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Statement of
Ms. Lynne M. Halbrooks
Principal Deputy Inspector General
Department of Defense Inspector General

before the

Committee on Oversight and Government Reform

on

"Opportunities to Reduce Waste and Improve Efficiency at the
Department of Defense and Other Federal Agencies"

Chairman Issa, Ranking Member Cummings, and distinguished members of the Committee: Good morning and thank you for the opportunity to appear before you to discuss opportunities to reduce waste and improve efficiency within the Department of Defense. As requested, my testimony will focus on the status of reports with pending action, which include recommendations that have not yet been implemented, as well as opportunities to improve efficiencies within the Department. I would like to thank this Committee for its critical work and sustained focus over the last several years to highlight the issue of unimplemented OIG recommendations. It is essential to good government and effective stewardship of taxpayer dollars that IG recommendations are implemented.

Today I will discuss DoD OIG oversight and follow-up, the status of open recommendations, and opportunities to improve efficiencies within the Department.

DoD OIG OVERSIGHT AND FOLLOW-UP

This year, we are commemorating 30 years of carrying out our mission to promote economy, efficiency, and effectiveness; and detect fraud and abuse in the programs and operations of the Department. I am proud to be here today to represent the hundreds of dedicated OIG employees who for 30 years have been committed to conducting critical audits, investigations, inspections, and evaluations. When a problem or weakness is identified through our oversight efforts, we make recommendations to responsible DoD officials for correcting the problems. Complete and effective oversight also includes monitoring management officials' corrective actions and assessing whether those actions effectively address the recommendations.

The DoD OIG follow-up process monitors the Department's efforts to address open recommendations. Over the past 10 years, DoD OIG has issued over 1,300 reports addressing a wide variety of challenges within the Department and providing 7,684 recommendations to correct noted deficiencies. Of those 7,684 recommendations, 95 percent were addressed and closed, and 5 percent (or 386 recommendations) remain open. Collectively, those reports

have resulted in \$37.3 billion in achieved monetary benefits to the Department with additional potential monetary benefits of \$3.5 billion based on open recommendations.¹

In most cases, the open recommendations are from more recent reports where management has concurred with our recommendations and is in the process of implementing corrective actions. However, in some instances the Department has not implemented recommendations in a timely manner. For example, DoD OIG is still tracking a recommendation made in a FY 2006 report.

FOLLOW-UP PROCESS

DoD OIG has a strong follow-up program for tracking the status and implementation of recommendations. Unlike other OIGs, DoD OIG is also statutorily² required to monitor recommendations the Government Accountability Office makes to DoD.

DoD OIG is primarily responsible for recording, tracking, closing, and reporting on corrective actions management has taken to implement agreed-upon recommendations contained in DoD OIG and Government Accountability Office reports. DoD OIG is also developing a plan to provide follow-up on recommendations provided to DoD from the Special Inspector General for Iraq Reconstruction when it wraps up its operation later this year.

WORKING WITH THE DEPARTMENT ON RECOMMENDATIONS

The Department is generally responsive to addressing DoD OIG recommendations, with only 5 percent of recommendations over a 10 year span still open. However, over the years, unresolved recommendations had accumulated. In 2010, we elevated our aging inventory of open recommendations to the Department to resolve recommendations, as well as determine what recommendations were still viable. As we reported to the Secretary of Defense in December 2010, we reduced the number of open reports from 230 in March 2010, to 85 in

¹ One recommendation accounts for \$2.5 billion of the \$3.5 billion in potential savings.

² Inspector General Act of 1978, as amended, Section 8, (c)(7)

September 2010. We continue to work closely with the Department not only on recommendations with monetary benefits, but on all recommendations, especially those affecting the safety and welfare of the warfighters.

I look forward to working with Secretary Hagel and Deputy Secretary Carter to continue to ensure that the Department implements recommendations to improve efficiency of its programs and operations.

During the course of an audit or evaluation, if we identify issues that we believe require immediate management attention, we issue memorandums that advise management of our concerns so they can take action to address life and death; health and safety; and time-sensitive concerns. Follow-up on management actions is conducted during the course of the oversight and then addressed fully in the report issued at the end of the project. For example, last year, we issued a quick-reaction memorandum on the procurement of spare parts for G222 aircraft³ for the Afghan Air Force. Our concern was that program officials were acquiring spare parts before they had the critical data needed to accurately determine if the spare parts were needed to sustain the G222 aircraft. The Department agreed with our suggestion to delay the procurement of the spare parts. They subsequently determined not to issue a new delivery order for G222 sustainment support and decided to use an alternate aircraft to meet the Afghan's long-term medium airlift requirement. It is estimated that, if the program had continued without corrective action, sustainment costs for the G222 would have exceeded \$1 billion. We have found the use of these quick-reaction memorandums to be an effective means for initiating corrective action by management and ensuring that efficiencies are not lost during the timeframe of an on-going review.

STATUS OF OPEN RECOMMENDATIONS

The Committee requested we provide an update on the recommendations we submitted in our January 2013 response as well as a status on previously listed priority recommendations.

JANUARY 2013 RESPONSE

³ The G222 is manufactured by Alenia Aermacchi in Naples, Italy. The U.S. Air Force uses a modified G222 airframe, known as the C-27A, and the Afghan Air Force uses the G222.

In January 2013 we provided our response to this Committee’s request for “information about the IG community’s highest priority recommendations for reducing waste and increasing efficiency in Executive Branch departments and agencies.” We provided a list of ten recommendations that we deemed critical. Of those recommendations, DoD OIG has recouped \$81.6 million of the estimated \$373 million in potential savings.

UPDATE TO RESPONSE

Since 2008, DoD OIG has provided the Committee a total of 47 recommendations considered to be high priority. As of today, 33 of the 47 recommendations are closed and have resulted in monetary benefits of \$298.2 million. The remaining 14 open recommendations have potential monetary benefits of \$315.5 million. We will continue to work with the Department to monitor and track the status of implementation.

OPPORTUNITIES TO IMPROVE EFFICIENCIES WITHIN DoD

DoD OIG prioritizes its activities to ensure oversight is timely, relevant, and responsive to the dynamic environment within the Department. DoD OIG oversight priorities correspond to the high-priority areas of the Department, including contingency operations; the health and safety of warfighters; major weapons systems acquisitions; investigating allegations of contract fraud; financial management; critical intelligence activities; and identifying opportunities to improve the efficiency of the Department.

As required by “*The Reports Consolidation Act of 2000*,” we annually prepare and submit our summary of what we consider to be the most serious management and performance challenges facing the Department. This is commonly referred to as IG management challenges. These are generally persistent and significant recurring challenges within the Department. For FY 2012, DoD OIG identified seven management and performance challenges facing the Department. These challenges include acquisition processes and contract management; financial management; joint warfighting and readiness; information assurance, security, and privacy; health care; equipping and training Iraq and Afghan Security Forces; and the nuclear enterprise.

Today, I will highlight work in four areas in order to illustrate how our audit recommendations have identified ways for the Department to be more efficient and save money.

1. ACQUISITION PROCESSES AND CONTRACT MANAGEMENT

The Department continues to address challenges with acquisition and contracting for goods and services necessary to support the Department's mission. Challenges include obtaining adequate competition in contracts; defining contract requirements; obtaining fair and reasonable prices; oversight of contract performance; and maintaining contract documentation for payments. The following are specific examples of such related oversight work.

MAJOR DEFENSE ACQUISITION PROGRAMS (WEAPON SYSTEMS)

During FY 2012, the Department spent, or was projected to spend, \$26.9 billion on major defense acquisition programs (MDAPs) for acquisition category I and II programs. The Department continues to reprioritize and rebalance its investments in weapon systems and has made progress toward improving efficiency. As budgets continue to come under increasing scrutiny, the Department must continue to evaluate the merits, additional capabilities, and cost of MDAPs. Oversight of these programs continues to remain a high priority within DoD OIG due to a number of high-profile programs being over cost and behind schedule. As a result of our work, senior leadership has agreed to further review the viability or terminate acquisition programs.

For example, in September 2012, we issued a report⁴ on the DoD Joint Land Attack Cruise Missile Defense Elevated Netted Sensor System. While the specifics of the finding are restricted from public disclosure, we can say that we questioned the planned procurement of additional assets beyond the requirements and identified over \$2.5 billion in potential savings. Management agreed with our report and recommendations stating "the impact of the current fiscally-constrained environment compels redirection of funding to other systems."

⁴ Report No. DODIG-2012-121, "Acquisition of the Joint Land Attack Cruise Missile Defense Elevated Netted Sensor System," September 7, 2012

We are following up with management to document actions taken and the actual savings realized.

In another example, we are auditing the Army's acquisition of the individual carbine program, which is an acquisition the Department may want to re-evaluate. We expect to report concerns that DoD may not have an established need for this weapon nor developed performance requirements for the \$1.8 billion acquisition. Currently, the Army is modifying its existing M4 rifle and, at the same time, seeking to develop a new rifle. However, key performance parameters such as accuracy, reliability, and lethality have not been established. In addition, it is unclear what additional capability this new rifle will have over the modified M4. Further, the Army is seeking to acquire more rifles during a time when their total force structure will be reduced. We expect to issue our draft report within the next two months that will further elaborate on these concerns and provide recommendations for the Department to increase efficiencies.

PERFORMANCE BASED LOGISTICS/SPARE PARTS PRICING

In 2004, as a cost savings initiative, the Department moved to performance-based logistics (PBL). DoD adopted PBL to implement performance-based life-cycle support strategies for weapon systems, while minimizing cost. However, DoD OIG has found that this cost savings initiative has, in some instances, affected the Department's ability to obtain fair and reasonable prices for spare parts; the Services unnecessarily buy parts from PBL contractors instead of exhausting substantial unused DoD inventory available at the Defense Logistics Agency; and the Services have been buying parts from contractors at extraordinarily higher unit prices than comparable parts obtained from the Defense Logistics Agency. In total, DoD OIG has made 124 recommendations addressing PBL issues. Of those 124 recommendations, 56 recommendations are currently open. DoD OIG identified \$423.7 million in potential monetary benefits through effective use of existing inventory and procuring spare parts from more cost effective sources.

A series of recent audit reports⁵ on contracts with Boeing and Sikorsky to support Corpus Christi Army Depot identified that DoD did not use existing inventory and overpaid for spare parts. For example, DoD OIG identified \$287.7 million in potential monetary benefits because the Army did not effectively use existing DoD inventory before procuring the same parts from Boeing. To illustrate, as shown below, we found Boeing charged the Army \$1,678.61 for a ramp gate roller assembly used on the Chinook helicopter, when the DLA price was \$7.71.



Ramp Gate Assembly

DLA 2009 Unit Price: \$7.71

Boeing 2009 Unit Price: \$1,678.61

Boeing Refunded: \$76,849

As a result of the problems identified in the report, Army Materiel Command issued new guidance requiring the use of DoD inventory before procuring more parts from private contractors and will address the excess inventory identified.

CONTRACT MANAGEMENT

The Department continues to face persistent and significant challenges in contracting for goods and services, especially in support of contingency operations in Southwest Asia. In September 2012, DoD OIG published the second issuance of our summary report⁶ of contracting related challenges to provide DoD field commanders and contract managers with information on contracting problems related to contingency operations. We identified nine

⁵ Report No. D-2011-061, "Excess Inventory and Contract Pricing Problems Jeopardize the Army Contract With Boeing to Support the Corpus Christi Army Depot," May 3, 2011, and

Report No. DODIG-2012-004, "Changes Are Needed to the Army Contract With Sikorsky to Use Existing DoD Inventory and Control at the Corpus Christi Army Depot," November 3, 2011

⁶ Report No. DODIG-2012-134, "Contingency Contracting: A Framework for Reform - 2012 Update," September 18, 2012

systemic contracting problem areas relating to contingency contracting from reports issued by DoD OIG. The most pertinent issue in terms of saving taxpayer dollars is the lack of effective contract oversight in overseas contingency operations. Of the 72 collective reports analyzed, DoD OIG issued 48 reports that identified concerns with contract oversight and surveillance. Those 48 reports included 264 recommendations to address identified issues. As of August 2012, of those 264 recommendations, 22 recommendations were open. Without careful review by contracting officer representatives, the Department lacks the appropriate assurance that billions of dollars in goods and services were actually received or were delivered in a manner that meets the mission requirements of DoD.

In March 2011, DoD OIG identified about \$125 million in potential monetary benefits based on its audit of the prime vendor contract for subsistence in Afghanistan.⁷ Our report found the Defense Logistics Agency needed to improve contract management of the subsistence contract for Afghanistan. Among several notable contract management deficiencies, DoD OIG found that DLA overpaid \$125 million to the prime vendor for transportation and shipping container costs. DLA agreed with all the recommendations and stated they were making every effort to determine fair and reasonable prices and recover the difference between the reimbursement rates paid to the prime vendor and the finalized rates.

Because of the magnitude of the finding, DoD OIG is currently performing follow-up to determine whether management took sufficient action to address the recommendations and recover the monetary savings. Preliminary information provided by the Department indicates that the original \$125 million in potential monetary savings identified may actually be significantly higher. In December 2011, the Department requested the contractor repay over \$756 million. The contractor then filed a claim with the Armed Services Board of Contract Appeals. In March 2012, the Department began recoveries at a rate of approximately \$21 million per month. This is an example of where recommendations and aggressive management attention, including more broadly applying DoD OIG recommendations, could result in the Department recouping a significant overpayment.

⁷ Report No. D-2011-047, "Improvements Needed in Contract Administration of the Subsistence Prime Vendor Contract for Afghanistan," March 2, 2011

2. *FINANCIAL MANAGEMENT*

Financial management is another management challenge area where potential monetary benefits and savings can be found. DoD is undertaking significant efforts to develop auditable financial statements by the 2014 and 2017 deadlines. As part of this effort, the Department plans to spend more than \$15 billion to further develop and implement new computer systems called Enterprise Resource Planning (ERP) systems that are intended to meet the needs of the financial management and functional communities. These ERP systems have experienced cost increases and schedule delays up to 13 years. As a result, DoD continues to use outdated legacy systems and this diminishes the estimated savings associated with transforming business operations through business system modernization. In addition, the impact of schedule delays increases the risk that DoD will not achieve an auditable Statement of Budgetary Resources by FY 2014 or accomplish its goal of full financial statement audit readiness by FY 2017.

DoD OIG has issued eight reports with a total of 82 recommendations, which address concerns with the Department's ERPs. In this series of reports, we recommended that DoD halt deployment of specific ERPs until our stated concerns have been addressed.⁸ A July 2012 report⁹ we issued highlights the need for improved oversight over the business process reengineering efforts for the ERPs and better alignment of ERPs to material weakness resolution within the Financial Improvement and Audit Readiness Plan.

Continuing our oversight efforts, in February 2013, we announced an audit to determine whether additional ERP Systems cost increases and schedule delays have occurred since our July 2012 audit report. We will also determine whether DoD has implemented corrective actions to ensure the integrity of business process reengineering assessments submitted for DoD ERP programs.

⁸ Report No. D-2012-072, "Previously Identified Deficiencies Not Corrected in the General Fund Enterprise Business System Program," June 15, 2011

⁹ Report No. DODIG-2012-111, "Enterprise Resource Planning Systems Schedule Delays and Reengineering Weaknesses Increase Risks to DoD's Auditability Goals," July 13, 2012

Additionally, reducing improper payments can produce significant efficiencies and savings. Improper payments are often the result of unreliable data and poor internal controls. These conditions create an environment where fraud and waste is more likely, and as a result, the Department lacks assurance that it is making proper payments. Once the Department identifies improper payments, DoD can use various payment mechanisms such as contract payment offset or recovery auditing.

For FY 2012, the Department estimated \$882 million in improper payments. DoD OIG remains concerned with the accuracy and completeness of the Department's estimation process. In response to our oversight dating back to 2011, the Department improved its improper payment estimation process, including implementing a program to statistically sample contract and vendor payments and review additional military health benefit programs that had previously not been included in Improper Payments Elimination and Recovery Act reviews. However, as we discuss in our March 2013 report,¹⁰ challenges remain, including \$12.3 billion in outlays that were not reviewed for improper payments but should have been. Further, we remain concerned that the FY 2012 estimated amount of improper payments is not complete.

3. EQUIPPING AND TRAINING IRAQ AND AFGHAN SECURITY FORCES

An immeasurable potential savings lays in the speed in which the United States can equip and train Iraq and Afghan forces to be self-sufficient and able to defend their sovereign countries. For example, in Afghanistan, the United States spends several billion dollars a year to build the Afghan National Security Forces. DoD OIG oversight of U.S. efforts to train, equip, and mentor the Afghan National Security Forces has identified challenges in building those forces which may adversely impact the ability and timeliness of establishing self-sufficient and capable sovereign forces. For example, during the course of the OIG assessment of the development of the Afghan Air Force (AAF),¹¹ we received multiple

¹⁰ Report No. DODIG-2013-054, "DoD Efforts to Meet the Requirements of the Improper Payments Elimination and Recovery Act in FY 2012," March 13, 2013

¹¹ Report No. DODIG-2012-141, "(U) Assessment of U.S. Government and Coalition Efforts to Train, Equip and Field the Afghan Air Force," September 28, 2012.

specific reports that the G-222/C-27A medium transport training aircraft were not safe to fly. On February 27, 2012, we sent a quick reaction memorandum¹² listing concerns over the safe operation of the AAF-assigned G-222/C-27A aircraft to the Commanding General, NATO Training Mission-Afghanistan (NTM-A), and the Commander, USAF Central Command (USAFCENT). The U.S. Air Force commands initiated command directed investigations, completed in April 2012, and are implementing recommendations. Per our recommendations, the USAF decided that the G-222/C-27A should cease flying in February 2013 and a DoD initiative to replace the aircraft is underway. DoD OIG has also conducted assessments on the establishment of the Office of Security Cooperation-Iraq within U.S. Embassy-Baghdad that have facilitated discourse on best practices during periods of transition.

4. *LIFE AND SAFETY*

While not a specific management challenge, we ensure that oversight pertaining to life and safety issues is a top priority. In the past several years, DoD OIG has found faulty testing of personal protective equipment as well as electrical and fire safety issues. We also identified faulty testing of body armor procured under an Army contract, to which the Secretary of the Army responded by ordering the identification and collection of the ballistic insert designs.¹³

Earlier this month we issued a report¹⁴ on inadequate contractor oversight of military construction projects valued at \$36.9 million in Afghanistan. The Air Force Center for Engineering and the Environment Contingency Construction Division did not conduct effective contractor oversight. AFCEE officials relied completely on the technical expertise of contractor personnel. This resulted in conflicting electrical standards, incorrect fire standards, and significant deficient work being performed. The deficiencies led to serious increased hazards to the life and safety of coalition forces at these installations.

¹² Quick Reaction Memo, "(U) Concerns Over the Safe Operation of the C27 Aircraft in Afghanistan," February 27, 2012.

¹³ Report No. D-2009-047, "DoD Testing Requirements for Body Armor," January 29, 2009

¹⁴ Report No. DODIG-2013-052, "Inadequate Contract Oversight of Military Construction Projects in Afghanistan Resulted in Increased Hazards to Life and Safety of Coalition Forces," March 8, 2013

CONCLUSION

I thank the Committee for inviting me to testify on opportunities to reduce waste and improve efficiencies at DoD through implementation of recommended actions from our oversight efforts. Senior Department leadership must remain vigilant in advocating and supporting the value of the Inspectors General and the oversight community including taking necessary actions to address recommendations and, when necessary, apply those lessons to programs and operations across the Department.

We look forward to working with DoD leadership to ensure recommendations made by DoD OIG continue to be addressed in a timely manner. With the given fiscal challenges the country is facing, every dollar we can save and put to better use is critical.

This concludes my statement today, and I welcome any questions the Committee may have.



Lynne M. Halbrooks
Principal Deputy Inspector General
Department of Defense

Ms. Lynne Halbrooks is the Principal Deputy Inspector General for the Department of Defense and serves as the head of the DoD IG under the Federal Vacancies Reform Act. She served as the Acting Inspector General from December 25, 2011 to June 21, 2012. She was appointed to the Senior Executive Service and came to DoD IG on March 1, 2009 upon being selected to serve as General Counsel. Previously, Ms. Halbrooks was the General Counsel for the Special Inspector General for Iraq Reconstruction.

Prior to joining the IG community in October 2007, Ms. Halbrooks served with the Sergeant at Arms in the U.S. Senate – first as General Counsel and later as the Deputy Sergeant at Arms, where she oversaw an agency of more than 950 employees.

Ms. Halbrooks joined the Department of Justice in 1991 as an Assistant U.S. Attorney in the Eastern District of Wisconsin, prosecuting criminal cases and representing the U.S. in civil litigation. Subsequently, she worked for 10 years in the Executive Office for United States Attorneys serving in a variety of legal and management positions, including Deputy Director from 2000-2003. In that role, she represented the interests of the 94 U.S. Attorneys' offices within the Department of Justice to other federal agencies and Congress.

Ms. Halbrooks received her B.A. from the University of Minnesota, Duluth and graduated with honors from Marquette Law School. After graduation, she clerked for the Minnesota Supreme Court, and worked in the Milwaukee office of Hinshaw and Culbertson.



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