

GAO

Testimony

Before the Committee on Armed Services
U.S. Senate

For Release on Delivery
Expected at
9:30 a.m.
Thursday,
April 6, 2000

DOD PERSONNEL

Weaknesses in Security
Investigation Program
Are Being Addressed

Statement of Carol R. Schuster, Associate Director, National Security
Preparedness Issues, National Security and International Affairs Division



20000407 083



GAO

Accountability * Integrity * Reliability

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss our past work on personnel security investigations conducted by the Defense Security Service. As you know, the Defense Security Service is responsible for conducting background investigations on Department of Defense (DOD) civilian and military personnel, consultants, and contractors seeking security clearances. Today, I would like to describe how decisions to grant or deny security clearances to DOD employees and contractors are made; summarize the key findings from our October 1999 report; and discuss DOD actions on our recommendations. The centerpiece of our report was an analysis of the completeness and timeliness of a representative sample of Defense Security Service investigations finished in January and February 1999.¹ Representative Ike Skelton requested this work based on his concern about espionage committed by DOD employees who held security clearances. From 1982 through September 1999, 68 of 80 individuals convicted of committing espionage against the United States were DOD employees. All of these employees had undergone personnel security investigations and held security clearances.

SUMMARY

The Department of Defense uses a two-part process to determine whether an individual should be granted a security clearance. The first phase is the personnel security investigation, in which Defense Security Service investigators corroborate information provided by the applicant, interview character references, and review federal and local records for financial vulnerabilities and criminal activity. The second phase is the adjudication, which is conducted by eight DOD components. Adjudicators weigh favorable and unfavorable information with regard to a number of factors (such as the nature, extent, and seriousness of any conduct). If, on balance, the evidence suggests the individual is a good security risk, the clearance can be granted.

Safeguarding sensitive national security information is one of the most important responsibilities entrusted to public servants. Therefore, it is critical that only those individuals who have passed the scrutiny of rigorous background investigations be granted security clearances. Unfortunately, our evaluation of Defense Security Service personnel security investigations revealed serious lapses in the thoroughness and timeliness of these investigations, raising questions about the risks such lapses pose to national security. Our detailed analysis of 530 personnel security investigations showed that the vast majority did not comply with federal standards for conducting such investigations. Nevertheless, all of the DOD employees investigated were granted top secret security clearances even though Defense Security Service investigators had not always verified such basic information as residency, citizenship, or employment. We also found that these investigations were not completed in a timely manner. At the time of our review, the Defense Security Service estimated that there was a backlog of 600,000 cases awaiting reinvestigation. As a result of these conditions, some of DOD's 2.4 million personnel currently holding security clearances may be handling sensitive national security information without having been thoroughly screened. In addition, in 1994, the Joint Security Commission reported that delays in obtaining security clearances cost DOD several billion dollars because workers were unable to perform their jobs while awaiting a clearance.² Several factors, including a series of ineffective management reforms at the Defense Security Service between 1996 and early 1999 contributed to these deficiencies. During this period, the Defense Security Service relaxed its investigative guidance, eliminated key quality control mechanisms, inadequately trained its investigators, and ineffectively managed automation of its case processing

¹ *DOD Personnel: Inadequate Personnel Security Investigations Pose National Security Risks* (GAO/NSIAD-00-12, October 27, 1999).

² The Secretary of Defense and the Director of Central Intelligence established the Joint Security Commission in May 1993 to review security policies and procedures. It was convened twice and issued reports on its work in 1994 and 1999.

system. Moreover, the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) did not provide effective oversight of the agency's operations during this period.

DOD has responded positively to our recommendations for improving the overall management of its personnel security investigation program. For example, the Secretary of Defense has designated the program a key agency vulnerability in his most recent report to the President and the Congress filed in accordance with the Federal Managers' Financial Integrity Act. This designation should provide added visibility that should enable the Department to monitor progress in correcting identified problems. In addition, the Director of the Defense Security Service has developed a strategic plan and is developing performance measures to improve the quality of the investigative work, has reinstated training and quality control mechanisms, and has worked out a plan for addressing the large backlog of cases awaiting reinvestigation. By May 1, 2000, DSS must provide the Deputy Secretary of Defense a plan to enhance or replace the agency's automated case management system. However, we must emphasize that, due to the breadth of the problems, it may take several years and many millions of dollars before all of the necessary improvements are made.

Before turning to the details of our findings on the security investigation process, I would like to first provide background information on the process currently used in DOD to determine whether an individual should be granted a security clearance.

SECURITY CLEARANCES ARE GRANTED OR DENIED THROUGH A TWO-PART PROCESS

DOD grants security clearances after completing two related processes. The first phase involves an investigation into the individual's past to obtain information related to making a determination whether he or she can be entrusted with classified information. The second phase, termed the adjudication process, involves a weighing of the information collected in the first phase to determine whether a clearance should be granted or denied.

Investigation Phase

With respect to the first phase, all federal departments and agencies that conduct background investigations—including the Defense Security Service (DSS) and others, such as the Office of Personnel Management, and the Federal Bureau of Investigation—are expected to conduct their investigations in accordance with federal investigative standards approved by the President in 1997. For clearances at the top secret level, these standards require investigations in the following nine areas:

- corroboration of a subject's date and place of birth, and verification of citizenship for foreign-born subjects and their foreign-born immediate family members;
- corroboration of education;
- verification of employment for the past 7 years and interviews with supervisors and co-workers;
- interviews with character references and former spouses;
- interviews with neighbors to confirm residences;
- a national agency check on the subject and spouse or cohabitant, using files and records held by federal agencies (such as the Federal Bureau of Investigation);

- a financial review, including a credit bureau check;
- a local agency check of criminal history records and other public records to verify any civil or criminal court actions involving the subject; and
- a personal interview with the subject.

Adjudication Phase

Upon completion of the investigation, DSS forwards the information to one of eight DOD adjudication facilities, which then initiate the adjudication phase.³ Each case is to be judged on its own merits and the final determination as to whether a security clearance should be granted or denied is the responsibility of the specific DOD agency requesting the clearance. In making their determinations, adjudication personnel are to consider 13 factors, such as the individual's allegiance to the United States; criminal and personal conduct; and substance abuse or mental disorders. To assess security risk, adjudicators employ a "whole person" approach in which they carefully consider both favorable and unfavorable information, especially noting factors that mitigate past unfavorable circumstances. In evaluating unfavorable information about an individual's conduct, the adjudicator is to consider

- the nature, extent, and seriousness of the conduct;
- the circumstances surrounding the conduct, including knowledgeable participation;
- the frequency and recency of the conduct;
- the individual's age and maturity at the time of the conduct;
- the voluntariness of participation;
- the presence or absence of rehabilitation and other pertinent behavior changes;
- the motivation for the conduct;
- the potential for pressure, coercion, exploitation, or duress; and
- the likelihood of continuation or recurrence.

For example, when considering an individual with a history of drug use, successful completion of a drug rehabilitation program with no evidence of recent drug use would be considered a mitigating factor. If after this evaluation of the "whole person," the preponderance of evidence suggests that the individual is a good security risk, the individual can be granted a security clearance even though the investigation may have uncovered significant unfavorable information. In making these determinations, the federal adjudication guidelines state that "any doubt as to whether access to classified information is clearly consistent with national security will be resolved in favor of the national security."

³These facilities are: Air Force Headquarters 497th Intelligence Group; Army Central Personnel Security Clearance Facility; Department of the Navy Central Adjudication Facility; National Security Agency; Defense Intelligence Agency; Joint Chiefs of Staff; Washington Headquarters Services; and the Defense Office of Hearings and Appeals.

At the request of Representative Ike Skelton, we are currently evaluating DOD's adjudication program. Our work will include reviewing a representative sample of cases from several of DOD's adjudication facilities to determine how these facilities are conducting their work. As part of this work, we expect to be able to provide statistical information on clearances granted and denied by the various adjudication facilities and the extent to which adjudication decisions are overturned after an appeal.

Now, I will turn to the results of our analysis of the first phase of the security clearance process — the conduct of DSS background investigations.

DSS INVESTIGATIONS LACKED REQUIRED INFORMATION AND WERE UNTIMELY

DOD's personnel security investigation program has resulted in investigations that did not obtain the information required by federal standards; did not address issues that the investigations revealed which could disqualify individuals from holding security clearances; and were not completed in a timely manner. The deficiencies in the program were due to a series of ineffective management reforms at DSS and inadequate oversight by the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence).

DSS Investigations Were Incomplete

To determine the completeness of DSS investigations, we selected a representative sample of 530 investigations finished by DSS in January and February 1999 for four key customers—the Air Force, the Army, the Navy, and the National Security Agency.⁴ Our findings are projectable only to the investigations conducted by these four DOD components. However, because these entities accounted for 73 percent of the investigative work conducted by DSS in fiscal year 1998, we believe that our findings suggest systemic program weaknesses. In the 530 cases we reviewed, DOD granted top secret clearances notwithstanding that

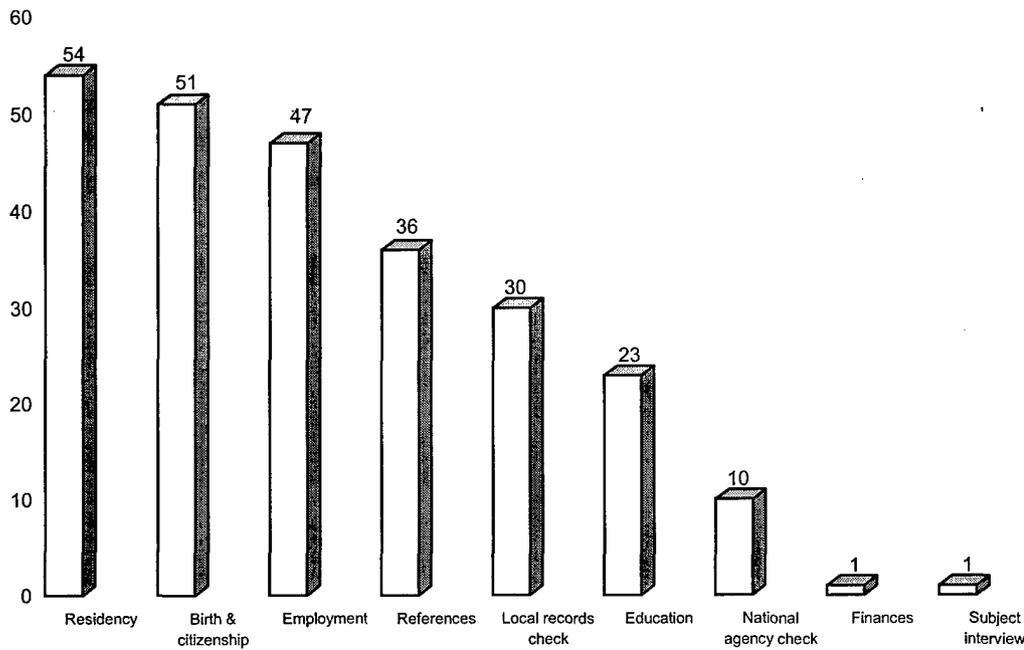
- 92 percent of the 530 investigations were deficient in that they did not contain information in at least one of the nine required investigative areas, and
- 77 percent of the investigations were deficient in meeting federal standards in two or more areas.

As shown in figure 1, we found problems primarily in six of the nine areas that the federal standards require for a security clearance investigation. Frequently, DSS did not confirm residency, corroborate birth or citizenship for foreign-born subjects, spouses, or family members, verify employment, interview character references, and/or check local agency records.

⁴To assure the quality of our analysis, we had DOD review the analytical tool we used to evaluate the completeness of the cases, had two GAO staff independently review each case, and had the affected adjudication facilities review our results.

Figure 1: Percent of Deficient Investigations in Nine Required Investigative Areas

Percent of deficient investigations



Source: GAO sample of 530 DSS investigations.

Importantly, in 16 percent of the investigations we examined, DSS did not pursue issues pertaining to individuals' prior criminal history, alcohol and drug use, financial difficulties, and other problems that its investigators uncovered. Any of these issues, if corroborated, could prevent an individual from being granted a security clearance. Of particular concern is the failure to resolve issues pertaining to large outstanding debts and bankruptcy, since financial gain has been the major reason individuals committed espionage. The following cases illustrated these lapses.

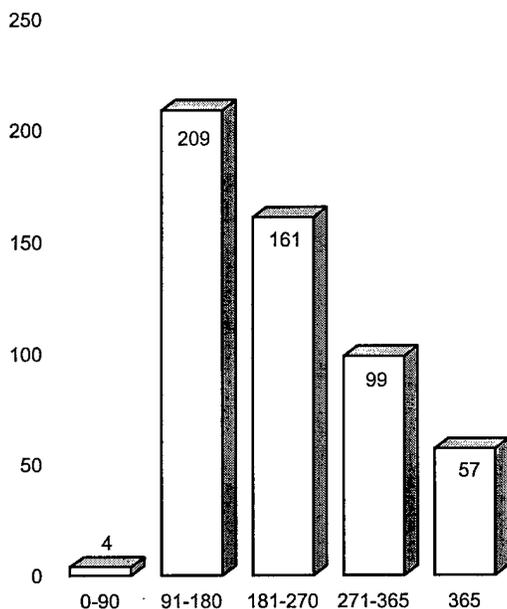
- A reinvestigation for an individual working on cross-service issues revealed that the subject's credit report showed \$10,000 past due on a mortgage and indicated that the lender had begun foreclosure proceedings. The subject denied knowledge of the matter, and investigative records do not show that DSS pursued the matter further by contacting the lender.
- An initial investigation for an individual assigned to a communications unit revealed a bankruptcy on the subject's credit report, but investigative records do not show that DSS questioned the subject about the matter or made any further attempt to address it.
- Records for a reinvestigation of an electronics technician do not show that DSS attempted to verify the subject's claim to be a member of a foreign military service and to hold foreign citizenship. Further, although the investigative file indicated that the subject might have been involved in shooting another individual, we found no evidence that the matter was pursued by DSS.

Untimely Investigations Created Costly Delays and Backlog

DSS investigations take too much time. DOD components and contractors want investigations completed in 90 days to avoid costly delays. Nevertheless, half of the 530 investigations we reviewed took 204 or more days to complete. In 1994, the Joint Security Commission reported that delays in obtaining security clearances cost DOD several billion dollars in fiscal year 1994 because workers were unable to perform their jobs while awaiting a clearance. In February 1999, representatives of several contractors complained to DSS about the time taken to clear their personnel, pointing out that the delays threatened to affect some facilities' ability to effectively perform on contracts and meet cost schedules. The representatives noted that 64 percent (1,426) of the 2,236 investigations they had requested were pending for more than 90 days, with 76 investigations pending since 1997. In addition, adjudication facility officials said that they frequently made decisions to grant or deny clearances based on incomplete investigations because it would take too long to have DSS obtain the missing information. Figure 2 shows that DSS completed only 4 of the 530 investigations we reviewed—less than 1 percent—under 90 days, whereas 11 percent took more than 1 year.

Figure 2: Calendar Days Needed to Complete Investigations

Percent of days



Note: Numbers in bars represent number of cases within each range.

Source: GAO sample of 530 DSS investigations.

At the time we completed our review in October 1999, about 600,000 DOD individuals holding clearances were overdue for reinvestigations⁵. This backlog resulted, in large part, from quotas

⁵The 1997 federal investigative standards require a periodic reinvestigation of individuals granted access to classified information. Clearances are outdated if a reinvestigation has not been initiated in the past 5 years for top secret clearances, 10 years for secret clearances, and 15 years for confidential clearances.

imposed by the Assistant Secretary of Defense (Command Control, Communications, and Intelligence) in 1996 on the number of reinvestigations that DOD components could request in a given year. In 1994 and 1999, the Joint Security Commission reported that delays in initiating reinvestigations create risks to national security because the longer individuals hold clearances the more likely they are to be working with critical information systems. Also, the longer a reinvestigation is delayed, the greater the risk that changes in an individual's behavior will go undetected. DOD is currently initiating several efforts to reduce this large backlog. The Chairman of the House Subcommittee on National Security, Veterans Affairs, and International Relations has asked us to examine the accuracy of DOD's estimate of its backlog of cases awaiting reinvestigation. We expect to report the results of this work later this year.

Ineffective Management Reforms and Inadequate Oversight Led to Deficient Investigations

We believe that ineffective management reforms at DSS, made in the interest of streamlining operations, are directly related to the deficiencies we noted in its security investigations.⁶ Between 1996 and early 1999, DSS relaxed its investigative requirements against the advice of the Security Policy Board, eliminated critical investigative quality control mechanisms, did not adequately train its staff on the new federal investigative standards, and ineffectively managed the implementation of a new \$100 million automation effort. The underlying cause of DSS's investigative deficiencies was inadequate management oversight by the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence).

DSS Relaxed Investigative Guidance

From August 1996 through February 1999, DSS relaxed its investigative requirements through a series of policy letters to its investigative staff. Several of these letters gave investigators greater discretion in how they would meet the federal standards or pursue investigative issues. For example, although the federal standards require credit information on a subject, DSS eliminated the requirement to contact creditors about debts revealed by the subject. DSS also eliminated its practice of routinely verifying disputed credit accounts. Although the federal standards require investigators to obtain character references on the subject, DSS gave investigators "broad leeway" in deciding whether to obtain references from the subject's neighborhood. DSS also did not require its investigators to make local agency checks for a subject's prior criminal history if local jurisdictions charged a service fee—an exception not provided for in the standards. These policy changes caused much confusion among agency staff. In responding to our survey of nearly 1,300 DSS investigators and case analysts⁷, 59 percent of the investigators and 90 percent of the case analysts said that the policy guidance had confused them about what investigative requirements they were to follow.

In 1996 and again in 1998, the Security Policy Board advised DSS not to adopt policies that ran counter to the federal investigative standards.⁸ The Board noted that DOD was a full partner in developing the new standards and that the planned actions would undermine the objectives of achieving reciprocity in investigations among the federal government's agencies, cause a serious

⁶ DSS undertook these reforms as reinvention efforts ostensibly based on the National Performance Review, which called for improving government at less cost.

⁷ DSS case analysts plan the investigative scope, assign the required work to DSS field offices, and determine if all investigative criteria have been met and all issues relevant for a clearance decision have been resolved.

⁸ The Board, which consists of senior representatives from 10 federal agencies, departments, and other organizations, is responsible for developing directives for U.S. security policies, procedures, and practices.

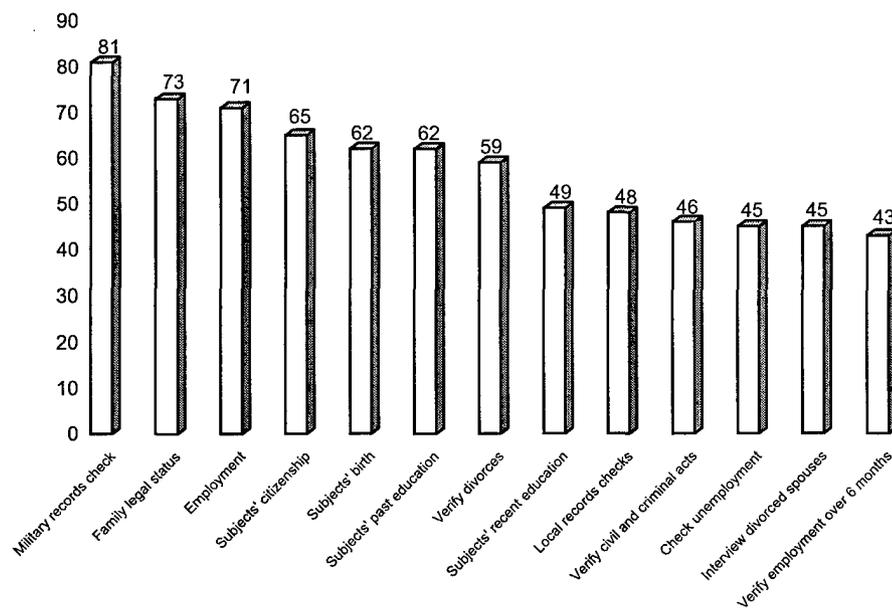
deterioration in the quality of investigative work, and increase security risk. It stated that if DSS wanted to change the standards, it should bring such requests to the Board, which was specifically established for that purpose. In spite of this advice, DSS adopted the relaxed investigative guidance.

DSS Eliminated Key Quality Control and Training Mechanisms

In 1996, DSS eliminated two quality control mechanisms that were critical to ensuring the quality of the investigative work—supervisory review of completed investigations and its quality assurance branch. Previously, field supervisors routinely reviewed all completed investigations before they were forwarded to DSS headquarters and submitted to the adjudication facilities for clearance decisions. The quality assurance branch conducted weekly reviews of a sample of completed investigations and published a newsletter on common investigative problems. Both programs were eliminated under DSS' s reinvention efforts in order to shift personnel to the investigative staff.

Inadequate training on the federal standards for both investigators and case analysts has also diminished investigative quality. During the past 3 years, DSS provided almost no formal training on the standards, and DOD dismantled the major training organization that provided the training. As a result, from 43 percent to more than 80 percent of the investigators we surveyed stated that they were inadequately trained on the various federal standards. Figure 3 shows the areas where the investigators most frequently cited training gaps.

Figure 3: Percent of Investigators Without Recent Training on Investigative Requirements



Source: 1999 GAO survey of 1,009 DSS investigators who provided information on their training.

Costly Automation Initiative Has Been Plagued by Problems

DSS did not properly plan for the implementation of a new information system designed to automate its personnel security investigation case processing. As a result, DSS has not been able to process its

investigations in a timely manner, and the volume of investigations sent to field offices and the adjudication facilities has decreased sharply. The automation system was not adequately designed or tested before being implemented. Thus, DSS was unable to achieve the paperless processing system that would have streamlined processing and the flow of cases to investigative staff was significantly reduced. According to DSS officials, DOD may have to add \$100 million to \$300 million more to the \$100 million already spent on its automation efforts to have a workable system. The automation problems have also exacerbated DSS's efforts to cope with the large backlog of overdue investigations.

Our survey of investigators shows the dramatic impact the automation problems have had on their workload. Before the system was implemented in October 1998, 58 percent of the investigators said they had too much work. Since the system was implemented, the situation has reversed—60 percent said they had too little work. A similar decrease in workload has occurred at the adjudication facilities. The volume of investigative cases for four facilities included in our review dropped between 37 percent and 67 percent following the implementation of the new automated system.

DOD Exercised Inadequate Oversight

The problems we found in the completeness and timeliness of DSS investigations and in its automation efforts were due to inadequate oversight by the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence). For at least 4 years, DSS has operated with little scrutiny of its programs by the Assistant Secretary, who is responsible for DSS oversight. Sound management practices call for such oversight. DOD officials stated that once DSS initiated its reinvention efforts, it was allowed to operate, for the most part, at its own discretion.

DOD IS IMPLEMENTING GAO's RECOMMENDATIONS

DOD agreed that the deficiencies we found represent a potential risk to the personnel security program and the protection of classified information, and it agreed to take action on all of our recommendations. For example, DOD has complied with our recommendation to identify its personnel security investigation program as a significant internal control weakness in its most recent report to the President and the Congress under the Federal Managers' Financial Integrity Act. This designation should provide added visibility that should enable the Department to monitor progress in correcting identified problems. In addition, the office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) has been holding periodic meetings with DSS to discuss the various problems we identified and develop methods to correct them. In fact, the Director of DSS began taking corrective actions after our briefings even before we completed our review. Based on our recommendations, he has developed a strategic plan and is developing performance measures to guide DSS in improving its operations; reinstated key quality control and training mechanisms; reviewed DSS's investigative procedures with the goal of bringing them in line with federal investigative standards; and taken several actions to address the large backlog of cases awaiting reinvestigations. Further, he has expressed his intention to improve cooperation with the Security Policy Board. DSS has also established three separate teams to assess the problems associated with its automation initiative and established a Program Management Office to serve as the system's operational manager. By May 1, 2000, DSS must provide the Deputy Secretary of Defense a plan to enhance or replace the agency's automated case management system.

The Director also established an Operational Standards and Quality Council composed of representatives from the office of the Assistant Secretary, DSS, and the adjudication facilities to discuss the approaches to deal with various investigative and adjudicative issues with the overall objective of improving the quality of the work. We also recommended that the adjudication facilities

be directed to grant clearances only when all essential investigative work has been completed. Our ongoing analysis of cases recently adjudicated should shed light on how the adjudicative process is working.

Mr. Chairman and Members of the Committee, this concludes my prepared remarks. I would be happy to answer any questions you may have.

Contacts and Acknowledgements

For future contacts regarding this testimony, please call Carol Schuster at (202) 512-3958. Key contributors to this testimony included Christine Fossett, Rodney Ragan, and Frank Bowen.

(702062)

ORDERS BY INTERNET

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to

Info@www.gao.gov

or visit GAO's World Wide Web Home Page at

<http://www.gao.gov>

**TO REPORT FRAUD, WASTE, AND ABUSE
IN FEDERAL PROGRAMS**

Contact one:

- website: <http://www.gao.gov/fraudnet/fraudnet.htm>
- e-mail: fraudnet@gao.gov
- 1-800-424-5454 (automated answering system)