

**EXPEDIENCY VERSUS INTEGRITY: DO ASSEMBLY-
LINE AUDITS AT THE DEFENSE CONTRACT
AUDIT AGENCY WASTE TAXPAYER DOLLARS?**

HEARING

BEFORE THE

COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

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WEDNESDAY, SEPTEMBER 10, 2008

U.S. SENATE,
COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 10:02 a.m., in room SD-342, Dirksen Senate Office Building, Hon. Joseph I. Lieberman, Chairman of the Committee, presiding.

Present: Senators Lieberman, McCaskill, and Collins.

OPENING STATEMENT OF CHAIRMAN LIEBERMAN

Chairman LIEBERMAN. Well, good morning and welcome to our hearing. I thank all of the witnesses for being here.

Today's hearing will look into the disturbing allegations that the Defense Contract Audit Agency (DCAA)—which is one of our government's most important and, I would say, respected watchdog offices—has over the years ignored standard auditing rules to issue clean audits of contractors, despite problems identified by DCAA's own auditors.

Investigators have found that on repeated occasions DCAA has issued audits favorable to contractors that are not supported by facts, which has the effect, I fear, of encouraging waste, fraud, and abuse of taxpayer money.

The reports that we are going to hear today tell us that one of the causes of these problems may be that DCAA is obsessed with the speed of their process rather than the accuracy of the results. The reports also raise questions of whether the Defense Contract Audit Agency is independent enough to be able to stand up to pressures from both Federal agencies and contractors.

DCAA's mission is simply too important for these failures to be tolerated. The agency is responsible for all contract audits for the Department of Defense. In fiscal year 2007, that equaled \$314 billion of the \$440 billion the Federal Government spent on contracts for goods and services. That is a lot of taxpayer money. DCAA, incidentally, also performs audits for other agencies, such as the Department of Energy and NASA.

The revelations that are part of the reports that will be discussed today and the testimony given by two whistleblowers, in fact, begin in the fall of 2005, when a DCAA auditor called the Department

of Defense (DOD) Inspector General's hotline to complain that the DCAA supervisors were breaking auditing rules to favor certain contractors. That call set off a series of investigations that brought to light the problems we will focus on today.

Investigators for the Government Accountability Office (GAO), in a report issued in July, said that when auditors at DCAA found problems with contractor proposals violating procurement laws and auditing standards, too often their supervisors ignored, and sometimes even altered, their underlying work to give the contractors favorable audits. That is unacceptable behavior.

Separate investigations done by the Defense Criminal Investigative Service (DCIS) and the Inspector General (IG) at DOD confirm GAO's findings in general.

One of our witnesses today—Ms. Thi Le—will describe an audit, requested by the Department of Energy, of the Fluor Corporation's accounting system. Fluor provides a variety of management and engineering services to Department of Energy valued at almost \$1 billion.

Accounting system audits, as our witnesses well know, are not tied to any one government contract but, rather, evaluate the adequacy of the contractor system's control environment and overall accounting controls and the contractor's compliance.

In performing this audit, Ms. Le determined that the accounting system of the Fluor Corporation was vulnerable to significant overcharging of the Federal Government. Instead of letting her perform additional testing, as she requested, Ms. Le's supervisors simply changed her audit opinion from "inadequate" to "adequate."

Given that Fluor holds an additional \$431 million in contracts with our government—with the Federal Emergency Management Agency (FEMA), the Army, the Air Force, and the Employment and Training Administration—these poor accounting methods could mean tens of millions of dollars of undetected waste in overpayments to Fluor.

Another witness, Paul Hackler, will describe how Integrated Defense Systems, a subsidiary of Boeing, structured its costs under an Air Force contract for satellite launch capability in a way that helped Boeing make up for losses in its commercial markets—in direct contradiction of Federal procurement law.

The auditor alerted his supervisor to the problem and was told to leave his findings out of the audit so the project could go forward. The result? The Federal Government seems to have wound up picking up the cost of Boeing's \$270 million loss when the company did not sell satellite systems to the private cell phone industry, a development unrelated to the contract that the company had with the government.

In granting contractors these unjustified clean bills of health in its audits, DCAA has enabled them to proceed with large-scale projects without the additional DCAA scrutiny that would have followed had the contractors received less favorable audits.

GAO also found that some supervisors in the Western Region office of DCAA created an abusive work environment for those who tried to maintain the integrity of their audits. Sometimes, when auditors challenged what they believed to be waste and fraud, they

received not praise for a job well done but downgraded performance reviews, transfers, and other forms of reprisal.

Worst of all to the integrity of the system, GAO found that some DCAA managers intimidated auditors who cooperated with the GAO and IG investigators.

Since the GAO report was released in July, at least 18 other DCAA auditors have contacted GAO with similar stories of clean audits being issued without underlying support. So this is a real problem. And I must say that I was unhappy with the DCAA's initial response to these GAO allegations because it looked to me basically like a circling of the wagons.

In a letter dated July 11, 2008, DCAA said that it does "not concur with the totality of GAO's overall conclusions." I do not understand that as sensible or responsive since those conclusions, as I have said, were backed by DCIS and IG investigations, and since, as far as I can tell, DCAA has not refuted the specific findings of the GAO report.

To get to the bottom of this troubling story and to see how together we can fix what is wrong with a critically important auditing agency, we have five witnesses today—the two whistleblowers, a representative of GAO, the Acting Inspector General of DOD, and the Director, finally, of DCAA.

I am going to call on Senator Collins in a minute, but as my staff may have told you, I think we have decided to change the order of the witnesses slightly. We will begin with Mr. Kutz to lay out the overall GAO findings, then go to Ms. Thi Le and Mr. Hackler, and then we will go on to the rest of the table.

Thank you very much. Senator Collins.

OPENING STATEMENT OF SENATOR COLLINS

Senator COLLINS. Thank you, Mr. Chairman. Let me begin by thanking you for holding this hearing this morning. I also am not surprised to see that we are joined by our auditing expert on this Committee, the Senator from Missouri, and I am sure she will add a great deal to the hearing this morning as well.

More than 2 years ago, Senator Lieberman and I asked the GAO to undertake a comprehensive assessment of audit work performed by the Defense Contract Audit Agency, known as DCAA. The DCAA is the principal auditor for contracts at the Department of Defense.

We asked for this investigation in response to allegations of serious mismanagement that had been reported to the GAO, the DOD Inspector General, and to this Committee. During the course of its review, the GAO uncovered outrageous conduct and flawed audits at three offices in DCAA's Western Region.

The comprehensive GAO audit requested by the Committee will be issued later this fall, but I commend the GAO for releasing an interim report detailing the significant shortcomings already observed in DCAA audit practices.

In the interim report, GAO investigators confirmed that DCAA issued audit opinions with inadequate support, that supervisors altered audit opinions with insufficient justification, that some major audits were conducted by inexperienced staff without adequate su-

pervision, and—most troubling of all—that some DOD contractors “improperly influenced” the audits.

These findings suggest that the wasteful or even fraudulent use of taxpayer dollars has gone undetected and that the government may have been overcharged by some contractors to the tune of millions of dollars.

Thorough, accurate, and tough audits are essential, and DCAA’s work must be untainted by pressure or conflicts of interest. Instead, the GAO found “numerous failures” to comply with government auditing standards. That is a serious failing for, as the GAO has noted, substandard audits do not provide assurances that billions of dollars in payments to contractors complied with Federal regulations, accounting standards, or even contract terms.

These facts are bad enough. But GAO’s work also reveals that at least one major defense contractor reached an advance understanding with DCAA about the nature and scope of an audit, that some DCAA employees changed findings at the direction of senior managers, and that “a pattern of frequent management actions . . . served to intimidate the auditors and create an abusive environment” at two DCAA locations.

I am also deeply concerned about GAO’s findings that whistleblowers who reported misconduct were subject to intimidation and threats from supervisors. Congress relies on courageous whistleblowers to expose wrongdoing so that we can improve and reform Federal programs and operations. It is critical that supervisors throughout the Federal Government respect the protections that our laws provide whistleblowers and act swiftly to remedy the problems that they identify.

As we address the particular problems that the GAO has identified, we must also work to reestablish DCAA as a first-rate, independent audit agency.

Some current and former employees have identified performance metrics keyed to speed and volume as undermining good auditing practices in some cases. Now, obviously, productivity is important, but whether the subject is executive compensation, mortgage underwriting, or contract auditing, metrics that emphasize time and volume over quality or long-run results can invite shortcuts, sloppy work, and, ultimately, even program failure. It does little good to have internal controls and review processes if employees are gaming or bypassing them in order to meet metrics.

Of course, inappropriate influences can also come from outside of an organization. All of us recall the infamous case of the Air Force procurement officer who negotiated a plush job with a defense contractor while at the same time engaged in negotiating a \$24 billion contract with that company. Ultimately, she pled guilty to criminal conflict-of-interest violations.

The GAO report raises a red flag. It suggests that a few DCAA employees may have been more interested in protecting contractors and securing future employment than in protecting taxpayers and our national security.

These failures at DCAA illustrate the aptness of a question that was raised by a Roman satirist nearly 2,000 years ago, when he asked: “Who shall guard the guardians themselves?” We rely on the many honest and hard-working employees at DCAA to be the

first line of defense. When the audit agency fails, problems cascade throughout the system and ultimately can even shortchange our troops in the field. Congress must carefully consider the reforms needed at the Defense Contract Audit Agency in light of these disclosures.

I commend the GAO once again for its diligence and thoroughness in studying this problem, and I look forward to the completion later this fall of the comprehensive audit that the Chairman and I initiated 2 years ago.

The GAO, as the Chairman has indicated, coordinated its work with the Defense Department Inspector General and the Defense Criminal Investigation Service. I expect these investigators to also vigorously pursue their work in the event that criminal conduct is exposed in their independent investigations.

Finally, let me just conclude by thanking the Chairman for this latest example of his leadership and our shared interest in probing defects in our Federal acquisition process as a prelude to additional legislative reforms.

Thank you, Mr. Chairman.

Chairman LIEBERMAN. Thank you very much, Senator Collins, for that excellent statement and also for the work that we have done together.

Thanks, Senator McCaskill, for being here and for the support that you and your staff have given this particular investigation and the preparation of this hearing.

Mr. Kutz, I would like to start with you. For the record, you are the Managing Director, Forensic Audits and Special Investigations of the GAO, and I note that you are accompanied by the Assistant Director, Gayle Fischer. Please proceed with your testimony.

TESTIMONY OF GREGORY D. KUTZ,¹ MANAGING DIRECTOR, FORENSIC AUDITS AND SPECIAL INVESTIGATIONS, U.S. GOVERNMENT ACCOUNTABILITY OFFICE, ACCOMPANIED BY GAYLE L. FISCHER, ASSISTANT DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE TEAM, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. KUTZ. Mr. Chairman and Members of the Committee, thank you for the opportunity to discuss the Defense Contract Audit Agency.

Today's testimony highlights the results of our investigation of allegations we received in 2006. The bottom line of my testimony today is that these allegations were accurate. Specifically, DCAA's work for 14 audits that we investigated did not meet professional standards.

My testimony has two parts: First, I will discuss the problems that we identified; and, second, I will discuss key causes of these problems.

First, our investigation covered 14 audits at two locations and a series of forward pricing audits at a third location. For these audits, we identified four key themes. These themes were lack of independence, changing audit opinions, inadequate supervision of staff, and an abusive work environment.

¹ The prepared statement of Mr. Kutz appears in the Appendix on page 49.

With respect to independence, we found that pressure from contractors and DOD buying commands appeared to improperly influence audits. For example, this pressure resulted in dropped findings and the issuance of reports before supervisors had reviewed the work. In one case, DCAA agreed with a contractor in advance to set up a process that ensured a favorable result.

We also found what appeared to be a systematic whitewashing of findings from draft audit reports. For 11 audits, initial auditor opinions of “inadequate” or “inadequate in part” were changed to “adequate” or what we refer to as a “clean opinion.” In many of these cases, supervisors provided no basis for these changes.

For example, as the posterboard on my right shows, one auditor found six significant deficiencies and drafted an inadequate opinion report in June 2005.¹ As you can see, by September, this supervisor had changed the draft to an “adequate” opinion. This opinion allowed the contractor to bill DOD and receive payments with no government review.

We also found a lack of adequate staff supervision. For example, again on the posterboard shown on my right, you see a memo where an auditor writes, “We are not holding this contractor, with a history of questioned costs, poor internal controls, and shoddy practices, to a high standard by downgrading what are clearly significant deficiencies.”²

We found a number of memos just like this one documenting disagreements between staff and management. These memos reflect the lack of timely supervision. In a normal, healthy audit, issues like this are worked out on a daily basis, and there is no need for a memo like this at the end of the audit.

These disagreements help explain the fourth key theme: An abusive work environment at two locations. We found evidence of verbal warnings, involuntary reassignments, and threats of disciplinary action against auditors because they would not drop audit findings or draft favorable reports. Auditors were also scared to speak to GAO’s staff for fear of retaliation.

Let me move on to my second point: Two key causes for these problems.

First, auditors told us that the limited number of hours budgeted for their audits resulted in a disincentive to identify and report contractor problems. According to DCAA, their 3,500 auditors annually perform about 35,000 audits. Given these numbers, the focus on production rather than impact is not surprising.

Second, for DCAA to be most effective, as was mentioned earlier, they must be independent. However, in addition to the improper influence by contractors, we found pressure from within DOD for auditors to facilitate the process rather than protect the interests of taxpayers.

In conclusion, I cannot tell you today whether these 14 audits are isolated instances or the tip of the iceberg. Additional evidence indicates problems not only here in the United States but also in Iraq. What I can tell you today is that, with hundreds of billions

¹ The first chart referenced by Mr. Kutz appears in the Appendix on page 105.

² The second chart referenced by Mr. Kutz appears in the Appendix on page 106.

of dollars at stake, taxpayers need a contract audit agency that is looking out for their interests.

Mr. Chairman, this ends my statement. Ms. Fischer and I look forward to your questions.

Chairman LIEBERMAN. Thanks, Mr. Kutz. I must say that was devastating. And just as a point of fact, I am going to ask you: How did you choose those 14 contracts to audit?

Mr. KUTZ. They were the ones the allegations were specifically related to. That is why this is an investigation.

Chairman LIEBERMAN. Understood. And now you are doing a broader audit.

Mr. KUTZ. A broader look, correct.

Chairman LIEBERMAN. A somewhat more random, but——

Mr. KUTZ. Yes, much more DCAA-wide.

Chairman LIEBERMAN. OK. Thank you. We will have questions for you.

The next two witnesses are the whistleblowers who have acted with professionalism and, I would say, courage. I appreciate very much what you have done and your willingness to be here today. First we are going to call on Diem Thi Le, Senior Auditor, Defense Contract Audit Agency. Ms. Le, good morning. Thanks for coming, and we welcome your testimony now.

TESTIMONY OF DIEM THI LE,¹ SENIOR AUDITOR, DEFENSE CONTRACT AUDIT AGENCY, U.S. DEPARTMENT OF DEFENSE

Ms. LE. Thank you. Good morning, Chairman Lieberman and Members of the Committee. I first would like to thank you for the opportunity to take part in this hearing. My name is Diem Thi Le, and I have been with the DCAA for 19 years. For 17 years I have been a senior auditor. I am also a licensed CPA in the State of California.

Nineteen years ago, I left the private sector to join DCAA because I wanted to be a part of an organization that was committed to excellence in support of the national interest and protecting taxpayers' money. However, in recent years, because of the emphasis on performance metrics, DCAA has changed from putting an emphasis on excellence to an emphasis on performance metrics, and that is one of the reasons why I am here today.

My testimony includes four parts: First, what triggered my calling the hotline; second, how the hotline personnel mishandled my case; third, the harassment I have suffered; and, last, the systemic problems at DCAA.

In September 2005, I was performing an accounting system audit at the corporate office of a contractor. This is the GAO Case No. 6. I found that the contractor's accounting system was inadequate in part and, as a result, the contractor was misallocating and mischarging costs to the government. Originally, my supervisor concurred with my audit findings, but later on she told me that my branch manager did not agree with my findings. After my requests to meet with the branch manager to explain my audit findings were denied, I elevated the unreconciled difference of opinion to the next level of management. But I was told that I, as the performing

¹ The prepared statement of Ms. Le appears in the Appendix on page 67.

auditor, had no say in the final audit opinion. My supervisor then deleted the audit findings from my working papers and used those changed working papers as her working papers to support the change in the audit opinion from an inadequate system to an adequate system without performing any additional work.

As a result, the contractor was not required to propose or implement any corrective actions to eliminate the system deficiencies that would result in mischarging and misallocating costs to the government.

Subsequently, I found out that my branch manager had been changing other auditors' opinions of "inadequate" system to "adequate" system.

Because an "adequate" system would result in less audit risk and fewer audit hours by having a contractor's system deemed "adequate," my branch manager was trying to increase the productivity rate, which measures the audit hours incurred versus the dollar examined, and the productivity rate is one of the factors on which my branch manager's annual performance is rated.

Mr. Chairman and Members of the Committee, in recent years, because of the emphasis on performance metrics, we auditors have been pressured by management to perform our audits within a certain number of hours. But this was the first time that I discovered my management changed the auditors' opinions of an "inadequate" system. I confided this troubling discovery with some of my colleagues. All of them told me that I had no choice but to call the DOD IG hotline, so I did in November 2005.

I would have never imagined that I would submit an allegation against my management. Equally the same, I would have never imagined that the hotline people would refer my complaint back to my agency so that my agency could perform an investigation of my complaint.

Subsequent to my first meeting with the IG investigator, it was confirmed by him that my referral was, in fact, sent back to DCAA headquarters, and that referral included specific personal identifying information, such as my name and my phone number. As a result, I believe that my identity as a whistleblower was not adequately protected, and I have suffered reprisal from DCAA management.

Following are just some of the significant incidents of harassment and retaliations directed at me.

At the November 2005 Staff Conference, the regional audit manager stated to us, the auditors, that if we did not like our management's audit opinion, we should find another job.

In October 2006, I found out that I was the only auditor with an "Outstanding" rating who did not get a performance award.

In April 2007, after the Office of Special Counsel (OSC) investigator contacted the DCAA regional management to inform them of my whistleblower complaint, I was told to see a psychiatrist.

In August 2007, I was given a memorandum instructing me that I was not allowed to provide any documentation generated by a government computer to any investigative unit, including the OSC. Failure to do so would result into disciplinary action.

In October 2007, I was then advised to read 18 U.S.C. Section 641, Theft of Government Property. I was told by my supervisor

that the unauthorized distribution of agency documents would result in a theft charge, and it does not matter if it is to respond to a hotline or OSC complaint.

And last, but not least, since the IG investigation started, I have been downgraded from an “Outstanding” auditor to a “Fully Successful” auditor, and my promotion points have been reduced from 78 to 53 out of 120 maximum.

The last part of my testimony is the systemic problems at DCAA. It is my opinion and my observation that DCAA management has become so metric driven that our audit quality and independence have suffered. Audits are no longer dictated by the audit risks but, rather, by the established guidelines of audit hours and audit due dates. The pressure for us to complete our audits within a certain time frame is so intense that it would often prevent us, the auditors, from following our instincts in questioning contractor costs, reporting system deficiencies, and evaluating suspected irregular conducts. In the end, contractors are getting away with murder because they know we are so metric driven.

Also, because of the emphasis on the performance metrics, DCAA has created layers of personnel who do nothing but monitor the metrics. As a result, the goal is not to protect the government’s interest and to save taxpayers’ money but to answer to management’s questions related to performance metrics.

Mr. Chairman and Members of the Committee, again I would like to thank you for the opportunity to be here. It is my hope that by participating in this hearing, it will help bring changes at DCAA. It is also my hope that those changes will allow us truly to perform our audits in accordance with the generally accepted government auditing standards in order to protect the government’s interest and to save the taxpayers’ money.

This concludes my testimony, and I look forward to your questions. Thank you.

Chairman LIEBERMAN. Ms. Le, thank you very much. That was an act of public service, and I appreciate it greatly.

Our next witness, another whistleblower, we call on you with thanks and respect, Paul Hackler, Supervisory Auditor, Defense Contract Audit Agency.

Mr. Hackler, where do you live now?

Mr. HACKLER. I live in California.

Chairman LIEBERMAN. You both came from California?

Ms. LE. Yes.

Chairman LIEBERMAN. Please proceed with your testimony.

**TESTIMONY OF PAUL HACKLER,¹ SUPERVISORY AUDITOR,
DEFENSE CONTRACT AUDIT AGENCY, U.S. DEPARTMENT OF
DEFENSE**

Mr. HACKLER. Mr. Chairman, Ranking Member Collins, and Members of the Committee, thank you for the opportunity to speak to you today about DCAA’s Expendable Launch Capability (ELC) Buy III proposal audits. I am a GS-13 supervisory auditor and a certified public accountant in California with 25 years of DCAA ex-

¹ The prepared statement of Mr. Hackler appears in the Appendix on page 71.

perience. I am going to be speaking about lot costing today and how it related to the ELC proposals.

Lot costing is an accounting concept where certain products are more efficiently made in batches rather than one by one. If, for instance, the government goes to a contractor and says, "I would like to buy 100 tanks," and the contractor says, "OK, but I make tanks in lots of 1,000, and it takes 15 years to build them. Although I know I can make a tank today for \$1 million, I think it is going to take \$5 million to build that last tank in my lot 15 years from now. So what I am going to do is charge you the average over those 15 years, and I am going to charge you \$3 million today instead of the \$1 million I know I can make it for." That is how lot costing works.

The 2005 and 2006 ELC proposal audits I supervised contained a 15-year lot costing scenario just like the one I described to you that allowed Boeing to recover \$270 million in past losses it incurred for aggressively pursuing a commercial satellite market. The government realized this and restructured the program so that Boeing could be reimbursed for launch capability on a day-to-day basis, but the cost of building the launch vehicle, the rocket, would remain a fixed-price contract.

Boeing projected that the cost per launch would decrease substantially in the future, and so when they restructured the contract, the government needed to compensate them for the higher up-front costs. Actually, enormous up-front costs resulted only from Boeing's decision to gear up for a commercial market that never existed, and DCAA was directed to play along with this outrageous government bailout.

My testimony will focus on the inherent problems with lot costing, DCAA upper management's directed audit opinion, and reprisals for resisting that opinion.

Boeing initially anticipated the emerging cell phone market would deploy satellites to route cell phone traffic. Shortly after Boeing geared up for this, cell phone providers switched to land-based towers. The cell phone satellite market went from 75 percent of projected sales to zero almost overnight. And Boeing announced an \$835 million loss because of it.

Since Boeing was losing more than \$100 million per launch, the government decided to restructure the contract by reimbursing Boeing directly for launch capability, basically on a month-to-month basis. Before this, Boeing was only paid for launch capability when the launch actually took place. However, we were directed by the Pentagon officials that prices for the remaining 11 fixed-price launches already in place were to remain in place, no losses were to be recovered, and all applicable government regulations were to be adhered to.

In reviewing the 2005 proposal, my team determined that there were serious procurement regulation violations and issued an audit opinion that would not let the Air Force go forward. Two of the significant deficiencies were Boeing's use of a 15-year lot costing scenario and the lack of subcontractor cost or pricing data to verify the subcontract prices included in that proposal.

The Air Force went to Washington and said, "We would like to get a waiver for the violations related to lot costing. But the waiver

was unpopular in Washington because of Boeing's recent Procurement Integrity Act violations, alluded to by Senator Collins earlier. They were, however, provided a waiver for the subcontractor cost or pricing data.

Boeing then resubmitted its proposal still using the 15-year lot costing scenario, and the primary problem with that 15-year lot costing scenario is it rolls the losses attributed to Boeing's pursuit of the commercial market forward for recovery from the government.

The applicable regulations prohibit recovering prior losses and charging the government for costs that do not benefit our contracts. However, as directed, we issued an audit opinion that overlooked serious regulation violations, and the Air Force awarded Boeing the contract allowing recovery of \$270 million of past losses. It also increased the price of existing contracts.

While my testimony today focuses on DCAA's indiscretions, the Air Force may have gone well beyond DCAA with this bailout by not holding Boeing to previously negotiated launch prices. I would be happy to answer questions on that also if it is necessary.

Boeing initially anticipated and prepared for a commercial market that would have launched over 100 missions by now and 300 missions by 2020. Only one commercial mission has ever been launched, and no more will be launched. There is nothing on the launch manifest schedule.

Some of the losses that Boeing incurred pursuing the commercial market were overbuilding a plant that could produce 40 rockets per year, while Boeing has only averaged one launch per year. They bought excess inventory. They had a specially constructed vessel that does nothing but transport the Delta IV rocket to the launch pad once a year.

All of the auditors involved in Boeing's lot costing methodology and the audit that I supervised objected to the use of lot costing. Since then, Boeing partnered with Lockheed to make these products, and their outside auditors directed them to discontinue lot costing.

Despite our documented objections, upper management instructed us to issue an audit opinion that failed to report numerous violations, and the Air Force awarded Boeing \$270 million of past losses.

The opinion in that report was so unthinkable that the audit staff documented our disagreement in the audit file. That is the first time in my career that has ever happened.

For 25 years, I have jealously protected the American taxpayers' interests, but during the course of the two ELC proposal audits I supervised, I was harassed and denied a promotional opportunity. Lately, I have seen this scenario over and over again because of the emphasis on performance metrics and customer satisfaction while audit findings have taken a back seat to expediency and personal ambition. DCAA is broken.

Thank you for the time and thank you for this opportunity to bring these matters to your attention. I would be happy to answer any questions.

Chairman LIEBERMAN. Thanks very much, Mr. Hackler, for your personal testimony and for your direct conclusions. When you say "customer satisfaction," who is the customer?

Mr. HACKLER. In this case, that would be the Air Force.

Chairman LIEBERMAN. Not the taxpayer——

Mr. HACKLER. No.

Chairman LIEBERMAN [continuing]. Who you have been trying to protect all these years. We will get back to you with more questions. Thank you.

Next we will call on the Hon. Gordon Heddell, Acting Inspector General of the Department of Defense. Thanks for being here.

**TESTIMONY OF HON. GORDON S. HEDDELL,¹ ACTING
INSPECTOR GENERAL, U.S. DEPARTMENT OF DEFENSE**

Mr. HEDDELL. Mr. Chairman and distinguished Members of this Committee, thank you for the opportunity to appear before you this morning. As you know, I am the Acting Inspector General of the Department of Defense. I have also had the honor of serving as the Inspector General of the Department of Labor for almost 8 years. And prior to Senate confirmation, I had a 28-year career with the U.S. Secret Service.

As Acting Inspector General, I have examined our past actions and am reviewing our ongoing efforts to ensure that we are aggressive when investigating allegations of the nature that are being discussed at this hearing. I understand the importance of keeping the Secretary of Defense and other senior departmental officials apprised of significant issues that come to my attention.

Contractor oversight, which includes the efforts of DCAA, is one of the Federal Government's best and first lines of defense against waste, fraud, and abuse of taxpayer funds. I am dedicated to working with DCAA to ensure that their internal controls are in place and functioning effectively. My responsibilities as Inspector General providing oversight of the largest Department in the Federal Government, particularly during this time of war, could not be more important.

I know that there are concerns regarding the length of time that it took to refer allegations received by the hotline to the DCAA. The short answer is that, in the wake of Hurricane Katrina and subsequent Hurricane Rita, the DOD hotline was assigned the responsibility to be the hurricane relief fraud hotline for the entire Federal Government. And so from September 2005 until March 2006, the Department of Defense hotline received almost 10,000 hurricane-related allegations, and during that time period the hotline focused only on those allegations that involved life, death, or safety issues, and allegations against senior officials. Therefore, referral of the allegation to DCAA took longer than our normal standards.

In February 2006, the DOD IG Defense Criminal Investigative Service (DCIS) received the same allegations. Shortly thereafter, DCAA suspended its own inquiry based on the initiation of an investigation by the DCIS.

¹ The prepared statement of Mr. Heddell appears in the Appendix on page 79.

In June 2006, the U.S. Government Accountability Office informed DCIS that it was conducting its own investigation of DCAA. GAO indicated that, in addition to receiving the same hotline complaint, it received reports of DCAA misconduct in other offices and regions located throughout the United States. GAO and DCIS coordinated certain investigative activities regarding these allegations of misconduct.

In support of the DCIS investigation, my office of Audit Policy and Oversight reviewed DCAA audits that were identified in the original hotline complaint. In January 2007, we issued a memorandum to DCAA detailing the results of our review of 10 DCAA audits. This memorandum contained the following conclusions—and all ten, by the way, we found to be deficient.

On nine of these audit assignments, the supervisors either changed, or directed to be changed, an auditor's draft audit conclusions without adequate documentation.

The working papers of seven assignments did not adequately support the final audit report opinions. And on the three remaining audit assignments, the supervisory auditor should have directed the auditor to perform additional audit procedures prior to issuing the final report.

In addition, DCAA should rescind three reports because the reports were not supported by the working papers.

The director of DCAA's Western Region, in a memorandum dated July 2007, expressed strong disagreement with the overall results of our review and refused to rescind any reports, although he acknowledged, saying "working papers could have been improved."

The DCIS investigation indicated that the emphasis by DCAA on a metrics-driven system of conducting systems audits within predetermined milestones and deadlines created an environment where the pressure to meet goals affected the outcome of the audit. In contrast, the field auditors stated that, in prior years, auditors were routinely praised and rewarded commensurate with the amount of money they questioned and how much money the government saved or recovered as a direct result of their audit activities.

In June 2008, DCIS presented the results of its investigation to the U.S. Attorney's Office in Santa Ana, California. The U.S. Attorney declined criminal prosecution.

Subsequently, in August 2008, DCIS prepared a Fraud Vulnerability Report that documented investigative findings. That report was provided to DOD Comptroller Tina Jonas and DCAA Director April Stephenson.

GAO issued their report in July 2008, and it was titled, as you know, "Allegations That Certain Audits at Three Locations Did Not Meet Professional Standards Were Substantiated." The findings in the GAO report are consistent with the findings contained in our January 2007 memorandum.

With regard to ongoing and future work, after publication of the GAO report, additional hotline complaints have been received concerning misconduct allegations by senior managers in the same California DCAA offices. These allegations are being assessed.

On August 4, 2008, we announced a follow-up review focusing on audit work deficiencies and the abusive work environment that was

identified by the GAO. As part of this review, we are performing an assessment of the completed and planned actions taken by DCAA in response to the GAO report and the allegations concerning supervisor misconduct. We have also scheduled another External Peer Review of DCAA to begin in January 2009. In so doing, we will consider the results of the follow-up review, and we also consider the previous GAO review, the one they just completed, our prior DCAA Peer Reviews, and the DCAA Internal Quality Assurance Reviews. This review will cover audits performed by all five DCAA regions and the Field Detachment.

Oversight of Department of Defense contractors is essential in the fight against waste, fraud, and abuse. We remain committed to supporting DCAA to ensure that their internal oversight mechanisms are in place and working effectively.

I thank you for your time, and I am ready to answer any questions that you may have.

Chairman LIEBERMAN. Thank you, Mr. Heddell. Excellent report of your activities, and you are validating the problems we have seen.

The final witness is April Stephenson, Director of the Defense Contract Audit Agency. Obviously, these are very serious charges, and I must say all the more troubling because the Defense Contract Audit Agency has over the years been held up as one of the best of the Federal Government's taxpayer watchdog agencies. So I hope you will respond with the seriousness of the moment.

Ms. Stephenson, it is all yours.

TESTIMONY OF APRIL G. STEPHENSON,¹ DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY, U.S. DEPARTMENT OF DEFENSE

Ms. STEPHENSON. Thank you, Mr. Chairman and Members of the Committee. Thank you for the opportunity to be here before you today. I am pleased to be here.

I will briefly describe the actions taken by DCAA as a result of the GAO report. A more detailed account is provided in the statement that I have submitted for the record.

Mr. Chairman, I want to assure you and all the Members of this Committee that DCAA is taking the GAO's findings very seriously and that we are committed to taking the necessary steps to review and correct the issues cited in the report. We fully support any review of our procedures, and we are taking immediate action to correct the problems.

Before I proceed with the rest of my testimony, let me tell you a little bit about myself. I have 21 years with DCAA, and I have held a number of positions. I started out as an auditor trainee. I was an auditor, a supervisor, a branch manager. I have been a deputy regional director, a regional director, and deputy director of the Agency. I became Director 7 months ago.

Mr. Chairman, DCAA's mission is to perform audits of contractors and to provide results to contracting officials responsible for the negotiation, administration, and settlement of contracts, and I

¹The prepared statement of Ms. Stephenson with an attachment appears in the Appendix on page 90.

would like to think we do it well. But I recognize we have a lot of improvements to make.

To accomplish it, the Agency employs some 4,000 people and has 79 field offices across the country and overseas. In 2007 alone, DCAA performed 33,801 audits covering \$391 billion of proposed or claimed contractor costs. These audits have taken issue with \$14.2 billion in questioned costs—these are areas where we recommended reductions in what was proposed or billed—and another \$4.6 billion in unsupported costs. These are costs in which the contractor did not provide sufficient information to render an opinion.

Of those 79 field offices, three offices were covered by the GAO's investigation. These three performed a combined total of 4,786 audits over the 5-year period covered by the GAO.

For my testimony today, we categorized the GAO's findings into three general areas: Deficient working papers and audit work; lack of independence; and management abuses of employees and impediments to the GAO investigation.

With regard to deficient working papers and audit work, the GAO concluded that the working papers did not adequately support the final conclusion and opinion for any of the 13 cases it investigated; that, in some of the cases, auditors did not perform sufficient work to support their conclusions; and that their supervisors did not instruct or allow them to perform additional work. We agree.

We agree that the audit work should have been better documented in the working papers, and in some cases, supervisors should have assessed the need to perform additional audit work prior to issuing the audit report. Changing draft findings without adequate explanation, documentation, and review is not acceptable, and does not follow the auditing standards that DCAA strives to uphold.

So why did this happen?

In our discussions with the management team, we learned that they did want to include inadequately supported findings in audit reports, but did feel pressured to issue reports by due dates. Thus, they removed the findings rather than assessing the need to perform additional work. This is not acceptable.

Regardless of the due date, audit work must be completed prior to the issuance of any audit report or, in the case of an external constraint, clearly state why the audit work could not be performed by the due date.

Regarding lack of independence, the GAO concluded that, in three audits, the contractor or the DOD contracting community improperly influenced the audit scope, conclusions, and opinions. The root cause of this conclusion was DCAA's participation in Integrated Product Teams (IPTs). IPTs, as you may know, were established in the mid-1990s as a way to expedite the assessment of contractor bid proposals and to resolve outstanding issues.

In the specific example cited by the GAO, the IPT was established to expedite the resolution of a labor estimating system problem at a major contractor. As the contractor developed the revised procedures, the IPT, including the auditor, provided feedback. The DCAA field office manager informed the IPT that DCAA would audit the final estimates and provide feedback on the drafts.

After several rounds of reviews, the contractor provided the final procedure for audit. DCAA notified the contractor that it planned to test a sample of estimates over a prospective 4-month period although the auditor did not specifically state which estimates would be selected. The GAO concluded that the DCAA's participation in the Integrated Product Teams was a violation of the independence requirements under the auditing standards. The GAO also objected to the auditor providing the time period.

As a result of the GAO's concerns, we have ceased DCAA participation in all Integrated Product teams. Although audit services will be provided during an IPT when requested by the contracting officer, DCAA is no longer a member of an IPT. We will no longer provide feedback during an IPT. DCAA will audit only final contractor-approved submissions and will have no involvement in draft submissions.

Regarding management abuses and impediments to the GAO, the GAO concluded that a pattern of frequent management actions served to intimidate some auditors and created an abusive environment at two of the three locations it investigated. Rest assured, inappropriate management actions will not be tolerated, and disciplinary action will be taken as necessary.

However, since the GAO did not provide specific information on which personnel action could be taken, we asked that the DOD Inspector General investigate this matter. A draft report is due in January 2009.

Mr. Chairman, my submitted testimony contains a list of the actions DCAA has completed to date and actions we plan to take. For the interest of my testimony today, I will discuss some of those actions having to do with the Agency's structure, culture, and processes.

We are performing a top-to-bottom staffing assessment, including an assessment of the staffing of our quality assurance function, to determine whether we have the appropriate staffing at all levels of the organizational structure.

We are assessing whether additional staffing will be needed, including auditors, supervisors, and managers. And we will continue to work with the Department on how best to address future staffing needs.

Prior to the issuance of the GAO report, we recognized that the span of control of supervisors to auditors needed to be lowered, especially in those areas that had a significant number of auditor trainees.

In June 2008, I lowered the number of auditors controlled by each supervisor to provide for additional oversight.

I also approved additional field offices to lower the span of control for the field office manager. Three additional offices were approved earlier in the year; three more offices were approved after the issuance of the GAO report.

DCAA has also realigned the quality assurance function so that now reports directly to the Deputy Director. This change will bring additional daily oversight at a very high level in the organization and demonstrates our emphasis on quality audits.

With regard to culture, we have undertaken an assessment, which we hope to complete by the end of this month, to determine

whether the agency is using the appropriate metrics and benchmarks, and whether those metrics are driving the right behavior. This assessment includes focus groups, including auditors, at all levels to provide feedback.

In the meantime, we have emphasized through various venues the need to perform quality audits, and that other factors, such as metrics, budgets, due dates, or external pressures, should in no way compromise audit quality. For example, August was declared "Audit Quality Month." Each location held a stand-down day to discuss audit quality and to resolve impediments to audit quality.

We plan to conduct an agency-wide survey to identify additional cultural issues.

As mentioned earlier, we have ceased participation in Integrated Product Teams to avoid the appearance of a lack of independence.

Finally, to address process improvements, we have increased the number of management levels to resolve disagreements from two to four. This raises the issue to the level of a senior executive, if needed, and provides greater objectivity to the resolution process.

Based on our own quality assurance reviews, in February 2008, we changed the signature authority for internal control audits from the supervisory auditor to the field office manager. We have now required managers to sign all reports, regardless of findings, which should improve audit quality.

We expanded our next round of quality assurance reviews, which started this month, to include additional offices and additional assignments.

We initiated an internal assessment of audit work at other locations to identify additional areas of improvement.

In addition, we have asked the DOD Inspector General to review the actions we have taken on the specific 13 cases cited by the GAO, in addition to assessing the issues involving the management environment.

For all 13 cases, we have either completed additional audit work or have assignments in process to mitigate the risk with the assignments the GAO determined did not comply with the auditing standards.

In closing, Mr. Chairman, Members of the Committee, I want to again underscore the seriousness with which DCAA is taking these actions. DCAA is committed to ensuring that the agency is above reproach.

I thank the Committee for the opportunity to come before you, and I look forward to your questions.

Chairman LIEBERMAN. Thanks, Ms. Stephenson, for the seriousness of your response.

We will go now to questions. Let's have 8-minute rounds since there are only three of us here at this point.

Mr. Kutz, let me go to you here and ask you to answer the question that, in a way, Ms. Stephenson raised, which is: Why did this happen? I have heard some reference to the performance metrics, which presumably put time pressure on auditors. But just to repeat, this is an audit agency with a pretty good reputation over the years, and yet you have documented, and Mr. Heddell's group and the others have documented, some really outrageous breaches of normal auditing standards.

Was it just the performance metrics? Or was something else happening here?

Mr. KUTZ. Well, as she mentioned, there were independence issues with several of these. Whether it be in fact or appearance or both, we found independence was an issue with at least three of these audits.

Chairman LIEBERMAN. OK. So define that a little more. What do we mean by independence issues?

Mr. KUTZ. Well, the case that she mentioned was with a contractor where there was an up-front agreement that if a certain process was followed, they would get a favorable result. And DCAA was commenting on what it was auditing at the end throughout the process, and yet they gave an opinion on the final product. And what she is saying now is they are going to back away from that and really provide audit of the final product which will assess the system.

In that particular case, the system could not produce reliable estimates, yet they gave an "inadequate in part" opinion, I think, on that one.

Chairman LIEBERMAN. So was that because they were subject to undue pressure from the contractor?

Mr. KUTZ. I am not sure if it was pressure. Just the way the process was set up in that particular case.

Chairman LIEBERMAN. And they went along with it.

Mr. KUTZ. And they went along with it, yes.

Chairman LIEBERMAN. Yes.

Mr. KUTZ. And they have been doing it for years, as she mentioned. So that would be an example of the independence problem.

In other cases, there was pressure from contractors to have certain things happen, and reports were issued by supervisors that had not reviewed working papers. She mentioned that there is pressure for deadlines, and I think the reality is there is pressure from contractors and the commands to help facilitate the process rather than look out for the taxpayers, as these two witnesses to my right have described. So independence was one of the issues.

You mentioned production. I think there is a difference between production and productivity. There was a big focus on production here, and I think productivity is——

Chairman LIEBERMAN. In other words, the number of audits that would be——

Mr. KUTZ. The number of audits and how many days were to be spent on them rather than making sure that if there were significant complex issues that there was plenty of time spent to resolve them and issue the right report. If it was September and there were issues, they would get a report out the door rather than resolve those issues. I think she addressed that also in her opening statement in the way that they thought about this. So that was another issue.

I think the other one in some of the locations was there was——

Chairman LIEBERMAN. Let me stop you there and just ask if you have reached a judgment yet or you are going to wait until your final report to reach judgment on whether these performance metrics drive, time pressures, or whether the DCAA is under-

staffed? In other words, one reason they may be under time pressure is that they do not have enough personnel.

Mr. KUTZ. Well, it raises a serious question when you are issuing tens of thousands of audits with 3,500 auditors.

Chairman LIEBERMAN. Yes.

Mr. KUTZ. Either you are not doing the right audits and you are doing a lot of audits that do not have a lot of significance, or you do not have enough staff. We have not taken a complete look at that. I agree with you, Senator, that is something that needs to be looked at—

Chairman LIEBERMAN. OK. Look further, then.

Mr. KUTZ [continuing]. Because the dollars have gone up and the number of staff has stayed flat or gone down. That raises questions.

Chairman LIEBERMAN. Go on with what you were saying.

Mr. KUTZ. Well, the other one was inexperienced staff were not being supervised on a daily basis. I think that was an issue, and, again, I think they were stretched thin. It could get back to what you just described. But inexperienced staff that came up with findings and supervisors that did not have time necessarily to review them on a day-to-day basis. So you get to the end of the audit, and a bunch of issues have been raised. You do not have time to fully vet them, so you just issue the report. The supervisor says, "Well, those are not really good findings. I am going to delete them, and I am just going to issue a clean opinion at the end of the day."

So those are some of the kinds of things that I believe—

Chairman LIEBERMAN. OK. That is helpful. You do not want to reach a prejudgment where there are such amounts of money involved here, of why changes were made to the benefit of the contractors. I am just looking at that point of view. Was there any indication of supervisors who were currying favor with the contractors in hopes of going through the revolving door to go to work with the contractors? Is there any evidence of self-serving here in the "inadequate" audits that you found?

Mr. KUTZ. I think it is a high risk. We did not see it specifically.

Chairman LIEBERMAN. It is a high risk that it may be going on?

Mr. KUTZ. Yes, it is a high risk because all the opinions changed in the same direction, in favor of the contractor. We had 11 opinions of the 14 that improved for the contractor. If some of those had gotten worse, I would not be quite as suspicious. They all got better at the end of the day. We did not see any specific evidence of bribes, kickbacks, things like that.

Chairman LIEBERMAN. Right.

Mr. KUTZ. But that does not mean it is not happening. I just do not have any evidence that it is. But I think it does tie clearly to the production focus and the inability to take enough time to fully vet those findings. And it is easier to wash them away than to deal with them.

Chairman LIEBERMAN. How about the other kind of pressure, a different kind of pressure—which Mr. Hackler really referred to—which is the satisfaction of the customer, the customer in the case you mentioned being the Air Force, either because the Air Force itself was in a buddy system with the contractor or because the Air Force just wanted to get the job done and did not want it held up

by some audit? Did you find evidence of any inappropriate pressure by the Air Force on the auditing supervisors?

Mr. KUTZ. Yes, I think we did see evidence of that. And, again, you have a situation where the Department of Defense partners, in effect, with these contractors. Sometimes it looks like DCAA gets swept into that partnership. But they are the auditors. The auditors cannot really be the partners in this whole situation.

So I believe there was some of that, and it raises a bigger issue from an independence standpoint where DCAA is within the organization or whether there should be more independence of DCAA organizationally. She talked about other issues, but I think organizationally, they need to assess whether they are placed in the proper place in the government.

Chairman LIEBERMAN. Am I right that right now they are under the Comptroller of DOD?

Mr. KUTZ. They are under the Comptroller, yes.

Chairman LIEBERMAN. So I hope that one of the other things that you will take a look at and speak to us in your final report is whether a move out of that line reporting to more independence would help the Agency.

Mr. Hackler, do you have anything you want to add to this question, this perplexing question about why the supervisors acted badly here?

Mr. HACKLER. In my situation, it was personal ambition. I should note that all of the individuals involved with every audit that was looked at by the GAO are either retired or have been promoted. In my situation, the directed audit opinion that I had to issue because of a directed stance, the person has been elevated to the Senior Executive Service (SES) level.

Chairman LIEBERMAN. Yes. So the ambition was within the agency.

Mr. HACKLER. Yes.

Chairman LIEBERMAN. And the thought was that if you did not cause waves with critical audits, you would be more likely to rise?

Mr. HACKLER. It is a common theme. It helps you with your metrics.

Chairman LIEBERMAN. Yes.

Mr. HACKLER. Everyone looks good.

Chairman LIEBERMAN. Yes. Ms. Le, do you want to add anything?

Ms. LE. In my opinion, I think there are two fronts. The first one is that I think it is because of DCAA's desire to be a partner with the procurement offices, and in that partnership we want to have customer satisfaction.

Chairman LIEBERMAN. Right.

Ms. LE. And that is the pressure. So that is up front.

Chairman LIEBERMAN. And, again, who is the customer there?

Ms. LE. The procurement offices or the officers.

Chairman LIEBERMAN. OK.

Ms. LE. And the second part of that is the personal ambition and promotion within the agency, because the agency is so metric-driven that anybody who would meet the metric will be promoted. And like Mr. Hackler has stated, the people involved in the investigation, they have been promoted.

Chairman LIEBERMAN. OK. I thank you. I will come back to this issue, and maybe my colleagues will ask Ms. Stephenson about why the supervisors who were criticized by GAO and the other investigations have either been promoted or retired and not disciplined. If my colleagues will allow me, let me ask you that question just to wind this up because you spoke with real seriousness about the Agency's response to these allegations, and I appreciate that. But here you have a situation where it seems to me that exactly the opposite message is being sent to the people who were criticized by GAO.

Ms. STEPHENSON. I understand that, sir, and I understand the way that this appears. Most of the promotions, except for one, happened prior to the GAO report. There were no indications in those promotions that they did not follow the merit promotion principles. There was one who was promoted after the GAO report was issued, a couple of days later. That particular promotion was reviewed through the General Counsel's office to determine whether it followed merit promotion principles. In that particular case, it did.

Chairman LIEBERMAN. You mean it was reviewed after the GAO report?

Ms. STEPHENSON. Yes. However, on that particular promotion, I would like to explain the person has not been put in their position, and we recognize that there may be some additional findings that will come out of the IG report that is due in January. And if there are indeed additional actions that come out of that GAO report, we will take the actions at that time.

Chairman LIEBERMAN. So that person has been promoted but not placed in the position?

Ms. STEPHENSON. That is correct.

Chairman LIEBERMAN. And not given additional pay?

Ms. STEPHENSON. No, they have not.

Chairman LIEBERMAN. OK.

Ms. STEPHENSON. Now, I would say that we have been advised by counsel that because the IG is performing a review of the management abuses and is looking into the actions of these employees that were taken, we needed to cease on any disciplinary actions that we took on those employees in case there are additional actions that need to be taken, and we would take them all at once because you cannot discipline twice for the same action. So we have been put in a holding pattern, and we are grateful to the IG for taking on this action for us to bring objectivity to the process versus us looking at ourselves, having the IG look at ourselves. And I am committed that if there are actions that the IG finds need to be taken, we will take those actions.

Chairman LIEBERMAN. OK. I appreciate that very much, and to say the obvious, this Committee would like to be kept informed on a very timely basis of what you are doing with regard to those supervisors.

Ms. STEPHENSON. Absolutely, sir.

Chairman LIEBERMAN. Thank you. Senator Collins.

Senator COLLINS. Thank you.

Mr. Kutz, the DCAA has some 300 field offices, and we have talked about the very disturbing findings that GAO has documented in three of those offices. But you are, at the Chairman's

and my request, in the midst of doing a broader assessment of DCAA. Thus far—and I realize your assessment is still underway—are you seeing the same kinds of troubling problems that we have talked about this morning in other regions of the country in other field offices?

Mr. KUTZ. I would say in some cases, yes; other cases, not necessarily. The abusive work environment one, for example, we have not seen—although we were doing it more like a peer review, we had specific allegations with respect to the 14 audits that we looked at to this point. So it does not mean it is not going on, but that does not appear to be as big of an issue.

The overall theme, some of the independence issues I talked about, the lack of sufficiency of work, and a little bit of the changing of opinions, appears to be out there also. Ms. Fischer may want to add a little more. She is leading that broader look.

Senator COLLINS. Ms. Fischer.

Ms. FISCHER. That is correct. We found the same types of problems with regard to support for the audit opinions and the dropping of some findings in the work we have looked at across the various DCAA regions.

Senator COLLINS. And the independence issue, which to me is the most troubling, are you seeing that?

Ms. FISCHER. We have seen some aspects of that with regard to the effect of the metrics process where they would maybe do less work than they should. That is one of the impairments to independence if you do not allow enough time for the audit. We have seen a hesitancy to disclose, maybe in a report, that there is an ongoing fraud investigation. We have some questions about the low number of fraud referrals coming out of some of the work across the offices, that kind of thing.

Senator COLLINS. We will be looking forward to the results of that more comprehensive review because I think a fundamental issue that has been raised this morning is whether DCAA has sufficient insulation and independence within the Department of Defense. This whole debate reminds me very much of when some of the major accounting firms became too close with their corporate clients and lost their independence and objectivity a few years back when the corporate accounting scandals broke. And it seems to me that what we are hearing over and over again is that DCAA sees as its customer not the American taxpayer but the program manager or the procurement officer or in some cases perhaps even the defense contractor.

So I think it is premature for us to reach a conclusion on that, but that is an issue that I think we should take a look at of whether or not it is a mistake to have DCAA within the Department of Defense. Maybe it needs to be pulled out to be more independent of the program manager, the procurement officers, and even the contractors themselves. And that is something that I would like GAO to take a look at as you come back to us with your recommendations.

Ms. FISCHER. Yes, we are taking a broader look at that whole environmental picture.

Senator COLLINS. Mr. Heddell, I found your testimony troubling and surprising this morning on a couple of counts. First of all, the

IG's office completed a review of DCAA in May 2007, and it basically said that the quality and the compliance with established policies, procedures, and applicable auditing standards were adequate. And yet at the same time, other DOD IG personnel were involved in assisting the GAO with an investigation of these 14 audits that we have discussed today.

How could DOD IG conclude in its report dated May 1, 2007, that DCAA passed the review and that its procedures were satisfactory, when at the same time your office knew of these questionable audits on the West Coast offices?

Mr. HEDDELL. Well, I think that is a very important question, Senator Collins, and I will try to give you what I hope will be a satisfactory answer.

We are talking about two different things that were occurring here. The hotline investigation, which was initiated as a result of a November 13, 2005, complaint, which identified 10 audits in two specific offices in southern California—Huntington Beach and Santa Ana—and that initiation was a criminal investigation entirely.

The external peer review that you are referring to, which was reported on May 1, 2007, was a broad review, had a totally different scope and totally different approach—one being more of an audit, the other being a criminal investigation. And the time periods that were covered are different. The hotline investigation looked at 10 audits that were conducted between 2002 and 2005. The external peer review that we reported on in May 2007 looked at fiscal year 2006. So you also had two different time periods.

In addition, in the criminal investigation we were focused on supervisors, managers, and auditors in a very limited geographic area, as I indicated. In the external peer review, we were looking at five DCAA regions coast to coast, as well as their field detachment that looks at classified information. So one was very broad. The other was very narrow and very focused.

Now, the reality is that criminal investigators were using the assistance of auditors, and it was through their assistance that we were able to identify and say that all 10 of those audits out in Santa Ana and Huntington Beach were deficient. And the auditors were conducting their peer review with the general knowledge of what had been discovered and was known out in southern California. So there was a general knowledge, but the results are different because it is two different focuses. Again, the focus out in southern California was on whether or not the opinions were correct and whether the working papers were supported. The focus in the peer review was whether there were significant deficiencies that were enough to indicate that material deficiencies adversely affected the overall system of quality in DCAA.

The professional and collective opinions of the audit staff that conducted that peer review that they reported on in May 2007 had the opinion, when everything was said and done, that, in fact, the structure in place at DCAA during fiscal year 2006 was such as to be acceptable according to government auditing standards.

Now, if I could just add one other quick thing, the fact of the matter is even though I think that it is reasonable to say you could have two different results, I believe that in our look at this thing,

we were a little off on this because I think that the Office of Inspector General unfortunately failed to get its arms around the broader issue here. So it is a matter of an organization being focused audit-wise, being focused criminal-investigation-wise, but the broader organization did not pull it together. I am not saying there would have been a difference, but I think it was a weakness within the Office of Inspector General.

Senator COLLINS. Thank you. In my next round, I want to get back to the handling of the complaint and the 3-month delay in referring it and your comments about Hurricane Katrina. Obviously, the DOD IG was involved in the fraud investigations given that the Army Corps of Engineers had a number of the contracts for the blue tarps, for water, and for ice. But I am alarmed at what you said today, but I will get into that in a second round.

Thank you.

Chairman LIEBERMAN. Thank you, Senator Collins.

Thanks, Senator McCaskill, for being here and for the support that you and your staff have given this particular investigation and the preparation of this hearing.

Senator MCCASKILL. Thank you, Mr. Chairman. And for purposes of managing my time, will we have more than one other additional round? Because I obviously could be here for hours, and I wanted to take a couple of minutes to put something in the record before I began. But I will not waste that time if—

Chairman LIEBERMAN. My expectation was that we would have at least one more round. If you want more time than that, I may just leave you here. [Laughter.]

Senator MCCASKILL. That would be great. Check back in tomorrow.

Chairman LIEBERMAN. And require the continued presence of the witnesses.

OPENING STATEMENT OF SENATOR MCCASKILL

Senator MCCASKILL. OK. Thank you, Mr. Chairman, very much.

Back in 1986, when I was a young attorney, I remember hearing about \$400 hammers and \$600 toilet seats. And like most Americans at the time, I thought, how in the world does that happen at the Pentagon?

Now, after spending a great deal of my professional life as an auditor, I understand why it could happen at the Pentagon. I have had some sleepless nights after I read this GAO report, not because what was in the report was so incredibly unbelievable—that is true—but more the response of the foundational organizations within the Department of Defense and government oversight that have failed.

There are so many failures that are wrapped up in this hearing, it is hard to know where to begin. And I have to disagree with you, Inspector General, about peer review. I fundamentally understand what peer review is. There is a dramatic failure of peer review in this instance. Peer review is all about seeing if the systems are adequate in terms of working papers supporting findings. What an auditor must do is find the facts supported by working papers. It is just that simple.

And if we have instances—I do not care if they are in southern California or in a small town somewhere in the Midwest. If we have instances within an auditing agency where someone is ignoring working papers and changing findings, a peer review ought to find it, and a peer review ought to call it out. That is what they are there for. That is the only reason a peer review is there, to examine the fundamental strengths of the auditing processes. They are not there to cast judgment on individual findings or individual scopes or individual priorities that an agency may set.

And so I certainly respect your record as an Inspector General at Labor, and I know you have walked into a hornet's nest. And I am hoping that in the time I spend here, eventually we will get to a point in a hearing where I feel really good about the DOD IG. I am a long way from there right now.

I want to commend the auditors. You are heroes. You did not go into this line of work for the money, and you certainly did not go into it for the glamour. This is hard stuff. It is complicated. It is so complicated that it is very hard for Congress to have longer than a 5-minute attention span, which is one of the reasons why we have continually had the astronomical numbers of waste, fraud, and abuse at DOD and the Pentagon because it is hard. And as you can see by the attendance at this hearing today, it is not glamorous on this side either.

So I want to really commend you, as a 17-year auditor, as two people who realize that the absolute foundation of what made you feel good about coming to work was shaken because you were not coming for the money and you were not coming for the glamour. You were coming because you fundamentally believed that when you found problems, they were going to be exposed.

Now, the response to the audit was wrong. The fact that people who are responsible for this have been promoted or have retired is ridiculous on its face. It is ridiculous on its face that anyone who was involved in this has been promoted. And nobody in America gets it, how you can promote somebody who was involved in this. And we are going to try to get to the bottom of it before this is all over.

I appreciate you, Ms. Stephenson, for coming to my office and spending the time with me that you have. And I have a specific question about that before I finish.

I think at the root of this problem is a phony baloney performance metric. We need to get to the bottom of the Office of Management and Budget (OMB) and these performance metrics, and this is something I would like to talk to you about, Mr. Chairman. When you have performance metrics, there are pages here—and I have read every word—about how great DCAA is doing. And do you know there is one paragraph about how much money they saved?

This was all about making sure that somebody looked good up the line in terms of how many hours they were spending on an audit and, second, about pleasing the contracting people at the active military. That is all this was about. And, by the way, this says they are doing great at pleasing their client, which is, in fact, the people who enter into contracts in the Air Force, the Army, and all those places; that they are showing that they are cheaper than out-

side auditors so nobody needs to worry about getting privatized; and that they are doing a lot of audits in a few amount of hours.

Now, by the way, multi-billion-dollar contracts are where it should take a lot of time. This is hard. Most of us do not even understand all the intricacies of these contracts. Congratulations that you do. You have given the best explanation of lot pricing I have ever heard, and I am on the Armed Services Committee.

So, this is really fundamentally broken. The culture is broken, the performance metrics are broken, and the oversight is broken. And we have got to get it fixed. We have enough money, if we scrape the surface, to bail out all the Fannie Mae's and Freddie Mac's in the world if we would just get serious about this.

Let me start, if I can, with the most difficult question I have to ask today. Ms. Stephenson, I hate to put you on the spot, but this is your job. You and I met in my office, and I have been impressed at your willingness to acknowledge that your response to the audit was inadequate, that there is a serious and substantial problem here, and you pledged to me that you wanted to work with me and my staff to do the best job you could getting it fixed.

I have heard troubling rumors since our meeting that you have been instructed by Tina Jonas not to talk to me or meet with me again. Is that true?

Ms. STEPHENSON. No, ma'am. It is not true. My understanding is that we met with the staffers on August 20, and that we have been providing weekly updates on the actions that we have taken. I, at no time, was instructed by Tina Jonas not to meet with you. I was told in various instances that we would meet with the staffers. I apologize, ma'am, if you wanted me to come back to you.

Senator McCASKILL. No. I was told by people—I mean, you can imagine how my phone is ringing off the hook. And we received information that Tina Jonas instructed people around DCAA, including you, that they should not have contact with my office. And I wanted to find out if that rumor was true or false.

Ms. STEPHENSON. That rumor is not true, ma'am.

Senator McCASKILL. OK, great. That is the best news I have heard all day.

Let me ask you, because my time is almost up on this round, Inspector General Heddell, have you done any investigation as to the people under your supervision who exposed the whistleblowers? Do you know who those people were that exposed Ms. Le?

Mr. HEDDELL. Well, it is not—the answer to that is it is not as simple as that. If I could take a minute, I would be more than happy to try to address that.

Senator McCASKILL. OK.

Mr. HEDDELL. With regard to your earlier remarks, Senator McCaskill, I do not think you and I really disagree. I appreciate your remarks, in fact.

First of all, I would like to say thank you to Ms. Thi Le because, frankly, being a law enforcement professional for most of my life, we depend on people who will come forward—

Senator McCASKILL. That is exactly right.

Mr. HEDDELL [continuing]. And who will talk to us. And she did. And there is a lot more that I could say that is very positive about what she has done for us.

Let me explain what happened in this situation, however, and it probably is a situation that needs to be fixed. But here is the case.

There was a 3-month delay in handling that hotline complaint. It came in on November 13, 2005. It was not handled until February 8, 2006. As I indicated in my statement, the Department of Defense OIG hotline became the fraud hotline for the entire Federal Government between September 2005 and March 2006. During that time we took in almost 10,000 Katrina and Rita hurricane-related allegations. In addition to that, we took in our regular allegations, which were about 8,000, so tremendously overtaxed. And there was a priority system in place that said that we would only—that we would for the most part address life-threatening issues and senior official issues. And that is why the delay.

Now, routine hotline referrals that we get—and I emphasize the term “routine”—the way that they are handled is they come in, and as long as they are routine, they are referred to a DOD agency, in this case DCAA. The Department of Defense has a hotline program, and they have very formal instructions under DOD Instruction 7050.01, and those instructions say that when hotline referrals come in, they are required to have a process in place whereby they independently review and report on the nature of the hotline. And it goes on to say that maximum emphasis must be given to protect the identity and the confidentiality of the person who calls in or provides the information.

Now, in this particular case, the hotline referral came in and was treated routinely, and, of course, with regard to all the major issues that were occurring at that time—and I could go down the list—that particular hotline complaint was treated as a routine matter and, like all routine matters, it went to the agency involved, with the exception—we have three exceptions: If it involves a senior official, if it involves reprisal, or if it involves criminal activity. And that particular hotline complaint was judged not to have any of those three attached to it at that point in time. But it also was judged to be routine, and, therefore, it was referred to DCAA.

Now, I will tell you, I think we misstepped on that one because, in my opinion, anytime something comes in that involves DCAA, as important an organization as it is—and when you think about what it does—I think we should have taken that. I think we should have kept it—we, the Office of the Inspector General (OIG)—and we should have worked it ourselves.

Fortunately, within 30 days of referring it to DCAA, we realized and we were able to get back on track with that thing, and we took it back.

Senator McCASKILL. But it was only because Ms. Thi Le complained to Criminal Investigations.

Mr. HEDDELL. Yes, ma’am.

Senator McCASKILL. If she had not done anything more, nothing may have happened.

Mr. HEDDELL. I do not deny that is probably what would have happened—nothing—at least for a while.

But here is the thing. What I outlined for you is the system for handling routine complaints because there are thousands of them that do come in. Unfortunately, in this particular case, it was referred to DCAA.

Now, the complaint itself did not specifically identify any one person, but having said that, I can tell you as a trained investigation, I think I could have looked at that, and I think I could have figured it out. We made a mistake on that. And I feel badly because, as I said, we rely on people like Ms. Thi Le to help us out. I think the system could be improved there.

Senator McCASKILL. Thank you for acknowledging the mistake. Thank you, Mr. Chairman.

Chairman LIEBERMAN. Thank you, Senator McCaskill. We will now do a second round of 8 minutes.

Ms. Stephenson, in terms of the response, we talked about what has happened to the supervisors who were criticized, but let me go now to the actual audits. According to the GAO report, since being briefed on the results of that report, you have rescinded three of the audits and performed three other new audits that resulted “inadequate in part” opinions. But that still leaves more than half of the questionable audits untouched.

Is DCAA itself re-examining those audits?

Ms. STEPHENSON. Oh, absolutely, sir. For all 13 cases, we have analyzed what the issues were with those cases, whether they be an estimating system, whether they be a billing system, where additional testing needed to be done. But all 13 have had additional audits either in process or completed. Most are in process as of this time.

Chairman LIEBERMAN. So you have rescinded three, issued “inadequate in part” opinions on three. So on the remaining seven you are in review of those now?

Ms. STEPHENSON. It is actually more than that, sir. There were 13 cases, and for some of them there are two to three additional audits that we are doing because the issues that may have been called into place may have been in various areas and not just one audit, although the audit that the GAO looked at was one audit. So we expanded it where we needed to, to ensure that we had the appropriate coverage.

Chairman LIEBERMAN. So, bottom line, none of the audits that are in question and found wanting are being left sitting as they were?

Ms. STEPHENSON. No. In fact, contracting officers have been notified of the GAO’s findings on those reports, and they have been told not to rely on the results in those reports. And they have been given the timeline for the additional audits that will be performed. We did not want a contracting officer that was holding those reports to be acting on the findings.

Chairman LIEBERMAN. Let me go to Mr. Heddell for a question, but it raises an issue I want to come back to you on. Mr. Hackler’s testimony alleges a very costly flaw in a contract with Integrated Defense Systems, a Boeing subsidiary, for satellite launch capabilities. And as you know, his allegations have now been substantiated by GAO.

I wanted to ask you what your office is doing to follow up on the audit and if there is any recourse—and this is where I will ask Ms. Stephenson to join you in answering—for the taxpayers for what sounds to me like an unjustified payment of \$270 million of taxpayer money.

Mr. HEDDELL. The answer to, I think, the core of your question there is, with regard to the Inspector General, we have two initiatives ongoing at this point, Mr. Chairman. One is an investigative initiative relative to senior officials.

Chairman LIEBERMAN. Right.

Mr. HEDDELL. Another one is an audit initiative to take a look at what happened, to try and identify the problem. At least in my opinion, the more important question that you are asking, I think, is what is happening here, and why is this happening.

I think for one thing—and this is an opinion—I think there is—appropriately, there is a lot of emphasis on what are called generally accepted government auditing standards. I think those are extremely important. I am not an auditor. My professional background is more in the leadership and management area. But I think the issue is more about leadership than it is about auditing standards. And I think that is where—

Chairman LIEBERMAN. Leadership right to the top.

Mr. HEDDELL. Leadership to the top.

Chairman LIEBERMAN. To Ms. Stephenson in this case.

Mr. HEDDELL. Well, it is not just Director Stephenson. I am talking about a much broader subject. The Department of Defense, its budget has doubled in recent years, as you know better than I do. And the number of procurements has skyrocketed. The number of life-threatening issues that the Department deals with—and you are not talking millions anymore. We are talking billions.

Chairman LIEBERMAN. Sure.

Mr. HEDDELL. And the fact of the matter is that leadership is, in my opinion, the real issue. And who is important? Only the taxpayer can be viewed as the customer.

Chairman LIEBERMAN. Yes, that is the customer.

Mr. HEDDELL. So I think our focus has to be on how do we lead better. For instance, I know that DCAA has an internal audit peer review that they do themselves, but I think the focus is more on audit than it is on management.

Chairman LIEBERMAN. Let me interrupt you, with apologies, because my time is running. Is there anything that the government could do to recover money improperly spent as a result of these inadequate audits?

Mr. HEDDELL. Well, yes, sir. The government through audits that we conduct recovers millions of dollars every year. In fact, a lot of the semiannual reports of the Inspectors General, which, by the way, come out at the end of this month, will show the amount of monetary recoveries they have made over the past 6 months.

Chairman LIEBERMAN. So are you pursuing any monetary recoveries in any of these cases, including—

Mr. HEDDELL. Yes, sir.

Chairman LIEBERMAN [continuing]. The one Mr. Hackler referred to.

Mr. HEDDELL. Well, I cannot speak to that one because we are not finished yet, sir.

Chairman LIEBERMAN. OK.

Mr. HEDDELL. But I can say that in some of the others, yes.

Ms. STEPHENSON. Sir, can I speak to that?

Chairman LIEBERMAN. Please do.

Ms. STEPHENSON. As far as the recovery?

Chairman LIEBERMAN. Yes.

Ms. STEPHENSON. That is one of the 13 cases, and that is an instance where we do have a recovery mechanism under the Cost Accounting Standards. Under the Cost Accounting Standards, if a contractor is found to be noncompliant, you can retroactively go back to when that contractor started that practice and request recoupment from the contractor. That is a public law. We are in the process of performing audits under the Cost Accounting Standards on those particular issues and those accounting practices to determine whether that contractor is indeed compliant or not. So I believe that is a remedy which we could have.

Chairman LIEBERMAN. Good.

Ms. STEPHENSON. Second, if I could clarify that situation as well, and I certainly appreciate Mr. Hackler and Ms. Le being here today, especially Mr. Hackler in talking about the issues with the Evolved Expendable Launch Vehicle (EELV) program. I know that has taken a lot of courage for them to come forward, and I do want to thank them.

Chairman LIEBERMAN. I want to ask you something about that while you are at it.

Ms. STEPHENSON. Sure.

Chairman LIEBERMAN. Will you promise that you will do everything you can to make sure that Mr. Hackler and Ms. Le are not in any way harassed or punished as a result of their whistleblowing?

Ms. STEPHENSON. You have my personal commitment on that, sir, because I know it did take a lot of courage for them to come forward, to continue coming forward, and to not let loose of their convictions as to the issues and the concerns they have about their agency.

Chairman LIEBERMAN. Yes, I agree. They are heroes, as Senator McCaskill said, and both of them feel that they have suffered as a result of blowing the whistle. So we are going to count on you to make sure, as the Director of the DCAA, that any harassment stops.

Ms. STEPHENSON. Absolutely, sir.

Chairman LIEBERMAN. Go ahead with your answer.

Ms. STEPHENSON. I just wanted to clarify. On the EELV program, which was a very complex program for all involved, including us, as technical as we are with auditors, there was a certain amount of the cost that was put forward as being questionable. There was another part of the cost on which we were not able to render an opinion because of the way in which the contractor's accounting records were maintained. And I know that was a point of disagreement as to whether that additional amount that stemmed from the way in which the costs were accumulated under portions of the contract prior to it having to comply with the Federal Acquisition Regulations and the accounting standards. And I realize that was a point of contention, and it did get raised up several levels to management within the region where they made a decision they did not feel that there was enough information in the accounting records of the contractor, given the way in which they had put the records together, in order to express a clear opinion that this was

questionable. Rather, they set the costs aside in the report and stated that this was an area that appeared to be allocable to the government. We did it as what is called a "qualification" under the auditing standards, which is when you do not have enough information to express an opinion. We also asked the Air Force in that report not to conclude negotiations until it had assessed this situation.

As I said, I completely understand Mr. Hackler's concern with this and the need to have completely questioned all of it as opposed to saying, well, for part of it we just may not have had the type of information necessary in order to express that opinion. And I think that is something we are going to look at closely as we go forward as to how aggressive we are in situations where there is a lack of information. Perhaps that could have been handled better.

What I can give you is the commitment here today is we will complete those audits under the Cost Accounting Standards, and we will continue to work with the organizations—it would be the Defense Contract Management Agency and the Air Force—that if we feel recoupment is necessary, we will work with those organizations and work toward that recoupment.

Chairman LIEBERMAN. Good. Thank you for that. My time is up. Senator Collins.

Senator COLLINS. Thank you.

Mr. Heddell, you answered a lot of my remaining questions when the Senator from Missouri was talking to you earlier, but I want to clarify one point which is still unclear to me.

When the complaint came in from Ms. Thi Le, did the IG mistakenly forward back to DCAA her personal information or identifying information? Or was it just a case that anyone could figure it out because of the contract and the nature of the complaint?

Mr. HEDDELL. The complaint that came in on November 13, 2005, came in with the name of a person who is not sitting at this table, or at least not with the name that was put on the complaint. So the complaint came in with a name that is not sitting here today. But the complaint did list potential witnesses, and Ms. Thi Le was listed as a potential witness, among others. And the complaint was deliberately—and I do not mean maliciously, but "routinely"—forwarded on February, 8, 2008, to the DCAA.

Now, to the best of my knowledge, the DCAA management handled that complaint properly. I do not know that they divulged her name, but I do know this: That if you read the complaint, it would have been pretty easy to figure out who probably made the complaint.

So it was the system. It was followed. But, unfortunately, that complaint was treated routinely, and that is why I said in my opinion it should not have been routine.

Senator COLLINS. I was just going to say, that is a problem in and of itself, as you have conceded.

Ms. Stephenson, I want to talk to you about DCAA's cooperation with investigators, whether it is from GAO, the Defense Criminal Investigative Service, or the IG's office. In the case of Thi Le, DCAA issued an extremely broad and restrictive memo—you could look at it as a gag memo—that directed her not to provide documents to the GAO or anyone else. And the memo also cautioned

that if she did provide documents, she could be punished and even lose her job. In fact, Ms. Thi Le testified today that she was threatened that she could be prosecuted, that it could be criminal theft.

What are the rules that DCAA has now on cooperating with outside investigators as far as access to documents?

Ms. STEPHENSON. Let me answer this in a couple of ways, if I may, if I can first explain the letter that was issued in August 2007. I could say the tonal quality of that letter should have been improved. However, the intent of that letter was to protect the documents that were contractor proprietary documents. And it is within DOD policy and DCAA policy that we have to protect those documents. I do not think we had a clear understanding within our General Counsel's office at that time what those documents were going to be used for, and we used a blanket statement that is given when people are preparing cases and perhaps providing documents to third-party attorneys.

I am not saying that was right, but that is what the intent of that letter was to do, to protect the contractor proprietary documents.

However, at no time was there any restriction in Ms. Le giving the list of documents that the Office of Special Counsel or any other investigative agency would want. In fact, she did, and we did turn those documents over to the Office of Special Counsel. And we would continue to do that. It is my understanding that the Office of Special Counsel has the documents which they need. So at no time are we saying that they cannot give the documents that can be requested by the Office of Special Counsel. We did indeed turn those over.

However, in looking at this in hindsight, in looking at what was going on at that time, we may not have fully realized the intent of what Ms. Le was wanting with those documents and that it was solely for an investigative organization and not for personal use. And so I look back on that and say we could have handled this better. And we have changed our policy for the cooperation with investigative organizations which—

Senator COLLINS. Let me stop you for a moment to clarify a couple of points. The General Counsel's office knew that there was an ongoing investigation. Correct?

Ms. STEPHENSON. It is my understanding, yes.

Senator COLLINS. So this is not a case of protecting proprietary information from a corporate competitor or from an employee who is going to misuse it for personal purposes. This was a restriction that was imposed that prevented Ms. Le from cooperating with government investigators. How can that be proper under any circumstances? And how could the General Counsel's office have possibly thought it was related to protecting proprietary information?

Ms. STEPHENSON. Ma'am, in hindsight we could have handled that better. We should have—

Senator COLLINS. Well, I am finding this troubling, especially since when you were giving your explanation, Ms. Le was shaking her head. So I want to go to her now.

How did you interpret the memo that you received, which was signed by your supervisor but was, in fact, drafted by a DCAA at-

torney telling you not to distribute or share any of these documents? What was your interpretation?¹

Ms. LE. My interpretation was that if I did that, I would be prosecuted and lose my job. But let me take this opportunity to clear up some issues here.

I think Ms. Stephenson was misinformed. What triggered that memorandum was that I was asking my supervisor to allow me some time to respond to the OSC investigator in the investigation of my whistleblower complaint. I asked for some time to prepare. Then the next day, my supervisor gave me a memorandum saying that I cannot provide any documentation generated by a government computer, and I asked her specifically, and she told me including internal e-mails between me and my supervisor and my job performance evaluations, in which I do not think there is any contractor proprietary data right there, to any investigative unit, including the OSC.

So, clearly, at least my management at my office understood that I was not about to give away any contractor proprietary data to outsiders, but to respond to the OSC investigation.

Senator COLLINS. Office of Special Counsel.

Ms. LE. Yes.

Senator COLLINS. Mr. Kutz, what is your view on this? Did you have a difficult time getting access to documents were part of this investigation?

Mr. KUTZ. I will let Ms. Fischer answer that, but I think overall we got some cooperation. There were some people, though, as I mentioned in my opening statement, that were scared to meet with us and actually met with us off site because they did not want people at DCAA to know that they were talking to GAO. But I will let Ms. Fischer answer that in more detail.

Senator COLLINS. Ms. Fischer.

Ms. FISCHER. Yes, Mr. Kutz is correct. We did end up meeting with about three auditors off site. Some auditors were afraid to talk to us, the younger junior auditors. One trainee was just about in tears when she got in the conference room to meet with us, and we just let her go.

We actually phoned some auditors that we were told were willing to talk to us before we went out in person for interviews, and they suggested very strongly that we needed to do our interviews in confidence, that the auditors would be afraid to talk to us if their supervisors or managers were sitting there in the room. And that is why we handled the interviews in a confidential manner. But they were told not to give us any working papers or bring anything into the room, that everything had to go through their management. And as a result, their management would know what they wanted to give us to explain the audit issues, and they were afraid to do that. But we feel we saw enough documentation through the working papers we reviewed to support what we were concluding in our investigative report.

In Ms. Le's case, of course, we never got that gag order memo because she could not share it with us.

¹ The memorandum for Diem Thi Le appears in the Appendix on page 102.

Senator COLLINS. Thank you. Let me just wrap this up because my time has expired. I would like to have Mr. Heddell, just as an experienced IG, comment on this issue, and then, Ms. Stephenson, I am going to ask you for a commitment to issue a clarifying memo or some sort of direction making very clear that when the investigation is from another Federal entity—

Ms. STEPHENSON. Yes, ma'am.

Senator COLLINS [continuing]. This is entirely different.

Ms. STEPHENSON. Absolutely, ma'am, and that was unacceptable. And as I say, in hindsight that was unacceptable. I did not realize until Ms. Le just said right now that it was appraisals and other information that would not have contained contractor proprietary data. She should have been allowed to turn that over, no questions asked. I sincerely apologize to her that she was put in that situation.

Senator COLLINS. Thank you. Very briefly, Mr. Heddell.

Mr. HEDDELL. Yes, ma'am. Very briefly, there are three controlling points of authority here, I think, from an IG's point of view, the first being the Trade Secrets Act, which does not prohibit whistleblowers or people who want to provide information from providing it to the Office of Special Counsel, as long as it is properly marked. And the second thing is the Whistleblower Act. It prohibits reprisal against anyone who provides information to the Office of Special Counsel. The third being the Department of Defense policy itself, it does not prohibit the release of contractor proprietary information to the Office of Special Counsel.

And the only other thing that I would add, having read that memo, I think the threatening tone of that memo goes beyond the simple caution that might have been required here. And I think clearly it could have been interpreted as an attempt to intimidate.

Senator COLLINS. Thank you. Thank you, Mr. Chairman.

Chairman LIEBERMAN. Thanks, Senator Collins. Am I correct in assuming you do not have any more questions?

Senator COLLINS. Correct.

Chairman LIEBERMAN. So I am going to stay a while, but, Senator McCaskill, you are free to go on, honestly, as long as you want. You bring a lot to this.

So I would just like to say, before I turn it over to Senator McCaskill, thank you to the witnesses. This is exactly the kind of oversight that this Committee was created a long time ago to do, to protect taxpayer money. But I would say that we could not do this kind of hearing without, first, the guts of Ms. Le and Mr. Hackler, and then the very good professional work of Mr. Kutz, Ms. Fischer, Mr. Heddell, and now the response of Ms. Stephenson, because ultimately we are not here to play "gotcha." We are here to fix what is wrong. So we are going to stay with this and ask for regular reports from you. We have a final report coming from GAO sometime later this fall or early winter. And we are open to as much as you can do to correct the problem we have found in DCAA administratively and to consider also legislative fixes that may be necessary, including the possibility of separating DCAA from the Comptroller at DOD.

I would also say, just by way of the normal announcement, that we are going to keep the hearing record open for 15 days for Mem-

bers of the Committee to submit additional questions to you, if they have them, or for you to add to the record yourselves. But I thank you very much.

Senator McCaskill, it is all yours. Thank you.

Senator McCASKILL [presiding]. Thank you, Mr. Chairman. I appreciate the opportunity.

I have three major areas I want to cover before we conclude today. One is the most important area, I think, and that is, whistleblower protection. The second is performance metrics and how debilitating they have been to oversight within DCAA. And third is the most important issue, I believe, going forward, and that is, accountability for what has happened and what happens in the future to people who have been involved in this sordid, unbelievable story of failure in terms of an auditing agency.

Let me start with whistleblower protection. First of all, Ms. Stephenson, there are many things that you have done since I read the GAO report that I admire, and I will be honest with you. It is not going to surprise me if you are a fall guy here. It is not going to shock me if you are the one that is removed and no one else is. That would be wildly inappropriate, but I am beyond being surprised at this point. And part of me thinks you did have some management failures. You should not have responded to the GAO audit, as we have discussed, the way you did. For any auditor looking at that GAO report, I mean, we are talking about serious sirens, bells, and whistles all going off at the same time. If I had gotten a report like that of my audit agency and I was in charge, I guarantee you my response would have been much different than yours was. And you and I talked about that, and you have acknowledged that.

And I thought we were turning the corner in part of your testimony today until you actually had the nerve to say that the gag order had something to do with proprietary information. Let me read you the first paragraph of the memo that Ms. Thi Le received.

"On August 28, 2007, you sent an electronic message to me concerning certain agency documents in connection with an auditing assignment you previously performed work on. You stated your purpose for searching these materials was to assist you in preparing a complaint to the Office of Special Counsel."

So in the lead of the memo, Ms. Stephenson, there is acknowledgment by this supervisor that the reason Ms. Thi Le wanted this information had nothing to do with protecting Boeing, Lockheed, or any of these guys. It had everything to do with protecting the integrity of the agency she worked for.

Now, here is the most amazing part of this gag memo: "You may not access such agency documents for any private purpose, including the pursuit of any complaints or other proceedings in any form."

Now, this is textbook whistleblower abuse within the most important audit agency in government when it comes to the massive amount of spending in the Department of Defense and our active military.

Now, my question to you is: First, who drafted this ridiculous memo of August 31, 2007? Who drafted the language? Do you know?

Ms. STEPHENSON. My understanding is it was an attorney in our General Counsel's office. I am not sure specifically which attorney. But it was an attorney in our General Counsel's office.

Senator MCCASKILL. OK. I want to find out if they have retired or been promoted.

Ms. STEPHENSON. I will get back to you on that, ma'am.

Senator MCCASKILL. Most importantly, I would like to know if disciplinary action has been taken against him. As a lawyer in the Department of Defense, if he actually had the nerve to threaten someone for responding to a complaint, he really has abused his law license.

Ms. STEPHENSON. It was wholly inappropriate, in the context of the investigation of the Office of Special Counsel, to in any way inhibit an employee from providing documents, interviews, or in other ways interacting with those investigators. Wholly inappropriate, ma'am.

Senator MCCASKILL. I would like to know who drafted the memo, who reviewed the memo before it went to Sharon Kawamoto, who signed it; how far up in the counsel's office did it go; because if this was approved by the lawyers in the DOD counsel's office, knowing what she wanted the documents for, then we have a really "rotten in Denmark" situation.

Ms. STEPHENSON. Ma'am, I do not believe it went outside the agency. I will indeed confirm on that, but I do not want to implicate——

Senator MCCASKILL. No, I just want to know everyone who knew about the content of this memo——

Ms. STEPHENSON. I will definitely get that information for you.

Senator MCCASKILL. And where is Sharon Kawamoto right now?

Ms. STEPHENSON. She is, I believe, a supervisor in the Santa Ana branch office.

Senator MCCASKILL. Has she been promoted since she signed this memo?

Ms. STEPHENSON. She is the individual who is awaiting the promotion.

Senator MCCASKILL. OK. And I have to understand this notion that she could get promoted. Explain to me what is it in the byzantine personnel policy that allows you to threaten someone who is trying to expose abuse in an audit agency and she cannot get promoted, but somehow the rules say you have to promote this woman, after we know she is a supervisor who participated in the problem?

Ms. STEPHENSON. Ma'am, I do not think that Ms. Kawamoto was the one who wanted to issue that memo. It went out under her signature based on the input from the General Counsel's office to the employee because she was indeed the employee's supervisor. I do not think she played any part in preparing that memo.

Senator MCCASKILL. OK.

Ms. STEPHENSON. I will definitely confirm. My understanding is that was prepared by the General Counsel's office. It merely went out under her signature. I will get that confirmed, though.

Senator MCCASKILL. Would it be a ridiculous notion for accountability that we would, in fact, require the person who owns the lan-

guage to sign the language within DCAA, which is all about accountability?

Ms. STEPHENSON. I will certainly look into that. You raise an absolutely good question as to whether that should have been signed by the General Counsel versus the supervisor.

Senator McCASKILL. Yes. I mean, if this poor woman, if she is blameless here and she was told to sign her name to this, the only purpose you do that is to hide the person who is responsible for it. And DCAA is supposed to be about transparency and accountability. So it seems to me if somebody is going to sign a memo to a whistleblower that basically says, "You are in big trouble if you say anything to anybody," which is what this memo said—it basically said "Sit down and shut up, or you are in trouble."

Whoever is responsible for that language—there needs to be a change at DCAA, and I will take this up with Tina Jonas and Secretary Gates if I have to—they need to own the language. They should not hide behind the skirts of a line supervisor. And we will figure out who it is, and I will make sure that they are not allowed to hide behind the skirts.

Let me say for the record, for any auditor in government that wants to be protected as a whistleblower, please call my office. We will make sure that you are protected. It is a felony in Missouri for one of my auditors to expose a whistleblower. My auditors could have gone to prison if they exposed a government whistleblower in the agency I ran. And to say that Ms. Thi Le got exposed as a whistleblower because it was a routine complaint, as you have said—and I appreciate your testimony in that regard that this was anything but routine, that somebody is changing audit findings without any factual basis, to do so at the premier audit agency in the Department of Defense should set off sirens. And the fact that it was considered routine by people who were answering that hotline showed that it is a very cold, frigid hotline. We need to change it to the "cold-line," not the hotline. I understand Hurricane Katrina was in process, and I understand the responsibilities there. But I have to impress upon you, Inspector General, that if we are getting these kinds of complaints and they are being characterized as "routine," that is part of the culture that is a problem; the massive abuse of an audit agency in terms of government dollars is really a problem.

We will enter this memo into the record of the hearing so it is part of the public record, the memo that Ms. Thi Le received that basically told her to be quiet or consider herself in peril.¹

Have you taken any specific actions, Inspector General to protect the identity of whistleblowers in light of this incident?

Mr. HEDDELL. Well, I have certainly addressed the issue of how we handle hotline complaints, Senator McCaskill. Again, being an Inspector General for 8 years, I can tell you there are not many things that are more important to an Inspector General than protecting the rights of whistleblowers, and that is first and foremost, and it has been for the extent of my career as an Inspector General. It always will be the most important thing that I deal with

¹ The memorandum for Diem Thi Le appears in the Appendix on page 102.

when it comes to taking care of the people who provide important information to us.

Senator MCCASKILL. Well, I hope that you make a demonstrable effort that is documented and that you explain to the people who are working in connection with the hotline that the identity of a whistleblower is a sacred thing because once this happened, I hope today will be a cleanser for the other auditors at DCAA—I will tell you by the phone calls I am getting, there is a great deal of fear in your agency right now. I do think this is the tip of the iceberg. I do think the GAO comprehensive audit work is going to find that there were kinds of pressures that were being put on auditors across the country in terms of these performance metrics.

Let me move into the performance metrics. I am curious about who decides what these performance metrics are. Can you speak to that, Ms. Stephenson? Who decided that an important performance metric was cost per direct audit hour goal?

Ms. STEPHENSON. That was a decision by the Executive Steering Committee of DCAA, which is comprised of the Director, the Deputy Director, the Regional Directors, and our Assistant Directors at headquarters. It is about 12 to 13 people. Some of those metrics have been in place for many years. Many were put in place in the mid-1990s with the National Performance Review, with a significant reduction in DCAA staff.

To put it bluntly, cheaper, faster, better.

Some of those metrics, if not all of them, we are revisiting. We are in 2008. I do not know if those metrics are good metrics today. They may have been metrics that were good in the mid-1990s to demonstrate that DCAA was performing efficient audits, meeting productivity goals cheaper than other organizations.

Times have changed. We need to ensure that our goals are focusing in on the quality audits and on the questioned cost. We have attempted to turn the corner on this. We do have a team in process right now, and I will be honest, we are relying heavily on feedback from our field auditors. They are the individuals that are having these metrics put on them. I was a field auditor. I was a field supervisor and manager. I know what the scorecard is all about, and I will tell you, I had lots of red on my scorecard because I would not compromise audit quality.

Senator MCCASKILL. Well, how did you get promoted?

Ms. STEPHENSON. Because I had good explanations, I had good findings. I explained why I may have missed a metric. And in many instances, it was because we had a multi-billion-dollar item we were questioning and it needed more time, or it may have been we had an inadequate accounting system that needed more time. I was able to explain why we missed it.

Senator MCCASKILL. These people were not even given an opportunity to explain.

Ms. STEPHENSON. I cannot answer that, ma'am. That was not right. They should have been given an opportunity. And the value in the metric is in measuring—when we miss it or when we have a deviation, the improvement comes from the evaluation. So it is looking at what happened. It is not the red, yellow, green that matters. In fact, I would even say if someone had an entirely green

scorecard—and I said this as a regional director—that would be the first office I would visit because there is something wrong.

Senator MCCASKILL. Well, then let me ask you—this sounds great, but obviously the system failed.

Ms. STEPHENSON. Yes, ma'am.

Senator MCCASKILL. And I think the system is failing. I think the performance metrics are not the right ones, and I think the culture of this agency has been about this red, yellow, or green scorecard, as opposed to how well the audits accomplish the goal of saving money. And maybe the most important metric would be measuring how much money you save by the audits?

Ms. STEPHENSON. That was one of our metrics that we had, our net savings.

Senator MCCASKILL. Yes, well, I have counted. It is mentioned twice in here. There is page after page about how you are cheaper than private auditors. Clearly, this started in the 1990s because you were worried that one of the big accounting firms was going to take the business. You were worried about Peat Marwick or somebody taking over, I assume. And then there is page after page about how quickly you do the audits and how many hours each audit takes, but literally, I mean, there are two sentences about money saved. And, by the way, let me talk about those savings. What is the metric in GAO of how many dollars you save per dollar of your budget?

Mr. KUTZ. It is about \$94, is the last estimate.

Senator MCCASKILL. DCAA is at \$5. And you ought to be shooting fish in a barrel. I mean, literally, the audits you do, I start salivating thinking about how much money is involved and the savings that are potentially there. And I would like you all to speak to that, Ms. Thi Le and Mr. Hackler. I think DCAA did \$300 billion in audit work in fiscal year 2006, and I think the return on that was 2 percent. You are saving \$5 in return for every \$1 you spend as opposed to \$94 for every dollar spent in GAO. And I have to tell you, from where I sit and looking at the kind of audits GAO does and how many of them do not have the richness that you have in terms—I mean, the one audit you did, Mr. Hackler, was \$276 million. That is more than half of DCAA's annual budget. That is a huge return. And basically that finding was just chopped off without cause.

Would you all speak to how, if you have been there 17 years—and how long did you say you had been there, Mr. Hackler?

Mr. HACKLER. Twenty-five.

Senator MCCASKILL. OK. Talk to me about savings and what kind of promotions happen if you save a bunch of money for the government?

Mr. HACKLER. Savings are not nearly emphasized the way they were when I joined the agency. I believe back at that time we were saving in the \$35 per \$1 range. People do not get promoted because they have good savings anymore. They get promoted because they make metrics, because they make the customer happy.

We did a climate survey in DCAA several years ago: What do you think of your boss? What do you think of your input? Is the agency doing the right thing? The agency could not stand to see the results of that.

Senator McCASKILL. And when was this done?

Mr. HACKLER. Five years ago. It asked about a couple dozen questions, and a 1 was a poor response, a 5 would be a very good response. And with the cumulative results that came back from that, the agency decided, well, this is pretty bad, we had better just address the items that came back as a 1. And we have not seen another climate survey since.

Senator McCASKILL. Ms. Thi Le, what about savings? In your experience, when did this shift occur? It used to be important how much money you were saving the government, and then it became how quickly you were doing the audits and how timely the audits were produced.

Ms. LE. Back in the good old days, as I used to say, when I first joined the agency in 1989, the emphasis was on savings, how much money we save for the government. But starting in the early 1990s, the emphasis changed into do we issue the audit report within a certain time frame or do we meet the performance metric that we reduce the hours? So, lately, to be honest with you, I do not think of savings anymore. I think of how I am going to meet the due date, how I am going to meet the budgeted hours. And unless I am willing—and I have been—to work on my own time on weekends, I cannot finish within the certain hours. And at the year end, when my performance gets rated, my supervisor will run through a summary of the audits that I completed during the year and how much a percentage I ran over the budget, and if I ran over more than 10 percent, I got dinged.

Senator McCASKILL. And there was never any discussion about how much money you saved on any of the audits?

Ms. LE. No, ma'am.

Senator McCASKILL. Talk to me a little bit about customer satisfaction. When did this notion—and, by the way, I noticed in the "Expect More" that I read that one of the action plans was to make sure they deployed more resources in keeping the client happy. They bragged about personnel being deployed into the procurement offices to make sure that the procurement officers were really happy. When did all that happen? When did all of a sudden keeping the people that were buying stuff in the branches of the military happy, when did that happen?

Mr. HACKLER. Some years ago—I will say 5 to 10—we used to have what we called procurement liaison auditors, and we had about a dozen of them over the years. And we would have a DCAA employee at the major buying commands, and he would interpret audit reports and coordinate with the offices and stuff. Perhaps 5 to 8 years ago, we increased that number to well over 100. I spent many hours upon hours during those ELC proposal reviews arguing with my co-workers that were in these financial liaison audit positions who were trying to convince me to give up findings. It was not just upper management.

Senator McCASKILL. So what they have created—I want to make sure I understand this. Let's say we have a procurement officer at the Navy, or the Air Force. Since we have had a lot of Air Force procurement problems, let's use the Air Force. You start with a procurement officer at the Air Force. Then you have a field auditor—and what you are telling me is that as the field auditor found

problems with a contractor for the Air Force, then the person that was the go-between between the Air Force procurement people and the audit agency was, in fact, an employee of your agency.

Mr. HACKLER. Yes.

Senator MCCASKILL. And their job was to somehow reconcile the two? I mean, what is their job? Just to make these guys feel happy? Warm and fuzzy?

Mr. HACKLER. Well, I think it started out to interpret DCAA audit positions, but what it turned out to be and what it has become is they aligned themselves with the buying command, and customer satisfaction becomes more important than doing the right thing, than telling the right story, than bringing up the appropriate exceptions that we find in the audit reports, what it takes to get it under contract. Buying commands are measured by putting dollars under contract—

Senator MCCASKILL. That is their performance metric.

Mr. HACKLER. That is theirs. Not whether they get a good deal or save taxpayer dollars.

Senator MCCASKILL. So who is the person who can change performance metrics? Give me their name.

Ms. STEPHENSON. Ma'am, I can.

Senator MCCASKILL. You can? Can you do it like tomorrow?

Ms. STEPHENSON. I have put a team together, and we are assessing what are the appropriate metrics to use. We are anticipating having our analysis done by the end of this month. I have one of my highest senior executives within my headquarters that is leading this team, and I have tapped into many field resources to give us feedback. We will be changing our metrics by the end of this month.

Senator MCCASKILL. Now, who has the authority to decide that customer satisfaction should be changed and we should move all these people that are out there trying to make these buyers happy into being field auditors trying to save taxpayer money? Who has the authority to do that?

Ms. STEPHENSON. Let me first clarify what these positions are about, and I give my apologies to Mr. Hackler if he has experienced the negative feedback that he described here. That is not the role of our financial liaison advisers to fight with the field audit offices (FAOs) and the supervisors and the auditors. It is to facilitate. These financial liaison advisers are put into the buying commands to help identify the types of audits that are needed, to help interpret the audit results, and to facilitate additional audits that need to be done, not to stop audits from being done. It is to say which additional ones do you need in this circumstance.

Second, our customer service surveys that we do with our customers are not about whether they are happy with our findings. It is not to say that if a clean report is making them happy, that is not what we are measuring. We are measuring to ensure that they understood the report; that we provided the results in an easy-to-understand manner for the contracting officer; that we were timely in describing what those issues may have been; if we needed a due date extension, we were timely in that discussion.

I would really ask that Mr. Hackler after this hearing give me the input on that person that he said fought with him because that

is not right and that is not what our financial liaison advisers are there for. They are to help our field offices in facilitating their audits, and they are to assist the buying commands in understanding what additional audit services they may need.

Senator McCASKILL. Well, let me make a suggestion. A dollar bet you a dime that if customer satisfaction is one of the performance metrics, and performance metrics is how you get promoted, then customer satisfaction is this big deal. Satisfaction means they are happy, and how you make buyers happy is by audits that say they have done everything right. That is how you make buyers happy.

Ms. STEPHENSON. I would—

Senator McCASKILL. And so what I am saying is I guarantee you Mr. Hackler is not saying this is an outlier. Interrupt me if I am misrepresenting your testimony, Mr. Hackler, or what you believe is the culture. I believe the culture has, in fact, been driven by a notion that you make the buyers happy. And if the buyers cannot understand the audits, then we have got a problem with our procurement force because an audit—and that is a performance metric I would agree with. If you cannot write an audit so that the people that are going to consume the audit can understand it, then you have got a performance issue with an auditor. Every auditor must be able to express their findings in a way that is understandable.

And I have got to tell you, I have looked at a lot of DCAA audits, and other than having to get out a book to figure out what all the initials stand for, you can follow them. And I am not a buyer.

So I guess I am a little skeptical, Ms. Stephenson, that the culture that has grown up around page after page of customer satisfaction is that they are just identifying the next audit. If they are just identifying the next audit, they do not need to be arguing with Mr. Hackler about a finding.

Ms. STEPHENSON. Ma'am, I opened this up today for the record that if there is any DCAA employee that feels our financial liaison advisers are not there to facilitate their audits and to facilitate the sustaining of our audits, I would like that person to give me a personal phone call or a personal e-mail. I will not take their name anywhere, and I will immediately rectify that situation.

Senator McCASKILL. OK, great.

Ms. STEPHENSON. Open this for the record, ma'am.

Senator McCASKILL. That is great. Now, let me move on to performance metrics as it relates to being promoted. You said you had a lot of red marks and you got promoted. I imagine there are a lot of auditors out there listening to this that feel like you won the lottery because I do not believe fundamentally that people get promoted who get a lot of red. I think people get promoted who have a lot of green, or maybe some yellow and green.

I guess what I would like to know is in the current management staff at DCAA, all of those people who have been promoted within the last 5 years—I do not need to know their names, but I would like somebody to submit for the record how many of them had essentially green records under the performance metrics and how many of them would have a record that would indicate that they were actually trying to stir the pot. That is, I think, something that is very important. And if either of you are willing to speak to that in that regard, I would appreciate it for the record.

Ms. LE. Senator McCaskill, in my experience the last couple years, I do not think I have seen any person who has been promoted because he had a red card but rather because he had a green card. That is just my personal observation and experience.

I also would like to take this opportunity to go back to your previous question about how you think this culture developed. I think the culture beholden to performance metrics developed starting in the early 1990s. And in the early 1990s, the former Director, Bill Reed, went around all the DCAA offices, telling us that there was talk in Congress to privatize our agency and if we do not become a lean and mean machine, we would lose our jobs.

Looking back, I think that was a scare tactic because then we became afraid of losing our jobs, and we began to accept the metrics. And as you know, once you push it, you can push further and further because the fear is if you do not do it, you do not meet the metrics, we are going to lose our jobs.

And let me tell you, you hit it right. We are the audit agency. We are supposed to be an independent agency. And our role should be advisory, not to be a partner in the process, but to advise the procurement office and contracting officer so that we can get reasonable costs for government contracts. We should not be pressured by those officers because they have the need to negotiate a contract to get the parts. And because of that, we lose independence because, let me tell you, if I am performing an audit and I know that I have to turn this in in 25 days or 30 days because somebody else is waiting for that audit report, if I found a problem, I would not want to bring it up. And right there is the independence issue. I would not want to explore it further, follow my instinct because by doing so, I would not get the audit out in 25 days or 30 days and my customer is not happy.

Another thing is that also because of the performance metrics on the audit hours, I would not want to explore the potential problem because I would run against the budgeted hours.

Senator MCCASKILL. Right.

Ms. LE. I am just an auditor at a small branch office. Of course, I do not see the whole picture. But it is my opinion that I do not think we should really belong to DOD. And maybe that is a white card out there, but this is, again, my opinion, that how could you audit DOD contracts? And you are supposed to be independent, but you are reporting to the same person. Just like Ms. April Stephenson has stated earlier—and I fully agree with her, I think she took a very corrective action—we have a Quality Assurance Department in our Agency, and it used to be that it was at the regional level. There is an Office of Quality Assurance, and they used to report to the regional director. Now, if you are going to report to your regional director and tell him what is wrong with your region, you cannot be independent. But since then, a change DCAA has made, if I understood it correctly, is that the Quality Assurance Division now reports directly to the headquarters. I think that is a great thing.

Senator MCCASKILL. Good.

Ms. LE. The same thing with DCAA, and again, I do not see the whole picture, but it is my opinion we cannot audit the DOD at the

same time we are reporting to DOD. I think that is a conflict of interest there.

Senator MCCASKILL. Mr. Kutz, probably I should ask the Acting Comptroller this. Should DCAA be a division of GAO as opposed to working for DOD?

Mr. KUTZ. I cannot answer that, but I think that her point about whether it should be in a different place, either within DOD or outside of DOD, should be on the table here for discussion.

Senator MCCASKILL. Ms. Stephenson, what do you think? Should we remove it from the chain of command at DOD and put it so that it can have more independence?

Ms. STEPHENSON. I am along with Mr. Kutz. I would certainly support an evaluation.

Senator MCCASKILL. OK, great. How about you, Inspector General, DOD?

Mr. HEDDELL. I do not have the answer to that, but if you look at it from the standpoint of the Inspector General community, Inspectors General are assigned at individual departments, but the law, the Inspector General Act, gives us independence. And so it works there when the Inspectors General—

Senator MCCASKILL. Most times it works.

Mr. HEDDELL. When they are doing their jobs, it works mostly.

Senator MCCASKILL. As long as you have an IG that pays attention to the counsel. And we have a few rogues right now, as you know, where the counsel has recommended disciplinary action, and these yahoos, a couple of them, have stayed in their jobs, even though everybody knows that they have not done the title proud as an Inspector General. But the vast majority of the time, I agree with you. I think the Inspector General community, by and large, is professional, independent, and does the appropriate thing in most instances.

And, by the way, let me say for the record I think in most instances at DCAA you have got strong, capable auditors that are doing the right thing.

Ms. STEPHENSON. I fully concur.

Senator MCCASKILL. And I absolutely do not believe this cultural problem is one that comes from people being dishonest or playing footsie with contractors. I think it comes from a set of phony performance metrics that have put inordinate pressure at the wrong place. And that can be fixed by a changing of the culture, by telling these auditors that they are going to be celebrated and promoted for the money they save taxpayers as opposed to making the guys who want this stuff happy or as opposed to doing it really quickly.

Ms. STEPHENSON. And, ma'am, can I address that? Having been a regional director, there were times when I had offices that had quality problems. I told those managers to put the scorecard away because the measures of whether we were performing the right audits and whether our people were getting the right training was our audit reports. And that is what we needed to focus on. And regardless of the hours, we need to focus on that. We needed to train our people properly. We needed to ensure they had the right supervision, including the fact that these teams were not too large for oversight. It needed to be smaller teams.

I completely recognized that, and that is the way I ran my region. And that is the way I envision running the agency.

Senator MCCASKILL. That is terrific, and if you are going to be bold—

Ms. STEPHENSON. Absolutely, ma'am.

Senator MCCASKILL. If you are going to be bold, you have got a shot. But if you are not bold, that is not going to happen.

Ms. STEPHENSON. And in many of these metrics, it was misapplication. Metrics such as 30 days on forward pricing, that was never intended to be a ceiling. That was merely an intention of measuring whether we were providing information in a timely manner. We have had a number of audit reports this year that have been issued far in excess of 30 days, and those have been very large dollar ones. And that is absolutely the right thing to do.

And, again, for this record—and this is a good opportunity for me to ensure the acquisition workforce and my own workforce knows, I stand behind doing the audits appropriately, 30 days or not.

Senator MCCASKILL. And I know that you have stated very strongly today, repeatedly, how committed you are to fixing these problems. And, obviously, we are going to be watching very closely. And I have now all kinds of lines of communication into your agency that we will maintain to make sure that is happening, not just what we are told by the people at the top but what we are learning from deep within the agency, from the auditors that are doing this heroic work day in and day out.

Let me briefly go on to accountability before we close this today, and I will have additional questions for the record, probably for all of you. But on accountability, there are two kinds of accountability that have to happen here: One is for the personnel involved in this mess, and second is for the money that is potentially collected.

Now, I have got to tell you, it sounded a little bit like the Tooth Fairy to me, Ms. Stephenson, when you said that there is some potential of recovering the \$276 million from Boeing. I mean, I do not think there is any way that is going to happen, is there, Mr. Hackler?

Mr. HACKLER. Not the way it is going today. There is a re-review of the ELC proposal within the office, but they are looking at the wrong things. They are only looking at the exceptions we were allowed to report in the initial ELC proposal which related to Cost Accounting Standard 406. But I was commanded, if you will, at the outset of that audit that we are not going to mention estimating deficiencies, we are not getting into Cost Accounting Standard 418. There are some major regulation violations that are not being looked at the second time around.

Senator MCCASKILL. And what do you attribute that to?

Mr. HACKLER. Too much control of the person that directed the audit opinion in the first place.

Senator MCCASKILL. Well, that is really problematic.

Ms. STEPHENSON. Absolutely, ma'am. In fact, I will invite Mr. Hackler right now to set up those assignments that he feels are necessary to fully investigate this issue so that we can get the recoupment under the Cost Accounting Standards because that is the avenue for the recoupment here.

Senator McCASKILL. Now we could fix this if we had a hearing every day.

The boss just said that whoever told you that was wrong. Now, I will follow up and see what happens. But there is accountability there. Whoever told him that should be demoted or fired. Whoever was involved in removing findings without any working papers to back it up should be demoted or fired. And I am waiting. Nobody has been demoted. Nobody has been fired. In fact, just the opposite. People have been promoted.

So that is a failure in accountability—complete, total, and abject failure in accountability. And that should be a performance metric, that when people make mistakes that absolutely crush the credibility of an organization whose lifeline is credibility, something has to happen to them, whether it is the pretend lawyer who wrote this gag order or whether it is the supervisor who took out findings without any cause. And I will not be satisfied in this regard until someone is held accountable. It is just not fair to this auditor that her performance reviews dropped 20, 30 points overnight after 17 years of hard work. She was held accountable for trying to do her job, but the people who were failing in their jobs have not been held accountable. That is upside down.

And so this is the first chapter of what, I hope, will be many chapters toward a happy ending at DCAA, including the kind of independence that they need, the resources they need, and the performance metrics that celebrate the taxpayer instead of defense contractors and procurement officers.

One other question I will have for the record that I will mention now is how many people who have retired from DCAA have gone to work for defense contractors? I would love to know if there is any way we could figure that out, and we will direct that to all of you through the record and see if we can figure that out.

I do not think that is the big problem, though. My sense is the problem is not pleasing the contractors. The problem is a culture that went haywire. It just goes to show you—and I read all those books in the 1990s about government performance metrics and I began performance audits. Performance metrics are only as good as the metric itself and the testing of the metrics because the irony of this is that one of the metrics is peer review. And, clearly, peer review failed here. It does not happen very often that peer review fails, because normally the auditing profession takes peer review really seriously. And we will continue to follow up as to why the peer review failed in this instance because, clearly, it failed. This was a textbook example of where peer review should have done its job and said something is rotten here, and it did not.

So I really appreciate all of you being here. I think you are all good, solid Americans, and I know I have been very hard on you, Ms. Stephenson, and it is not because I do not have a lot of sympathy for the situation you find yourself in. You are new on the job—both of you, the Inspector General at DOD and you, Ms. Stephenson, are new on your jobs. And you have inherited a myriad of problems. And I will be here to try to provide the accountability, but also to provide moral support and help anywhere I can to make this better.

I believe very much in auditing. I believe very much in accountability. I refuse to give up on DOD. Many people who have come through these doors have given up. And I refuse to give up. I know we can make it better. And I appreciate all of you very much, and this hearing is adjourned.

Ms. STEPHENSON. Thank you, ma'am.

[Whereupon, at 12:43 a.m., the Committee was adjourned.]

A P P E N D I X

GAO

United States Government Accountability Office

Testimony
Before the Committee on Homeland
Security and Governmental Affairs,
U.S. Senate

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DCAA AUDITS

Allegations That Certain
Audits at Three Locations
Did Not Meet Professional
Standards Were
Substantiated

Statement of Gregory D. Kutz, Managing Director
Forensic Audits and Special Investigations



GAO-08-993T



Why GAO Did This Study

The Defense Contract Audit Agency (DCAA) under the Department of Defense (DOD) Comptroller plays a critical role in contractor oversight by providing auditing, accounting, and financial advisory services in connection with DOD and other federal agency contracts and subcontracts. DCAA has elected to follow generally accepted government auditing standards (GAGAS). These standards provide guidelines to help government auditors maintain competence, integrity, objectivity, and independence in their work.

GAO investigated hotline complaints it received related to alleged failures to comply with GAGAS on 14 DCAA audits. Specifically, it was alleged that (1) working papers did not support reported opinions, (2) supervisors dropped findings and changed audit opinions without adequate evidence, and (3) sufficient work was not performed to support audit conclusions and opinions. GAO also investigated issues related to the quality of certain forward pricing audit reports.

GAO investigators interviewed over 50 individuals, reviewed working papers and related documents for 14 audits issued from 2003 through 2007 by two DCAA offices, and reviewed documentation on audit issues at a third DCAA office. GAO did not reperform the audits to validate the completeness and accuracy of DCAA's findings. DCAA did not agree with the "totality" of GAO's findings, but it did acknowledge shortcomings with some audits and agreed to take certain corrective actions.

To view the full product, including the scope and methodology, click on GAO-08-993T. For more information, contact Gregory D. Kutz at (202) 512-6722 or kutzg@gao.gov.

September 10, 2008

DCAA AUDITS

Allegations That Certain Audits at Three Locations Did Not Meet Professional Standards Were Substantiated

What GAO Found

GAO substantiated the allegations. Although DCAA policy states that its audits are performed according to GAGAS, GAO found numerous examples where DCAA failed to comply with GAGAS in all 13 cases. For example, contractor officials and the DOD contracting community improperly influenced the audit scope, conclusions, and opinions on three cases—a serious independence issue. At two DCAA locations, GAO found evidence that (1) working papers did not support reported opinions, (2) DCAA supervisors dropped findings and changed audit opinions without adequate evidence for their changes, and (3) sufficient audit work was not performed to support audit opinions and conclusions. GAO also substantiated allegations of inadequate supervision of certain audits at a third DCAA location. The table below contains selected details about three cases GAO investigated.

Selected Details of Audits GAO Investigated		
DOD contractor	Audit type	Significant case study issues
Major aerospace company (DCAA location 1)	Estimating system	- DCAA made an up-front agreement with the contractor to limit the scope of work and basis for audit opinion. - Contractor was unable to develop compliant estimates, leading to a draft opinion of "inadequate in part." - Contractor objected to draft findings, and DCAA management assigned a new supervisory auditor. - Management threatened the senior auditor with personnel action if he did not delete findings from the report and change the draft audit opinion to "adequate."
Company produces and supports military and satellite systems (DCAA location 2)	Billing system	- Draft audit report identified six significant deficiencies, one of which led the contractor to overbill the government by \$246,000 and another which may have led to \$3.5 million in overbillings. - First supervisory auditor and auditor were replaced by other auditors who dropped the findings and changed the draft audit opinion from "inadequate," to "adequate." - Sufficient testing was not performed to support an opinion that controls were adequate. - DOD Inspector General recommended that DCAA rescind the final audit report. Over a year later, at the end of GAO's investigation, DCAA rescinded the final report.
Major weapons system contractor (DCAA location 3)	Forward pricing	- Two supervisors responsible for 62 forward pricing audits of over \$6.4 billion in government contract negotiations did not review working papers before report issuance. - Inexperienced trainee auditors were assigned to 18 of the 62 audits without proper supervision. - An internal DCAA audit quality review found 28 systemic deficiencies in 9 of 11 selected forward pricing audits. - The DCAA field office lost control of final working papers because trainee auditors did not always properly enter them in the electronic workpaper system.

Source: GAO.

Throughout GAO's investigation, auditors at each of the three DCAA locations told us that the limited number of hours approved for their audits directly affected the sufficiency of audit testing. Moreover, GAO's investigation identified a pattern of frequent management actions at two locations that served to intimidate auditors, discourage them from speaking with investigators, and create a generally abusive work environment.

United States Government Accountability Office

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to discuss our recent investigation of certain Defense Contract Audit Agency (DCAA) audits. DCAA plays a critical role in Department of Defense (DOD) contractor oversight by providing auditing, accounting, and financial advisory services in connection with the negotiation, administration, and settlement of contracts and subcontracts.¹ Although DCAA provides a range of services to contracting officers and other DOD officials, DCAA's primary function is contract audit services. DCAA contract audits are intended to be a key control to help ensure that the "prices paid by the government for needed goods and services are fair and reasonable." DCAA also audits contractor-proposed estimates used to support contract negotiations and costs charged to the government. The amount of testing on these proposal and cost-related audits, is based on conclusions in DCAA audits of contractor controls in accounting, billing, estimating, and other key systems. In performing its work, DCAA states that it follows professional standards, known as generally accepted government auditing standards (GAGAS).²

Today, I will summarize the results of our investigation of allegations about certain DCAA audits at the three locations in California. Specifically, DCAA auditors alleged that (1) the working papers did not support the reported opinions; (2) DCAA supervisors dropped findings and changed audit opinions without adequate audit evidence for their changes; and (3) sufficient work was not performed to support the audit opinions and conclusions. Auditors noted that as a result of these practices, DCAA supervisors were issuing reports in which the audit documentation was not sufficient or it contradicted the final opinions or conclusions in the reports. During our investigation, we received additional allegations that raised concerns regarding the quality of forward pricing audit reports issued by a third DCAA field office in California. We investigated the allegations and concerns we received as 13 separate cases to determine

¹DCAA also performs audit services for other federal agencies on a fee-for-service basis.

²GAO, *Government Auditing Standards: 2003 Revision*, GAO-03-673G (Washington, D.C.: June 2003). This was the version of GAGAS in effect at the time of all the DCAA audits that GAO investigated, except for the audit discussed in case 1. The version of GAGAS applicable to case 1 was the August 1999 revision.

whether they could be substantiated. Our investigation is discussed in detail in an investigative report we issued in July 2008.³

We performed an extensive, 2-year investigation in which we conducted over 100 interviews of over 50 individuals. In performing our investigation, we reviewed applicable DCAA Contract Audit Manual (CAM) guidance and relevant requirements in the Federal Acquisition Regulation (FAR), Defense FAR Supplement (DFARS), and cost accounting standards (CAS). We also obtained and reviewed the working papers related to allegations about individual audits at two locations. In addition, we interviewed current and former DCAA auditors, supervisors, and managers who worked on the audits and interviewed DOD and federal agency contracting officers. To investigate allegations about forward pricing audits at the third location, we interviewed supervisors who led the audits and signed the 62 related forward pricing audit reports. We also reviewed applicable documentation and interviewed DCAA managers about corrective actions taken to address identified weaknesses. In assessing DCAA audits, we used GAGAS as our criteria. We learned that the DOD Inspector General (IG) was investigating the 10 audits noted in the original allegations we received. We therefore coordinated our work closely with DOD IG auditors and Defense Criminal Investigative Service (DCIS) investigators. DOD IG's Office of Audit Policy and Oversight, which has oversight responsibility for DCAA, issued a memorandum to DCIS on its findings on January 24, 2007. We reviewed this memorandum and DCAA's response.

We plan to issue a separate report at the request of this Committee concerning our broader audit of DCAA's overall organizational environment and quality control system and our review of selected audits performed by selected offices within DCAA's five regions. Our report will include recommendations, as appropriate, for strengthening the overall contract audit environment and assuring compliance with GAGAS. We performed our investigation from June 2006 through July 2008 in compliance with the standards for investigations prescribed by the President's Council for Integrity and Efficiency.

³GAO, *DCAA Audits: Allegations That Certain Audits at Three Locations Did Not Meet Professional Standards Were Substantiated*, GAO-08-857 (Washington: D.C.: July 22, 2008).

Results of Investigation

We substantiated the allegations and auditor concerns made on each of the 13 cases we investigated, involving 14 audits at two locations⁴ and forward pricing audit issues at a third location. The 13 cases related to seven contractors. In the 12 cases at locations 1 and 2, we substantiated the allegations and auditor concerns that (1) workpapers did not support reported opinions, (2) DCAA supervisors dropped findings and changed audit opinions without adequate audit evidence for their changes, and (3) sufficient audit work was not performed to support audit opinions and conclusions. We also found that contractor officials and the DOD contracting community improperly influenced the audit scope, conclusions, and opinions of some audits—a serious independence issue. We also substantiated allegations of problems with the audit environment and inadequate supervision of certain forward pricing audits at location 3. Moreover, during our investigation, DCAA managers took actions against their staff at two locations that served to intimidate auditors and create an abusive work environment.

DCAA states that its audits are performed according to professional standards (GAGAS). However, in substantiating the allegations, we found numerous failures to comply with these standards in all 13 cases we investigated. The working papers did not adequately support the final conclusion and opinion for any of the 14 audits we investigated. In many cases, supervisors changed audit opinions to indicate contractor controls or compliance with CAS was adequate when workpaper evidence indicated that significant deficiencies existed. We also found that in some cases, DCAA auditors did not perform sufficient work to support draft audit conclusions and their supervisors did not instruct or allow them to perform additional work before issuing final reports that concluded contractor controls or compliance with CAS were adequate. At location 1, we also found undue contractor influence that impaired auditor independence. At location 2, two supervisors were responsible for the 12 audits we investigated, and 11 of these audits involved insufficient work to support the reported opinions. At location 3, we substantiated allegations about inadequate supervision of trainees, reports being issued without final supervisory review, and contracting officer pressure to issue reports before audit work was completed in order to meet contract negotiation time frames—a serious independence issue. Noncompliance with GAGAS in the cases we investigated has had an unknown financial effect on the government. Because DCAA auditors' limited work identified potential

⁴We handled our investigation of three related audits of one contractor as one case.

significant deficiencies in contractor systems and accounting practices that were not analyzed in sufficient detail to support reportable findings and recommendations for corrective action, reliance on data and information generated by the audited systems could put users and decision makers at risk.

Tables summarizing our findings for all the audits can be found in appendixes I and II. The following examples illustrate problems we found at two DCAA locations:

- In conducting a 2002 audit related to a contractor estimating system, DCAA auditors reviewed draft basis of estimates (BOE) prepared by the contractor and advised the contractor on how to correct significant deficiencies. BOEs are the means for providing government contract officials with information critical to making contract pricing decisions. This process resulted from an up-front agreement between the DCAA resident auditor and the contractor—one of the top five government contractors based on contract dollar value—that limited the scope of work and established the basis for the audit opinion. According to the agreement, the contractor knew which BOEs would be selected for audit and the audit opinion would be based on the final, corrected BOEs after several DCAA reviews. Even with this BOE review effort, the auditors found that the contractor still could not produce compliant BOEs and labeled the estimating system “inadequate in part.” We found that enough evidence had been collected by the original supervisory auditor and senior auditor to support this opinion. However, after the contractor objected to draft findings and conclusions presented at the audit exit conference, the DCAA resident auditor replaced the original supervisory auditor assigned to this audit and threatened the senior auditor with personnel action if he did not change the summary workpaper and draft audit opinion. The second supervisory auditor issued the final report with an “adequate” opinion without documenting adequate support for the changes. This audit did not meet GAGAS for auditor objectivity and independence because of the up-front agreement, and it did not meet standards related to adequate support for audit opinions.
- The draft report for a 2005 billing system audit identified six significant deficiencies, one of which allowed the contractor to overbill the government by \$246,000 and another that may have led to \$3.5 million in overbillings. DCAA managers replaced the supervisory auditor and auditor, and the new staff worked together to modify working papers and change the draft audit opinion from “inadequate,” to “inadequate in part,” and, finally, to “adequate.” Sufficient testing was not documented

to support this opinion. The DOD IG concluded that DCAA should rescind the final report for this audit, but DCAA did not do so. Billing system audits are conducted to assess contractor controls for assuring that charges to the government are appropriate and compliant and to support decisions on whether to approve contractors for direct billing. As a result of the 2005 audit, DCAA authorized this contractor for direct billing of its invoices without prior government review, thereby providing quicker payments and improved cash flow to the contractor. On June 20, 2008, when we briefed DOD on the results of our investigation, DCAA advised us that a DCAA Western Region review of this audit in 2008 concluded that the \$3.5 million finding was based on a flawed audit procedure. As a result, it rescinded the audit report on May 22, 2008. However, DCAA officials said that they did not remove the contractor's direct-billing privileges because other audits did not identify billing problems.

- The draft report for a 2005 CAS 403⁵ compliance audit requested by a Department of Energy administrative contracting officer (ACO) identified four deficiencies related to corporate cost allocations to government business segments. However, a DCAA supervisory auditor directed a member of her staff to write a "clean opinion" report in 1 day using "boilerplate" language and without reviewing the existing set of working papers developed by the original auditor. The supervisory auditor appropriately dropped two significant deficiencies from the draft report, but did not adequately document the changes in the workpapers. In addition, the supervisory auditor improperly referred two other significant deficiencies to another DCAA office that does not have audit jurisdiction, and therefore, did not audit the contractor's corporate costs or CAS 403 compliance. The final opinion was later contradicted by a September 21, 2007, DCAA report that determined that this contractor was in fact not in compliance with CAS 403 during the period of this audit.

We also substantiated allegations that there were problems with the audit environment at a third DCAA location—a resident office responsible for auditing another of the five largest government contractors. For example, the two supervisors, who approved and signed 62 of the 113 audit reports performed at the resident office location during fiscal years 2004 through

⁵CAS 403 establishes criteria for allocation of the expenses of a home office to the segments of the organization.

2006,⁶ said that trainees were assigned to complex forward pricing audits as their first assignments even though they had no institutional knowledge about the type of materials at risk of overcharges, how to look at related sources of information for cost comparisons, or how to complete the analysis of complex cost data required by FAR. The supervisors, who did not always have the benefit of experienced auditors to assist them in supervising the trainees, admitted that they generally did not review workpapers in final form until after reports were issued. Moreover, because the trainee auditors did not have an adequate understanding of DCAA's electronic workpaper filing system, they did not always enter completed workpapers in the system, resulting in a loss of control over official workpapers. In addition, one of the two supervisory auditors told us that contracting officers would sometimes tell auditors to issue proposal audit reports in as few as 20 days with whatever information the auditor had at that time and not to cite a scope limitation in the audit reports, so that they could begin contract negotiations. If the available information was insufficient, GAGAS⁷ would have required the auditors to report a scope limitation. Where scope limitations existed, but were not reported, the contracting officers could have negotiated contracts with insufficient information. Moreover, a 2006 DCAA Western Region quality review reported 28 systemic deficiencies on 9 of 11 forward pricing audits reviewed, including a lack of supervisory review of the audits. The problems at this location call into question the reliability of the 62 forward pricing audit reports issued by the two supervisors responsible for forward pricing audits at the resident office location from fiscal years 2004 through 2006, connected with over \$6.4 billion in government contract negotiations.

Throughout our investigation, auditors at each of the three DCAA locations told us that the limited number of hours approved for their audits directly affected the sufficiency of audit testing. At the third DCAA location we investigated, two former supervisory auditors told us that the volume of requests for the audits, short time frames demanded by customers for issuing reports to support contract negotiations (e.g., 20 to 30 days), and limited audit resources affected their ability to comply with

⁶The two supervisors were responsible for all forward pricing audits at the resident office location. The remaining 51 of the 113 audits were performed by separate suboffice locations of the resident office and were signed by the supervisory auditors at those locations.

⁷GAO-03-673G, § 6.27c.

GAGAS. Our review of DCAA performance data showed that DCAA measures audit efficiency and productivity as a factor of contract dollars audited divided by audit hours. In addition, because customer-requested assignments—such as forward pricing audits requested by contracting officers—which are referred to as demand work by DCAA, take priority, other work, such as internal control and CAS compliance audits, are often performed late in the year. Auditors told us that there is significant management pressure to complete these nondemand audits by the end of the fiscal year to meet field audit office (FAO) performance plans.

During the DOD IG and GAO investigations, we identified a pattern of frequent management actions that served to intimidate the auditors and create an abusive environment at two of the three locations covered in our investigation. In this environment, some auditors were hesitant to speak to us even on a confidential basis. For example, supervisory auditors and the branch manager at one DCAA location we visited pressured auditors, including trainees who were in probationary status, to disclose to them what they told our investigators. Some probationary trainees told us this questioning made them feel pressured or uncomfortable. Further, we learned of verbal admonishments, reassignments, and threats of disciplinary action against auditors who raised questions about management guidance to omit their audit findings and change draft opinions or who spoke with or contacted our investigators, DOD investigators, or DOD contracting officials. We briefed cognizant DCAA region and headquarters officials on the results of our investigation in February 2008 and reviewed additional documentation they provided. We briefed DOD and DCAA officials on the results of our investigation on June 20 and 25, 2008. We summarized DCAA's comments on our corrective action briefing in our investigative report, and we included relevant details of DCAA's comments at the end of our case discussions.

DCAA Response to Investigation

In response to our investigation, DCAA rescinded two audit reports and removed a contractor's direct billing authorization related to a third audit. DCAA also performed subsequent audits related to three additional cases that resulted in audit opinions that contradicted previously reported adequate ("clean") opinions and included numerous significant deficiencies. For other cases, DCAA officials told us that although workpaper documentation could have been better, on the basis of other audits DCAA performed, they do not believe the reported opinions were incorrect or misleading.

Concluding Remarks

In the cases we investigated, pressure from the contracting community and buying commands for favorable opinions to support contract negotiations impaired the independence of three audits involving two of the five largest government contractors. In addition, DCAA management pressure to (1) complete audit work on time in order to meet performance metrics and (2) report favorable opinions so that work could be reduced on future audits and contractors could be approved for direct billing privileges led the three DCAA FAOs to take inappropriate short cuts—ultimately resulting in noncompliance with GAGAS and internal DCAA CAM guidance. Although it is important for DCAA to issue products in a timely manner, the only way for auditors to determine whether “prices paid by the government for needed goods and services are fair and reasonable” is by performing sufficient audit work to determine the adequacy of contractor systems and related controls, and their compliance with laws, regulations, cost accounting standards, and contract terms. Further, it is important that managers and supervisory auditors at the three locations we investigated work with their audit staff to foster a productive, professional relationship and assure that auditors have the appropriate training, knowledge, and experience.

Mr. Chairman and Members of the Committee, this concludes my statement. I would be pleased to answer any questions that you or other members of the committee may have at this time.

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For further information about this testimony, please contact me at 202-512-6722 or kutzg@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Major contributors to this testimony include Gayle L. Fischer, Assistant Director; Andrew O'Connell, Assistant Director and Supervisory Special Agent; F. Abe Dymond, Assistant General Counsel; Richard T. Cambosos; Jeremiah F. Cockrum; Andrew J. McIntosh; and Ramon J. Rodriguez, Senior Special Agent.

Appendix I: GAGAS Compliance Problems Associated with Hotline Case Investigations

Case	Impairment to auditor independence	Working papers did not support reported opinions	Draft audit opinions changed without sufficient documentation	Auditor did not perform sufficient work to support conclusions	Significant problems
1	X	X	X		The DCAA resident office and contractor made an up-front agreement on audit scope, which had the effect of predetermining an "adequate" audit opinion.
2	X	X	X		On the basis of pressure from contractor and buying command to resolve CAS compliance issues and issue a favorable opinion, a DCAA region official directed the auditors not to include CAS compliance problems in the audit workpapers.
3		X	X	X	Branch manager and supervisory auditor terminated audit work and issued opinions without sufficient documentation based on their view that defective pricing did not exist on the related contracts.
4		X	X	X	Supervisory auditor dropped preliminary findings based on a flawed audit procedure instead of requiring auditors to perform sufficient testing to conclude on the adequacy of billing system controls.
5		X	X	X	Auditor was excluded from the exit conference, findings were dropped without adequate support, and supervisor made contradictory statements on her review of the audit.
6		X	X	X	Dropped findings on corporate accounting were referred to another field audit office (FAO), which does not review corporate costs. Supervisor prepared and approved key working papers herself, without required supervisory review.
7		X	X	X	Supervisor directed another auditor to write a clean opinion report without reviewing the working papers. Supervisor then changed the working papers without support and referred two dropped findings to another FAO, which does not review corporate overhead allocations.

Case	Impairment to auditor independence	Working papers did not support reported opinions	Draft audit opinions changed without sufficient documentation	Auditor did not perform sufficient work to support conclusions	Significant problems
8	X	X		X	Inexperienced trainees assigned to complex forward pricing audits without proper supervision. Reports issued with unqualified opinions before supervisory review was completed due to pressure from contracting officers.
9		X		X	Significant deficiency and FAR noncompliance related to the lack of contractor job descriptions for executives not reported.
10		X		X	Significant deficiency related to subcontract management not reported.
11		X	X		Second auditor and supervisor dropped 6 of 10 significant deficiencies without adequate documentation to show that identified weaknesses were resolved.
12		X	X	X	Supervisor identified problems with test methodology but dropped findings instead of requiring tests to be reperformed.
13		X		X	Second auditor and supervisor deleted most audit steps and performed limited follow-up work that did not support the reported opinion of overall compliance with CAS.

Source: GAO analysis.

Appendix II: Summary of GAO Findings on Hotline Investigations of Selected Audits

Case	Type of audit	Contractor	Location	Case details
1	Estimating system survey follow-on (2002)	Contractor A	DCAA Location 1*	- Purpose of audit was to review the corrective action plan (CAP) developed by Contractor A in response to prior findings of inadequate basis of estimates (BOE) related to labor hours. - In the face of pressure from DOD's contracting community to approve Contractor A's estimating system, we found evidence there was an up-front agreement between DCAA and Contractor A to limit the scope of work and basis of the audit opinion (a significant impairment of auditor independence). - Auditors found significant deficiencies with the CAP implementation plan, that is, the contractor could not develop compliant BOEs without DCAA's assistance at the initial, intermediate, and final stages of the estimates. - Original supervisory auditor was reassigned; the resident auditor and new supervisory auditor directed the draft opinion be changed from "inadequate in part" to "adequate" after the contractor objected to DCAA draft findings and opinion. - The working papers did not contain audit evidence to support the change in opinion. - Field office management threatened the senior auditor with personnel action if he did not change the draft audit opinion to "adequate."
2	Proposal audit (2006)	Contractor A	DCAA Location 1	- Audit related to a revised proposal submitted after DCAA reported an adverse (inadequate) opinion on Contractor A's 2005 proposal. - At beginning of the audit, buying command and Contractor A officials met with a DCAA regional audit manager to determine how to resolve cost accounting standard (CAS) compliance issues and obtain a favorable audit opinion. - Contractor A did not provide all cost information requested for audit. - Contrary to DCAA Contract Audit Manual guidance, the regional audit manager instructed auditors that they could not base an "adverse" (inadequate) audit opinion on the lack of information to audit certain costs. - On the basis of an "inadequate in part" opinion reported in May 2006, the buying command negotiated a \$937 million contract, which has grown to \$1.2 billion.

Case	Type of audit	Contractor	Location	Case details
3	Three defective pricing audits (2005)	Contractor B	DCAA Location 2*	- Branch manager and supervisory auditor predetermined that there was no defective pricing; however, the auditor concluded that Contractor B's practice potentially constituted defective pricing and obtained technical guidance that specific contracts would need to be analyzed to make a determination. The branch manager disagreed. - Supervisory auditor and branch manager subsequently issued three reports stating that Contractor B's practice at three divisions did not constitute defective pricing. - Insufficient work was performed on these audits to come to any conclusion about defective pricing and as a result, the final opinions on all three audit reports are not supported. - Absent DCAA audit support for defective pricing, the contracting officer pursued a CAS 405 noncompliance at 3 contractor divisions and recovered \$71,000. - On July 17, 2008, Contractor B settled on a Defense Criminal Investigative Service defective pricing case for \$620,900.
4	Billing system (2005)	Contractor C	DCAA Location 2	- Draft audit report identified six significant deficiencies, one of which led Contractor C to overbill the government by \$246,000 and another which potentially led to \$3.5 million in overbillings, but audit work was incomplete. The contractor had refunded the \$246,000. - The original auditor reported that the \$3.5 million was for subcontractor costs improperly billed to the government. The supervisor deleted the finding based on a flawed audit procedure, but did not require additional testing. - First supervisory auditor and auditor were replaced after draft audit was completed. - New auditor and supervisory auditor worked together to modify working papers and alter draft audit opinion from "inadequate," to "inadequate in part," and, finally, to "adequate." - Sufficient testing was not performed to determine if the contractor had systemic weaknesses or to support an opinion that contractor billing system controls were adequate. - On the basis of the "adequate" opinion, the field audit office (FAO) approved the contractor for direct billing. - DOD IG recommended that DCAA rescind the final report for this audit, but DCAA did not do so. - Following the briefing on our investigation, the DCAA Western Region rescinded the audit report on May 22, 2008.

Case	Type of audit	Contractor	Location	Case details
5	Estimating system (2005)	Contractor C	DCAA Location 2	- Auditor identified five deficiencies and concluded the contractor's system was "inadequate in part." - Auditor did not perform sufficient work to support some findings, but supervisory auditor did not direct the auditor to gather additional evidence. - After consulting with the branch manager, the supervisory auditor modified documents and eliminated significant deficiencies, changing the draft audit opinion from "inadequate in part" to "adequate." - Working papers did not properly document the reason for the change in opinion and therefore do not support the final opinion. - DOD IG recommended that DCAA rescind the final report for this audit, but DCAA did not do so. - On June 27, 2008, the DCAA Western Region informed us that it was rescinding this audit report.
6	Accounting system (2005)	Contractor D	DCAA Location 2	- Auditor believed audit evidence related to a 24 percent error rate in a small sample of cost pools supported an "inadequate in part" opinion and suggested testing be expanded, but supervisory auditor disagreed. - Auditor and supervisory auditor documented their disagreement in the working papers. - Supervisory auditor subsequently modified documents to change the draft audit opinion from "inadequate in part" to "adequate" before issuing the final report. - Certain final working papers were prepared and approved by the supervisory auditor, without proper supervision. - Branch manager and supervisory auditor determined that findings of corporate accounting problems should be referred to another FAO for future audit. However, the other FAO does not audit corporate costs. - Working papers do not support the final opinion.
7	Compliance, CAS 403 (2005)	Contractor D	DCAA Location 2	- Auditor identified four potential instances of noncompliance with CAS 403. - Auditor was transferred to a different team before supervisory review of her working papers. Three months later, the supervisory auditor requested that another auditor write a "clean ("adequate") opinion" report. - Second auditor used "boilerplate" (i.e., standardized) language to write the final report and never reviewed the working papers. - The supervisor correctly deleted two findings and referred two findings of corporate-level non-compliances to another FAO for future audit. The other FAO does not audit corporate-level costs. - Working papers do not support the final "clean opinion," which was later contradicted by a September 21, 2007, DCAA report that determined Contractor D was in fact not in compliance with CAS 403 during the period of this audit.

Case	Type of audit	Contractor	Location	Case details
8	Forward pricing audits (2004 through 2006)	Contractor E	DCAA Location 3*	- Two location 3 supervisors issued 62 forward pricing audits related to Contractor E between 2004 and 2006. - Supervisors responsible for the 62 forward pricing audits admitted to us that they did not have time to review working papers before report issuance. - According to the DCAA region, inexperienced trainee auditors were assigned to 18 of the 62 audits without proper supervision. However, the region did not provide assignment documentation for the 62 audits. - An internal DCAA Region audit quality review found audits where the audit working papers did not support the final audit report, working paper files were lost, and working paper files were not archived in the DCAA-required time period. - The 62 forward pricing audits were connected with over \$6.4 billion in government contract negotiations.
9	Compensation system (2005)	Contractor D	DCAA Location 2	- Three different auditors worked on this audit. - Original auditor did not follow DCAA guidance when developing the audit plan and was reassigned after audit work began. - Second auditor lacked experience with compensation system audits and noted in her working papers that she was "floundering" and could not finish the audit by the September 30, 2005, deadline. - Third auditor was assigned 10 calendar days before the audit was due to be completed. - Although audit was issued with an "adequate" opinion, insufficient work was performed on this audit and, therefore, working papers do not support the final opinion. - Significant system deficiencies noted in the working papers were not reported. - The DOD Office of Inspector General recommended that DCAA rescind the final report for this audit, but DCAA did not do so. Instead, DCAA initiated another audit during 2007. - DCAA agreed with our finding that this audit did not include sufficient testing of executive compensation. In June 2008, the branch office issued a new audit report on Contractor D's compensation system which identified seven significant deficiencies and an "inadequate in part" opinion. - DCAA stated that it is currently assessing the impact of these deficiencies on current incurred cost audits.

Case	Type of audit	Contractor	Location	Case details
10	Purchasing system (2005)	Contractor F	DCAA Location 2	- Auditor found that the contractor was not fulfilling its FAR-related obligations to ensure that subcontractors' cost claims were audited. - This issue was not reported as a significant deficiency in the contractor's purchasing system. The opinion on the system was "adequate." - The working papers did not include sufficient evidence to support the final opinion. DCAA relied on a 2004 Defense Contract Management Agency (DCMA) review in which the conclusions were based word-for-word on the contractor's response to a questionnaire without independent testing of controls. - DCAA stated that the overall opinion was not based on DCMA's review. However, DCAA stated that it will address the issue of the contractor's procedures for ensuring subcontract audits are performed during the next purchasing system audit, which is expected to be completed by December 30, 2008.
11	Billing system (2006)	Contractor F	DCAA Location 2	- The branch manager allowed the original auditor to work on this audit after being assured that the auditors would help the contractor correct any billing system deficiencies during the performance of the audit. - After the original auditor identified 10 significant billing system deficiencies, the branch manager removed her from the audit and assigned a second auditor to the audit. - With approval by the FAO and region management, the second auditor dropped 8 of the 10 significant deficiencies and reported 1 significant deficiency and 1 suggestion to improve the system. The final opinion was "inadequate in part." - Six of the findings were dropped without adequate support, including a finding that certain contract terms were violated and a finding that the contractor did not audit subcontract costs. - Despite issuing an "inadequate in part" opinion, the FAO decided to retain the contractor's direct-billing privileges. After we brought this to the attention of region officials, the FAO rescinded the contractor's direct billing status in March 2008. - DCAA did not agree with our finding that the working papers did not contain adequate support for dropping six draft findings of significant deficiencies.

Case	Type of audit	Contractor	Location	Case details
12	Labor floor check (2005)	Contractor C	DCAA Location 2	- Auditor performed sampling to determine whether sufficient controls over employee timecards existed. - Although the work was based on a limited judgmental sample, the auditor found 3 errors out of 18 employee timecards tested and concluded that controls over timecards were inadequate. - Supervisory auditor initially agreed with the findings, but later modified working papers to change the draft audit conclusion from "certain labor practices require corrective actions" to "no significant deficiencies." - Working papers did not properly document the reason for the change in conclusion and, therefore, do not support the final audit conclusion. - Supervisory auditor later stated that the initial sampling plan was flawed, but eliminated the deficiency finding rather than asking the auditor to redo the work. - On April 9, 2008, DCAA issued a new audit report which identified 8 significant deficiencies and concluded that corrective actions were needed on the contractor's labor accounting system.
13	Compliance, CAS 418 (2006)	Contractor G	DCAA Location 2	- After original auditor was transferred to another audit, a second auditor significantly limited the scope of the audit with supervisory approval, deleting most of the standard audit steps. - Second auditor performed very limited testing and relied on contractor assertions with little or no independent verification. - Supervisory auditor approved issuance of the final audit with an opinion that the contractor complied with CAS 418 in all material respects. - Insufficient work was performed on this audit and, therefore, the scope of work and the working paper documentation does not support the opinion. - Region officials acknowledged that work was insufficient and stated that another CAS 418 audit was initiated; however, DCAA did not rescind the misleading report. - On June 25, 2008, DCAA officials told us that the new CAS 418 audit was completed with an "adequate" opinion.

Source: GAO analysis.

*Location 1 is a DCAA resident office located at facilities run by one of the five largest DOD contractors (Contractor A). The audit in Case 1 was performed at a suboffice location and the audit in Case 2 was performed at the resident office.

*Location 2 is a DCAA branch office.

*Location 3 is a DCAA resident office located at facilities run by another of the five largest DOD contractors (Contractor E).

**September 10, 2008
Statement of Diem Thi Le
DCAA Senior Auditor**

**Before the Senate Committee on Homeland Security
and Governmental Affairs.**

Chairman Lieberman, Senator Collins, and Members of the Committee, thank you for the opportunity to take part in this hearing. My name is Thi Le and I have been with the Defense Contract Audit Agency (DCAA) for 19 years. For 17 years I have been a Senior Auditor. I am also a CPA with the State of California. Nineteen years ago, I left the private sector to join DCAA because I wanted to be a part of an organization that was committed to excellence in support of the national interest and protecting taxpayers' money. However, in recent years, DCAA has changed from an emphasis on excellence to an emphasis on performance metrics, and that is one of the reasons why I am here today. My testimony today includes four parts: (1) What triggered my calling the DoD IG Hotline, (2) How the DoD IG Hotline personnel mishandled my referral (3) The harassment that I have endured since the DoD IG started its investigation, and (4) The systemic problems at DCAA.

WHAT TRIGGERED MY CALLING THE HOTLINE

In September 2005, I was performing an accounting system audit at the Corporate Office of a contractor that is publicly traded engineering, construction, maintenance, and project management company. This is the GAO case no. 6. I found that the accounting system was inadequate in part and, as a result, the contractor was misallocating and mischarging costs to the Government. My supervisor originally concurred with my audit findings; however, subsequently, she told me that our Branch Manager disagreed with me. After my requests to meet with the Branch Manager to explain my audit findings were denied, I followed our Contract Audit Manual guidance and I asked for my supervisor's approval to elevate the un-reconciled difference of audit opinion to the Regional Audit Manager who was the supervisor of my Branch Manager. At about the same time, when I was telling a senior auditor that the Branch Manager was changing my audit opinion, I was told that I was not the first auditor whose audit opinion on a contractor inadequate system was changed by the Branch Manager.

The Regional Audit Manager then told me that because the Branch Manager was the one who signed the audit report, it was the Branch Manager's opinion that counted and mine did not. In another words, I, the performing auditor, had no say in the final audit report opinion. The Regional Audit Manager also instructed my supervisor to follow our Contract Audit Manual guidance and put my working papers in the superseded work paper folder. My supervisor then deleted the audit findings from my working papers and used those changed working papers as her working papers to support the change in the audit opinion from an inadequate accounting system to an adequate system without performing any additional audit work. Shortly afterward, the audit report was issued and the contractor accounting system was deemed adequate. Consequently, the

contractor did not have to propose or implement any corrective actions to eliminate its accounting system deficiencies that would result into misallocating and mischarging costs to the government contracts. For the calendar year 2006, this contractor reported over \$14 billion in revenue, including \$2.9 billion in revenue from government business.

The following week, I was approached by a senior auditor who told me that his "inadequate in part" opinion of a contractor estimating system was also changed to an "adequate opinion" by his supervisor. However, his supervisor did not discuss the change of the audit opinion with him. He also told me that he suspected that the audit opinion was changed after the Branch Manager had reviewed his audit working papers.

I was also told by another senior auditor that the Branch Manager changed several auditors' opinions of inadequate systems at the Boeing Huntington Beach Resident Office of where she used to be in charge.

To give my Branch Manager the benefit of doubt, I went on to our office common drive and reviewed other system audits performed under her management. To my disbelief and disappointment, I discovered several system audits in which the performing auditor's opinion of a contractor inadequate system was changed to adequate by management. I began to see a pattern of changing the auditors' opinions by the Branch Manager but I did not know why she would do that. Upon further inquiries with other supervisory auditors of other offices, I understood why. By making the contractor systems and related internal controls "adequate", less audit risk would be perceived and, consequently, fewer audit hours would be incurred on other audits. Because one of the DCAA performance metrics is the productivity rate, which measures the hours incurred versus the dollar examined, having fewer audit hours incurred for the same amount of dollars examined will increase the productivity rate. The productivity rate is one of the factors based on which a Branch Manager's annual performance is rated.

Mr. Chairman and Members of the Committee, in recent years, because of the emphasis on the increase of the productivity rate, DCAA auditors, including myself, have been pressured by management to perform audits within certain numbers of budgeted hours. But this was the first time I discovered that management changed the auditors' opinions without performing any additional audit work or without discussing with the auditors. I confided this troubling discovery, which I considered the lack of due professional care, at best, and negligence and fraudulent, at worst, with some of my colleagues who all told me that I had no choice but calling the DoD IG Hotline. In early November 2005, I contacted the DoD IG Hotline.

How the DoD IG Hotline Personnel Mishandled my Referral

I would have never imagined that I would call the DoD IG Hotline to submit an allegation against my management. Equally the same, I would have never imagined that the DoD IG Hotline personnel would send my hotline compliant back to my agency so that my agency headquarters could investigate my allegation. Let me explain how I discovered that.

Subsequent to contacting the DoD IG Hotline in early November 2005, I made several follow-up inquiries and, finally, in February 2006, my complaint was given a Hotline case number. However, I was told that it might take a long time for someone to work on my case due to the limited staff. Based on my own research, I found the phone number of a local office of the Defense Criminal Investigative Services (DCIS) and I contacted them.

I met with a DCIS Special Agent on Saturday March 4, 2006. Before this meeting, the Special Agent had requested the DoD IG Hotline personnel to fax him a copy of my complaint submittal. When going through the complaint file to ensure that the Hotline personnel had sent him all of what I submitted, I noticed that on a FAX Cover Sheet, it was stated that the complaint submittal had been referred to DCAA Headquarters. I pointed out this note to the Special Agent and asked him what it meant. He told me that he would look into it and let me know. Later, the Special Agent confirmed that the Hotline personnel had in fact referred my complaint to DCAA Headquarters and that the referral included specific personal identifying information about me, such as my name and cellular phone number, and the discussion of the accounting system audit that triggered the Hotline complaint. Consequently, I believe that my identity as a whistleblower was not adequately protected and, therefore, I have suffered reprisal from DCAA management.

The Harassment I Have Endured

Following are some of the significant incidents of harassment and retaliations directed at me since the time I dared to elevate the un-reconciled difference of audit opinion to the Regional Audit Manager and contacted the DoD IG Hotline:

- In September 2005, my management overruled my audit findings. In October 2005, I was transferred to another team. In the November 2005 Staff Conference, the Regional Audit Manager stated that if we auditors did not like management's audit opinion, we should find another job.
- In early July 2006, I was transferred to another team. In late July 2006, my management was interviewed by the DCIS Special Agent. In October 2006, I found out that I was the only auditor with an "Outstanding" performance rating who did not get a performance award.
- In early April 2007, the Office of Special Counsel (OSC) investigator contacted DCAA Western Region management to inform them of my OSC complaint. Shortly after that happened, my supervisor told me that I should seek mental health counseling because of the stress I was under. She gave me an Employee Assistance Form and asked that I sign it.
- In August 2007, I was given my annual performance evaluation for the period of July 2006 through June 2007. I was downgraded from an

“Outstanding” rating to a “Fully Successful” rating (two notches down). Also my promotion points came down from 78 (out of a maximum of 120) to 58 points. Please note that prior to this job performance evaluation, I had been an outstanding auditor for several years.

- On August 31, 2007, I was given a memorandum signed by my supervisor and prepared by the DCAA Headquarters Legal Counsel. The memo instructed me that I was not allowed to provide any documents generated by a Government computer, including emails and job performance evaluations, to any investigative units, including the OSC. Failure to follow those instructions would result in disciplinary actions. Subsequently, I discovered that the Section 8 of the Appendix A of the DCAA Personnel Management Manual Chapter 50 considers the reprisal against an employee for providing information or disclosures to an Inspector General or Office of Special Counsel investigator a violation of the employee rights.
- On September 10, 2007, my supervisor advised me to read the 18 USC 641, Theft of Government Property. My supervisor stated that the unauthorized distribution of Agency documents is theft and it does not matter if the purpose is to respond to a hotline or OSC complaint.
- In August 2008, I was given my job performance evaluation for the period of July 2007 through June 2008. I remained at “Fully Successful” which is one notch above the rating that one would be put on a Performance Improvement Plan (PIP). My promotion points came down to 53.

The Systemic Problems at DCAA

It is my observation and opinion that DCAA management has become so metric driven that our audit quality and independence have suffered. Audits are not dictated by the audit risks but rather by the established budgeted hours and due dates. The pressure to close out audits and to meet the productivity rate is so intense that often prevent auditors from following their instincts in questioning the contractor costs, reporting internal control deficiencies, and evaluating any suspected irregular conducts. In the end, contractors are getting away with murder because they know we are so metric driven.

Also, because of metric emphasis, DCAA management has taken away a good number of the audit staff and created layers and layers of personnel at both the regional and headquarters levels who do nothing but monitoring metrics. As a result, the goal is not to protect the government’s interest and save taxpayers’ money but to answer to management’s questions related to metrics.

Concluding Remarks

Mr. Chairman and Members of the Committee, again I thank you for the opportunity to take part in this hearing. It is my hope that by taking part in this hearing there will be changes at DCAA. It is also my hope that any changes implemented by DCAA management will results into auditors TRULY being allowed to perform quality audits in accordance with generally accepted government auditing standards in order to protect the government’s interest and taxpayers’ money.

**Statement of Paul Hackler
Supervisory Auditor
Defense Contract Audit Agency**

September 10, 2008

Mr. Chairman, Ranking Member Collins, and members of the Committee:

Thank you for the opportunity to speak to you today about DCAA's ELC Buy III proposal audit. I am currently a GS-13 Supervisory Auditor in the Defense Contract Audit Agency's Western Region - Huntington Beach Resident Office responsible for Department of Defense contractor audits. I am a certified public accountant with 25 years of contract audit experience. The 2005 and 2006 ELC proposal audits I supervised were based on a 15-year lot costing scenario designed to allow Boeing to recover approximately \$270 million in losses Boeing incurred as a result of its poor business decision to gear up for a robust commercial cell phone satellite market that failed to materialize. In using a 15-year lot costing approach, Boeing was able to average those losses over 15 years, thereby reflecting higher costs for future missions. In restructuring the program to avoid further losses, the government agreed to reimburse Boeing prospectively for launch capability efforts and Boeing was forced to abandon lot costing for that portion of the program. Boeing seized this opportunity to recover past losses by

developing proposals that violated numerous procurement regulations. In its proposals, Boeing claimed that the cost per launch would decrease in the future and the government needed to compensate Boeing for higher up-front costs. **In actuality, the devastatingly high up-front costs were a direct result of Boeing's unprofitable decision to gear up for a prolific commercial market that failed to materialize.** My office was directed by DCAA upper management to basically play along with this outrageous government bailout!

My testimony today will focus on (1) the inherent problems with Boeing's 2005 and 2006 Delta IV launch capability proposals, (2) the directed audit opinion by DCAA upper management related to the Delta IV Buy III Launch Capability proposal audit issued May 8, 2006, and (3) reprisals by upper management against employees who resisted the management directed audit opinion related to that proposal.

Background

In the late 1990s, Boeing anticipated the emerging cell phone market would deploy satellites as a means to route cell phone traffic. Shortly after Boeing geared up for 300 related launches of its newly developed Delta IV launch vehicle, cell phone providers decided to use land-based towers instead of satellites to route cell phone traffic. As a result, the cell phone satellite

market (previously anticipated to be 75 percent of Delta IV sales) collapsed and the cost per launch skyrocketed. In 2003, Boeing announced it was recognizing \$835 million in losses attributable to the Delta IV program, reflecting Boeing's significantly lower assessment of global demand for launch services.

Since Boeing was losing more than \$100 million per launch, the government decided to restructure the existing Initial Launch Services (ILS) fixed-price contract for 13 launches and all future launches by reimbursing Boeing for launch capability costs on a prospective basis under the ELC contract. This restructuring was intended to make the Delta IV program profitable on a go-forward basis for new procurements, but we were directed by pentagon officials that fixed-prices for the remaining 11 ILS launches were to remain in place and all appropriate government procurement regulations were to be adhered to.

Inherent Problems in the ELC Proposal

In 2005 and 2006, I supervised audits of Boeing's Delta IV Launch Capability proposals. In the 2005 proposal, my team determined the proposal contained serious procurement regulation violations and issued an

adverse audit opinion that prevented the Air Force from awarding the contract. Two of the significant deficiencies in the 2005 ELC proposal were: Boeing's use of a 15-year lot costing methodology never before encountered by DCAA to my knowledge. The other deficiency related to Boeing's failure to obtain detailed pricing data from its subcontractors. Prior to Boeing resubmitting the ELC proposal in early 2006, the Air Force attempted to provide Boeing a waiver from the procurement regulations violated by lot costing. However, the move was unpopular in Washington due to Boeing's recent Procurement Integrity Act violations and Boeing was only granted a waiver from the requirement for subcontractor pricing data. Therefore, Boeing resubmitted its ELC proposal using 15-year lot costing that continued to contain significant procurement regulation violations. Boeing's 15-year lot costing methodology rolls losses directly attributable to the collapse of the cell phone satellite market into future government contracts and violates numerous government procurement regulations, most notably the prohibition against recovering prior losses and charging the government for costs that do not benefit our contracts. At the direction of upper management, our office issued an audit opinion that failed to report serious procurement regulation violations and the Air Force subsequently awarded the initial ELC contract granting Boeing recovery of approximately

\$270 million of past losses suffered in its attempt to corner the nonexistent commercial cell phone satellite market and also substantially increased the price of previously awarded ILS missions. My testimony today focuses on DCAA's indiscretions, however, the Air Force may have gone well beyond DCAA in allowing Boeing to recover losses from its decision to pursue the cell phone satellite market that resulted in recovery of losses of much more than \$270 million in total. I'd be more than happy to answer questions regarding this subject also.

Specific to DCAA's involvement, Boeing's lot costing methodology averages costs to gear up for a nonexistent commercial market over 15 years and multiple government contracts, thereby violating Federal Acquisition Regulation 31.205-23, which prohibits the recovery of these prior losses. For instance, at inception of the Delta IV program, Boeing anticipated and prepared for a commercial market that, if it had materialized, would have purchased well over 100 launches by now, and approximately 300 launches by 2020. However, only one commercial launch has taken place thus far, and no further commercial launches are anticipated. Virtually all of the losses Boeing incurred pursuing the commercial market, such as: constructing a production facility capable of producing 40 rockets per year, purchasing a vessel designed exclusively to transport the 230 ft. long Delta

IV launch vehicle, the cost of excess production equipment, incurring excess procurement and storage charges are included in the lot costing calculation. Some of these costs are still being charged to government contracts.

Boeing's lot costing methodology also violates several other procurement regulations that embody the most fundamental concepts in government or public accounting; e.g. allocating costs to contracts that do not benefit.

Additionally, lot costing violates the requirement to segregate costs by year. By averaging costs over 15 years, Boeing's lot costing methodology constantly shifts costs between years, as the cost per launch increases. The estimated cost per launch has increased several-fold since the program began in the late 1990s.

Due to these violations of procurement regulations and departure from basic accounting principles, all the audit staff involved with the Buy III proposals considered Boeing's lot cost methodology unacceptable as an estimating or accounting practice. It should also be noted that Boeing has recently discontinued lot costing entirely at the direction of its outside auditors.

Directed Audit Opinion by DCAA Upper Management

Mr. Chairman and members of the Committee, despite our documented objections, we were instructed by DCAA upper management to issue an audit opinion that failed to report violations of numerous procurement regulations and allowed the Air Force to compensate Boeing for losses incurred as a result of the collapse of the anticipated commercial market. The departure of estimating techniques employed in the ELC proposal from fundamental procurement regulations, acceptable estimating techniques, and basic accounting principles was so unthinkable that the audit staff documented our disagreement in the audit file. This is the first time in my career I felt it necessary to document my disagreement with a management directed audit opinion.

Reprisals by DCAA Upper management

Over my 25-year career with DCAA, I have jealously protected the American taxpayers' interests at every turn as I attempted to do on the ELC proposal audits. During the course of the two ELC proposal audits, I was harassed and denied a chance at promotion opportunities because I resisted DCAA upper management's pressure to overlook the most egregious estimating scenario I have ever encountered, while the DCAA official responsible for directing this inappropriate audit opinion has been promoted

to the SES level. Early in my career, I would never have suspected this kind of inappropriate behavior could be rewarded, but of late, I've seen it over and over again due to the emphasis placed on performance metrics and customer satisfaction. Audit findings and exceptions have taken a backseat to expediency and personal ambition. I can only hope that bringing these atrocities to your attention results in changes that will make my coworkers and myself proud to be DCAA employees again.

Concluding remarks

Thank you for your time and thank you for this opportunity to bring these matters to your attention. I would be happy to answer any questions that the Committee may have.

September 10, 2008



Expected Release
10:00 a.m.

Gordon S. Heddell
Acting Inspector General Department of Defense

before the
Senate Homeland Security and
Governmental Affairs Committee

on

"Expediency Versus Integrity: Do Assembly Line Audits at the
Defense Contract Audit Agency Waste Taxpayer Dollars?"

Chairman Lieberman, Senator Collins, and members of the committee, thank you for the opportunity to appear before you this morning and address our efforts regarding the oversight of audit work performed at the Defense Contract Audit Agency.

I. BACKGROUND

On November 13, 2005, my office received a hotline complaint with allegations that a Defense Contract Audit Agency (DCAA) Branch Manager and subordinate managers were involved in the practice of changing audit findings, or deleting them altogether, in deference to issuing “clean” audit reports. The subject managers were assigned to DCAA’s Santa Ana, California, Branch Office and the Huntington Beach, California, Resident Office. The hotline was referred to DCAA for action on February 8, 2006. At the same time it was provided to the Department of Defense Inspector General (DoD IG) Office of Audit Policy and Oversight (APO) for information.

On February 24, 2006, the DoD IG Defense Criminal Investigative Service (DCIS) office in Mission Viejo, California, received information from a senior DCAA auditor who alleged that the Santa Ana Branch Manager changed, or caused to be changed, several auditors’ working papers in order to cancel or conceal audit findings that would otherwise have been followed up by DCAA, and could have resulted in significant cost savings to the DoD. It was alleged that the Santa Ana Branch Manager did this to increase the perceived productivity rate of her department. The complainant was concerned about the integrity of DCAA’s mission and the potential loss to American taxpayers.

The complainant advised that the DoD IG Hotline was contacted on November 13, 2005, and at that time was provided details concerning the allegations. The complainant then met with a DCIS Special Agent on March 4, 2006, to discuss the Hotline complaint and ensure the allegations were being reviewed.

On February 24, 2006, a DCIS Special Agent contacted the Hotline and obtained the complaint. The agent learned that the Hotline had forwarded the complaint to DCAA. DCIS initiated an investigation on March 6, 2006.

On March 7, 2006, DCIS requested audit assistance from APO. APO was assigned responsibility to review ten DCAA audits brought into question by the Hotline complainant.

The DCIS initial contact with DCAA occurred on March 9, 2006, when DCAA Deputy Director Joseph Garcia (then DCAA Assistant Director of Operations) telephoned the DCIS case agent saying he had received a copy of the complaint from the Hotline, and that he intended to conduct a formal DCAA inquiry with a 60-day estimated time of completion. The DCIS agent informed Mr. Garcia that DCIS had already initiated an investigation.

From March 10 through March 12, 2006, the DCIS agent conducted interviews with several witnesses who corroborated the Hotline allegations. On March 13, 2006, the DCIS agent sent Mr. Garcia an e-mail suggesting that DCIS should conduct its own investigation independent of DCAA and that DCAA should suspend its own inquiry until the DCIS investigation was completed. On March 14, 2006, Mr. Garcia answered this e-mail and concurred with the DCIS agent.

In June 2006, the U.S. Government Accountability Office (GAO) informed DCIS that it was conducting its own investigation of DCAA. GAO indicated that, in addition to receiving the same DoD Hotline complaint, they received reports of DCAA misconduct in other offices and regions located throughout the United States. GAO and DCIS coordinated certain investigative activities regarding DCAA misconduct allegations; however, DCIS concentrated on the allegations contained in the DoD IG Hotline complaint. GAO's investigation focused on the broad implications of the issue, as they relate to DCAA's overall mission, reporting practices, and employee work environment.

II. DCIS INVESTIGATION

DCIS interviewed fourteen DCAA auditors, seven DCAA managers and supervisors, and five contracting officials involved with the ten audits brought into question by the Hotline complaint. Investigative findings disclosed that DCAA managers violated established policy by deleting audit deficiencies from field auditor audit reports without the field auditor's knowledge, and by issuing "clean" audit reports without adequate supporting documentation.

Five DCAA field auditors interviewed confirmed reports that deficiencies noted by them and included in their draft audit reports submitted to management for approval were often minimized by their supervisors. In at least five cases, the field auditors were instructed to delete the deficiencies they noted in favor of issuing "clean" audits wherein the contractor accounting systems were deemed to be "adequate." In at least three other instances, the field auditors said their managers simply deleted the deficiencies from their audit reports without their knowledge, in spite of DCAA's policy (outlined in DCAA's Contract Audit Manual (CAM), Chapter 4, Section 403 (I) (2): page 421 of CAM Volume I) of

giving auditors the opportunity to present their positions to management and to formally document any differences of opinion in the audit working papers.

It was also noted during the interviews with field auditors that DCAA used metrics to evaluate the agency's overall efficiency, such as determining beforehand that certain audits should take a predicted number of hours to complete. This was especially the case with systems audits, which are conducted at major DoD contractor facilities every 3 – 5 years in order to evaluate the adequacy of their accounting, estimating, and billing systems. The investigation identified a correlation between audit reports that were changed by DCAA supervisors and the issuance of those reports on, or just prior to, the end of each fiscal year. The investigation determined that September 30th was often the deadline for completing certain systems audits as determined through metrics, and that audits not closed by that deadline were classified as "languishing audits." DCAA auditors confirmed that the easiest way for DCAA managers to prevent audits from becoming "languishing" was to issue "clean" audit reports that reflected no deficiencies, or to simply characterize noted deficiencies as "suggestions for improvement," wherein the contractor has no obligation to the Government to change their internal control systems.

The DCIS investigation indicated that DCAA's emphasis upon conducting systems audits within pre-determined milestones and deadlines established through metrics created an environment where the pressure to meet goals affected the outcome of the audit. This constant pressure weighed heavily upon auditors and managers. In contrast, DCAA field auditors advised that in prior years, auditors were routinely praised and rewarded commensurate with the amount of money they questioned, and how much money the Government saved or recovered as a direct result of their audit activities.

From April through July 2006, DCIS interviewed DCAA supervisory auditors involved in the alleged misconduct, to include the Santa Ana Branch Manager. Although the above mentioned trends were questioned during the interviews, the managers involved admitted to no wrongdoing. DCAA regional management acknowledged that certain policies were violated, such as the failure of managers to inform field auditors that their audit findings were being changed or deleted prior to issuing an audit report.

III. AUDIT POLICY AND OVERSIGHT MEMORANDUM

On January 24, 2007, APO issued a memorandum to DCIS detailing the results of its review of one audit assignment completed by the DCAA Boeing Huntington Beach Resident Office and nine audit assignments completed by the Santa Ana Branch Office. These audits were reviewed as part of the DoD IG response to the November 13, 2005, hotline complaint. The memorandum contained the following conclusions:

- On nine assignments, the supervisors either changed or directed to be changed an auditor's draft audit conclusions without adequate documentation.
- The working papers of seven assignments did not adequately support the final audit report opinions. On the three remaining assignments, the supervisory auditor should have directed the auditor to perform additional audit procedures prior to issuing the final report.
- In addition, DCAA should rescind three reports because the reports were not supported by the working papers.

On January 25, 2007, DCIS provided a copy of the APO memorandum to the DCAA regional headquarters office in La Mirada, CA. The Director, DCAA Western Region, in a memorandum dated July 27, 2007, expressed strong disagreement with the overall results of the DoD IG review and refused to rescind any reports, although he acknowledged that “working papers could have been improved.”

IV. DoD IG INVESTIGATIVE RESULTS

On June 24, 2008, DCIS presented the results of its investigation to the U.S. Attorney’s Office (USAO), Santa Ana, CA, Branch Office. The USAO declined criminal prosecution. At the conclusion of the investigation, DCIS prepared a Fraud Vulnerability Report documenting investigative findings. A Fraud Vulnerability Report is the vehicle used by DCIS to address lack of internal management controls, inadequate compliance with those controls, or a deficiency within the system that may have allowed identified criminal violations to occur or to go undetected. Fraud Vulnerability Reports are not intended to document willful criminal violation of law. On August 25, 2008, the Fraud Vulnerability Report was sent to Ms. Tina W. Jonas, Under Secretary of Defense, Comptroller; Ms. April G. Stephenson, Director, Defense Contract Audit Agency; Mr. Donald Horstman, Deputy Inspector General for Policy and Oversight; and Mr. Vincent Rafferty, Director, Investigations of Senior Officials, DoD IG.

V. REVIEW OF THE DEFENSE CONTRACT AUDIT AGENCY QUALITY CONTROL SYSTEM (2006 PEER REVIEW)

APO issued a peer review, “Review of the Defense Contract Audit Agency Quality Control System,” (Report No. D-2007-06-006), on May 1, 2007. In accordance with the purpose of a peer review, we evaluated the DCAA internal

quality control system. We determined that the DCAA internal quality control system was adequate and complied with Generally Accepted Government Auditing Standards (GAGAS) to provide reasonable assurance that applicable auditing standards, policies, and procedures were met. The review, however, did identify some weaknesses and recommended DCAA revise some policies and procedures. The review was conducted from January 2006 through April 2007, and covered the period from October 1, 2005, through September 30, 2006 (the audits reviewed as part of the November 13, 2005 hotline complaint were performed outside of the peer review timeframe). The peer review also reviewed DCAA policies and procedures including a review of supervision, quality assurance procedures, and experience of staff.

We adapted the process outlined in the President's Council on Integrity and Efficiency (PCIE) guidance for selecting offices and reports (audits) for review that included a reasonable cross section of the types of assignments that DCAA performs. We judgmentally selected six field audit offices, one office in each of the five DCAA regions and Field Detachment (classified audits). Five of the six offices had not been reviewed by DCAA during the 3 year cycle for the DCAA internal quality assurance process. Our plan involved a judgmental sample of 141 audits [reviewing from 19 to 28 audits from each of the five regions and Field Detachment (classified audits)] and covered the main audit assignments performed by DCAA. For each office, we selected audits performed by all audit teams or supervisors.

Region (No. of Field Offices)	Office (# of Audits Reviewed)
Western (14)	San Diego Branch Office (28)
Field Detachment (9)	Valley Forge Branch Office (20)
Eastern (12)	Tampa Bay Branch Office (23)
Central (14)	Minneapolis Branch Office (27)
Northeastern (15)	UTC Resident Office (19)
Mid-Atlantic (15)	Mt Laurel Residence Office (24)

The peer review identified deficiencies, including: inadequate documentation of sampling plans; failure to follow GAGAS when performing Agreed-Upon Procedures engagements, desk reviews of incurred cost submissions under \$15 million, and contract audit closing statements; and inadequate coverage of internal control system reviews by the DCAA internal quality assurance program.

The PCIE guidance provides that conclusions on what overall opinion to issue should be reached based on the cumulative impact of all findings. Issues may be disclosed that did not affect the opinion singularly or in the aggregate but still warrant reporting because formal corrective action needs to be taken. APO determined that the problems identified were not cumulatively significant enough to indicate that material deficiencies existed in the design or implementation of the DCAA quality control system. The decision to implement the recommendations of any peer review opinion report rests solely with the reviewed audit organization. Follow-up on implemented recommendations occurs during the course of the subsequent peer review. We plan to start the FY 2009 DCAA peer review in January 2009 after we complete the follow-up work on the GAO report findings.

VI. GAO REPORT

On July 22, 2008, GAO issued a report on “DCAA Audits: Allegations That Certain Audits at Three Locations Did Not Meet Professional Standards Were Substantiated” (Report number GAO-08-857). GAO found evidence that working papers did not support reported opinions, DCAA supervisors dropped findings and changed audit opinions without adequate evidence for their changes, and sufficient audit work was not performed to support audit opinions and conclusions. The work GAO performed on this investigation was closely coordinated with DoD IG auditors and DCIS investigators. The findings in the GAO report are consistent with the findings contained in the January 24, 2007 APO memorandum.

VII. DOD IG ACTIONS MOVING FORWARD

Additional Investigative Work. After publication of the GAO report, additional DoD Hotline complaints have been received concerning misconduct allegations by senior managers in the same California DCAA offices. These allegations are being assessed and may result in investigations by one or more DoD IG components, such as the Directorate of Investigation of Senior Officials and the Office of Policy and Oversight.

APO Follow-up Review. APO announced a “Follow-up Review on Audit Work Deficiencies and Abusive Work Environment Identified by Government Accountability Office (GAO) Report” on August 4, 2008. As part of this review, we are performing an independent assessment of the completed and planned actions taken by DCAA in response to the GAO report and the allegations concerning supervisor misconduct. We have obtained backup evidence from GAO relating to allegations of an abusive work environment and are interviewing

all professional personnel at the 3 DCAA audit offices. We are also reviewing all available completed audit work that DCAA is performing to mitigate the identified audit deficiencies. Based on the results of our independent assessment, we will make appropriate recommendations.

FY 2009 External Peer Review. In August 2008, the Under Secretary of Defense (Comptroller) requested that we move up our next planned peer review of DCAA. However, we believe that the best approach is to perform the follow-up review on the DCAA corrective actions to the GAO report findings first, and then start the external peer review of the DCAA quality control system as originally planned in January 2009. This approach will allow us to fully concentrate on each review separately thus ensuring the best coverage of pertinent issues and concerns. We will consider the results of the follow-up review, GAO reviews, the prior DCAA peer reviews, and the DCAA internal quality assurance reviews, as well as other information, when performing a risk assessment to determine the scope of the FY 2009 peer review. This review will cover audits performed by all 5 DCAA regions and Field Detachment.

VIII. CONCLUSION

Oversight of Department of Defense contractors is essential in the fight against waste, fraud, and abuse. The Defense Contract Audit Agency ensures early detection of potential contracting issues. We remain committed to supporting DCAA and working with them to ensure that their internal oversight mechanisms are in place and working effectively. I thank you for your time and am ready to answer any questions you might have.

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Testimony

of

April G. Stephenson
Director, Defense Contract Audit Agency

before the

Senate Committee on Homeland Security and Governmental Affairs

September 10, 2008

Mr. Chairman, members of the Committee, thank you for the opportunity to appear before you today; I am pleased to be here.

As requested, I will describe the actions taken by the Defense Contract Audit Agency (DCAA), as a result of the July 2008 GAO Report regarding allegations that certain DCAA audits did not meet professional standards. (*DCAA Audits: Allegations that Certain Audits at Three Locations Did Not Meet Professional Standards Were Substantiated.*) Please be assured that we take the GAO's findings very seriously, and we are taking the necessary steps to review and correct the issues cited in the report.

To ensure that the DCAA is fully transparent and accountable, we are committed to supporting any review of our procedures, and we are taking immediate action to fix any problems found.

Background on DCAA

Mr. Chairman, DCAA is a distinct agency of the Department of Defense (DoD) that reports to the Under Secretary of Defense (Comptroller). The DCAA mission is to perform all necessary contract audits for DoD components responsible for the negotiation, administration, and settlement of contracts and subcontracts.

In FY 2007, DCAA performed 33,801 audits covering \$391 billion in proposed or claimed contractor costs. These audits recommended reductions in proposed or billed costs of \$14.2 billion (referred to as questioned costs), and \$4.6 billion in estimated costs where the contractor did not provide sufficient information to explain the basis of the estimated amounts (referred to as unsupported costs).

In total, the DCAA has about 4,000 employees and 79 field audit offices. The three audit offices addressed in the GAO report, performed a combined total of 4,786 audits covering \$76 billion of proposed or claimed contractor costs, with \$1.9 billion of questioned costs, and \$2 billion of unsupported costs, for the five year period covered by the GAO report.

As you may know, the DoD Inspector General is responsible for the oversight of DCAA's quality control system, and the IG has previously determined both that DCAA's system of quality control is designed in accordance with Government Auditing Standards, and that the quality control system being used on audits is adequate.

GAO Report Findings and Root Causes

For purposes of my testimony today, Mr. Chairman, we have categorized the GAO's findings into three general areas: Deficient Working Papers and Audit Work; Lack of Independence, and; Management Abuses of Employees and Impediments to the GAO Investigation.

Deficient Working Papers and Audit Work

With regard to Deficient Working Papers and Audit Work, the GAO concluded that the working papers did not adequately support the final conclusion and opinion for any of the 13 cases it investigated. The GAO also concluded that, in some of the cases, the auditors did not perform sufficient work to support draft audit conclusions, and that their supervisors did not instruct or allow them to perform additional work before issuing final reports.

We agree that the audit work should have been better documented in the working papers. We also agree that, in some of the cases, the supervisors should have assessed the need to

perform additional audit effort prior to issuing the audit report. Supervisors and managers who changed the audit findings should have documented their decision in the working papers. Changing draft audit findings without adequate explanation, documentation, and review, is not acceptable, and does not follow the auditing standards that DCAA strives to uphold.

So, why did this happen?

In our discussions with the management team involved, they stated that the audit results were not supported and that they did not want to include inadequately supported audit findings in the report. They felt pressured to issue the audit reports by the due date, and made an inappropriate decision to remove the audit findings rather than to assess the need to perform additional audit work to determine whether the finding had merit.

Mr. Chairman, I do not offer this explanation as an excuse, but rather as management's reason for removing the findings. Audit work must be complete prior to issuance of an audit report or in the case of an external constraint, the audit report should clearly state the reasons that the audit work could not be completed as required by the auditing standards.

Lack of Independence

With regard to the second area, Lack of Independence, the GAO concluded that, in three audits, the contractor or the DoD contracting community improperly influenced the audit scope, conclusions, and opinions. The primary root cause that led to the GAO's conclusion was DCAA's participation in Integrated Product Teams (IPTs). IPTs were established by DoD in the mid-1990s as a means of expediting the assessment of contractor bid proposals as well as a mechanism to expedite the resolution of outstanding issues.

In the specific example cited by the GAO, the IPT was established to expedite the resolution of a labor estimating system issue at a major contractor. As the contractor developed revised draft procedures, the IPT, including the auditor, provided feedback. The DCAA field office manager informed the IPT that DCAA would audit the final estimates and provide feedback on the draft estimates during the IPT process.

After several rounds of reviewing the draft procedures, the contractor provided the final procedure for audit. DCAA notified the contractor that it planned to test a sample of estimates over a prospective four-month time period although the auditor did not specifically state which estimates would be reviewed. The GAO concluded that the DCAA's participation in the IPT by providing feedback on the draft procedures and then auditing the final procedures was a violation of the independence requirements under the auditing standards. The GAO also objected to the auditor providing the time period of the sample selection.

We appreciate the GAO's concern with the appearance of a lack of independence by DCAA's participation in IPTs. As a result, we have ceased participation in all IPTs. Although audit services will be provided during an IPT when requested by a contracting officer, DCAA is no longer a member of an IPT, and DCAA will no longer provide feedback during an IPT. DCAA will audit only final contractor approved submissions and will have no involvement with draft submissions. We have notified the procurement community of this change in DCAA policy.

Management Abuses and Impediments to the GAO Investigation

With regard to Management Abuses and Impediments to the GAO Investigation, the GAO concluded that there existed a pattern of frequent management actions that served to

intimidate some of the auditors and create an abusive environment at two of the three locations covered by its investigation. The GAO stated that its conclusions were based on confidential interviews and e-mail documentation.

Since the GAO did not provide specific information upon which any personnel action could be taken, we requested the services of the DoD Inspector General to investigate the matter. The Inspector General expects to issue its draft report in January 2009. Rest assured, inappropriate management actions will not be tolerated, and necessary disciplinary actions will be taken in accordance with personnel laws and regulations.

DCAA Actions

Mr. Chairman, as a result of the GAO report, we have taken a number of actions. The appendix to my submitted testimony contains a list of actions completed to date as well as actions that are in process as of today. However, I would like to discuss some of the more significant actions at this time.

Structure

1. With regard to the organizational structure of DCAA, we are performing a top-to-bottom assessment, including an assessment of staffing for the quality assurance function, to determine whether we have the appropriate staffing at all levels of the organization.

We are assessing whether additional staffing will be needed, including additional auditors, supervisors, and managers. We will continue to work with the Department on how best to address future staffing needs.

2. Prior to the issuance of the GAO report, DCAA recognized that the span of control of supervisors to auditors needed to be lowered, especially in areas with a significant number of auditor trainees.

In June 2008, I approved a reduction in the supervisory span of control, lowering the number of auditors to each supervisor to provide greater oversight by each supervisor. Although some locations had made use of temporary positions to deal with the need for fewer auditors to each supervisor, we felt the Agency-wide reduction would be more effective.

3. I have approved additional field audit offices to lower the span of control for the office manager. Three additional offices were approved earlier in the year, and three more offices were approved after the issuance of the GAO report. These actions will be financed out of existing resources.

We envision that additional offices may be needed once we complete our staffing assessment.

4. DCAA assessed the quality assurance function and changed the alignment from being a division in the Policy and Plans directorate at Headquarters to a direct report to the Deputy Director. This change will bring additional daily oversight to the quality assurance function at a very high level in the organization and demonstrates our emphasis on the quality of our audits.

Culture

With regard to the culture of DCAA, we are

1. Assessing whether the agency is using the appropriate metrics and benchmarks, as well as assessing whether those metrics are driving the right behavior. The team performing the assessment includes representatives from across the audit organization. We are also utilizing focus groups at all levels, including auditors, to provide feedback on the use of metrics. We plan to have this assessment complete by September 30th.

In the meantime, we have emphasized, through various venues, the need to perform quality audits. One way this was accomplished was by declaring August, "Audit Quality Month" in which each location held a stand-down day to discuss audit quality and to resolve impediments to audit quality such as metrics, budgets, due dates, or external pressures.

2. We plan to conduct an Agency-wide survey to identify additional cultural issues. The survey will be based on a standard Federal government survey developed and administered by the Office of Personnel Management, together with additional questions unique to the issues raised in the GAO report. We anticipate that this survey will be distributed by September 30th.
3. As mentioned earlier, we ceased participation in IPTs to avoid the appearance of a lack of independence. We also reminded the workforce of our audit policy on the appropriate audit opinion to provide when contracting officers place restrictions on the audit such as time constraints.

Processes

Finally, to address the improvements in processes, we have

1. Increased the number of levels of management to resolve disagreements. Prior to the GAO review, Agency policy provided that the auditor could elevate the issues to two levels of management: the supervisor and the manager. We changed the policy to call for four levels of management. This raises the issue to the level of a senior executive, if needed. We believe this change will bring more objectivity to the resolution process.
2. Based on our own quality assurance reviews in February 2008, we decided to change the signature authority for internal control audits to the level of the field office manager; previously the supervisory auditor could sign certain reports. As a result of the findings in the GAO report, we decided to require the manager to sign all audit reports, regardless of findings. The added review by the manager should improve the quality of the audits.
3. We expanded our next round of quality assurance reviews, which started this month, to include additional offices and additional assignments.
4. We initiated an internal assessment of audit work at other locations to identify additional areas of improvement. This assessment used a stratified sample of high risk assignments identified in the GAO report, such as audit reports issued in the last week of the fiscal year. We anticipate that this review will be completed by September 30th.

In addition to the actions taken by DCAA, we have asked the DoD Inspector General to review the actions taken to address the audit work in the specific 13 cases cited by the GAO, in addition to assessing the abusive management environment.

For all 13 cases, we have either completed additional audit work or have assignments in-process to mitigate the risk associated with the assignments the GAO determined did not comply with auditing standards.

Closing

In closing, Mr. Chairman, I want to underscore the seriousness with which DCAA is taking this matter. Inadequate work is unacceptable, and disciplinary and personnel actions will be taken as appropriate. As I have indicated, a number of steps to resolve these issues have already been taken and completed. Others in process, such as the Agency-wide organizational assessment, will require more time to complete, but DCAA is committed to ensuring that the agency is above reproach – that all of its audits are performed in accordance with auditing standards, that its culture promotes the kind of vigilance and quality that protects the interests of the American taxpayers.

Mr. Chairman, I thank you again for the opportunity to address the committee, and I look forward to your questions.

**Appendix to Written Statement of Ms. April G. Stephenson
Senate Committee on Homeland Security and Governmental Affairs
Specific DCAA Actions in Response To The GAO Report**

Structure

- Realigned the Chief, Quality Assurance to report directly to the Deputy Director (completed in August)
- Submitted a request to OSD for a Senior Executive Service level position for the quality assurance function (completed in August)
- Expanded the next round of quality assurance reviews started in September by including additional assignments and offices (completed in August)
- Realigning the regional quality assurance employees to report directly to Headquarters (planned to complete in September)
- Assessing the incremental need for additional quality assurance staff due to additional reviews planned for FY 2009 and beyond (planned to complete in September)
- Revamping the ombudsman program to align with the quality assurance organization (planned to complete in September)
- Realigning the DCAA hotline program to the quality assurance function (planned to complete in October)
- Approved reduction in supervisor span of control (completed in June)
- Approved six new field audit offices (completed in May, June, and July)
- Approved three new regional audit manager positions (completed in May and July)
- Initial staffing assessments due to the Director by September 9th with additional staffing assessments to continue as corrective actions are implemented (initial staffing request estimated to be provided to the DoD Comptroller by the end of September)

Culture

- Ceased participation in Integrated Product Teams to avoid the appearance of a lack of independence (completed in August)
- Held stand-down day for audit quality at all DCAA locations (70 completed in August, 15 planned for early September)
- Completed annual independence training and signed certificate of independence by all auditing personnel (planned to complete in September)
- Confirmed policy on audit opinion due to contracting officer scope limitations (completed in July)
- Revised policy on resolving difference in audit results and opinions – changed from two levels to four levels (completed in July)
- Issued several memorandum reiterating the importance of cooperating with GAO, IG, and other reviewers/investigators (completed in July and August)

- Assessing whether DCAA has the appropriate metrics and performance benchmarks (planned to complete in September)
- Assessing whether metrics and performance benchmarks are implemented appropriately across the Agency (planned to complete in September)
 - Held separate focus groups of employees at all levels of the organization including auditors (completed in August)
- Revamping the metrics process (initial assessment planned for September with complete implementation no later than December)
- Distributing an organizational assessment survey via OPM to DCAA employees (survey planned to be distributed in September with results analyzed and corrective actions developed by December)
- Completion of Agency-wide organizational assessment in FY 2009
 - Assessment includes all major areas of the organization including strategic plan, leadership, staffing, workforce issues, and process management
- Revised all DCAA training courses to reflect issues reported by the GAO (completed in August)
- The Director, DCAA visited the regional office and the three audit offices addressed in the GAO report to assess the issues and environment in the offices (completed in July)

Processes

- Raised the field office signature authority for all audit reports to the level of the manager or higher (completed in August)
- Submitted proposal to the union to bargain the new proposed independent referencing process (completed in August)
- Aggressively completing open actions from IG oversight review (planned to complete in September)
- Aggressively completing the current round of quality assurance reviews (planned to complete in October)
- Completing internal assessment of a sample of 40 audits across the Agency stratified in the high risk areas identified by the GAO (planned to complete in September)

Additional Actions

- Completing audit effort to mitigate the risks of the 13 cases identified by the GAO (four completed to date with the remainder due for completion no later than November)
- Requested the DoD IG review DCAA's actions in the specific 13 cases identified by the GAO and investigate the findings of an abusive management environment (draft report estimated to be issued in January)
- Established Strategic Plan Objective to assess improvements to audits of contractor internal controls (Objective established in June, estimated for completion in FY 2009)

SUBMITTED FOR THE RECORD BY
SEN. CLAIRE MCCASKILL
SEP 10 2008



DEFENSE CONTRACT AUDIT AGENCY
Santa Ana Branch Office
3 Hutton Centre Drive, Suite 750
Santa Ana, CA 92707-5704
(714) 435-2200
fa04181@dcaa.mil

August 31, 2007

MEMORANDUM FOR DIEM-THI LE, SENIOR AUDITOR, GS-511-12,
SANTA ANA BRANCH OFFICE

Subject: Safeguarding and Nondisclosure of Agency Records and Contractor
Proprietary, Financial, Sensitive and Confidential Information

On August 28, 2007, you sent an electronic message (email) to me concerning certain Agency documents in connection with an audit assignment you previously performed work on, and you stated your purpose for searching for those materials was to assist you in preparing a complaint to the Office of Special Counsel.

You are not permitted to access or copy or possess any Agency document for your private purposes, including preparation of complaints in any forum. You are instructed to cease any efforts to access any Agency documents except those for which you have an official need in the performance of your assigned tasks and audits. If you believe you have a legitimate reason to personally access any other Agency documents, you may make a request to me and it will be considered fully.

As a DCAA Auditor, you are at all times responsible for the safeguarding and nondisclosure of Agency records and contractor proprietary, financial, sensitive and confidential information. You are not authorized to access, acquire, download, transfer, copy, or possess, by any means, any Agency document, record, information, working papers, or other Agency property outside of the workplace or unless contained solely on your government issued computer. You are not entitled or authorized to examine or copy or download or otherwise access any audit documents not within your assigned duties. You may not access such Agency documents for any private purpose, including the pursuit of any complaints or other proceedings in any forum. If such Agency documents are required in the course of investigations, these will be made available as required by law to the proper and authorized investigative entities; you may not provide such Agency documents personally. Covered Agency documents and property include emails and any electronic records in any format, as well as hard copies. Under no circumstances may you transfer or download any Agency record, document, or information to a nongovernment computer, or make any copies by electronic or other means except as required for the performance of your audit assignments.

DEFENSE CONTRACT AUDIT AGENCY

Santa Ana Branch Office
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Santa Ana, CA 92707-5704
(714) 435-2200
fao4181@dcaa.mil

**Subject: Safeguarding and Nondisclosure of Agency Records and Contractor
Proprietary, Financial, Sensitive and Confidential Information**

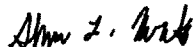
For further information concerning these prohibitions, please refer to DCAAR 4140.2, Use of Government Office Equipment (September 13, 2002), which provides in pertinent part:

4.6.6.15. The unauthorized acquisition, use, reproduction, transmission, or distribution of any controlled information including: computer software and data that includes privacy information; copyrighted, trademarked material or material with other intellectual property rights (beyond fair use); proprietary data; or export-controlled software or data is strictly prohibited.

Please also refer to DCAAM 7640.1, DCAA Contract Audit Manual, Section 1-507, Security Requirements for Contractor Information. Be advised that 18 U.S.C. § 641 (Theft of Government Property) and 18 U.S.C. § 1905 (Trade Secrets Act) (quoted in the CAM at Section 1-507) each provide severe criminal penalties for unauthorized possession and/or disclosure of Government and contractor proprietary data. If you have any questions concerning the use or protection of Agency or contractor information, please contact me.

If you have already copied or otherwise retained such documents as referred to above, you are directed to provide to me a list of all that you have in your possession, and to return to me all such documents not later than September 7, 2007 by the close of business. If you have distributed any such documents, you are instructed to inform me of what documents you provided to any person other than yourself. This includes any attorney you may have retained for personal legal services. Any attorney hired by you has no greater rights to Agency property than you do, and as explained above, you have no possessory or other rights of control over Agency documents. If you have an attorney or if there are others to whom you have provided Agency documents, you are directed to inform me of their identities and with appropriate contact information. I urge you inform those to whom you gave any Agency documents that they may not retain possession of them, and to contact me to arrange the return of those documents.

I must advise you that a failure to follow these instructions may result in disciplinary action against you.



Sharon L. Kawamoto
Supervisory Auditor



SANTA ANA BRANCH OFFICE
WESTERN REGION
DEFENSE CONTRACT AUDIT AGENCY
3 Hutton Centre Drive, Suite 750
Santa Ana, California 92707-5704

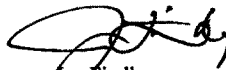
IN REPLY REFER TO
4181/220.8

September 12, 2008

MEMORANDUM FOR DIEM-THI LE, SENIOR AUDITOR, GS 511-12
SANTA ANA BRANCH OFFICE

SUBJECT: Rescission of Memorandum Regarding Safeguarding and Nondisclosure of Agency
Records and Contractor Proprietary, Financial, Sensitive and Confidential
Information

You are hereby notified that the memorandum issued by your supervisor on August 31, 2007, regarding the nondisclosure of Agency records, is hereby rescinded in full. You are encouraged to fully cooperate with any investigations conducted by representatives of Federal Government Investigative authorities by providing testimony and documents. Rest assured that you may cooperate without fear of harassment or reprisal from agency management officials.


Jan Findley
Branch Manager

FOR OFFICIAL USE ONLY

**Audit Opinion Changed Even Though No Additional
Work Was Performed**

Draft Opinion - June 2005

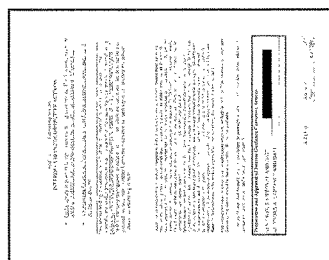
"The contractor's billing system is inadequate.
Our examination disclosed six significant
deficiencies..."

Final Opinion - September 2005

"In our opinion, the billing system... is adequate.
[The contractor] will be allowed to direct bill on its
contracts."

Source: GAO.

Example of Auditor Disagreement in Working Papers (2005 Audit)



“We are not holding this contractor, which has a history of questioned costs, poor internal controls, and shoddy practices, to a high standard by downgrading what are clearly significant deficiencies...”

Source: GAO.

**Post-Hearing Questions for the Record
Submitted to the Honorable April G. Stephenson
From Senator Claire McCaskill**

**“Expediency Versus Integrity: Do Assembly-Line
Audits at the Defense Contract Audit Agency Waste Taxpayer Dollars?”
September 10, 2008**

1. Who drafted the August 31, 2007 memorandum signed by Ms. Kawamoto to Ms. Thi Le? What is their title? Who reviewed this memo before it was signed? What are the titles of the people who reviewed and/or approved this memo? Have any of the people involved in the drafting, review or approval of this memo been promoted since August 31, 2007? Have any been disciplined in regards to this memo?
2. Has DCAA implemented a policy regarding personal accountability relative to the contents of documents that officials sign? Please provide any supporting documents.
3. Has the overall review of metrics at DCAA been completed? Has (or will) such review culminate in a report on the appropriateness and usefulness of the metrics in gauging how well DCAA is doing its job? Please provide the committee with this report, or some other summary of the findings of this review. If any metrics are to be discontinued or revised, please provide a list of those metrics, as well as any new metrics which will now be instituted. .
4. Please provide the committee with a copy of the position description and performance metrics for Procurement Liaison Auditors for the 2007 calendar year and any recent revisions or updates.
5. Since the hearing, what analysis or evaluation has been conducted relative to DCAA’s placement within the Department of Defense and the Government?
6. Has Mr. Hackler’s assignments relative to “CAS-418” and any other suggestions been incorporated into the re-review of the ELC proposal within DCAA?
7. Ms. Stephenson indicated in her testimony that it is possible to be promoted at DCAA even if performance reviews indicate a failure to meet metrics. She further stated she could provide examples of such promotions. Please provide ten examples (names redacted) of people promoted to or within management levels of DCAA with performance evaluations showing failure to meet performance metrics. For each promotion, state the title of the person (before and after the promotion), the date of the promotion, and the metrics which the person had not met.

CHARRTS No.: SG-10-001
 Senate Committee on Governmental Affairs
 Hearing Date: September 10, 2008
 Subject: Expediency Versus Integrity: Do Assembly-Line Audits at the Defense Contract Audit
 Agency Waste Taxpayer Dollars?
 Witness: Hon Stephenson
 Senator: Senator McCaskill
 Question: #1

Question. Who drafted the August 31, 2007 memorandum signed by Ms. Kawamoto to Ms. Thi Le? What is their title? Who reviewed this memo before it was signed? What are the titles of the people who reviewed and/or approved this memo? Have any of the people involved in the drafting, review or approval of this memo been promoted since August 31, 2007? Have any been disciplined in regards to this memo?

Answer. The substance of the August 31, 2007 memorandum was drafted by Mr. John Greenlee, Assistant General Counsel, DCAA and major portions of the draft memorandum were reviewed by Mr. David Hoffman, Deputy General Counsel, DCAA. Neither Mr. Greenlee nor Mr. Hoffman have been promoted since August 2007.

On the issue of disciplinary action, Mr. Greenlee is supervised by Mr. Hoffman and Mr. Hoffman's supervisor is Mr. John Farenish, DCAA General Counsel. Mr. Farenish works for Defense Legal Services and is not a DCAA employee. As a result, the chain of command for disciplinary actions of employees in the DCAA General Counsel's office is Defense Legal Services. Mr. Farenish is supervised by Mr. Scott Castle of the DoD General Counsel's Office. In discussions between Mr. Castle and Ms. Stephenson, Mr. Castle advised that Defense Legal Services does not plan to take disciplinary action until the Office of Special Counsel completes the investigation of the complaint filed by Ms. Le. To ensure that there is no confusion as to whether the Office of Special Counsel investigation includes the assessment of the August 2007 memorandum, Ms. Stephenson specifically requested in writing that the Office of Special Counsel investigation be expanded to include a review of the appropriateness of any and all actions and advice given by the DCAA General Counsel's Office related to the Office of Special Counsel investigation.

Mr. Castle and Mr. Farenish cite the basis for not taking disciplinary action until the Office of Special Counsel investigation is complete as 5 U.S.C § 1214(f) which states that "during an OSC investigation under title 5, an agency may not take disciplinary action against any employee for any alleged prohibited activity under investigation, or any related activity, without approval from the OSC."

Although Ms. Sharon Kawamoto, Supervisory Auditor, Santa Ana Branch Office, signed the memorandum, she merely added non-substantive information such as the date, letterhead and signature block. Ms. Kawamoto signed the memorandum based on advice from Mr. Greenlee. Although Ms. Kawamoto was selected for promotion to a branch manager position in July 2008, she has yet to assume that position.

Ms. Susan Barajas, Deputy Regional Director, Western Region, (she was a Regional Audit Manager in August 2007), was involved with the memorandum to the extent that she requested the legal advice and forwarded Mr. Greenlee's initial draft language to Ms. Kawamoto. Ms. Barajas was promoted to Deputy Regional Director in October 2007.

CHARRTS No.: SG-10-002
Senate Committee on Governmental Affairs
Hearing Date: September 10, 2008
Subject: Expediency Versus Integrity: Do Assembly-Line Audits at the Defense Contract Audit
Agency Waste Taxpayer Dollars?
Witness: Hon Stephenson
Senator: Senator McCaskill
Question: #2

Question. Has DCAA implemented a policy regarding personal accountability relative to the contents of documents that officials sign? Please provide any supporting documents.

Answer. It has always been DCAA's practice for employees to be personally accountable for the content of documents that officials sign. In regards to the August 31, 2007 memorandum referred to in QFR SQ-10-001, the substance of the memorandum was prepared by Mr. Greenlee. It is common practice in DCAA to have the supervisor in the employee's chain of command sign these types of documents, even though the majority of the document's content may have been prepared by another DCAA component such as the Regional Human Resources office or the General Counsel's office. These other DCAA components are held accountable for the advice they provide DCAA management. In the case of the August 31, 2007 memorandum, we determined that the memorandum was inappropriate and rescinded it on September 12, 2008. On that same day, Ms. Stephenson issued a memorandum to all DCAA employees reinforcing the Agency policy that employees are free to provide documents to Federal investigators. Mr. Castle of the DoD General Counsel's Office has assured Ms. Stephenson that if the Office of Special Counsel investigation concludes that actions of individuals in the DCAA General Counsel's office were inappropriate, they will be held accountable (see response to QFR SQ-10-001).

CHARRTS No.: SG-10-003
Senate Committee on Governmental Affairs
Hearing Date: September 10, 2008
Subject: Expediency Versus Integrity: Do Assembly-Line Audits at the Defense Contract Audit
Agency Waste Taxpayer Dollars?
Witness: Hon Stephenson
Senator: Senator McCaskill
Question: #3

Question. Has the overall review of metrics at DCAA been completed? Has (or will) such review culminate in a report on the appropriateness and usefulness of the metrics in gauging how well DCAA is doing its job? Please provide the committee with this report, or some other summary of the findings of this review. If any metrics are to be discontinued or revised, please provide a list of those metrics, as well as any new metrics which will now be instituted.

Answer. Yes, we have completed our review of performance measures at DCAA. Attachment 1 contains the memorandum for all DCAA employees dated September 30, 2008 which provides the results of DCAA's performance measures assessment project, summarizes the appropriate use of the new measures, and identifies the discontinued measures.



QFR SQ-10-003 -
Attachment 1. pdf



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
 8725 JOHN J. KINGMAN ROAD, SUITE 2135
 FORT BELVOIR, VA 22060-6219

September 30, 2008
 08-D-009(R)

MEMORANDUM FOR ALL DCAA EMPLOYEES

SUBJECT: FY 2009 Audit Performance Measures

As I notified you on August 8, 2008, we initiated a project to assess the Agency's use of performance measures to determine whether we have the appropriate measures and whether the measures are implemented appropriately. The purpose of this memorandum is to share the results of the project and to discuss the appropriate use of the performance measures.

As a result of the project, we have taken the following actions:

- Eliminated 18 performance measures
- Identified nine performance measures with goals for use in FY 2009. Eight of the nine performance measures are new. We also identified three informational performance measures without goals. See Enclosure 1 for more details.
- Clarified the level at which each performance measure will be reported. All performance measures, except for Cost per Direct Audit Hour, will be reported at the following levels: Agency, Region, and FAO. Cost per Direct Audit Hour will be reported only at the Agency level.
- Eliminated "scorecards" at all levels of the organization.
- Disabled webmetrics.
- Developed new performance charts that will be provided monthly by Operations. This will be intranet based by November 15, 2008.
- By October 30, 2008, Operations will provide a presentation related to our performance measures for use in staff conferences.
- Limited authority to deviate from the Agency standard performance measures. New performance measures may be added only with the approval of the Director. Additional measures will be for unusual situations and are designed to be of limited duration to address problem areas.
- Provided a feedback mechanism for employees to provide suggestions to improve the performance measures by adding a selection to the suggestion program menu at <https://workflow.dcaaintra.mil/Task/AddSuggestion.asp>.
- Provided an anonymous website for feedback on the inappropriate use of the performance measures at <https://feedback.dcaaintra.mil/feedback.asp>.

The performance measures will be re-evaluated after six months to consider all suggestions received and to further refine the reporting process.

September 30, 2008
08-D-009(R)

SUBJECT: FY 2009 Audit Performance Measures

Background

The primary purpose of performance measures (metrics, benchmarks, etc.) is to provide targets and indicators of performance by which satisfactory completion of the entity's mission may be measured and improved. Performance measures are used in some form by most industry and government entities. Additionally, the Government Performance and Results Act of 1993 and implementing Office of Management and Budget (OMB) and Department of Defense guidance require agencies such as DCAA to develop and monitor performance measures to support our budget requests and to measure Agency results. The key to successful performance measures is to measure the right performance. The wrong type of behavior and/or results may occur if the wrong performance measures are used, or if the correct performance measures are used improperly.

In GAO Report GAO-08-857, issued July 22, 2008, the GAO reported that certain DCAA performance measures were leading FAOs to take "inappropriate short cuts—ultimately resulting in noncompliance with GAGAS and internal DCAA CAM guidance." As a result of the GAO's report, DCAA established a team made up of personnel from all Agency elements to assess (1) whether we have the appropriate performance measures and (2) whether the performance measures are implemented appropriately. As part of this project, the team queried the experiences and opinions of employees at all levels in the Agency through the use of numerous focus groups. The team also reviewed graduate-level thesis papers prepared by Agency employees who had reviewed the Agency's use of performance measures.

Guidance

Quality audits must never be sacrificed for any reason. Emphasizing productivity over quality has never been the Agency's intent. Performing audits timely and efficiently is important, but performing audits in accordance with generally accepted government auditing standards (GAGAS) is most important. After a thorough analysis, we eliminated 18 of our prior performance measures (Table 1). We also developed eight new performance measures, maintained one measure but only at the Agency level, and provided three informational (no goals) performance measures (Table 2).

Table 1 - Eliminated Performance Measures	
Forward pricing 30-day cycle time	Incurred Costs Issued with CACWS
Forward pricing 60-day cycle time	MOCAS Priority Audits
Forward pricing productivity	Electronic Audit Reports
Average hours for 236/280	Electronic Proposals
Incurred cost productivity	Direct Yield
Incurred Cost – no late reports	Pool to Base Ratio
Dollars Examined per Hour	Exception Dollars per Hour
Exceptions to Dollars Examined	ICAPS with Findings
Incurred Cost 6-12-6	Incurred Cost 6-24-6

September 30, 2008
08-D-009(R)

SUBJECT: FY 2009 Audit Performance Measures

Table 2 – FY 2009 Performance Measures (see Enclosure 1)	
Quality – PCIE Opinion by DoDIG	Quality – GAGAS CPE
Quality – PCIE Professional Judgment Opinion by DCAA	Timeliness – Forward Pricing Issued by Revised Due Date
Quality – Quality Audit Report Checklist Question - Report Should Have Been Issued	Timeliness – Incurred Cost
Quality – Audit Reports with Findings	Efficiency – Cost per Direct Audit Hour
Quality – QM Usage in Audits	Informational – Three informational items covering savings to U.S. Taxpayer

All DCAA employees should contribute to the accomplishment of Agency goals. However, management and supervisors must be sensitive to the fact that most of the performance measures are intended to be Agency averages, and are generally not intended to be flowed down to the auditor level. Enclosure 1 contains a list of the performance measures for FY 2009 as well as a description of the purpose and measurement. We also included “keys for success” to reiterate some of the actions that can be taken related to each of the performance measures.

No other measures may be added by the regions, FAOs, supervisors, or Participative Work Teams (PWTs). In the unusual instance that a regional director desires a new measure, the request must be submitted to the Director and include justification for the need for the measure and the limited duration of the measure.

Webmetrics is being disabled. By November 15, 2008, Operations will provide intranet access for all DCAA employees to be able to view the FY 2009 performance measures to the FAO level, except for Cost per Direct Audit Hour. **Effective October 1, 2008, regions and FAOs, supervisors, and PWTs are required to disable all scorecards.** The only charts that are approved to be used for tracking and monitoring the performance measures are the charts provided by Operations.

Focus groups often complained about audit budgets being driven by the program plan and productivity measures rather than by a risk-based approach to the individual audit situation. While budgets are not technically performance measures, this complaint was so pervasive that we are re-emphasizing the Agency policy. The program plan should NOT be used to establish audit budgets. Audit budgets should be established through the use of zero-based budgeting (ZBB) (see CAM 3-103.2) and appropriate consideration of budget revisions in the event scope changes should be made. CAM 3-103(d) will be modified as shown in Enclosure 2 to reflect these changes.

September 30, 2008
08-D-009(R)

SUBJECT: FY 2009 Audit Performance Measures

Concluding Remarks

We value suggestions from employees as we redesign our performance measurement system and revise any Agency policy. We also would appreciate your feedback on the FY 2009 performance measures. Suggestions and feedback may be sent directly to Operations by using this hyperlink: (<https://workflow.dcaaintra.mil/Task/AddSuggestion.asp>). You may anonymously report the misuse of performance measures to <https://feedback.dcaaintra.mil/feedback.asp>.

/signed/
April G. Stephenson
Director

Enclosures:

1. FY 2009 Performance Measures
2. Revisions to CAM 3-103(d)

DISTRIBUTION: E

FY 2009 Performance Measures

Audit Performance Measure	Purpose/How Measured	Keys for Success
1 Quality – Opinion Received from the DoDIG on PCIE Reviews. Goal: Unqualified Opinion.	Purpose: To validate the quality of DCAA's internal quality control system. Measurement: Organizations conducting audits in accordance with GAGAS are required to have an external quality control review at least once every three years by an organization not affiliated with the organization being reviewed. These external quality control reviews are conducted based on guidelines established by the PCIE. DCAA's external reviewer is the DoDIG. An unqualified opinion is the best opinion given and represents full compliance with auditing standards with no reportable deficiencies.	• Audit report results must be adequately supported by the working papers, in accordance with Agency policy, and the assignment must be properly supervised. (CAM 2-302.3 & 2-307) • Sufficient audit evidence must be documented to support the audit conclusions. (CAM 2-302.2 & 3-104.14) • Differences in opinion between auditor and supervisor must be addressed as required by CAM 4-403.f(2). • Follow guidelines for internal quality control program. (CAM 2-S10)
2 Quality – DCAA Internal PCIE Results - Audits Reflecting Professional Judgment Goal = 100%.	Purpose: To validate the quality of DCAA's audits. Measurement: Number of audits determined during PCIE reviews to contain professional judgment (formerly referred to as due professional care). These results are provided by DCAA Quality Assurance.	• Audit report results must be adequately supported by the working papers, in accordance with Agency policy, and the assignment must be properly supervised. (CAM 2-302.3 & 2-307) • Sufficient audit evidence must be documented to support the audit conclusions. (CAM 2-302.2 & 3-104.14) • Differences in opinion between auditor and supervisor must be addressed as required by CAM 4-403.f(2). • Ensure PCIE reviews are addressing the appropriate issues and asking the right questions. (DCAAI 7640.20)

Audit Performance Measure	Purpose/How Measured	Keys for Success
3 Quality – Quality Audit Report Checklist Question - Report Should Have Been Issued. Goal = 100%.	Purpose: To recognize the importance of our ultimate product – the audit report. Measurement: The measure is based on the last question in the quality audit report checklist as reported in the Quality Audit Report Review System (QARRS). We did not use the overall results because not all the questions are of equal importance. However, this last question – should the report have been issued – should only be marked “no” for serious deficiencies.	- Follow CAM and the standard audit report language. (CAM Chapter 10) - Be sure to include the appropriate opinion in the audit report. (CAM 10 – 210.5, 10-304.6, 10-504.5) - Follow the CAM guidance on qualifications and disclaimers of opinion. (CAM 10-210.4 & 10-210.5) - Update QARRS timely.
4 Quality - Audit Reports with Findings. Goal = 45%.	Purpose: To measure the percentage of audit reports issued with findings as an indication of the tangible value of the audit work performed by DCAA. Measurement: Exception dollars reported on 105XX, 10100, 10110, 10180, 17100, 17200, 17800, 19500, 21000, 22000, 23000, 27000, 42000, 42097, and 42098. Inadequate or inadequate-in-part opinion on 11010, 11020, 11050, 11070, 11510, 12030, 12500, 13010, 13020, 14980, 17600, 17740, 24010, 24090, and 26000. CAS Compliance Code = N for 194XX. For 19100 and 19200, disclosure statement inadequate or is not compliant with CAS.	- All significant issues documented and supported by the audit should be reported as findings in an audit report. (CAM 2-400, CAM 10-201.5) - Be sure to reference in the report the FAR, CAS, or other citation supporting the finding. (CAM 10-210.5, 10-304.7, 10-304.8, 10-504.5) - If internal control weaknesses exist that led to the reported finding, follow up promptly with the related internal control deficiency flash report. (CAM 10-413)
5 Quality - Quantitative Methods (QM) Usage in Audits. Goal = 15%.	Purpose: To measure the extent that advanced level audit techniques are used. Measurement: Number of audits with QM reported in DMIS. Universe excludes the following assignments: 15300, 15400, 15600,	- During audits, assess the appropriateness of using QM techniques and document this assessment in the working papers. (CAM 3-104.17, 4-600, Appendix B and E) - Consult with QM subject matter experts

FY 2009 Performance Measures

Audit Performance Measure	Purpose/How Measured	Keys for Success
	17310, 17330, 17390, 17500, 17600, 17610, 17740, 17750, 17760, 17770, 17800, 17850, 17860, 17870, 19100, 19200, 19500, 24020, 24090, 30000, 30300, 42097, 42099, 48600, 49200, 49300, and 49900. The goal is set at a level to encourage use when appropriate, but not too high so as not to encourage the use of QM techniques when they are not appropriate.	when performing complicated or unusual quantitative method techniques. • Be sure DMIS indicates that QM techniques were used.
6 Quality - GAGAS CPE. Goal = 100%.	Purpose: To recognize the importance of professional development and training. Measurement: The performance measures report will calculate percentage of auditors meeting minimum CPE requirements with a goal of 100% completion on time. TRAIN will be the source.	• Use Agency Individual Development Plans (IDPs) in TRAIN to document training and professional development needs. (CAM 2-202, 2-S103.2d, PMIM Chapter 21). • Spread training over the two-year period to the extent practical. • Remember the GAGAS requirement is the Agency's minimum training requirement. All auditors, at all levels, must have a minimum of 80 hours of CPE in the specified two-year period, 24 hours must be in accounting and auditing, and a minimum of 20 hours must be obtained in each year. (CAM 2-202, 2-S103.2d) • Periodically monitor TRAIN CPE deficiency reports.

FY 2009 Performance Measures

Audit Performance Measure	Purpose/How Measured	Keys for Success
7 Timeliness – Forward Pricing Reports Issued by the Due Date Goal = 95%	Purpose: To recognize the importance of providing results to the audit requestor in a timely manner, but to also recognize our primary responsibility of performing GAGAS-compliant audits. Measurement: All dispositions 21000 and 27000 assignments resulting in an audit report. Goal is measured from the agreed-to revised due date to the disposition date. The revised due date field in DMIS must be consistent with the agreed-to (between the auditor and requestor) revised due date documented in the working papers. If the due date was not revised, the original due date will be used.	• If the requested due date is not achievable, follow CAM 9-103.1d and notify the requestor of a realistic due date for a GAGAS-compliant audit. • Keep the requestor informed of any issues that arise that may impact the due date. Due date revisions are permitted as long as the revised due date is agreed to by the requestor. If the requestor does not agree to a change in the due date, the auditor should follow CAM 9-212.2, 9-212.4 and 10-304.4c and issue either a qualified opinion or a disclaimer of opinion due to time constraints. • At no time should the FAO change an audit opinion at the request of the requestor. • Ensure that the contractor's proposal is adequate for audit. Valuable time could be wasted auditing an inadequate proposal. When a proposal is inadequate, the FAO should follow the guidance at CAM 9-205. • Enforce the contractor's responsibility to provide timely supporting data. The lack of timely data should result in the costs being questioned or unsupported. (CAM 10-304.8b and c) • Significant questioned or unsupported costs should result in the issuance of a flash estimating system deficiency report. (CAM 9-310, 10-413)

FY 2009 Performance Measures

8	Audit Performance Measure	Purpose/How Measured	Keys for Success
8	Timeliness - Incurred Cost Reports Issued Within Specified Times. Goals: Corporate = 90% in 12 months. Major = 90% in 15 months. Non-major = 95% in 24 months.	Purpose: To recognize the importance of providing results to closeout contracts in a timely manner, but to also recognize that conditions outside the auditor's control can occur. Measurement: All dispositioned 10100 and 10110 assignments, excluding cancelled - grouped into corporate, major, and non-major categories. Goal measured from date adequate proposal received to date dispositioned.	• Ensure the proposal is adequate for audit or return the proposal in accordance with CAM 6-707 1b. The decision on whether an incurred cost proposal is adequate for audit is made by DCAA. • Enforce the contractor's responsibility to provide timely supporting data. The lack of timely data should result in the costs being questioned. • The lack of adequate incurred cost proposals or timely support of the proposal indicates a serious accounting system deficiency that should be reported as such in a flash accounting system deficiency report. (CAM 5-110.c(2), 10-413) • Maximize the issuance of the Form 1 during audit to help expedite timely resolution of audit issues. (CAM 6-900)
9	Efficiency - Cost per Direct Audit Hour. Goal is less than \$113.45.	Purpose: To evaluate DCAA's cost efficiency on an overall Agency basis. Measurement: Agency-wide operating costs divided by direct audit hours.	• Operations will monitor this efficiency performance measure on an overall Agency basis. This is not applicable to a level below the Agency level.
10	Informational - Sustention Rates, Net Savings, and Questioned Cost. Goal - none, informational Customer Service - return to U.S. taxpayer.	Purpose: To provide indicators of the value of DCAA audit services to the U.S. taxpayer and to monitor the effectiveness of the audit recommendations. Measurement: Based on the standard Nets 1a PowerPlay report. The net savings are divided by the Agency operating costs to arrive at the Return	• Always exercise auditor professional skepticism when performing an audit. (CAM 2-204e) • Question costs as appropriate regardless of the probability of sustention by the contracting officer. • Follow up on price negotiation memorandums promptly. (CAM 4.104)

FY 2009 Performance Measures

	on Investment that the Government receives as a result of DCAA's auditing efforts. DCAA does not establish annual goals for Savings, Sustention Rates or Questioned Costs. These measures are a by-product of the professional services rendered by DCAA. Our audits are governed by professional auditing standards and Government regulations and are conducted in an impartial manner. Establishing goals in these areas would send an inappropriate message to our staff. However, these statistics, on an Agency-wide basis, are good indicators of the value of DCAA audit services and the effectiveness of the audit recommendations.	• Risk analysis should include acknowledgement of the impact of contract types. (CAM 3-104.6 and 3-251) • Remind contracting officers of the auditor's availability to attend negotiations or to clarify audit results. (CAM 10-210.5e(2)(f)) • Involve Financial Liaison Advisors. (CAM 15-305.6)
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CAM 3-103 Revision

CAM 3-103d will be modified in the next CAM update to emphasize that audit budgets should be risk-based.

d. Supervisors and auditors should use caution when setting up budgets for assignments. Audit budgets should be based upon risk factors identified in the risk assessment and throughout the course of the audit including appropriate risk factors based upon historical experience with the contractor. However, the audit risk, scope and budget should not be solely based upon the programmed hours nor productivity measures because neither consider current facts and circumstances applicable to the specific audit. Programmed hours are generally based upon historical experience and are ~~[to be]~~ used as both a staffing tool ~~and measure of overall team/FAO performance against that historical benchmark~~. Furthermore, performance ~~[measures]~~ ~~statistics or productivity metrics~~ apply at the macro level, an average of the aggregate of assignments, and not to the micro level, that is, to individual assignments. We encourage teams to have goals consistent with the ~~[strategic plan and performance measures]~~ ~~office's program plans~~, but those goals should not detract from necessary audit steps in planning an individual audit.

CHARRTS No.: SG-10-004
Senate Committee on Governmental Affairs
Hearing Date: September 10, 2008
Subject: Expediency Versus Integrity: Do Assembly-Line Audits at the Defense Contract Audit
Agency Waste Taxpayer Dollars?
Witness: Hon Stephenson
Senator: Senator McCaskill
Question: #4

Question. Please provide the committee with a copy of the position description and performance metrics for Procurement Liaison Auditors for the 2007 calendar year and any recent revisions or updates.

Answer. Attached is the current position description for the Financial Liaison Advisors (Attachment 1) and job objectives for the position (Attachment 2). DCAA changed the name from Procurement Liaison Auditor to Financial Liaison Advisors in early 2000. There are no performance measures specific to the Financial Liaison Advisors position.



QFR SG-10-004 -
Attachment 1.pdf



QFR SQ-10-004 -
Attachment 2.pdf

NATIONAL SECURITY PERSONNEL SYSTEM (NSPS) POSITION DESCRIPTION

POSITION AND HIRING INFORMATION							
1. POSITION NUMBER 08939Y	2. POSITION TITLE Auditor					3. OCCUPATIONAL CODE 0511	
4. ORGANIZATIONAL TITLE Financial Liaison Advisor		5. CAREER GROUP Standard	6. PAY SCHEDULE YA	7. PAY BAND 2	8. TARGET PAY BAND 2	9. OPM FUNCTIONAL CODE	
10. DRUG TEST ☐ YES ☐ NO	11. BUS CODE 7777	12. FAIR LABOR STANDARDS ACT ☐ N ☒ E Learned Professional 551.208				13. SUPERVISORY STATUS 8	
14. KEY/EMERGENCY ESSENTIAL	15. MOBILIZATION INDICATOR	16. ENVIRONMENTAL/HAZARD DIFFERENTIAL			17. CERTIFICATION REQUIRED ☒ YES ☐ NO DAWIA		
18. POSITIVE EDUCATION REQUIREMENTS ☒ YES ☐ NO		19. LANGUAGE REQUIRED ☐ YES ☒ NO		20. LANGUAGE IDENTIFIER			
21. FINANCIAL STATEMENTS REQUIRED ☒ YES ☐ NO		22. POSITION SENSITIVITY Critical Sensitive		23. PAY POOL IDENTIFIER		24. LAUTENBERG/SMITH AMENDMENT ☐ YES ☒ NO	
25. DUTIES							

The incumbent of this position applies professional accounting and auditing knowledge, standards, and principles when performing the following duties.

- Provide expert liaison and financial advice covering highly complex functions of a DCAA on-site customer's accounting/contracting/acquisition center or multi-mission activity.
- Serves as an advisor to senior management and procurement/program officials on contract and financial issues.
- Serves as a DCAA point of contact at procurement and contract administration commands. Identifies and analyzes trends noted in the procurement cycle which impact government contract costs or affect DCAA's workload and use of resources, and makes recommendations for changes, as appropriate.
- Takes initiative to develop means of improving the quality and timeliness of field audit services, makes suggestions to oversee implementation of such initiatives, and follows up to measure their effectiveness.
- Implements DCAA financial advisory service initiatives for improving services at a DCAA on-site customer location and follows-up to measure their effectiveness.
- Gains understanding of and supports procurement initiatives to commercial pricing and acquisition techniques including commercial terms and payments practices, such as the impact of delivery schedules and warranties on

26. POSITION'S ORGANIZATION

Defense Contract Audit Agency, Assistant Director, Operations, Audit Liaison

27. POSITION OCCUPIED

Competitive

28. a. DUTY STATION (City - County - State or Overseas Location)

b. GEOGRAPHICAL LOCATION CODE

29. CORE COMPETENCIES

DCAA and Contracting Environment, Influencing/Persuading, Oral Communication, Written Communication, Problem solving, Team Participation, Interpersonal Skills, Self-Direction, Flexibility, Decisiveness, Computer Literacy, and Technical Competence in Auditing Standards and Procedures, Audit Tools and Techniques and Application in Contract Audit Areas.

NATIONAL SECURITY PERSONNEL SYSTEM (NSPS) POSITION DESCRIPTION

30. COMPONENT INFORMATION				
a. STANDARD OCCUPATION CODE (SOC)		b. NATIONAL GUARD BUREAU ☐ DUAL STATUS ☐ NON-DUAL STATUS		c. AIR/ARMY RESERVE TECHNICIAN ☐ YES ☐ NO
d. AF SPEC CODE/ MIL OCCUPATIONAL SPEC	e. ROLE	f. SPECIALTY	g. SCOPE AND IMPACT	
h. ORGANIZATIONAL ENVIRONMENT	i. CAREER FIELD/ COMMUNITY	j. RESERVED FOR COMPONENT USE		31. PPP OPTION CODE COK Contract Audit

32. SKILLS INFORMATION**33. CONDITIONS OF APPOINTMENT**

1. Positive Education Requirement: Bachelor's Degree in Accounting or Equivalent Education and /or Experience
2. Incumbent is subject to rotation in accordance with DCAA Personnel Management Manual, Chapter 37, as supplemented by DCAA HQ Instruction No. 1437.2.
3. Incumbent must be eligible for access to the highest level of special category security information in the Government and must continuously meet the personnel security standards cited in DoD Regulation 5200.2-R.
4. Subject position is designated as critical-sensitive under provisions of DCAAR 5210.2 and requires completion of a favorable Special Background Investigation prior to appointment.

34. OTHER REQUIREMENTS

a. DOD RESERVED	b. DOD RESERVED	c. DOD RESERVED	d. DOD RESERVED	e. COMPONENT USE

35. AUTHORIZED MANAGEMENT OFFICIAL

a. SIGNATURE Karen K. Cash	b. TITLE Assistant Director . Operations	c. DATE (YYYYMMDD)
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36. CLASSIFICATION APPROVED BY

a. SIGNATURE Nancy C. Veldhuis	b. TITLE Human Resources Specialist	c. DATE (YYYYMMDD)
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NATIONAL SECURITY PERSONNEL SYSTEM (NSPS) POSITION DESCRIPTION

CONTINUATION SHEET

procurements. Provides financial advice in the area of commercial pricing, source selection, financial management situations, and other transactions.

- Analyzes the effectiveness and impact of recommendations issued to correct problems of significant complexity.
- Assists commands in: communicating and interfacing with DCAA's Headquarters, Regional, and Field Audit Offices; initiating audit activity; planning the audit service required in connection with major acquisitions, expediting priority requests for audit services; resolving audit related problems; coordinating on specific procurement and audit related issues and activities; and explaining DCAA audit reports and auditing policies and procedures.
- Provides technical financial advice and staff assistance to acquisition officials. Applies professional accounting skill and knowledge to develop innovative and effective solutions for critical acquisition issues. Provides expert audit, accounting, and financial advice and assistance to the procurement official.
- Participates in negotiations as necessary to ensure a complete and thorough understanding of audit recommendations.
- Provides support to customer source selection evaluation boards and acquisition integrated product team (IPT) efforts on-site at the major customer location, and coordinates with FAOs for DCAA support of such efforts at contractor location.
- Attends regularly scheduled meetings during which matters impacting on DCAA's relationship and work with the procurement and contract administration commands are routinely raised and discussed.
- Ensures that appropriate DCAA managerial personnel are kept informed of all relevant activities of the procurement or contract administration centers which impact on DCAA's services and relationships.

Guidance for Completing National Security Personnel System Position Description
DD Form 2918, July 2006

* Blocks have a finite number of text lines. Where additional text lines are required, National Security Personnel System (NSPS) Position Description Continuation Sheet may be used.

Block #	Guidance
#1 – Position Number	Self explanatory.
#2 – Position Title	DoD NSPS Prescribed Title (NSPS SC1920.AP4)
#3 – Occupational Code	DoD NSPS Prescribed Code (NSPS SC1920.AP4)
#4 – Organizational Title	Informal title of position. NSPS PDs may have an organizational title assigned locally.
#5 – Career Group	DoD NSPS Prescribed Title (NSPS SC1920.AP1)
#6 – Pay Schedule	DoD NSPS Prescribed Code (NSPS SC1920.AP2)
#7 – Pay Band	DoD NSPS Prescribed Code (NSPS SC1920.AP5)
#8 – Target Pay Band	Self explanatory.
#9 – OPM Functional Code	If applicable, assign Functional Designation for Engineers and Scientists (NSPS SC1920, AP 5, Part V)
#10 – Drug Test	Self explanatory.
#11 – BUS Code	Self explanatory. If 8888 is assigned, PD must include rationale.
#12 – FLSA	Self explanatory. If exempt is assigned, citation of 5 CFR 551 exemption criteria must be included. (NSPS SC1920.9)
#13 – Supervisory Status	Assign appropriate supervisory status code.
#14 – Key/Emergency Essential	Indicate if position is Key or Emergency Essential (DoD Directive 1404.10, April 10, 1992)
#15 – Mobilization Indicator	Self explanatory.
#16 – Environmental/Hazard Differential	Self explanatory. (NSPS SC1930.AP5)
#17 – Certification Required	Select one. If “YES” identify the certification required. (e.g., DAWIA level)
#18 – Positive Education Requirements	Select one. If “YES” identify the educational requirement. (e.g., Bachelor’s Degree)
#19 – Language Required	Check one. If “YES” complete Block #20.
#20 – Language Identifier	Indicate language identifier code and clear text (e.g., FRA = French)
#21 – Financial Statement Required	Select one.
#22 – Position Sensitivity	Self explanatory.
#23 – Pay Pool Indicator	Self explanatory.
#24 – Lautenberg/Smith Amendment	Select one.

Guidance for Completing DD Form 2918, July 2006 (Continued)	
#25 – Duties *	The PD information must be sufficient to classify the position, e.g., career group, pay schedule, pay band, occupation code, title, supervisory status, FLSA status, qualifications. (NSPS SC1920.4.8) Additional information may be added to NSPS Continuation Sheet.
#26 – Position's Organization	The organizational location of the position. (e.g., component, installation, department, division, branch, section)
#27 – Position Occupied	Enter either: “1 = Competitive Service” “2 = Excepted Service” See 5, §212.101, for information on the competitive service; 5 CFR, §213.101, for the excepted service.
#28a – Duty Station	Self explanatory.
#28b – Geographic Location Code	Self explanatory.
#29 – Core Competencies *	KSAs and behaviors identified as important to the position and used for career and personal development. Additional information may be added to NSPS Continuation Sheet.
#30 – Component Information	Component specified
#31 – PPP Option Code	Indicate applicable three digit code and clear text
#32 – Skills Information *	KSAs developed from job analysis which the employee needs to execute the duties of the position. Also includes credentials, licenses, etc. Additional information may be added to NSPS Continuation Sheet.
#33 – Conditions * of Appointment	Unique or special requirements of the position, such as security clearance, travel requirements, driver's license. Additional information may be added to NSPS Continuation Sheet.
#34 Other requirements	Self explanatory.
#35 – Authorized Management Official	See NSPS SC1920.4.7
#35a – Signature	Self explanatory.
#35b – Title	Self explanatory.
#35c – Date	Self explanatory.
#36 – Classification Approved by	See NSPS SC1920.4.7
#36a – Signature	Self explanatory.
#36b – Title	Self explanatory.
#36c – Date	Self explanatory.

Financial Liaison Advisor, PD# 0237
YA-511-2
Headquarters

1. Planning and Program Plan Accomplishment

Exceeds Expectations

In addition to meeting the criteria for valued performer level, performance exceeds expectations when the financial liaison advisor's program/project goals, objectives and/or milestones are exceeded, and/or are accomplished with added dimensions, and/or are accomplished despite significant diversion of effort to other assigned tasks. Anticipates situations that may negatively impact program/project goals, and suggests alternatives.

Valued Performer

Performance is at the valued performer level when the financial liaison advisor adequately plans and anticipates workload to ensure the: 1) Customer and Agency goals are met; 2) Customers are assisted in gaining an understanding of DCAA services; 3) Day-to-day work is organized to insure assigned program/projects goals are accomplished; and 4) Training is identified and requested to provide routine financial advice and liaison services required to achieve a higher level of technical skill to better serve the customer.

Unacceptable

Performance is unacceptable when the financial liaison fails one or more of the following: 1) Identify and prioritize key program/project goals; 2) Develop realistic program/project milestones; or 3) Develop the basic skills required to provide routine financial advice and liaison services.

2. Technical Advice

Exceeds Expectations

In addition to the valued performer requirements, performance exceeds expectations when the financial liaison advisor is proactive in identifying potentially sensitive issues and makes recommendations that are well researched and thoughtfully considered.

Valued Performer

Serves as a resource to contracting personnel by suggesting various approaches, researching complex issues, performing appropriate analysis of data and recommending appropriate DCAA services. Interprets, researches, and coordinates with appropriate personnel. Routinely advises the customer of current and changing Agency policies. Maintains focus on the customer needs and quality of service. Follows up to ensure the customer is satisfied with the technical/liaison assistance provided.

Unacceptable

Provides inadequate liaison services, incomplete research or flawed advice resulting in additional work or improper recommendations. Fails to readily identify apparent weaknesses or deficiencies in technical areas. Establishes a pattern of being inaccessible or providing limited help to those seeking technical or liaison assistance. Fails to identify applications or techniques that would improve quality and efficiency.

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3. Quality of Service

Exceeds Expectations

In addition to meeting the criteria for valued performer, the financial liaison advisor must meet at least 3 of the following criteria: 1) Explores and develops alternative or different quantitative and computerized methods for collecting and analyzing data that result in reduced effort, cost or time; 2) Consistently emphasizes substance over form; 3) Provides feedback to customers or team members that result in improved quality of services; 4) Is innovative in development, organization, and approach; or (5) Accomplishes objectives with maximum efficiency and effectiveness.

Valued Performer

Performance is at the valued performer level when the financial liaison advisor independently, or as a team member, meets at least 3 of the following criteria: 1) Is routinely involved in the more complex and significant customer acquisitions or issues; 2) Performs complex projects that result in conclusions based on sound judgment and objective evaluation of pertinent facts; 3) Uses information technology appropriately and applies Agency initiatives to enhance performance, efficiency, and effectiveness; 4) Develops timely recommendations responsive to the requester's need in support of contract award, including assistance in writing negotiation memoranda and/or other acquisition and liaison support; and 5) Identifies conditions that require adjustments to program/project due date and scope of technical services, and coordinates adjustments with the customer and/or supervision.

Unacceptable

Performance is unacceptable when program accomplishments are adversely affected by one or more of the following severe and/or repeated deficiencies: 1) Lack of knowledge about the issues; 2) Failure to comply with applicable policies and regulations; 3) Failure to use Agency provided information technology devices and training; 4) Failure to perform work in a timely manner; 5) Failure to provide recommendations that are sound and adequately supported; 6) Failure to provide adequate liaison services; 7) Failure to keep the supervisor advised of sensitive issues and conditions that require changes to program/project due dates; or 8) Failure to contribute his/her share to the accomplishment of the team's goals.

4. Working Relationships

Exceeds Expectations

Performance exceeds expectations when the financial liaison advisor shows his/her leadership by being proactive and effective in resolving sensitive or significant issues in the best interest of the Agency and to the mutual satisfaction of all parties. The financial liaison advisor: 1) Shares technical knowledge and expertise with others; 2) Promotes communication and facilitates dissemination of pertinent information to others; 3) Willingly accepts additional responsibilities; and 4) Identifies process improvements that result in increased efficiency or productivity.

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Valued Performer

Performance is at the valued performer level when the financial liaison advisor: 1) Establishes and maintains an effective working relationship with internal and external customers by promoting an atmosphere of cooperation and respect; 2) Responds positively to customers and follows through with commitments; 3) Promptly communicates with supervision and/or customers concerning significant or sensitive problems encountered; 4) Appropriately resolves any external working relationship problems; 5) Supports Agency and team goals and objectives, decisions, and initiatives; 6) Contributes to achievement of team projects and goals; and 7) Actively strives to identify process improvements to increase efficiency or productivity.

Unacceptable

Unacceptable performance includes: 1) Receipt of negative feedback from contracting personnel, other team members, or FAOs with evidence that shows a lack of cooperation or respect; 2) Ignoring problems, thereby requiring supervision to intervene and resolve; and 3) Repeated failure to support Agency and team goals and objectives, decisions and initiatives and/or is generally uncooperative.

5. Communications

Exceeds Expectations

In addition to meeting the criteria for valued performer, performance exceeds expectations when the financial liaison advisor's communications meet one or more of the following criteria: 1) Are innovative in development, organization and/or approach; 2) Are constructed to emphasize substance over form; 3) Are designed to accomplish the objective with maximum efficiency; 4) Are exceptionally clear in addressing the issues and can consistently be used with minimum revisions; or 5) Are especially well organized to produce a desirable action or result.

Valued Performer

Performance is at the valued performer level when communications 1) Are easily understood; 2) Contain clear evidence to support recommendations and conclusions; and 3) Consistently reflect compliance with Agency and professional standards. Communications also reflect applicable regulations and/or source documentation and are organized in a logical and effective manner to address the issues and are coordinated with supervision/management as appropriate.

Unacceptable

Performance is unacceptable when one or more of the following circumstances exist: 1) Fails to coordinate with supervision/management; 2) Fails to adequately support and communicate recommendations and conclusions; 3) Fails to comply with Agency or professional standards; or 4) Lacks organization and fails to adequately address issues.

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EMPLOYEE		SUPERVISOR		REVIEWER	
Signature	Date	Signature	Date	Signature	Date
Signature	Date	Signature	Date	Signature	Date
Signature	Date	Signature	Date	Signature	Date
Signature	Date	Signature	Date	Signature	Date
Signature	Date	Signature	Date	Signature	Date

CHARRTS No.: SG-10-005
Senate Committee on Governmental Affairs
Hearing Date: September 10, 2008
Subject: Expediency Versus Integrity: Do Assembly-Line Audits at the Defense Contract Audit
Agency Waste Taxpayer Dollars?
Witness: Hon Stephenson
Senator: Senator McCaskill
Question: #5

Question. Since the hearing, what analysis or evaluation has been conducted relative to DCAA's placement within the Department of Defense and the Government?

Answer. It is DCAA's understanding that the Independent Review Panel established as a subcommittee of the Defense Business Board has evaluated DCAA's placement within the Department of Defense and the Government. The Independent Review Panel is scheduled to brief its recommendations to the Defense Business Board on October 23, 2008. DCAA is not aware of the Panel's deliberations regarding DCAA's placement or if the Panel will be recommending a change to DCAA's placement.

CHARRTS No.: SG-10-006
Senate Committee on Governmental Affairs
Hearing Date: September 10, 2008
Subject: Expediency Versus Integrity: Do Assembly-Line Audits at the Defense Contract Audit
Agency Waste Taxpayer Dollars?
Witness: Hon Stephenson
Senator: Senator McCaskill
Question: #6

Question. Has Mr. Hackler's assignments relative to "CAS-418" and any other suggestions been incorporated into the re-review of the ELC proposal within DCAA?

Answer. Yes. DCAA has initiated a CAS 418 assignment to review the lot costing on the Evolved Expendable Launch Vehicle (EELV) launch capability contract and Mr. Hackler is the supervisory auditor for the assignment.

CHARRTS No.: SG-10-007
 Senate Committee on Governmental Affairs
 Hearing Date: September 10, 2008
 Subject: Expediency Versus Integrity: Do Assembly-Line Audits at the Defense Contract Audit
 Agency Waste Taxpayer Dollars?
 Witness: Hon Stephenson
 Senator: Senator McCaskill
 Question: #7

Question. Ms. Stephenson indicated in her testimony that it is possible to be promoted at DCAA even if performance reviews indicate a failure to meet metrics. She further stated she could provide examples of such promotions. Please provide ten examples (names redacted) of people promoted to or within management levels of DCAA with performance evaluations showing failure to meet performance metrics. For each promotion, state the title of the person (before and after the promotion), the date of the promotion, and the metrics which the person had not met.

Answer. Attached is a worksheet providing ten employees who were promoted while not meeting certain performance measures (Attachment 1). Performance measures (or scorecards) were not evaluations of individuals, but rather reflects areas of potential improvement with the organizational element, such as a field office or a group of field offices. Consequently, the individuals listed in the attachment were field office managers or above and the performance measures represent that of their organization. The total number of performance measures varied from region to region and from year to year, so we have included a column summarizing the total number of measures and detailing the measures that were not met.



QFR SQ-10-007 -
 Attachment 1.pdf

Defense Contract Audit Agency
Metrics Not Met

Position Before	Position After Promotion	Date of Promotion	Metrics Summary	Metrics Not Met
Branch Manager (GS-14/YC-03)	Division Chief (GS-15/YC-03)	April 2007	7 of 16 Metrics not Met	1. Cycle Time on Forward Pricing Assignments 2. Discretionary Audit Timephasing 3. Forward Pricing Cost Type Productivity 4. Late Incurred Cost Audits 5. Post to Base Ratio 6. Direct Realization Factor 7. EAC/VS Programmed Hours
Branch Manager (GS-14/YC-03)	Division Chief (GS-15/YC-03)	July 2008	5 of 17 Metrics not Met	1. Discretionary Audit Timephasing 2. Incurred Cost Productivity 3. Forward Pricing Cost Type Productivity 4. Overage Proposals 5. Late Incurred Cost Audits
Regional Audit Manager (GS-15/YC-03)	Deputy Assistant Director (GS-15/YC-03)	March 2006	14 of 20 Metrics not Met	1. Pooling Base Ratio 2. Cycle Time on 210 Forward Pricing Assignments 3. Cycle Time on 280 Forward Pricing Assignments 4. Forward Pricing Completed Within 60 Days 5. Forward Pricing Cost Type Productivity 6. Forward Pricing Fixed Price Productivity 7. Forward Pricing Productivity 235/280 8. Incurred Cost Productivity 9. Overdue Incurred Cost Submissions 10. Incurred Cost with CACWS 11. Late Incurred Cost Audits 12. Discretionary Audit Timephasing 13. Audit Report Zero Error Rate 14. Hiring Goals
Branch Manager (GS-14/YC-03)	Regional Audit Manager (GS-15/YC-03)	October 2007	7 of 17 Metrics not Met	1. Forward Pricing Fixed Price Productivity 2. Forward Pricing Completed Within 60 Days 3. Reduce Overdue Incurred Cost Submissions 4. Incurred Cost with CACWS 5. Late Incurred Cost Audits 6. Proposals Received Electronically 7. Discretionary Audit Timephasing

Defense Contract Audit Agency
Metrics Not Met

Position Before	Position After Promotion	Date of Promotion	Metrics Summary	Metrics Not Met
Branch Manager (GS-14/YC-03)	Regional Audit Manager (GS-15/YC-03)	June 2004	5 of 17 Metrics not Met	1. Cycle Time on 210 Forward Pricing Assignments 2. Forward Pricing Cost Type Productivity 3. Reduce Overdue Incurred Cost Submissions 4. Incurred Cost Productivity 5. Incurred Cost Reports with CACWS
Regional Audit Manager (GS-15/YC-03)	Regional Deputy Director (GS-15/YC-03)	July 2007	12 of 19 Metrics not Met	1. Staff Allocation 2. Cycle Time on 210/270 Forward Pricing Assignments 3. Forward Pricing Completed Within 60 Days 4. Forward Pricing Productivity 5. Incurred Cost Productivity 6. Incurred Cost 6/12/6 Initiative 7. Incurred Cost 6/24/6 Initiative 8. Incurred Cost Late Reports Cognizant 9. Incurred Cost Late Reports Direct Costs 10. Audit Report Zero Error Rate 11. Customer Feedback Initiative 12. Language Assignments
Branch Manager (GS-14/YC-03)	Regional Audit Manager (GS-15/YC-03)	September 2007	7 of 16 Metrics not Met	1. Forward Pricing Fixed Price Productivity 2. Forward Pricing Productivity 236/280 3. Incurred Cost 6/12/6 and 6/24/6 Initiative 4. Pool to Base Ratio 5. Direct Realization Factor 6. EAC vs. Programmed Hours 7. Sustained Questioned Cost Rate
Branch Manager (GS-14/YC-03)	Regional Audit Manager (GS-15/YC-03)	December 2007	9 of 18 Metrics not Met	1. Cycle Time on 210 Forward Pricing Assignments 2. Forward Pricing Cost Type Productivity 3. Forward Pricing Fixed Price Productivity 4. Forward Pricing Productivity 236/280 5. Incurred Cost Productivity 6. Reduce Overdue Incurred Cost Submissions 7. Incurred Cost 6/12/6 and 6/24/6 Initiative 8. Pool to Base Ratio 9. Discretionary Audit Timephasing