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OSC TRANSMITS DEPARTMENT OF DEFENSE REPORT CONFIRMING MISUSE OF AGENCY FUNDS

FOR IMMEDIATE RELEASE

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WASHINGTON, DC/September 29, 2010 – Today, the U.S. Office of Special Counsel (OSC) transmitted to the President and Congress the Department of Defense's (DOD) response to whistleblower allegations that DOD employees were improperly using the fees collected for Information Analysis Center (IAC) programs for DOD functions and activities that are unrelated to the IAC programs. The whistleblower, Russ Daul, the former Director of the Resource Management Directorate at DOD, also disclosed that employees failed to report the IAC monies and implemented faulty policies to justify their misuse of the funds.

The reports from DOD to OSC found that employees violated the Economy Act, 31 U.S.C. § 1535, and inappropriately augmented DOD's budget. DOD improperly charged indirect costs for the goods and services it provided to federal agencies and other customers in fiscal years (FYs) 2007 and 2008. DOD collected fees in excess of its actual costs and did not return the surpluses to its customers. As a result, DOD overcharged its customers by \$12.1 million in FY 2007 and \$9.7 million in FY 2008. The investigation partially substantiated that DOD failed to report the IAC monies. The investigation also determined that the then-Administrator managing the IAC program was aware of and assented to the continued practice of improperly accounting for the IAC fees, did not take action to correct the IAC fee policy problems when notified, and that such actions constituted gross mismanagement.

In response to the investigative findings, DOD established an IAC Reimbursable Review Board (Review Board). Among other functions, the Review Board will create a fixed reimbursable rate, establish a plan for determining and returning surplus fees, and coordinate a review of budgeting method models. DOD will update its Financial Management Regulations to reflect the policy changes, and will conduct a study in FY 2011 to ensure that DOD complies with its reporting requirements. The Administrator was removed from his supervisory position and will not return. OSC determined that the agency's reports contain all of the information required by statute and that the findings appear reasonable.

Copies of the transmittal to the President and the agency's reports have been placed in OSC's public file and are now available online at www.osc.gov.

The U.S. Office of Special Counsel (OSC) is an independent investigative and prosecutorial agency and operates a secure channel for disclosures of whistleblower complaints. Its primary mission is to safeguard the merit system in federal employment by protecting federal employees and applicants from prohibited personnel practices, especially retaliation for whistleblowing. OSC also has jurisdiction over the Hatch Act. For more information please visit our web site at www.osc.gov or call 1 (800) 872-9855.