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Source of document: National Reconnaissance Office
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NATIONAL RECONNAISSANCE OFFICE

14675 Lee Road
Chantilly, VA 20151-1715

3 April 2012

This is in response to your letter dated 7 November 2009, received in the Information Management Services Center of the National Reconnaissance Office (NRO) on 16 November 2009. Pursuant to the Freedom of Information Act (FOIA), you are requesting *"a copy of each report produced for Congress by the NRO, during the past three (3) years, and which are not posted on the NRO's public internet site."*

Your request has been processed in accordance with the FOIA, 5 U.S.C. § 552, as amended, and the NRO Operational File Exemption, 50 U.S.C. § 432a. A thorough search of our records and databases located six documents responsive to your request. Three of these documents, comprising 1396 pages, have previously been released in part to other requesters. These documents are now available for review on the NRO public web site, at <http://www.nro.gov/foia/declass/frequent.html>. At this location, the three responsive documents are located beneath the heading, "Congressional Budget Justifications." The three additional documents, consisting of 48 pages, are also being released in part.

Material withheld from release is being denied pursuant to FOIA exemption:

(b)(1) as properly classified information under Executive Order 13526, Sections 1.4(c) and 1.4 (e); and (b)(3) which applies to information specifically exempt by statute, specifically 50 U.S.C. § 403-1, which protects intelligence sources and methods from unauthorized disclosure;

(b)(3) which allows the withholding of information prohibited from disclosure by statute, 10 U.S.C. § 424 which states: "Except as required by the President or as provided in subsection (c), no provision of law shall be construed to require the disclosure of (1) The organization or any function . . . (2) . . . number of persons employed by or

assigned or detailed to any such organization or the name, official title, occupational series, grade, or salary of any such person . . . (b) Covered Organizations . . . the National Reconnaissance Office"; and

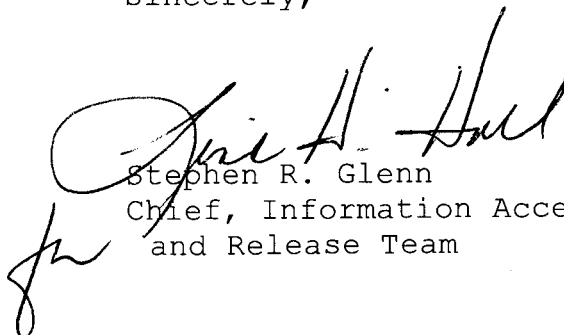
(b)(6) which applies to records which, if released, would constitute a clearly unwarranted invasion of the personal privacy of individuals.

The FOIA authorizes federal agencies to assess fees for record services. Based upon the information provided, you have been placed in the "other" category of requesters, which means you are responsible for the cost of search time exceeding two hours (\$44.00/hour) and reproduction fees (.15 per page) exceeding 100 pages. In this case, as there are no fees being charged in relation to the previously-released documents, there were no assessable fees incurred in processing your request. Additional information about fees can be found on our website at www.nro.gov.

You have the right to appeal this determination by addressing your appeal to the NRO Appeal Authority, 14675 Lee Road, Chantilly, VA 20151-1715, within 60 days of the above date. Should you decide to do this, please explain the basis of your appeal.

If you have any questions, please call the Requester Service Center at (703) 227-9326 and reference case number F10-0045.

Sincerely,


Stephen R. Glenn
Chief, Information Access
and Release Team

Enclosures:

- 1) Office of Inspector General Annual Report, January 2007
- 2) Office of Inspector General Annual Report, January 2008
- 3) Office of Inspector General Annual Report, January 2009

ANNUAL REPORT

JANUARY 2007

NATIONAL
RECONNAISSANCE
OFFICE

Office of Inspector General



This document cannot be released in whole or in part to persons or agencies outside the NRO, nor can it be republished in whole or in part within any document not containing this statement without the express written approval of the NRO Inspector General.

The Mission of the Office of Inspector General *is to safeguard public trust by promoting integrity, accountability, and sound management practices through objective and independent oversight of NRO programs and activities.*

National Reconnaissance Office, Office of Inspector General

(U) ANNUAL REPORT, JANUARY 2007

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(U) INTRODUCTION

(U) This report responds to the statutory requirement for the National Reconnaissance Office (NRO) Office of Inspector General (OIG) to communicate annually with the Congressional Intelligence Oversight Committees regarding OIG personnel and staffing, hiring and retention, funding, planned reviews, and independence and effectiveness.¹ The report also includes information on OIG activities during the past year.

(U//~~FOUO~~) Overall, the NRO leadership has provided sufficient staffing and budgetary resources to execute the important mission of the OIG. The OIG is staffed with highly professional personnel experienced in conducting audits, inspections, and investigations, many of whom bring additional experience and technical expertise in a wide variety of NRO business areas. As of January 2007, the OIG had **b3** positions assigned to its staff. During 2006, **b3** new auditors, inspectors, and investigators joined the OIG staff. **b3** employees left the office due to retirement, other assignments, or resignation. The OIG continues to augment its staff through active participation in recruitment programs at colleges, universities, and diversity career fairs. Staff diversity in terms of race, gender, and age, including both military and civilian employees and full and part-time positions, continues to progress. The OIG budget for fiscal year (FY) 2007 is **b3**. This budget will support the independent public accountant contract activity related to resuming annual audits of the NRO financial statements as well as travel, training, and general support for the staff. It will also fund enhancements to information technology tools that will facilitate our audit and inspection process and further our Procurement Fraud Initiative (PFI).

(U) In October 2006, the OIG issued a comprehensive and ambitious Annual Work Plan for Fiscal Years 2007/2008. The plan includes 63 audits, inspections, and special reviews that are planned over the next two years. This Work Plan also outlines OIG's efforts for broadening its successful Procurement Fraud Initiative.

(U) The OIG receives outstanding support from NRO leadership for the findings and recommendations contained in OIG reports, and NRO leadership has consistently reinforced OIG authorities to access government and contractor information and personnel in the course of our work. The IG meets weekly with NRO senior leaders including the NRO Director, Dr. Donald Kerr, NRO Principal Deputy Director, Mr. Dennis Fitzgerald, and NRO Deputy Director, Major General Tom Sheridan. The IG participates in the meetings of the NRO Senior Board to provide advice and guidance on issues as needed, and to maintain effective oversight of NRO programs and operations.

(U) Over the past year, OIG has worked with its colleagues in the Intelligence Community (IC) as well as with Congressional staffs to include language in the Intelligence Authorization bill that would make the NRO, the Defense Intelligence Agency, the National Security Agency (NSA), and the National Geospatial-Intelligence Agency (NGA) designated federal entities under the IG Act of 1978. Coverage under the IG Act would provide the OIG with (1) much needed authority to issue subpoenas during the course of its investigations; (2) a determination of credibility and independence only granted to IG offices covered by the Act; and (3) the ability to benefit from participation in the Executive Council on Integrity and Efficiency.

¹ Section 8H of the Inspector General Act of 1978, US Code Title 5—Appendix 3, Section 8H(g).

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(U)PROCUREMENT FRAUD INITIATIVE

(U) In order to stimulate more proactive procurement fraud reporting, we have stepped up our PFI by assigning a full-time OIG program manager to the effort. The OIG PFI focuses on several key approaches:

- (U) *Education* of the NRO workforce, including contracting officers and program managers, to help them identify and report procurement fraud vulnerabilities.
- (U) *Partnerships* with NRO contractors to jointly identify and investigate instances of fraud involving NRO contracts.
- (U) *Internal proactive efforts*, such as data mining, use of an OIG "Red Flags" database, and the inclusion of fraud detection steps in OIG audits and inspections.
- (U) *Education of OIG staff*, to ensure that OIG personnel are properly sensitized to procurement fraud vulnerabilities as they conduct their routine oversight work throughout the organization.

~~(S)~~ In 2006, the NRO OIG played a prominent role at the federal level in the establishment of the Department of Justice Procurement Fraud Task Force. The NRO IG, Eric Feldman, along with several of his IG colleagues throughout the federal government, and U.S. Attorneys from around the country have been asked by the Deputy Attorney General to serve and chair working committees on the new task force. The NRO OIG has also worked with the U.S. Attorney's Office for the Central District of California in establishing a local Procurement Fraud Working Group in the Los Angeles area, similar to one established in 2005 in the Eastern District of Virginia of which the NRO OIG was a charter member. The NRO OIG has also become an active member of the Department of Defense (DoD) Procurement Fraud Steering Committee.

(U) We hosted the first NRO Corporate Business Ethics and Compliance Officers Forum in March 2006. This two-day conference provided an opportunity to share best practices in preventing and detecting fraud within the business community, and reporting cases to the NRO OIG. The conference also facilitated discussions on current trends related to fraud affecting NRO contracts and discussions on instituting steps to protect the NRO from future fraudulent activity. We are in the planning stages for an even larger conference in March 2007.

(U) Other IG organizations in the IC and the federal government at large are considering adopting various aspects of our PFI program. During this period, we participated in several briefings with the IG for the Office of the Director of National Intelligence and representatives from other IC IG offices to discuss proactive procurement fraud prevention and detection approaches, and worked with our IC colleagues to identify systemic weaknesses in acquisition and contracting that may cross individual agency boundaries.

(U) IG Counsel, Alan Larsen, and Mr. Feldman also co-authored an article which was published in the latest edition of the President's Council on Integrity and Efficiency, Journal of Public Inquiry entitled "*Convincing Contractors to Report Their Own Procurement Fraud to the*

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Inspector General." This article details the NRO OIG's efforts to add a contractor fraud reporting clause to NRO contracts and the challenges of effectively implementing the requirement. Finally, the NRO Assistant IG (AIG) for Investigations has recently been selected to serve on a working group chartered to develop improved procurement fraud training across federal law enforcement and government organizational entities.

~~(S)~~ The NRO OIG continued to reach out to the contractor community that is essential to NRO program success. OIG offices at Westfields and in Los Angeles have been diligently working with our key corporate partners to foster a reporting strategy and protocols to ensure contractor compliance under the clause in the NRO Acquisition Manual, which requires NRO contractors to self-report to OIG when they suspect improper contract activity. Several companies have already initiated a robust reporting regime and work along side OIG investigators to bring cases of cost mischarging to a successful conclusion. However, some of our largest contractors, despite their best intentions, **b1**

Regardless of current challenges, the OIG still believes the clause is one of our most effective ways of ensuring proper stewardship of procurement funding. A similar clause is being considered for possible implementation across the government by the National Procurement Fraud Task Force.

(U) PERSONNEL

~~(U//FOUO)~~ In mid-March 2006, Ms. Lanie D'Alessandro, a Senior Intelligence Service (SIS) officer with extensive Central Intelligence Agency (CIA) management and information technology expertise, joined the staff as our new Deputy IG. Ms. D'Alessandro was most recently assigned to the CIA OIG Inspection Staff, and had previously served in several senior positions at the CIA. We are very fortunate to have Ms. D'Alessandro as part of the OIG management team.

~~S//TK~~ ~~(U//FOUO)~~ The NRO OIG organization chart (Figure 1) shows the structure of the office. Since our last report, there have been two changes to the OIG organizational structure. The expanding duties and responsibilities of our PFI warranted the establishment of a dedicated program manager. Additionally, based on the success of our West Coast operations and the renewed emphasis on **b1 b3** we have received the Director, NRO's support to staff an office in Denver. As reported previously in 2005, the positions of AIG for Audit, Inspection, and Investigation, which were at the GS-15 level, were validated at the SIS level. Continuing efforts to bring the NRO OIG in line with similar positions in other OIG offices, the AIG for Investigations, **b3 b6** in October 2006 became the second AIG promoted into the SIS ranks. **b3 b6** has nearly thirty years of investigative experience and has been in NRO OIG management for the past six years

(U) OIG Staffs

(U) The Front Office Staff includes a legal counsel to the IG. The legal counsel reports directly to the Deputy IG and the IG. The position is outlined in NRO Directive (NROD) 22-1b, and is independent and not assigned to OIG from the Office of General Counsel, as is the case with some other IC OIGs. As part of the OIG senior staff, the legal counsel attends all of the senior staff meetings, participates in discussions on OIG issues, and provides legal advice on

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audits, inspections, and investigations, as well as any other issues that may affect OIG. His legal knowledge, opinions, and advice on NRO issues provide excellent support to the entire OIG staff.

NRO OIG Organization

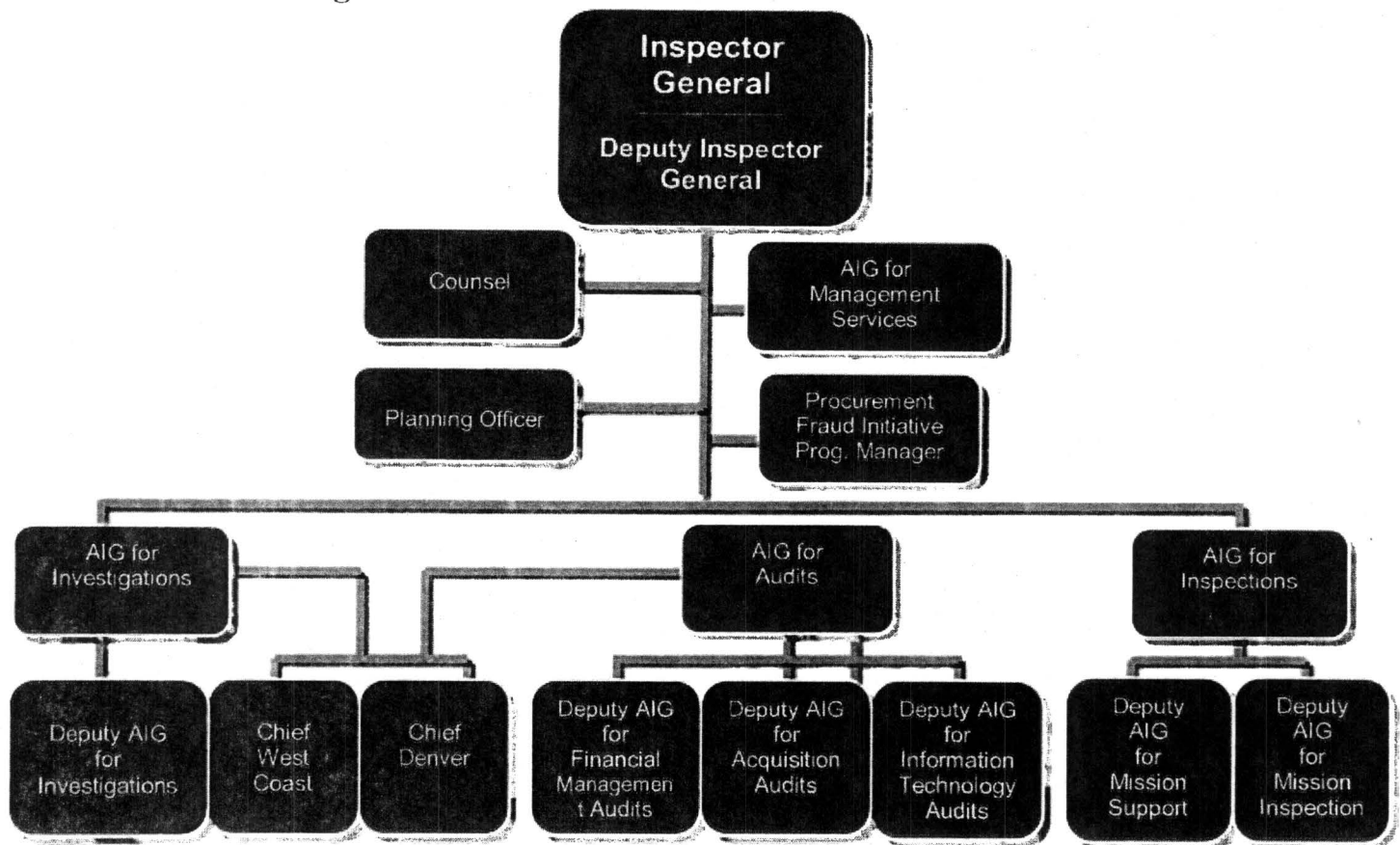


Figure 1 – UNCLASSIFIED

(U) The Audit Staff, consisting of **b3** positions, including **b3** assigned to the West Coast Office, remains structured in teams focused on NRO's primary functions of space system acquisition, information technology deployment, and financial management. This functional alignment allows OIG management to focus audits on processes and issues of greatest management interest, develop a strategy for addressing longstanding vulnerabilities, and specifically target the skills necessary to evaluate complex NRO activities and programs. **b3** new members of the Audit Staff came on board this year.

(U) The Inspection Staff, which includes CIA civilians, DoD Air Force civilians, and Air Force military members, currently totals **b3** positions. The staff continues to conduct NRO mission and mission support unit inspections as well as joint inspections at SIGINT mission ground stations. The Inspection Staff closes out the 2006 calendar year with **b3** CIA inspectors, **b3** DoD Air Force civilian inspectors, and **b3** Air Force military inspector positions. The diversity of the inspection staff reflects the NRO units being inspected and more importantly, provides the experience, technical knowledge, and backgrounds to conduct thorough and value-added oversight of NRO units and programs.

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(U) The Investigation Staff comprises ~~b3~~ government positions and one contractor support position, representing an increase of one position this year for an additional investigator within our West Coast office. Our new contractor investigative assistant holds a law degree and has several years of investigative and commercial law experience, and will support investigative work being conducted on both sides of the country.

(U) West Coast Office

~~(U//FOUO)~~ In 2006, the newly established OIG West Coast Office (WCO) in Los Angeles continued to mature. The office added an investigator position, bringing the staffing to ~~b3~~ including the office chief, ~~b3~~ auditors, and ~~b3~~ investigators. In 2007, ~~ab3~~ auditor position will be added to the WCO staff. The WCO moved from temporary spaces to permanent spaces more suited to the larger staff and expanded activities, providing a much improved climate for greater effectiveness. Also in fall 2006, we selected ~~b3 b6~~ a senior CIA officer with strong programmatic, technical, and managerial skills, as the new Chief, WCO, and designated the experienced resident senior auditor as the first Deputy Chief, WCO.

S//REL TO USA, ~~(U//FOUO)~~ The NRO's significant contractual commitment with our industry partners on the West Coast provides ample opportunity for steadily expanding WCO efforts. During 2006, the WCO provided intense investigative support to a major on-going civil investigation; completed work on audits involving the ~~b1~~ and ~~b1 b3~~ programs, as well as the ~~b1 b3~~ began the initial work for audits on the NRO's use of Defense Contract Audit Agency (DCAA) services and earned value management; and opened 10 new investigative actions, including two cases that will be referred to the Department of Justice (DOJ) for possible prosecutorial action. WCO expanded outreach efforts to industry partners and began to develop protocols to help them successfully self-report instances of fraud and misconduct. As of December 2006, WCO was refocusing its effort on three key areas - improving compliance of our industry partners with the NRO Acquisition Manual clause; making all NRO employees and contractors on the West Coast aware of the IG presence and services; and developing an equally strong relationship with the criminal division of the DOJ (Los Angeles) as we have established with the civil division.

~~(U//FOUO)~~ The work of the WCO is supplemented by the audit capabilities of the DCAA; the investigative resources of the Federal Bureau of Investigation and the Defense Criminal Investigative Service field offices in Los Angeles; and the prosecutorial authorities of the DOJ (Los Angeles).

(U) Denver Office

~~(S//TK)~~ We are pleased to report that during 2006, the Director, NRO, approved additional resources to establish a second OIG field office, this one in the Denver area. In government, the IG's use of regional offices is a commonly accepted way of doing business where there is a high volume of agency activity in locations other than headquarters. The large dollar value of contracts and increasing NRO investment in NRO ~~b1 b3~~ in that region warranted more comprehensive, focused oversight than could be provided from the Washington, D.C. area. As of today, the ~~b1 b3~~ ~~b1 b3~~ has ~~b1~~ in active contracts. Our most recent annual work plan lists

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approximately 16 audits involving **b1 b3** activities over the FY 2007-2008 timeframe. This increase in audit activity in Denver is merely a reflection of the growth in both dollars and mission significance of Denver as the **b1 b3**. It would not be managerially or cost effective to conduct these audits by remote control from Westfields by flying auditors in and out of the region. An OIG presence will provide numerous benefits in achieving the objectives of the NRO that far exceed the minimal outlay of resources. The presence of an IG prepared to examine mission and organizational competencies or investigate waste, fraud, and abuse is a positive deterrent to misconduct upon those who might consider a more cavalier execution of responsibilities or even criminal wrongdoing. Additionally, we have coordinated with the IGs from NGA and NSA, the NRO's mission partners in the Denver area, and they are interested in exploring a cooperative, community oversight approach at Denver area facilities. We expect initial operations at the OIG Denver office to begin in late spring or early summer 2007.

(U) Personnel Staffing

(U) Total OIG staffing at the beginning of 2007 comprised **b3** full-time and part-time civilian and active duty military positions. The staffing permits hiring under the DoD Deaf and Disabled Program, and allows for supplementing positions with student interns. The OIG Allocation of Positions chart (Figure 2) depicts positions in the OIG as of 31 December 2006. The chart provides a break out of positions by Audit, Inspection (INSP), Investigation (INV) Staffs, Management Services Staff (MSS); and the OIG Front Office (FO). It also identifies the sub-allocation of the West Coast and Denver positions.

(U) OIG Allocation of Positions

	Audit	INSP	INV	MSS	FO	TOTAL
Civilian (Full time)	b3					
Civilian (Part time)						
West Coast Office						
Denver Office						
Military						
Subtotal						
Vacant						
Total						

* (U) The vacancies are primarily to augment the West Coast and the newly established Denver Office staffs.

** (U) The military personnel to fill these vacancies are currently in process.

*** (U) This has been designated as a part-time position.

Figure 2 - UNCLASSIFIED FOR OFFICIAL USE ONLY

(U) Figure 3, *OIG Authorized Positions 2006 vs. 2007*, illustrates the number of positions on each of the OIG staffs and offices in 2006 and 2007 included those assigned to the West Coast and Denver field offices. This includes five new full and part time positions provided to the OIG for FY 2007 largely in support of the West Coast and newly established Denver offices.

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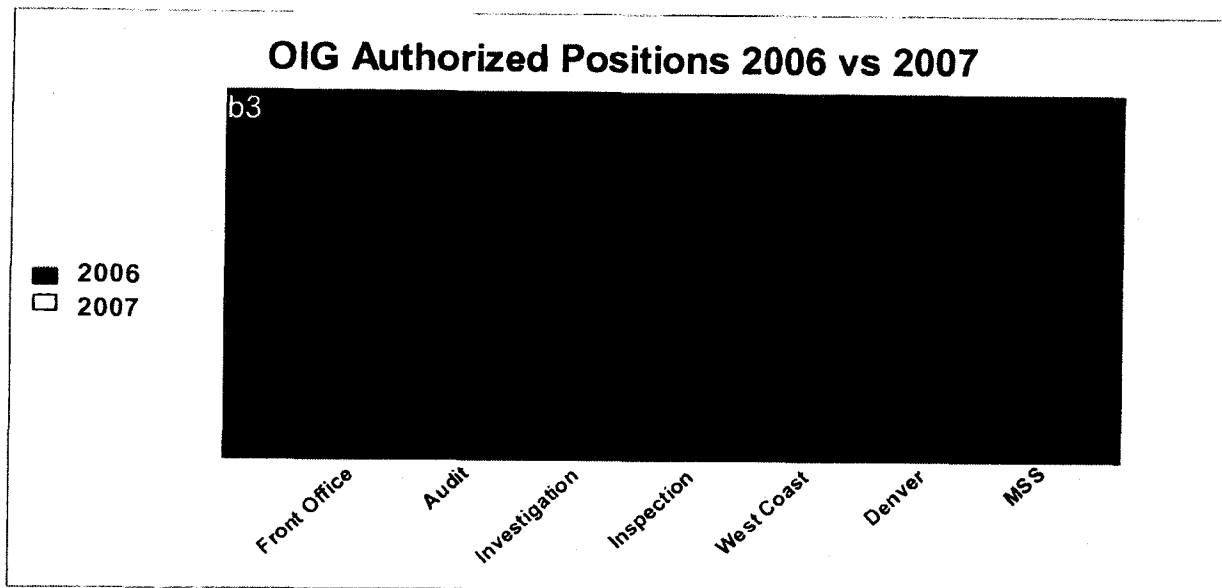
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Figure 3 – UNCLASSIFIED//FOR OFFICIAL USE ONLY

(U) ABILITY TO HIRE AND RETAIN QUALIFIED PERSONNEL

(U) Hiring and Training

(U) Throughout 2006, the OIG continued its recruitment program with focus on auditors at the entry through expert-levels. Our efforts have been very successful with the arrival of six new auditors in 2006 and one additional auditor scheduled to report in early 2007. For the entry-level, OIG regularly recruits auditors from various colleges and universities throughout the United States. For more experienced levels, auditors are being recruited from the private and public sectors with expertise in specific emphasis areas of acquisition, financial management, and information technology. Our investigative staff maintains a high retention level and predominantly recruits current government employees with a demonstrated experience in areas of investigations, acquisition, budget, and/or finances.

(U) Several new auditors hired in 2006 were first contacted at diversity career fairs and schools in which the OIG staff attended in partnership with the CIA Recruitment Center. Events at diverse organizations and schools included the Association of Latino Professionals in Finance and Accounting; the National Association of Black Accountants; the National Hispanic Business Association; the University of Texas; the University of New Mexico; and Arizona State University. Even as vacancies diminish, the OIG plans to continue to maintain an ongoing relationship and an active presence with schools and diversity organizations for the foreseeable future to address prospective recruiting needs.

(U) The OIG is enhancing its comprehensive training plan, using both government and private sources of training to assure staff members have the most up-to-date knowledge to perform their jobs effectively. The OIG continues to emphasize training for its personnel at each performance level (entry to expert) as well as training by functional area of assignment. An increasing number of OIG staff members are also undertaking training for professional

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certifications, such as Professional Project Manager, Certified Public Accountant, Certified Fraud Examiner, and Certified Inspector General. Approximately two-thirds of the OIG staff have advanced degrees or professional certificates.

(U) Attrition

(U) The OIG continues to make significant strides in filling its positions and retaining staff already on board. During 2006, b3 individuals left for a variety of reasons, including resignation, retirement, and acceptance of new assignments within their respective parent organizations. Conversely, as a direct result of our recruiting efforts, b3 new members were added to the OIG staff at both Westfields and our field locations, appreciably offsetting departures. Moreover, as staff employees left due to attrition, new opportunities for career growth opened up in the office, offering growth potential to newly hired as well as experienced employees. As of 1 January 2007, the OIG had b3 vacancies outstanding due to employees that recently left, as well as newly created positions that have yet to be filled.

(U) FUNDING

(U//~~FOUO~~) The OIG FY 2006 total cost of operations was b3. Figure 4 illustrates that over 63 percent of our FY 2006 expenditures were in support of the Financial Statement Audit; the remainder of the OIG budget covered travel, training, and other contractual and general support.

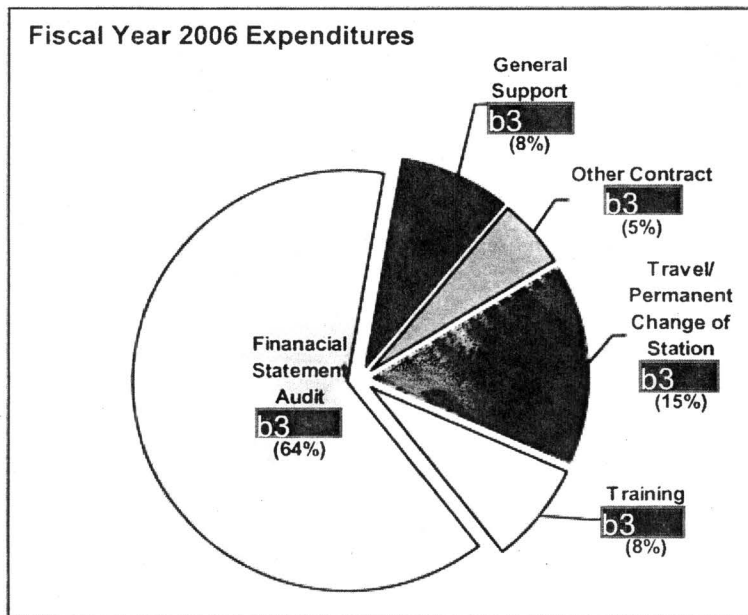


Figure 4 – UNCLASSIFIED//~~FOR OFFICIAL USE ONLY~~

(U//~~FOUO~~) The FY 2007 OIG operating budget is b3. For FY 2007, the OIG budget allocation covers costs of new financial statement audit contract effort, travel, training,

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and general support. Personnel compensation² is funded at the NRO corporate level and is therefore not included in the OIG budget.

~~(U//FOUO)~~ From a cost of operations perspective, it is notable that OIG investigations have yielded significant recovery of funds that more than cover OIG's total budget and operations. In the last year alone, nearly B3 has been recovered as a direct result of the OIG procurement fraud initiative. This, added to other recoveries since 2001, means that OIG has been involved in over B3 returned to the U.S. government, of which B3 came back to the NRO. The total OIG cost of operations during that time was B3

~~S//TK~~ (U//FOUO) This year, OIG personnel will continue to actively engage NRO field locations B1 B3. Auditors plan to travel to approximately eight field sites and contractor locations. Inspectors have scheduled seven unit inspections and two joint inspections, taking them to four NRO field sites. Investigators will be required to travel B1 B3 in support of their investigations. Additionally, the investigators travel plans include 25 fraud awareness briefings and meetings with 15 corporate ethics officers. OIG managers and support personnel will also travel throughout the U.S. in support of our recruitment efforts.

~~(S//TK)~~ OIG support to the establishment of the Denver office represents an unfunded requirement for FY 2007. However, based on our proactive efforts to reallocate available funding, we believe this will not negatively impact execution of our mission. It is anticipated that the office will be operational in early summer 2007. Once fully staffed, costs for travel incurred will be those associated with investigations and audits in the region, and for training and discussions in the Washington area.

~~(S//TK)~~ OIG West Coast staff will continue to travel to contractor facilities throughout the region during FY 2007 in order to provide awareness briefings to corporate officials, security officers, and DCAA staffs supporting the NRO mission. Investigators will also be meeting with law enforcement and DOJ representatives throughout the area.

(U) PLANNED REVIEWS

(U) Annual Planning Process

(U) The *Office of Inspector General Work Plan for Fiscal Years 2007/2008* is designed to ensure that NRO OIG resources are used in a manner that maximizes their contribution to the NRO mission. We provided this Work Plan to the Committees October 2006. This year we again issued a two-year plan which consists of 63 inspection and audit projects. Our two-year planning cycle allows for greater scheduling flexibility, increased staff and management participation in the planning process, and a better understanding by the workforce of our long-range oversight goals. We plan to revisit those projects we have selected each year through our annual planning process even though we issued a two-year plan.

~~(U//FOUO)~~ OIG audit and inspection projects focus on seven key areas or themes that represent the areas of greatest vulnerability to the NRO in meeting its mission. The themes are:

² (U//FOUO) In 2006, the total personnel compensation funded corporately by the NRO for the OIG was in excess of

B3

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Acquisition and Program Management, Financial Management and Performance, Information Technology and Management, Operations, Strategic Direction, Infrastructure and Mission Support, and Integrity. The projects under each of the themes are linked to the NRO Strategic Plan.

(U) Follow-up on OIG Recommendations

(U) One test of OIG effectiveness is evidenced through an aggressive program to follow-up on all recommendations until they are successfully closed. NRO managers have responded conscientiously to this program. In 2006, OIG products resulted in a total of 81 recommendations. NRO management concurred with all of these recommendations. By the end of December 2006, 85 recommendations from 2006 and prior years were closed.

(U) INSPECTOR GENERAL INDEPENDENCE AND EFFECTIVENESS

(U) As we reported last year, the senior leaders of the NRO have provided the conditions necessary for OIG independence by (1) adopting an administrative regulation (NROD 22-1a) largely modeled on the IG Act of 1978, and (2) consistently supporting adherence to those administrative standards. However, the OIG continues to encounter external impediments to our effectiveness resulting from the lack of statutory protection of our independence. Last year the Senate Select Committee on Intelligence (SSCI) included a provision in its Intelligence Authorization Bill that would remedy this problem by making the NRO a "designated federal entity" under the IG Act of 1978. We urge inclusion of this provision in the Intelligence Authorization Bills in the new Congress.³

(U) Additionally, because the NROD setting forth OIG authority exists by virtue of administrative action, our independence could be undermined or even eliminated merely by administrative action. This is not a purely hypothetical concern. During this past year, the IGs of several federal departments and agencies have faced attempted incursions on their independence by the heads of those entities. Several of these literally ended up on the front page of the Washington Post, as the Committees undoubtedly have noted. It was only by invoking their authority under the IG Act that these OIGs were able to avoid inappropriate interference.

(U) We continue to encounter very real impediments with regard to our dealings outside the NRO, owing to our status as an administratively created OIG. Examples of the kinds of impediments we are experiencing include:

- perception by the Government Accountability Office of an organizational impairment to our independence in managing the financial statement audits required by the Chief Financial Officers Act of 1990;
- NRO contractors questioning our authority for unimpeded access to records in the course of audits and investigations; and

³ Because of confusion often resulting from an imprecise reference to "statutory" or "administrative" IGs, we want to be very clear about the kind of statutory protection we deem desirable. Certain Inspectors General are presidentially-appointed and confirmed in their appointments by the Senate. This is not what we seek. Many other IGs are appointed by their agency heads, but exist and have powers assigned by virtue of being a "designated federal entity" under the IG Act of 1978. It is this latter status that we believe appropriate for the NRO OIG.

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- our request to participate directly in the important work of the Executive Council on Integrity and Efficiency was rejected due to our status as an administrative, rather than statutory, IG.

As a designated federal entity with its powers provided under the IG Act of 1978, the NRO OIG would have authority to issue subpoenas for all information and documents necessary to carry out its functions. Currently, by contrast, NRO OIG must go through a rather protracted and inefficient process of requesting and convincing the Defense Criminal Investigative Service to issue a subpoena on our behalf when we deem one necessary. This process causes time delay, privacy issues, access issues under state law, and other impediments. We have encountered these problems on several ongoing major cases in the State of California during the past year.

(U) Legislation to make NRO a "designated federal entity" under Section 8G of the IG Act of 1978 would address these types of impediments. The SSCI included precisely such a provision in its authorization bill last year. As the Committees well know, numerous contentious issues resulted in failure to pass an authorization bill in the last Congress—but our proposal was not one of those contentious issues. There has been strong support on the merits for this provision. We continue to believe that adoption of our statutory IG provision is the single most important action needed to ensure and enhance the independence and effectiveness of the NRO OIG.

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ANNUAL REPORT

JANUARY 2008

NATIONAL
RECONNAISSANCE
OFFICE

Office of
Inspector General



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The Mission of the Office of Inspector General is
*to safeguard public trust by promoting integrity,
accountability, and sound management practices
through objective and independent oversight of
NRO programs and activities.*

National Reconnaissance Office, Office of Inspector General

(U) ANNUAL REPORT, JANUARY 2008

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(U) INTRODUCTION

(U) The Inspector General's Annual Report is an extremely important tool legislated by Congress to communicate annually with the Congressional Intelligence Oversight Committees regarding the adequacy of OIG personnel and staffing, hiring and retention, funding, planned reviews, and overall independence and effectiveness.¹ This report helps to ensure the credibility of independent internal oversight and to maintain the quality and effectiveness of the work of the National Reconnaissance Office (NRO) Office of Inspector General (OIG). We are pleased to report on these matters, as well as OIG activities during the past year that we believe will be of interest to the Committees in assessing these mandated topics.

~~(U//FOUO)~~ Overall, the NRO senior leaders have provided sufficient staffing and budgetary resources to execute the important mission of the OIG. The OIG is staffed with highly professional personnel experienced in conducting audits, inspections, and investigations, many of whom bring additional experience and technical expertise in many of the NRO core business areas. As of January 2008, the OIG had **b3** positions assigned to its staff. During 2007, **b3** auditors, inspectors, investigators and support personnel joined the OIG staff, while **b3** personnel left the office due to retirement, rotation to other assignments in their parent organizations, or resignation. The OIG continues to build its staff through active participation in recruitment programs at colleges, universities, and diversity career fairs. Staff diversity in terms of race, gender, and age, including both military and civilian employees and full and part-time positions, continues to progress.

~~(S//NF)~~ The OIG budget for fiscal year (FY) 2008 is **b1 b3** sufficient for our currently anticipated requirements for travel, training, and general support for the staff. It will also fund long overdue enhancements to information technology tools that will facilitate our audit and inspection process and further our Procurement Fraud Initiative (PFI). However, as a result of broader requirements and increased costs, we are able to only partially fund the resumption of the annual audit of the NRO financial statements. Accordingly, the Business Plans and Operations Office has agreed to provide additional funding on an as needed basis in support of the financial auditing effort. The independent public accounting firm of PricewaterhouseCoopers (PwC) was selected in a full and open competition to conduct the NRO Annual Financial Statement Audits beginning in FY2008. The contract with PwC also includes a Federal Information Security Management Act (FISMA) audit option beginning in FY2009. The FISMA option is essential for us to provide adequate oversight of information security challenges we recently identified in FY2006 and FY2007. Currently, this option remains unfunded. Likewise, the financial audit beyond its base years remains under funded. We have emphasized the importance of full funding to the DNRO, and the OIG will include it in its FY2010 budget build.

(U) In October 2007, the OIG issued a comprehensive and ambitious Annual Work Plan for Fiscal Years 2008/2009. Our work plan includes 67 potential audits, inspections, and special reviews that are planned over the next two years. It also outlines OIG efforts for broadening its successful Procurement Fraud Initiative (PFI). We received input from the Congressional Intelligence Committees during the preparation of the Work Plan, and subsequent to its issuance.

¹ (U) Section 8H of the Inspector General Act of 1978, US Code Title 5—Appendix 3, Section 8H(g).

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We are gratified to see that the Committees' areas of interest align so closely with the work we have identified as being most important to the NRO, and will incorporate them into our projects as we execute our work plan.

~~(S//NF)~~ The OIG continues to receive outstanding support from NRO leaders in responding to the findings and recommendations contained in OIG reports. Senior NRO leaders consistently acknowledge and reinforce OIG authority to have unobstructed access to government and contractor information and personnel in the course of our work. During 2007, the DNRO asked the OIG to take on challenging issues in its audits and inspections, including an inspection of the Office of Equal Employment Opportunity and Diversity Management, an attestation audit of the **b1 b3** independent review team, and an audit of acquisition oversight, where our recommendations formed the foundation for a significant portion of the ongoing NRO acquisition transformation and restructuring effort. The IG meets weekly with NRO senior leaders including the NRO Director, Mr. Scott Large, the newly appointed NRO Principal Deputy Director, Mr. Ralph Haller, and the NRO Deputy Director, Major General Tom Sheridan. We are looking forward to continuing this productive relationship. Additionally, at the request of the DNRO, the IG also participates in meetings of the NRO Senior Board to provide advice and guidance on issues as needed, and to maintain effective oversight of NRO programs and operations.

~~(U//FOUO)~~ The OIG West Coast Office (WCO) in Los Angeles had a very productive year, building on its solid work of the past two years. The office more than doubled its investigative caseload from the previous year, strengthened relationships with industry partners, increased the tempo of audit work and further refined the interrelated investigative/audit team concept that is the basis for the field offices. To support the increased workload, the office added an investigator and an auditor, increasing the staffing to **b3** including the office chief and deputy (who are themselves an auditor and investigator), **b3** auditors, and **b3** investigators.

(U) In August 2007, we opened our Denver field office with a staff of **b3** consisting of the office chief and deputy (again, each is a "practicing" investigator and auditor), **b3** auditors, and one investigator. The office is already managing an impressive workload and initiating an aggressive outreach program. To date, we have accomplished the opening of both field offices without requesting any increase in travel/training and other support funds. We plan to include appropriate funding increases to support our work in the next budget cycle.

(U) Over the past three years, the OIG has worked diligently with colleagues in the Intelligence Community (IC) as well as with Congressional staffs to include language in the Intelligence Authorization bill that would make the NRO, the Defense Intelligence Agency, the National Security Agency (NSA), and the National Geospatial-Intelligence Agency (NGA) designated federal entities under the IG Act of 1978. It is disappointing to us that the bill, including our proposed language has not been enacted. This legislation would vest the OIG with all statutory authorities provided an OIG under the IG Act of 1978, and would be a significant enhancement to our ability to carry out our mission.

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(U)PROCUREMENT FRAUD INITIATIVE

(U) In order to stimulate proactive procurement fraud initiatives, detection methods and reporting, a senior OIG staff member is assigned as the full-time PFI program manager. The OIG PFI focuses on the following key approaches:

- *Education of OIG staff* to ensure that OIG personnel are properly aware of and sensitized to procurement fraud vulnerabilities as they conduct their routine oversight work.
- *Education of the NRO workforce* to include contracting officers, program managers, and contracting officer technical representatives, to help them identify and report procurement fraud vulnerabilities.
- *Partnerships* with NRO contractors to jointly identify and investigate instances of fraud involving NRO contracts and subcontracts.
- *Proactive Initiatives* such as data mining, the use of an OIG "Red Flags" database, inclusion of fraud detection steps in OIG audits and inspections, strengthening partnerships with the NRO Office of Contracts and the Defense Contract Audit Agency, and working closely with the National Procurement Fraud Task Force Committees.

(U) Throughout 2007, the NRO IG, Eric Feldman, and members of his senior management team have continued to play key roles in various committees of the Department of Justice National Procurement Fraud Task Force. Mr. Feldman co-chairs the Task Force Private Sector Outreach Committee, and has worked closely with the major NRO contractors in implementing mandatory fraud reporting requirements now contained in NRO contracts. Recently, this outreach has focused on helping government contractors prepare for proposed changes to the Federal Acquisition Regulations, modeled after the NRO contract provision, which would require mandatory fraud reporting. The NRO IG, in coordination with the U.S. Attorney's Office for the Central District of California, established a local Procurement Fraud Working Group in the Los Angeles area, and recently established the California Chapter of the Association of Inspectors General, which was approved by the Board of Directors of the Association of Inspectors General in November 2007. The NRO OIG also continues to be an active member of the Department of Defense (DoD) Procurement Fraud Steering Committee.

(U) In March 2007, the OIG hosted the second NRO Corporate Business Ethics and Compliance Officers Forum. This two-day conference provided an opportunity to share best practices and information on preventing and detecting fraud within the business community, addressing such topics as whistleblowers and their impact, investigative resources, ethics survey success stories and reporting procurement fraud cases to the NRO OIG. The conference also facilitated discussions on prime and subcontractor compliance on the self-reporting of procurement fraud. We will conduct our third annual business ethics conference, on the West Coast in March 2008.

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(U) We have continued to share the NRO PFI methodologies, marketing strategies, and training tools with other IG organizations throughout the IC and the federal government at large, as they consider adopting various aspects of our PFI program. We participated in several briefings with the IG for the Office of the Director of National Intelligence and representatives from other IC IG offices to discuss proactive procurement fraud prevention and detection approaches, and worked with our IC colleagues to identify systemic weaknesses in acquisition and contracting that may cross individual agency boundaries.

(U) PERSONNEL

(U) OIG Staffs

(U) The Front Office Staff includes a legal counsel to the IG. The legal counsel reports directly to the Deputy IG and the IG. The position is outlined in NRO Directive (NROD) 22-1b, and is independent from the Office of General Counsel, as is the case with some other IC OIGs. As part of the OIG senior staff, the legal counsel attends all senior staff meetings, participates in discussions on OIG issues, and provides legal advice on audits, inspections, and investigations, as well as any other issues that may affect the OIG. His legal knowledge, opinions, and advice on NRO issues provide excellent support to the entire OIG staff. The NRO OIG organization chart in Figure 1 below shows the current structure of the office.

NRO OIG Organization

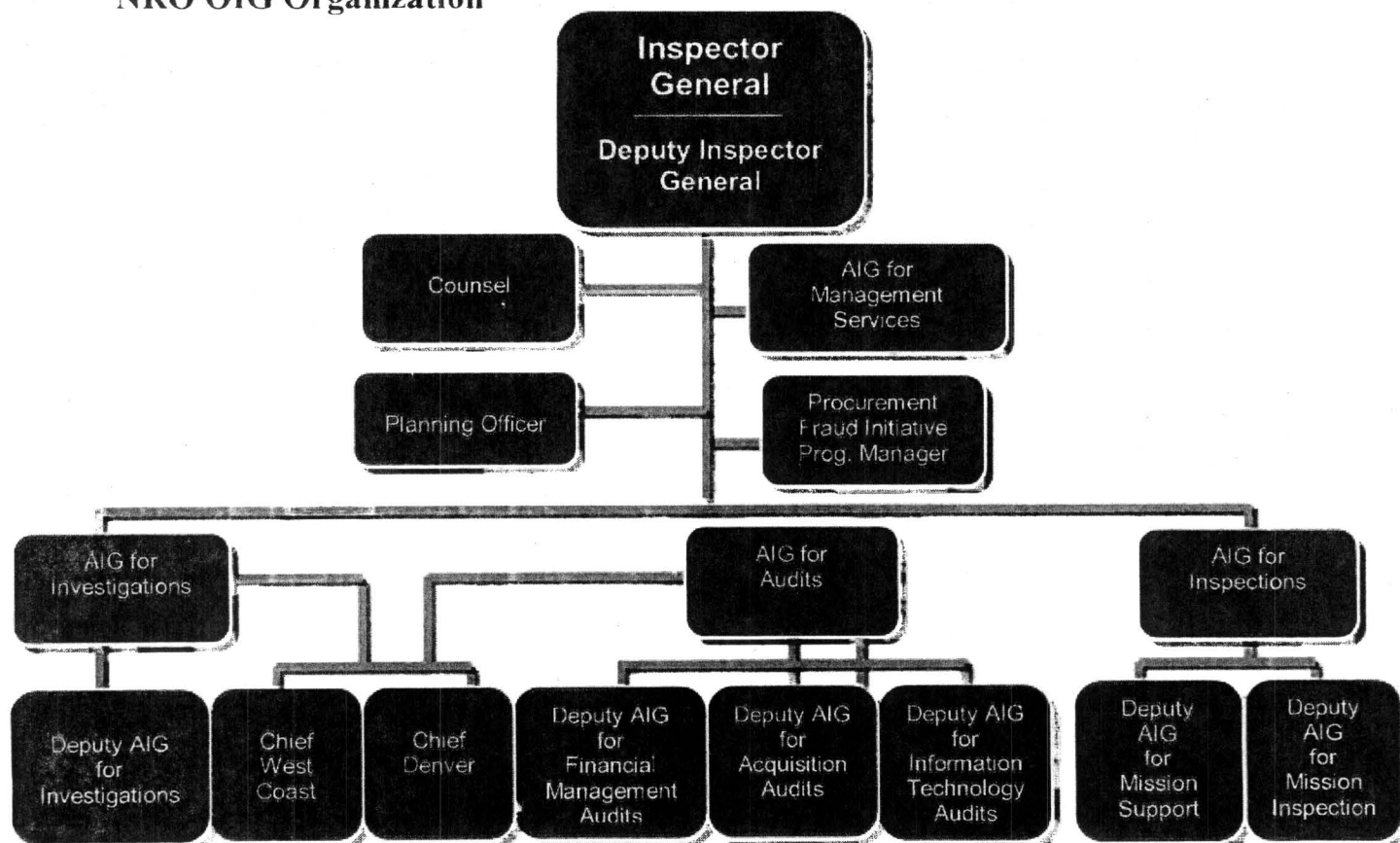


Figure 1 – UNCLASSIFIED

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(U) The Audit Staff, consisting of b3 positions, including b3 assigned to the West Coast Office and b3 to the Denver Office, is structured in teams focused on the NRO primary functions of space system acquisition, financial management, and information technology deployment. This functional alignment allows the OIG to focus audits on processes and issues of greatest management interest; develop a strategy for addressing longstanding vulnerabilities; and specifically targets the skills necessary to evaluate complex NRO activities and programs. It will also be compatible with the outcome of the NRO's ongoing organizational transformation. b3 new auditors were added to the Audit Staff in 2007.

(U) The Inspection Staff currently totals b3 positions. The staff continues to conduct NRO mission and mission support unit inspections as well as joint inspections at SIGINT and IMINT mission ground stations. The Inspection Staff closes out the 2007 calendar year with b3 CIA civilian positions, b3 DoD Air Force civilian positions, and b3 Air Force military inspector positions. The diversity of the inspection staff reflects the NRO units being inspected and more importantly, provides the experience, technical knowledge, and backgrounds for the thorough and value-added oversight of NRO units and programs. b3 new inspectors were added to the Inspection Staff in 2007.

(U) The Investigation Staff comprises b3 government positions including b3 investigators assigned to the West Coast Office and two assigned to the Denver Office. The Investigative staff also includes one contractor support position. b3 new investigators were added to the Investigations Staff in 2007.

(U) West Coast Office

(U//~~FOUO~~) The NRO's significant contractual commitment with our industry partners on the West Coast has resulted in steady expansion of OIG's WCO efforts. During 2007, we continued to provide intense investigative support to a major on-going civil investigation; opened two significant cases with the Department of Justice (DOJ) and supported the initial DOJ inquiry into a qui tam related to a major NRO program. At the close of year, the office had opened b3 investigative cases--more than doubling the investigative caseload from the previous year. The staff also completed audits on the use of special incentives on the b3 and the use of Earned Value Management in the NRO, a topic which has garnered more interest as the NRO refocuses its acquisition efforts. During 2007, we continued outreach efforts to industry partners, helping them to refine protocols for contractually mandated self-reporting of fraud and misconduct. As part of this effort, the office is focused on developing a reporting checklist that will allow our partners to ensure they have taken all necessary steps to provide early, full, and accurate reporting and remediation of identified wrongdoing.

(U//~~FOUO~~) In 2007, the office also increased its coordination with local offices of the Defense Contract Audit Agency (DCAA), Defense Criminal Investigative Service (DCIS), and the US Attorney for the Central District of California. During this time, the DCIS became a critical partner in conducting a criminal investigation. The office routinely meets with law enforcement partners and has developed much closer relationships with the criminal division of the US Attorney's Office. The office has also played a key role in the local Procurement Fraud Working Group and in the California Chapter of the Association of Inspectors General.

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~~SECRET//TK//NOFORN//25X1~~(U) Denver Office

~~(S//TK)~~ Our Denver field office opened on schedule in August 2007 with a staff of b3 and we are already managing a substantial workload. Currently, we are auditing the largest contract at the site, b1 b3

b1 b3 The field office has b3 ongoing investigations, including cost mischarging, conflicts of interest, and misuse of position. The office has also initiated an aggressive outreach program, both in formal briefings to the workforce and personal visits with key government and contractor mission partners. As of today, b3 in active NRO contracts in the Denver area. Our most recent annual work plan lists approximately 16 audits involving b1 b3 activities over the FY 2008-2009 timeframe. This increase in our audit activity is a reflection of the growth in both dollars and mission significance of Denver as the b1 b3

b1 b3 We have also initiated a coordinated effort with our Denver mission partners, the NGA and NSA IGs, to develop a cooperative, community oversight approach for the Denver area facilities.

(U) Staffing

(U) Total OIG staffing at the beginning of 2008 comprised b3 full-time and part-time civilian and active duty military positions. The OIG Allocation of Positions chart (Figure 2) depicts positions in the OIG as of 31 December 2007. The chart provides a break out of positions by Audit, Inspection (INSP), Investigation (INV) Staffs; Management Services Staff (MSS); and the OIG Front Office (FO). It also identifies the sub-allocation of the West Coast and Denver positions.

(U) OIG Allocation of Positions

	Audit	INSP	INV	MSS	FO	TOTAL
Civilian (Full-time)	b3					
Civilian (Part-time)						
West Coast Office						
Denver Office						
Military						
TOTAL						
Vacant*						

*(U) Vacant positions are included in the total allocated positions.

** (U) This has been designated as a part-time position.

Figure 2 – UNCLASSIFIED//~~FOR OFFICIAL USE ONLY~~

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(U) Figure 3, *OIG Authorized Positions 2007 vs. 2008* below, illustrates the number of positions on each of the OIG staffs and offices in those respective years. This includes [REDACTED] new b3 full and part time positions provided to the OIG for FY 2007 largely in support of the West Coast and newly established Denver offices.

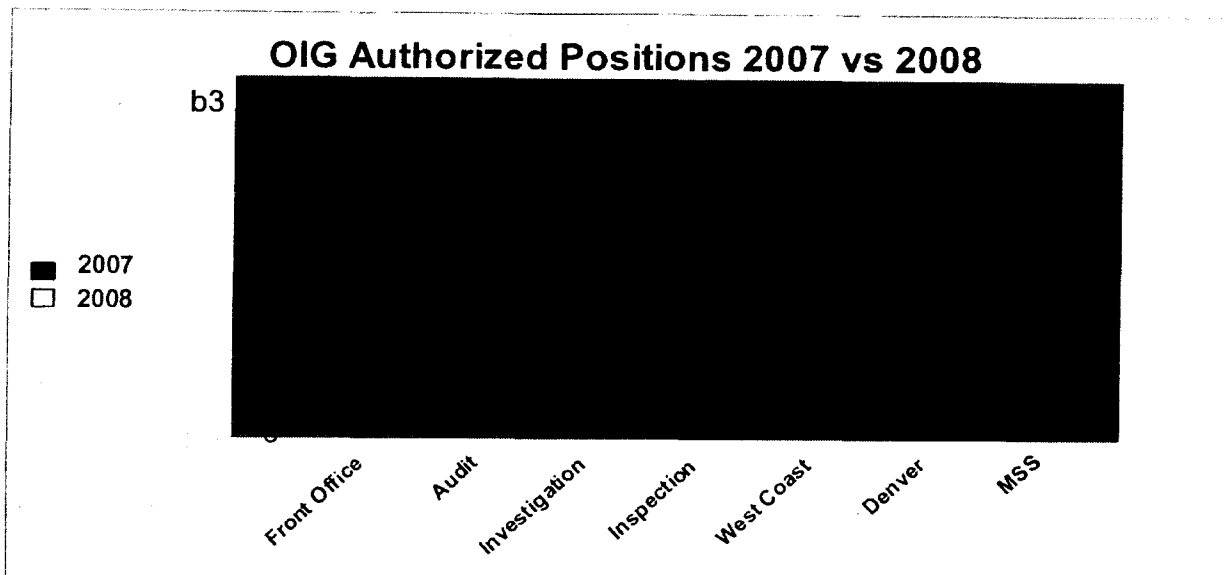


Figure 3 – UNCLASSIFIED//FOR OFFICIAL USE ONLY

(U) ABILITY TO HIRE AND RETAIN QUALIFIED PERSONNEL

(U) Hiring and Training

(U) Throughout 2007, the OIG continued its recruitment program with focus on auditors at the entry through expert-levels. Our efforts have been very successful with the arrival of [REDACTED] new auditors in 2007 and [REDACTED] additional auditors scheduled to report in early 2008. For the entry-level, the OIG regularly recruits auditors from a variety of colleges and universities throughout the United States. Even as vacancies diminish, the OIG plans to continue to maintain an ongoing relationship and an active presence with schools and diversity organizations for the foreseeable future to address prospective recruiting needs. b3

(U) For more experienced levels, auditors are being recruited from the private and public sectors with expertise in specific emphasis areas of acquisition, financial management, and information technology. Our investigative staff maintains a high retention level and predominantly recruits current government employees with demonstrated experience in the areas of investigations, acquisition, budget, and finance.

(U) The OIG is enhancing its comprehensive training plan, using both government and private sources of training to assure staff members have the most up-to-date knowledge and skills to perform their jobs effectively. The OIG continues to emphasize training for its personnel at each performance level (entry to expert) as well as training by functional area of assignment. An increasing number of OIG staff members are also undertaking training for

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professional certifications, such as Certified Public Accountant; Certified Fraud Examiner; Professional Project Manager, and Certified Inspector General. Approximately two-thirds of the OIG staff have advanced degrees or professional certificates.

(U) Attrition

(U) The OIG continues to make significant strides in filling its positions and retaining staff. During 2007, [REDACTED] b3 individuals left for a variety of reasons, including resignation, retirement, and acceptance of new assignments within their respective parent organizations. Conversely, as a direct result of our recruiting efforts, [REDACTED] b3 new members were added to the OIG staff at both Westfields and our field locations, appreciably offsetting departures. Moreover, as staff employees left due to attrition, new opportunities for career growth opened up in the office, offering growth potential to newly hired as well as experienced employees. As of 1 January 2008, the OIG had [REDACTED] b3 vacancies outstanding due to employees who recently left, as well as newly created positions that have yet to be filled.

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~~SECRET//TK//NOFORN//25XT~~**(U) FUNDING**

(U//FOUO) As shown in Figure 4, the OIG FY 2007 total cost of operations was b3 with only 21 percent of our operating expenditures allocated in support of the Annual Financial Statement Audit. This is in sharp contrast to previous years where financial statement support approached 70 percent. The FY 2007 reduction is the result of the curtailment of financial statement audit activity and cancellation of the contracted public accounting firm supporting the audit activity. This was done to allow BPO the opportunity to address significant accounting issues previously reported.

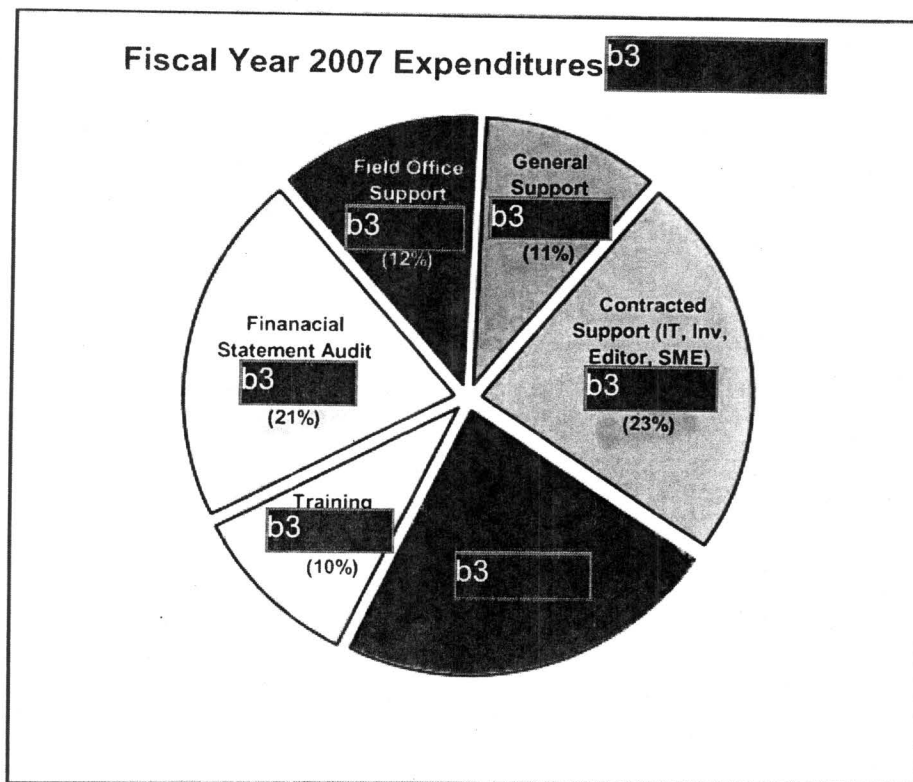


Figure 4 – UNCLASSIFIED//FOR OFFICIAL USE ONLY

(U//FOUO) The FY 2008 OIG operating budget is b3. With the award of a new NRO financial statement audit contract, the FY 2008 Financial Statement audit is scheduled to begin in February 2008. The increased costs from FY 2007 reflects partial funding of our competitively awarded contract with PricewaterhouseCoopers, LLP (PwC) to conduct the annual audit of NRO financial statements. It should be noted, however, that the contract cost of the current IPA support has nearly doubled and has required this office to enlist BPO support in obtaining the required additional funding. The PwC contract also contains an option, currently unfunded, to assist the OIG in conducting annual evaluations of our information security posture under the Federal Information Security Management Act (FISMA) beginning in 2009. The 2008 operating budget also includes funding of travel, training, and general support. Personnel

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compensation² is funded at the NRO corporate level and, therefore, not included in the OIG budget.

(U//FOUO) From a cost of operations perspective, it is notable that OIG investigations have yielded significant recovery of funds that more than cover the cost of the OIG's operations. In the last year alone, nearly [REDACTED] b3 has been recovered as a direct result of the OIG procurement fraud initiative. This amount, added to other financial recoveries since 2001, means that the OIG has been involved in the return of over [REDACTED] b3 to the U.S. government, of which [REDACTED] b3 came back to the NRO. The total OIG cost of operations, exclusive of salaries, during that time was [REDACTED] b3

S//TK (U//FOUO) This year, OIG personnel will continue to actively engage NRO field locations [REDACTED] b1 b3. Auditors plan to travel to approximately eight field sites and contractor locations. Inspectors have scheduled seven unit inspections and three joint inspections, taking them to three NRO field sites. Investigators will be required to travel b1 b3 [REDACTED] in support of their investigations. Additionally, the investigators travel plans include 25 fraud awareness briefings and meetings with 15 corporate ethics officers. OIG managers and support personnel will also travel throughout the U.S. in support of our recruitment efforts.

(U//FOUO) OIG West Coast staff will continue to travel to contractor facilities throughout the region during FY 2008 in order to provide awareness briefings to corporate officials, security officers, and DCAA staffs supporting the NRO mission. Investigators will also be meeting with law enforcement and DOJ representatives throughout the area. Denver staff will incur travel costs for investigations and audits in the region, as well as for meetings and training in the Washington D.C. area.

(U) PLANNED REVIEWS

(U) Annual Planning Process

(U) The *Office of Inspector General Work Plan for Fiscal Years 2008/2009* is the OIG roadmap for addressing critical issues and challenges facing the NRO, and is designed to ensure that OIG resources are used in a manner that maximizes their contribution to the NRO mission. We provided this Work Plan to the Committees in October 2007. We issued a two-year plan that consists of 67 potential audit and inspection projects. Our two-year planning cycle allows for greater scheduling flexibility, increased staff and management participation in the planning process, and a better understanding by the workforce of our long-range oversight goals. Publishing a two-year plan also incentivizes those who will be audited or inspected by the OIG to initiate an internal review and make improvements in preparation for the OIG's assessment. We plan to revisit the selection of those projects contained in the plan each year through our annual planning process to ensure continued relevance and importance.

² (U//FOUO) In 2007, the total personnel compensation funded corporately by the NRO for the OIG was in excess of [REDACTED] b3

~~(U//FOUO)~~ OIG audit and inspection projects are linked to the NRO Corporate Program's Critical Processes of Acquisition Management, Business Management, Contracting, Human Capital & Training, Information Management, Information Technology & Information Assurance, Operations, Oversight, Property Management, Security & Counterintelligence, Strategic Communications, Systems Engineering, and User Engagement. Our proactive investigative effort is designed to promote the NRO core value of "Integrity" in all agency programs and activities.

(U) Follow-up on OIG Recommendations

(U) OIG aggressively follows up on all recommendations until they are successfully closed. NRO managers have responded conscientiously to this program. In 2007, OIG reviews resulted in a total of 56 recommendations. NRO management concurred with all of these recommendations. By the end of December 2007, 88 recommendations from 2007 and prior years were closed.

(U) INSPECTOR GENERAL INDEPENDENCE AND EFFECTIVENESS

(U) As we reported last year, the senior leaders of the NRO have provided the conditions necessary for OIG independence by (1) adopting an administrative regulation (NROD 22-1a) largely modeled on the IG Act of 1978, and (2) consistently supporting adherence to those administrative standards. Still, the OIG continues to encounter external impediments to our effectiveness resulting from the lack of statutory protection of our independence.

(U) Because the NROD setting forth OIG authority exists by virtue of administrative action, our independence could be undermined or even eliminated merely by administrative action. This is not a purely hypothetical concern. The IGs of several federal departments and agencies have faced attempted incursions on their independence by the heads of those entities. As the Committees have undoubtedly noted, these incidences literally ended up on the front page of the Washington Post. It was only by invoking their authority under the IG Act that these OIGs were able to avoid inappropriate interference.

(U) We continue to encounter very real impediments with regard to our dealings outside the NRO, owing to our status as an administratively created OIG. Examples of the kinds of impediments we are experiencing include:

- perception by the Government Accountability Office of an organizational impairment to our independence in managing the financial statement audits required by the Chief Financial Officers Act of 1990;
- NRO contractors questioning our authority for unimpeded access to records in the course of audits and investigations;

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- our request to participate directly in the important work of the Executive Council on Integrity and Efficiency was rejected due to our status as an administrative, rather than statutory, IG; and,
- the NRO OIG must go through a very lengthy and inefficient process of requesting and convincing the Defense Criminal Investigative Service to issue a subpoena on our behalf when we deem one necessary. This causes time delays, privacy issues, access issues under state law, and other impediments that prolong the investigative and resolution processes. We have encountered these problems on several ongoing major cases in the State of California during the past year.

(U) For each of the past three years the Senate Select Committee on Intelligence (SSCI) has included a provision in its Intelligence Authorization Bill³ that would remedy these problems by making the NRO a "designated federal entity" under Section 8G of the IG Act of 1978. As the Committees well know, numerous contentious issues resulted in failure to pass these authorization bills—but our proposal was not one of those contentious issues. There has been strong support by senior NRO leaders and others within the IC on the merits for this provision. We continue to believe that adoption of our statutory IG provision is the single most important action needed to ensure and enhance the independence and effectiveness of the NRO OIG.

³ (U//~~FOUO~~) Because of confusion often resulting from an imprecise reference to "statutory" or "administrative" IGs, we want to be very clear about the kind of statutory protection we deem desirable. Certain Inspectors General are presidentially-appointed and confirmed in their appointments by the Senate. This is not what we seek. Many other IGs are appointed by their agency heads, but exist and have powers assigned by virtue of being a "designated federal entity" under the IG Act of 1978. It is this latter status that we believe appropriate for the NRO OIG.

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NATIONAL RECONNAISSANCE OFFICE
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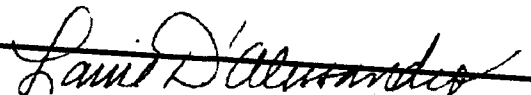


16 November 2009

MEMORANDUM FOR DIRECTOR, NATIONAL RECONNAISSANCE OFFICE
PRINCIPAL DEPUTY DIRECTOR, NATIONAL
RECONNAISSANCE OFFICE
DEPUTY DIRECTOR AND CHIEF OPERATING OFFICER,
NATIONAL RECONNAISSANCE OFFICE

SUBJECT: (U) Office of Inspector General Semiannual Report to
the Director, National Reconnaissance Office,
1 April 2009 - 30 September 2009

(U) I am pleased to report on the activities of the Office of Inspector General (OIG) for the period 1 April 2009 through 30 September 2009. This report summarizes our audits, inspections, investigations and other work during the reporting period. As in previous reports, I have included an update on our proactive Procurement Fraud Initiative and a summary of our personnel resources. Should you have any questions regarding this report, please contact me at b3 [REDACTED] (secure) or Robert Vignola, Deputy Inspector General, at b3 [REDACTED] (secure).


Lanie D'Alessandro
Inspector General

Attachment:

(U) Office of Inspector General
Semiannual Report to the
Director, National
Reconnaissance Office (~~S//TK//NOFORN~~)

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1 April 2009 - 30 September 2009

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Chief of Command, Control, Communications, Computers, and
Intelligence
Chairman and Vice Chairman, Senate Select Committee on
Intelligence
Chairman and Ranking Member, House Permanent Select Committee on
Intelligence
Chairman and Ranking Member, Senate Appropriations Committee,
Subcommittee on Defense
Chairman and Ranking Member, House Appropriations Committee,
Subcommittee on Defense
Chairman and Ranking Member, Committee on Armed Services, United
States Senate
Chairman and Ranking Member, Committee on Armed Services, United
States House of Representatives

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NATIONAL RECONNAISSANCE OFFICE

January 2009

Office of Inspector General Annual Report



The Mission of the Office of Inspector General is
*to safeguard public trust by promoting integrity,
accountability, and sound management practices
through objective and independent oversight of
NRO programs and activities.*

National Reconnaissance Office, Office of Inspector General

(U) ANNUAL REPORT, JANUARY 2009

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(U) INTRODUCTION

(U) Congress has mandated by statute that the National Reconnaissance Office (NRO) Inspector General report annually to the Congressional Intelligence Committees regarding the adequacy of Office of Inspector General (OIG) personnel and staffing, hiring and retention, funding, planned reviews, and overall independence and effectiveness.¹ This mandate, and the vehicle for communication that it provides, remains one of the most important tools available for this OIG to ensure full and effective performance of its oversight role. We are pleased to report on these matters, as well as OIG activities during the past year that we believe will be of interest to the Committees in assessing these mandated topics.

~~(U//FOUO)~~ Overall, the NRO senior leaders have provided sufficient staffing and budgetary resources to execute the important mission of the OIG. The OIG is staffed with highly professional personnel experienced in conducting audits, inspections, and investigations, many of whom bring specialized experience and technical expertise in many of the NRO core business areas. As of January 2009, the OIG had b3 positions assigned to its staff. During 2008, b3 auditors, inspectors, investigators, and support personnel joined the OIG staff, while b3 personnel left the office due to retirement, rotation, or acceptance of other assignments in their parent organizations. The OIG continues to build its staff through active participation in recruitment programs at colleges, universities, and diversity career fairs. Staff diversity in terms of race, gender, and age, including both military and civilian employees and full and part-time positions, is close to optimal.

~~(S//NF)~~ The initial OIG budget allocation of b3 for fiscal year (FY) 2009 was insufficient to meet our anticipated requirements for travel and training, and to support the contract with the independent public accounting (IPA) firm of Pricewaterhouse Coopers (PwC) to perform the NRO Annual Financial Statement Audit. The contract with PwC also includes a Federal Information Security Management Act (FISMA) audit option beginning in FY 2009. The FISMA option is essential for us to provide adequate oversight of information security challenges we identified in FYs 2006 and 2007. Accordingly, the Business Plans and Operations (BPO) Office agreed to increase the OIG budget allocation to b3 to provide up to 95 percent of the additional funding, in support of the PwC contract. The contract is also under-funded beyond 2009. Further funding cutbacks, the Director of National Intelligence (DNI) "tax", and the remaining PwC contract shortfall have diminished funding available for other critical mission requirements. Therefore, the staff is addressing the challenge of closing the budget gap while minimizing mission impact. We have emphasized the importance of full funding to the Director of the NRO (DNRO), and we will request full-funding in our FY 2010 budget build.

(U) In October 2008, the OIG issued a comprehensive and ambitious Annual Work Plan for Fiscal Years 2009/2010. Our work plan includes 81 potential audits, inspections, and special reviews that are planned over the next two years. The plan also outlines OIG efforts for broadening its successful Procurement Fraud Initiative (PFI). We received input from the Congressional Intelligence Committees during the preparation of the Work Plan subsequent to its issuance. The Committees' areas of interest are reflected in the projects we incorporated into our work plan.

¹ (U) Section 8H of the Inspector General Act of 1978, US Code Title 5—Appendix 3, Section 8H(g).

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~~(S//NF)~~ The OIG continues to receive outstanding support from NRO leaders in responding to the findings and recommendations contained in OIG reports. Senior NRO leaders consistently acknowledge and reinforce the OIG authority to have unobstructed access to government and contractor information and personnel in the course of our work. They have fully supported all audits and inspections, including the congressionally-requested audit of the

b1 b3 [REDACTED] and the Acquisition of the b1 b3 [REDACTED]

The IG meets weekly with NRO senior leaders including the Director, the Principal Deputy Director, and the Deputy Director. We look forward to continuing this productive relationship. The IG also participates in meetings of the NRO Senior Board, the DNRO Biweekly, and the DNRO Executive Committee. Our presence at these forums is to provide advice and guidance on issues as needed, and to maintain effective oversight of NRO programs and operations.

~~(U//FOUO)~~ The productivity of our field offices continues to increase. Having our offices located "on the ground" close to NRO contractors and activities in Los Angeles and Denver has proven to be most beneficial. We are able to establish positive relationships with the leaders at those sites, which in Denver also includes the National Security Agency (NSA) and the National Geospatial-Intelligence Agency (NGA). These relationships enable us to conduct our work more effectively, and obtain more timely corrective actions. The West Coast Office (WCO) in Los Angeles consists of a staff of b3 [REDACTED] to support the workload, including the office chief and deputy (who are themselves an auditor and investigator), b3 [REDACTED] auditors, and b3 [REDACTED] investigators. Our Denver field office consists of the office chief and deputy (again, each is a "practicing" investigator and auditor), b3 [REDACTED] auditors, and one investigator. Both offices are managing substantial workloads and initiating aggressive outreach programs.

(U) For the past several years, we have worked tirelessly with colleagues in the Intelligence Community (IC) and with Congressional staffs to include language in the Intelligence Authorization Bill that would make the NRO and other IC agencies "designated federal entities" under the IG Act of 1978. It is disappointing to us that the Bill, including our proposed language has not been enacted. The legislation would vest IC agency OIGs with all statutory authorities provided an OIG under the IG Act of 1978, and would be a significant enhancement to our ability to carry out our mission.

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(U) PROCUREMENT FRAUD INITIATIVE

(U) To stimulate proactive procurement fraud detection and reporting, the Office of Inspector General has enhanced its Procurement Fraud Initiative (PFI) by assigning individuals from each of the OIG staffs (Audit, Inspections, Investigations, and OIG Management Services) to serve as coordinators. Each of the PFI Coordinators has specific collateral duties, which include sponsoring a series of targeted Monthly PFI Brown Bag lunches, regularly writing anti-fraud "Messages from the IG" articles, and co-presenting the 2008 Annual Ethics Briefings to the NRO workforce.

(U) The expanded PFI model has refined its multifaceted approach to fighting fraud by doing the following:

- **(U) Opening anti-fraud training opportunities for OIG Staff and the NRO workforce that increases their ability to identify and report procurement fraud vulnerabilities.** The PFI program is accomplishing this goal by providing tailored briefings at venues such as the Annual Ethics Training, the NRO's Acquisition Center of Excellence "Case Studies Course," the Contracting Officer Technical Representative (COTR) Survival Skills Course, as well as the COTR Day (sponsored by the NRO Office of Contracts). We also have expanded the marketing of our procurement fraud campaign that is focused on fraud awareness and OIG contact information, including NMIS announcements, continuous NRO digital signage board announcements, and OIG anti-fraud posters. Increased OIG communications to the NRO population has helped maintain the workforce awareness of fraud detection and prevention resources. The OIG members have provided about 73 PFI-related presentations to over **b3** NRO government employees working at NRO facilities.
- **(U) Targeting proactive forensic analysis actions to further combat fraud.** Initiatives in this arena include expanded OIG research capabilities with the acquisition of the specialized hardware and software to recover and analyze digital evidence called the Digital Evidence Recovery Team (DERT) device. The DERT is specially outfitted with portable gear in order to support field activities. Given that computers, digital media, and other types of information technology are increasingly involved in OIG cases, this capability will be incorporated into the day-to-day tradecraft of the OIG staff.
- **(U) In addition to assigning the PFI Coordinators, the Inspector General approved the position of a full-time Forensic Digital Analyst to the OIG staff.** This position is responsible for meeting with senior NRO managers, reviewing current financial processes, and benchmarking with external agency OIG processes to establish a baseline for an NRO OIG data search and analysis program. This position enhances and encourages information sharing and collaboration across office, department, and agency boundaries.
- **(U) Enhancing partnerships with offices within the NRO, with other government agencies, and with key government NRO contractors to jointly identify and investigate instances of fraud involving NRO contracts.** In addition to working more closely with the NRO Senior managers, the Defense Contract Audit

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Agency Field Detachment, law enforcement, and OIG counterparts elsewhere in the federal government, we actively participate in both national and regional procurement fraud task forces. To more efficiently identify systemic weaknesses in acquisition and contracting and to maintain an effective NRO contractor procurement fraud referral program, OIG senior managers continue to reach out to the public and private sectors that work with the NRO, through presentations, sponsored conferences and training initiatives.

(U) Based on the results of the first **NRO Ethics Survey** (provided to NRO government and contractor employees), the DNRO mandated attendance at the **NRO Annual Ethics Training** for all government employees assigned to the NRO. He also required that all contractors who work with the NRO receive similar briefings from their companies. The OIG assisted the Office of General Counsel in presenting all 2008 Ethics Training sessions to about b3 government employees.

(U) In March, the OIG hosted the **2008 Annual NRO Corporate Business Ethics and Compliance Officers Conference** in Redondo Beach, California. The conference focused on fraud-related issues in U.S. government-funded contracts and collaborative efforts between the government and corporations. Over 120 ethics officers, counsels, and contract officers from several major NRO defense contractors, as well as investigators, auditors, inspectors, and acquisition professionals from the federal OIG community attended the conference.

(U) Hosted by the Los Angeles Chapter of the Association of Inspectors General and under the guidance of Eric Feldman, the NRO IG and first Chapter President, the **Association of Inspectors General 2008 Fall Conference** was held from 5-7 November 2008. Approximately 120 prosecutors, general counsels, investigators, and auditors from various federal, state, and local government entities attended the conference. The conference agenda offered a broad array of topics consistent with the conference's theme, "Thirty Years of Service Under the Inspector General Act."

(U) The NRO is very actively involved with the Department of Justice's (DOJ) National Procurement Fraud Task Force (NPFTF). As co-chairs of both the NPFTF Private Sector Outreach Committee and the NPFTF Contractor Integrity Reporting Committee, the NRO IG, along with other OIG managers are regularly asked by various public and private sector organizations to provide anti-fraud training sessions. These include the Association of Inspectors General, the Intelligence Community Inspector General Forum, the Federal Law Enforcement Training Center, the Council of Counsels to Inspectors General, the Los Angeles Procurement Fraud Task Force, the National Defense Industrial Association, Pricewaterhouse Coopers, LLP, Washington Business Journal Seminar, as well as various presentations to corporate boards, general counsels, and/or security directors of the Lockheed Martin Corporation, Northrop Grumman Corporation, the Boeing Company, and the Raytheon Company.

(U) In addition to chairing various NPFTF committees and providing resolute support of the mandatory fraud reporting FAR clause, OIG managers have continued to share the NRO PFI methodologies, marketing strategies, and training tools with other IG organizations throughout the IC and the federal government at large. Other Intelligence Community OIG organizations have either adopted, or are actively considering adopting various aspects of our PFI program.

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(U) Our office continues to conduct regular outreach to corporate compliance and business ethics offices and corporate procurement officials. We are educating NRO's prime contractors on the OIG-specific contract clause and the new Federal Acquisition Regulation (FAR) clause that requires contractors to report procurement fraud. Because of the success experienced at the NRO as a result of implementing the NRO's OIG contract clause, the United States (U.S.) Assistant Attorney General, Criminal Division and Chair of the Department of Justice National Procurement Fraud Task Force, requested that the Office of Management and Budget, Office of Federal Procurement Policy adopt provisions in the Federal Acquisition Regulation requiring similar mandatory fraud reporting for contractors of all federal agencies. Our experiences with implementing our contract clause in August 2004 enabled us to provide members of the Task Force with many lessons learned, and to submit supporting statements for the rulemaking and legislative records. The Assistant Attorney General, Criminal Division, Department of Justice consequently commended NRO OIG seniors for their best practice in acquisition integrity.

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(U) PERSONNEL

(U) OIG Staffs

(U) The OIG front office staff includes a legal counsel to the IG. The legal counsel reports directly to the Deputy IG and the IG. The position is outlined in NRO Directive (NROD) 22-1b, and is independent from the Office of General Counsel, which is not the case with some other IC OIG Counsel. As part of the OIG senior staff, the legal counsel attends all OIG senior staff meetings, participates in discussions on OIG issues, and provides legal advice on audits, inspections, and investigations, as well as any other issues that may affect the OIG. His legal knowledge, opinions, and advice on NRO issues provide excellent support to the entire OIG staff. The NRO OIG organization chart in Figure 1 below shows the current structure of the office.

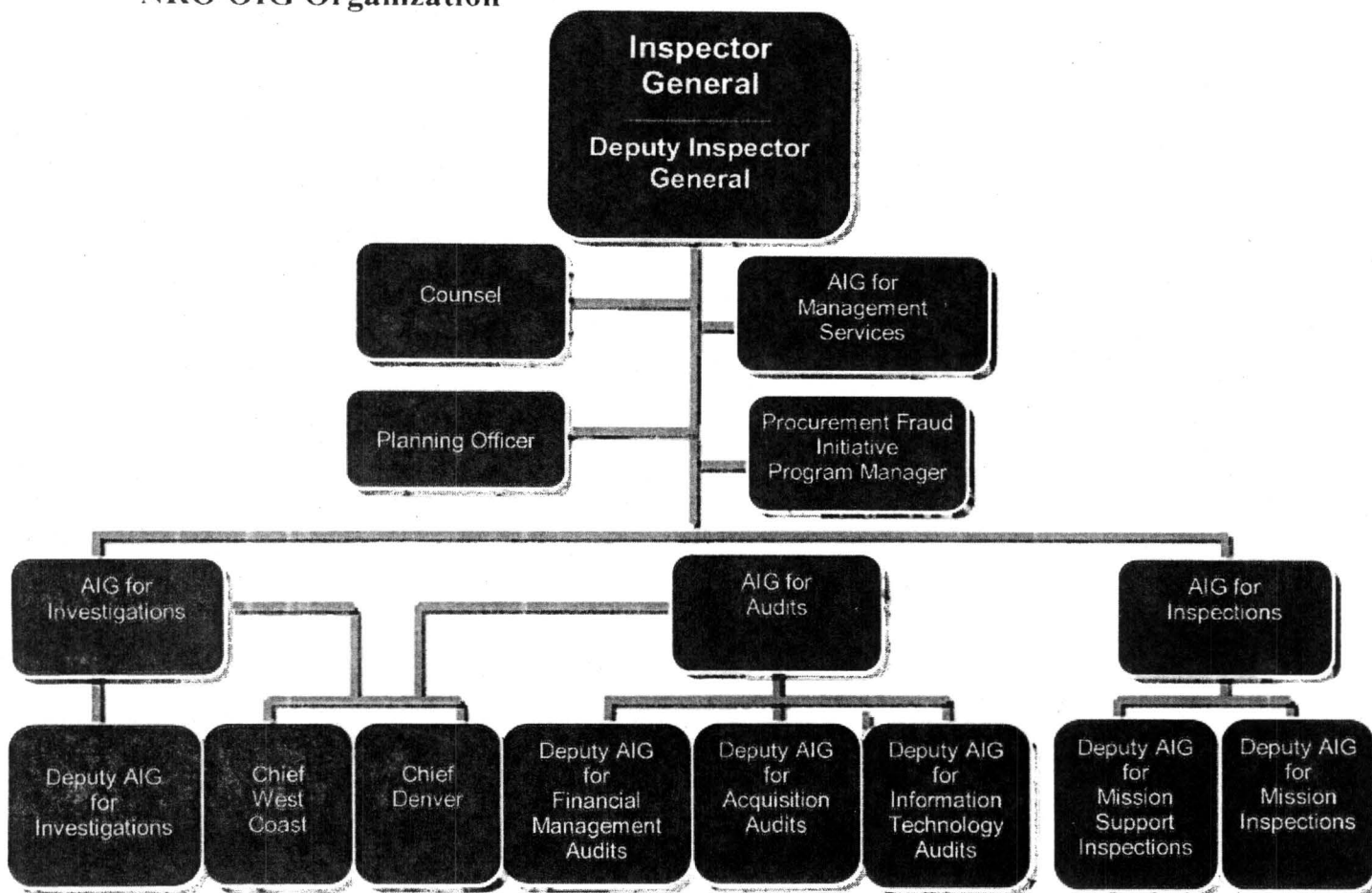
NRO OIG Organization

Figure 1 – UNCLASSIFIED

b3 (U) The Audit Staff has b3 positions, including b3 assigned to the West Coast Office and b3 to the Denver Office. Audit is structured into teams organized in a manner consistent with the NRO's primary functions--space system acquisition, financial management, and information technology. This functional alignment allows the OIG to focus audits on processes and issues of greatest management interest; develop a strategy for addressing longstanding

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vulnerabilities; and specifically targets the skills necessary to evaluate complex NRO activities and programs. This alignment will also be compatible with the outcome of the NRO's ongoing organizational transformation.

(U) The Inspection Staff currently totals ^{b3} positions. The staff continues to conduct NRO mission and mission support unit inspections as well as joint inspections at Signals Intelligence Systems Acquisition Directorate (SIGINT) and Imagery Intelligence Systems Acquisition Directorate (IMINT) mission ground stations. The Inspection Staff closes out the 2008 calendar year with ^{b3} Central Intelligence Agency (CIA) civilian positions, ^{b3} DoD Air Force civilian positions, and ^{b3} Air Force military inspector positions, one of which is under the Wounded Warfighter Program. The diversity of the inspection staff reflects the NRO units being inspected and more importantly, provides the experience, technical knowledge, and backgrounds for the thorough and value-added oversight of NRO units and programs.

(U) The Investigation Staff comprises ^{b3} government positions including ^{b3} investigators assigned to the West Coast Office and ^{b3} assigned to the Denver Office. The Investigative staff also includes one contractor support position.

(U) West Coast Office

(U//~~FOUO~~) The NRO's significant contractual commitment with our industry partners on the West Coast has resulted in steady expansion of OIG's WCO efforts. The WCO location is close to the major industrial facilities for Raytheon, Boeing, Northrop Grumman, and Lockheed Martin. Approximately 30-40 smaller niche companies are also located in California. This collocation allows the WCO to develop close relationships with the company focal points and to work with them to establish and institute protocols that allow them to successfully self-report instances of fraud and misconduct as required by NRO Acquisition Manual clause and now by the FAR. In 2008, cooperation from industry partners improved dramatically, specifically with reporting timelines. The contractor companies also reduced the time in which they took investigative action as well as the time to reimburse the affected contracts. The close partnership and constant communication with industrial partners has allowed the West Coast Office to provide oversight as the companies pursue their own investigations on routine matters of wrongdoing, with the companies working to meet levels of sufficiency that we set with them. This practice in turn, has freed our investigators to work on the most egregious and complex cases of procurement fraud. In 2008, the office increased its coordination with local offices of the DCAA, Defense Criminal Investigative Service (DCIS), and the US Attorney for the Central and Northern Districts of California. The office has also played a key role in the local Procurement Fraud Working Group and in the California Chapter of the Association of Inspectors General.

(U) Denver Office

~~S//TK~~ (U//~~FOUO~~) Our Denver field office is in its second year of operation with a staff of ^{b3} investigators and ^{b3} auditors. Our aggressive procurement fraud outreach program resulted in briefings to ^{b3} government and contractor personnel both internal and external to the site. We continue to coordinate our audit and investigative efforts with our Denver mission partners, the NGA and NSA IGs. We work closely with them to develop a cooperative, community oversight approach for the ^{b3}

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~~SECRET//NOFORN~~(U) Staffing

(U) Total OIG staffing at the beginning of 2009 comprised **b3** full-time and part-time civilian and active duty military positions. The OIG Allocation of Positions chart (Figure 2) depicts positions in the OIG as of 31 December 2008. The chart provides a break out of positions by Audit, Inspection (INSP), Investigation (INV) Staffs; Management Services Staff (MSS); and the OIG Front Office (FO). It also identifies the sub-allocation of the West Coast and Denver positions.

(U) OIG Allocation of Positions

	Audit	INSP	INV	MSS	FO	TOTAL
Civilian (Full-time)	b3					
Civilian (Part-time)						
West Coast Office						
Denver Office						
Military						
TOTAL						
Vacant*						

*(U) Vacant positions are included in the total allocated positions.

**(U) This has been designated as a part-time position.

***(U) Includes one position under the Warfighter Program.

Figure 2 – UNCLASSIFIED//FOR OFFICIAL USE ONLY

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(U) Figure 3, "OIG Authorized Positions 2008 versus 2009" below, illustrates the number of positions on each of the OIG staffs and offices in those respective years. This includes three new full- and part-time positions provided to the OIG for FY 2008.

OIG Authorized Positions 2008 vs 2009

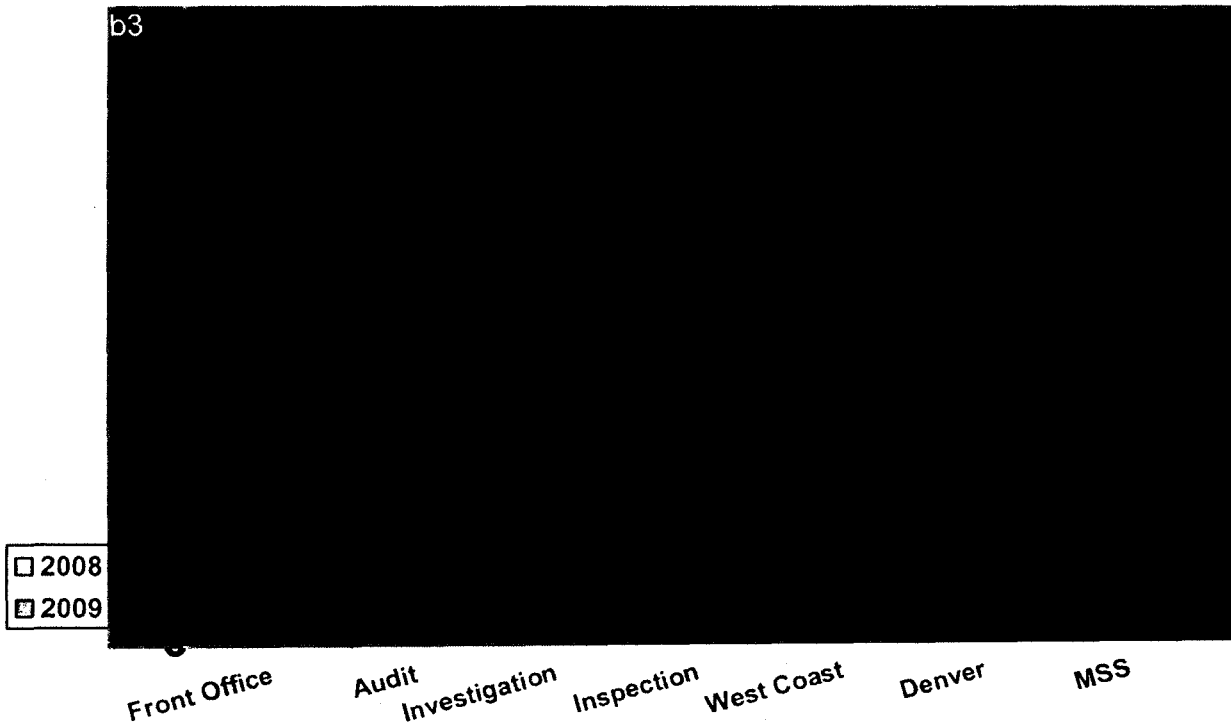


Figure 3 – UNCLASSIFIED//~~FOR OFFICIAL USE ONLY~~

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(U) ABILITY TO HIRE AND RETAIN QUALIFIED PERSONNEL

(U) Hiring and Training

(U) Throughout 2008, the OIG continued its recruitment program with focus on auditors at the entry through expert-levels. Our efforts have been very successful with the arrival of b3 new auditors in 2008 and b3 additional auditors scheduled to report in early 2009. For the entry-level, the OIG regularly recruits auditors from a variety of colleges and universities throughout the United States. The OIG plans to continue to maintain an ongoing relationship and an active presence with schools and diversity organizations for the foreseeable future to address prospective recruiting needs.

(U) We have recruited experienced auditors from the private and public sectors with expertise in specific emphasis areas of acquisition, financial management, and information technology. Our investigative staff maintains a high retention level and predominantly recruits current government employees with demonstrated experience in the areas of investigations, acquisition, budget, and finance. During 2008, two investigators and a forensic specialist filled vacant staff positions.

(U) The OIG is enhancing its comprehensive training plan, using both government and private sources of training to assure staff members have the most up-to-date knowledge and skills to perform their jobs effectively. The OIG continues to emphasize training for its personnel at each performance level (entry to expert) as well as training by functional area of assignment. An increasing number of OIG staff members are also undertaking training for professional certifications in areas relevant to our mission, such as Certified Public Accountant; Certified Fraud Examiner; Professional Project Manager; and Certified Inspector General. Approximately two-thirds of the OIG staff has advanced degrees or professional certificates.

(U) Attrition

(U) During 2008, b3 individuals left due to retirement, rotation, and acceptance of new assignments within their respective parent organizations, while b3 new members were added to the OIG staff at Westfields and our field locations. As of 1 January 2009, the OIG had b3 vacancies due to employees who recently left, as well as newly created positions that have yet to be filled.

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(U) Funding

(U//FOUO) As shown in Figure 4, the OIG FY 2008 total cost of operations was b3 with 65 percent of our operating expenditures supporting the Annual Financial Statement audit.

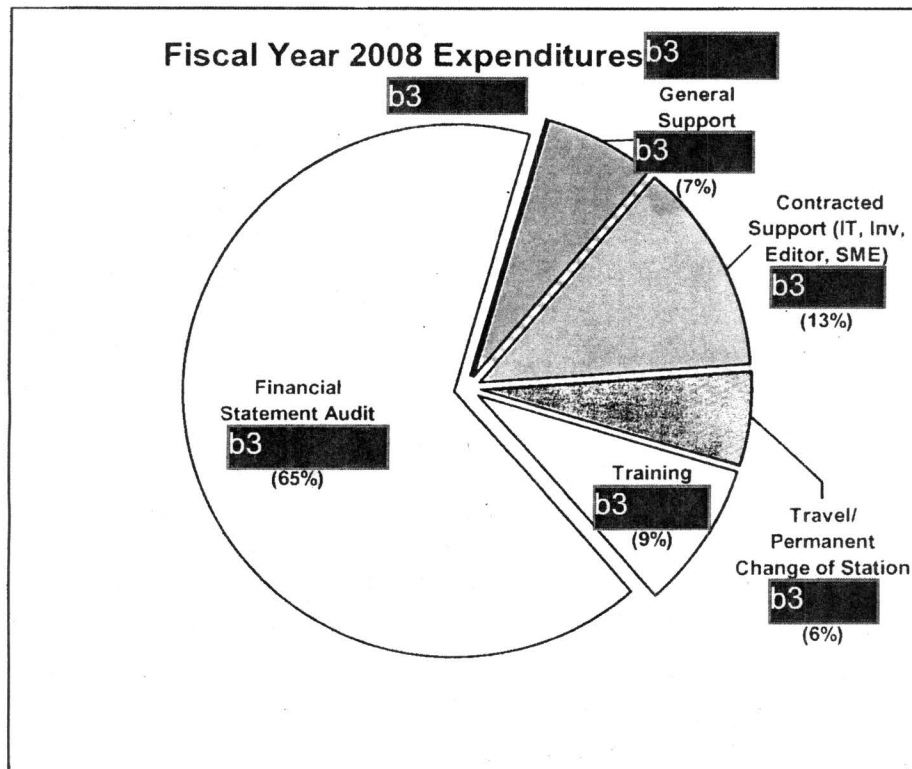


Figure 4 – UNCLASSIFIED//FOR OFFICIAL USE ONLY

(U//FOUO) For FY 2009, the OIG operating budget is b3 with 83 percent of the budget allocated to fund the IPA financial audit and FISMA support. The contract cost of the current IPA support has nearly doubled due to the newly negotiated contract awarded in FY 2008. This necessitated enlisting NRO's Business, Plans, and Operation's (BPO) support in funding this escalation in cost. BPO has agreed to provide approximately 95 percent of the necessary funding for the IPA and annual evaluations of the NRO information security posture under FISMA. The balance of OIG's 2009 operating budget is to fund mission, travel, training, and general and contracted support. However, because of funding cutbacks, DNI tax, and the IPA/FISMA shortfall, at this time the OIG anticipated mission requirements cost exceeds the funding balance. Therefore, the staff is addressing the challenge of closing the budget gap while minimizing mission impact. It should be noted that personnel compensation² for staff employees is funded at the NRO corporate level and, therefore, not included in the OIG budget.

(U//FOUO) OIG investigations have yielded significant recovery of funds. In the last year alone, nearly b3 has been recovered as a direct result of the OIG procurement fraud

² (U//FOUO) In 2008, the total personnel compensation funded corporately by the NRO for the OIG was in excess of b3

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initiative. This amount, added to other financial recoveries since 2001, means that the OIG has been involved in the return of over b3 to the U.S. government, of which b3 came back to the NRO.

~~S//TK~~

(U//FOUO) This year, OIG personnel will continue to actively engage NRO field locations b1 b3. Auditors plan to travel to approximately 13 field sites and contractor locations. Inspectors have scheduled eight unit inspections and one joint inspection, taking them to three NRO field sites. Investigators will be required to travel b1 b3 in support of their investigations. In addition, the investigators travel plans include 15 fraud awareness briefings and meetings with 15 corporate ethics officers. OIG managers and support personnel will also travel throughout the U.S. in support of our recruitment efforts.

(U//FOUO) The OIG West Coast staff will continue to travel to contractor facilities throughout the region during FY 2009 in order to provide awareness briefings to corporate officials, security officers, and DCAA staffs supporting the NRO mission, as well as for meetings and training in the Washington, D.C. area. Investigators will also be meeting with law enforcement and DOJ representatives throughout the area. Denver staff will incur travel costs for investigations and audits in the region, and for meetings and training in the Washington D.C. area.

(U) PLANNED REVIEWS

(U) Annual Planning Process

(U) The *Office of Inspector General Work Plan for Fiscal Years 2009/2010* is the OIG roadmap for addressing critical issues and challenges facing the NRO. The work plan is designed to ensure that OIG resources are used in a manner that maximizes their contribution to the NRO mission. We provided this Work Plan to the Congressional Committees in October 2008. We issued a two-year plan that consists of 81 potential audit and inspection projects. Our two-year planning cycle allows for greater scheduling flexibility, increased staff and management participation in the planning process, and a better understanding by the workforce of our long-range oversight goals. Publishing a two-year plan also motivates those who will be audited or inspected by the OIG to initiate an internal review and make improvements in preparation for the OIG's assessment. We plan to revisit the selection of those projects contained in the plan each year through our annual planning process to ensure continued relevance and importance.

(U//FOUO) OIG audit and inspection projects are linked to the 14 NRO Corporate Business Processes: Acquisition and Mission Assurance, Business Management, Contracting, Human Capital and Training, Information Technology and Information Assurance, Mission Operations, National Reconnaissance Operations Center (NROC) Operations, Oversight, Property, Records Management, Security and Counterintelligence, Strategic Communications, Systems Engineering, and User Engagement. Our proactive investigative effort is designed to promote the NRO core value of "Integrity" in all agency programs and activities.

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(U) Follow-up on OIG Recommendations

(U) The OIG aggressively follows up on all recommendations until they are successfully closed. NRO managers have responded conscientiously to this program. In 2008, OIG reviews resulted in 131 recommendations. NRO management concurred with all of these recommendations. By the end of December 2008, 51 recommendations from 2008 and prior years were closed.

(U) INSPECTOR GENERAL INDEPENDENCE AND EFFECTIVENESS

(U) Over the past several years, the OIG has worked diligently with colleagues in the IC as well as with Congressional staffs to include language in the Intelligence Authorization bill that would make the NRO, the Defense Intelligence Agency, the NSA, and the NGA designated federal entities under the IG Act of 1978. In each of these years, for reasons unrelated to this provision, the overall bill has not been enacted. The legislation would vest the OIG with all statutory authorities provided an OIG under the IG Act of 1978, and would be a significant enhancement to our ability to carry out our mission. The provision has received the support of the Committees, and in fact passed the full Congress last session, before being vetoed by the President. We urge in the strongest possible terms that the Committees reintroduce and pass this provision as part of an Intelligence Authorization bill or otherwise in the new Congress.

(U) At this point, the NRO OIG exists pursuant to an administrative regulation (NROD 22-1a) largely modeled on the IG Act of 1978. Because OIG authority exists by virtue of this administrative regulation, our independence could be undermined or even eliminated merely by an administrative action. This is not a purely hypothetical concern. The OIG continues to encounter external impediments to our effectiveness resulting from the lack of statutory protection of our independence. Examples of the kinds of impediments we are experiencing include

- the perception by the Government Accountability Office of an organizational impairment to our independence in managing the financial statement audits required by the Chief Financial Officers Act of 1990;
- our request to participate directly in the important work of the Executive Council on Integrity and Efficiency (now the IG Council, as created by Congress in its previous session) was rejected due to our status as an administrative, rather than statutory, IG; and,
- a very lengthy and inefficient process of requesting and convincing the Defense Criminal Investigative Service to issue a subpoena on our behalf when we deem one necessary. This causes time delays, privacy issues, access issues under state law, and other impediments that prolong the investigative and resolution processes.

(U) Again, we urge the Congress to pass legislation, in the same language that it passed last year in the Intelligence Authorization bill that was ultimately vetoed, making the NRO a "designated federal entity" under Section 8G of the IG Act of 1978.

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NATIONAL RECONNAISSANCE OFFICE

14675 Lee Road
Chantilly, VA 20151-1715

9 August 2012

This is in response to your request dated 25 May 2012, received in the Information Access and Release Team of the National Reconnaissance Office (NRO) on 5 June 2012. Pursuant to the Freedom of Information Act (FOIA) you are requesting a copy of "page 10 only of the January 2007 NRO OIG Annual Report." Based on our review of previously released documents, page 10 was released in full on 3 April 2012. For the purposes of this request, we will assume that you are referring to page 9 of the report that contains dollar figures that were withheld.

Your request was processed in accordance with the Freedom of Information Act, 5 U.S.C. § 552, as amended. A thorough search of our files and databases located one record consisting of one page responsive to your request. It has been determined that this record contains segregable information, and is being released to you in part.

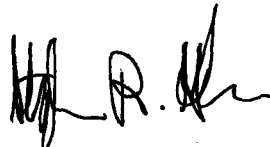
Material redacted is denied pursuant to FOIA exemption (b)(1) as properly classified information under Executive Order 13526, Section 1.4(c) and (e); and exemption (b)(3) which applies to information specifically exempt by statute, specifically 50 U.S.C. § 403-1, which protects intelligence sources and methods from unauthorized disclosure.

The FOIA authorizes federal agencies to assess fees for record services. The FOIA authorizes federal agencies to assess fees for record services. Based upon the information provided, you have been placed in the "other" category of requesters, which means you are responsible for the cost of search time exceeding two hours (\$44.00/hour) and reproduction fees (.15 per page) exceeding 100 pages. In this case, no assessable fees were incurred. Additional information about fees can be found on our website at www.nro.gov.

You have the right to appeal this determination by addressing your appeal to the NRO Appeal Authority, 14675 Lee Road, Chantilly, VA 20151-1715 within 60 days of the date of this letter. Should you decide to do so, please explain the basis of your appeal.

If you have any questions, please call the Requester Service Center at (703) 227-9326 and reference case number **F12-0101**.

Sincerely,

A handwritten signature in black ink, appearing to read 'S. R. Glenn', with a stylized flourish at the end.

Stephen R. Glenn
Chief, Information Access
and Release Team

Enclosure: Page 9 of the January 2007 NRO OIG Annual Report

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and general support. Personnel compensation² is funded at the NRO corporate level and is therefore not included in the OIG budget.

(U//~~FOUO~~) From a cost of operations perspective, it is notable that OIG investigations have yielded significant recovery of funds that more than cover OIG's total budget and operations. In the last year alone, nearly \$1 million has been recovered as a direct result of the OIG procurement fraud initiative. This, added to other recoveries since 2001, means that OIG has been involved in over \$47.4 million returned to the U.S. government, of which \$39.1 million came back to the NRO. The total OIG cost of operations during that time was (b)(3) 50 U.S.C. 403-1

(S//TK) (U//~~FOUO~~) This year, OIG personnel will continue to actively engage NRO field locations (b)(1)1.4c, (b)(3) 50 U.S.C. 403-1. Auditors plan to travel to approximately eight field sites and contractor locations. Inspectors have scheduled seven unit inspections and two joint inspections, taking them to four NRO field sites. Investigators will be required to travel (b)(1)1.4c, (b)(3) 50 U.S.C. 403-1 in support of their investigations. Additionally, the investigators travel plans include 25 fraud awareness briefings and meetings with 15 corporate ethics officers. OIG managers and support personnel will also travel throughout the U.S. in support of our recruitment efforts.

(S//TK) OIG support to the establishment of the Denver office represents an unfunded requirement for FY 2007. However, based on our proactive efforts to reallocate available funding, we believe this will not negatively impact execution of our mission. It is anticipated that the office will be operational in early summer 2007. Once fully staffed, costs for travel incurred will be those associated with investigations and audits in the region, and for training and discussions in the Washington area.

(S//TK) OIG West Coast staff will continue to travel to contractor facilities throughout the region during FY 2007 in order to provide awareness briefings to corporate officials, security officers, and DCAA staffs supporting the NRO mission. Investigators will also be meeting with law enforcement and DOJ representatives throughout the area.

(U) PLANNED REVIEWS

(U) Annual Planning Process

(U) The *Office of Inspector General Work Plan for Fiscal Years 2007/2008* is designed to ensure that NRO OIG resources are used in a manner that maximizes their contribution to the NRO mission. We provided this Work Plan to the Committees October 2006. This year we again issued a two-year plan which consists of 63 inspection and audit projects. Our two-year planning cycle allows for greater scheduling flexibility, increased staff and management participation in the planning process, and a better understanding by the workforce of our long-range oversight goals. We plan to revisit those projects we have selected each year through our annual planning process even though we issued a two-year plan.

(U//~~FOUO~~) OIG audit and inspection projects focus on seven key areas or themes that represent the areas of greatest vulnerability to the NRO in meeting its mission. The themes are:

² (U//~~FOUO~~) In 2006, the total personnel compensation funded corporately by the NRO for the OIG was in excess of (b)(3) 50 U.S.C. 403-1

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