

# Project On Government Oversight

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March 2, 2010

Chairman Carl Levin  
Senate Armed Services Committee  
228 Russell Senate Office Building  
Washington, DC 20510

Ranking Member John McCain  
241 Russell Senate Office Building  
Washington, DC 20510

Chairman Joseph Lieberman  
340 Dirksen Senate Office Building  
Washington, DC 20510

Ranking Member Susan Collins  
340 Dirksen Senate Office Building  
Washington, DC 20510

Senator Claire McCaskill  
717 Hart Senate Office Building  
Washington, DC 20510

Via Facsimile

Dear Senators:

The Project On Government Oversight (POGO) applauds the fact that your committees have conducted oversight of the Defense Contract Audit Agency (DCAA). However, POGO is concerned that some of the reforms being implemented at DCAA as a result of your investigations are only superficial fixes in order to alleviate political pressure on the agency. We urge you to continue to investigate and monitor DCAA to ascertain whether meaningful needed reforms are being implemented.

Your committees' findings and independent Government Accountability Office (GAO) and Department of Defense Inspector General (DoD IG) investigations have shown that the root of many of DCAA's problems are human capital management, particularly the use of metrics that valued quantity rather than quality audits, and loyalty rather than independence as a means of promotion. In response to these problems, then-DCAA Director April Stephenson testified to your committee that she instituted "revamped" performance measures that would "emphasize audit quality."<sup>1</sup>

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<sup>1</sup> Testimony of April Stephenson, Director of the Defense Contract Audit Agency, September 26, 2009, p. 5.

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But the GAO noted in its report last September that some of these reforms were not accomplishing the needed changes: “DOD and DCAA have not yet addressed fundamental weaknesses in DCAA’s mission, strategic plan, metrics, audit approach, and human capital practices that had a detrimental effect on audit quality.”<sup>2</sup> The Department of Defense responded to Congress’s concerns by removing DCAA Director April Stephenson without addressing congressional and taxpayer concerns that this agency lacks the independence and clout necessary to serve taxpayer interests.

POGO is concerned that although the Department of Defense and DCAA have responded to congressional criticism, the “reforms” implemented to date have not been meaningful, particularly when it comes to human capital management. Specifically, POGO is concerned by the dismantlement of a group of high-level DCAA auditors tasked with evaluating DCAA’s promotion process. Knowing that there is a widespread consensus both inside and outside of DCAA that the human capital management system is broken, this group sought to analyze DCAA’s promotion system to see if weaknesses beyond metrics allowed poor supervisors to continue to be promoted. But when the group asked for information that would allow them to conduct compliance testing to see if DCAA was following its own policies, DCAA headquarters denied them the information and the group was disbanded.

The group that was dismantled was unique from other DCAA ad hoc groups as it was initiated by a senior field auditor and operated with a “grass-roots” approach. All other DCAA ad hoc groups have been initiated and directed by DCAA headquarters management. We question whether DCAA headquarters management has the capacity to evaluate itself independently. Sources confirm that DCAA has formed another group with a similar mission, but POGO is concerned that the more limited methodology for this group will prevent a comprehensive analysis needed for meaningful reform.

Another reform POGO has reason to be concerned about is the DCAA hotline. It was intended to be used as a tool to ensure audit quality by giving auditors the ability to report management misconduct, but in practice it may be a tool for retaliation against the kind of independence in auditing that DCAA should be fostering. We are also concerned that it is frequently up to the manager responsible for the alleged wrongdoing to act upon hotline findings, presenting an obvious conflict of interest. Even giving the authority to act upon hotline findings to managers in a different DCAA region than that from which the complaint was initiated would be a substantial improvement.

We worry that these problems are indicative of a systemic strategy for reform that seeks to decrease congressional pressure rather than to institute meaningful reform. More importantly, we think that it would be naïve to assume that removing April Stephenson from DCAA solves the systemic problems at DCAA.

Finally, we want to urge you to continue to pressure DCAA to remove managers or supervisors that have abused the taxpayers’ trust. There should be accountability for managers who consistently exercise bad judgment by wrongfully changing audit opinions, facilitating “cozy”

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<sup>2</sup> Government Accountability Office, *DCAA Audits: Widespread Problems with Audit Quality Require Significant Reform*, September 2009, Executive Summary, <http://www.gao.gov/new.items/d09468.pdf>.

relations with contractors, or creating an abusive work environment. The fact that some of these abusive managers remain at DCAA continues to demoralize the agency's work force. The new Director should begin a fair and open process to discipline managers in those instances where evidence clearly affixes responsibility to their individual actions.

The problems at DCAA are in no way a recent phenomenon. When DCAA auditor George Spanton questioned excessive expenses by Pratt & Whitney in 1982—including overseas trips to Danish massage parlors—he was ignored and retaliated against. The Pentagon only acted on his concerns after significant press attention and assistance from POGO and Senators Charles Grassley and Orrin Hatch.

Auditors across the government have come to POGO complaining they lack the resources and independence necessary to root out wasteful spending in federal agencies. In the long run, we worry that DCAA auditors cannot operate independently within the Department of Defense. As a result, we believe that DCAA should become part of an independent federal contract audit agency that could more effectively hold contractors accountable for waste, fraud, and abuse.

Until that occurs, we urge you to continue your inquiry to determine if DCAA is implementing the meaningful reforms that would help the agency to become a strong and independent contract auditor to guard taxpayer dollars. Please contact me or Mandy Smithberger at (202) 347-1122 if you have any questions or need further information or evidence to aid your efforts. I would be happy to discuss these issues with you. Thank you for your consideration of this very important matter.

Sincerely,

A handwritten signature in cursive script that reads "Danielle Brian". The signature is fluid and elegant, with a large initial 'D' and 'B'.

Danielle Brian  
Executive Director  
(202) 347-1122