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OFFICE OF THE INSPECTOR GENERAL

NATIONAL SECURITY AGENCY/ CENTRAL SECURITY SERVICE



(U) SEMIANNUAL REPORT FOR THE PERIOD 1 APRIL 2004 – 30 SEPTEMBER 2004

DERIVED FROM: JSA/CSSM 123-2
DATED: 24 February 1998
DECLASSIFY ON: ~~X1~~

Approved for Release by NSA on 07-01-2019, FOIA Case # 79825 (litigation)

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(U) SEMIANNUAL REPORT TO THE CONGRESS*For the Period April 1, 2004 Through September 30, 2004***(U) Selected System Engineering Contracts; NSA/CSS IG; ST-04-0009;**
21 May 2004

Summary. (U//~~FOUO~~) Our review summarized the results of our analyses of two system engineering contracts identified in a recent report as warranting further review. The contracts with [REDACTED] and [REDACTED] had indications of questionable cost growth, continuing lack of competition, and failure to perform market research. The current review found that the [REDACTED] contract needs formal task orders, and the [REDACTED] contract missed opportunities for competition. We also noted an emerging issue: mergers and acquisitions within its contractor base make the Agency vulnerable to potential conflicts of interest among its vendors. The Contracting Officer and [REDACTED] now have a formal mitigation plan to resolve this concern.

Management Action. (U) Management concurred with our recommendation and is adding the proper task order clauses to the [REDACTED] contract. For the [REDACTED] contract, the OIG did not make a recommendation since the contract ended in June 2004 and the benefit would be minimal.

Overall Report Classification. (U) UNCLASSIFIED//FOR OFFICIAL USE ONLY**Category.** (U) Other (Acquisition Management)**(U) Restaurant and Civilian Welfare Funds; NSA/CSS IG; AU-04-0014; 28 May 2004**

Summary. (U//~~FOUO~~) NSA's Restaurant Fund and Civilian Welfare Fund CWF are DoD revenue producing nonappropriated fund instrumentalities (NAFIs) that operate under Army and NSA/CSS regulations for morale and welfare purposes. The financial statements of the two NAFIs were audited by an outside audit firm, which issued unqualified opinions. The external audit for FY2003 found that drug store management and accountability improved significantly after implementation of recommendations made in our oversight review of the FY2002 audit. The compliance audit of the Flying Activity (conducted at our recommendation in last year's oversight audit of the CWF) identified four safety areas that need improvement: standard operating procedures, pilot qualification cards, clearing authority, and refueling away from the Flying Activity.

Management Action. (U) We endorsed the improvements recommended by the safety inspectors; management is acting on all of them.

Overall Report Classification. (U) UNCLASSIFIED//FOR OFFICIAL USE ONLY**Category.** (U) Financial Management

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(U//FOUO)

NSA/CSS IG; [redacted]

Summary. (S) The OIG visited all [redacted] locations in September 2003 and found that [redacted] has been very effective in its primary responsibility [redacted]. Nevertheless, the [redacted]

[redacted] dilute effectiveness and create oversight and morale problems, especially among the military. Insufficient oversight, guidance, and support from NSA HQ contributed to many of the deficiencies noted during our inspection.

Management Action. (U) Management is taking corrective action on all recommendations.

Overall Report Classification. (U) TOP SECRET//COMINT//X1

Category. (U) Joint Warfighting and Readiness

(U) **Contract Accountability Investigation;** NSA/CSS IG; IV-04-0001; 06 July 2004

Summary. (U//FOUO) This investigation was a follow-on review to a FY2003 Special Study that found significant irregularities with the Agency's novation and administration of a Systems Engineering and Technical Assistance (SETA) contract. The supplemental investigation determined: 1) that the Government's involvement in the novation of the SETA contract was consistent with the Federal Acquisition Regulation, 2) that the Government's past performance assessment was skewed by a mistaken understanding of fact, however, correction of this error would not have altered the Government's ultimate conclusion regarding one contractor's suitability for the novation, and 3) that the Contracting Officer and the former Chief of NSA/CSS SIGINT Programs were responsible for the contracting deficiencies with the SETA contract.

Overall Report Classification. (U) CONFIDENTIAL//X1

Category. (U) Other (Acquisition Management)

(U) **Office of NSA/CSS Representative, Joint Forces Command;** NSA/CSS IG; IN-04-0004; 30 July 2004

Summary. (U//FOUO) Our inspection found that the NSA/CSS Representative, Joint Forces Command (NCR JFCOM) is not closely aligned with the new Command's mission, which is focused on joint concept development and experimentation and has no geographic area of responsibility. Effective representation at JFCOM is important because the Command is the birthplace of short- and long-term changes to the nation's military and its warfighting doctrine. We found the NCR not well positioned to do this because it lacks strategic guidance from HQ and is not accredited to the Command level. Vestiges of a SIGINT support mission waste Agency resources, despite several proposals from the NCR to reduce staff. The Information Assurance Directorate (IAD), on the other hand, is managing a growing portfolio of initiatives with JFCOM.

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Management Action. (U) Management concurred with all but one recommendation and has either developed plans to resolve them or already implemented appropriate actions.

Overall Report Classification. (U) UNCLASSIFIED//FOR OFFICIAL USE ONLY
Category. (U) Joint Warfighting and Readiness

(U//FOUO) Compliance with the Federal Information Security Management Act (FISMA) at NSA/CSS; NSA/CSS IG; AU-04-0013; 6 August 2004

Summary. (C) The audit assessed the progress by the NSA/CSS Chief Information Officer in specific aspects of Information Assurance since last year's report on compliance with FISMA. Our audit found that NSA continues to make positive strides in improving the security posture of its networks and systems. The Defense-in-Depth approach—focused on people, operations, and technology—is starting to come together, but much remains to be done.

[Redacted]

Management Action. (U//FOUO) Since last year's report, NSA management reduced the number of systems operating without C&A, established Plans of Action and Milestones to monitor the progress of efforts to correct security weaknesses, improved information technology (IT) security training, and established an Agency-wide Operations Security program. Furthermore, management took the first step to establish a verifiable IT system inventory and improve the IT investment management process.

Overall Report Classification. (U) UNCLASSIFIED//FOR OFFICIAL USE ONLY
Category. (U) Information Technology Management

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(U//FOUO) Collecting Communications of a U.S. Person Abroad Without Attorney General Authorization; NSA/CSS IG; ST-04-0016; 10 August 2004

Summary. (C) [Redacted] the Signals Intelligence Directorate (SID) targeted the communications of a U.S. person located abroad without the required Attorney General authorization. While conducting our inquiry into this mishap, we encountered strong indications of shortcomings in the control environment that allowed this incident to occur [Redacted] After interviewing officials from SID's Analysis and Production Directorate, the SID Office of Oversight and Compliance, and the NSA Office of General Counsel, we identified systemic problems that point to the lack of key elements that are critical to creating a strong control environment for this high-risk activity, including written guidance containing clearly defined roles and responsibilities for all involved in the process, defined policies and procedures, and tailored training in the process for those who handle special authorizations.

Management Action. (U) SID concurred with most of our recommendation and is taking appropriate corrective action.

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Overall Report Classification. (U) SECRET//COMINT//X1

Category. (U) Other (Intelligence Oversight)

(b) (3) -P.L. 86-36

(U//FOUO) [redacted] NSA/CSS
IG; INSCOM IG; AIA IG; NSG IG; [redacted]

Summary. (C) A joint inspection of [redacted] by a team from the Service Cryptologic Elements and NSA/CSS found problems that have a direct impact on the site's effectiveness. The most significant issues for management to address include: [redacted]

[redacted]

Management Action. (U) Management is taking appropriate corrective action.

Overall Report Classification. (U) SECRET//COMINT//REL TO USA, AUS, CAN, GBR, and NZL//X1

Category. (U) Joint Warfighting and Readiness

(U) **GROUNDBREAKER Contract Costs** ; NSA/CSS IG; ST-04-0021;
13 September 2004

Summary. (U//FOUO) In September 2001, the GROUNDBREAKER (GB) Program Office awarded Eagle Alliance (EA) an \$11.2 million Delivery Order to implement the special modernization provision in clause H.46 of the basic contract. Initially, EA proposed immediate replacement of 17,000 desktops within 1 year. Our review of a previous audit's recommendation found that by December 2002, almost 15 months after contract award, only 7,000 desktops had been purchased, far short of the 17,000 described in EA's modernization proposal. Deficiencies in the contract terms of the Delivery Order made it impossible to determine how the \$11.2 million was spent or to track any equipment purchased with the money.

Management Action. (U) After reviewing the contractor's records, we recommended closing the recommendation in the audit followup system; however, we are considering additional oversight of the GB contract in FY2005.

Overall Report Classification. (U) UNCLASSIFIED//FOR OFFICIAL USE ONLY

Category. (U) Other (Acquisition Management)

(C) **Disbursing Account at** [redacted] NSA/CSS IG;

[redacted]

Summary. (C) Accounting and Financial Services (DF2) maintains a cash account at [redacted] to pay for certain goods and services; [redacted]

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[REDACTED] At the request of the Chief, Accounting and Financial Services, the OIG audited the account to resolve an apparent \$5900 discrepancy and assess the implementation of prior OIG recommendations to improve cash management at the site. We found a cash shortage of about \$2100, due in large measure to the site's failure to implement prior OIG recommendations. We also found that the site was holding excess amounts of cash—in some cases more than the disbursing agent is authorized to hold—which creates unnecessary risk and makes it harder to balance the account. The site bypassed controls to make \$3100 in questionable payments, apparently authorized by [REDACTED] and not subsequently challenged by DF2.

Management Action. (U) Management agreed to report the cash shortage to the Defense Finance and Accounting Service to determine pecuniary liability. Management is also in the process of reducing the excess cash at the site. Finally, controls have been implemented to avoid making questionable payments.

Overall Report Classification. (U) CONFIDENTIAL

Category. (U) Financial Management

(U) **Special Processing Laboratory;** NSA/CSS IG; AU-04-0006; 13 September 2004

Summary. (U//~~FOUO~~) The Special Processing Laboratory (SPL) has produced classified microelectronic chips for NSA and other government organizations since 1991. However, when rapid advances in the industry left the SPL lagging from a technological standpoint, the Director, NSA decided to close the SPL by FY2006 and replace the capability with a commercial source—a Trusted Foundry Access (TFA). Our audit determined that the Agency needs a formal plan to transition a critical DoD program to the TFA. Another concern was payment of a 50-percent salary-based retention bonus for all SPL personnel, including those not affected by the closure. We also found that the DoD organizations that sent NSA about [REDACTED] to fund their portion of the FY2004 TFA contract [REDACTED] to utilize the contract. . . .

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Management Action. (U//~~FOUO~~) The IAD is now developing a transition plan. We accepted IAD's proposal to exclude [REDACTED] SPL employees from the retention plan for a cost avoidance of about [REDACTED]. Regarding the lack of [REDACTED] NSA and DoD have now formed an Integrated Process Team to work this problem.

Overall Report Classification. (U) UNCLASSIFIED//FOR OFFICIAL USE ONLY

Category. (U) Information Technology Management

(U//~~FOUO~~) **Management of Activities Under the Foreign Intelligence Surveillance Act (FISA) of 1978;** NSA/CSS IG; ST-03-0008; 27 September 2004

Summary. (U//~~FOUO~~) Our review of NSA's management of electronic surveillance activities conducted under the FISA of 1978 found that those activities generally ensure that the rights of U.S. persons are protected. However, the Agency's internal management controls for those activities make the process confusing and unduly dependent on the unwritten knowledge of a few people. Management needs to improve controls over the FISA process

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to include (1) written guidance that spells out authorities, roles, and responsibilities; (2) standard operating procedures with step-by-step instructions; (3) tailored training on FISA operations; and (4) metrics to gauge the efficacy of the process.

Management Action. (U//~~FOUO~~) Management has agreed to define the pertinent authorities and responsibilities by October 2004. The other control elements—formal procedures, tailored training, and metrics—will be in place by December 2005.

Overall Report Classification. (U) TOP SECRET//COMINT//NOFORN//X1

Category. (U) Other (Intelligence Oversight)

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(U) Menwith Hill Station; NSA/CSS IG; INSCOM IG; AIA IG; NSG IG; JT-04-0003;
30 September 2004

Summary. (C) Since the 2002 joint inspection of Menwith Hill Station (MHS), site leadership and NSA HQ have made great strides in correcting longstanding infrastructure problems, improving the quality of life for all assignees, and transitioning cryptologic host responsibilities to the Air Force. The joint inspection team found that MHS has demonstrated exceptional mission successes, but the explosion in target technology exceeds the site's capacity to process and store data, while sustained tasking leaves few – if any—resources for new mission development. The joint team noted other areas that require close and continued attention from MHS and NSA HQ : 1) jointly integrating and synchronizing operations and support [redacted] and; 2) directing the revitalization of major interdependent systems.

Management Action. (U) Management is taking appropriate corrective action.

Overall Report Classification. (U) TOP SECRET//COMINT//TK//REL TO USA and GBR//X1

Category. (U) Joint Warfighting and Readiness

(C) [redacted] NSA/CSS IG, INSCOM IG, DAIG; [redacted]

Summary. (C) A team from the Army Intelligence and Security Command (INSCOM), NSA, and Department of the Army Inspectors General (DAIG) conducted an inspection of the [redacted]

[Large redacted area]

Management Action. (U) Management is taking appropriate corrective action.

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Overall Report Classification. (U) SECRET//COMINT//X1

Category. (U) Joint Warfighting and Readiness

(U) **Corporate Level Functions;** NSA/CSS IG; (Numerous Special Study Control Numbers); 30 September 2004

Introduction. (U) During the October 2000 Senior Day briefing and in subsequent DIRgrams, the Director, NSA (DIRNSA) called for the centralization of mission-enabling functions. His goals were to dedicate SID and IAD resources to mission accomplishment and to eliminate duplication of effort throughout the enterprise. In April 2003, DIRNSA asked the OIG to determine how well the Agency has met his charge to consolidate corporate-level functions under centralized corporate sponsors. Over the past year, the OIG completed reviews of the following functions:

- Human Resource Services
- Protocol
- Legislative Affairs
- Acquisition and Finance
- Information Technology Infrastructure Services
- Installations and Logistics
- Security
- Policy
- Education and Training

Summary. (U) During our reviews, we found differing degrees of centralization. We made recommendations to management and management is taking appropriate action.

Overall Report Classifications. (U) UNCLASSIFIED//FOR OFFICIAL USE ONLY and CONFIDENTIAL//X1

Category. (U) Human Capital (for all Corporate-Level Function Reports)

(U) **False Claims;** NSA/CSS IG, IV-04-0010, May 2004

Summary. (U) An Agency employee deliberately submitted a fraudulent timesheet reflecting duty time, as well as a fraudulent travel voucher requesting reimbursement for travel expenses that were not incurred in connection with the employee's official duties. Disciplinary action is pending, and the case was referred to the Department of Justice for possible prosecution under federal false claims statutes, 18 U.S.C. § 287 and 18 U.S.C. § 1001.

Overall Report Classification. (U) UNCLASSIFIED//FOR OFFICIAL USE ONLY

Category. (U) Other (Fraud)

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(U) **Time and Attendance Abuses;** IV-04-0035 (10 May 04), IV-04-0038 (9 September 04), IV-04-0041 (27 September 04), IV-04-0048 (8 September 04), IV-04-0050 (17 September 04), IV-04-0055 (24 September 04), IV-04-0062 (30 September 04)

Summary. (U//~~FOUO~~) The OIG substantiated seven Time and Attendance Abuse allegations, wherein employees claimed hours in excess of those they were determined to have actually worked. In the aggregate, these cases will result in the recoupment of almost \$30,000 in funds paid to employees for hours falsely claimed. Several of these cases were referred to the U.S. Department of Justice for possible prosecution of violations of 18 U.S.C. § 287 and 18 U.S.C. § 1001.

Overall Report Classifications. (U) UNCLASSIFIED//FOR OFFICIAL USE ONLY (all referenced investigations)

Category. (U) Other (Fraud)

(U) **Misuse of Resources;** NSA/CSS IG, IV-04-0020, June 2004

Summary. (U//~~FOUO~~) The OIG substantiated an allegation that a planned TDY for training was a waste of government resources. The OIG determined that identical training could be obtained locally at a greatly reduced rate. Based upon the OIG's recommendation, Agency management cancelled the planned training, saving the Government over \$37,000.

Overall Report Classification. (U) UNCLASSIFIED//FOR OFFICIAL USE ONLY

Category. (U) Other (Misuse of Resources)

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