[41]

To perform its mission, ACM has 162 auditors assigned to 26 branches spread across 9 divisions. There are an additional 11 persons assigned to the Front Office, including one SES executive, three senior auditors, one contract specialist, and 6 administrative personnel.[42]

Fifty percent of the ACM audit staff is classified as YA-1s, who have less than four years of experience. Although defense contracts are considered high-risk areas for fraud, only 8 of the OIG Audit Office's 71Certified Fraud Examiners are assigned to ACM.

ACM's 9 divisions appear to be loosely grouped into five broad subject areas: 1) Contracting with three divisions and a total of 38 auditors; 2) Military Construction with one division and 16 auditors; 3) Weapons Acquisition and Hotline Support with three divisions and 72 auditors; 4) Information Technology with one division and 24 auditors; and 5) Congressional and DCIS Support with one division and 12 auditors.

3. Productivity

For FY 2009, the auditors of ACM's 9 divisions produced a total of 28 reports.

The Contract Administration II Division comprised of 6 auditors did not publish a single report in FY 2009. Two others, Acquisition and Contracting and Contracting and Congressional Support with a total 33 auditors, had a combined output of two reports for the entire fiscal year.

The largest and potentially most relevant divisions in ACM focus on weapons. They include: RDT&E and Systems Acquisition; Weapons Acquisition; and Acquisition and Contracting. In FY 2009, these three divisions, having a total of 72 auditors, produced 10 audit reports.

[40] Found at www.dodig.mil, March 12, 2009.
[41] Response packages dated October 31, 2009, November 10, 2009, December 14, 2009, and January 19, 2010.
[42] Organization Charts dated December 3, 2009 and June 4, 2009.

Overall, the ACM average was one published report per branch, 3.1 reports per division for an average of .173 audits per auditor per year.

The average recorded time to complete an ACM report was 17 months with several taking 31-33 months.

4. Budget and Costs

For FY 2009, the OIG reported that ACM had a budget of $20.8 million, including travel and training. The average cost for an audit in FY 2009 as reported by the OIG was $292,443.00, excluding travel costs. However, the average unit report cost – budget/28 reports -- was probably much higher -- $744,206.00. This figure should be offset by staff hours in support of DCIS requests.

5. ACM Issues – Audit Mission and Scope

There are two principal issues surrounding the ACM Directorate: 1) A poorly defined mission; and 2) audits are so limited in scope that they fail to encompass the IG's core mission, which is to detect and report fraud, waste, and abuse and to recommend corrective action.

During interviews, senior OIG Audit management was questioned about the lack of direction and potential gaps in the ACM audit oversight process.

Senior managers were unable to provide a clear and concise explanation of what kinds of audits ACM actually performs. Their inability to do so was consistent with the rambling mission statement presented on the OIG web site. It appears to have no central focus or direction as follows:

> **"Mission of OAIG for Acquisition and Contract Management Organization.** The OAIG for Acquisition and Contract Management plans and performs audits of Defense programs and operations. Specifically,
>
> - **Contract Administration Division.** Plans and performs audits of DoD purchases through other Government agencies;
> - contracts for professional, administrative, and management support services; quality assurance; source inspections; and other contracting issues.
> - **Contract Pricing and Competitive Sourcing Division.** Plans and performs audits of various contract pricing issues at major Defense contractors and original equipment manufacturers related to commercial items, cost or pricing data, and economic price adjustment clauses. Reviews pricing and cost controls on contingency and other services type contracts including performance-based logistics contracts. Reviews competitive sourcing issues related to DoD commercial activities.
> - **Construction & Sustainment.** Plans and performs audits of Military construction, sustainment, and housing programs; and Base Realignment and Closure.

- **RDT&E and Systems Acquisition Division.** Evaluates the mission aspects of basic and applied research and the operations aspects of research and development activities. Assesses the operations of test and evaluation facilities, including test ranges and procedures for testing the effectiveness of Defense systems. Performs crosscutting inter-service evaluations of acquisition management policies, procedures, and controls.
- **Weapons Acquisition Division.** Plans and performs audits of major and non-major weapon systems and families of weapon systems programs, functions, and activities that provide general support to the acquisition process. Evaluates the acquisition program management decision-making process for major and non-major weapon systems. Reviews and evaluates DoD Hotline complaints and other major and non-major system acquisition issues of interest to the Office of the Secretary of Defense and Congress.
- **Acquisition & Contracts Oversight Division.** Plans and performs audits of systems, programs, and services acquisition and contracts across DoD. Plans and performs audits of acquisition management policies, procedures, and controls and reviews contracts that support the acquisition of systems, programs, and services. The audits may support Overseas Contingency Operations, DoD Hotline complaints, Congressional and other requests.
- **Acquisition & Contracting Division.** Plans and performs audits of a diverse range of DoD contracting and acquisition activities. The audits cover various issues and programs that are significant to Overseas Contingency Operations, Congress, and the Office of the Secretary of Defense.
- **Contracting & Congressional Support.** Plans and performs audits of contract award, administration, and oversight. Reviews and evaluates issues of interest to Congress. Performs forensic audits for Defense Criminal Investigative Service (DCIS) investigations."[43]

Against the background of such an expansive mission statement, the staff attempted to get senior management to focus on the directorate's "bread and butter" issues. The scope of coverage offered was so broad and general as to be meaningless. It covered the entire waterfront – from acquisition policies all the way to "supporting the safety of warfighters" and everything in between - except the all-important in-depth, end-to-end audits of weapons contracts and contractors.

The directorate's label and designation, Acquisition and Contract Management**,** may be part of the problem. It suggests that ACM conducts contract performance and payment audits, which is an important management oversight function.

To assess performance, ACM would need to match contract payments and deliveries with contract requirements. Such audits would be designed to answer two key oversight questions: 1) Did the government get what it ordered at the agreed upon price and schedule; and 2) if not, did the DOD get ripped off? Answering these two questions goes to the heart of the OIG mission – to ensure accountability over the expenditure of tax money. It appears ACM has drifted far away from the IG's core mission.

[43] DOD OIG website, ACM link at http://www.dodig.mil/Audit/acm.htm searched on 4/14/10.

6. "We Can't Do It:" The Gaping Hole in ACM Audits

During the initial phase of the inquiry of ACM audit oversight, senior management suggested that ACM de-couples payments from contracts at the audit level. This is of great concern, as auditors cannot reasonably examine contracts in isolation of payments. That clearly leaves a gaping hole in the entire OIG audit oversight process.

ACM senior management repeatedly stated that "we don't examine contract payments, and we don't rely on DCAA to do it, either." They also said: "it's impossible to audit contracts … We can't do it …..It's too hard to find transaction-level data, or it just doesn't exist." They can't do contracts, they said, because of "missing documentation and no audit trails." They indicated that "we used to do big weapons contracts but we lack the right skill sets – or experienced staff – to do it today." A top Audit Office official said they could "cobble together such an audit team to look at one of the big Category I weapons systems," but doing that would "deplete resources needed to meet other priorities."

Then on January 19, 2010, in responding to a final set of follow-up questions, senior management did an abrupt about face. ACM senior management changed course and stated: "ACM does **look at contract payments**." But within DOD, it says, "DCAA is responsible for all DOD contract audits," and within OIG Audit, the DBO Directorate handles contract payments.[44] Based on this review, the staff believes that it is accurate to say that both ACM and DBO **look at payments**. However, "looking at payments" is not accepted audit procedure. Payments must be verified against primary source Defense Finance and Accounting Service (DFAS) documents, yet there is no evidence that ACM or DBO or any other directorate is doing that – even though OIG Audit has personnel assigned to DFAS centers. ACM also claims to "**look at contract payments** on some audits when it is deemed an integral part of what the audit is trying to achieve." This statement is problematical. Payments, by their very nature, are an integral part of every contract. Contracts obligate the government to spend money. So contracts and payments are forever linked together. De-coupling payments from contracts, as is the ACM practice, greatly reduces the probability of detecting and reporting fraud. In fact, it just about eliminates that possibility altogether. ACM also argued that making payments a regular part of ACM audits, "would reduce the time available to review complex contract and acquisition issues which are ACM's core mission."[45] This statement seems to imply that ACM's "core mission" takes precedence over the core IG mission, which is to detect and report fraud. This is indicative of ACM's preference for policy versus hard-core contract audits – a pattern so clearly evident throughout its FY 2009 reports.

For the most part, ACM's reports address policies and procedures pertaining to a narrow set of contract-related issues. None of the reports indicate that auditors conducted hard-core contract performance and payment audits. One report, 2009-108**,** almost met that standard. Overall, ACM auditors addressed just small pieces of the contract process – in total isolation – as if viewed through a straw. The 28 published reports by ACM in FY 2009 are the best gauge of what this organization really does in its designated audit realm. To what extent does ACM "look at" contract payments, or is DBO doing it? Where does DCAA fit into the picture? Does ACM do full-scope or comprehensive audits where contract payments and deliveries are matched with contract requirements and verified against primary source documents?

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[44] January 19, 2010 response package, page 1.
[45] Ibid, page 1.

A review of selected reports helps to shed some light on these questions.

7. Analysis of FY 2009 Audits

a. Weapons-Related Reports

ACM's largest division, Weapons Acquisition Division, is staffed by 28 auditors, who are responsible for auditing weapons systems contracts valued at about $200 billion annually. In 1994, this division was part of the much larger Acquisition and Technology Directorate that conducted weapons system audits. Four years ago, 75 to 120 auditors from that directorate were reassigned to the ACM Directorate but only a fraction was assigned to the new Weapons Acquisition Division. These reorganizations could be interpreted as reflecting a shift in audit priorities -- from hardware contract audits to "soft" policy-oriented contract issues. Senior management indicates weapons contract audits may be beefed-up to its former role in the future.

The apparent shift in priorities is clearly reflected in FY 2009 reporting. Neither the Weapons Acquisition Division – nor any other ACM division for that matter -- audited a major or non-major weapons contract or contractor. The division produced just 3 routine reports – 2 pertained to supplemental congressional funding for the Global War on Terror (GWOT) [reports no. D-2009-058; D-2009-073] and one pertained to Marine Corps combat vehicles [report no. D-2009-030].

The two reports on war costs tracked appropriations for the war to determine whether funds were obligated for the purposes authorized by Congress and accurately reported. The division's only weapons-related report was: "Marine Corps Implementation of the Urgent Universal Needs Process for Mine Resistant Ambush Protected Vehicles [report no. D-2009-030]." This was not a contract audit, however. It focused exclusively on the Marine Corps' decision-making process and whether its response to the urgent need for mine-resistant vehicles was satisfactory.

The other divisions in ACM's weapons acquisition group, by comparison, produced four weapons-related reports as follows:

- Small Business Contracting Under the Navy DDG-1000 Program [report no. D-2009-026];
- Air Force Combat Search and Rescue Helicopter [report no. D-2009-027];
- Expeditionary Fire Support System and Internally Transportable Vehicle Programs [report no. D-2009-041];
- Procurement and Delivery of Joint Service Armor Protected Vehicles [report no. D-2009-046];

Three of the four above-mentioned reports were mandated by Congress. None was a hard-core, in-depth audit of contract performance that attempted to link payments and deliveries to contract requirements. Again, these were policy-oriented reports. The primary objective of each one was to determine whether the program activities under review complied with applicable laws, regulations, policies and procedures – and not whether the government got what it ordered at the agreed upon price.

Two of these reports did, in fact, raise some specific contract issues. In the report on the DDG-1000 program [report No. D-2009-026], ACM auditors found the Navy followed regulations for competing subcontracts but stumbled by chance on to a minor billing discrepancy. Apparently, the contractor was billing "out-of-scope" subcontractor expenses to the government, which is prohibited. However, instead of verifying all the pertinent facts and treating it as a "tip of the iceberg" scenario and expanding the audit to similar high-risk areas, the auditors merely asked the Navy to determine whether $548,619.00 in unauthorized payments was, in fact, made, and if so, to recover the money. The Navy appeared to ignore the OIG's recommendation in this report, and there was no follow-up.

Similarly, the report on the Procurement and Delivery of Joint Service Armor Protected Vehicles [report no. D-2009-046] had potential but stopped way short of a reasonable objective. While the report finds that program officials took action to accelerate delivery of these vehicles, they did not properly determine whether proposed contract prices were fair and reasonable before the contract was awarded. In addition to using improper contracting procedures, program officials failed to obtain volume discounts that "may have resulted in potential lost savings of $45.6 million." This is a good start. However, the concerns identified in the report pertain to pre-award cost estimating and pricing errors. From an audit perspective, those issues are largely hypothetical. The auditors needed to verify the "lost savings" by examining pertinent contract payments and actual deliveries. How much did the government actually pay for the vehicles, and how did those figures compare with the pre-award "should" cost estimates, which was the basis for "potential lost savings"? Did the government get what it ordered at the agreed upon price and schedule, or did it get ripped off? The auditors did not address those questions.

b. DBO's Reports on Contract Payments?

When asked why ACM is not performing contract performance and payment audits, senior management responded by saying that "would be duplicative," because DBO has primary responsibility for DFAS payments. So we checked that assertion for accuracy.

In FY 2009, DBO issued at least 8 reports that address contract-related issues:

- Small Arms Ammunition Fund Management in Support of Global War on Terror [report no. D-2009-006];
- Obligation of Funds for Ship Maintenance and Repair at the U.S. Pacific Fleet Maintenance Activities [report no. D-2009-025];
- Controls Over Reporting Transportation Costs in Support of the Global War on Terror [report no. D-2009-061];
- Navy Reporting of Financing Payments for Shipbuilding on the Financial Statements [report no. D-2009-065];
- Controls Over Air Force Material Command Unliquidated Obligations on Department of the Air Force Contracts Supporting the Global War on Terror [report no. D-2009-067];
- Monitoring PowerTrack Payments for DOD Freight Transportation [report no. D-2009-072];
- Controls Over Contract Obligation Data in the Logistics Modernization Program [report no. D-2009-087];

- Controls Over Air Combat Command and Pacific Air Forces Unliquidated Obligations from Department of the Air Force Contracts Supporting Contingency Operations [D-2009-117];

Two of these reports [report nos. D-2009-006, -072] were prepared by the 21 auditors assigned to DBO's Contract Pay and Fraud Auditing Division. None of the 8 reports listed above attempted to match DFAS payments with contract requirements. Six pertained to obligations. Four of those 6 involved matching obligations records in separate accounting systems. Two others examined un-liquidated obligations on two contracts and determined that $4.4 million could be de-obligated and used for other purposes.

Two of the above-mentioned DBO reports did address – but did not verify -- actual contract payments. One determined whether U.S. Navy payments on shipbuilding contracts were accurately reflected in financial statements [report no. D-2009-065]. While a $29 billion mismatch was identified, there was no attempt to verify the accuracy of the Navy payment data or match it with contract requirements and deliveries. The second one [report no. D-2009-072] merely reports that PowerTrack payments for freight services are highly vulnerable to fraud. The report recommends that agencies use data mining to detect duplicate and fraudulent PowerTrack payments. The report identifies PowerTrack as a "high-risk" fraud zone but fails to test a representative sample of PowerTrack payments to determine whether fraud was present. Such lax audit reporting defies understanding.

The two other reports on un-liquidated obligations [report nos. D-2009-067, -117] were in-depth reviews that matched obligated balances with contract requirements to determine amounts needing to be de-obligated prior to expiration. This was a "use or lose" funding scenario. Such nitty-gritty accounting work by the auditors is commendable. Unfortunately, these audits were designed to help the Air Force spend – not save -- money. Making sure the Air Force spends money is the responsibility of the comptroller or CFO. It should never be a top priority OIG oversight issue. The key oversight questions here should have been; did the government get what it ordered at the agreed upon price, or was that money spent wisely? Auditing obligations, which is a frequent OIG Audit report objective, does not position ACM to answer key IG Act oversight questions. Obligations are a long way upstream from payments where most fraud and theft occurs.

c. Logistics Support Contract Audits

ACM also reviews and audits logistics and technical support contracts. Two FY 2009 reports in these areas are highlighted below.

In report entitled, "The Acquisition of the Air Force Second Generation Wireless Local Area Network" [report no. D-2009-036], OIG audit staff demonstrates great potential but falls short of attaining reasonable audit objectives.

This report concluded that the Contracting Officer (CO) was "negligent" for approving nearly $798,300.00 in potential overcharges for contractor travel costs. However, this report "reviewed only one of the many contracts [this CO] oversees …..There could potentially be similar overcharges in the other contracts that [this CO] oversees." The report found that:

> "…the actions of this CO and the lack of internal controls created an environment where potential fraudulent activity and inadequate documentation resulted in either no audit trail or one so complex that accountability was questionable."[46]

The auditors recommended that the CO be removed and considered for "administrative or criminal actions." The CO and program manager were removed. Unfortunately, Air Force officials summarily dismissed the recommendations for administrative or criminal action.

The audit detected a contracting environment ripe with potential fraud. There is no evidence, however, that the auditors probed deeper to verify pertinent payment data. Why didn't the auditors raise the level of scrutiny applied to this program audit? OIG auditors should know when to "lock the doors and call the law." Why didn't they "sink their teeth" into every contract this CO handled and carefully document and verify the true scope of potential fraud from the contract all the way through to payments – end-to-end? Why didn't they determine if the government was ever reimbursed for the alleged over-charges?

In FY 2009, ACM produced one report that probed the depths of potential fraud and almost qualifies as a credible IG Act core mission contract audit. It may be one of ACM's best pieces of work in FY 2009, but like all the others, it was incomplete and inconclusive. It failed to close the loop and nail down all the pertinent facts.

This audit is entitled **"**U.S. Air Forces Central War Reserve Material Contract" [report no. D-2009-108].

ACM personnel examined a cost-plus-award-fee contract awarded to DynCorp. The total contract value was $621 million and was in effect from April 2000 to September 2008. The contractor was responsible for managing pre-positioned war reserve materials (WRM) at storage sites in Southwest Asia.

The most troublesome findings were buried deep in the body of the report. These are as follows:

- The contract arrangement with DynCorp was prohibited by 10USC2306[a];
- Once Operation Enduring Freedom caused a major surge in WRM requirements far beyond the scope of the existing contract, that contract should have been terminated in FY 2002-03 and re-competed;
- Missing documentation resulted in either no audit trail or one so complex that accountability was questionable; The lack of internal controls created an environment with "high risk" for fraud;
- DynCorp was authorized to submit vouchers directly to DFAS under the Direct Billing program; DCAA was required to test and sample those transactions periodically but failed to do so;
- $161.1 million was obligated without a written, binding agreement in violation of 31USC1501;

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[46] Report No. D-2009-036 at page 27.

ACM auditors appear to have made a good faith attempt to match payments and deliveries with contract requirements. Unfortunately, the procedure used was flawed. The auditors needed payment data, but the contracting officer (CO) did not keep copies of DynCorp' "interim public vouchers" that were submitted for payment. So instead of going to the primary payment source – the Defense Finance and Accounting Service Centers -- to verify payment data, the audit team opted for a shortcut. The auditors chose to rely on the data provided by DynCorp, the target of the audit. How did ACM know that the information provided by DynCorp was accurate and complete? How could such a procedure meet accepted government auditing standards?

The report appears to imply that the vouchers, for the most part, could not be matched with the contract modification documents because the language in those documents did not specify what goods and services had to be delivered. If a payment/contract match-up was not feasible, this could be a violation of 31 USC § 1501. That law requires that a financial obligation be supported by a written, binding agreement (contractual document) that specifies what goods and services are to be delivered. Without that kind of specificity, a contract would be the equivalent of a blank check. The report stated: the **"**government did not know what it was paying for … The government may have paid for services DynCorp did not perform. … It may have overpaid for services."[47] In other words, the government did not know what it had ordered, what was delivered, or what it was actually buying or paying for.

The report cited an email from the contracting officer (CO) to DynCorp that seems to say that the valve on the big DOD money spigot was wide open. In this email, the CO told the contractor:

> "Go ahead and send me a 'draft P00034' bid schedule and I will get it[the modification] done. One question, I hope you can move money in CLIN 0302 to cover as we don't need to get any more FY 02 money. We have so far secured additional $29M for FY 03 **so don't worry about money at this point, keep spending** [emphasis added], just have to put in right place."

The CO never questioned any of the contractor's costs or cost overruns.

All of this taken together appears to suggest that DynCorp may have received $161.1 million in unauthorized and/or improper or even fraudulent payments. But the report's findings are inconclusive.

The OIG recommended that DCAA go back and examine this DynCorp contract. However, bucking this audit back to DCAA made no sense whatsoever. To begin with, the report gave DCAA very poor grades for failing to watchdog DynCorp on this contract from the get-go. The DOD IG should finish the audit that it started.

The OIG Audit Office should be responsible for conducting comprehensive, end-to-end audits of the 2000-2008 WRM contract as well as the new WRM contract awarded to DynCorp in June 2008, after the original 2000-08 contract was put under the audit microscope. To the extent possible, this work should attempt to determine the potential magnitude of unauthorized and/or potentially fraudulent payments to DynCorp. DOD should be asked to recover all unauthorized payments as well as proceeds from the sale of government property that have not been credited to the WRM contract.

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[47] Report No. D-2009-108 pp. 18, 23.

If justified, the new contract should be terminated by DOD and the contractor considered for possible debarment. The report also recommended that DCIS investigate possible fraud. Until the audit process is completed and the pertinent facts are verified and documented, as required by the OIG Audit Manual, the recommended referral to DCIS seems premature.

d. Summary Report: Potentially Wasteful

The staff believes that ACM and other directorates may be producing potentially wasteful reports. This one also appears to raise questions about the directorate's commitment to the spirit and intent of the IG Act.

The report in question is entitled "Summary of DOD Office of Inspector General Audits of Acquisition and Contract Administration" [report no. D-2009-071]. It is a rundown of OIG reports issued during the period of FY 2003 through FY 2008 and provides a status of the 973 recommendations in those 142 reports.

The Audit Office claims that the Pentagon agrees with most of its recommendations. A written OIG response dated February 23, 2010 stated: "DOD senior leadership agreed with 97 to 98 percent of the recommendations rendered during FY 2007, 2008, and 2009, which means management agreed to implement corrective actions to mitigate the risk areas we identified." However, this report shows that DOD is slow to implement OIG recommendations. The following table appeared in report no. D-2009-071 to demonstrate DOD compliance rates for ACM's recommendations:[48]

Figure 5 - Overall Status of Recommendations[49]

	Recommendations	Closed	Percent Closed	Open	Percent Open
FY 2003	107	102	95.3	5	4.7
FY 2004	225	221	87.4	4	1.8
FY 2005	33	29	87.9	4	12.1
FY 2006	184	148	80.4	36	19.6
FY 2007	272	201	73.9	71	26.1
FY 2008	152	99	65.1	53	34.9
Total	**973**	**800**	**82.2**	**173**	**17.8**

The recommendation and the follow-up process conducted by the OIG is a subjective game. In this report, there was no record to indicate that OIG had done or was planning follow-up on any of the recommendations in question. Compliance is always open to interpretation and can become a battle of wills between the OIG and the department. It can take years for the department to follow through with all OIG recommendations. Frequently it never happens and is ignored.

[48] Table taken from Report No. D-2009-071, Summary of Inspector General Audits of Acquisition and Contract Administration, April 22, 2009, p. 53.
[49] As of September 30, 2008

In the "What We Recommend" section of report no. D-2009-071, the OIG made this astonishing statement:

> "We are not making any recommendations in this report because the recommendations made in the respective individual reports, if implemented, should correct the issues identified."[50]

Why did this report identify 173 unresolved recommendations – most dating back two or three years -- if it was safe to assume that all the IG's recommendations for corrective action had been implemented? For OIG auditors, this statement appears to imply a lax attitude about oversight. Report follow-up is an important audit function. A year or two after doing an audit, auditors routinely go back and conduct audit follow-up in old trouble spots to see if the programs or components audited have taken corrective action. This is a reasonable management oversight practice to improve efficiency. Writing a summary about 973 old recommendations with zero follow-up is not very productive. Instead, ACM should have zeroed in on unimplemented recommendations – if any. Maybe the OIG could even have made some recommendations to the Department to remove some institutional barriers, which may have been hampering compliance and saved some taxpayer money.

This 55-page re-tread report is said to have cost $198,577.00 to publish. Spending so much money for a summary report – with no financial benefit - appears wasteful of taxpayers' money.

The OIG responded to this criticism by stating:

> "We believe that this summary could be helpful in drafting key initiatives to improve acquisition and contract management or provide a resource for training personnel in the Defense Acquisition Workforce Improvement Act career fields."[51]

This statement reflects wishful thinking on the part of the OIG. A summary of this type, without any recommendations to the department, will do nothing to encourage reform in acquisition and contract management.

8. General Observations on FY 2009 Reports

OIG Audit appears to have a fraud "threshold" that prevents auditors from digging deeper into potential waste, fraud, and abuse. Regrettably, this fraud threshold is reached when auditors discover potential fraud or fraud indicators. When that fraud threshold is reached, the audit work stops immediately and the case is "kicked" to the Defense Criminal Investigative Service (DCIS) for investigation. Report-after-report points to the existence of high-risk fraud zones or blatant fraud indicators. Without exception, ACM personnel fail to "crack the nut" at DOD. They just punt the ball.

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[50] Report No. D-2009-071, p. i.
[51] Report No. D-2009-71 at p. 1.

Three FY 2009 reports exemplify this practice of stopping short on audits where potential fraud is detected: wireless contract [report no. D-2009-036], TRICARE [report no. D-2009-037], and PowerTrack [report no. D-2009-072]. There are others. This is brinkmanship. ACM never quite gets on the "money trail" where most fraud occurs. ACM just does not go there. They witness a "robbery in progress" but report it to no one.

The very first page in the "OIG Handbook on Fraud" tells auditors "to think fraud." [52] The OIG Audit Manual expands on that guidance. It says: "Plan audits to provide a reasonable assurance of detecting fraud."[53] Clearly, auditors are not responsible for proving fraud. There are legal boundaries they must follow. However, when indications of fraud are detected, the manuals state, the auditors are supposed to consult with investigators to determine what additional audit work is needed to properly document the case. To document fraud, ACM would usually need to verify pertinent payment information at the primary payment source, which is DFAS. In report no. D-2009-108, for example, the auditors never got to primary payment source documents. Instead, it attempted to verify payments with vouchers provided by DynCorp-- the target of the audit. And then payments have to be linked to deliveries and contract requirements. The auditors are simply not connecting all the dots. OIG Audit's failure to go to the Defense Finance and Accounting Service (DFAS) to verify payment data is a consistent pattern detected throughout FY 2009 audit reporting. Are the auditors afraid of what they might find at DFAS? Failing to verify payment data at the primary source is not an acceptable audit procedure. If OIG Audit management is committed to the IG's core mission of detecting and reporting fraud, ACM managers needs to deploy aggressive audit teams on the "money trail" 24/7, and that means going to DFAS.

Unfortunately, ACM does not appear to have an aggressive attitude about fraud. That attitude was reflected in this response given by a senior ACM Directorate official. When he was asked how much fraud ACM had uncovered in FY 2009, his answer was a disinterested: "I don't know." A top Audit Office official and other Audit AIG's were asked the same question and gave essentially the same answer. This is further evidence of the lax attitude toward oversight within the OIG Audit Office.

9. Reporting Fraud to DCIS

Audit referrals to DCIS are the best gauge of exactly how successful OIG Audit is at detecting and reporting fraud.

DCIS reports it received only 9 formal referrals from the entire OIG Audit shop in FY 2009, including from "pending audit reports." One was from ACM and grew out of the audit work presented in Report No. 2009-108 discussed above. Of the 9 referrals, 8 cases were opened for criminal-related inquiries. One active investigation is ongoing, and two are closed. There have been no criminal prosecutions from FY 2009 audit referrals.[54]

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[52]Handbook on Fraud Indicators for Contract Auditors, IGDH 7600.3, March 31, 1993, signed by Deputy IG Derek J. Vander Schaaf, p. i.

[53] DOD Manual No. 7600.07-M, February 13, 2009, signed by IG Heddell, p. 45.

[54] Meeting with DCIS, January 14, 2010 and DCIS information paper, January 21, 2010.

By comparison, DCIS received 142 referrals from DCAA during the same timeframe -- up from just 17 in FY 2007.[55] Why is DCAA detecting and reporting so much more fraud than OIG Audit? There appears to be one big driver behind DCAA's much higher referral numbers. DCAA is doing contract payment audits, and OIG Audit is not. DCAA is on the "money trail." ACM is not. ACM's policy and procedure reviews will not uncover much fraud. If ACM is looking for fraud, it's looking in the wrong places. Perhaps, ACM needs to acquire the "tools of the trade." It should consider training or acquiring more Certified Fraud Examiners (CFE). Currently, of the 71 CFE's in OIG audit, only 8 or 11.2% are assigned to ACM.

ACM also suggested that looking at contract payments would be "duplicative." That implies that some other DOD entity is doing that job. In addition to DBO's work in this area, which is minimal, ACM makes it abundantly clear that the other entity is DCAA. OIG Audit appears to have relinquished its contract audit responsibilities to DCAA. ACM makes this flat-out statement: "DCAA is responsible for performing all contract audits for DOD." [56] That assertion is tied to DOD Directive 5105.36, signed by Deputy Secretary of Defense Wolfowitz on February 28, 2002. This directive assigns that responsibility to DCAA. DCAA is a huge audit operation with nearly 3,700 auditors. Unfortunately, DCAA reports to the DOD CFO and Comptroller. That relationship raises questions regarding DCAA's credibility and independence. Recent GAO and IG reports also indicate that these concerns are fully justified. The IG Act gives the DOD IG broad audit oversight responsibilities for the entire department, including DCAA, the Comptroller's office or any other DOD organization. DOD Directive 5105.36 is not the law of the land. It does not supersede the IG Act.

10. Direct Bill and PowerTrack Reduce Need for Oversight?

ACM also seems to suggest that auditing payments may no longer be necessary, because "many of the larger companies" – 204 in all -- have been approved for Direct Billing, and DCAA is watch-dogging that process. Direct Billing is a paperless, automatic, electronic payment process like PowerTrack. These payment procedures appear to exacerbate the "no audit trail" scenario all too frequently encountered by OIG auditors. True, they reduce need for paperwork but not the need for oversight. Two OIG audit reports [report nos. D-2009-108 & -072] clearly indicate that Direct Billing and PowerTrack remain highly vulnerable to fraud but are not receiving aggressive oversight. PowerTrack is a perfect place to look for fraud by testing payment samples. This is another missed audit opportunity.

When a senior official was first asked whether that directorate was watch-dogging Direct Billing payments, he was totally unfamiliar with the program. In a series of written follow-up questions and answers, however, he clarified his response. He said that Direct Billing was DCAA's exclusive responsibility.[57] Again, it appears ACM passed the audit buck. Plus, one of that directorate's reports -- report no. D-2009-108 -- give DCAA failing grades for failing to watch-dog Direct Billing payments.

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[55] Ibid.
[56]OIG Response package, January 19, 2010, p. 1.
[57] ibid. p.12.

11. Remedy: Re-couple Payments and Contracts with "End-to-End" Audit Process

Instead of looking at the contract process through a straw – as ACM does today, ACM needs to expand its vision and examine the contract totality from one end to the other. To get its audit process back on track, ACM should begin performing "end-to-end," full-scope contract audits. Auditors need to re-couple contracts and payments and deliveries at the audit level. They need to check and verify each data point in the cycle of transactions -- from the contract all the way through accounting and obligations to invoices, receipts, deliveries and payments as processed through the Federal Reserve Banks.

Senior management has indicated that full scope audits "are impossible …. We can't do it …. It's too big." This is because pertinent documentation is missing, and there are no audit trails. Given the poor condition of DOD's books of account, huge chunks of manpower are needed to audit just one contract. The extreme difficulty of auditing DOD financial transactions is discussed in the DBO section of this report under the heading "Audit Trail Reconstruction Work." In view of this continuing problem, OIG Audit needs to reconsider its priorities and realign its audit organization to carry out the IG's core mission. Today's teams, consisting of 5 to 10 auditors, are simply not up to the task at hand. The Audit Office needs to restructure the ACM organization. It needs to establish a small number of much larger teams, consisting of 25, 50, 100 or more auditors, that have a capability to tackle the most egregious contracts – like the conditions encountered in audit report no. D-2009-108.

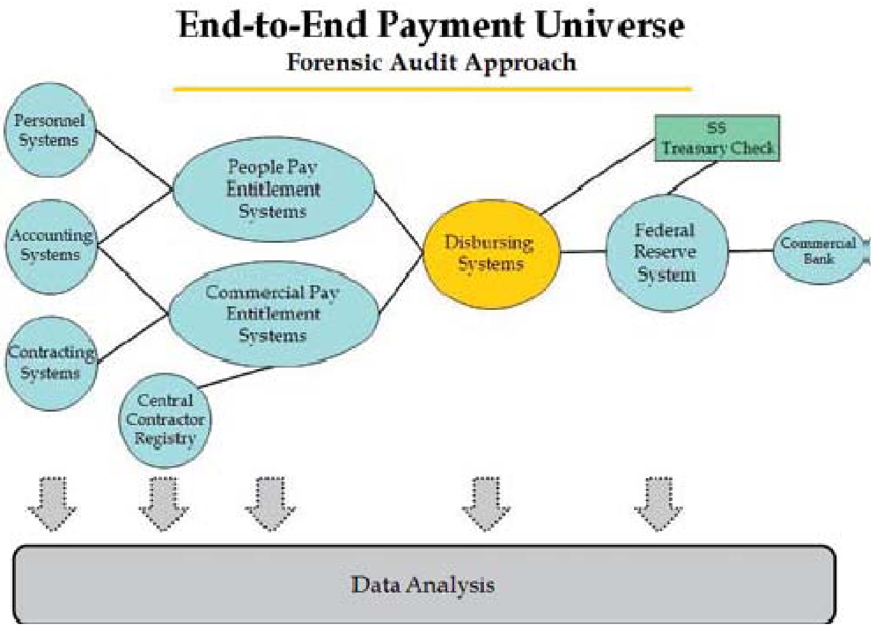
In a letter to Senator Grassley, dated March 2, 2010, the IG indicated a willingness "to initiate end-to-end audits of USMC and Army DDS [Deployable Disbursing System] Payments." That is a step in the right direction. The end-to-end audit process is described in an excellent article entitled "A Conceptual Framework for Forensic Audit and Automated Oversight." It was written by the Assistant IG for Audit at the Commerce Department, Brett M. Baker.[58] Although this article focuses on automatic "data mining" audit techniques, it provides a good description of the end-to-end audit procedure. The End-to-End Payment Universe, portrayed on the chart below, appears in Baker's article. [59]

When conducting an audit, ACM needs to capture transaction-level data generated at each one of the data points portrayed on the flow chart in Figure 6 below:

[58]This article appeared in the Department of Commerce Office of Inspector General, Journal of Inquiry, Spring/Summer 2009, pp. 18-22.

[59] Ibid, p. 19.

Figure 6



When auditors link and match payments and deliveries with contract requirements, they are in a position to assess contract performance. That, in turn, puts them in a position to answer two key oversight questions: Did the government get what it ordered at the agreed upon price and schedule, or did the government get ripped off? Being able to answer those questions enables and facilitates accountability over the expenditure of taxpayer money. This audit methodology would allow ACM to detect and report fraud and waste. This is what the taxpayers expect and deserve. That is the reason why the IG Act created the OIG's in 1978. That is the IG's core mission. The OIG Audit Office needs to return to that core mission.

C. Readiness, Operations and Support (ROS)

1. Mission

The mission of the Readiness, Operations, and Support (ROS) Directorate is to audit "the effectiveness and efficiency of the management of DoD maintenance programs, including assessments of repair and overhaul programs for major equipment and weapon systems; transportation programs; logistics programs; and readiness issues for active and reserve forces, and joint operations and programs."[60] In addition, ROS audits military benefits such as commissaries, exchanges, and health care programs.

2. Organization and Personnel

A newly assigned Acting Assistant Inspector General (AIG) leads ROS. She took charge in mid-2009. She has been an OIG employee since 1999. She is the fifth person to occupy this post in the last 3 years. She is assisted by two Deputy Assistant Inspectors General (DAIG). The rest of the management team is comprised of four senior-level managers. Six administrative personnel support the mission.[61]

To plan and conduct audits, ROS is staffed with approximately 158 auditors. Nineteen ROS auditors are Certified Public Accountants, and 12 are Certified Fraud Examiners. Sixty-six auditors, or 43 percent, of the staff are YA-1s. The YA-1 designation is a career development or entry-level grade, indicating less than four years of OIG employment. Overall, ROS appears to have a relatively junior audit work force.

This directorate is separated into seven divisions. They are: Information Technology Management; Transportation; Global Logistics, which is located in Philadelphia, Pennsylvania; Military Health Systems located in Yorktown, VA; Homeland Defense; Forces Management; and the Combatant Command. In July 2009, the Combatant Command Division assumed the responsibility for divisions in Germany and Korea from the Joint and Southwest Asia Operations (JSAO) Directorate. This division will also be responsible for management of the new Hawaii Office. That office will oversee the planned relocation of U.S. Marines from Okinawa to Guam. The DOD IG was designated the Chairperson of the Interagency Coordination Group of IGs for Guam Realignment by the Defense Authorization Act of 2010.

3. Productivity

ROS auditors published 16 audit reports in FY 2009. The average output for each of ROS' seven divisions was 2.6 reports or .103 reports per auditor per year. The time to complete a report ranged from a low of 10 months to a high of 35 months or an average of 17.7 months.[62]

[60] DOD OIG website listing of ROS responsibilities found on 3/23/10.
[61] This information was taken from the ROS organizational chart dated 11/17/09.
[62] Korea Division reports were attributed to JSAO's FY 2009 audit report totals, not ROS.

The most productive division was Forces Management. Its 25 auditors published four audit reports in fiscal year 2009. The 16 auditors of the Homeland Defense Division, by comparison, produced one audit for this same period. The 9 auditors in Germany did not publish a single audit in FY 2009. The 5 auditors in Korea published only one audit.

ROS managers were asked to explain why it took over 18 months to finish a report in FY 2009. In response to a written question, senior managers cited staff experience as the principal factor:

> "Over the last 10 years the OIG has seen the percentage of experienced auditors decrease. In 1998, 31 percent of the audit staff had l0 years or less experience. By 2009, the percentage of staff with less than 10 years of experience had grown to 63 percent.[63] With more inexperienced staff, the time required to perform on-the-job training and provide increased supervision has impacted timeliness." [64]

Other factors cited by management for excessive report completion times were the size and scope of audits, timeliness of information, availability of clients and quality controls.

During an interview, a senior Audit Office official stated he made the decision to scrap pending ROS audits for FY 2009 that had taken more than three years to complete.[65] Some of these audits were well past their "sell-by" or effective dates. The subject matter was no longer relevant and would have no significant impact on the programs targeted. This is an example of OIG wasting precious audit resources on useless work. When the OIG conducts an audit, the presence of the auditors can disrupt the everyday operation of programs under review. The decision to terminate audits could undermine the credibility of the OIG. OIGs are the watchdogs of government agencies. They should set an example of excellence on how to spend finite resources. The OIG should be the model for government efficiency and effectiveness, not the poster child for waste.

4. Budget and Costs

The ROS budget for FY 2009 was $16,949,846.00. ROS expended $401,870.00 in travel and per diem costs for its personnel.

ROS estimated its 16 audits cost taxpayers a total of $6,498,147.00. ROS reported the average cost for a FY 2009 audit was $406,134.00.00. However, a more accurate and complete figure may be computed by dividing the ROS budget by ROS' 16 completed audits. That yields a higher average audit cost of $1,059,365.00.

To run the Germany Division, which issued no reports, the DOD OIG spent $25,049.00 in operating costs and $1,279,462.00 in staff costs. The costs for operating the Korea Division, which produced just one report in FY 2009, were estimated at $575,000.00 for FY 2009.

The planned Hawaii Division had FY 2009 starts-up costs of $815,705.00, as reported by the OIG.

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[63] Data was obtained from FEDSCOPE.
[64] ROS written response to questions dated 2/23/10 at page 2.
[65] This official retired in February 2010.

5. Senior Management & Audit Philosophy

A senior ROS official was interviewed on December 3, 2009. This official reported the principal missions of ROS are to "examine efficiencies, and how we contract." This official identified ROS's top audit priorities for FY 2010 as the scheduled Guam realignment and the draw down in Iraq.

In view of the fact that the Guam realignment process is facing some significant obstacles in Japan and elsewhere, Guam appears to be a questionable audit target. ROS has not announced any Guam related audits in FY 2010, and its priority is expected to be downgraded.

During interviews, in line with standing guidance in OIG fraud and audit manuals, each senior manager was asked about the frequency of fraud referrals. None had a clue, and there appeared to be a total lack of interest in the subject. A top ROS official was also asked when ROS last uncovered and reported fraud. The answer given was the same answer given by all the other senior managers: "I don't know." When asked if ROS examines contract payments, that official stated that ROS does not perform that audit function. DBO and ACM look at payments.[66] If ROS is not looking at the linkage between contracts and payments, then the probability of discovering fraud is low.

ROS senior management listed the following as their top three priorities to target waste, fraud, and abuse in FY 2010:

- American Recovery and Reinvestment Act of 2009;
- Health Care; and
- Guam Realignment and Relocation

6. Analysis of Selected FY 2009 reports

In FY 2009, ROS carried out a wide assortment of audits at home and overseas. It appears to be the DOD OIG catch-all audit organization. ROS audits ranged across a broad spectrum from examining the impact of public laws to health care services to the use of non-tactical vehicles. It may be that the ROS' audit focus was too broad to be manageable, and that problem, in turn, gave rise to the creation of the JSAO Directorate last year. JSAO was created to concentrate on the Southwest Asia region. This organizational shake-up, however, has not eliminated overlap between ROS and JSAO. A review of pending FY 2010 audits suggests that ROS is continuing to conduct a significant number of audits in Iraq and Afghanistan.

a. Health Care Audits

One of the directorate's goals is to review health care programs for military members, reservists and their dependents. The Military Health Systems Division based in Yorktown completed three audits in this area in FY 2009. They are as follows:

- Report No. D-2009-037, "TRICARE Controls Over Claims Prepared by Third-Party Billing Agencies";

[66]Neither DBO nor ACM nor any other OIG Audit directorate verifies contract payments at the primary source – DFAS.

- Report No. D-2009-078, “Health Care Provided by Military Treatment Facilities to Contractors in Southwest Asia”; and
- Report No. D-2009-113, “Medical Equipment Used to Support Operations in Southwest Asia.”

In Report No.D-2009-037, regarding TRICARE billing controls, the OIG auditors conducted a follow-up audit of third-party billing agencies in the United States. These billing agencies process more than 200 million claims valued at about $18 billion a year. TRICARE billing and payments are clearly high-risk areas with a long history of fraud. A previous OIG audit in 2006 found a billing agency in the Philippines had defrauded the government of $100 million. ROS staff examined the payment practices of the TRICARE Management Activity (TMA) and determined that TMA did not – and could not - track billing agency-related claims. Furthermore, even though federal regulations require that payments go directly to beneficiaries or providers, TMA sent payments directly to billing agencies, including to billing agencies specifically excluded by Department of Health and Human Services from participating in federal health care programs. ROS personnel referred three questionable billing agencies for investigation by the Defense Criminal Investigative Service (DCIS).

It is clear the auditors went into this TRICARE audit thinking “fraud.” This is the type of audit taxpayers expect OIGs to conduct. Unfortunately, it did not have a reasonable objective. The identified potential dollar loss in this report is only $2.1 million, and these issues were not discovered by OIG auditors but were reported by contacts in the health care industry. The OIG reported the loss could have been higher if the TMA had maintained better billing records. Unfortunately, TMA does not maintain data that identifies billing agency claims. “Without this information,” the report states, “OIG auditors could not identify potentially fraudulent billing patterns involving billing agencies.”[67] The lack of such critical accounting data should never be tolerated by OIG auditors. TRICARE needs to be directed by higher authority to identify billing agencies in the claims database. That should be the top priority. Anything short of that is unacceptable. The auditors should have selected a sample from the TRICARE database and performed some old-fashioned “gumshoe” audit work or else devised a creative data mining technique to attack the problem. Or as a last resort, the auditors could have done it manually. There are other weaknesses in this report. OIG personnel did not hold any TMA officials personably accountable for allowing billions of TRICARE funds to potentially fall prey to unscrupulous third-party billers or fraudsters. They should do more to hold responsible employees, managers and officials accountable by recommending that agencies take appropriate administrative action on poorly performing personnel.

[67] Report No. D-2009-037, P. 3.

Report No. D-2009-078 examined medical care provided to the over 225,000 contractors working in Southwest Asia. The audit revealed the health care contracts between the DOD and contractors were often vague and subject to interpretation. Thus, it was difficult to determine what medical health care could be given to injured or ill contractors. A second, more alarming finding was that the Military Treatment Facilities (MTF) in Southwest Asia did not bill and collect payments from contractors who received care at these DOD facilities. Additionally, each military component had different billing and collection processes. It was found that MTFs may have provided millions of dollars of free medical care to contractors. In short, the report indicates the DOD was losing millions of dollars in reimbursable costs. This audit should have examined a sample of cases and quantified the dollar value of those losses with precision. The DOD components concurred with the OIGs recommendations to establish a uniform billing program. A working group was created to address this issue. U.S. Central Command indicated it would need additional personnel in theatre to perform the billing functions.

Again, this report probed a high-risk area that Congress and taxpayers expect the OIG to examine. DOD personnel and contractors have been in Southwest Asia since 2003. It is inexcusable that after six years of this war, in which DOD is heavily dependent on contractor support, the U.S. Central Command still does not have a procedure to deal with this billing and reimbursement issue. The findings of this audit would have been strengthened if the auditors had been able to carry out field work at the MTFs. The field work would have provided auditors the opportunity to better gauge the medical billing process. Instead, ROS staff had to rely on questionnaires completed and returned by MTF personnel. The DOD OIG was denied authority to visit the MTFs in November 2008 by USCENTCOM. This being the case, the DOD OIG should have sought assistance from service IGs or Special IGs operating in Southwest Asia. This type tasking would have been feasible for the most utilized MTF facilities operating in Baghdad, Iraq and Bagram Air Base, Afghanistan.

The lack of access to MTFs by ROS personnel should not have been an issue in the preparation of Report No. 2009-078, however. According to Report No. 2009-113, Medical Equipment Used to Support Operations in Southwest Asia, ROS had another audit team in-country that should have assisted with this field work. In doing Report No. 2009-113, auditors traveled extensively throughout Southwest Asia to collect the information needed for their analysis of the accountability of medical equipment in theatre. In the scope and methodology section of their report, ROS personnel state:

> "We also visited six MTFs and five medical logistics activities in Afghanistan, Iraq, and Qatar. The six MTFs visited included three Army Combat Support Hospitals, one Air Force Theater Hospital, a Combined Joint Theater Hospital, and one Role 2 Marine Corps Expeditionary Medical Unit."[68]

[68] Report No. D-2009-113 at pages 22 and 23.

The audit field work of medical providers and facilities, as stated above for Report No. 2009-113, was substantial. This audit work took place from February 2008 to September 2009. The audit work on Report No. 2009-078 was done from July 2008 to May 2009. So there was a 13-month overlap between these two ROS audits targeting MTF facilities in Southwest Asia. It seems ROS leadership could have used the same Military Health Systems Division audit team to conduct the fieldwork and analysis for both audits. The command may have denied the OIG request for having a second OIG audit team in-country for those very same reasons. Through better tasking, the OIG could be saved valuable time and money to uncover other wasteful DOD activities.

The quality of the audit work conducted by the auditors assigned to Military Health Systems in Yorktown is a reflection of its very experienced and knowledgeable staff, which is capable of performing the core IG mission of detecting waste, fraud, and abuse. The personnel chart reflects a high level of audit experience. Fifteen of the 24 auditors, or 63 %, are YA-2s and YC-2s (team leaders). There are only 7 YA-1 or entry-level auditors, which is 29% of the personnel in this division. One reason why this seasoned group produced just 3 reports last year is because it takes an average of 14.6 months to publish a report. These ROS auditors need to be challenged to conduct more timely and aggressive in-depth, end-to-end audits designed to protect taxpayer funds by detecting and reporting fraudulent activity.

b. Transportation Contract Audits

The Forces Management Division completed four audits in FY 2009. Three of those audits concentrated on vehicle or transportation contracts in Southwest Asia. They are as follows:

- Report No. D-2009-085, "Contracting for Nontactical Vehicles in Support of Operation Enduring Freedom"; and
- Report No. D-2009-095, "Contracting for Transportation Services for U.S. Army Corps of Engineers, Gulf Coast Region";
- Report No. D-2009-096, "Contracts for the U.S. Army Heavy-Lift VI Program in Kuwait."

In Report No. D-2009-096, auditors evaluated U.S. Army oversight of commercial transportation contracts. They found the U.S. Army Contract Command (ACC) did not develop suitable mechanisms to supervise contractor performance and deliverables. "Key contracting documents" were missing – a clear indicator of potential fraud. Furthermore, one of the companies involved was already under investigation for fraud. ROS reached the following astonishing conclusion:

> "DoD did not have reasonable assurance that contracts were complying with requirements, achieved standards, and that the $522 million spent for contractors' services represented **the best value to the Government**."[69] [emphasis added]

That conclusion, which is essentially an unanswered – and unexamined - allegation, should be the starting point for this audit – not the ending point. The OIG was created under the IG Act to tackle these types of issues. It is not enough for ROS auditors to chastise the U.S. Army for not doing what OIG Audit is supposed to do.

[69]Report No. D-2009-096, page i.

The objective of audit Report No. D-2009-096 should have been to determine whether the government got what it ordered at the agreed upon prices. Did the government get the "best value?" What was the "best value," and how much did the government actually pay? Or, exactly how much money was wasted? The audit did not probe deeper to address these pertinent questions.

When questioned about this audit, Deputy IG for Audit Ugone responded by saying: "We need to setup an office in Kuwait." However, the location of the OIG audit office is not the issue. The physical presence of OIG auditors in the region has not been a deterrent to poor financial practices by DOD components. If this type of philosophy was actually practiced, the OIG should have auditors at every DOD facility everywhere in the world. This is not a feasible or practical solution. The real issues lie elsewhere. The central problem with audit No. D-2009-096 is two-fold. And these issues apply not just to ROS but to all OIG audits.

First, its scope and objectives were too limited. In view of the lack of U.S. Army oversight on these contracts, why did ROS fail to perform end-to-end contract audit? OIG Audit responded to this criticism by saying: "DCIS has an ongoing review of a contracting officer's involvement in this matter." OIG Audit also indicated that it would be conducting an "in-depth audit of this contract in the future." ROS should have addressed its serious concerns about the Heavy-Lift program the first time around in 2008.

The taxpayers deserve nothing less. These contracts authorized the expenditure of nearly $700 million. The taxpayers will now have to wait months or years for the OIG to do a second audit that may or may not get to the root of the problem. However, by that time, it may be an academic exercise. The records will likely have disappeared, contracts expired, and key personnel will be gone through reassignment or retirement. Meanwhile, millions of dollars of tax money are being placed unnecessarily at risk. This is a wasteful approach to audit work. The OIG's goal should be to do it right the first time.

Second, it seems there is an organizational culture or expectation that the military services are not capable of making good and reasonable decisions over the programs they manage. This is especially true in active war zones. The military's drive to achieve the program goals, i.e. "accomplish the mission," is perceived as absolving them from elementary fiscal accountability. This is exactly what was reported in D-2009-096. Congress entrusted the U.S. Army with $700 million to spend on transportation of war supplies. Regrettably, they accomplished the mission without proper regard for taxpayer dollars.

To resolve these significant problems, audits need to be expanded to follow the entire audit trail so that auditors can go beyond "questioning costs" to actually putting a price tag on the missteps by the military services and agencies in the field. Using hard facts derived through in-depth audits, OIG auditors will be able to pinpoint accountability and issue targeted recommendations. Audited components will be hard-pressed to dispute verified OIG findings. By focusing on the fiscal accountability of individual components and programs, the OIG can play a key role in modifying the DOD's mission-oriented culture. Accomplishing the mission needs to include fiscal goals and responsibilities. OIG can impart the need for commitment to sound financial management that is as important as the bullets, tanks, and missiles needed to defeat the enemy.

These very same questions can be raised about Report No. D-2009-095 in which ROS found that the U.S. Army, Corps of Engineers Gulf Region Division (GRD), "could not provide assurance that the contractor complied with all contract requirements," and "cannot validate that it received transportation services totaling $69.9 million." How is it possible that receipt of services at agreed upon prices cannot not be validated by OIG auditors? The purpose of an audit should be to validate financial data if the subject of the audit cannot or does not do it. In particular, these two audits, D-2009-095 and D-2009-096, should have fully examined representative samples of transactions from the contracts to ensure that the taxpayer money expended did not fall prey to fraud or theft. These audits needed to examine all relevant documentation, from the contract award all the way through to final payment -- end-to-end. The most important audit procedure is to match payments and deliveries with contract requirements. In doing this, auditors will be performing the core IG mission. They will be assessing contract performance and answering two key oversight questions: 1) Did the government get what it ordered at the agreed upon price and schedule; or 2) Did the government get ripped off? Anything short of that is unacceptable. Concluding that the Corps of Engineers could not validate receipt of $69.9 million in services should be the starting point for the audit – not the ending point

Congress, stakeholders, and the American taxpayers count on the OIG to be aggressive watchdogs. By beginning end-to-end financial audits of a selected number of contracts, ROS personnel would have been able to verify contract oversight problems identified in these reports and, more importantly, found instances where the DOD was overbilled, double-charged, or defrauded. Instead, ROS merely succeeded in "kicking the can down the road." By changing the audit priorities from policy-related issues to in-depth, labor intensive, end-to-end fraud detection audits, the OIG would give the government more opportunities to recover misspent funds and hold responsible officials accountable.

c. Information Operations Audit

In addition to the three audits discussed above, the Forces Management Division issued a fourth audit in FY 2009, Report No. D-2009-090, Information Operations (IO) Career Force Management. The stated purpose of this audit was to "examine how the combatant commands identified and prioritized requirements for IO billets and training and education." However, the auditors discovered their primary objective could not be met because combatant commands had different definitions for IO billets.

ROS personnel indicated this audit was important because IO had been identified as a critical operational goal in the DOD Quadrennial Defense Review (QDR) of 2001. After reviewing numerous polices, internal management assessments, and interviewing civilian and military official, the auditors issued this recommendation:

> "We recommend that the Under Secretary of Defense for Intelligence coordinate Information Operations with DoD Component heads and the Deputy Secretary of Defense to ensure that deficiencies in the training and education requirements of the IO career force are resolved."[70]

[70] Report No. D-2009-090 at page 9.

It took 17 months and $334,107.00 – and probably much more than that-- to issue this recommendation about IO career management. It is difficult to understand how this audit could meet high risk, priority standards. The auditors did not examine a single contract, payment, or transaction. No abuses were discovered in the IO program. Furthermore, auditors did not estimate how much money could have been saved if the Under Secretary of Defense for Intelligence had implemented the OIG recommendation, or how much was wasted by not doing it. In the end, little or no financial benefit was derived from this report. This report was probably a waste of money.

d. The F-35/British Aerospace Enterprises (BAE) Audit Withdrawal: A "Black Eye" for ROS

On October 23, 2008, IG Gordon S. Heddell approved the decision to withdraw Report No. D-2008-058, Security Controls Over Joint Strike Fighter Classified Technology, dated March 6, 2008.

As background, this report had been in the OIG pipeline for an excessive period of time. First, the decision to retract it was taken three years after the audit was initiated. Second, it took nearly 2.5 years to publish the report. It is also a rare and highly unusual action for any IG to withdraw an audit report.[71] A top Audit Office official said the F-35/BAE episode was a "black eye" for that office.

In the wake of the F-35/BAE audit report withdrawal, IG Heddell asked the Department of Agriculture IG to conduct a peer review of this troubled audit. On March 6, 2009, the Agriculture IG issued a report. It determined that the conclusions in the F-35/BAE report were not consistent with evidentiary support contained in the underlying work papers. Five separate internal DOD OIG reviews of this report failed to detect this blatant disconnect. However, internal records indicate that on June 19, 2007 -- about 9 months before the report was issued, a senior Audit Policy Oversight official raised a red flag regarding the mismatch between the conclusions and the underlying documentation.[72] This internal red flag was followed by two similar BAE red flags in December 2007 and again in May 2008, raising identical concerns about the report. It is hard to believe that these red flags never popped up on senior management's radar screen – especially on a report that had taken so long to publish. All the warnings were totally ignored.

A top Audit Office official acknowledged there was an internal breakdown in communication between the project manager and the project director. Specifically, each failed to execute their responsibilities for the audit report, she said. The above-referenced email supports that conclusion. However, the problem appears much larger than that. There was a breakdown in the audit quality control review process. This problem was flagged in the Department of Health and Human Service OIG peer review of the DOD OIG in 2009.[73] It focused on quality control processes in the Audit Office where it suggested major improvements were needed.

[71] The DOD IG also withdrew a second on May 5, 2009: Report No. IE-2009-004, "Examination of Allegations Involving DoD Office of Public Affairs Outreach Program," dated January 14,2009, for essentially the same reason.

[72] June 19, 2007 email from and to DOD OIG employees.

[73] Department of Health & Human Services, Office of Inspector General, IG Daniel Levinson, *Report on the External Quality Control Review of the Audit Organization of the U.S. Department of Defense, Office of Inspector General* dated December 2, 2009.

The official account provided to the Senate staff suggests that only three employees were subjected to disciplinary action for the withdrawn report. All three received reprimands, one of which was given to the team leader, who later retired. One received a five-day suspension. A third, the project director, who signed the report, retained his grade but was transferred to a different division within ROS where he is today. None received high performance ratings. [74]

The above account provided by senior management appears to exclude one unresolved accountability issue surrounding the F-35/BAE audit fiasco. Four auditors were actually subjected to disciplinary action. But one appears to have taken the brunt of the blame. In March 7, 2009, the AIG for the ROS division was removed from his post and demoted from SES to GS-15. It seems like he was the only one who was harshly punished for what happened. Yet he was not even an OIG employee when the F-35/BAE audit was published. Nonetheless, in the March 3, 2009 memo demoting him, which was signed by a top Audit Office official, the first reason cited for this action was: "You failed to address the Project Director's [and Team Leader's] accountability as the approving authority for the withdrawn report, to wit, you left the Project Director as your Deputy AIG." [75] Since he was not a member of the audit staff when the F-35/BAE report was issued, why didn't the top Audit Office official in charge at the time take the lead in addressing this accountability issue? Since the Project Director, who signed the report, was ultimately cleared of any wrongdoing and remains in a leadership post today, it seems like the top Audit Office official blamed the former AIG, who was fired, for not doing what that a top audit official should have done in the first place.

A top Audit Office official was asked to address these issues. That official confirmed the facts but refused to answer the questions because "this personnel action is the subject of EEOC litigation."[76] However, that official expressed satisfaction with the outcome of the discipline. As a top manager of the DOD OIG audit office, that official acknowledged that senior management was not held accountable for their role in the issuance of the F-35/BAE report.

The independent activities of OIGs are rarely examined. Those who dare question the findings of an OIG report are sometimes accused of challenging the statutory independence of IGs. The F-35/BAE report was one such extraordinary episode. The OIG came to realize its findings and methodology were erroneous. The ramifications of IG Heddell's decision to withdraw this report cannot be overstated. It had the potential of damaging the credibility of all OIG reports in the eyes of the whole department as well as defense contractors. The consequences of this audit fiasco may impact morale and report production at the OIG for years to come. During one interview, a top official said the Audit Office must get their report recommendations "exactly right." This is an admirable goal but very difficult to attain. Audits repeatedly report that DOD financial systems are desperately broken. It is nearly impossible for auditors to get reliable data from the department. How can they audit to perfection in the midst of a department in total fiscal chaos? Auditor reports are expected to be checked *ad nauseam* by managers to see if they measure up to some unattainable level of flawlessness. That is why it takes up to three years to complete some reports, which, for the most part, contain weak and meaningless findings and recommendations. If future reports are expected to be perfect, the production of audits will grind to a halt.

[74] OIG Response package, February 23, 2010, pp. 6-8; Interview of senior OIG official, December 3, 2009.
[75] Memorandum for fired AIG, March 3, 2009, p. 2.
[76] OIG Response Package, February 23, 2010, p. 6.

e. Accounting for Money from Sale of European Bases

The OIG Audit office in Germany was presented with a golden opportunity to conduct a hard-hitting examination of a high-risk area but failed to capitalize on it. During the course of a routine audit of "environmental liabilities" at European bases – known as Report No. D- 2007-D000FH-0148.000, auditors stumbled across unrecorded proceeds from the sale of overseas military bases. This, in turn, triggered a red flag memo from the OIG Audit Office.

The closure and sale of U.S. military bases in Europe are generating huge sums of cash over which there appears to be little or no control. The OIG Audit Office raised a red warning flag on this matter in a memo addressed to the DOD CFO. It raised troublesome questions about cash payments of at least $176 million from European host nations for the sale of U.S. Army and Air Force bases.[77] Records indicated that 40% of it, or $69 million, was deposited in various U.S. accounts. However, the memo warned: "We were unable to determine how the remaining $107 million was accounted for."[78] In addition, the memo expressed concern about the closure of a DOD high school in London that was expected to generate a $100 million cash payment.

Between 1989 and 2005, these sales generated over $1.1 billion in monetary settlements. Most of the money from these transactions was not properly recorded in the books of account and deposited in "actual bank accounts." Big chunks of it, according to the OIG Audit memo, are maintained in a "USAREUR public works office electronic spreadsheet" instead of in official U.S bank accounts.[79]

Unfortunately, OIG never audited the missing receipts. Instead, the red flag Audit Office memo cited above was buried as Appendix D in a draft version of Report D-2007-D000FH-0148.000 that was never published. It is alleged that there was an agreement to do a complete audit of all the receipts in question as a joint project with the State Department IG, but an internal OIG email provided to Senator Grassley alleges that this audit was quashed "at the highest levels of DOD and OIG." Why has the OIG Audit office in Germany failed to conduct an aggressive audit of all these questionable transactions – especially since it failed to produce one single report in FY 2009? Even the Deputy DOD CFO requested "a review and complete accounting of all [such] compensation."[80] The OIG Audit response to a series of questions on this matter was unsatisfactory.[81] This is a scandalous failure of OIG Audit oversight.

[77] OIG Audit memo from senior OIG officials to DOD CFO, August 31, 2007.
[78] Ibid, p 2.
[79] Ibid, p 3.
[80] Deputy CFO Memo, December 26, 2007.
[81] OIG Response package, February 23, 2010, pp 13-15.

D. JOINT AND SOUTHWEST ASIA OPERATIONS (JSAO)

1. Mission

The mission of the Joint and Southwest Asia Operations (JSAO) Directorate is to perform "audits and evaluations in support of combined, joint, interagency, and Service missions and plans" [82] with an emphasis on overseas activities.

According to the OIG website, JSAO audits spotlight the following seven areas: personnel and readiness; force protection; communications; contractor support operations; contract administration; acquisition; and finance. JSAO's record of published FY 2009 reports showed it targeted mostly overseas combatant commands in Iraq and Afghanistan.

2. Organization and Personnel

JSAO is the newest audit directorate. It is the only one not led by an SES executive. In 2009, management created JSAO out of the directorate formerly known as the Joint Overseas Operations (JOO). It appears that this organizational realignment was made to dedicate a directorate to Southwest Asia region audits – and most particularly the war theatres of Iraq and Afghanistan. For FY 2009, it is difficult to differentiate between the work output of these two directorates -- JOO and JSAO. This report will generally identify all such audits as produced by JSAO.[83]

JSAO is the smallest directorate. It is authorized to have 64 auditors. A GS-15 Director leads it.[84] Two military advisors, two civilian technical advisors, and four administrative staff provide support.

The JSAO Directorate has two divisions: Joint Operations and Southwest Asia Operations.

Joint Operations has 24 full-time employees assigned to three general audit Branches, each of which is made up of seven to ten personnel. All are housed at the OIG headquarters in Arlington, VA.

The organizational chart for the Southwest Asia Operations Division shows it is authorized to have 38 personnel. It has four specific branches. One is located at OIG headquarters. Another is located in Tampa, Florida. A third branch conducts Kuwait/Iraq audits and evaluations, and the last one is focused on Afghanistan operations.

[82] This information found in a www.dodoig.mil website search of JSAO site on 2/24/10.
[83] We fully understand that the mission shift for JSAO has taken place for FY 2010 and does encompass some of the audit areas previously under the purview of JOO that were conducted in FY 2009.
[84] Given the organizational structure and the growing number of SES positions newly created in FY 2009 at the DOD OIG, it is unusual that this audit directorate is under the leadership of a non-SES supervisor. It is expected that this directorate will eventually have its own SES level manager.

Unlike the Joint Operations Division, permanent JSAO employees do not occupy all the personnel slots allotted to the Southwest Asia Operations Division. In fact, 48% of the auditors assigned to two of its branches are detailed from other audit divisions to support temporary overseas assignments in Iraq, Kuwait, and Afghanistan.[85] Approximately 32% of its positions are vacant. When the percentage of its vacancies are combined with the thirteen OIG auditors detailed from other audit divisions, this division is permanently staffed at only 60% of its authorized strength.

3. Productivity

The JSAO directorate published 12 audits in FY 2009. Three audit reports initiated by the Germany and Korea divisions were terminated prior to completion.

It was difficult to compute productivity per division or auditor for JSAO, given the organizational changes and personnel shifts which took place in FY 2009 to create this new division.[86] As a combined group, JSAO/JOO auditors averaged exactly one audit report per month. Their audit reports took anywhere from 6 months to 21 months to finish. The average completion time in FY 2009 for a JSAO report was 13.5 months.

4. Budget and Costs

The JSAO budget for FY 2009 totaled $6,096,100.00. The reported staff costs were $5,464,095.00, including $589,342.00 for travel; plus $42,663.00 for training. JSAO indicated its average cost for a FY 2009 audit was $182,101.00, excluding travel.[87]

Senior managers disclosed that their audit offices do not track the costs of publishing reports. It is uncertain what measurements the OIG used to compile the above-referenced report costs. Given the acknowledged inadequacies of the audit cost tracking system, this report has applied a more basic method for measuring audit costs. By taking the total FY 2009 budget for JSAO and dividing it by its 12 completed audits, it was estimated each audit had an average cost of $508,000.00, which is almost three times higher than the estimate provided by senior management.

5. Senior Management & Audit Philosophy

Two interviews of JSAO's Director were conducted to better understand that official's management philosophy and priorities.[88] Following the interviews, in-depth written questions and answers were exchanged regarding specific audit reports and other concerns. The Director had less than six months heading up this directorate at the time of the first interview. That official was initially designated Acting Director but has since been appointed as JSAO's first Director.

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[85] Joint and Southwest Asia Operations Directorate organization chart dated November 2009 provided to Senator Grassley's Office on 1/27/10.
[86] According to a June 2009 organizational chart for JOO, the JOO Directorate was authorized 71 permanent or detailed auditor positions.
[87] JSAO reported a total cost of $2,185,206 million for its 12 audits in FY 2009.
[88] Interviews of the JSAO Acting Director occurred on 11/16/09 and 1/12/10.

Initially, a senior directorate official indicated that the principal mission of JSAO was to conduct audits in support of war fighters, troop safety, and security in Iraq and Afghanistan. That official stated that the best audit reports are those that impact war fighters and emphasized the directorate's work on body armor. At the second interview, a senior directorate official presented a somewhat different set of priorities. That official indicated that JSAO's primary charge is to look at programs and mission processes and in particular overseas operations. Specifically, that official cited on-going projects relating to humanitarian assistance, Commanders Emergency Response Program (CERP) fund audit trails, Iraq drawdown, asset accountability in Afghanistan, high cost contracts, and force protection.

Senior JSAO management believes the IG mission, as specified in the Inspector General Act, is to look for efficiencies within the department. That official also stated IGs look for waste, fraud, and abuse to report to Congress and the Secretary to ensure that the department is a good steward of DOD monies. In a written response to questions, senior officials identified three top management challenges:

1) Managing a geographically dispersed staff;
2) Identifying the priority audit issue areas to focus resources for maximum benefit to stakeholders; and
3) Ensuring JSAO directors continuously mentor, train and challenge their staff to develop future generations of leaders and managers.[89]

Top management added that having a combination of permanent and detailed personnel in JSAO poses significant challenges, as well. The temporary nature of these staffing arrangements has created confusion in tour assignments, training, and eligibility for incentive pay. In addition, the assignment of auditors to distant posts in Southwest Asia creates unique logistical problems for the preparation and publication of audits. It is interesting to note that protecting the interests of the taxpayers appears to be missing from JSAO's perceived responsibilities.

In order to better gauge and assess JSAO audit output, top management was asked which OIG audit division produced the best audits. They cited their directorate. Top management said, "We do, because there is a direct impact on the warfighter." That official added their personnel do a "good job" of writing, but there is always "room to improve." That official acknowledged reading every report written by auditors in the directorate prior to publication to ensure that each one meets the highest quality standards. The top manager stated the OIG Office of General Counsel review of JSAO reports normally takes five days or less. That official indicated JSAO reports undergo a security review that takes less than two weeks. The Director of JSAO may not have authority to sign the directorate's audit reports, as none published in FY 2009 bear that person's signature.

6. Detecting Fraud

The Congress created OIGs to detect and report waste, fraud, and abuse and to recommend appropriate corrective action. As the OIG representative in Southwest Asia -- Iraq, Kuwait and Afghanistan, JSAO auditors are operating in a "target rich environment." Huge sums of money are being poured into contracts that receive little or no scrutiny. These are high-risk fraud zones that need and deserve aggressive, in-depth oversight by OIG auditors.

[89] DOD OIG JSAO written responses dated March 11, 2010 at page 17.

Unfortunately, JSAO audits appear to focus on corrective measures that pertain to policies and procedures, instead of hardcore contract performance and payment audits. These auditors need to be on the "money trail" constantly. They need to "think fraud" and go where "there is a reasonable assurance of detecting fraud," according to instructions in the OIG Audit and Fraud Manuals. OIG auditors appear to ignore the guidance in the official OIG Audit Manual and steer clear of potential fraud.

A top manager was asked about JSAO's record on detecting and reporting fraud. For example, how much fraud has been detected in Iraq? That official indicated JSAO personnel had assisted the Defense Criminal Investigative Service (DCIS) and other members of the International Contract Corruption Task Force (ICCTF) in serving a search warrant in Iraq and determining the amount of alleged theft in support of an ICCTF investigation. This support work does not correspond to any audit effort produced by JSAO or the OIG. That official cited another instance involving firefighter training. That matter was referred to DCIS and did not pan out. That official said that when JSAO auditors encounter indicators of fraud, they "kick it over to DCIS… Audit does not do fraud." Again, that attitude is not consistent with guidance in the OIG Audit Manual. Auditors should not attempt to prove fraud, but they must help develop all the pertinent audit data bearing such the allegations. The audit manual instructs auditors to consult with investigators to determine what additional audit work needs to be done to properly document a case of alleged fraud in preparation for possible prosecution.

Since neither JSAO – nor any other OIG audit directorate – is conducting contract performance and payment audits, the probability of finding and documenting fraud is low. Clearly, detecting and reporting fraud is a low priority for this directorate – just like all the other OIG audit directorates. As explained in the ACM section of this report, the OIG has ceded this responsibility to DCAA. As a result, DCAA is making significantly more referrals to DCIS than is OIG Audit.

7. Analysis of FY 2009 Reports

In examining the 12 published audits produced by JSAO in FY 2009, very few addressed potential fraud or waste in any form or fashion. JSAO's 60 to 70 auditors provided one analysis of potential loss to the U.S. Government in payments for line-haul trucking contracts. This reported DCIS referral does not coincide with any of the published JSAO audits for that fiscal year.

In Report No. D-2009-99, "Accountability for Equipment Purchased for the Afghanistan National Army (ANA)," and Report No. D-2009-075, "Accountability of Weapons Distributed to the Afghanistan National Army," JSAO auditors detected the initial signs of fraud involving weapons, radios, and vehicles at two ANA depots. U.S. personnel and contractors employed vague accounting practices at these facilities. Weapons were shown either as excess or as missing. A significant number of vehicles and radios were also misplaced. These reports appeared to call for some referrals to criminal investigative agencies for action but none were noted.

a. Afghanistan Audits

In order to conduct audits in Afghanistan, as noted earlier, JSAO relies on auditors detailed from other OIG audit directorates. Toward that end, JSAO had 11 personnel assigned to two locations, Bagram Air Field and Kabul. Four of the eleven are auditors on temporary detail. The DOD OIG paid $579,571.00 in additional salary costs to staff Afghanistan operations in FY 2009.

The Afghanistan reports demonstrate the difficulties of accounting for equipment, weapons, and real property in an active war theater. This problem is further compounded by the loose or disorganized structure of the Afghani government, military and national police.

Seven of the 12 JSAO audits -- or 58% of its published work in FY 2009 -- were specific to Afghanistan. JSAO/JOO published the following 7 audit reports on Afghanistan:

- Report No.D-2009-007, Procurement and Use of Nontactical Vehicles at Bagram Air Field
- Report No. D-2009-031, U.S. Air Force Real Property Accountability;
- Report No. D-2009-050, Distribution of Funds and the Validity of Obligations for Management of the Afghanistan Security Forces Fund Phase II;
- Report No. D-2009-075, Accountability of Weapons Distributed to the Afghanistan National Army;
- Report No. D-2009-076, U.S. Army Corps of Engineers Real Property Accountability;
- Report No. D-2009-099, Accountability for Equipment Purchased for the Afghanistan National Army; and
- Report No. D-2009-100, Accountability for Equipment Purchase for the Afghanistan National Police;

Upon closer examination, it is apparent that one in-country audit team completed 6 out of the 7 reports. In short, one team -- comprised of a handful of auditors -- produced half of JSAO's total output for the entire year, or the 12 reports generated by 65 to 70 auditors. The high report output by one small team raises some questions about the overall output of the JSAO/JOO directorate as well as for the whole OIG Audit Office. Was the Afghanistan audit team's high report production an anomaly?

The number of audits published by the five-man Afghanistan audit team was definitely an anomaly. This audit team deserves praise for a job well done. And this team's productivity was not just an exception within JSAO but an exception within the entire OIG Audit Office. Except for the non-tactical vehicle audit at Bagram, this audit team was able to be industrious, because they traveled beyond the perimeter and safety of the U.S. bases in Afghanistan. The scope of their audits was purposely limited to verifying or checking U.S. purchased assets or construction. During their time in Afghanistan, they personally inspected depots, buildings, and equipment in the war theater. By going beyond the fences of U.S. bases, these DOD OIG auditors found programs to examine and scrutinize. This could only be achieved with the logistical and security support of military personnel deployed in Afghanistan. There is little doubt their success was influenced by favorable conditions on the ground at the time in Afghanistan that allowed the work of these civilian auditors to go forward. The worsening situation on the ground today will make audit work much more difficult – if not impossible.

In Report No. D-2009-031, "U.S. Air Force Real Property Accountability," auditors sought to account for real property purchased in support of the Afghanistan National Army (ANA) through the Afghanistan National Security Fund (ANSF). OIG auditors confirmed the existence of 10 real property construction projects costing taxpayers $253.3 million dollars.

The report made recommendations regarding future procedures for transferring real property to the Afghan government and its turnover of facilities to the ANA. The most significant finding questioned whether or not the ANA was willing or able to operate and maintain the buildings the Combined Security Transition Command-Afghanistan (CSTC-A) had built for them. The OIG auditors pointed out that by failing to "establish a self-sustaining enduring security capability" in-country, the CSTC-A wasted funds and bungled its intended mission. We asked JSAO management why auditors did not fully address the potential waste of $253 million dollars in their report. In response, JSAO stated:

> "We were not able to conclude from that factual statement that the $253 million used to construct these buildings was wasted because for this report, we did not look at the all the factors that would have to be examined to come to such a conclusion. We did not examine the planning of construction to support the ANSF. We did not analyze ANA infrastructure requirements, ANA standards of barracks and food service facilities, or the level of involvement the ANA had in stating their requirements. **The scope of our audit was the accountability of funds** [emphasis added]. Our audit verified that the construction projects existed, were constructed in the proper location, and were being built in support of the ANA. **We did not determine whether the ANA had a need or desire for the buildings** [emphasis added]. However, as stated, we observed that in some cases, it was not clear that the ANA were willing or able to maintain the buildings and we reported our observation." [90]

The above response highlights a fundamental staff concern with most OIG audits.

OIG auditors do not adequately focus on the principal IG mission of combating waste, fraud, and abuse. In this report, auditors validated that the money was actually spent on authorized building projects. But they did not examine and verify payments to determine whether the contract was overpaid or underpaid. Nor did they determine whether the ANA needed or desired those buildings. They suspected the $253 million dollars might have been wasted on those projects. At that point, the auditors should have re-tooled the audit from verifying construction to answering the questions of whether the $253 million was potentially wasted. OIG auditors needed to conduct a rigorous examination of the decisions and rationale for the construction of these buildings that the ANA apparently did not want. If DOD personnel used an ad hoc process to spend the ANSF funds for this construction program, then it is the responsibility of the OIG to expose such wasteful practices. The auditors should have also matched payments with contract requirements to determine whether the U.S. government got ripped off on the prices paid.

In Report No. D-2009-075, the DOD OIG uncovered a lack of internal controls for weapons transferred from the U.S. Government to the ANA that were purchased with the ANSF. This JSAO audit can be praised for identifying serious issues with the storage, accountability, security, and transfer of weapons intended for use by ANA forces. Not only did OIG auditors discover double-counted and missing weapons from the ANA Depot, but auditors also noticed that weapon shipments were unescorted from the Kabul Afghanistan International Airport (KAIA) to the ANA Depots.

[90] JSAO written response dated March 11, 2010 at page 6.

Furthermore, inventory and serial number controls over these weapons shipments did not meet DOD policy standards. Given these troubling findings, it is surprising that no civilians, contractors, or military personnel were held accountable for these grave lapses in weapons security. DOD employees or contractors lost track of military weapons. DOD employees or program offices failed to hold contractors accountable for building ammunition depots at forward operating bases with subpar security standards. All these missteps allowed weapons and ammunition depots to be easy targets for insurgent raids or outright theft and fraud.

In addition, the OIG could have recommended alternative solutions to the problems identified in Report No. D-2009-075. For example, the dangers of storing a large cache of ANA weapons in-country could have been alleviated by recommending that the DOD employ the "Just-in-Time" or JIT inventory strategy for providing weapons to the ANA. JIT allows for the timely delivery of weapons and equipment, increasing the return on investment by reducing in-process inventory and associated carrying costs. Fortune 500 companies make use of this method of JIT delivery to save money and cut costs associated with the need to warehouse merchandise, parts, or products. DOD mentors could have worked with the Defense Logistics Agency to develop a JIT method of delivery that would place the weapons in ANA hands within hours or a day of arriving at KAIA without the need and expense of building and maintaining warehouse space at the ANA Depots.

The findings and recommendations in Report No. D-2009-99 mirror those in Report D-2009-75 regarding ANA weapons. In audit report -099, OIG auditors found the same accountability problems that plagued weapons inventories also plagued controls for vehicles and radios purchased for ANA use. The audit revealed 627 radios and 84 vehicles could not be accounted for at the ANA provincial units. OIG audits found deficient inventory control practices at the U.S. managed ANA Depots and poor record keeping of property received at the ANA battalions. Appendix C of this audit summarized the overall problem well:

> "The training being provided to the ANA on property books was insufficient to account for sensitive property that the U.S. Government has provided… The ANA will not become a self-sustaining force without accurate property records."[91]

Again, the report failed to hold anyone accountable for the poor inventory controls maintained by U.S. personnel. The slack record-keeping by U.S. military personnel and contractors at ANA Depots would not have occurred if proper chain-of-command oversight of these personnel had occurred. The auditors recommended that the Depots conduct "wall-to-wall" inventories to account for all vehicles and radios at these two Depots. A more appropriate recommendation would have been to immediately lock the Depot gates and permanently suspend all transfer of equipment until the inventory control weaknesses were fully examined and corrected by the CSTC-A. Conversely, it is unrealistic to hold personnel responsible for the property accountability failures of the ANA. Once the items are properly recorded and transferred by the DOD, regardless of the training provided by the U.S. Government, it is the responsibility of the ANA to keep track of its property.

[91] DOD OIG Report No. D-2009-099 at page 18.

In Report No. D-2009-007, the OIG stated "the objective of the audit was to determine the effectiveness of the process for procuring and leasing non-tactical vehicles at Bagram Air Field, Afghanistan." OIG auditors found that $16 million could have been saved if the Combined Joint Task Forces (CJTF) had enforced their previous policies to reduce the number of leased vehicles at the airfield. Although this report discovered policy implementation issues and some potential savings, it is hard to understand how this audit was selected, as it fails to meet any of the risk/priority criteria that should be used for audit selection.

Clearly, it fails to meet the JSAO Director's criteria for high priority audits identified during her two interviews. For example, there were no indications in the report that the procurement of non-tactical vehicles at Bagram Air Field had been identified as a high-risk area for waste, fraud, and abuse. The dollar amount involved in these vehicle contracts is low when compared to other DOD programs. It is alleged this audit was initiated because OIG auditors deployed at Bagram were idle, and this audit gave them something to do. It is further alleged that the former OIG auditor who conducted this audit, billed the government hundreds of hours in overtime cost to perform this audit.

These OIG reports point to a permissive culture of sub-standard job performance among logistics, finance and support personnel in Afghanistan. The GAO has reported extensively on the need for agencies to have reliable and accurate information to facilitate and enhance management oversight of contracts and grants. The lack of such information – as reported in JSAO audits -- may inhibit planning, increase costs, and introduce unnecessary risks.[92]

b. Iraq Audits

As is the case in Afghanistan, JSAO's ability to conduct audits in Iraq is dependent on the assistance of auditors detailed from other OIG directorates. As of November 2009, 9 of the 16 personnel assigned to the branch that conducts audits in Iraq/Kuwait, were on loan to JSAO. Six of the 16 positions in that branch were either vacant or temporarily filled.

The DOD OIG paid $574,048.00 in additional salary costs to staff operations in Iraq in FY 2009.

In FY 2009, JSAO auditors completed two reports on DOD operations on Iraq. They were:

- Report No. D-2009-091, Information Operations Contracts in Iraq; and
- Report No. D-2009-115, Summary of Information Operations Contracts in Iraq;

In Report No. 2009-091, the OIG audited Information Operations (IO) contracts at the request of the Commander, U.S. Central Command to determine whether they were consistent with federal regulations. To justify the need for this audit, OIG auditors cited waste, fraud, and abuse provisions specified under Section 842 of the Defense Authorization Act for FY 2008 as further validation for this report.

[92] Government Accountability Office, Testimony Before the Subcommittee on Oversight and Investigations, Committee on Armed Services, House of Representatives, Iraq and Afghanistan, Agencies Face Challenges in Tracking Contracts, Grants, Cooperative Agreements, and Associated Personnel at page 1.

A review of IO contract documentation concluded the Joint Contracting Command Iraq/Afghanistan (JCC-I/A) followed relevant Federal Acquisition Regulations (FAR). However, JCC-IA had included Public Affairs (PA) needs and combined them with separate Psychological Operations (PSYOPS) requirements. The auditors pointed out that by combining PA and PSYOPS under one contract roof, the JCC-IA failed to make a distinction between the intended audiences of PA and PSYOPS. This is an important distinction, as PSYOPS programs are strictly meant for consumption by foreign audiences. The OIG found: 1) the JCC-I/A did not properly establish internal controls; 2) a Quality Assurance Surveillance Plan was not prepared for IO contracts; and 3) a contracting officer's representative was not appointed. Most importantly, the OIG staff did not find any evidence that PSYOPS materials were ever delivered to audiences in the United States.

It was clear the U.S. Central Command asked for this audit because it was most concerned that PA and PSYOPS operations had been wrongly combined into one media contract. The delivery of PSYOPS material to a United States audience would have been totally inappropriate and perhaps, illegal. As stated in the report, there were serious internal concerns about these media contracts. Officials at U.S. Central Command and at the Multi-National Force-Iraq (MNF-I) had expressed unease about the "use of a PSYOPS contract to conduct PA" in August 2008. [93] It is possible that the U.S. Command tasked the OIG to conduct the audit based on "in-house" complaints. The OIG Iraq IO report states:

> "While IO and PSYOPS personnel were involved in the procurement process, senior IO personnel in Iraq noted that they had reservations about the contract process, but did not raise their concerns to anyone in their chain of command or at JCC-I/A."[94]

The auditors raised this point with MNF-I and the Multi-National Corps (MNC-I) officials who said "…IO personnel need to be more forceful in the future when they have objections with the contracting process or when their requirements for PSYOPS are not adequately addressed."[95] The OIG pointed out if the "contracting language had been reviewed by a senior IO or PSYOPS official, potential shortfalls could have been identified and addressed earlier in the contracting process." [96] This conclusion to improve contract coordination is on point, but the OIG failed to examine the core circumstances that made IO and PSYOPS personnel reluctant to report the IO contracting issue up the chain-of-command. The auditors should have gone beyond the IO contracting issue to draw out the command environment that allowed this predicament to occur in the first place. In the end, it is always better to address underlying root cause issues rather than to treat the symptoms only. Unfortunately, the JSAO report focused solely on symptoms. Auditors identified by-products of poor management and not the underlying management and communications problems that created them.

Report No. D-2009-115, "Summary of Information Operations Contracts," continues the audit project began in Report. No. 2009-091. In this report, the OIG's primary goal was to compile the total number of IO contracts for Iraq in 2006-08. The secondary goal of the audit was to identify the amounts of monies obligated for these IO contracts. To perform this part of the audit, the OIG worked closely with the Defense Finance and Accounting Service (DFAS).

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[93] Report No. D-2009-091, Information Operations Contracts in Iraq at page 5.
[94] Ibid, p.6.
[95] Ibid, p.6.
[96] Ibid, p.6.

Auditors subsequently found U.S. Central Command used 172 such contracts totaling $270.1 million for FY 2006 through FY 2008. Unfortunately, three significant accounting problems prevented OIG staff from identifying funds obligated for IO.

First, the list of information contracts provided by U.S. Central Command failed to show how much money had been obligated for each contract. Second, the Operational Data Storage database at DFAS could not provide amounts obligated for all IO contracts. Third, according to a memorandum of agreement between DFAS in Rome, New York and the Joint Contracting Command for Iraq/Afghanistan, vendor payments processed electronically by DFAS are not identified and reported until they exceed a $250,000 threshold. This meant that DFAS would be unable to identify any vendor payments or obligations for IO contracts for amounts under $250,000.00. Such financial arrangements defy understanding. They create significant obstacles for OIG audits. In this case, the auditors could not even verify contract payments and obligations from the macro accounting level, because of limitations on the availability of pertinent data imposed by DFAS. The JSAO report stated, "…There was no record of the payment and obligation data …. We did not conduct the additional audit field work necessary to obtain it…A significant amount of audit work would have been necessary to obtain the amount obligated for each contract, which would have been outside the scope of this project that we agreed upon with U.S. Central Command."[97]

We saw an identical DFAS sanctioned accounting deficiency identified in OIG Report No. D-2010-037, "Internal Controls over U.S. Marine Corps Commercial, and Miscellaneous Payments Processed Through the Deployable Disbursing System (DDS)." At the direction of DFAS, the new DDS disbursement system does not maintain transaction-level data in sufficient quality to permit full-scope audits. Setting up an accounting that cannot be properly audited is unacceptable and should not be tolerated. Such practices defy understand and undermine oversight. Such conditions must never be accepted by auditors.

It is not known what exact parameters the OIG and U.S. Central Command agreed to for this audit. However, it is worrisome that the OIG staff identified a significant accounting deficiency and did not address and resolve it with expanded audit work and/or recommendations to either to the Command or DFAS. The OIG auditors appeared to reluctantly accept these limitations, which left tax money at risk. OIG auditors should have done the additional audit work necessary to test all relevant IO transactions. They needed to match contract requirements with deliverables, obligations, and payments. They needed to go to DFAS to extract all the pertinent payment data -- and to do it manually if necessary. They needed to do hardcore, in-depth, end-to-end contract audit work to complete this audit. Just looking at obligations and complaining that DFAS data is not available is not acceptable.

The relationship between the IG and the Department is quite clear in federal law. The law allows the IG unprecedented levels of independence to conduct their work and make salient recommendations for corrective action. In this case, the client's initial wants and needs were allowed to supersede the IG's core mission to combat waste, fraud, and abuse. IG's cannot agree to audit arrangements dictated by military commands that limit the scope of their audits and tie their hands behind their backs. By doing so, JSAO auditors compromised the IG mission and fell short of meeting the requirements of the IG Act itself as well as the FY 2008 Defense Authorization Act."[98]

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[97] Report No. D-2009-115, Summary of Information Contracts in Iraq at pages 5-6.
[98] Report No. D-2009-091 at p. 1.

Furthermore, focusing 100% of JSAO's audit effort in Iraq on IO issues appears to reflect questionable and misguided priorities. The very same question applies to the ROS audit Report No. D-2009-090 -- also on IO issues, which also appeared to be a waste of money. Again, the OIG audit focus appears to be on policy and regulatory matters rather than the core IG mission of detecting and reporting fraud. Admittedly, this work may have been performed in response to perceived congressional interests. However, Iraq is a "target rich" environment like Afghanistan. The information audits did not uncover one penny of waste. Huge sums of money are being poured into logistics contracts in Iraq, which are receiving little or no scrutiny. If OIG Audit is interested in detecting and reporting fraud, then it needs to be focusing on contracts and payments 24/7. That's where the money is changing hands. That's where the fraud is mostly likely to occur. If OIG Audit is interested in uncovering fraud and waste, it's looking in all the wrong places. Information policies and procedures is not a good place to find fraud.

JSAO IO work is not complete. JSAO has two pending audits for IO projects in Iraq for FY 2010. Report No. D-2009-D000JA-0108.002, "Information Operations in Iraq," is expected to be completed in the 2nd Quarter. The other report is entitled, "DOD Information Authorities and Policy," has yet to be announced. It is hoped these reports will focus on financial accountability aspects of these contracts.

c. Quick Reaction Memos

At both interviews, a top JSAO official talked about adjustments in the audit process brought about by the rapid military operating tempo that auditors encounter in the war zones of Iraq and Afghanistan. In this fast paced environment, a senior manager spoke of the importance of being able to bring problems to the attention of U.S. commanders in these countries in a timely manner.

Top management indicated that part of their responsibility is to have regular communications with commanders. One top official reported that on occasion JSAO audit personnel issue Quick Reaction Memorandums (QRM) to commanders to swiftly correct problems identified by OIG staff. Normally, these are short, two page documents. They are issued to correct pressing problems such as troop safety issues that OIG auditors discover during the course of their audit work. They are not intended to be substitutes for standard audit reports.

The JSAO provided 8 QRMs for review. All were issued between September and December 2009.

JSAO management indicated QRMs are a proactive way for the OIG to effect change in war theaters. By issuing QRMs, it is attempting to rectify pressing problems before the final report is published -- like immediately. QRMs provide a pseudo-formal structure to report urgent issues to the command without having either party go through the formalities of back-and-forth official correspondence to discuss concurrence or non-concurrence of proposed findings and recommendations. The QRM process bypasses the normal OIG audit vetting process.

Despite their good intentions, there is an Achilles heel to the QRM process. It could place OIG personnel in a compromising position.

Although the QRMs appear to be a reasonable administrative vehicle for dealing with urgent problems, the JSAO staff is inadvertently inserting the OIG directly into the chain-of-command decision-making process. The IG's potential responsibilities for command decisions are manifested in the QRMs that make direct requests for the targeted command(s) to take "immediate action." This quasi-directive: "we appreciate your immediate action" can be found in the final paragraphs of the memos dated September 29th, August 24th, April 29th, December 30th, and two dated December 19th. The IG Act does not authorize auditors to issue orders directly to military commanders. Senate staff expressed concerns about the QRMs to the JSAO Director at a meeting on November16, 2009.[99]

QRMs have the potential of impacting the operational priorities of commanders in the field. QRMs bypass the natural checks and balances present in all chain-of-command organizations, which allow lower levels of command the opportunity to fix a problem before they elevate it to higher levels for action. For example, the QRM dated September 29th reported that U.S. Forces personnel notified OIG auditors that an administrative building's fire suppression system was non-operational at the New Kabul Compound in Afghanistan. This occurred during an OIG site visit in June 2009. The system was disabled after three sprinkler heads broke loose. U.S. engineers at the compound told auditors they took the problem seriously and gave it priority attention. Auditors returned in September 2009 and discovered the fire suppression system was still disabled. To resolve the issue, the JSAO auditors went straight to the top and requested in a QRM that the commanding general "…require immediate repair of maintenance of the problems identified, and ensure the fire suppression system is fully operational."[100] The JSAO staff also instructed the command to "institute a 24-hour fire watch for all buildings not protected by the system."[101] These "requests for immediate action" could have severely impacted the compound's ability to carry out its war time combat mission by mandating that military personnel be on permanent fire watch. Depending on the situation, the around-the-clock fire watch – ordered in the September 29th QRM -- may have had a positive or negative impact on the safety of base personnel or both. Assigning military personnel to specific duties in a combat zone is a command responsibility. That is an inappropriate role for OIG auditors to assume.

In scenarios that call for a quick response, two better approaches may be: 1) to speed up the review process and complete audits on an expedited schedule to address pressing concerns; 2) the OIG could have used the compound's chain-of-command structure by notifying the designated military IG of these concerns in June. In either case, if the problem persisted three months after being reported, the commander or the military IG would have to assume responsibility for failing to act or notify the proper personnel to resolve the issue.

[99] The IG Act of 1978, as amended, states one of the primary purposes of OIGs is "to provide a means for keeping the head of the establishment and the Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for and progress of corrective action."

[100] Memorandum for Commanding General, U.S. Forces – Afghanistan dated September 29, 2009. Subject: Concerns With the Fire Suppression System at the New Kabul Compound Facilities Identified During Fieldwork for the Audit of the Construction of New Kabul Compound Facilities for U.S. Forces – Afghanistan (Project No. D2009-D000JB-0241.000), p. 4.

[101] Ibid.

There are signs that JSAO's top management now recognizes the potential pitfalls of the QRM process. The tone and language in two QRMs to the Defense Contract Management Agency – Iraq (DCMA) issued on December 19 and 20, 2009 -- are markedly different. In the final paragraphs of these QRMs, the Director "requests" DCMA to "provide comments" concerning the inventory of government furnished property at sites in Iraq. This wording is markedly different and less commanding. It is more consistent with the IG Act and allows the OIG to remain independent of the agency's actions taken in response to its recommendations. However, in a QRM directed to the Commanding General – Afghanistan, dated December 30, 2009, the auditors returned to the quasi-directive language calling for "immediate action."

At least on the surface, the QRM process appears to pose real dangers for the IG oversight mission. It injects the IG directly into the command's decision-making process. This could have the unfortunate effect of making the IG responsible for command decisions triggered by QRM's. Once the IG begins to assume ownership for command or management decisions, that has the potential for undermining the IG's independence and credibility.

8. The role of OIG Civilian Auditors in Active War Theaters

The OIG expanded its visibility and operations in Afghanistan in the last year to better oversee expenditure of tax dollars on the Global War on Terror (GWOT). Given that nearly all DOD contracts in this region are awarded, managed and supervised in the United States, placing more auditors in the region may not by the most cost-effective use of audit resources. As evidenced by the audits and QRMs produced by JSAO teams in Southwest Asia, OIG personnel are limited in the types and scope of audits they can conduct. Improvised explosive attacks, unstable conditions, poor roads and infrastructure in remote locations and insurgent attacks continually pose significant challenges to the safety of U.S. personnel in Afghanistan. OIG auditors have to rely on the military commanders in theater to provide them with housing, logistical and security support to carry out the dangerous site inspections/verifications needed to complete an audit.

This raises a legitimate question about the appropriate role of a civilian OIG auditors conducting audits in a war zone. Having OIG auditors in war zones is a relatively new phenomenon. OIGs did not exist prior to 1978. Therefore, we can only imagine what role they might have played in prior conflicts like D-day in 1944, or with Gen. MacArthur in Korea in the 1950's, or the Vietnam War in the 1960's and 1970's. Until the wars in Afghanistan and Iraq, the business side of fighting wars was left to the Pentagon. The first time the OIG was given an opportunity to exercise oversight of wartime activities was in 1990 and 1991 during Operation Desert Storm/Shield (ODS).

A review of OIG audits from FY 1990 through FY 1993 showed the IG did not conduct a single audit of programs or operations during the war. It conducted audits after the hostilities ended in Iraq. The following three OIG audits were the closest to the end of the hostilities and directly related to these military campaigns:

- Report No. 92-027, "Quick Reaction Report on the Army's Adjustment of Wholesale Inventory Levels After Operation Desert Storm," dated December 19, 1991;

- Report No. 92-033, “Defense Logistics Agency’s Adjustment of Wholesale Inventory Levels After Operation Desert Storm,” dated January 10, 1992; and

- Report No. 93-010, “Report on Assist Audit of the Management of Assets Returned from Southwest Asia,” dated October 21, 1992.

All of these audits examined DOD’s inventories and assets in the post-war environment. The OIG audits did not look at areas like reconstruction costs that are the focus of the current audit efforts in Afghanistan and Iraq. It also appears the OIG Audit Office did not establish any presence in Iraq to oversee DOD components during the active military operations from August 1990 to February 1991. Congress also did not create a Special IG for Iraq after the first Iraq war.

It was only after the September 11, 2001 attacks and the Second Iraq War that OIG audits were launched during active hostilities. This is likely due to added pressures from Congress and other stakeholders to account for the huge sums of money being spent in Southwest Asia. Congress and taxpayers wanted assurance that all the money for these wars was not falling victim to waste, fraud, and abuse.

The problem with this type audit oversight is that it requires stable conditions in both Afghanistan and Iraq to be successful. This has hardly been the case in either country. Suicide bombings and road-side attacks are still common in Iraq. U.S. military commanders in Afghanistan continue active combat operations against a resurgent Taliban. As previously stated, to carry out audits like D-2009-031, “U.S. Air Force Real Property Accountability,” OIG auditors traveled throughout Afghanistan to confirm that 10 structures were actually built for the ANA. There were only able to do so because a lull in insurgent attacks permitted military commanders to devote resources to support their on-site inspections.

In times of war, the primary mission of the military forces is to win the war, but in today’s environment, they are also accountable for the money and equipment entrusted to them to accomplish that mission. They are the first line of defense against waste, fraud and abuse. If Congress wants the DOD to pass audit, then the Pentagon cannot use ‘warfighting” as an excuse for not following accepted bookkeeping practices. Modern communications should allow deployed units to feed financial information to central DOD accounting data bases where it should be readily available for audit. The vast majority of contract actions and records are in the U.S. Therefore, the vast majority of audit work can be conducted in the U.S. Auditors can be deployed to Afghanistan and Iraq for brief periods of time to complete on-site inspections and delivery verifications.

In short, as long as the hostilities continue and the safety of civilians cannot be assured, the OIG footprint in active war theaters should be kept to the absolute minimum. OIG auditors assigned to combat zones should be greatly restricted. This would reduce the expense and need for OIG auditors in Iraq and Afghanistan.

IV. RECOMMENDATIONS

1. The OIG must reorder audit priorities and realign the audit organization to carry out the IG's core mission of detecting and reporting fraud and making recommendations for corrective action; Contracts and payments need to be re-coupled at the audit level; and auditors need to connect all the dots in the cycle of transactions and verify payments using primary source Defense Finance and Accounting Service records.
2. Relying on available resources, the OIG should establish a small number of large, aggressive audit teams to conduct selective "end-to-end" contract performance and payment audits.
3. The OIG needs to reset audit priorities consistent with CFO Hale's guidance and Section 1008 of the FY 2002 Defense Authorization Act; or seek relief from CFO Act.
4. The Audit Office should focus on top-to-bottom, end-to-end reviews of DOD's plans and programs for modernizing its finance and accounting systems; Specifically, the FIAR and ERP or similar financial system improvements plans should be scrutinized every year; OIG should research and publish a report that projects the full costs of compliance with the Chief Financial Officers (CFO) Act by 2017.
5. "Audits" of policies and procedures should be significantly reduced or eliminated.
6. Pending deployment of a modern accounting system, audits of financial statements should be curtailed or kept to an absolute minimum.
7. Publication of "Boilerplate" disclaimer memorandums on un-auditable financial statements should be discontinued.
8. Quick Reaction Memos should be discontinued, because they have the potential of causing the IG to take ownership of command decisions, undermining IG independence.
9. Nearly all audits pertaining issues in the war zones can be initiated, researched and fully developed by OIG personnel in the U.S. where most contract actions occur; To complete a war-rleated audit, a small number of auditors could be temporarily assigned to carry-out in-theater portions of audits and site inspections and delivery verification as needed.
10. To maximize the effectiveness of OIG audit reports, they should be completed and published within 6 to 9 months.
11. Every OIG audit should give a pass/fail opinion; If a program or contract receives a failing grade, OIG should establish a timeline for compliance.
12. OIG needs to start holding military and civilian officials at all levels accountable for financial mismanagement; If and where appropriate, audit reports should identify responsible officials and make recommendations for personnel action, as determined by DOD.

V. CONCLUSIONS

There is a major, continuing mismatch between OIG audit capabilities and the quality of accounting data and records available for audit. The poor quality of the accounting data and missing or non-existent records hinders, and in some cases, blocks and obstructs the completion of credible audits. The situation has deteriorated to the point where OIG auditors are no longer able or willing to conduct full-scope contract audits. This, in turn, keeps the OIG from performing its primary mission – to detect and report fraud, waste, and abuse. OIG is allowing DOD's broken accounting system to essentially cripple or disable one the IG's primary oversight weapons – the audit – leaving huge sums of the taxpayers' money vulnerable to fraud, waste and outright theft. This unacceptable disconnect will persist until DOD deploys a modern accounting system, which can produce reliable information on demand. Unfortunately, that goal may not be met for another 10 to 20 years or more. Until that goal is met, the OIG Audit office needs to hit the reset button and bring its audit capabilities into balance with the DOD accounting records mess.

The DOD OIG financial audits published in FY 2009 could have gone much further and much deeper into contracts and acquisitions to identify mismanagement and fraud and to hasten DOD's fiscal recovery. To successfully conduct its assigned mission, the Audit Office needs to create a small number of much larger audit teams to tackle the most egregious financial issues. OIG personnel ignored auditing the most important initiatives meant to modernize the financial systems in compliance with the Chief Financial Officers Act. The OIG Audit Office managers must do a better job of identifying and planning audits that aim to significantly and immediately improve financial accountability at all levels of the department. If the status quo is allowed to persist, given today's budgetary realities, the OIG audits will become fateful footnotes to the financial ruin of the Department of Defense.

Inspector General Act of 1978, as amended
Title 5, U.S. Code, Appendix

2. Purpose and establishment of Offices of Inspector General; departments and agencies involved

In order to create independent and objective units--

(1) to conduct and supervise audits and investigations relating to the programs and operations of the establishments listed in section 11(2);

(2) to provide leadership and coordination and recommend policies for activities designed (A) to promote economy, efficiency, and effectiveness in the administration of, and (B) to prevent and detect fraud and abuse in, such programs and operations; and

(3) to provide a means for keeping the head of the establishment and the Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for and progress of corrective action;