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March 13, 2012

Transmitted Electronically

Ms. Lynne M. Halbrooks
Acting Inspector General
Department of Defense
4800 Mark Center Drive
Alexandria, VA 22350-1500

Dear Acting Inspector General Halbrooks:

I am writing to provide the results of my oversight review of audit reports published by the Office of the Inspector General in fiscal year 2011.

I am very happy to report that audit quality appears to be improving. The best possible indicator is the doubling of top-rated reports. That number jumped from 27 reports, or 25% of total production in 2010, to 70 reports, or 58% of total production in 2011.¹ That's better than a two-fold increase. The auditors have achieved a breakthrough. There is progress. The apparent trend is promising, but the Inspector General's audit capabilities are not yet out of the woods.

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

¹ The 2011 figure includes reports that would have earned top scores were it not for long completion times.

The progress achieved in producing more high quality reports in 2011 is commendable. It represents a remarkable accomplishment. However, much more remains to be done. **There are still four distinct trouble spots needing intense management attention.**

The biggest problem continues to be the number of unsatisfactory reports. While I can no longer say that most reports fell into that category, at 40%, the proportion of low scoring reports remains unacceptably high. This factor, along with the other three mentioned below, acted together to drag the composite score for all 121 reports down to 3.51 or a C. The low scoring reports continue to suffer from the same deficiencies identified in the Qwest report: **"We do not believe Audit is selecting the best audits to detect fraud, waste and abuse. The organization does not audit what truly needs to be done. Some audits hold little value in the end."**² In short, as I said in my first and second reports, these audits offered little or no benefit to the taxpayers.

Long audit production times remain another big problem. Excessive completion times continue to weaken the power and relevance of audit reports. Between 2010 and 2011, the average time needed to complete reports jumped from 13 to 16 months, and, as I understand it, those numbers do not include the extra weeks or months needed for the planning and approval process that occurs before the audit actually begins. Old reports contain stale information. Stale information reduces audit impact to zero over time. The Qwest Report pinpointed a root cause of this problem: **"it is apparent that in the planning phase of audit selection, audits are written to fit a team, as opposed to a team established to conduct a needed audit."**³ Such organizational inflexibility drives long completion times. It also leads to the publication of audits having objectives that are so narrow and limited in scope that they are virtually worthless. Audit teams need to be organized to support more challenging and more relevant audit tasks, and Mr. Blair indicated recently that he was moving in this direction.⁴

There are two other problems that need to be addressed.

Far too few reports - just 9 in all -- verified actual payments, using primary source accounting records. Failing to nail down exact dollar amounts of waste and mismanagement, including those resulting from misguided policies, undermines the credibility and completeness of audit reports. For example, using invoices, contracts, or vouchers provided by contractors being audited to estimate payments would not appear to meet the most stringent audit standards. Such a procedure is critically important in view of the Defense Finance and Accounting Service's long-standing track record of making overpayments, underpayments, erroneous payments, and unauthorized payments. Independent verification should be mandatory.

² Qwest Report, pp. 28-29;

³ Qwest Report, p.18;

⁴ Meeting with Dan Blair, 2/8/12, on Grassley-Coburn ERP audit request;

Lastly, referral rates to the Defense Criminal Investigative Service (DCIS) are still far too low. Only 5 reports generated potential criminal referrals,⁵ which appears to point to a **lack of concern about fraud**. Surely there was enough grist in the 50 reports, which documented egregious violations of law, potential fraud, negligence, and theft, to warrant additional referrals to DCIS and/or the Justice Department. **A number of audits stand out as potential candidates for further review and potential prosecution.** I urge you to re-examine these matters.

Acting IG Halbrooks, your office has put the public spotlight on disgraceful and scandalous waste and alleged misconduct that demands accountability. Unfortunately, unless the recommendations in those hard-hitting audits are somehow converted into concrete actions, all this good work will amount to nothing more than a bunch of auditors “howling in the wilderness.” It will simply “fall through the cracks.” Converting tough recommendations into concrete action takes determination and relentless follow-up. The key is making sure agencies do what they agreed to do at the conclusion of an audit. However, all indications suggest that corrective actions proposed in these reports have hit some serious roadblocks in the Pentagon. Without some high-level intervention, most, if not all, measures to achieve accountability and savings will be slowly and quietly quashed in bureaucracy. A recent report from the Navy clearly indicates that this fate awaits at least one of the reports and probably all the others, as well.⁶

In order to assist you in the process of converting all this good audit work into concrete action, I have asked Secretary Panetta to conduct a top-level review of all the allegations contained in the most disturbing reports. I urged him to establish a reasonable path forward on the unresolved recommendations contained in these reports. The evidence presented in these reports demands accountability. Until there are meaningful consequences and real penalties for such gross waste and misconduct, the culture of the organizations involved will not change. Without accountability, there will be no results. There will be no impact, and good audit value will be lost. Unabated waste of the taxpayers’ money will continue.

A copy of my letter to Secretary Panetta is attached for your consideration.

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

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

⁵ Report 2011-033, -073, -093, -101, and -119 identified in OIG email report, Entitled “Fraud Referrals and Reports, 2/21/12;

⁶ Official Navy response to inquiry regarding Report 2011-106, email dated 1/17/12;

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

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

In closing, I want all the auditors in the Inspector General's office to know that I consider their oversight mission to be of the highest importance. There is nothing more important to the taxpayers than having an aggressive team of auditors watch-dogging how the taxpayers' money is being spent. I know there has been a concerted effort over the past few years to improve the quality of their work. I deeply respect, appreciate, and support these efforts. They are starting to pay off. I can see results of all the hard work. I encourage all the auditors to keep moving ahead until the job is finished. And I urge Mr. Blair to unleash the auditors. I want them to be tigers. Encourage them to call waste what it is – WASTE. Let them follow their instincts and the guidance in their audit manuals that instructs them to: "Think fraud and plan audits to provide a reasonable assurance of detecting fraud."

Sincerely,


Charles E. Grassley
Ranking Member

Copy to: Secretary Panetta