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Inspector General

United States
Department of Defense



DEPUTY INSPECTOR GENERAL FOR INTELLIGENCE
AND SPECIAL PROGRAM ASSESSMENTS

The Four Defense Intelligence Agencies
Have Had No Effective Procedures for
Suspension and Debarment (U)

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SEP 05, 2012

MEMORANDUM FOR: UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY AND LOGISTICS
UNDER SECRETARY OF DEFENSE FOR INTELLIGENCE
UNDER SECRETARY OF DEFENSE FOR POLICY
DIRECTOR, DEFENSE INTELLIGENCE AGENCY
DIRECTOR, NATIONAL GEOSPATIAL-INTELLIGENCE
AGENCY
DIRECTOR, NATIONAL RECONNAISSANCE OFFICE
DIRECTOR, NATIONAL SECURITY AGENCY

SUBJECT: The Four Defense Intelligence Agencies Have Had No Effective Procedures
for Suspension and Debarment

The purpose of this memorandum is to provide you with the results of a review conducted by the Office of the Deputy Inspector General for Intelligence and Special Program Assessments, Office of the Inspector General (IG), Department of Defense (DoD), and to make recommendations to the Directors of the four Defense intelligence agencies regarding our observations.

On July 14, 2011, the Deputy Assistant Inspector General for Acquisition and Contract Management, published DoD IG Report No. D-2011-083, *Additional Actions Can Further Improve the DoD Suspension and Debarment Process*. In this report DoD IG looked at suspension and debarment processes in the three Military Services and the Defense Logistics Agency. The report did not evaluate suspension and debarment procedures in the four Defense intelligence agencies; the Defense Intelligence Agency (DIA), the National Geospatial-Intelligence Agency (NGA), the National Reconnaissance Office (NRO), and the National Security Agency (NSA). In conjunction with this office's intelligence oversight responsibilities, and given the substantive size of the contracting obligations of these agencies, the objective of our research was to determine if the four Defense intelligence agencies had implemented basic suspension and debarment procedures.

Background

The purpose of suspension and debarment is to ensure that agencies solicit offers from, award contracts to, and consent to subcontracts only with responsible contractors. Suspension and debarment officials (SDOs) review suspension or debarment recommendations setting forth evidence of the existence of one or more causes for

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suspension as delineated at Federal Acquisition Regulation (FAR) 9.4407-2 or one or more causes for debarment as delineated at FAR 9.406-2. Placing a suspended or debarred contractor on the Excluded Parties List System (EPLS) severely restricts a contractor's ability to contract with the Government. Or, the SDO may enter into an administrative agreement with a contractor to subject them to rigorous oversight.

Suspension and debarment officials are supposed to review suspension and debarment case files based upon criminal and civil actions against contractors for fraud and other misconduct, or on negative contractor actions not subject to legal action. Agencies may suspend or debar individual officials or employees of contracting firms as well as the companies themselves. Agencies cannot solicit offers from, award contracts to, or consent to subcontracts with contractors that are suspended, debarred or proposed for debarment unless the agency head determines that there is a compelling reason for such action. Agencies may continue contracts or subcontracts in place at the time the contractor was suspended, debarred or proposed for debarment unless the agency head directs otherwise.

The basis for government-wide suspension and debarment is Executive Orders 12549, *Debarment and Suspension from Federal Financial and Nonfinancial Assistance Programs* (issued in 1986), and 12689, *Debarment and Suspension* (issued in 1989). Between them, the two Executive Orders cover all Federal procurement and nonprocurement activities. Under the Executive Orders, all Executive departments and agencies are required to participate in the government-wide system for debarment and suspension. The provisions of the Executive Orders are implemented for the Federal government in the FAR. For the DoD, the FAR is supplemented by the Defense Federal Acquisition Regulation Supplement (DFARS) which contains policy unique to the Department.

On November 15, 2011, the Director, Office of Management and Budget, wrote that despite these policies:

“...for too long, too many Federal agencies have failed to adequately use the suspension and debarment tools that are placed at their disposal or have failed to even maintain the most basic program capabilities required to suspend or debar non-responsible parties. A recent report by the Government Accountability Office found that more than half of the 10 agencies it reviewed lacked the characteristics common among active and effective suspension and debarment programs: dedicated staff resources, well developed internal guidance, and processes for referring cases to officials for action. Clearly, these deficiencies put taxpayer resources at unnecessary risk of waste, fraud, and abuse.”

Suspension and debarment has become an issue of increasing oversight interest. While not specifically related to the Defense intelligence community, the following reports are examples of research into the adequacy of the Federal Government's suspension and debarment process:

- Government Accountability Office (GAO) Report GAO-05-479, July 2005, *Federal Procurement: Additional Data Reporting Could Improve the Suspension and Debarment Process.*
- Congressional Research Service, November 2008, *Debarment and Suspension of Government Contractors: An Overview of the Law including Recently Enacted and Proposed Amendments.*
- GAO Report GAO-09-174, February 2009, *Excluded Parties List System: Suspended and Debarred Businesses and Individuals Improperly Receive Federal Funds.*
- GAO Report GAO-11-739, August 2011, *Suspension and Debarment: Some Agency Programs Need Greater Attention and Governmentwide Oversight Could Be Improved.*
- Suspension and Debarment Working Group, Council of the Inspectors General on Integrity and Efficiency, September 2011, *Don't Let the Toolbox Rust: Observations on Suspension and Debarment, Debunking Myths, and Suggested Practices for Offices of Inspectors General.*

Scope and Methodology

To accomplish our objective we:

- Reviewed statute and policy regarding suspension and debarment in the Federal government and Department of Defense.
- Interviewed personnel from DIA, NGA, NRO and NSA regarding suspension and debarment at their agencies, and requested supporting agency documentation from them.
- Interviewed the Chairman of the Interagency Committee on Debarment and Suspension.
- Reviewed 10 years of investigative case studies provided by the Inspectors General of the Defense intelligence agencies and published in our *Classified Annex to the Semi-Annual Report to Congress.*
- Attended a one day suspension and debarment training course offered by the Inspector General of the Intelligence Community.

Rather than conducting an in depth review, we concentrated on determining if the agencies had established the most basic elements of a suspension and debarment program.

All the Defense Intelligence Agencies Have Designated Debarring and Suspending Officials

DFARS 209.403(1), which was revised on September 20, 2011, listed the following DoD designated Defense intelligence agency SDOs:

- DIA – The Senior Procurement Executive
- NGA- The General Counsel
- NRO – None listed, but see below
- NSA – The Senior Acquisition Executive

The Director, Office of Contracts, NRO, advised that she was the designated SDO for NRO, and that she held procurement authorities from both DoD and the Central Intelligence Agency. Therefore, the NRO SDO was not listed in DFARS.

Only Three of the Defense Intelligence Agencies Had Published Debarment and Suspension Procedures

FAR 9.402(e) requires that agencies shall establish appropriate procedures to implement the debarment and suspension policies of the FAR. The Defense intelligence agencies had the following written procedures in place:

- DIA: The office of the Senior Procurement Executive had prepared a draft DIA instruction entitled *Suspension and Debarment Procedures* which was being coordinated at the time we conducted our interviews. Once it is approved, the instruction will be DIA's first written procedure covering suspension and debarment.
- NGA: Procedures for debarment, suspension, and ineligibility were detailed in Subpart 5X09.404, *NGA Instruction for Acquisition Regulation Implementation*.
- NRO: Procedures for debarment, suspension, and ineligibility were detailed in NRO Acquisition Circular (NAC) 2012-01, *NRO Acquisition Manual (NAM) Part 9: Contractor Qualifications*.
- NSA: Procedures for debarment, suspension, and ineligibility were detailed in Subpart 309.4 – *Debarment, Suspension and Ineligibility*

Only Two of the Defense Intelligence Agencies Participate in the Interagency Suspension and Debarment Committee

Section 4 of Executive Order 12549 directed the establishment of the Interagency Committee on Debarment and Suspension, commonly referred to as the Interagency

Suspension and Debarment Committee (ISDC). The ISDC facilitates lead agency coordination, serves as a forum to discuss current suspension and debarment related issues, and assists in the development of unified Federal suspension and debarment policy. When requested by the Office of Management and Budget, the ISDC serves as a regulatory drafting body for revisions to the Government-wide non-procurement suspension and debarment common rule.

On September 14, 2011, DoD IG General Counsel staff briefed the ISDC regarding an investigation which was conducted by this office into questionable intelligence activities by a contractor during their performance on a classified contract. He determined that the ISDC had had no exposure to classified contracts and consequently had seen no need to develop and propose policies and procedures to deal with the suspension or debarment of contractors working on classified contracts, or in the handling of classified materials used to support suspension or debarment actions.

The chairman of the ISDC told us that since he had joined the Committee in 1988, shortly after its creation, he could not recall the issue of classified contracts and the use of classified information in support of suspension or debarment coming before the Committee until the matter was raised by the DoD IG General Counsel staff member in September 2011.

NSA staff began attending ISDC meetings in October 2011; DIA staff began attending in January 2012. NGA and NRO have not participated.

For an agency which intends to develop a substantive suspension and debarment program there is a clear advantage in participation in the ISDC. This is particularly true for the Defense intelligence agencies given the unique problems associated with classified contracting and the potential requirement to use classified materials to support a suspension or debarment action. In their historic failure to participate in the ISDC, the Defense intelligence agencies have deprived the Committee of their expertise in classified contracting and dealing with classified materials. And, they have provided no impetus for the ISDC to recommend policies and procedures related to classified contracts.

Defense Intelligence Agencies Participation in the Excluded Parties List System Was Long Delayed

After the Excluded Parties List System (EPLS) was automated in February 1997, the Defense intelligence agencies delayed obtaining a capability to in-put data to the system for periods of 9 to 13 years.

Section 5 of Executive Order 12549 directed the Director of the Office of Management and Budget to designate a Federal agency to maintain a current list of all individuals and organizations excluded from Federal contracting and to distribute the list. The Office of Acquisition Systems, General Services Administration, was assigned responsibility for developing the Debarred Bidders List and for automating it as EPLS.

EPLS came on-line as a computer based system in February 1997. Executive Orders 12549 and 12689 both mandate that a suspension or debarment by one Federal entity shall have a Government-wide effect. Federal agencies cannot report suspensions and debarments until they request participation in EPLS. The Defense intelligence agencies did not request and receive a capability to in-put data to EPLS until the following dates:

- NGA: November 29, 2006
- NRO: October 26, 2009. NRO requested reporting access to EPLS because it was considering the debarment of a contractor.
- NSA: August 5, 2011. NSA requested reporting access to EPLS so that it could report the suspension of three individuals.
- DIA: March 12, 2012. DIA requested reporting access to EPLS following our contact with them during this research project.

The Office of Acquisition Systems said that there were no technical impediments to the Defense intelligence agencies active participation in EPLS from the time of its creation in February 1997. The Office of Acquisition Systems verified that DIA, NGA, and NRO had not reported a suspension or debarment since the establishment of EPLS, and NSA did not do so until late 2011.

Only Two of the Defense Intelligence Agencies has a Designated Centralized Organization

DoD Instruction (DODI) 7050.05; June 4, 2008; *Coordination of Remedies for Fraud and Corruption Related to Procurement Activities*, requires that the heads of DoD components shall:

“Establish a Centralized Organization to monitor the progress of each significant investigation and verification investigation affecting its organization, to take action necessary to ensure the coordination of criminal, civil, contractual, and administrative remedies.”

Interviews with suspension and debarment personnel from the Defense intelligence agencies indicated that the DIA and NRO personnel were unaware of any designation of a “Centralized Organization” for their agencies.

NSA/CSS Policy 1-20, *Coordination of Remedies for Fraud and Corruption Related to Procurement Activities*, designated the Office of the General Counsel as the Centralized Organization for NSA.

NI 7050.5R5, June 3, 2005, *NSA Instructions for Coordination of Remedies for Fraud and Corruption Related to Procurement Activities*, designated the Office of the

General Counsel as the "central organization" for NGA. Since this instruction pre-dated the publication of DODI 7050.05, it did not reference that DODI however.

The Defense Intelligence Agencies Do Not Report on Contractor Performance to the Appropriate Federal Databases

Section 872 of the Duncan Hunter National Defense Authorization Act (NDAA) for Fiscal Year 2009 required that the Director of the Office of Management and Budget and the Administrator of General Services establish a database regarding the integrity and performance of Federal contractors. FAR 42.1503 implemented this requirement by establishing the Past Performance Information Retrieval System and the Federal Awardee Performance and Integrity Information System. The Contractor Performance Assessment Reporting System was a pre-existing Defense Logistics Agency contractor performance reporting system which DoD entities use to feed information into the Past Performance Information Retrieval System and the Federal Awardee Performance and Integrity Information System.

All of the Defense intelligence agencies told us that they were not reporting contractor performance data to the Contractor Performance Assessment Reporting System, the Past Performance Information Retrieval System, or the Federal Awardee Performance and Integrity Information System due to sensitivity about reporting contract information. While many of their contracts are classified, the three reporting systems are all unclassified; abet with limited access. The personnel of the four Defense intelligence agencies we interviewed believed that the award of certain contracts to certain contractors was sensitive and that unclassified information reported to the contractor performance databases could be aggregated to reveal classified information. The down side of this failure to report contractor performance data is that it leaves poorly performing contractors free to pursue other contracts across the Government.

Office of the Director of National Intelligence staff indicated that the Intelligence Community Procurement Policy Council had been working on possible solutions to resolve this impasse regarding contractor performance reporting.

The Defense Intelligence Agencies Have Been Ineffectual in Suspending or Debaring Contractors Who Have Engaged in Misconduct

Prior to the designation of the Inspectors General of the Defense intelligence agencies as statutory IGs, we published the *Classified Annex to the Semi-Annual Report to Congress*. The *Annex* was a compendium of case summaries provided by those Inspectors General. As part of our research for this study, we reviewed *Annexes* covering the period October 1, 2000, through September 30, 2010. The case summaries indicate that the Inspectors General have achieved some success in identifying and investigating misconduct by individual contractor employees, and that their efforts have generally improved over time. From that 10 year period, we selected from the *Annex* 131 unclassified case summaries involving contractors in the Defense intelligence community.

Of these 131 cases, 89 involved time and attendance fraud by individual contractor employees or groups of contractor employees. In the 86 cases involving individual employees the losses per employee ranged from \$433.00 to \$265,698.00. The mean loss was \$32,443.88, and the average loss per contractor employee was \$41,788.96. In the 89 time and attendance cases, there was an aggregate loss of \$4,336,140.40. In most instances, these losses were fully recouped from the contractor employees' employers.

While we would not argue that all of the subjects of these investigations should have been suspended or debarred, we would submit that virtually all of them should have been referred to the appropriate agency SDO for suspension and debarment adjudication. Somewhere in this continuum of misconduct one reaches a level where the ability of the contract employee to responsibly participate in Government contracts becomes so questionable that it supports debarment. The results of our case summary review are attached as Appendix A.

In addition to misconduct, the Defense intelligence agency SDOs could have suspended or debarred contractors for poor performance. In response to questions regarding Defense intelligence agency suspensions and debarments, the agency staff we interviewed provided the following information:

- DIA had 20 of the 131 misconduct cases in our study: DIA had never suspended or debarred a contractor, consultant or contractor employee since the creation of the agency in 1961.
- NGA had three of the 131 misconduct cases in our study: NGA had not suspended or debarred a contractor, consultant or contractor employee since at least 2001, which was the length of the institutional memory of the staff we interviewed.
- NRO had 80 of the 131 misconduct cases in our study: NRO had not suspended or debarred a contractor, consultant or contractor employee since at least 1995 - which was the length of the institutional memory of the staff we interviewed - and probably not since the creation of the agency in 1961.
- NSA had 28 of the 131 misconduct cases in our study: NSA had not suspended or debarred a contractor, consultant or contractor employee from the creation of the agency in 1952 until June 8, 2011; when it suspended three individuals. These suspensions were not reported to EPLS until August 31, 2011, because NSA had not obtained a reporting capability for EPLS until August 5, 2011. NSA had previously considered the debarment of one company and one individual. Instead, debarment action was taken by other Federal entities acting as lead agency.

The down side of this failure to suspend and debar contractors is that it leaves poorly performing or even dishonest contractors free to pursue or participate in other contracts across the Government.

Conclusions

Although the Defense intelligence agency Inspectors General have conducted investigations which documented misconduct by contractors and contractor employees, it appears that the cases have not been reported to the Agencies' SDOs in a manner which the SDOs deemed to be a "referral."

Based upon a review of the case summaries in Appendix A, it would be reasonable to assume that the Defense intelligence agencies should have suspended or debarred some number of the offending contractor employees. Such was not the case.

Historically, the Defense intelligence agencies have not been compliant with Executive Orders 12549 and 12689 in that they have not established effective agency suspension and debarment programs.

Recommendations

1. That the Directors of DIA, NGA, NRO, and NSA establish effective programs within their agencies to ensure:

- that allegations of contractor misconduct are reported,
- that the allegations are investigated,
- that substantiated investigations are referred to their SDOs
- that the SDOs adjudicate the investigations for possible suspension and debarment,
- and that records of the adjudications are maintained.

2. That the Director, DIA, comply with FAR 9.402(e) by directing that the draft DIA Instruction *Suspension and Debarment Procedures* be staffed and published as soon as possible.

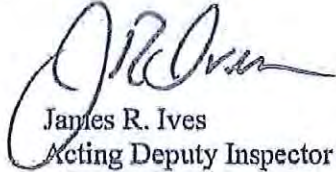
3. That the Directors of DIA and NRO comply with DODI 7050.05 by designating "Centralized Organizations" within their agencies. And, that NGA Instruction NI 7050.5R5 be updated.

4. That the Directors of DIA, NGA, NRO and NSA direct their SDOs to work with the Intelligence Community Procurement Policy Council to develop an effective means of

complying with the contractor performance reporting requirements of the 2009 NDAA and FAR 42.1503.

5. That the Directors of NGA and NRO, direct their SDOs to participate in the ISDC.
6. That the Directors of DIA, NGA, NRO and NSA direct their SDOs to initiate action with the ISDC to develop proposed procedures to facilitate suspension and debarment in cases involving classified contracts and classified supporting information.

We request that you provide responses to these recommendations within 30 days from the date of this memorandum. We appreciate the courtesies extended to our staff. Please direct your responses and any questions to [redacted] at (703) 604-[redacted] DSN 664 [redacted] or [redacted] at (703) 882-[redacted] DSN 381 [redacted] NIPRNET [redacted] JWICS [redacted]. A formal briefing can be provided upon request.



James R. Ives
Acting Deputy Inspector General
for Intelligence and Special
Program Assessments

Attachment:

1. Review of the *Classified Annexes to the Semi-Annual Report to Congress*

cc:

Assistant to the Secretary of Defense for Intelligence Oversight
Chairman, House Permanent Select Committee on Intelligence
Chairman, Senate Select Committee on Intelligence
Chairman, House Armed Services Committee
Chairman, Senate Armed Service Committee
Director of National Intelligence
Inspector General of the Intelligence Community
Deputy Assistant Inspector General for Acquisition and Contract Management, DoD IG

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Acronyms and Abbreviations

ASBCA	Armed Service Board of Contract Appeals
DCAA	Defense Contract Audit Agency
DCIS	Defense Criminal Investigative Service
DIA	Defense Intelligence Agency
DFARS	Defense Federal Acquisition Regulation Supplement
DoD	Department of Defense
DODI	Department of Defense Instruction
DoJ	Department of Justice
EPLS	Excluded Parties List System
IG	Inspector General
ISDC	Interagency Suspension and Debarment Committee
NDAA	National Defense Authorization Act
NGA	National Geospatial-Intelligence Agency
NRO	National Reconnaissance Office
NSA	National Security Agency
SDO	Suspension and Debarment Official

Appendix A. Review of the *Classified Annexes to the Semi-Annual Report to Congress*

Prior to the Inspectors General of the Defense intelligence agencies being designated as statutory inspectors general, the Office of the Deputy Inspector General for Intelligence and Special Program Assessments prepared a classified annex to the DoD IG's semi-annual report to Congress which summarized reports from the Inspectors General on their investigations and audits. We reviewed the semi-annual reports covering the following time periods:

- October 1, 2000, through March 31, 2008: *Compendium of Defense Intelligence-Related Inspector General and Audit Agency Reports.*
- April 1, 2008, to September 30, 2010: *Classified Annex to the Semi-Annual Report to Congress.*

The semi-annual reports were based upon case summaries provided by the Inspectors General of DIA, NGA [identified in the earliest of the following summaries as the National Imagery and Mapping Agency (NIMA)], NRO, and NSA. Since the summaries were of significant cases and were provided by these organizations, we believe that some degree of self-selection was exercised in what was reported to us.

One hundred thirty one unclassified case summaries documenting contractor misconduct - primarily by individual contractor employees - were extracted from the *Compendia/Annexes*, and are listed here in reverse chronological order. Review of these case summaries indicates that the Inspectors General of the Defense intelligence agencies have had some success at identifying fraud in agency contracting, and that they have become progressively more successful over time. The NRO IG has proven particularly adept at partnering with the corporate ethics elements of their contractors. A statistical summary of the reports follows:

AGENCY	CASES REPORTED AND SELECTED FOR THIS STUDY	PERCENTAGE OF TOTAL CASES IN OUR SAMPLE
DIA IG	20	15
NGA/NIMA IG	3	2
NRO IG	80	61
NSA IG	28	22
TOTAL	131	100

1. *Classified Annex to the Semi Annual Report to Congress, April 1, 2010-September 30, 2010:* This was the last *Classified Annex* published.

a. *Conflict of Interest; IG, NSA; Report No. IV-10-0026; August 11, 2010*

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(U//~~FOUO~~) A former NSA senior official violated 18 USC 207(c) when he returned to NSA as a contractor employee within a year of his retirement. The U.S. Attorney's Office declined prosecution. IG forwarded the report to the NSA Associate Director for Security and Counterintelligence and the NSA Office of General Counsel. The former senior official was removed from the contract.

b. *False Claims; IG, NRO; Case No. 2009-0227; April 5, 2010*

(U//~~FOUO~~) IG initiated an investigation based on an allegation that a contractor employee was submitting false time and attendance records. The investigation concluded that the contract employee fraudulently recorded 230 hours against an NRO contract. The U.S. Attorney for Southern Georgia declined prosecution because the contractor terminated the individual's employment and credited \$27,911 to the NRO contract.

c. *False Billing; IG, NSA; Report No. IV-08-0043; April 30, 2008*

(U//~~FOUO~~) An NSA subcontractor submitted 752.25 hours of false labor charges totaling \$81,859 in support of an NSA contract from January 3, 2006, to December 28, 2007. The contractor pled guilty in U.S. District Court to a felony false statement in July 2010. Sentencing was scheduled for October 21, 2010. The NSA Office of General Counsel and NSA contracting officials were to obtain a monetary settlement after completion of the criminal case.

d. *False Claims; IG, NRO; Case No. 2009-176; May 26, 2010*

(U//~~FOUO~~) IG initiated an investigation after being notified by a contractor that an employee had allegedly engaged in labor mischarging by submitting false time and attendance records. IG investigation disclosed that the employee charged 612 questionable hours against an NRO contract. Prosecution was declined by the U.S. Attorney for the Central District of California because the employment of the individual was terminated and full restitution of \$66,484.33 was made to the government.

e. *Contractor Cost Mischarging; IG, DIA; Project No. 2009-006080-OI; June 2, 2010*

(U//~~FOUO~~) IG investigation substantiated cost mischarging by a contract employee. The employee submitted fraudulent time and attendance records for 25.26 regular hours not worked. The loss to the government was \$2,023.92.

f. *False Claims; IG, NRO; Case No. 2003-044; June 17, 2010*

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(U//~~FOUO~~) IG initiated an investigation to support the Department of Justice (DoJ) in a False Claims Act *qui tam* lawsuit filed against an NRO prime contractor. The *qui tam* alleged that the company knowingly provided defective proprietary transistors for use in an NRO spacecraft. The joint investigation developed sufficient evidence to persuade the DoJ to intervene in the case, and pursue multiple civil fraud charges against the company. After more than 6 years, the case was settled before trial for \$325 million – the largest ever civil recovery to that time by a government agency within the Intelligence Community.

g. *False Claims; IG, NRO; Case No. 2009-114; August 2, 2010*

(U//~~FOUO~~) IG initiated a joint investigation with a contractor based on allegations that a contractor employee falsified time records against an NRO contract. A total of 236 hours were mischarged at the fully burdened rate of \$42,140. The company reimbursed NRO the full amount and terminated the employee. The U.S. Attorney for the Central District of California declined prosecution due to full restitution to NRO for the mischarged hours and termination of the employee.

h. *False Claims; IG, NRO; Case No. 2007-073; August 31, 2010*

(U//~~FOUO~~) IG initiated an investigation based on allegations that a former contractor employee had engaged in labor fraud by overcharging hours against an NRO contract. The employee mischarged an NRO contract by a total of 944 hours. The contractor reimbursed NRO at the fully burdened rate of \$42,000 and removed the employee from working on all NRO programs. The U.S. Attorney for the Northern District of California declined prosecution due to the contractor's restitution to the government and removal of the employee from all NRO programs.

i. *False Claims; IG, NRO; Case No. 2007-088; September 10, 2010*

(U//~~FOUO~~) IG initiated a joint investigation with a contractor based on an allegation that a contractor employee was charging hours to multiple NRO and DoD contracts on which he did not work. The employee mischarged approximately 580.4 hours to an NRO contract, with a fully burdened value of \$53,571, and another 1,742 hours to various DoD contracts, with a fully burdened value of \$145,153. The company disciplined its employee by suspending them without pay for 3 weeks and repaid the NRO and DoD in full for the loss. The U.S. Attorney for the Northern District of California declined prosecution due to actions taken by the contractor.

2. Classified Annex to the Semi Annual Report to Congress, October 1, 2009-March 31, 2010

a. False Claims; IG, NRO; Case No. 2009-087; October 28, 2009

(U//~~FOUO~~) In January 2009, IG initiated an investigation based on allegations that an NRO contractor employee was spending two hours per week surfing the web and charging the time against an NRO contract. In partnership with the contractor company's ethics department, IG identified 114 hours inappropriately charged to NRO. The U.S. Attorney for the Eastern District of Virginia declined prosecution because the contractor terminated the employee and credited \$16,996.20 to the NRO contract.

b. False Claims; IG, NRO; Case No. 2009-125; December 4, 2009

(U//~~FOUO~~) In July 2008, IG initiated an investigation into an allegation that a contractor employee had improperly recorded billable hours to an NRO contract. The employee falsely recorded 154 hours in an 18-month period, causing an \$11,032.54 loss to the government. The case was presented to the U.S. Attorney for the District of Colorado, who declined prosecution due to the *de minimus* amount of the loss, and because the contractor reimbursed the government in full.

c. Bribes and Gratuities Investigation; IG, DIA; Project No. 2009-006065-OI; December 2, 2009

(U//~~FOUO~~) IG investigation substantiated an allegation of bribes and gratuities to former DIA contractors. Between February 23 – 25, 2007, during official temporary duty travel to Kuwait, two former DIA contractors accepted an all expense paid trip from Kuwait to Dubai from a Kuwaiti vendor. There was no monetary loss to the government.

d. Procurement Fraud Initiative; IG, NSA; Report No. IV-10-0059

(U//~~FOUO~~) An NSA contractor affiliate fraudulently over billed the government 190 hours (approximately \$22,000) over a 21-month period. The contractor affiliate also billed the government for 37 hours (approximately \$4,300) of unauthorized work.

e. Procurement Fraud Initiative; IG, NSA; Report No. IV-10-0060

(U//~~FOUO~~) An NSA contractor affiliate fraudulently over billed the government 40.75 hours (approximately \$3,800) over a 21-month period.

f. Procurement Fraud Initiative; IG, NSA; Report No. IV-10-0061

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(U//~~FOUO~~) An NSA contractor affiliate fraudulently over billed the government 678.75 hours (approximately \$37,000) over a 21-month period.

g. *Procurement Fraud Initiative; IG, NSA; Report No. IV-10-0062*

(U//~~FOUO~~) An NSA contractor affiliate fraudulently over billed the government 273.75 hours (approximately \$26,000) over a 21-month period.

h. *Procurement Fraud Initiative; IG, NSA; Report No. IV-10-0010*

(U//~~FOUO~~) An NSA contractor affiliate fraudulently over billed the government 366.75 hours (approximately \$41,000) over an 11-month period.

i. *Procurement Fraud Initiative; IG, NSA; Report No. IV-10-0024*

(U//~~FOUO~~) An NSA contractor affiliate fraudulently over billed the government 298.75 hours (approximately \$28,700) over a 9-month period.

3. *Classified Annex to the Semi Annual Report to Congress, April 1, 2009-September 30, 2009*

a. *False Claims; IG, NRO; Case No. 2008-083 I; April 10, 2009*

(U//~~FOUO~~) In April 2008, IG initiated a joint investigation with a contractor into labor mischarging by one of its employees. The employee could not account for 307 hours charged to two NRO contracts from January through April 2008. The contractor debriefed and terminated the employee, and returned \$27,447.50 to the affected contracts. The U.S. Attorney for the Northern District of California declined prosecution due to the *de minimus* loss and restitution to the government.

b. *Contractor Cost Mischarging (Labor Hours); IG, DIA; Project No. 2008-005972-OI; May 27, 2009*

(U//~~FOUO~~) IG investigation substantiated an allegation of cost mischarging by a contract employee. The employee submitted fraudulent time and attendance records to the contractor from April 30, 2007, through March 21, 2008, for 37.87 regular hours that were not worked. The loss to the government was estimated at \$2,340.18. Disciplinary action and debt collection concerning the employee was pending.

c. *Contractor Cost Mischarging (Labor Hours); IG, DIA; Project No. 2008-006085-OI; June 2, 2009*

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(U//~~FOUO~~) IG investigation substantiated an allegation of cost mischarging by a DIA contract employee. The employee submitted fraudulent time and attendance records to the contractor from April 27, 2008, through December 31, 2008, for 177.10 hours which the employee did not work. The contractor reimbursed the government \$2,890.80 of the fraudulent amount, and agreed to make full restitution of an additional \$5,713.18. The employee resigned. Final debt collection from the contractor was pending.

d. *False Claims; IG, NRO; Case No. 2007-120 I; June 26, 2009*

(U//~~FOUO~~) In June 2007, IG initiated a joint investigation with a contractor based on allegations that an contractor employee was accessing pornographic websites on a laptop computer during work hours. A forensics evaluation of the employee's laptop and office computer disclosed that from March 2005 through April 2007 the employee had falsely recorded 200 hours of unauthorized Internet activity against an NRO contract. The contractor credited the NRO contract for \$25,063.82 and placed the employee on a formal written corrective action plan. The U.S. Attorney for the Central District of California declined prosecution due to the *de minimus* loss and restitution to the government.

e. *Theft of Cash; IG, NRO; Case No. 2008-078 I; June 26, 2009*

(U//~~FOUO~~) In April 2008, IG initiated an investigation into the theft of cafeteria monies at an NRO facility. Investigation revealed that the assistant manager, a contractor employee, stole company cash receipts totaling \$32,471.05 during January and February 2008. Although the cash belonged to the company, the theft of company funds from a facility located on Federal property was investigated as a violation of 18 USC 66. This allowed for Federal investigation of any theft of private monies within special maritime and territorial jurisdiction. In response to an arrest warrant executed by FBI, the employee surrendered to the court. The employee pled guilty to felony theft. By sentencing in May 2009, the employee had repaid the company \$11,000. The employee was sentenced to five years probation, ordered to incrementally repay the balance of the monies stolen, and to attend 70 hours of counseling to address his gambling problems.

f. *Contractor Cost Mischarging Investigation; IG, DIA; Project No. 2009-006015-OI; July 6, 2009*

(U//~~FOUO~~) IG investigation substantiated an allegation of cost mischarging by a contract employee. The employee submitted fraudulent time and attendance records for 386.53 regular hours from October 31,

2007, through August 1, 2008. The loss to the government was \$32,271.79. Through a contract modification, the company reimbursed the government the full amount owed. The employee resigned.

g. False Contractor Labor Claims; IG, NSA; Reports Nos. IV-07-0031, IV-08-0016, IV-08-0018, IV-08-0019; March 13 – August 12, 2009

(U//~~FOUO~~) Between 2004 and 2007, five midnight shift contractor employees submitted false and inaccurate timesheets. All five took days off and covered for each other, while claiming 8-hours shifts on their timesheets. The government was over-billed approximately \$116,000 as a result of this fraud. All the employees have left their companies and no longer work on NSA contracts. The most egregious offender pled guilty to three counts of violating 18 USC 1001, False Statement, and was sentenced to 30 days in prison and two years supervised release. The individual was also ordered to pay restitution of nearly \$75,000. The Office of Contracting and the prime contractor were notified of the results of the investigation to facilitate monetary recovery.

h. Procurement Fraud Initiative; IG, NSA; Report No. IV-09-0015

(U//~~FOUO~~) A contractor employee fraudulently billed the government 525 hours (approximately \$58,000) over 14 months for late arrivals, early departures, and long lunches. The employee was terminated by the contractor during the investigation.

i. Procurement Fraud Initiative; IG, NSA; Report No. IV-09-0026

(U//~~FOUO~~) A contractor employee fraudulently billed the government 117.5 hours (approximately \$14,000) over 12 months.

j. Procurement Fraud Initiative; IG, NSA; Report No. IV-09-0031

(U//~~FOUO~~) A contractor employee fraudulently billed the government 502 hours (approximately \$85,000) over 19 months.

4. Classified Annex to the Semi-Annual Report to Congress, October 1, 2008 – March 31, 2009:

a. False Claims; IG, NRO; Case No. 2007-085 I; October 17, 2008

On April 10, 2007, IG initiated an investigation regarding allegations of false claims by a contractor employee. The employee falsely charged 403 hours to NRO contracts between July 2006 and January 2008. The contractor subsequently terminated the employee and reimbursed \$32,443.88 to the affected contracts. The case was briefed to the U.S.

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Attorney for the District of Colorado, but was declined for prosecution because the government was reimbursed for the full amount of the loss.

b. Theft of Government Property Investigation; IG, DIA; Project No. 2008-005913-OI; October 24, 2008

(U//~~FOUO~~) An IG investigation substantiated allegations that a contractor violated the statement of work for a DIA contract when it failed to maintain proper accountability, oversee and manage the logistics operations of the DIA warehouse. A subcontractor violated the statement of work when it failed to follow standard operating procedures for transferring and receiving property. Lack of proper accountability by the contractor contributed to the theft of communications equipment, with an estimated loss to the government was \$13,048.56. Receipt of payment from the contractor was pending.

c. False Claims; IG, NRO; Case No. 2007-181 I; December 9, 2008

(U//~~FOUO~~) On September 26, 2007, IG initiated an investigation on a former contractor employee based on allegations that the employee spent an inordinate amount of work time on the Internet. The employee mischarged 692 labor hours to an NRO contract between August 2004 and February 2008. Subsequently, the contractor reimbursed \$68,688.04 to the affected contract. The U.S. Attorney for the Eastern District of Virginia declined prosecution because the government received reimbursement for the full amount of the monetary loss.

d. False Claims; IG, NRO; Case No. 2008-057 I; January 6, 2009

(U//~~FOUO~~) In February 2008, IG initiated an investigation based on notification from a contractor of an employee's termination for improperly charging hours to an NRO contract. The employee mischarged 750 labor hours between June 2007 and January 2008. Subsequently, the contractor reimbursed \$37,662 to the affected contract. The U.S. Attorney for the Eastern District of Virginia declined prosecution because the government received reimbursement for the full amount of the monetary loss.

e. False Claims; IG, NRO; Case No. 2008-060 I; February 10, 2009

(U//~~FOUO~~) In March 2008, IG initiated an investigation based on a notification from the NRO Office of Security and Counterintelligence that the security access of an NRO contractor employee had been removed for alleged mischarging to NRO contracts. The employee mischarged 565 hours between July 2007 and February 2008. Subsequently, the contractor reimbursed the contract in the amount of \$67,047 and terminated the

employee. The U.S. Attorney for the Eastern District of Virginia declined prosecution because the government was fully reimbursed for the loss.

5. Classified Annex to the Semi Annual Report to Congress, April 1, 2008-September 30, 2008

a. Misuse of Government Property Investigation; IG, DIA; Project No. 2008-005966-OI; April 25, 2008

A contract employee admitted that he stole various item of government-owned information technology equipment from DIA (\$850) and Guantanamo Bay, Cuba (\$150), total value of approximately \$1,000, between 2002 and October 2007. The employee returned the government-owned information technology property he stole from DIA; however, the government-owned unaccountable information technology property he stole while on temporary duty to Guantanamo Bay was disposed of after use. The estimated value of the returned items to DIA was \$850. Disciplinary action was pending.

b. Unaccounted for Government Property Investigation; IG, DIA; Report No. 2007-005844-OI; May 15, 2008

(U//~~FOUO~~) A prime contractor violated the statement of work for a DIA contract when it failed to maintain proper accountability, oversee, and manage the logistics operations of the DIA warehouse that was delegated to a subcontractor. The subcontractor transported three pallets of information technology equipment from the DIA loading dock to the warehouse. The subcontractor failed to ensure the pallet was inventoried and processed into the Integrated Logistics System database and one pallet was missing. The loss to the government is estimated at \$68,967.72. DIA was pending receipt of payment from the contractor.

c. Wrongful Destruction of Government Property Investigation; IG, DIA; Report No. 2007-005941-OI; May 16, 2008

(U//~~FOUO~~) A prime contractor violated the statement of work for a DIA contract when the contractor failed to oversee warehouse logistical operations delegated to a subcontractor who lost accountability of four turnstiles. Further, the subcontractor failed to follow standard operating procedures concerning the moving and receiving process of property into the warehouse. The lack of accountability resulted in four turnstiles being turned into the Defense Reutilization and Management Office for destruction and disposition, resulting in an \$183,368 loss to the government. DIA was pending receipt of payment from the contractor.

d. Standard of Ethical Conduct Investigation; IG, DIA; Project No. 2008-005953-OI; June 11, 2008

(U//~~FOUO~~) Three GG-13 and one GG-12 DIA civilian employees accepted gift cards as gratuities from a company sales representative for placing purchase orders with the company. IG investigation substantiated allegations that the employees violated Title 18 USC 201(c)(1)(B), Title 5, Code of Federal Regulations 2635, and the Federal Acquisition Regulation by accepting the illegal gratuities. Disciplinary action was pending.

e. Contract Improprieties Investigation; IG, DIA; Project No. 2006-005767-OI; September 12, 2008

(U//~~FOUO~~) As the result of a government contract termination for convenience, a contractor submitted fraudulent invoices for payment and DIA overpaid settlement costs in excess of \$1.3 million. Upon demand for reimbursement, the contractor requested an Armed Services Board of Contract Appeals (ASBCA) hearing. As a result of the hearing, the contractor paid \$1,823,114.

f. Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2007-077 I; April 3, 2008

(U//~~FOUO~~) On January 30, 2008, IG initiated an investigation into allegations of cost mischarging by a contractor employee. The Security Manager for an NRO prime contractor informed IG of the termination of an employee based on an internal investigation confirming cost mischarging by the employee. The employee mischarged 498 hours during a 44 week period. The company credited approximately \$44,293 to the affected contracts. IG review of the contractor's investigation supported the company's findings. The U.S. Attorney for the Eastern District of Virginia declined criminal prosecution because the government was reimbursed for the full amount of the monetary loss.

g. Criminal Copyright Infringement; IG, NRO; Case No. 2004-004 I; April 28, 2008

(U//~~FOUO~~) IG completed a joint investigation with the Defense Criminal Investigative Service (DCIS) and FBI of a criminal copyright infringement by a contractor employee. The employee established an Internet website containing over 300 copyrighted titles of computer games, software, and movies available for purchase. The employee manufactured copies of these works using a CD burner in his residence. Customers sent payments directly to the employee by money order and via PayPal.

(U//~~FOUO~~) Between September 1, 2003, and February 27, 2004, the employee distributed 200 copies of copyrighted computer games having a retail value of approximately \$3,900. While the majority of his activity was conducted on his home computer, some activity was traced to an NRO computer. However, it was determined the amount of time charged to the NRO contract was *de minimus*. On May 12, 2007, the employee pled guilty in the U.S. District Court for the Eastern District of Virginia to a single count of criminal copyright infringement, a violation of 17 USC 506(a)(1)(A). On August 24, 2007, the employee was sentenced to two years probation, with a \$2,500 fine, and 100 hours of community service.

h. *Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2005-027 I; May 19, 2008*

(U//~~FOUO~~) During February 2008, IG completed an investigation into allegations of cost mischarging by a contractor employee. The employee frequently performed his duties in buildings with no entry/exit records and spent a great amount of time at a work site that allowed multiple employees to pass-through the building entry/exit readers at the same time. From October 2000 to May 2005 the employee charged up to 1,518 questionable hours against an NRO contract. The contractor reimbursed the government \$38,503 through a contract credit. The U.S. Attorney for the Eastern District of Virginia declined criminal prosecution because of the contractor's reimbursement of the government for the monetary loss.

i. *Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2006-046 I; May 20, 2008*

(U//~~FOUO~~) On March 6, 2006, IG initiated a joint investigation with a prime contractor based on an allegation that a contractor employee, stationed at NRO: (b)(3) 10 USC § 424 was engaged in labor mischarging. Between January 2003 and February 2006 the employee mischarged a total of 768 hours on two NRO contracts at a total loss of \$83,459. The company terminated the employee and agreed to reimburse the government in full. The U.S. Attorney for the Eastern District of Virginia declined criminal prosecution because the contractor terminated the employee and reimbursed the government.

j. *Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2007-089 I; May 21, 2008*

(U//~~FOUO~~) On October 19, 2006, IG initiated a joint investigation with an NRO prime contractor based on allegations of cost mischarging by a contractor employee. From January 2005 through March 2006 the employee charged approximately 242 hours that were not work related to NRO contracts. IG confirmed the company's findings of a loss to NRO of

\$22,927. The employee resigned prior to the completion of the investigation. The U.S. Attorney for the Eastern District of Virginia declined criminal prosecution because full restitution was made to the government.

k. *Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2007-142 I; May 22, 2008*

(U//~~FOUO~~) During August 2007, IG was notified by representatives of an NRO prime contractor that they had conducted an investigation into cost mischarging by a former employee. The employee mischarged 118 hours to NRO contracts for a total loss to NRO of \$19,271. IG confirmed the contractor's investigation. The contractor reimbursed the government. The U.S. Attorney for the Eastern District of Virginia declined criminal prosecution because restitution was made to the government.

l. *Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2007-171 I; June 2, 2008*

(U//~~FOUO~~) On September 10, 2007, IG initiated an investigation based on an allegation that a former contractor employee had engaged in cost mischarging by submitting false time and attendance records. The employee charged 186 questionable hours to NRO contracts between May 1 and September 7, 2007. The hours included late arrival, early departures and other unexplained absences for a total loss of \$17,625 to NRO. The employee resigned before the investigation was completed. The contractor reimbursed the government \$17,625. The U.S. Attorney for the Eastern District of Virginia declined criminal prosecution because restitution was made to the government.

m. *Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2007-023 I; July 1, 2008*

(U//~~FOUO~~) On November 10, 2007, IG initiated an investigation based on notification from a contractor's ethics official that a contract employee accessed sexually explicit websites on company computers during work hours. From August to October 2005, the employee accessed pornographic material on the Internet during work hours and charged those hours to NRO contracts. The contractor terminated the employee and reimbursed \$18,267 to the affected contract. The U.S. Attorney for the Central District of California declined criminal prosecution because the prime contractor reimbursed the government in full.

n. *False Claims; IG, NRO; Case No. 2007-109 I; August 20, 2008*

(U//~~FOUO~~) On May 24, 2007, IG initiated a joint investigation with a contractor regarding cost mischarging by a contractor employee. The

employee falsely charged 687 hours to an NRO contract between January 2005 and January 2007. The contractor terminated the employee and reimbursed \$42,439 to the affected contract. The U.S. Attorney for the Eastern District of Virginia declined criminal prosecution because the prime contractor reimbursed the government in full.

o. Procurement Fraud Initiative; IG, NSA; Control No. IV-07-0055

(U//~~FOUO~~) A subcontractor employee fraudulently billed the government 298 hours (approximately \$56,000) for non-work activities. The company reimbursed the government in full.

p. Procurement Fraud Initiative; IG, NSA; Control No. IV-07-0042.

(U//~~FOUO~~) A subcontractor employee fraudulently billed 374 hours (approximately \$39,000) for time spent at lunch. The company reimbursed the government in full.

q. Procurement Fraud Initiative; IG, NSA; Control No. IV-08-0006.

(U//~~FOUO~~) A contractor employee fraudulently billed 910 hours (approximately \$68,000) for time spent taking college courses.

r. Procurement Fraud Initiative; IG, NSA; Control No. IV-08-0014.

(U//~~FOUO~~) A subcontractor employee billed 582 hours (approximately \$98,000) for work performed at home, which was specifically prohibited under the contract. The contractor offered \$250,000 to settle all claims for out-of-scope work performed by its employees on that contract.

s. Procurement Fraud Initiative; IG, NSA; Control No. IV-08-0043

(U//~~FOUO~~) A contractor employee fraudulently billed 751 hours (approximately \$82,000) for time spent taking care of personal matters during the workday.

6. Report Number 08-INTEL-05; May 16, 2008; *Compendium of DoD Intelligence-Related Inspector General and Audit Agency Reports, October 1, 2007-March 31, 2008*

a. Misuse of Government Resources; IG, DIA; Project No. 2007-0055934-OI; November 15, 2007

(U//~~FOUO~~) IG investigation substantiated allegations that a contract employee misused government resources when he viewed adult pornography on a Government computer, and that he falsely claimed time

which he had not worked. The employee was terminated and the contractor reimbursed DIA for the hours not worked.

b. *Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2007-040 I; November 28, 2007*

(U//~~FOUO~~) On July 19, 2007, IG initiated an investigation based on allegations received from the Office of Security and Counterintelligence of possible cost mischarging by a contractor employee. The employee devoted about one-half of his work days to personal business on the Internet. The employee resigned, and the contractor reimbursed the government \$70,000 for one-half of the employee's time during June 2006 to June 2007. The U.S. Attorney for the Eastern District of Virginia, declined prosecution because the contractor reimbursed the government in full.

c. *Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2007-010 I; December 5, 2007*

(U//~~FOUO~~) On October 10, 2006, IG initiated an investigation based on an anonymous complaint alleging cost mischarging by a contractor employee. IG investigation identified 867.24 questionable hours, with a total burdened value of \$45,716.91, charged to an NRO contract between January 2005 and April 2007. The contractor terminated the employee, and reimbursed the affected contract \$33,665. The U.S. Attorney for the Eastern District of Virginia declined prosecution because the prime contractor reimbursed the government for the full amount of the monetary loss.

d. *Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2006-015 I; December 21, 2007*

(U//~~FOUO~~) On December 1, 2005, the NRO Office of Security and Counterintelligence advised IG of potential cost mischarging by a contractor employee. The employee charged 113 hours to NRO contracts while using an NRO Internet account to view pornography, representing a loss of \$11,184.74 to the government. The employee resigned, and the contractor reimbursed NRO for the loss. The U.S. Attorney for the Eastern District of Virginia declined prosecution because the contractor reimbursed the government in full.

e. *False Claims – Qui Tam; IG, NRO; Case No. 2006-087 I; January 16, 2008*

(U//~~FOUO~~) On June 27, 2006, IG initiated an investigation based on notification from the Civil Division, DoJ, that a civil court False Claims Act case, which DoJ had been pursuing on behalf of government agencies,

might affect several NRO contracts. On December 2005, 11 companies entered into a civil settlement agreement with DoJ to pay reimbursement to the government for the companies' failure to credit federal contract travel rebates. IG examined all 11 companies identified in the civil settlement and found that only one company's actions impacted NRO for a total loss of \$65,117. The contractor subsequently reimbursed NRO in full.

f. Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2007-055 I; February 1, 2008

(U//~~FOUO~~) On October 19, 2006, IG initiated an investigation based on allegations of cost mischarging by a contractor employee. The employee submitted 459 questionable labor hours from January 2005 to September 2006, representing a loss of \$22,927 to NRO. The employee resigned prior to completion of the investigation. The U.S. Attorney for the Eastern District of Virginia declined criminal prosecution in view of the contractor's intent to voluntarily credit the affected contract for the full amount of the loss.

g. Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2007-004 I; February 6, 2008

(U//~~FOUO~~) During June 2006, IG initiated an investigation of cost mischarging by a contractor employee. From January 2005 to September 2006 the employee charged 832 questionable hours for a loss to NRO of \$41,584. The employee was terminated prior to the completion of the investigation. The U.S. Attorney for the Eastern District of Virginia declined criminal prosecution in view of the contractor's intent to voluntarily credit the contract for the full amount of the loss.

h. Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2007-005 I; February 8, 2008

(U//~~FOUO~~) During June 2006, IG initiated an investigation of cost mischarging by a contractor employee. The investigation revealed 1,259 questionable hours were charged to the NRO contract between January 2005 and September 200 for a loss of \$66,285. The employee was terminated by the contractor. The U.S. Attorney for the Eastern District of Virginia declined prosecution due to the contractor's intent to voluntarily credit the contract for the full amount of the loss.

i. Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2007-007 I; February 8, 2008

(U//~~FOUO~~) During June 2006, IG initiated an investigation based on allegations of cost mischarging by a contractor employee. Investigation identified 146 questionable hours charged to an NRO contract between December 2005 and July 2006 for a loss of \$7,283. The employee was terminated by the contractor prior to the close of the investigation. The U.S. Attorney for the Eastern District of Virginia declined prosecution in view of the contractor's intent to voluntarily credit the contract for the full amount of the loss.

j. *Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2007-003 I; February 11, 2008*

(U//~~FOUO~~) During June 2006, IG initiated an investigation into cost mischarging by a contractor employee. The investigation revealed the 426 questionable hours were charged to an NRO contract between September 2004 and July 2006 for a loss of \$21,306, which the company agreed to reimburse. The U.S. Attorney for the Eastern District of Virginia declined prosecution in view of the contractor's intent to voluntarily credit the contract for the full amount of the loss.

k. *Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2007-023 I; February 12, 2008*

(U//~~FOUO~~) During June 2006, IG initiated an investigation into alleged cost mischarging by a contractor employee. Between January 2005 and September 2006, the employee mischarged 1,291 hours to an NRO contract for a total loss of NRO of \$64,552. The employee was terminated by the contractor prior to the completion of the investigation. The U.S. Attorney for the Eastern District of Virginia declined prosecution in view of the contractor's intent to voluntarily credit the contract for the full amount of the loss.

l. *Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2007-011 I; February 27, 2008*

(U//~~FOUO~~) On October 10, 2006, IG initiated an investigation based on allegations of cost mischarging by a contractor employee. Between July 2006 and April 2007, the employee mischarged 149 hours representing a loss of \$7,283. The employee resigned during the investigation. The U.S. Attorney for the Eastern District of Virginia declined prosecution in light of the employee's resignation and the contractor's willingness to provide full reimbursement.

m. *Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2007-078 I; March 3, 2008*

(U//~~FOUO~~) On March 27, 2007, IG initiated an investigation based on allegations of cost mischarging by a former contractor employee. The Office of Security and Counterintelligence advised that a contractor terminated the employee due to improper time and attendance submissions. Investigation revealed that 156.5 questionable hours were charged to NRO contracts between February 2006 and February 2007, representing a monetary loss of \$10,356.26 which the contractor credited back to NRO. The U.S. Attorney for the Eastern Division of Virginia declined prosecution in view of the contractor's reimbursement to NRO in full.

n. *Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2007-002 I; March 3, 2008*

(U//~~FOUO~~) During June 2006, IG initiated an investigation based on an allegation of cost mischarging. From February 2006 to July 2006, the employee submitted a total of 982 questionable hours on the NRO contract, representing a loss of \$66,115. The employee was terminated prior to the completion of the investigation. The U.S. Attorney for the Eastern District of Virginia declined prosecution in view of the contractor's intent to voluntarily credit the contract for the full amount of the loss.

o. *Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2007-006 I; March 5, 2008*

(U//~~FOUO~~) During June 2006, IG initiated an investigation based on allegations of cost mischarging by a contractor employee. From January 2005 to September 2006, the employee recorded a total of 834 questionable hours representing a monetary loss to NRO of \$40,342. The employee was terminated prior to the completion of the investigation. The U.S. Attorney for the Eastern District of Virginia declined prosecution in view of the contractor's intent to voluntarily credit the affected contract for the full amount of the loss.

p. *Child Exploitation; IG, NRO; Case No. 2007-098 I; March 18, 2008*

(U//~~FOUO~~) A joint investigation conducted by the IG and the Fairfax County Police Department revealed that a contractor employee assigned to NRO was engaged in Internet correspondence with underage females from an NRO worksite. The employee's initial activities were reported to IG by NRO network security personnel along with numerous e-mails and real-time electronic chats between the contractor and persons outside of NRO. Most of this material was sexual in nature. Moreover, several of the persons involved described themselves as females in the age range of 14 to 15.

(U//~~FOUO~~) The employee had used an NRO computer to solicit sex from a minor on multiple occasions, a violation of Virginia State Code 18.2, section 374.3, a class 6 felony. A Virginia Commonwealth Attorney went forward with a one felony count indictment. In November 2007, the employee pled guilty. In February 2008 the employee was sentenced to two years in prison; however 1 year and 11 months were ordered to be served as probation. The subject was required to serve the remaining 30 days in the Fairfax County jail and upon release was to be processed as a registered sex offender, and required to undergo treatment for sexual addition.

7. Report Number 087-INTEL-018; November 27, 2007; *Compendium of DoD Intelligence-Related Inspector General and Audit Agency Reports, April 1, 2007-September 30, 2007*

a. Alleged Time and Attendance Abuse; IG, NGA; Case No. 05-038; April 19, 2007

(U//~~FOUO~~) IG investigated an allegation that a government employee, acting in his capacity as a contractor employee for two contractor firms charged both companies for duplicate work hours that were ultimately charged to the Government. During the period reviewed, the employee worked 126 days simultaneously at both companies. A total of 516 hours and 45 minutes overlapped at a cost of \$6,495 to one company, and a cost of \$8,148 to the second. The employee admitted that he submitted time sheets with duplicate work hours to both companies, and that he left his Government job with NGA before completion of his scheduled eight hour workday, in order to report to his contractor part-time jobs. IG was unable to account for those lost hours because the data was inadequate to make that determination. The employee previously received a letter of reprimand for time and attendance abuse from January through November 2000. NGA received reimbursement of \$9,373 for the disputed labor charges, including overhead charges. The employee, who was on administrative leave for failure to maintain a security clearance and access to Sensitive Compartmented Information, was removed from his position in NGA.

b. Crime Analysis Report; IG, DIA; Project No. 2007-005880-OI; July 17, 2007

(U//~~FOUO~~) The contractor failed to maintain accountability for government property valued at approximately \$7.4 million. The contractor did not comply with the contract statement of work, property accountability procedures, and missing or lost property reporting requirements. There were poor internal controls and communications between the contractor and the contracting officer regarding unresolved

property and security issues. Efforts to reconcile the property were underway.

c. *Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2007-049 I; April 1, 2007*

(U//~~FOUO~~) During February 2007, IG initiated an investigation based on information provided by the NRO General Counsel that a prime contractor terminated an employee for mischarging hours to NRO contracts. The company reported that routine monitoring of their computer network suggested that the employee was using company computers to conduct personal business while at work. Between May 2005 and February 2006 the employee fraudulently charged 213 hours to NRO contracts, with a total burdened value of \$17,339. The U.S. Attorney for the Eastern District of Virginia declined prosecution because the prime contractor reimbursed the government for the full amount of the loss.

d. *Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2006-083 I; April 11, 2007*

(U//~~FOUO~~) On June 21, 2006, the NRO Office of Security and Counterintelligence advised IG of potential cost mischarging by a contractor employee. The employee was allegedly engaging in the excessive use of an NRO Internet account for purposes that were not work related. Investigation identified 385 hours inappropriately charged to NRO contracts; representing a loss to the government of \$20,577. The contractor fully reimbursed NRO and terminated the employee. The case was briefed to the U.S. Attorney's Office for the Eastern District of Virginia, but was declined for criminal prosecution because the contractor reimbursed the government for the full amount of the loss.

e. *Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2006-055 I; May 24, 2007*

(U//~~FOUO~~) On March 21, 2006, NRO IG entered into a joint investigation with NSA IG based on an admission of cost mischarging by an NSA Office of Security contractor employee. The employee engaged in cost mischarging between December 2000 and January 2005 on both NRO and NSA contracts. The employee charged 202 hours to NRO contracts from March 1, 2001, to April 30, 2005, representing a total burdened value of \$10,580; and 135 hours to NSA contracts representing a total burdened value of \$18,520. The employee resigned from employment on July 1, 2005. The U.S. Attorney for the Eastern District of Virginia declined prosecution because the contractor reimbursed the government for the full amount of the loss.

f. *Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2007-052 I; June 15, 2007*

(U//~~FOUO~~) On January 29, 2007, IG initiated an investigation based on information provided by the Vice President and Deputy General Counsel of a contractor regarding of cost mischarging by a former employee. A company inquiry had discovered that the employee had engaged in downloading pornography and disseminating inappropriate materials via e-mail while charging hours to an NRO contract. The contractor made a good faith adjustment of 40 hours and credited \$3,380 to the affected contract. The U.S. Attorney for the Central District of California declined prosecution because the contractor reimbursed the government for the full amount of the loss.

g. *Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2007-075 I; July 5, 2007*

(U//~~FOUO~~) On March 22, 2007, IG initiated an investigation based on information provided by the legal office of a contractor regarding allegations of cost mischarging by an employee. On March 31, 2006, the employee was terminated. The employee had fraudulently charged 91 hours between January 30, 2006, and March 31, 2006, which had a burdened value of \$11,529. The U.S. Attorney for the Central District of California declined prosecution because the contractor reimbursed the government for the full amount of the loss.

h. *Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2005-084 I; July 24, 2007*

(U//~~FOUO~~) On August 17, 2005, IG initiated an investigation based on information provided by the Senior Counsel of a contractor regarding cost mischarging by a former employee. A company inquiry had disclosed the employee fraudulently charged hours to several NRO contracts. The employee was terminated in December 2004. The employee mischarged 363 hours to NRO contracts during 2004, which had a total burdened value of \$44,340. The U.S. Attorney for the Central District of California declined prosecution because the contractor reimbursed the government for the full amount of the loss.

i. *Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2007-025 I; August 9, 2007*

(U//~~FOUO~~) On November 6, 2006, IG initiated an investigation based on information obtained from an NRO employee regarding questionable charging practices by a contractor employee. Between July 2005 and November 2006, the employee mischarged 370 hours with a burdened value of \$21,883 to two contracts. The employee was terminated on

December 7, 2006. The U.S. Attorney for the Eastern District of Virginia declined prosecution since the contractor reimbursed the government for the full amount of the loss.

j. Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2006-062 I; September 12, 2007

(U//~~FOUO~~) On May 1, 2006, IG initiated an investigation based on information from the Government Compliance Officer of an NRO contractor that a former employee engaged in cost mischarging while working on an NRO contract. From 2004 through 2006, the contractor employee charged NRO contracts for approximately 5,042 hours which were not worked. This case represented a loss to the government of \$265,698. The U.S. Attorney for the Eastern District of Virginia declined prosecution because the contractor reimbursed the government for the full amount of the loss.

k. Labor Mischarging; IG, NSA; Report No. IV-07-0052; September 12, 2007

(U//~~FOUO~~) IG substantiated an allegation that between January 2006 and June 2007 a contract employee mischarged an NSA contract for 270 hours, amounting to a loss of approximately \$22,000. The contractor reimbursed NSA and dismissed the employee. The U.S. Attorney for the District of Maryland declined prosecution due to the contractor's cooperation and reimbursement to NSA. The matter was referred to the Associate Director for Security and Counterintelligence for possible security clearance action.

8. Report Number 07-INTEL-08; May 7, 2007; *Compendium of DoD Intelligence-Related Inspector General and Audit Agency Reports, October 1, 2006-March 31, 2007*

a. Labor Mischarging; IG, NSA; Report No. IV-06-0059; October 26, 2006

(U//~~FOUO~~) An allegation that a contract employee mischarged 105.9 hours with a value of approximately \$21,211 while working on NSA contracts during the 2005-6 timeframe was substantiated. The contractor reimbursed NSA for the full amount. The employee resigned prior to the start of the investigation. The U.S. Attorney for the District of Maryland declined prosecution due to the contractor's cooperation and reimbursement to NSA.

b. Labor Mischarging; IG, NSA; Report No. IV-06-0060; November 20, 2006

(U//~~FOUO~~) An allegation that a contract employee mischarged 344.5 hours with a value of approximately \$50,065 while working on NSA contracts during the 2005-6 timeframe was substantiated. The contractor

reimbursed NSA the full amount. The U.S. Attorney for the District of Maryland declined prosecution due to the contractor's cooperation and reimbursement to NSA.

c. Labor Mischarging; IG, NSA; Report No. IV-06-0061; February 23, 2006

(U//~~FOUO~~) An allegation that a contract employee mischarged NSA contracts for approximately \$10,000 during the 2005-6 timeframe was substantiated. The contractor reimbursed NSA for the full amount. The employee no longer holds a clearance to work on Agency contracts. The U.S. Attorney for the District of Maryland declined prosecution due to the contractor's cooperation and reimbursement to NSA.

d. Cost Mischarging (Labor Hours); IG, NRO; Case No. 2005-079 I; January 26, 2006

(U//~~FOUO~~) On July 25, 2005, an investigation was initiated based on an anonymous allegation regarding possible cost mischarging by a contractor employee. Investigation identified 569 questionable hours between March 19, 2004, and July 1, 2005, representing a loss to NRO of \$46,000. Although the investigation could not substantially corroborate the cost mischarging, the prime contractor voluntarily reimbursed \$46,000 to NRO. The employee was removed from the contract.

e. Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2005-046 I; February 15, 2007

(U//~~FOUO~~) On March 3, 2005, NRO personnel advised IG of potential cost mischarging by a contractor employee. Investigation revealed that the employee submitted fraudulent claims from January 2004 to December 2005 for 1,042 hours. The contractor reimbursed NRO \$86,880, and terminated the employee. The U.S. Attorney for the Eastern District of Virginia declined prosecution due to the contractor's reimbursement of the full amount of the loss.

f. Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2004-084 I; February 22, 2007

(U//~~FOUO~~) On September 20, 2004, the Office of Security advised IG of potential cost mischarging by a contractor employee. Investigation identified 839 hours inappropriately charged to NRO contracts, representing a loss to the government of \$60,802. The contractor reimbursed NRO and terminated the employee. The U.S. Attorney for the Eastern District of Virginia declined prosecution due to the contractor's reimbursement of the full amount of the loss.

g. *Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2005-066 I; February 22, 2007*

(U//~~FOUO~~) On June 9, 2005, an investigation was initiated based on information provided by a contractor's Senior Counsel regarding the company's inquiry into cost mischarging by a former employee. An IG investigation concluded the employee charged 436 hours to NRO contracts from September 7, 2003, to October 6, 2004, representing a loss to NRO of \$84,704. The contractor reimbursed NRO for the full amount of the loss and the employee resigned.

h. *Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2005-085 I; March 16, 2007*

(U//~~FOUO~~) On August 17, 2005, an investigation was initiated based on information provided by a contractor's Senior Counsel regarding the company's inquiry into labor mischarging by a former employee. IG investigation concluded that the employee charged 767.1 hours to NRO contracts between calendar year 2003 and calendar year 2004, with a burdened value of \$106,020. The full amount of the loss was reimbursed to NRO by the contractor, and the employee was terminated on January 10, 2005. The U.S. Attorney for the Southern District of California declined prosecution due to the amount of monetary loss.

i. *Cost Mischarging (Labor-Hours); IG, NRO; Case No. 2005-086 I; March 16, 2007*

(U//~~FOUO~~) On August 17, 2005, an investigation was initiated based on information provided by a contractor's Senior Counsel regarding the company's inquiry into labor mischarging by a former employee. IG investigation concluded that the employee charged 91.3 hours to NRO contracts during the period April 18 - 22, 2005, which represented a loss to NRO of \$8,359. The full amount of the loss was reimbursed to NRO by the contractor, and the employee was terminated on June 16, 2005. The U.S. Attorney for the Southern District of California declined prosecution due to the amount of loss.

9. Report Number 07-INTEL-02; November 20, 2006; *Compendium of DoD Intelligence-Related Inspector General and Audit Agency Reports, April 1, 2006-September 30, 2006*

a. *Cost Mischarging (Labor Hours); IG, NRO; Case No. 2005-081 I; April 3, 2006*

(U//~~FOUO~~) On August 4, 2005, the NRO Office of Security and Counterintelligence referred information to IG regarding an employee of

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an NRO contractor who admitted during his security update that he engaged in mischarging while working on NRO contracts. An IG investigation was conducted with assistance from the contractor's compliance department. From September 2004 to April 2005, the employee mischarged over 379 hours while working on NRO contracts. The contractor terminated the employee, and credited NRO \$37,734.92. The U.S. Attorney for the Eastern District of Virginia declined prosecution due to the contractor's reimbursement to NRO and the employee's termination.

b. *Cost Mischarging (Labor Hours); IG, NRO; Case No. 2005-094 I; June 8, 2006*

(U//~~FOUO~~) On September 7, 2005, NRO personnel advised IG of labor mischarging by a contractor's employee. A joint investigation with the contractor identified 93 questionable hours charged to NRO contracts. The contractor voluntarily assumed liability and reimbursed \$15,891.65 to NRO. The employee resigned in lieu of termination.

c. *Criminal Investigation; IG, DIA; Project No. 2006-005731-OI; June 28, 2006*

(U//~~FOUO~~) A preliminary inquiry determined there were significant discrepancies in the time and attendance of a contractor, who had 12 months experience with DIA. The subsequent criminal investigation found that the employee falsified claims for regular work hours and overtime resulting in the payment of more than \$4,000 to which the employee was not entitled. The subject admitted guilt and agreed to reimburse DIA.

d. *Cost Mischarging (Labor Hours); IG, NRO; Case No. 2006-014 I; July 19, 2006*

(U//~~FOUO~~) On November 17, 2005, a contractor's Ethics and Compliance Office notified IG of potential labor mischarging by an employee. A joint investigation identified 299.9 hours not worked between January 1 and November 11, 2005. The employee resigned, and NRO was reimbursed \$22,866.83 by the company. The U.S. Attorney for the Eastern District of Virginia declined prosecution due to the contractor's reimbursement to NRO and the employee's resignation.

10. Report Number 06-INTEL-05; May 5, 2006; *Compendium of DoD Intelligence-Related Inspector General and Audit Agency Reports, October 1, 2005-March 31, 2006*

a. *Cost Mischarging; IG, NRO; Case No. 2005-023 I; October 6, 2005*

(U//~~FOUO~~) IG investigated an allegation that a contract employee had charged hours on NRO contracts without actually working those hours. The contractor's compliance office assisted IG during the investigation, which revealed that during 2003 and 2004 the employee falsely charged 406.5 regular hours and 68 overtime hours on NRO contracts, for a total loss to NRO of approximately \$53,304. The contractor reimbursed NRO, and terminated the employee. The U.S. Attorney for the Eastern District of Virginia declined prosecution due to the company's cooperation in the case.

b. *Cost Mischarging; IG, NRO; Case No. 2004-073 I; October 6, 2005*

(U//~~FOUO~~) IG investigation resulted from an allegation that a contractor employee had mischarged a number of hours on NRO contracts. The contractor's compliance office assisted IG during the investigation, which revealed that during 2003 and 2004 the employee falsely charged NRO contracts for approximately 556 regular hours and 43 overtime hours for a loss to NRO of approximately \$45,314. The contractor reimbursed NRO, and terminated the employee. The U.S. Attorney for the Eastern District of Virginia declined prosecution due to the company's cooperation and restitution.

c. *Cost Mischarging; IG, NRO; Case No. 2005-024 I; November 9, 2005*

(U//~~FOUO~~) This investigation resulted from an allegation that a contract employee had mischarged hours while working on NRO contracts. IG was assisted by the contractor's compliance office in conducting this investigation. During 2003 and 2004, the employee charged NRO contracts for approximately 186 regular hours and 35 overtime hours for a loss of approximately \$6,114. When confronted by their company, the employee resigned. The U.S. Attorney for the Eastern District of Virginia declined prosecution due to the contractor's reimbursement to NRO.

d. *Cost Mischarging; IG, NRO; Case No. 2005-025 I; November 9, 2005*

(U//~~FOUO~~) IG received an allegation that a contract employee mischarged hours while working on NRO contracts. The investigation was conducted with assistance from the contractor's compliance department, and revealed that during 2004, the employee charged NRO contracts for approximately 95 hours that she did not work. These hours were billed as part of the indirect, general, and administrative costs, which resulted in a limited financial impact on NRO contracts. The contractor terminated the employee. The U.S. Attorney for the Eastern District of Virginia declined prosecution.

e. *Cost Mischarging; IG, NRO; Case No. 2004-006 I; December 19, 2005*

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(U//~~FOUO~~) An audit by a NRO contractor indicated that a subcontractor employee was filing false invoices. The prime contractor provided IG with assistance during the investigation. The employee had falsely charged \$36,156 between November 2002 and August 2003 by claiming that hotel expenses for personal vacations, gasoline for a personal vehicle, and a number of personal items such as tools, DVDs, CDs, and various software applications, were expenses were related to his work.

(U//~~FOUO~~) The prime contractor admitted that the company did an inadequate job of scrutinizing the employee's general performance, his claims of overtime, and the validity of his expense reports. The prime contractor directed the subcontractor to remove the employee and subsequently credited NRO for the false charges. The U.S. Attorney for the Eastern District of Virginia declined prosecution given the company's cooperation.

f. *Criminal Investigation; IG, DIA; Report No. 05-5688-OI-055; December 30, 2005*

(U//~~FOUO~~) IG investigation into allegations of time and attendance fraud by a contract employee sustained the allegation, documented that the employee's resumes were false, and raised issues of labor rate mischarging by the contractor. The case was referred to management for recoupment of \$37,964 in fraudulent claims, and renegotiation of the labor rates charged for the employee.

11. Report Number 06-INTEL-01; November 4, 2005; *Compendium of DoD Intelligence-Related Inspector General and Audit Agency Reports, April 1, 2005-September 30, 2005*

a. *False Claims and Kickbacks; IG, NRO; Case No. 2000-036 I; May 2, 2005.*

(U//~~FOUO~~) In December 2004, IG completed a joint criminal investigation with FBI and DCIS that examined allegations of false claims and kickbacks by contractors involved in NRO contracts. Between 1996 and 2000, several construction company employees paid gratuities to numerous employees of an NRO contractor, who in turn provided favorable treatment to the construction companies on jobs for NRO and DoD.

(U//~~FOUO~~) Six employees of the prime contractor and three subcontractors pled guilty to obstruction of justice, acceptance of gratuities and kickbacks, causing another to submit a false or fraudulent claim, and conspiracy to defraud the United States. One employee of the NRO prime contractor was sentenced to 12 months in jail; two others

received six months home detention; and the vice president of one of the construction companies was sentenced to 13 months in jail. The total criminal restitution exceeded \$1.6 million. DoJ determined that it had valid civil claims against the prime NRO contractor. In lieu of litigating these claims, that contractor entered into a Release and Settlement Agreement to pay \$1 million to the government. DoJ also determined that it had valid civil claims against the president of one of the construction companies under the False Claims Act. In lieu of litigating those claims, the president of the construction company entered into a civil settlement agreement to pay \$200,000 to the government. IG noted inadequate internal controls in the NRO prime contractor's facility operations, which contributed to the fraud. Investigators identified a lack of separation among the various duties in the hiring of pre-approved contractors without competitive bidding. Investigators also noted a lack of oversight of the subcontractors. The subcontractors were not required to submit supporting invoice data or vendor invoices.

(U//~~FOUO~~) The NRO prime contractor revised and improved its processes and internal controls regarding facility contracts, thus reducing the risk of fraud in the future. The company's procurement department selects pre-approved contractors for projects less than \$10,000; all other projects require bids by at least two pre-approved contractors. The procurement department, vice the facilities department, has the authority to approve the scope of construction work and to approve invoices.

b. Inappropriate Representation Before the Government; IG, NSA; Report No. IV-05-0011; June 2005

(U//~~FOUO~~) An NSA employee who "moonlighted" part-time for a contractor inappropriately represented the contractor in a meeting before the Government, in a particular matter in which the United States was a party and had a direct interest. Due to the potential Title 18 violations, the report was referred to the DoJ for a prosecutive opinion.

c. Inappropriate Representation Before the Government and Misuse of Resources; IG, NSA; Report No. IV-05-0005; September 2005

(U//~~FOUO~~) An NSA employee who established a software company inappropriately represented his company in a presentation before the government. The employee misused government resources to solicit and conduct private business. The employee and his business associate knowingly misused government information systems to solicit business for their private company. Due to potential Title 18 violations, the matter was referred to DoJ for a prosecutive opinion.

d. False Claims; IG, NRO; Case No. 2004-076 I; September 2, 2005

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(U//~~FOUO~~) IG investigation resulted from an allegation that an employee of an NRO contractor had mischarged hours while working on NRO contracts. IG was assisted by the contractor's Compliance Office. In 2003 and 2004, the employee charged NRO contracts for approximately 852 regular hours and 293 overtime hours for a loss of approximately \$139,300. The contractor reimbursed NRO, and terminated the employee. The U.S. Attorney for the Eastern District of Virginia declined prosecution.

12. Report Number 05-INTEL-04; May 12, 2005; *Compendium of DoD Intelligence-Related Inspector General and Audit Agency Reports, October 1, 2004-March 31, 2005*

a. Criminal Investigation; IG, DIA; Report No. 04-5602-OI-060; October 4, 2004

(U//~~FOUO~~) IG investigation was based on allegations that contractor employees had unlawfully acquired contraband weapons in Iraq. Two contractor personnel had acquired an AK-47 assault rifle and a British Enfield rifle. The two employees were fired and returned to the U.S.

b. Criminal Investigation; IG, DIA; Report No. 04-5472-OI-064; November 19, 2004

(U//~~FOUO~~) IG investigation was based on an allegation that the explosives detection dogs and handlers provided by a contractor to help guard DIA facilities could not detect explosives. The allegation was sustained through investigation and by observation when the dogs and their handlers experienced a 100 percent failure rate in three separate tests by disinterested evaluators. The case was declined by DoJ for prosecution. The 5-year contract was terminated after 18 months and the expenditure of \$652,065. A final payment to the contractor of \$3,800 was withheld. A new contract to a qualified contractor was expeditiously granted.

c. Criminal Investigation; IG, DIA; Report No. 98-4773-OI-071' March 4, 2005

(U//~~FOUO~~) IG investigation into the failure of a foreign materiel acquisition demonstrated that a contractor defrauded DIA of \$533,200 in advance payments on the contract when the contractor failed to deliver the materiel for which DIA had contracted and paid. Although investigated under the supervision of a DoJ prosecutor, the case was ultimately declined for prosecution by DoJ management.

(U//~~FOUO~~) Based upon the investigation, DIA and Army counsel were able to defend DIA against a multi-million dollar civil claim for wrongful contract termination brought by the contractor before the ASBCA. Also

based upon the investigation, the U.S. Air Force debarred the contractor and its three principal officers from further government contracting for three years. The Air Force debarment was based on fraud discovered by IG on a separate Air Force contract, not on the DIA contract. Since the contractor had filed for bankruptcy, no attempt was made to affect a civil recovery.

d. Release and Civil Settlement Agreement; IG, NRO; Case No. 2004-031 I; November 30, 2004

(U//~~FOUO~~) Joint IG and DoJ investigation revealed that an NRO contractor had employed a method for escalating labor rates for individuals under contract. Under its billing method, the contractor achieved a profit more than double the rate proposed in its contract. Rather than litigating claims that these actions violated the Civil False Claims Act, the contractor and the government entered into a settlement agreement. The contractor paid a settlement of \$1.9 million in exchange for being released from any civil claim or criminal prosecution. The NRO Office of Contracts and IG initiated a joint effort to eliminate such billing practices by this contractor on any future contracts.

13. Report Number 05-INTEL-02; Compendium of Defense Intelligence-Related Inspector General and Audit Agency Reports; April 1, 2004 – September 30, 2004:

a. Criminal Investigation; IG, DIA; Report No. 04-5567-OI-072; June 25, 2004

A foreign national contractor in Iraq indecently assaulted a foreign national coalition force member. The contractor was removed from Iraq and terminated by their employer.

b. Independent Inquiry Support Regarding Erskine Hall Flooding; IG, NGA; Case No. 04-031; August 27, 2004

(U//~~FOUO~~) IG conducted an inquiry into the events leading to a subcontractor cutting a fire sprinkler water line on May 15, 2004, resulting in extensive flood damage at NGA Headquarters. NGA and contractor officials responsible for a water meter installation failed to use current facility Record Drawings to identify the water pipes to be metered, but relied on memory and blueprints of uncertain age and origin. Further, the NGA employee prepared a statement of work for the project that lacked details or drawings. The contractor incorporated the NGA employee's statement of work into their subcontract with the subcontracted plumbing company, and did not include drawings or detailed specifications. The prime contractor did not develop a plan for the project. The prime contractor's project management personnel, including the individual assigned as the point of contact on May 15,

2004, lacked technical expertise to respond to the incident when it occurred. NGA did not observe DoD Unified Facilities Guide Specifications standards for marking fire sprinkler system water pipes. NGA Security Police personnel failed to respond to an initial trouble alarm when the plumbers and a prime contractor supervisor closed a valve on the sprinkler system line. The NGA Disaster Preparedness Plan lacked detailed response procedure information and had not been tested for water and sewage emergencies. Finally, the subcontractor plumbers failed to test the line for pressure one final time before cutting the line.

c. Release and Civil Settlement Agreement; IG, NRO; Case No. 2004-070 I; September 9, 2004

This investigation was conducted to determine the amount and the strength of civil claims against an NRO contractor regarding the acceptance of kickbacks and the submission of false claims by employees of that contractor. A joint criminal investigation with FBI and DCIS determined that employees of a subcontractor to the prime NRO contractor paid gratuities to several building managers employed by the prime contractor in order to reward the building managers for providing favorable treatment to the subcontractor on construction jobs at the prime contractor's facilities. Six building managers employed by the prime contractor, three subcontractors and a building manager's wife pled guilty to obstruction of justice, acceptance of gratuities and kickbacks, causing another to submit a false or fraudulent claim, and conspiracy to defraud the government. The total criminal restitution exceeded \$1.6 million.

Based upon the criminal prosecution, DoJ determined that it had civil claims against the prime contractor under the False Claims Act. In lieu of litigating those claims, the prime contractor entered into a Release and Settlement Agreement with the government through the U.S. Attorney for the Eastern District of Virginia. Under the agreement, the prime contractor paid the government \$1 million and the government released the contractor from any civil or administrative claims.

d. GROUNDBREAKER Contract Costs; IG, NSA; Report No. ST-04-0021; September 13, 2004

(U//FOUO)

NSA: (b) (3), 50 USC § 3605 (P.L. 86-36 § 6)



14. Report Number 04-INTEL-08; May 3, 2004; *Compendium of DoD Intelligence-Related Inspector General and Audit Agency Reports, October 1, 2003-March 31, 2004*

a. *Obstruction of Justice; IG, NRO; Case No. 2003-082 I; December 3, 2003*

This joint IG, FBI and DCIS investigation proved an employee of an NRO prime contractor received kickbacks in the form of expensive free fishing trips paid for by the vice president of a subcontracting firm. Subpoenaed documents led to the discovery of numerous fishing trips, including to Alaska and Mexico, in which the employee participated. The cost of the employee's participation paid for by the subcontractor was \$42,000.

The employee stated that he paid for his own expenses and provided investigators 10 cancelled checks, totaling approximately \$13,000, made payable to various fishing charters and to the subcontractor firm's vice president. The employee presented the cancelled checks as proof of payment for his expenses. Investigative review of bank account transactions and interviews revealed that the vice president reimbursed the employee for each of the 10 cancelled checks, exposing the deception. Subsequently, the employee pled guilty to obstruction of justice and was sentenced to 24-months supervised probation, 6-months home detention, ordered to pay restitution of \$42,000, and fined \$5,000.

b. *Procurement Fraud (Acceptance of Gratuities); IG, NRO; Case No. 2004-011 I; January 8, 2004*

A former employee of an NRO contractor was responsible for maintenance and repair of facilities owned and/or leased by the contractor. This joint IG, FBI and DCIS investigation proved the employee received numerous meals, golf clubs, and golf outings paid for by a subcontractor that performed facilities maintenance and repair. The subcontractor paid for the employee to participate in a golf tour of Scotland valued at approximately \$22,000. The employee pled guilty to acceptance of gratuities in connection with an NRO contract. He was sentenced to 24-months supervised probation, ordered to pay restitution of \$17,000, and fined \$5,000.

c. *Release and Civil Settlement Agreement; IG, NRO; Case No. 2003-103 I; January 14, 2004*

The objective of this investigation was to determine the extent of involvement the president of a subcontracting firm had in the solicitation and payment of kickbacks to employees of a NRO prime contractor. A

joint IG, FBI and DCIS investigation determined that this subcontracting firm performed multipurpose construction projects for the prime. The subcontracting firm's vice president confirmed that the president was aware of many of the kickbacks provided to the prime's employees. However, the president was always informed afterwards, was never involved in the decision and approval of those kickbacks, nor was the president involved in the false claims submitted through the prime to the government. Absent active involvement by the president, the U.S. Attorney for the Eastern District of Virginia declined criminal prosecution of the president and referred the matter to the Civil Division. The vice president, however, was prosecuted.

The Civil Division determined that it had valid civil claims against the subcontracting firm, the president and the vice president under the False Claims Act. In lieu of litigating those claims, the president and vice president entered into a Release and Settlement Agreement to pay the government \$200,000. The vice president agreed to transfer his ownership in the firm, including transfer of his stock. The U.S. agreed to release the firm, its president and vice president from any civil monetary claim it may have under the False Claims Act. The vice president received credit of \$200,000 against the \$1,339,196 restitution obligation to NRO that he was assessed in his criminal conviction. At least a portion of the \$200,000 payment, if not all, was to come to NRO.

d. *Cost Mischarging; IG, NRO; Case No. 2003-090 I; January 22, 2004*

(U//~~FOUO~~) An NRO contractor's Ethics and Compliance Office contacted NRO concerning an employee who was found cost mischarging on a contract and misusing government computer and telephone systems. At the time of the report, the firm had already credited the contract with the \$17,015 it calculated as being equal to the value of the mischarging. The employee resigned. The firm's Ethics and Compliance Department cooperated with IG by providing necessary documentation to enable an independent assessment of the damages. IG concurred with the firm's calculations.

15. Report Number 04-INTEL-01; November 19, 2003; *Compendium of DoD Intelligence-Related Inspector General and Audit Agency Reports, April 1, 2003-September 30, 2003*

a. *Conflict of Interest; IG, NSA; Report No. IV-02-0033; June 2, 2003*

IG investigation found that an NSA civilian violated DoD regulations by representing his personal company before another federal agency in connection with government contracts. The investigation further concluded that there was a conflict, albeit unintentional, between the

employees outside employment and his official duties; a violation of the Code of Federal Regulations. Since the employee's actions were a probable technical violation of federal law, the IG forwarded the report to the NSA Office of General Counsel for any action deemed appropriate.

b. Obstruction of Justice; IG, NRO; Report Nos. 2003-064 and 2003-065; May 29, 2003

The objective of these investigations was to determine if two brothers, both former employees of an NRO contractor, engaged in obstruction of justice. Based on a lead from the NRO Office of the Security, IG, FBI, and DCIS initiated an investigation into kickbacks from a subcontractor to employees of an NRO prime contractor. Early in the investigation, the older brother was identified as receiving minimal kickbacks and agreed to assist the investigation by wearing a recoding device and engaging in conversation with the subcontractor believed to have been making the kickback payments. In order to prevent the investigative team from gathering information about his younger brother (of whom the government had no knowledge), the older brother alerted the subcontractor to the recording device.

The older brother also alerted his younger brother about the investigation. Upon learning of the investigation, the younger brother and his wife created bogus receipts purporting to show cash payments to the subcontractor for furniture and home improvements. The older brother pled guilty to obstruction of justice and was sentenced to 12 months supervised probation and 6 months home detention. The younger brother and his wife also pled guilty to obstruction and were each sentenced to 24 months supervised probation and 6 months home detention. The younger brother was also ordered to pay \$26,462 in restitution.

c. Conspiracy to Defraud the U.S. and Violation of Anti-Kickback Act of 1986; IG, NRO; Report No. 2003-072; July 24, 2003

The objective of this investigation was to determine if a former employee of an NRO prime contractor conspired with a subcontractor to cause kickbacks and other fraudulent costs to be included in contract charges to NRO and DoD. Based on a lead from the NRO Office of Security, IG, FBI, and DCIS initiated an investigation that determined that the employee allowed the subcontractor to submit invoices containing fraudulent costs of \$106,000 on 16 jobs in exchange for gratuities in the form of home improvements, merchandise, and cash. In one case, the employee caused the prime contractor to pay the subcontractor \$23,146 for a non-existent repair job. The employee pled guilty to conspiracy to defraud the U.S. and to cause another to submit a fraudulent claim to the

U.S. He was sentenced to 12 months and 1 day incarceration; 24 months supervised probation, and was ordered to pay \$106,000 in restitution.

d. Alleged Labor Mischarging and Violation of the False Claims Act by an NRO Contractor; IG, NRO; Report No. 2002-069; September 11, 2003

(U//~~FOUO~~) The investigation was conducted to determine if officers of a contractor had deliberately underestimated the amount of money owed NRO as a result of fraudulent acts by some of its employees. The mischarging allegation stemmed from a Defense Contract Audit Agency (DCAA) audit and a subsequent internal contractor investigation showing that 22 janitors employed by the contractor had claimed more than 13,000 fraudulent hours from January 2000 to March 2002. Although both DCAA and the contractor agreed that the janitors had mischarged hours, DCAA believed that the amount of restitution calculated by the contractor was grossly underestimated and was possibly a deliberate false representation.

(U//~~FOUO~~) The information reported by DCAA resulted in a joint investigation involving IG, FBI and DCIS. The investigation found no evidence to support the DCAA claim that the contractor deliberately underestimated the amount of money NRO should recover on the affected contracts. The U.S. Attorney for the Eastern District of Virginia elected to waive prosecution in lieu of the administrative settlement for \$376,290 between the contractor and NRO.

e. Alleged Labor Mischarging by an NRO Contractor; IG, NRO; Report No. 2002-083; September 11, 2003

(U//~~FOUO~~) A contractor reported that its internal investigation determined that an employee inflated their hours on two NRO contracts resulting in a mischarge of over \$30,000. From review of the contractor's investigative report, it appeared that the contractor significantly underestimated the number of mischarged hours and incorrectly calculated the amount of money to be credited to NRO. The contractor's calculations NRO only included the direct labor costs that the employee mischarged, when they should have calculated the labor costs at the "burden rate," which corresponds with how the contracts were structured. It also appeared that the contractor calculated that the employee mischarged 12 hours per week for a period of 50 weeks, whereas it seemed evident to IG that the contractor's documentation supported a conclusion that between 20 to 27 hours were mischarged per week for a period of 21 months. IG briefed the case to the U.S. Attorney, who declined prosecution in lieu of an administrative settlement with the contractor for \$142,336.

16. Report Number 03-INTEL-13; July 1, 2003; *Compendium of DoD Intelligence-Related Inspector General and Audit Agency Reports, October 1, 2002-March 31, 2003*

a. *Accepting Kickbacks in Connection with a Government Contract; Violation of the Anti-Kickback Act of 1986; IG, NRO; Report No. 2002-086; October 2, 2002*

A DoD prime contractor was found guilty in federal court of violating the Anti-Kickback Act of 1986. A building manager pled guilty to one count of criminal violation of 41 USC 53(2), Accepting Kickbacks in Connection with a Government Contract, and further agreed to assist the government in the investigation. The case was initiated by IG as a result of a lead from the NRO Office of Security, and was later joined by FBI and DCIS. The building manager admitted to accepting numerous gratuities totaling approximately \$66,000 from subcontractors that maintained and modified the prime contractor's buildings. The gratuities included a computer, trips to Las Vegas, car repairs, and home remodeling. The building manager accepted the gratuities knowing that the subcontractors intended to reward him for favorable treatment in connection with future contracts. The prime contractor, in turn, unwittingly passed the cost of these gratuities on to its government customers, including NRO. On August 14, 2002, the building manager was sentenced to three years probation and fined \$2,000. His cooperation with the government investigation was a significant factor in determining his sentence.

b. *NSA Contractor Labor Hour Investigation; IG, NSA; Case No. IV-02-0021; November 8, 2002*

(U//~~FOUO~~) IG investigated a complaint that a contractor employee claimed hours in excess of what he actually worked. NSA was improperly charged for 857 labor hours, amounting to \$65,337.68. The company agreed to repay the NSA, and the employee was terminated. The case was referred to DCIS for consideration of criminal charges against the former contractor employee.

c. *Conspiracy to Defraud the United States and Violations of the Anti-Kickback Act of 1986; IG, NRO; Report No. 2003-041; January 14, 2003*

On September 13, 2002, a subcontractor to an NRO and DoD prime contractor was found guilty in federal court of conspiracy to defraud the United States and paying kickbacks to employees of the prime contractor, thereby violating the Anti-Kickback Act. In a plea agreement the subcontractor admitted to a conspiracy with the prime contractor's employees to cause kickbacks and other fraudulent costs to be included in the contract price charged to NRO and DoD by the prime contractor. The

case was initiated by IG as a result of a lead from the NRO Office of Security, and was later joined by FBI and DCIS.

The kickbacks, totaling approximately \$83,000 included cash, a Rolex watch, a computer, trips to Las Vegas, golfing, car repairs, and home remodeling. The prime contractor's employees solicited and accepted the kickbacks with the intent of rewarding the subcontractor with favorable treatment. The subcontractor concealed the cost of the kickbacks in its cost to the prime, along with other false costing data, which was passed along to NRO. On December 5, 2002, the subcontractor was sentenced to three years probation, ordered to pay \$83,000 restitution (\$77,000 to NRO), and assessed a \$100 fee. The subcontractor's cooperation and identification of con-conspirators was a significant factor in determining his sentence.

d. Conspiracy to Defraud the United States and Violations of the Anti-Kickback Act of 1986; IG, NRO; Report No. 2003-043; March 25, 2003

On October 23, 2002, a part owner and manager of a subcontracting firm working with an NRO and DoD prime contractor pleaded guilty in federal court to conspiracy to defraud the United States by facilitating kickbacks to the prime contractor's building managers and overcharging the prime contractor approximately \$1.33 million for work done at the prime's facility from 1996 through 200. The prime contractor passed on 94 percent of the overcharges to the government, including NRO, in the form of engineering overhead costs associated with the prime's performance of government contracts. The case was initiated by IG as a result of lead from the NRO Office of Security, and was later joined by FBI and DCIS.

The part owner managed the day-to-day affairs of the subcontracting firm, which held a contract with the prime contractor to repair, maintain, and modify facilities used by the prime in its performance of government contracts. The part owner authorized his project manager to spend approximately \$100,000 in gratuities for one of the prime's building managers and also authorized substantial gratuities to be paid to other building managers to influence and reward them in connection with their continued business. On January 30, 2003, the part owner was sentenced to 13 months of incarceration and ordered to pay restitution in the amount of \$1,258,844 to NRO and \$80,352 to the prime contractor. The part owner's cooperation was a significant factor in determining his sentence.

17. Report Number 03-OIR-01; October 30, 2002; *Compendium of DoD Intelligence-Related Inspector General and Audit Agency Reports, April 1-September 30, 2002*

a. Allegation of Contract Fraud; IG, NSA, Report No. IV-00-0032, April 10, 2002

This investigation was conducted to review potential false claims by a contractor for computer software, installation and training totaling \$286,300, which were never received by NSA. An NSA employee received and lost the software and was careless when he mistakenly authorized a \$6,500 payment for installation and training prior to those services being received. Additionally, the employee failed to protect government property by not developing, implementing, and utilizing an effective property accountability system for the software under his control – resulting in the loss of \$270,400 in software. The terms of the contract required installation of the software. The software was not installed; there was no performance under the contract and no final acceptance of services and materials. The employee was given a verbal reprimand, and an action to terminate the contract for default and recovery of approximately \$700,000 paid on behalf of three federal agencies, was pending against the contractor.

18. Report Number 02-OIR-07; May 16, 2002; *Compendium of DoD Intelligence-Related Inspector General and Audit Agency Reports, October 1, 2001-March 31, 2002*

a. *Senior Official Investigation; IG, NSA, Report No. IV-01-0047, February 5, 2002*

The investigation found that a senior official, who worked part-time for an NSA contractor, represented this employer at a meeting with NSA representatives. The purpose of the meeting was to discuss matters related to a contract with NSA. The official engaged in outside employment activity that conflicted with his official duties. This same senior official was investigated by IG a year earlier, and was found to have represented his contractor employer at a meeting with NSA employees. The NSA Office of Employee Relations had subsequently counseled the official concerning his responsibilities. After the first investigation, the senior official's NSA management advised IG that he would avoid any future contact with government employees while working in his capacity as a contractor. The senior official failed to adhere to this guidance. Administrative actions were pending.

b. ~~(U//FOUO)~~ *Ethical Misconduct – Undue Influence by a COR Regarding Contractor Hiring; IG, NIMA, Case No. 00-059-J, December 21, 2000*

~~(U//FOUO)~~ A NIMA Contracting Officer's Representative (COR) misused his authority by recommending the hiring of a former NIMA employee who was a personal friend. The task order indicated the contractor's employees did not meet NIMA's minimum qualifications to perform the functions specified under the task order. The contracting officer had allowed the contractor to self-certify their employees' qualifications, resulting in labor mischarging in excess of \$1.6 million. IG referred the case to DCIS on December 21, 2000, and in January

2002, DCIS confirmed that \$1.6 million in overbilling had occurred. The case was referred to DoJ which was in final settlement negotiations with the contractor and NIMA.

c. Post Employment Conflict of Interest; IG, NRO, Report No. 1999-013 I, February 28, 2002

(U//~~FOUO~~) A former U.S. military officer assigned to NRO as a program manager retired and was allegedly immediately hired by the contractors to work on the same contract for which he had oversight responsibility as a government program manager. The investigation found that within two years of retirement from NRO, the individual communicated with an NRO official within his last office. In the course of the conversations, he asked the NRO official to allocate a portion of the funds spent by the section, including funds associated with a project that the former employee managed, to be used for the installation of a Contractor Wide Area Network terminal within his new company. On October 23, 2001, the former NRO employee pled guilty to violating the post-employment conflict of interest statute.

19. Report Number 02-OIR-02; May 10, 2001; *Compendium of DoD Intelligence-Related Inspector General and Audit Agency Reports, April 1, 2001-September 30, 2001*

a. Investigation of Misuse of International Merchant Purchase Authorization Card (IMPAC); IG, NRO, Report No. 2001-047 I, August 30, 2001

(U//~~FOUO~~) The contractor used the IMPAC number to overcharge the government \$1,666 from January through March 2001. The contractor also used the IMPAC account to telephonically purchase gardening sod in the amount of \$6,637, duplicating the costs for sod the contractor was already under contract to provide. The contractor later deducted the IMPAC charge amount for the sod after NRO officials informed him they were aware of the duplicate charges. IG coordinated this investigation with DCIS, which declined criminal investigation of the contractor based on the low monetary loss to the government, but suggested NRO attempt to bill the contractor for the amount of the overcharges. DCIS further recommended that if the contractor failed to compensate NRO, NRO should review the matter for possible debarment/suspension. IG recommended to NRO management that they determine whether any administrative or contractually related action was warranted to address the contractor's misuse of IMPAC.

b. Criminal Investigation; IG, DIA Report No. 01-5200-OI-055, June 8, 2001

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(U//~~FOUO~~) A contract employee submitted fraudulent time and attendance records when he and a U.S. Navy military member agreed to split their 12-hour shifts to 6 hours each. The employee, however, continued to charge 12 hours per duty day to the contract, for which the government was charged and the employee was paid. The contractor terminated the employee and reimbursed DIA \$18,024.23. The military member was charged with dereliction of duty and absence without leave. The military member received a letter of admonishment.

20. Report Number 01-OIR-07; May 10, 2001; *Semiannual Compendium of DoD Intelligence-Related Inspector General and Audit Agency Reports, October 1, 2000-March 31, 2001*

a. (U) *Fraudulent Travel Claims and Conspiracy to Defraud the U.S. Government; IG, NRO, Report No. 98-030, November 2000*

(U//~~FOUO~~) A contractor employee assigned as an engineer to NRO and his supervisor filed fraudulent travel claims and conspired to defraud the U.S. government. Investigation was initiated after company management notified NRO that they intended to reimburse NRO \$33,972 through a contract credit due to improper travel expenditures by an employee. IG found that the engineer had submitted fraudulent claims. The case was reported to DoJ, which concurred in a joint IG, FBI, and DCIS investigation into the allegations.

(U//~~FOUO~~) In September 1995, while trying to increase NRO business, the company supervisor attempted to recruit the engineer. The supervisor, once learning of the employee's reluctance to join the division because it would require him to commute over 50 miles to NRO, permitted him to reside at a hotel that was less than 40 miles from his residence during the workweek and receive temporary duty per diem. Although the supervisor and the employee came to an agreement that NRO would be better served by having the employee reside closer to NRO, neither obtained approval from the government to deviate from contractual provisions requiring compliance with Federal Travel Regulations which prohibit employees from receiving per diem while working within the same geographical location as their residence. As a result, the employee received \$49,681 in unauthorized travel expenses between 1995 and 1999, \$15,709 more than the initial reimbursement offered by the company.

(U//~~FOUO~~) The company credited NRO the entire amount of the unauthorized entitlement, the supervisor was removed from his position, and the employee resigned. The U.S. Attorney declined prosecution in consideration of the company's self-report of the information, the company's willingness to reimburse the government, and the fact that the employee's expense reports accurately reflected his expenditures.

b. *Misuse of Government Property; IG, NRO, Report No. 00-051, February 2001*

(U//~~FOUO~~) IG investigated allegations that a contractor employee used government computers and photographic equipment to produce private videos for his personally-owned business. The employee billed the government for 10 hours spent on personal projects during official duty hours. He also occasionally circumvented NRO's Access Control System. IG recommended NRO require the contractor to reimburse the government \$433 for the time the employee worked on personal projects. The employee was allowed to resign in lieu of termination, and the NRO Office of Security revoked his security accesses.

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