August 9, 2002

Security

Allegations Concerning the Management and Business Practices of the Defense Security Service

(D-2002-138)

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Acronyms

ASD (C^3I)	Assistant Secretary of Defense, Command, Control, Communications and Intelligence
DSS	Defense Security Service
OIG	Office of the Inspector General
TDY	Temporary Duty

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August 9, 2002

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (COMMAND, CONTROL, COMMUNICATIONS AND INTELLIGENCE)
DIRECTOR, DEFENSE SECURITY SERVICE

SUBJECT: Audit of Allegations Concerning the Management and Business Practices of the Defense Security Service (Report No. D-2002-138)

We are providing this report for your information and use. This report is the first of two reports that discuss allegations concerning the management and business practices of the Defense Security Service. We conducted the audit in response to a request from the Director, Defense Security Service. No written response to this report was required, and none was received. Therefore, we are publishing this report in final form.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Harold C. James at (703) 604-8983 (DSN 664-8983) (hjames@dodig.osd.mil) or Ms. Judith I. Padgett at (703) 604-8990 (DSN 664-8990) (jpadgett@dodig.osd.mil). See Appendix C for the report distribution. The audit team members are listed inside the back cover.

for David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General of the Department of Defense

Report No. D-2002-138 **August 9, 2002**
(Project No. D2002AD-0041)

Allegations Concerning the Management and Business Practices of the Defense Security Service

Executive Summary

Who Should Read This Report and Why? Managers with oversight responsibility and personnel working in the Defense Security Service should read this report to obtain information about management changes and the rationale for those changes.

Background. This report is the first of two reports that discuss allegations concerning the mismanagement and business practices of the Defense Security Service. The Defense Security Service conducts personnel security investigations and investigations of unauthorized disclosure of classified information for DoD Components and their contractors and, as directed by the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence), for other Government departments and agencies. The Defense Security Service also provides education, training, and security awareness to Government organizations and industry. This report is in response to an anonymous letter to the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence), the Office of the Inspector General of the Department of Defense, and other Government officials alleging mismanagement and misconduct at the Defense Security Service. The Director, Defense Security Service, who received a copy of the allegations, requested that the Office of the Inspector General of the Department of Defense evaluate the allegations.

Results. The audit did not substantiate the allegations that the Defense Security Service was mismanaging headquarters personnel and its management structure, facilities, management reorganizations, personnel assignments and discipline, or its standards and evaluation and quality management functions. We deferred the evaluation of the Acquisition and Augmentation Division and contracting procedures because of an ongoing investigation. We started an audit in April 2002 to evaluate the contracting and will report on it separately.

Management Comments. We provided a draft of this report on June 28, 2002. No written response to this report was required, and none was received. Therefore, we are publishing this report in final form.

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Background

Letter of Allegations. This report is the first of two reports that discuss allegations concerning the mismanagement and business practices of the Defense Security Service. In October 2001, the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) [ASD (C^3I)], the Office of the Inspector General of the Department of Defense (OIG DoD), and other Government officials received an anonymous letter alleging mismanagement and misconduct at the Defense Security Service (DSS). The Director, DSS, who received a copy of the allegations, requested that the OIG DoD evaluate them.

The letter made several allegations. The following summary statements appeared in the opening paragraph of the letter with more specific allegations and accompanying data in numbered paragraphs following the opening statements:

> The department [DSS] is not functioning, due to mismanagement….DSS is an essential part of the security for our nation but the DSS workforce is unable to carry out their duties due to gross misconduct within the agency. Violations of laws, rules, and regulations are common practice; abuse of authority is a daily event; and mismanagement of government funds and personnel resources is rampant.

The allegations were grouped as follows: the Case Control Management System, misconduct, and mismanagement. Offices within the OIG DoD took actions on the three groups of allegations as described below:

Case Control Management System. This group included alleged excessive costs and defects in the Case Control Management System. The Case Control Management System was the subject of earlier audits and studies (see Appendix B for prior coverage). The OIG DoD has open recommendations from reports on the Case Control Management System, as shown below, so it was decided to do no additional work.

- GAO Report No. NSIAD-00-12 DoD Personnel, "Inadequate Personnel Security Investigations Pose National Security Risks," October 1999, and Inspector General, DoD, Report No. D-2000-111, "Security Clearance Investigative Priorities," April 5, 2000, recommended that DSS prioritize its personnel security investigations. The prioritization depended on using the Case Control Management System, but was delayed waiting for an updated version to be fielded. There was also a significant increase in requests for priority personnel investigations.

- Inspector General, DoD, Report No. D-2000-134, " Tracking Security Clearance Requests," May 30, 2000, recommended that all investigative cases be tracked from request through final disposition. Adding this capability to the Case Control Management System was deferred in favor of higher priority improvements to the system.

Allegations of Misconduct. This group included alleged misconduct of the Director, DSS, and the investigation was assigned to the Office of Departmental Inquiries. Departmental Inquiries reported its results, independent of the audit results, through its established channels.

Allegations of Mismanagement. This group included alleged mismanagement of DSS and was assigned to the Office of the Assistant Inspector General for Auditing of the Department of Defense. The audit team identified the following specific subjects from the numbered paragraphs of the letter alleging mismanagement:

- headquarters personnel and management structure;
- facilities for DSS headquarters and other DSS functions;
- management reorganizations and their effects;
- personnel assignments and disciplinary procedures;
- Standards and Evaluation, and Quality Management Division; and the
- Acquisition and Augmentation division, and contracting procedures.

During the audit, we deferred the evaluation of the Acquisition and Augmentation Division and contracting procedures because of an ongoing investigation. We resumed that portion of the audit in April 2002 and will report on it separately.

The DSS Mission. The ASD (C^3I) provides direction, authority, and control for the DSS, which provides security services to the DoD. The DSS mission is to provide a single, centrally located investigative service to conduct personnel security investigations and investigations of unauthorized disclosure of classified information within the 50 states, the District of Columbia, and the Commonwealth of Puerto Rico for DoD Components and their contractors and, as directed by the ASD (C^3I), for Government departments and agencies. In addition, DSS provides education, training, and security awareness to DoD and other Government organizations and industry.

The DSS Management Team. On June 7, 1999, the ASD (C^3I) modified the headquarters management team by appointing an acting director for DSS. On November 8, 1999, the ASD (C^3I) made that appointment permanent.

Objectives

The primary audit objective was to determine whether allegations regarding management of DSS had merit. Specifically, we evaluated allegations regarding headquarters personnel and management structure; facilities for DSS headquarters and other DSS functions; management reorganizations and their effects; personnel assignments and disciplinary procedures; and the Standards and Evaluation, and

Quality Management Division. We deferred evaluation of the Acquisition and Augmentation Division and contracting procedures and will report those results separately. See Appendix A for a discussion of the audit scope and methodology. See Appendix B for prior coverage related to the audit objectives.

Management and Business Practices

Although the audit verified some information in the allegations, the audit did not substantiate allegations that DSS was mismanaging headquarters personnel and its management structure; facilities for its headquarters and other DSS functions; management reorganizations and their effects; personnel assignments and disciplinary procedures; and the Standards and Evaluation, and Quality Management Division. The results for the specific allegations and accompanying data appear below.

Headquarters Personnel and Management Structure

Allegation. The Director tripled headquarters staff from the June 1999 level and added many bureaucratic layers. Specifically, the headquarters staff increased from about 100 to 375, and the management layers increased to an extent that decisions were untimely or unmade.

Audit Results. We did not substantiate the allegations concerning headquarters personnel and the management structure. The number of personnel fitting the definition of headquarters staff, as established in DoD Directive 5100.73, "Major Department of Defense Headquarters Activities," May 13, 1999, was 154 full-time equivalents in FY 1999. The number of headquarters staff full-time equivalents in FY 2001 was 148. According to organization charts, the layers of management increased by two layers from the previous director's tenure. The number of headquarters staff and the layers of management structure did not violate laws or regulations. Public law and regulations do not establish detailed organizational structure such as an ideal number of management layers or ideal ratios of headquarters to total staff. An FY 2000 public law, the FY 2000 Defense Authorization Act, did set goals for headquarters personnel reductions. The DSS budget estimates for FY 2003 show a 16.9 percent reduction of headquarters personnel from FY 1999 staffing levels. That reduction is 1.9 percent more than the target 15 percent reduction set in the FY 2000 Defense Authorization Act.

DSS Headquarters and Other Facilities

Allegation. Since June 1999, management dispersed headquarters staff to multiple locations, resulting in no one knowing where headquarters is located. In addition, DSS management wasted millions of dollars on renovations, and spent resources unnecessarily traveling among its multiple locations.

Audit Results. We substantiated several points from the allegation but did not arrive at the conclusion that the conditions resulted solely from the actions of the current director, that multiple locations had a significant negative effect on costs or operations, or that management wasted millions of dollars on renovations.

Location of Headquarters Staff. The DSS headquarters staff is dispersed among three locations: Braddock Place, Alexandria, Virginia; Fort Meade, Maryland; and Airport Square 10, Linthicum, Maryland. The DSS Academy and Maryland field office occupy a fourth building, referred to in the

letter of allegations as a headquarters site, at Airport Square 6, Linthicum, Maryland. DSS occupied the building at Braddock Place since March 1993 and buildings at Airport Square (Airport Square 10 and Airport Square 11) since June 1996. The building at Fort Meade, a 1995 Base Realignment and Closure project, opened in May 2001. In July 2001, DSS vacated the building at Airport Square 11, also referred to in the letter of allegations as a headquarters site.

The move into the Fort Meade facility resulted in some conflicting information about the location of headquarters. The Director and approximately 450 employees moved to the Fort Meade facility. However, according to the Director and the management staff, the headquarters mailing address and designation remained at Braddock Place, although after the move to Fort Meade, the DSS Web site stated that headquarters had moved to Fort Meade. We did not identify any significant effect from the conflicting information about the location of headquarters.

Renovations to Facilities. The renovations at Airport Square 10 and Airport Square 6 were justified, though imperfectly documented. DSS renovated Airport Square 10 at a cost of about $120,000 and Airport Square 6 at a cost of about $1.6 million. The renovations at Airport Square 6, more descriptively a conversion to other use, took place over 9 projects and 3 years. DSS did not document the lease or the renovations of the facility at Airport Square 6 in an economic analysis package to support its decision. As questions arose, management provided pieces of data and information that they used in arriving at the decision to lease and renovate Airport Square 6. Those pieces of data and information collectively supported the space requirements and the conversion of space to classrooms, but they did not provide a formal economic comparison of previously existing accommodations to those proposed or the reasons for choosing Airport Square 6.

Costs of Local Travel. We were unable to determine the costs of traveling among the various DSS locations because local area travel was not maintained separately in the financial records. We interpreted the allegation of wasteful travel as a condition introduced by the Director, but could not make comparisons with local travel from other directors' tenures because of the recordkeeping limitations.

Management Reorganizations and Their Effects

Allegation. The Director reorganized DSS 10 times within a 2-year period, with another reorganization imminent. Each of the reorganizations moved resources from the field to headquarters. The constant reorganizations caused confusion in the field and were perceived as a continuous employment threat that significantly impeded productivity.

Audit Result. We substantiated that multiple changes to the organizational structure took place over a 2-year period and that some personnel resources

changed location. However, we did not conclude that the organizational changes had a negative effect on the organization overall or that the changes impeded productivity.

The Director, DSS made seven structural and five personnel assignment changes from 1999 through 2001. In March 2002, as part of the initiative to transform the DoD, DSS management again changed its structure. The structural changes included establishing five operational regions, organizing functions into six major directorates, setting up the Standards and Evaluation, and Quality Management Division and the Acquisition and Augmentation Division, and creating additional staff elements.

We did not consider personnel reassignments as reorganizations. Personnel reassignments included relocating three Regional Director positions to Linthicum, outside their regions. However, the overall structure of the DSS and the demand for its services necessitate geographic separation of investigators and industrial security representatives from supervisory staff.

Supervisory staff from two regions visited reported that changes in the organizational structure did not affect productivity. One perspective offered was that the changes were actually an incremental reorganization rather than multiple reorganizations. According to discussions with the Office of Personnel Management and comparisons of regulatory requirements to actual procedures in relocating the Professional Development Administrators to Linthicum, Maryland, DSS management adhered to the rules to notify personnel of realignments and changes in duty station. In creating new positions and restructuring the organization, DSS made personnel changes to fill new positions. Those changes sometimes meant moving personnel around within the organization, including moving personnel from field locations to headquarters locations.

Managing Personnel Assignments and Disciplinary Procedures

Allegation. Supervisors and field managers have lost control over resources in the areas of investigator assignments, Deputy Regional Director rotations to headquarters, and involvement in disciplinary actions Loss of control over investigator resources resulted in a gross waste of funds for temporary duty travel (TDY), which management could not justify with valid data, to accomplish the personnel security investigations program. Another loss of control that led to wasted funds was the headquarters program to rotate Deputy Regional Directors for Investigations for a 3-week duty to perform unnecessary tasks, costing taxpayers more than $3,000 per assignment. Yet another loss of control resulted from DSS efforts to establish a council to manage employee disciplinary problems rather than supervisors and managers.

Audit Result. We substantiated that DSS used TDY assignments to accomplish personnel security investigations and rotated Deputy Regional Directors to headquarters for 3-week tours of duty. We did not substantiate the claim that a council would replace supervisory responsibility for disciplinary actions. Further, we did not conclude that the TDY for the investigators or the rotational assignments for the Deputy Regional Directors was unnecessary.

DSS management used TDY assignments within the Personnel Security Investigations Program to alleviate the investigative backlogs in the DSS field offices, primarily in the high-need areas of Fairfax, Virginia, and San Diego, California. Those backlogs were supported by data that showed estimated resource requirements compared to the time available and the number of leads pending for each of the five regions and the individual field offices. Although personnel resources are ultimately controlled by top management, the Regional Directors and Deputy Regional Directors provided input to top management on selecting and managing TDY assignments. Management considered TDY assignments more practical than a permanent change of station because investigative needs changed frequently and unpredictably, and investigators might find other employment rather than move.

Deputy Regional Directors were serving 3-week rotational duty at headquarters at a cost between $2,500 and $3,100 per 3-week assignment. DSS management initiated the rotational assignments as a way to augment staff as well as to give the Deputy Regional Directors an opportunity to observe the daily operations at headquarters. Although headquarters became fully staffed after the first Deputy Regional Director's assignment, the assignments continued so that the Deputy Regional Directors could gain headquarters experience. DSS headquarters management believed that the rotational assignments achieved their goals of providing a headquarters experience, exposing them to decision makers for career progression, and accomplishing tasks.

DSS management did not establish a council to manage employee disciplinary problems. DSS management amended the DSS policy for disciplinary problems, which shifted the responsibility for proposing and deciding actions to higher levels of management, but left the immediate supervisor still responsible for initiating disciplinary review and action.

Standards and Evaluation, and Quality Management Division

Allegation. The Standards and Evaluation, and Quality Management Division duplicates supervisory reviews, lacks direction, is unproductive, and interferes with field productivity.

Audit Result. We did not substantiate the allegation. The Director, DSS established the Standards and Evaluation, and Quality Management Division in

response to an October 1999 General Accounting Office report. The report recommended that DSS:

> Establish formal quality control mechanisms to ensure that Defense Security Service or contracted investigators perform high-quality investigations, including periodic reviews of samples of completed investigations and feedback on problems to senior managers, investigators, and trainers.

The purpose of the Standards and Evaluation, and Quality Management Division is to evaluate all agents who perform personnel security investigations and industrial security representatives once a year to ensure that the agents and representatives consistently meet their standards. From May 2000 through September 2001, the Standards and Evaluation, and Quality Management Division conducted 1,416 evaluations for the Personnel Security Investigations Program and, from August 2000 through September 2001, they conducted 305 evaluations for the Industrial Security Program. The Deputy Regional Directors from the northeastern and western regions and the Regional Director from the western region stated that they believed the Standards and Evaluation, and Quality Management Division was beneficial.

Acquisition and Augmentation Division and DSS Contracting Procedures

Allegation. The Acquisition and Augmentation Division duplicates investigative work that the ASD (C^3I) diverted to the Office of Personnel Management. In addition, DSS continues to award contracts even though none of the contractors met their investigative goals.

Audit Result. We deferred evaluating the Acquisition and Augmentation Division and its contracting procedures because of an ongoing investigation. After we evaluate the division and its procedures, we will report the results separately.

Appendix A. Scope and Methodology

Scope

Work Performed. We performed audit work to examine allegations made in an October 2001 anonymous letter to the ASD (C^3I), the OIG DoD, and other Government officials. We discussed the allegations with staff at DSS headquarters and field personnel in the northeastern and western regions. We selected the northeastern and western regions so that we could interview personnel who were affected by the actions described in the allegations and who were located physically distant from the headquarters activities. We also interviewed personnel at the Office of Personnel Management, the offices of the Under Secretary of Defense (Comptroller), the ASD (C^3I), the Directorate for Organization and Management Planning, the U.S Army Corps of Engineers, and the 11th Contracting Squadron, U.S. Air Force.

Limitations to Scope. We did not review the management control program because the audit scope was limited to the allegations of mismanagement. Additionally, we deferred a review of allegations regarding the Acquisition and Augmentation Division and its contracting procedures because of a Defense Criminal Investigation Service ongoing investigation of the area.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Infrastructure Management high-risk area. DoD defines infrastructure as those organizations that provide support services to mission programs, such as combat forces, and that primarily operate from fixed locations.

Methodology

We identified and analyzed applicable laws and regulations for each of the six allegation categories. We reviewed mission statements and organizational charts, and DSS policies on disciplinary procedures. In addition, we reviewed documentation on facilities requirements and available space, and cost and justification of TDY for personnel security investigations staff. The documents we reviewed were dated from March 1988 through March 2002.

Use of Computer-Processed Data. We did not rely on computer-processed data to perform this audit.

Audit Dates and Standards. We performed the audit from November 2001 through June 2002 in accordance with generally accepted government auditing standards.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD. Further details are available upon request.

Appendix B. Prior Coverage

During the last 5 years, the General Accounting Office and the Inspector General of the Department of Defense have issued eight reports discussing the Defense Security Service management. Unrestricted General Accounting Office reports can be accessed over the Internet at http://www.gao.gov. Unrestricted Inspector General of the Department of Defense reports can be accessed at http://www.dodig.osd.mil/audit/reports.

General Accounting Office

GAO Report No. NSIAD-00-224 Defense Management, "Status of Efforts to Redefine and Reduce Headquarters Staff," September 2000

GAO Report No. NSIAD-00-12 DoD Personnel, "Inadequate Personnel Security Investigations Pose National Security Risks," October 1999

Inspector General of the Department of Defense (IG DoD)

IG DoD Report No. D-2001-065, "DoD Adjudication of Contractor Security Clearances Granted By the Defense Security Service," February 28, 2001

IG DoD Report No. D-2001-019, "Program Management of the Defense Security Service Case Control Management System," December 15, 2000

IG DoD Report No. D-2001-008, "Resources of DoD Adjudication Facilities," October 30, 2000

IG DoD Report No. D-2000-134, " Tracking Security Clearance Requests," May 30, 2000

IG DoD Report No. D-2000-111, "Security Clearance Investigative Priorities," April 5, 2000

IG DoD Report No. D-2000-072, "Expediting Security Clearance Background Investigations for Three Special Access Programs" (U), January 31, 2000 (SECRET) (Limited distribution)

Appendix C. Report Distribution

Office of the Secretary of Defense

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Deputy Under Secretary of Defense (Acquisition Reform)
Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)
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Department of the Navy

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Auditor General, Department of the Navy

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