

**Opening Statement of Chairman Joseph Lieberman
Homeland Security and Governmental Affairs Committee Hearing
“Expediency Versus Integrity: Do Assembly-Line Audits at the Defense Contract Audit
Agency Waste Taxpayer Dollars?”
Washington, DC
Sept. 10, 2008**

Today’s hearing will look into disturbing allegations that the Defense Contract Audit Agency – one of our government’s most important and respected watchdogs – has for years ignored standard auditing rules to issue clean audits of contractors, despite problems identified by DCAA’s own auditors.

Investigators have found DCAA has issued audits favorable to contractors that are not supported by facts, thereby encouraging waste, fraud and abuse of taxpayer money.

The reports we will hear today tell us that one of the causes of these problems is that DCAA is obsessed with the speed of process, rather than the accuracy of the results. The reports also raise questions of whether the DCAA is independent enough to be able to stand up to pressures from both federal agencies and contractors.

DCAA's mission is simply too important for these failures to be tolerated. The agency is responsible for all contract audits for the Department of Defense. That equals \$314 billion of the \$440 billion the federal government spent in fiscal year 2007 on contracts for goods and services. DCAA also performs audits for other agencies, such as the Department of Energy and NASA.

The revelations that we are making today follow a trail that began in the fall of 2005, when a DCAA auditor called the DOD Inspector General's hotline to complain that DCAA supervisors were breaking auditing rules to favor certain contractors. This call set off a series of investigations that brought to light the problems we will focus on today.

Investigators for the Government Accountability Office, in a report issued in July, said that when auditors at DCAA found problems with contractor proposals violating procurement laws and auditing standards, their supervisors ignored, and sometimes even altered, their underlying work to give the contractors favorable audits

This is unacceptable behavior.

Separate investigations done by the Defense Criminal Investigative Service and the DOD Inspector General confirm GAO's findings.

One of our witnesses today – Thi Lee – will describe an audit, requested by the Department of Energy, of the Fluor Corporation's accounting system.

Fluor provides a variety of management and engineering services to DOE worth about \$944 million.

Accounting system audits are not tied to any one government contract but rather evaluate the adequacy of the contractor system's control environment and overall accounting controls and contractor's compliance.

In performing this audit, Ms. Lee determined that Fluor's accounting system could well have allowed significant overcharging of the federal government. Instead of letting her perform additional testing, as she requested, Ms. Lee's supervisors simply changed her audit opinion from "inadequate" to "adequate."

Given that Fluor holds an additional \$431 million in government contracts with FEMA, the Army, the Air Force and the Employment and Training Administration, these poor accounting methods could mean millions and millions of dollars of undetected wasted in over- payments to Fluor.

Another witness, Paul Hackler, will describe how Integrated Defense Systems, a subsidiary of Boeing, structured its costs under an Air Force contract for satellite launch capability in a way that helped Boeing make up for losses in its commercial markets – in direct contradiction of federal procurement law.

The auditor alerted his supervisor to the problem and was told to leave his findings out of the audit so the project could go forward. The result? The federal government, it appears, wound up picking up the cost of Boeing's \$270 million loss when the company did not sell satellite systems to the cell phone industry, as it had expected to.

In granting contractors an unjustified clean bill of health in its audits, DCAA enabled them to proceed with large-scale projects without the additional DCAA scrutiny that would have followed had the contractors received less favorable audits.

GAO also found that some supervisors in the DCAA western region created an abusive work environment for those who tried to maintain the integrity of their audits.

Sometimes, when auditors challenged what they believed to be waste and potential fraud, they received not praise for a job well done, but rather downgraded performance reviews, transfers, and other forms of reprisal.

And, worst of all, GAO found that some DCAA managers intimidated auditors who cooperated with the GAO and IG investigators.

Since the GAO report was released in July, at least 18 other DCAA auditors have contacted the agency with similar stories of clean audits being issued without underlying support.

I'm concerned that DCAA's initial response to these GAO allegations was to circle the wagons.

In a letter dated July 11, DCAA said that it does "not concur with the totality of GAO's overall conclusions." That is a totally unacceptable response since these conclusions were also backed by the DCIS and IG investigations, and since DCAA has not been able to refute GAO's specific findings.

To get to the bottom of this very troubling story of irresponsibility, we will hear from five witnesses this morning.

First, the two whistleblowers – Ms. Thi Le [pronounced TEE LEE], a Senior Auditor at DCAA whose call to investigators jump-started this investigation, and Mr. Paul Hackler, a Supervisory Auditor at DCAA.

Also GAO investigators Greg Kutz and Gayle Fischer will summarize the findings and conclusions of the GAO investigation, and offer preliminary observations of an ongoing review, being conducted at the request of Senator Collins and myself, on broader DCAA auditing practices.

Gordon Heddell, the Acting Inspector General of DOD will explain the results of reviews conducted by both the IG office and the Defense Criminal Investigative Service, DCIS, which reports to the IG.

And, finally, April Stephenson, the Director of DCAA, will give us her response to these charges.

Sen. Collins