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September 29, 2006  
Report No. 06-INTEL-15  
Evaluation Report

**OFFICE OF THE INSPECTOR GENERAL  
OF THE  
DEPARTMENT OF DEFENSE**

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**DEPUTY INSPECTOR GENERAL FOR INTELLIGENCE**

**Allegations of Mismanagement and Waste within the  
Counterintelligence Field Activity**

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DEPARTMENT OF DEFENSE

**hotline**

**Acronyms**

CIFA	Counterintelligence Field Activity
DISES	Defense Intelligence Senior Executive Service
DISL	Defense Intelligence Senior Level
FAR	Federal Acquisition Regulation
SES	Senior Executive Service
USD(I)	Under Secretary of Defense for Intelligence

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INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

September 29, 2006

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR INTELLIGENCE  
DIRECTOR, COUNTERINTELLIGENCE FIELD ACTIVITY

SUBJECT: Allegations of Mismanagement and Waste within the Counterintelligence  
Field Activity (Report No. 06-INTBL-15)

We are providing this report for information and use. We performed the evaluation in response to an anonymous complaint to the DoD Hotline. We considered management comments on a draft of this report in preparing the final report. The Counterintelligence Field Activity comments conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the staff. Questions should be directed to [REDACTED] at (703) 604-[REDACTED] (DSN 664-[REDACTED]) or [REDACTED] (703) 604-[REDACTED] (DSN 664-[REDACTED]). See Appendix C for the report distribution. The evaluation team members are listed inside the back cover.

A handwritten signature in cursive script that reads "Shelton Young".

Shelton R. Young  
Deputy Inspector General  
for Intelligence

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**Office of the Inspector General of the Department of Defense**

**Report No. 06-INTEL-15**  
**(Project No. D2003-DINT01-0231.000)**

**September 29, 2006**

**Allegations of Mismanagement and Waste within the  
Counterintelligence Field Activity**

**Executive Summary**

**Who Should Read This Report and Why?** The Under Secretary of Defense for Intelligence; the Director, Counterintelligence Field Activity; Field Activity senior leadership; and department acquisition and contracting professionals responsible for the efficient and effective execution of government business processes should read this report. The report discusses the need for vigilant oversight of management controls and contracting procedures.

**Background.** With DoD Directive 5143.01, "Under Secretary of Defense for Intelligence (USD(I)), November 23, 2005, the Under Secretary exercises the Secretary of Defense's authority, direction, and control over the Defense Agencies and DoD Field Activities that are Defense intelligence, counterintelligence, or security Components. The Counterintelligence Field Activity derives its authorities from DoD Directive 5105.67, "Department of Defense Counterintelligence Field Activity," February 19, 2002. The Counterintelligence Field Activity mission is to "develop and manage Counterintelligence programs and functions that support the protection of the Department, including counterintelligence support to protect DoD personnel, resources, critical information, research and development programs, technology, critical infrastructure, economic security, and U.S. interests, against foreign influence and manipulation, as well as to direct and neutralize espionage against the Department."

On August 18, 2004, the Defense Hotline, Office of the Inspector General, Department of Defense received an anonymous complaint with nine allegations regarding mismanagement, waste of taxpayers' dollars, and insufficient oversight at the Counterintelligence Field Activity. As discussed below, some of the allegations resulted in a referral to the Defense Criminal Investigative Service. Accordingly, we are limited in providing specific examples and information on the results of our review.

**Results.** Of the nine allegations, four were not substantiated, three were substantiated, and two warranted a referral to the Defense Criminal Investigative Service. Specifically, the allegations on Counterintelligence Field Activity having too many Senior Executive Service employees, contractors developing DoD policy, an extravagant operations center, and the storage of a purchased supercomputer were not substantiated. Allegations regarding improper procedures used for leasing commercial office space, a contractor writing a statement of work for which they became the beneficiary, and the scope of

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projects being changed without recertification of funds availability were substantiated. Allegations regarding [REDACTED] were referred to the Defense Criminal Investigative Service for further action. (See Appendix B)

Based on a very limited review of 2004 acquisitions identified in the DoD Hotline allegations, the Counterintelligence Field Activity did not adequately administer and manage its acquisition and contracting processes by promoting requirements without the benefit of an overarching acquisition strategy, did not adequately control contract funds, and circumvented applicable leasing policy and procedures. Implementation of an effective management control program, as well as, the establishment of policy, procedures and controls over the acquisition requirements and approval process, acquisition strategy, contract administration and funds control would have mitigated the identified results. Accordingly, we are recommending that the Counterintelligence Field Activity examine its current management control program and policies, procedures, and controls over the acquisition and contracting process to prevent a reoccurrence of the identified results.

**Management Comments and Evaluation Response.** The Acting Director, Counterintelligence Field Activity stated that because some of the allegations relate to pending criminal matters, the conclusions in the draft report are unsupported by recitation of factual information. Therefore, thorough analysis of many of the conclusions in the draft report is not now possible, and the Counterintelligence Field Activity was at a disadvantage in formulating responses. However, the Acting Director, Counterintelligence Field Activity generally concurred with the recommendation regarding the Management Control Program and cited a list of actions taken since 2004 to address the issues. The Acting Director, Counterintelligence Field Activity also concurred with the overall proposition that its acquisition planning and management can be improved, and noted that significant improvements have been underway for the past two years.

As noted in the report, the review was limited to 2004 acquisitions addressed or related to the DoD Hotline allegations and some allegations resulted in a referral to the Defense Criminal Investigative Service. Therefore, in some cases specific data and examples used to draw our conclusions could not be provided. The Acting Director, Counterintelligence Field Activity comments are responsive; no further comments are required. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

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## **Background**

On August 18, 2004, the Office of the Inspector General, Department of Defense, Defense Hotline (DoD Hotline) received an anonymous complainant about the Counterintelligence Field Activity (CIFA). The complaint detailed nine allegations of “mismanagement, waste of taxpayers dollars, and lack of oversight” at CIFA.

**Under Secretary of Defense for Intelligence.** With Deputy Secretary of Defense Memorandum, “Implementation Guidance on Restructuring Defense Intelligence – and Related Matters,” May 8, 2003, the Under Secretary of Defense for Intelligence [USD(I)] exercises authority, direction, and control over CIFA ensuring that, as appropriate, there is “adequate acquisition management structures and processes in place to deliver intelligence programs on time and within budget.” DoD Directive 5143.01, “Under Secretary of Defense for Intelligence (USD(I)),” November 23, 2005, cancelled the May 8, 2003, memorandum. With this Directive, the USD(I) exercises the Secretary of Defense’s authority, direction, and control over the Defense Agencies and DoD Field Activities that are Defense intelligence, counterintelligence, or security Components. The USD(I) further exercises “planning, policy, and strategic oversight over all DoD intelligence, counterintelligence, and security policy, plans, and programs.”

**Counterintelligence Field Activity.** Created in a post September 11, 2001, security environment, CIFA derives its authorities from DoD Directive 5105.67, “Department of Defense Counterintelligence Field Activity,” February 19, 2002. Its mission is to:

develop and manage DoD Counterintelligence programs and functions that support the protection of the Department, including Counterintelligence support to protect DoD personnel, resources, critical information, research and development programs, technology, critical infrastructure, economic security, and U.S. interests, against foreign influence and manipulation, as well as to direct and neutralize espionage against the Department.

## **Objective**

The objective was to review allegations of mismanagement and waste within CIFA. Specifically, we sought to determine the validity of the allegations contained in the DoD Hotline referral. We also examined the adequacy of management controls. See Appendix A for a discussion of the scope and methodology.

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## **Management Control Program Review**

Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control," December 21, 2004; DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996; and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provide reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.<sup>1</sup>

**Scope of the Review of the Management Control Program.** In addition to what CIFA management addressed in the 2003 and 2004 self assessments required by the Federal Manager Financial Integrity Act of 1982, we reviewed the adequacy of the management controls at CIFA as they pertain to the issues raised in the DoD Hotline complaint. Specifically, we reviewed plans, methods, and procedures CIFA used to acquire and administer contractual arrangements. We also reviewed CIFA's surveillance of contracts and determined whether self-evaluation of management controls adequately met the requirements and intent of DoD Directive 5010.38 and DoD Instruction 5010.40.

**Adequacy of Management Controls.** We identified material management control weaknesses as defined by DoD Instruction 5010.40. Specifically, CIFA did not adequately administer and manage the acquisition and contracting processes. Accordingly, our recommendation for CIFA focuses on the implementation of controls over the acquisition and contracting process and implementation of a Management Control Program that fully complies with DoD Instruction 5010.40.

## **Management Self Assessment**

**2003 Assessment.** As required by Federal Manager Financial Integrity Act of 1982, the Director, CIFA, submitted the first annual letter of assurance on September 5, 2003. The Director attested to executing a thorough and conscientious evaluation of internal, accounting, and administrative controls consistent with applicable laws and policies. The Director stated "management controls are in place, effectively operating, or being developed, with the exceptions of the material weakness." The one material weakness centered on the lack of an official Management Control Program. By citing his staff's collective, corporate knowledge of management controls, the Director sought to address the

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<sup>1</sup> While the directive and instruction were in place during the period under evaluation and are referred to throughout this report, DoD Directive 5010.38 was cancelled on April 3, 2006. DoD Instruction 5010.40 has also been renamed "Managers' Internal Control (MIC) Program Procedures," effective January 4, 2006.

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lack of a formal Management Control Program. Specifically, the Director, CIFA indicated his dependence on

CIFA Directors and their knowledge and experience to look at the potential material weakness areas as outlined in DoD Directive [sic] 5010.40. These senior personnel and the Directorate staffs [came] together from a variety of predominantly governmental organizations which had their own management Control Programs and ways of conducting business. They brought with them a wealth of experience on how to properly manage resources and followed these practices without a formal MC [Management Control] Program in place.

Besides fulfilling Federal Manager Financial Integrity Act of 1982 reporting requirements, the Director's submission also indicated adherence to the outsourcing initiatives addressed in the President's Management Agenda of 2002.<sup>2</sup> According to the Director, CIFA's submission,

Competitive outsourcing as directed in the PMA [President's Management Agenda of 2002], and contracting administration as directed by DoD Dir [sic] 5010.40, were closely monitored to ensure maximum outsourcing and efficient and effective contracts to obtain the best services for the US Government while maintaining the ability to accomplish the mission.

**2004 Assessment.** The Director, CIFA, submitted on August 24, 2004, the second annual letter of assurance in accordance with Federal Manager Financial Integrity Act of 1982; it was attested:

A review of [CIFA's] current internal accounting and administrative controls in effect during the fiscal year that will end September 30, 2004, provides reasonable assurance that management controls are in place and effectively operating or being developed, with the exception of the material weakness noted. The objectives of FMFIA [Federal Manager Financial Integrity Act of 1982] were accomplished within the limits described in Tab A.

The Director, CIFA, also identified a material weakness and commented on efforts to rectify the previous fiscal year's material shortfalls. Specifically, the Director, CIFA, highlighted contract administration shortfalls as a material weakness; and noted that the fielding of an internal control program was a rectification of the previous year's material weakness. The Director, CIFA, concurrently highlighted adherence to the tenets of the President's Management Agenda of 2002 and emphasized the effective utilization of outsourcing in accomplishing the organization's mission.

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<sup>2</sup> President's Management Initiative of 2002 laid out the necessity of and the rationale behind the outsourcing of governmental functions. The intent: capitalize on pre-existing management and/or production capacities in the private sector, with their attendant efficiencies driven by market forces, to transform and ensure efficient and effective governmental operations.

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**Adequacy of Management's Self-Assessment.** Although the 2004 Assessment highlights contract and acquisition as a material weakness, actions taken did not identify or prevent the occurrence of contractual irregularities leading to the Defense Criminal Investigative Service referral.

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## **Acquisition and Contracting Practices**

Based on a limited review of 2004 acquisitions identified in the DoD Hotline allegations, CIFA did not comply with DoD Instruction 5010.40 and did not adequately administer and manage acquisition and contracting processes by:

- promoting requirements without the benefit of an overarching acquisition strategy and final concept of operations
- failing to establish a means to control funds
- circumventing, at additional expense to the government, applicable leasing policy and procedures

This occurred because of a lack of management controls and discipline over the acquisition/procurement process. As a result, we found evidence of contracting irregularities, excessive costs, a violation of the Purpose Statute, and an improper leasing arrangement through a service contract.

## **Management Accountability and Control**

**Applicable Laws Related to Internal Controls.** The Federal Managers Financial Integrity Act of 1982, (P.L. 97-255) establishes specific requirements for management controls (hereafter internal controls as per Government Accountability Office guidance). Agency heads must establish internal controls that reasonably ensure:

- obligations and costs comply with applicable law;
- assets are safeguarded against waste, loss, and unauthorized use or misappropriation; and
- revenues and expenditures are properly recorded and accounted for.

Moreover, management must attest yearly to Congress the efficacy of organizational management controls. In formal submissions, agency heads must address the level of their reasonable assurance that management controls are adequate and, where necessary, highlight material weaknesses in these management controls and define actions to be undertaken in addressing or correcting identified weaknesses. Senior leadership at CIFA submits inputs to the Office of the Secretary of Defense to be collated and codified into the Secretary of Defense's official departmental submission to Congress.

**Applicable Directives and Instructions Related to Internal Controls and Acquisitions.** DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, states management controls manifest themselves

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bureaucratically as a system of guidance, instructions, regulations, procedures, rules or other organizational instructions that assist in determining the requisite methods employed to carry out the organization's mission, execute operational actions, or achieve desired objectives. Most significantly, internal controls facilitate institutional accountability, thereby ensuring that programs achieve intended results. The Federal Acquisition Regulation (FAR) and the Defense Federal Acquisition Regulation Supplement add further fidelity by requiring due diligence of government personnel to protect against fraud, waste and abuse.

**Applicable Guidance Related to the Federal Acquisition Regulations.** The FAR and the Defense Federal Acquisition Regulation Supplement are the primary criteria for governing contracting for goods and services. The regulations require orderly processes that include an analysis of the requirements and various types of contracts to use, determinations as to whether fair and reasonable prices are paid, and oversight of contractor performance and billing after the contract award. The FAR describes measures that contracting officers must follow to award contracts and requires that contracting officers must not award contracts unless all of the regulations have been met and that purchases are made at fair and reasonable prices. Additionally, DoD Regulation 7000.14R, "Financial Management Regulation," requires that DoD Components establish appropriate internal controls that will ensure the financial data provided is accurate, complete, and supportable.

**Applicable Guidance Related to Leasing in the National Capital Region.** DoD Directive 5110.4, "Washington Headquarters Services," establishes the Washington Headquarters Service as the only source for the procurement of office space within the National Capital Region by DoD entities. DoD Instruction 5305.5, "Space Management Procedures [within the National Capital Region]" dictates leasing processes, delegated authorities, and reporting requirements for said procurement. In accordance with the DoD Directive, a DoD entity seeking to lease commercial office space must vet its requirement through Washington Headquarters Service, who then seeks leasing assistance from the General Services Administration pursuant to getting the lease at best value to the government. Exceptions to these strictures and procedures are possible, but according to Washington Headquarters Service, rare.

### **Acquisition Determination and Review Process**

Our review of contracts related only to the DoD Hotline allegations, which identified one contract award that CIFA did not adequately identify through a concept of operations document the scope of the project or its acquisition requirements. The FAR, Part 7 Acquisition Planning, requires the establishment of an orderly process prior to commitment to contracting

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actions. An organization needs to identify its requirement, prepare a statement of work, identify actions needed to satisfy the requirement, and prepare an acquisition strategy, which includes the type of contract to be issued, funds to be used, and whether the acquisition will be competitive or sole source. The contracting officer has the responsibility to ensure that an organization's proposed contract meets all legal requirements and is fully compliant to all appropriate policies and procedures.

Specific details of our review, to include the working relationship between CIFA and the contracting officer, cannot be provided due to a referral to the Defense Criminal Investigative Service. We can, however, note that a contractor prepared the statement of work and defined the contract to be sole source. There is no data to support that CIFA performed an adequate technical review of the proposal. We also discovered equipment was procured in advance of the finalized Concept of Operations, which occurred several months after the award of the contract. Equipment purchased under the contract remains under utilized or in storage.

### **Inadequate Funds Control**

We found no evidence of adequate funds control procedures in place or functioning properly. This is attributable to inadequate acquisition strategy in general and in particular an undisciplined funds control process. We did find evidence of irregularities associated with the Purpose Statute, which states that "appropriations shall be applied only to the objects for which the appropriations were made except as otherwise provided by law." Specific details are being withheld due to a referral to the Defense Criminal Investigative Service. We can, however, note an apparent misuse of research, development, test, and evaluation funds for a project appropriate for operations and maintenance funds. Statements of work and scope of projects were also being changed without recertification of funds.

### **Circumvention of National Capital Region Leasing Procedures**

CIFA did not follow the required procedures for obtaining office space in the National Capital Region. This issue will be addressed in a separate report "Audit of FY 2005 DoD Purchases Made Through the Department of Interior," Project No. D2005CF-0276.

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## Management Actions and Conclusions

To the credit of CIFA senior management, efforts are under way to address the identified internal/management control shortfalls. However, the internal/management program highlighted by the Director, CIFA, in the 2004 statement of assurance did not identify or prevent the occurrence of contractual irregularities leading to the Defense Criminal Investigative Service referral. Based on a very limited review of 2004 acquisitions identified in the DoD Hotline allegations, we determined that additional management action is needed to include a more effective Management Control Program and policy, procedures, and controls over the acquisition and contracting process to mitigate a reoccurrence of the identified results. Towards this goal, a need exists to examine its current management control program and policies, procedures, and controls over the acquisition and contracting process to prevent a reoccurrence of the identified results and provide reasonable assurance that:

- obligations and costs comply with law
- funds property and assets are safeguarded and used
- revenues and expenditures are recorded and accounted for
- programs, administrative, and operating functions are efficient, effective, comply with law and policy
- and fraud, waste and abuse are prevented.

## Recommendations, Management Comments and Evaluation Response

**1. We recommend that the Director, Counterintelligence Field Activity:**

**a. Ensure that its Management Control Program fully complies with DoD Instruction 5010.40.**

**Management Comments.** The Acting Director, CIFA generally concurred with the recommendation regarding the Management Control Program. CIFA has continued to expand and refine the Management Control/Managers' Internal Control Program by raising program visibility to senior management levels. In each Fiscal Year since 2004, CIFA has further refined and continued to develop a more mature Managers' Internal Control Program.

**Evaluation Response.** The CIFA comments are responsive to the recommendation, no further comments are required.



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**b. Ensure that its policy, procedures, and controls over the acquisition requirements and approval process, acquisition strategy, contract administration, and funds control are fully compliant with applicable guidance.**

**Management Comments.** The Acting Director, CIFA concurred with the overall proposition that its acquisition planning and management can be improved, and significant improvements have been underway for the past two years. Significantly, CIFA has received its own authority to enter into contracts and is standing up a contracting office. CIFA expects that having the entire contracting process within CIFA will make it easier to ensure that CIFA's acquisitions are fully compliant with applicable guidance.

**Evaluation Response.** The CIFA comments and ongoing and planned actions comments are responsive to the recommendation. No further comments are required.

## **Appendix A. Scope and Methodology**

We examined the nine allegations made to the Defense Hotline concerning CIFA. We reviewed DoD guidance governing acquisition and leasing property in the National Capital Region. We analyzed relevant DoD directives, regulations, instructions, guidance, and memoranda. We also reviewed contract data, policy memoranda, historical documentation such as select e-mails provided by CIFA as result of the initial data call and follow-up requests for additional information; and interviewed key personnel within CIFA, USD(I), and other DoD organizations involved in the contracting process. Finally, we performed this review in accordance with the *Quality Standards for Federal Office of Inspector General* and reviewed and analyzed data from the period of May 2001 through to June 2005. We performed this evaluation from September 2004 through December 2005.

### **Scope Limitations**

The review was limited to 2004 acquisitions addressed or related to the DoD Hotline allegations. Accordingly, we did not evaluate a representative sample of contracts administered by CIFA. Furthermore, some allegations resulted in a referral to the Defense Criminal Investigative Service.

### **Prior Reporting**

During the past five years, the Office of the Inspector General of the Department of Defense, issued two reports that were germane to this evaluation.

DoD IG Report No. 03-INTEL-08, "DoD Command and Control of Counterintelligence," April 10, 2003.

DoD IG Report No. D-2004-015, "Contracts for Professional, Administrative, and Management Support Services," October 30, 2003.

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## Appendix B. Summary of Allegations

On August 18, 2004, the Defense Hotline, Office of the Inspector General, Department of Defense received a one-page facsimile, containing nine allegations of "mismanagement, waste of taxpayers dollars, and lack of oversight" at CIFA. This appendix examines the merit of each allegation.

**Allegation # 1:**

For a small organization, there are SES [Senior Executive Service] level employees all over the place. The ratio of SES's to subordinates is highly disproportionate.

**Assessment:** Not Substantiated.

**Analysis:** Our analysis did not substantiate this allegation. The only Office of Personnel Management restriction is that the DoD is authorized a limited number of SES positions. How DoD assigns those positions within the Department is its choice. Absent specific guidelines, CIFA senior leadership identified its SES requirements, justified these requirements, and received the authority for the SES positions.

We also compared the number of SES and equivalent positions in FY 2004 versus the workforce and benchmarked this against a comparable organization. We defined "SES level employees" at CIFA as Defense Intelligence Senior Executive Service (DISES) and Defense Intelligence Senior Level (DISL). Though not in direct supervisory positions, we included DISL personnel to capture the aggregate SES population. We juxtaposed this number (10 personnel) against the total number of government personnel (162 personnel); then against the total number of CIFA employees, both government and contractors (842 personnel).

Statistically, SES-level positions at CIFA constitute no more than 6.2 percent of the strictly government workforce (See Chart 1). When we included contractors in the equation SES positions constitute just 1.2 percent of the total CIFA workforce (See Chart 2).

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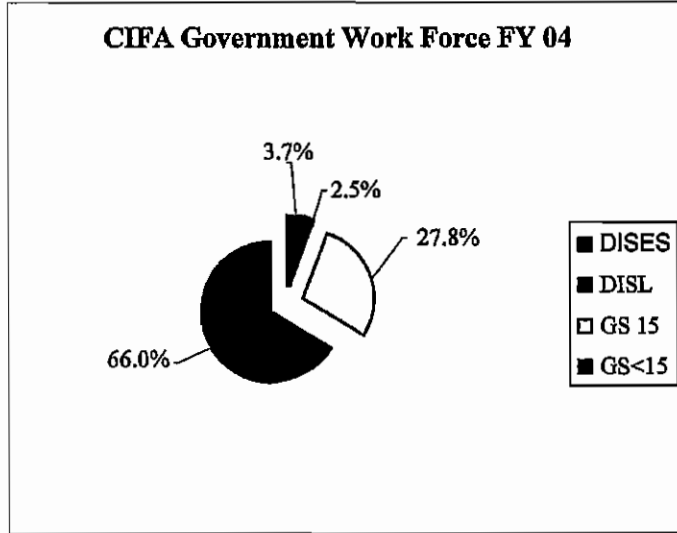


Chart 1. FY 2004 - The relationship of DISES and DISL positions to the government work force.

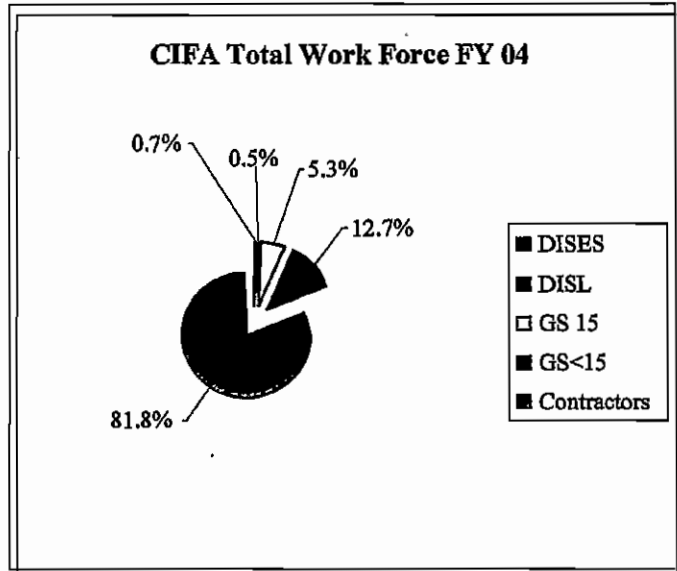


Chart 2. FY 2004 - The relationship of DISES and DISL positions to the government and contractor work force.

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**Allegation # 2:**

CIFA has leased a huge amount of commercial office space via means not normally employed by DoD agencies, and is paying a fortune for it. Some estimates indicate that 40% of its budget goes for such leases. CIFA uses a company to lease its office space.

**Assessment:** Substantiated.

**Analysis:** We did not corroborate the percentage cited in the allegation; however other issues of concern will be addressed in a separate report "Audit of FY 2005 DoD Purchases Made Through the Department of Interior," Project No. D2005-CF-0276.

**Allegation # 3:**

CIFA relies on government contractors to author and develop DoD policy for the counterintelligence business.

**Assessment:** Not Substantiated.

**Analysis:** By directive and enacting instruction, CIFA is the functional manager for DoD Counterintelligence activities. CIFA does not develop DoD policy but rather contributes to its formulation by drawing upon the counterintelligence expertise of its workforce, both government and contractor. USD(I) develops and promulgates DoD counterintelligence policy. Though policy development falls under the auspices of an "inherently governmental function," soliciting contractor comment in the formulation process does not violate this stricture as long as government personnel provide adequate decision-making oversight in the process.

By definition, missions and functions deemed inherently governmental in DoD Instruction 4100.33 "Commercial Activities Program Procedures" include tasks that

E2.1.10. DoD Governmental Function. ... require the exercise of discretion in applying Government authority or the use of value judgment in making decisions for the Department of Defense. ... Governmental normally fall into two categories:

E2.1.10.1. Act of Governing. The discretionary use of governmental authority. Examples include criminal investigations, prosecutions, and other judicial functions, management of Government programs requiring value judgments, as in the direction of national defense; management and direction of the Armed Services; ... direction of intelligence and counterintelligence operations ...

We found no evidence that contractors inappropriately authored policy documents and/or circumvented CIFA senior management oversight. According to cognizant personnel, contractors were queried for the counterintelligence expertise but CIFA leadership retained and exercised their oversight functions.

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**Allegation # 4:**

Government contractors are writing statements of the work for which they are the beneficiaries. And, contractors routinely direct/authorize each other's work.

**Assessment:** Substantiated.

**Analysis:** Based on our very limited review of the contracts related to the DoD Hotline allegations, we found that at least one contractor wrote and submitted to CIFA leadership a statement of work for a multi-million dollar contract for which the contractor was intended to be the ultimate beneficiary. At the time the contractor submitted its proposal, no standing requirement, derived from a needs statement and engendered in a formalized requirements process, existed for the project. It is unclear if this particular situation is an anomaly or an indicator of larger concerns. Specific details are being withheld pending the results of a referral to the Defense Criminal Investigative Service.

We were also able to partially substantiate the complainant's assertion that contractors under the employee of CIFA did oversee other contractors. However, our review of the contract, for systems evaluation and technical acceptance of goods and services, met statutory and regulatory requirements.

**Allegation # 5:**

CIFA's operations center on the 6<sup>th</sup> floor far exceeds its mission requirements and cost an inordinate amount. It looks like Star Wars or a huge sports bar with TVs and plasma screens all over the place.

**Assessment:** Not Substantiated.

**Analysis:** DoD Directive 5105.67 "Department of Defense Counterintelligence Field Activity (CIFA)," February 19, 2002, directs CIFA leadership to construct a technologically state-of-the art facility pursuant to exercising the organization's role as the functional manager and coordinative body for DoD counterintelligence activities. Specifically, the directive states that it is DoD policy that the DoD will make full use of advanced technology to create and maintain a collaborative counterintelligence analytic environment to protect critical DoD and national assets. In addition, it is CIFA's responsibility to develop, implement, and oversee DoD counterintelligence programs, as assigned, using state-of-the art information technology whenever practicable, consistent with mission requirements, and consulting with the counterintelligence offices of the DoD components to ensure the integrity of all counterintelligence information technology systems.

CIFA's actions were consistent with its mandate. CIFA was directed to use state of the art technology to perform its mission. However, testimonial evidence indicates that the fielding of the operations center was effectively ad hoc; CIFA did not develop the requirement from a formalized requirements process.

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**Allegation # 6:**

CIFA purchased a supercomputer for its operations that exceeded the electrical capacity of its HQ building. As a result, the computer is being stored in a warehouse and not being utilized. It's been there for over a year. There is no plan to bring it back.

**Assessment:** Not substantiated.

**Analysis:** The purchased equipment did not exceed the electrical capacity of the building. The equipment was underused and was transferred to the Office of Naval Intelligence.

**Allegation # 7:**

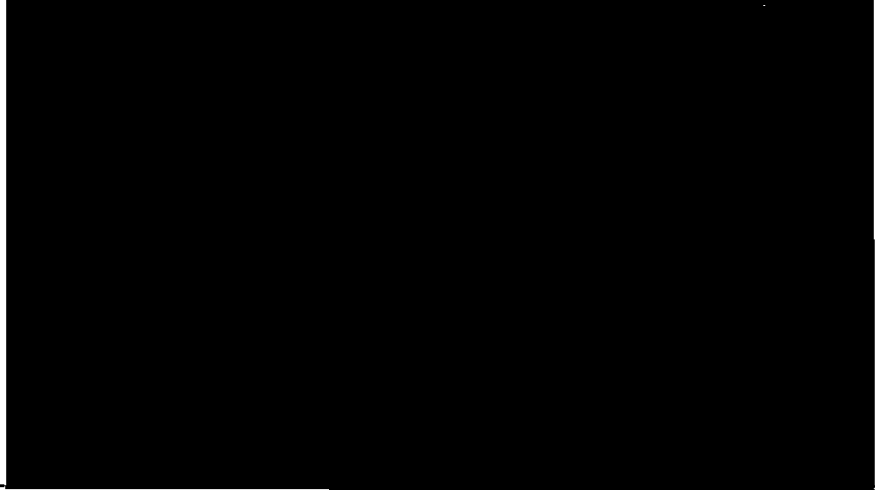
Statements of work and funds are being certified by budget personnel and then the scopes of the projects are being changed without recertification of funds, etc.

**Assessment:** Substantiated.

**Analysis:** As stated in the allegation, statements of work and the scope of projects were being changed without recertification of funds. In his annual "letter of assurance" submitted to DoD on August, 24, 2004, in accordance with Federal Managers Financial Integrity Act of 1982 reporting requirements, the Director, CIFA identified this specific issue as a material weakness. Specifically, the Director, CIFA, highlighted overall contract administration shortfalls as a material weakness.

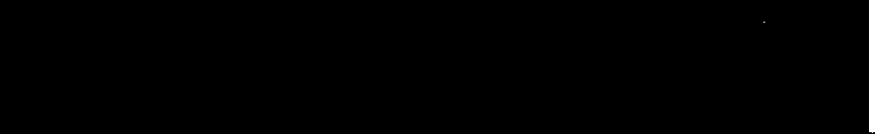
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**Allegation # 8:**



**Assessment:** Withheld pending results of a referral to the Defense Criminal Investigative Service.

**Allegation # 9:**



**Assessment:** Withheld pending results of a referral to the Defense Criminal Investigative Service.



## **Appendix C. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Intelligence \*  
  Director, Counterintelligence Field Activity \*  
Under Secretary of Defense for Acquisition, Technology, and Logistics  
Under Secretary of Defense (Comptroller)/Chief Financial Officer  
  Deputy Chief Financial Officer  
  Deputy Comptroller (Program/Budget)  
Director, Program Analysis and Evaluation  
Director, Defense Procurement and Acquisition Policy

### **Non-Defense Federal Organizations and Individuals**

Office of Management and Budget

### **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
Senate Select Committee on Intelligence  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Permanent Select Committee on Intelligence  
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform  
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform  
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

\* Recipient of draft report

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## Counterintelligence Field Activity Comments



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COUNTERINTELLIGENCE FIELD ACTIVITY  
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CRYSTAL SQUARE 5, SUITE 1200  
Arlington, VA 22202-3537



SEP 13 2008

MEMORANDUM FOR THE DEPUTY ASSISTANT INSPECTOR GENERAL FOR  
INTELLIGENCE EVALUATIONS

SUBJECT: Allegations of Mismanagement and Waste within the Counterintelligence  
Field Activity (U)

(U) This memorandum provides management comments and a statement of actions to be taken in response to the Office of Inspector General (OIG) Draft of a Proposed Report on Project No. D2003-DINT01-0231.000, "Allegations of Mismanagement and Waste within the Counterintelligence Field Activity" (Draft Report).

(U) Management Comments:

A. (U) General comments about the Draft Report.

(U) Because of some of the allegations relate to pending criminal cases, the conclusions in the Draft Report are unsupported by recitations of factual information. Thorough analysis of many of the conclusions in the Draft Report is not now possible, and we are therefore at a disadvantage in formulating responses. We have attempted to discern the underlying bases for these conclusions as best we can, but it may be that detailed substantive engagement will have to await completion of the criminal investigations.

(U) The Draft Report does not evaluate the role of outside contracting officers in the acquisition process. While the Draft Report provides a helpful look at CIFA's business practices, the discussion misses some key points by failing to address the fact that at all times pertinent to the matters covered by the report CIFA did not have authority to enter into contracts. This is not to deny the value of improving the administration and management of acquisitions within CIFA, but rather to point out that the management paradigm is different when responsibility is thus segmented.

(U) The acquisitions that OIG reviewed were accomplished by *fee-for-service* federal contracting officers, not by CIFA contracting officers. The Draft Report discusses contracting practices and the FAR requirements for contracting officers, with only a vague recognition (in the paragraph titled "Acquisition Determination and Review Process") of the fact that CIFA has not engaged in contracting. As

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indicated in FAR Subpart 1.6, and as stated on page 6 of the Draft Report, before contracts are entered into, contracting officers are to ensure that all of the "regulations have been met and that purchases are made at fair and reasonable prices." CIFA's acquisition costs in connection with any specific transaction were increased to cover the fees charged by the contracting activity to provide this service, so it was logical to expect that contracting activities receiving the fee would properly carry out their responsibilities as discussed above.

(U) The problem that exists with bifurcated contract formation also exists with contract oversight. Management of contracts is the primary responsibility of the contracting officers' representatives (CORs), who are CIFA employees appointed as CORs by, and reporting to, the outside contracting officers. Again, to the extent that the OIG report seeks to highlight weaknesses in CIFA's acquisition and contracting processes, doing so without reviewing this division of labor provides an incomplete picture. The report would be more helpful if it provided insights on the relationship between the inadequacies noted in CIFA's acquisition mechanisms and CIFA's use of fee-for-service contracting offices.

(U) In the time since OIG completed its review of CIFA's business practices, CIFA has received its own authority to enter into contracts and is standing up a contracting office. Projections indicate that this will be more cost-effective than continuing to pay other activities to provide this service. Once the contracting office is operational, responsibility for contracting and all facets of contract oversight will rest entirely with CIFA. We would expect that this change will improve the quality of our acquisition processes overall by eliminating gaps and seams.

**B. (U) Specific comments.**

**1. (FOUO/LES) Appendix B: Allegation 4.**



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(FOUO/LES)

[REDACTED]

2. (FOUO/LES) - "Acquisition Determination and Review Process" (pages 6-7).

[REDACTED]

(FOUO/LES)

[REDACTED]

(FOUO/LES) - Collaboration Center and Data Storage Project:

[REDACTED]

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[REDACTED]

3. (U) "Inadequate Funds Control" (page 7). There is a statement that CIFA violated the Purpose Statute by using RDT&E funding for an O&M effort. Experience indicates that such determinations often involve complex factual and legal analyses; however, we have not been provided sufficient identifying information about this statement to comment substantively.

4. (FOUO) "Circumvention of National Capital Region Leasing Procedures" (page 7).

[REDACTED]

(U) Actions to be taken:

A. (U) Management Control Program. While the Draft Report does not provide detailed discussion of what would constitute "adequate funds control" or the degree to which CIFA's procedures may have been deficient, we concur generally with the recommendation of the OIG regarding the Management Control Program. Since the OIG began its review in 2004, CIFA has continued to expand and further refine the Management Control /Managers' Internal Control Program (MCP/MIC) by missing program visibility to senior management levels.

- (U) Reporting Period 2005. During the 2005 reporting period, CIFA's MCP was further refined by the following actions:
- > CIFA representative attended the annual DoD MCP Conference
  - > Development of CIFA internal risk assessment checklists
  - > Multiple briefings were provided to senior management
    - o Program requirements were identified and explained
    - o Status updates of process and further guidance regarding required risk assessment procedures provided
    - o Designation of Directorate points of contact (POCs)
  - > Regular training/information sessions were conducted for designated POCs
    - o Audit/risk assessment procedures were discussed and guidance provided regarding the preparation of required responses

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- o Guidance regarding submission of Directorate Statements of Assurance (SoA) for consolidation into the CIFA SoA (as deemed appropriate)
- > After action meeting was held with Directorate POCs to determine lessons learned and recommendations for program improvements for the upcoming year
- (U) SoA for 2005 reported correction of previously identified material weaknesses:
  - > Program Managers lack of experience and training necessary to perform duties of a Contracting Officer's Representative (COR)
  - > Administrative policies and procedures not adequately documented

(U) Reporting Period 2006. During the 2006 reporting period, CIFA took additional steps for the continued development of a more mature Managers' Internal Control (MIC) Program. All material weaknesses identified during the 2005 were tracked for progress and/or completion as projected during prior submission documentation.

- > Evaluation of MIC Program was completed to ensure compliance with existing guidance and identify improvements
- > Meeting with 2005 POCs to discuss recommendations for program expansion and continued development
- > Multiple briefings to senior management regarding the MIC Program, to include objectives, goals and timelines
- > Development of MIC Handbook to be used by Assessable Unit Managers during the conduct of risk assessments
- > Developed Risk Assessment Checklists (general and individual functional checklists) to be used during the conduct of risk assessments
- > Program coordinator (in addition to the program manager) identified
  - o Attended the FY06 DoD MIC Program Conference
  - o Attended formal training regarding the MIC Program
- > Multiple meetings with POCs
  - o Provided reference handbook, checklists
  - o Provided detailed instruction regarding the preparation and submission of Directorate SoA for inclusion into the CIFA SoA
- > Developed the Risk Assessment Team approach to be used during the internal review/audit process
- > Developed tracking system to monitor material weaknesses identified through the audit process to make sure established milestones are completed

(U) Reporting Period 2007. In furtherance of continued development of the MIC Program, formal training has been scheduled for all designated MIC POCs. Training is designed to address the following topics:

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- > Latest guidance regarding internal control; revised OMB Circular A-12, GAO standards, and DoD requirements
- > Understanding internal controls, the benefits and role of federal managers in the internal control process
- > Applying key concepts of controls in CIFA environment
- > Identifying, assessing and managing risks
- > Corrective action plans and reviews
- > Reporting internal controls

**B. (U) Acquisition Process.** CIFA concurs with the overall proposition that its acquisition planning and management can be improved, and significant improvements have been underway for the last two years:

- Budget analysts have received fiscal law training, and they, along with the office of general counsel, now review all acquisition packages.
- CIFA concurs in the OIG assessment on Allegation #7, and, in fact had begun implementing process improvements in 2004. Under current procedures, all changes to statements of work are to be returned to the Finance Office for final review and recertification of funds before being sent to the contracting officer. This is a matter that receives continuing attention.
- As noted above, CIFA sought, and obtained from OSD, its own authority to enter into contracts. The use of that authority is contingent upon having adequate attorney resources, and we are working to recruit a contracts attorney. We expect that having the entire contracting process within CIFA will make it easier to ensure that CIFA's acquisitions are fully compliant with applicable guidance.

(U) We appreciate the opportunity to provide comments on the Draft Report and are confident you will find them useful. If additional information is desired, please contact [redacted] Chief of Staff, at 703 699 [redacted] or [redacted]@cifa.mil.

  
Daniel J. Batr  
Acting Director

cc:  
DUSD (CI&S)

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## Team Members

The Department of Defense Office of the Deputy Inspector General for Intelligence prepared this report. Personnel of the Department of Defense Office of Inspector General who contributed to the report are listed below.

Shelton Young



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