Madam President, I ask unanimous consent to speak for 25 minutes as if in morning business.

The PRESIDING OFFICER. Without objection, it is so ordered.

DOD AUDITS

Mr. GRASSLEY. Madam President, one or two times a year, out of the many speeches I give on the floor of the Senate, I report to my colleagues on a crusade I have to wake up the Department of Defense to give more respect to audit reports coming out of the Office of Inspector General.

In the last 2 years I have been very critical, and I am somewhat critical now, but there has been vast improvement by the Department of Defense in responding to their use and the quality of their audits.

So I am coming to the floor once again to report on the latest results of my ongoing audit oversight and review. I will refer to some figures, but to kind of give you an overview, each year for the last 3 years we have roughly reviewed in my office between 100 and 120 audit reports.

You have all those reports that have recommendations in them, and we have seen a reluctance to move ahead to carry out the results of those audits, and in so many instances we would save so much money if the audit reports were carried out. When you spend $100 million every year in the Office of Inspector General of the Department of Defense, you would expect that you ought to get some results from that $100 million expenditure, and we are seeing some improvement.

Our work examines audits issued by the Office of Inspector General of the Department of Defense. After receiving anonymous letters in early 2009 alleging mismanagement of audit resources, I and my staff initiated an in-depth oversight review. This is my third report in that series. The goal of the report is to assess audit quality in 2011 and make recommendations for improvements.

I am doing this work for one important reason. Like investigations, audits are a primary oversight tool. In fact, audits may be the most important tool, and that is because the auditor's core mission is to watchdog how the taxpayers' money is being spent in the Department of Defense. That puts them on the money trail 24/7. If fraud is occurring, that is where it will happen. That is where they need to be, and hopefully the auditors will find it.

These audits cost the taxpayers, as I said before, roughly $100 million a year. Are the auditors getting the job done? Are they rooting out waste and fraud, and as a result are they attempting to save the taxpayers money?

My first report was published on September 7, 2010, and clearly indicated that the audit oversight capabilities in the Office of Inspector General were seriously degraded. The inspector general at that time, Gordon Heddell, responded to my first report in a very constructive way: he promptly approved a transformation plan designed to improve audit quality.

In order to assess progress on reforms, I issued a second report on January 1, last year. I called this one a report card. It evaluated and graded 113 reports issued during fiscal year 2010. I awarded those 113 reports a grade of D-minus. The low overall score was driven by the very same deficiencies pinpointed in my very first report. Instead of being hard-core, fraud-busting audits, most reports were policy and compliance reviews. There was little or no attempt to even verify the exact dollar impact of the misguided policies examined. Such reports offered zero benefit to the taxpayer, though many of these reports were mandated by the Congress of the United States.

Out of those 113 reports, I identified 27 good reports that involved commendable and credible—and in some cases nitty-gritty—audit work. Were it not for their long completion times, all of those 27 reports would have earned very top scores.

At the conclusion of the second audit report, my staff presented a list of the ''Top Nine Audit Roadblocks'' standing in the way of reform. After the second report was issued, Inspector General Heddell issued a sharp rebuttal, disagreeing with me very much. He complained that I did not give sufficient credit for 18 audits that identified $4.2 billion in potential monetary benefits.

I addressed Inspector General Heddell's criticism on the floor of this Senate on two separate occasions, July 5 and July 28 of last year. At that time I admitted he had a legitimate gripe about my report. My staff reviewed the matter and upped the score on 12 of the 18 reports, but those adjustments did not move the overall score of the 113 reports out of that D range.

Today I am issuing my third audit oversight report. This one examines the latest batch of reports, the 121 reports issued between October 1, 2010, and September 30, 2011. They are known as the fiscal year 2011 audits. I am giving those reports an overall score of 3.51 or C-plus.

As my report indicates, there was an across-the-board improvement in every category except one, timeliness. I am very happy to report to my colleagues that audit quality appears to be improving. The best possible indicator of improvement is the doubling of top-rated reports. Those numbers jumped from 27 reports, or 25 percent of the total in 2010, to 70 reports or 58 percent of the total production last year. That is better than a twofold increase. The auditors have achieved a breakthrough. The apparent progress is promising.

The most important area of improvement in audit quality was in the strength of the recommendations. There was a surge in this key area. It was propelled by calls for accountability and recovery of wasted money. Although modest and limited in number, these initiatives had force. Recommendations are the business end of an audit, and these recommendations were based on rock-solid findings.

At least 50 reports of the 121 arrived at findings that documented flagrant mismanagement, waste, negligence, fraud, and even potential theft. Sixteen of these reports recommended that responsible officials be considered for administrative review. A comparable number contained recommendations for the recovery of improper payments, and 10 reports, largely those on ''stimulus'' projects coming out of the $814 billion stimulus bill that was voted on in February of 2009, recommended—on those 10 reports—that wasteful projects be terminated.

These reports jumped out at me, as I hope they would you, if you read these. These are quite remarkable. But 50 reports with rock-solid findings should generate 50—not just 16—sets of hard-hitting recommendations. So I am sorting out 16 out of the 50 for special recognition. These 50 reports add up to a good beginning, but they do not confer world-class status on the inspector general's audit office. Within the grand totality of the 121 reports published in 2011, they are a drop in the bucket. The vast majority of the reports still offer weak recommendations. Most reports merely instruct audit targets to do what they already are required to do under law and regulation. In my opinion, that is a waste of ink and paper.

There are still four distinct trouble spots needing intense management attention. The biggest problem continues to be the number of unsatisfactory reports. While I can no longer say most reports were poor, at 40 percent the proportion of low-scoring reports remains unacceptably high. Those reports continue to suffer from the same deficiencies identified in a report commissioned by Inspector General Heddell in response to my first report 3 years ago. This report was produced by two independent consulting firms and dated October 7, 2010. It is known as the Quest Report.

Their conclusion, which matched by own, was as follows:

> We do not believe Audit is selecting the best audits to detect fraud, waste and abuse. The organization does not audit what truly needs to be done. Some audits hold little value in the end.

As I have said many times, far too many audits offer little or no benefit to the taxpayers. That was still true in 2011.

Long audit production times remain another big problem. Old reports offer stale information that weakens the power and relevance of audit reports. Between 2010 and 2011, the average time needed to complete reports jumped from 13 months to 16 months. As I understand it, those numbers do not tell the full story because they do not include the extra weeks or months reportedly needed for the planning and approval process that occurs before an audit even begins. Add those numbers together and we are looking at probably 1½ years to publish a completed audit. Stale information reduces audit impact to zero over a period time.

The Quest Report previously referred to pinpointed the root cause of this problem: ''It is apparent that in the planning phase of audit selection, audits are written to fit a team as opposed to a team established to conduct the needed audit.''

Such organization inflexibility drives long completion times. It also leads to the publication of audits having objectives that are so narrow and limited in scope that they are virtually worthless. Audit teams need to be organized to support more challenging and relevant audit tasks. Mr. Blair indicated recently he was moving in that direction.

There are two other outstanding problems. Far too few reports—just the nine in all—verified actual payments using primary source accounting records. Failing to nail down exact dollar amounts of waste and mismanagement, including those resulting from misguided policies, ends up undermining the credibility and completeness of audit reports.

I will give you an example. Using invoices and contracts to estimate payments would not appear to meet the most stringent audit standards. A more acceptable procedure is essential because of the Defense Finance and Accounting Service's longstanding track record of making erroneous and unauthorized payments. In the face of such sloppy accounting practices, verification of payments should be mandatory.

Last, referral rates to the Defense Criminal Investigative Service, the DCIS, are still far too low. Only five reports generated potential criminal referrals, which appears to point to a lack of concern about fraud. Surely there was enough grist in the 50 reports which documented egregious waste and misconduct to warrant additional referrals to the Defense Criminal Investigative Service and/or the Justice Department.

A number of audits stand out as candidates for further review and possible prosecution. I have urged Secretary Panetta and the acting inspector general to reexamine some of these issues. Acting IG Halbrooks has put the public spotlight on disgraceful and scandalous waste and alleged misconduct that demands accountability. Unfortunately, unless the recommendations in those hard-hitting audits are somehow converted to concrete action, all this good work will amount to nothing more than a bunch of auditors ''howling in the wilderness.'' It will simply ''fall through the cracks.''

Converting tough recommendations into concrete action takes determination and it takes relentless followup. The key is making such agencies do what they agreed to do at the conclusion of an audit. However, all indications suggest that corrective actions proposed in 16 hard-hitting reports have run into some serious roadblocks in the Pentagon bureaucracy. Without high-level intervention—in other words, eliminating those roadblocks in the Pentagon bureaucracy—most if not all accountability and savings measures could be slowly and quietly quashed in the bureaucracy.

A recent report from the Navy surely indicates that this fate awaits at least 1 of those 16 reports, and probably all the others as well. In order to assist in the audit resolution process, I have asked Secretary Panetta to conduct a top-level review of all the allegations contained in those 16 most disturbing reports, out of the 121 that we looked at in this last year. I urge the Secretary to establish a reasonable path forward on all unresolved recommendations. Until there are meaningful consequences and real penalties for such gross waste and misconduct, the culture of the organizations involved will not change.

In other words, that culture is going to perpetuate a lack of concern and action on the recommendations of these auditors because in a bureaucracy, not just in the Department of Defense, if heads don't roll you are not going to see any change in the culture. Without accountability there will be no positive results. Good audit value will go down the drain. Unabated waste of the taxpayers' money will continue.

Clearly, significant progress was achieved between 2010 and 2011, but the inspector general's audit capabilities are not yet out of the woods. Much more work remains to be done. Management needs to build on the strengths exemplified by the 50 reports containing rock-solid findings and 16 sets of hard-hitting recommendations. Those reports could be used as models or building blocks for improving audit quality in the future.

In order to start producing more top-quality reports, management needs to consider the following suggestions, of which I have eight: Bring report recommendations into balance with the findings; increase calls for accountability and recovery of improper payments; verify all payments using primary source accounting records; organize audit teams to match more complex and challenging tasks; pick up the pace of fraud referrals to the Defense Criminal Investigative Service; develop a more effective audit followup strategy; and lastly, follow up to ensure that prosecutions occur where warranted or necessary.

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

In closing, I want all the auditors in the inspector general's office to know that I consider their oversight mission to be of the highest importance. There is nothing more important to the taxpayers than having an aggressive team of auditors watchdogging how the taxpayers' money is being spent. I know there has been a concerted effort over the past few years to improve the quality of their work. I deeply respect, deeply appreciate, and will support these efforts. They are starting to pay off. I can see the results of all the hard work.

I encourage all the auditors to keep moving ahead until the job is finished, and I urge Mr. Blair to unleash the auditors. I want them to be tigers. Encourage them to call waste what it is—waste. Let them follow their instincts and the guidance in their audit manuals that instructs them to: ''Think fraud and plan audits to provide a reasonable assurance of detecting fraud.''

I yield the floor and I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The bill clerk proceeded to call the roll.

The PRESIDING OFFICER. The Senator from Colorado.

Mr. UDALL of Colorado. Madam President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

SMALL BUSINESS LENDING ENHANCEMENT ACT

Mr. UDALL of Colorado. Madam President, I have come to the floor to speak about an opportunity to expand capital for small businesses by lifting the arbitrary limit on the credit unions ability to serve small businesses. I have done this on a number of occasions over the last couple of years so the President knows that this is a cause that is important to me. It is important to me because there is a phenomenon in our country where small businesses are starving for credit. Yet the Federal Government is still standing in their way.

I am talking about the smallest of small local businesses. These are the men and women who need $50,000, $100,000 or maybe $200,000 to move from their garage to a retail storefront, to renovate their sales floor or upgrade their equipment and expand. They are often too small to be worth a bank's time or they don't fit the lending guidelines of the bank's corporate headquarters. But these small business owners know credit unions in their community have money to lend and these credit unions truly want to help. They probably see each other at Little League games, church, play cards together—they socialize. Instead of being able to offer the bridge loans that the small local businesses need, the credit unions end up saying: Sorry, we want to help you but the Federal Government has set a limit on how many businesses we can loan funds to.

Now we are moving to the Jumpstart Our Business Startups Act, or the