Audit Report

DOD ADJUDICATION OF
CONTRACTOR SECURITY CLEARANCES
GRANTED BY THE DEFENSE SECURITY SERVICE

Report No. D-2001-065 February 28, 2001

Office of the Inspector General
Department of Defense

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Acronyms

ASD(C^3I)	Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)
CAF	Central Adjudication Facility
DISCO	Defense Industrial Security Clearance Office
DOHA	Defense Office of Hearings and Appeals
OASD(C^3I)	Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)
DSS	Defense Security Service
PIC	Personnel Investigations Center

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

February 28, 2001

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (COMMAND, CONTROL, COMMUNICATIONS, AND INTELLIGENCE)
DIRECTOR, DEFENSE SECURITY SERVICE

SUBJECT: Audit Report on DoD Adjudication of Contractor Security Clearances Granted by the Defense Security Service (Report No. D-2001-065)

We are providing this report for review and comment. This report is the fifth in a series of audit reports addressing security clearance and access issues. In March 2000, the Chairmen of the Senate and House Committees on Armed Services requested further review of the security clearance process. We considered management comments on a draft of this report when preparing the final report.

The comments of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) were not fully responsive. DoD Directive 7650.3 requires that all recommendations be resolved promptly. We request the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) provide additional comments on Recommendation 2.b. by March 30, 2001.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Robert K. West at (703) 604-8983 (DSN 664-8983) (rwest@dodig.osd.mil) or Ms. Lois A. Therrien at (703) 602-1577 (DSN 332-1577) (ltherrien@dodig.osd.mil). See Appendix D for the report distribution. The audit team members are listed inside the back cover.

David K. Steensma

David K. Steensma
Acting Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. D-2001-065 **February 28, 2001**
(Project No. D1999AD-0079.02)
(Formerly Project No. 9AD-0046.02)

DoD Adjudication of Contractor Security Clearances Granted by the Defense Security Service

Executive Summary

Introduction. This report is the fifth in a series of audit reports addressing security clearance and access issues. The audit became a congressional request in March 2000 when the Chairmen of the Senate and House Committees on Armed Services requested further review of the security clearance process.

Objectives. This report addresses the adequacy of the Defense Security Service adjudication process for granting contractor security clearances. We also reviewed the adequacy of the management control program as it applied to the specific audit objective. The first four reports discussed the effects of security clearances on three special access programs, security clearances for personnel in mission-critical and high-risk positions, tracking personnel security requests, and the personnel and resources required to adjudicate security clearances. Subsequent reports will address the tracking of cases by the central adjudication facilities, the impact of security clearances on all special access programs, and the status of access reciprocity. See Appendix B for specific report references on prior coverage.

Results. Defense Security Service case analysts, in granting security clearances to DoD contractors, are using processes that do not meet the requirements of Executive Order 12968, "Access to Classified Information," August 4, 1995, which requires appropriately trained adjudicators and uniform standards for granting security clearances. As a result, contractor clearances may not have been appropriately granted, subjecting DoD to a higher risk of compromise. For details of the audit results, see the Finding section of this report. See Appendix A for details of the review of the management control program.

Summary of Recommendations. We recommend that the Director, Defense Security Service, cease the practice of granting contractor security clearances without review by a trained adjudicator. We also recommend that the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence):

- Standardize the contractor, military and civilian security clearance processes in compliance with Executive Order 12968, "Access to Classified Information," August 4, 1995, by requiring all clearances to be granted by appropriately trained adjudicators.

- Establish the minimum training and experience requirements for the personnel who are granting security clearances.

- Establish continuing education standards and a program to allow the development and certification of professional adjudicators.

Management Comments. The Defense Security Service concurred that appropriately trained adjudicators have not always been used for granting DoD contractor clearances when the derogatory information did not rise above a certain threshold and that DoD had not defined the requirements for an appropriately trained adjudicator. The Defense Security Service disagreed with the recommendation to cease granting contractor security clearances without a review by trained adjudicators, stating that further delays in clearance issuance would result, and that the Defense Industrial Security Clearance Office case analysts that perform the second review have sufficient training. The Director of Security, Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) (OASD[C^3I]), stated that the second review process for contractor clearance cases should remain in place pending the completion of the study to identify additional adjudicative resources. OASD(C^3I) agreed to standardize the contractor, military, and civilian security clearance process by requiring all clearances be granted by trained adjudicators. OASD(C^3I) stated that once the appropriate additional adjudicative resources for the Defense Industrial Security Clearance Office have been identified and procured, the contractor clearance process will be consistent with those of the other central adjudication facilities. OASD(C^3I) agreed that all contractor investigations, "clean" or otherwise, be adjudicated by qualified adjudicative personnel. OASD(C^3I) concurred that minimum training and experience requirements would be established and included in the revision to the DoD Regulation 5200.2-R, "Personnel Security Program," January 1987. OASD(C^3I) also concurred with establishing continuing education standards and a program to allow the development and certification of professional adjudicators.

Audit Response. The Defense Security Service comments meet the intent of the recommendation, provided that the individuals performing the second review meet the minimum requirements that the ASD(C^3I) is to establish. The OASD(C^3I) comments on the recommendations to standardize the review process by requiring that appropriately trained adjudicators grant all clearances and establishing continuing education standards were responsive. However, the OASD(C^3I) comments on including the minimum training and experience requirements in the revised DoD Regulation 5200.2-R by September 2001 were only partially responsive. Since the updated regulation has experienced delays in its issuance, the minimum training and experience requirements for granting security clearances need to be promulgated on an interim basis. We request that OASD(C^3I) provide comments by March 30, 2001, on whether it will issue interim guidance.

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Background

This report is the fifth in a series and discusses the DoD adjudication processing of contractor clearances. The audit became a congressional request in March 2000, when the Chairmen of the Senate and House Committees on Armed Services requested further review of the security clearance process. The first report discussed the effects of security clearances on three special access programs. The second report discussed security clearances for personnel in mission-critical and high-risk positions. The third report addressed tracking security clearance requests. The fourth report discussed the resources required to adjudicate security clearances within DoD. Subsequent reports will address the tracking of cases by the central adjudication facilities (CAFs), the impact of security clearances on special access programs, and the status of access reciprocity.

Security Clearances. Personnel security clearance investigations are intended to establish and maintain a reasonable threshold for trustworthiness through investigation and adjudication before granting and maintaining access to classified information. The initial investigation provides assurance that a person has not demonstrated behavior that could be a security concern. Reinvestigation is an important, formal check to help uncover changes in behavior that may have occurred after the initial clearance was granted. The standard for reinvestigation is 5 years for Top Secret, 10 years for Secret, and 15 years for Confidential clearances.

Clearance Requirements. On March 24, 1997, the President approved the uniform Adjudicative Guidelines and Temporary Eligibility Standards and Investigative Standards as required by Executive Order 12968, "Access to Classified Information." Executive Order 12968 specifies that a determination of eligibility for access to classified information is a discretionary security decision based on judgments by appropriately trained adjudicative personnel. Eligibility shall be granted only where facts and circumstances indicate that access to classified information is clearly consistent with the national security interests of the United States, and any doubt shall be resolved in favor of the national security.

DoD Security Clearances. The process of obtaining a security clearance begins with a request from a military commander, a DoD contractor, or other DoD official for a security clearance for an individual because of the sensitive nature of his or her duties. The individual then completes a security questionnaire that is forwarded to the Defense Security Service (DSS) or the Office of Personnel Management. An investigation seeks information about the subject's loyalty, character, reliability, trustworthiness, honesty, and financial responsibility. The investigation must be expanded to clarify and resolve any information that raises questions about the subject's suitability to hold a position of trust. DSS and the Office of Personnel Management send the completed investigation to the appropriate adjudication facility, where the decision is made to grant or deny a clearance and/or Sensitive Compartmented Information access.

Central Adjudication Facilities. The following eight Central Adjudication Facilities in DoD are authorized to grant, deny, or revoke eligibility for Top Secret, Secret, and Confidential security clearances and/or Sensitive Compartmented Information accesses: Army, Navy, Air Force, Washington Headquarters Service, Defense Office of Hearings and Appeals (DOHA), Joint Chiefs of Staff, Defense Intelligence Agency, and National Security Agency. In addition, the Defense Industrial Security Clearance Office (DISCO), part of DSS, is authorized to grant security clearances to contractor[1] employees.

Adjudication Process. The adjudication process involves neither the judgment of criminal guilt nor the determination of general suitability for a given position; rather, it assesses a person's trustworthiness and fitness for a responsibility which could, if abused, have unacceptable consequences for the national security of the United States. An adjudicating official must review all the information provided by the investigation, resolve conflicting reports, and grant or deny the type of clearance sought. Eligibility for access is granted only where facts and circumstances indicate that access to classified information is clearly consistent with the national security interests of the United States, and any doubt shall be resolved in favor of the national security.

If the adjudicative decision is to deny or revoke eligibility for a security clearance, the adjudicator must prepare a statement of reasons. The statement of reasons is provided to the individual involved and contains the rationale for the denial or revocation, instructions for responding, and copies of the relevant adjudicative guidelines from DoD Regulation 5200.2-R, "Personnel Security Program," January 1987. Upon request, the individual must be provided with copies of releasable records from the case file. The statement of reasons must clearly define the rationale for the denial or revocation with an explanation for each relevant issue that is linked to one or more of the 13 adjudicative guidelines contained in DoD Regulation 5200.2-R. If a response is received to the statement of reasons, the appeals process begins.

Responsibilities. The Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) (ASD[C^3I]) has primary responsibility for providing guidance, oversight, development, and approval for policy and procedures governing personnel security program matters within DoD[2]. The DSS is responsible for conducting background investigations on military, civilian, and contractor employees who require a security clearance, and for granting security clearances to contractor personnel when there is an absence of derogatory information above a certain threshold. The CAFs' main responsibility is adjudicating those investigations. Although ASD(C^3I) is responsible for providing guidance and policy to the security clearance process, the CAFs are under the direction of their respective DoD Components.

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[1] The National Industrial Security Program safeguards Federal Government classified information that is released to contractors, licensees, and grantees of the United States Government.

[2] The Director of Central Intelligence is responsible for policy, guidance, and oversight of Sensitive Compartmented Information.

Objectives

Our specific audit objective was to determine the adequacy of the DSS adjudication process for granting contractor security clearances. We also reviewed the adequacy of the management control program as it applied to the specific audit objective. See Appendix A for a discussion of the audit scope, methodology, and the review of the management control program. See Appendix B for prior coverage related to the audit objectives.

Security Clearances Based On Investigative Cases With Little or No Derogatory Information

DSS case analysts, in granting security clearances to DoD contractors, are using processes that do not meet the requirements of Executive Order 12968, "Access to Classified Information," August 4, 1995, which requires appropriately trained adjudicators and uniform standards for granting security clearances. Requirements were not met because:

- DSS case analysts were making adjudicative decisions and granting security clearances to DoD contractors without being trained in adjudication, and

- the process used for granting security clearances to DoD contractors was inconsistent with the process for granting clearances to military and civilian personnel, which used trained adjudicators even in cases involving little or no derogatory information.

As a result, contractor clearances may not have been appropriately granted, subjecting DoD to a higher risk of compromise.

Criteria Regarding Security Clearances

Access to Classified Information. Executive Order 12968, "Access to Classified Information," August 4, 1995, establishes a uniform Federal personnel security program for employees who will be considered for initial or continued access to classified information. The Executive Order states that a determination of eligibility for access to classified information is a discretionary decision based on judgments by appropriately trained adjudicative personnel. Eligibility shall be granted only where facts and circumstances indicate access to classified information is clearly consistent with the national security interests of the United States, and any doubt shall be resolved in favor of the national interest.

Appropriately Trained Adjudicative Personnel. DoD Regulation 5200.2-R, "Personnel Security Program," January 1987, requires that completely favorable Top Secret clearances be reviewed and approved by an adjudicative official at the civilian grade of GS-7/9 or the military rank of O-3. Investigations that are not completely favorable undergo at least two levels of review. The second review must be administered by an adjudicative official at the civilian grade of GS-11/12 or the military rank of O-4. Completely favorable Secret investigations may be completed after one level of review if the decision-making authority is an adjudicative official at the civilian grade level of GS-5/7 or the military rank of O-2. Investigations that are not completely favorable must be reviewed by an adjudicative official at the civilian grade of GS-7/9 or the military rank of O-3.

DSS Process for Granting Contractor Security Clearances

DSS is authorized to grant personnel security clearances to contractors under the National Industrial Security Program when there is an absence of derogatory information[3] above a certain threshold. The DSS responsibilities are executed by the Personnel Investigations Center (PIC) and by the Personnel Clearance Division at DISCO.

Although case analysts at the PIC did not have any adjudicative training, they performed the adjudicative function of granting security clearances. The primary mission of the PIC is to review the investigative scope and reporting of personnel security investigation cases for accuracy and completeness. During this review, the case analysts also review the cases for the presence of certain unfavorable information. In the absence of specified unfavorable information, the PIC advises DISCO that the case is clean, archives the case, and records its actions in the Case Control Management System. DISCO then issues the clearance based on the entry.

The primary responsibilities of DISCO case analysts include administering contractor personnel clearances, which encompasses receiving requests, maintaining the industrial clearance database, monitoring clearance eligibility, issuing clearances, and referring investigative results and other information for adjudication to DOHA. In December 1999, DISCO case analysts temporarily undertook a second quality review of the clean cases closed by the PIC prior to completing final clearance processing. All case analysts at DISCO had attended the DoD Personnel Security Basic Adjudication Training course. The second quality review resulted in the clearance being issued because the case was clean, the case being returned to the PIC for further investigation because the investigation was incomplete, or the case being referred to DOHA for adjudication because derogatory information was found.

See Appendix C for the History of Granting Industrial Security Clearances.

Trained Adjudicators

DoD defined the civilian grade level and the military rank of adjudicative officials in DoD Regulation 5200.2-R "Personnel Security Program," January 1987, but did not define the requirements for an appropriately trained adjudicator. Inspector General, DoD, Report No. 98-124, "Department of Defense Adjudication Program," April 27, 1998, stated that DoD adjudicators were not receiving continuing education training in specified timeframes, or training development plans for achieving a "certificate of adjudication." The Inspector General's report recommended that the ASD(C^3I) establish continuing education standards and a program to encourage the development and certification of professional adjudicators. The recommendation had not been implemented as of February 2001.

[3] A case with little or no derogatory information is referred to as a clean case.

Most adjudicator training at the CAFs is provided on the job; however, DSS does not consider adjudication part of the case analysts' job at either the PIC or DISCO because they do not have the authority to deny clearances. We consider granting clearances to be an adjudicative decision because espionage is committed by individuals with access to classified information, not those who are denied access. Therefore, DoD must establish the educational and the experience requirements for appropriately trained adjudicative personnel to identify clean cases and grant the appropriate security clearances.

No Clean Case Screening of Military and Civilian Security Clearances

Case analysts at the DSS PIC did not perform clean case screening for military and civilian employees. All military and civilian cases were sent to the seven CAFs, where trained adjudicators reviewed each case. Cases investigated by DSS and sent to the CAFs identified the number of issues revealed during the investigation. The CAFs used the number of issues identified by case analysts at the PIC as a guide to determine which adjudicator should adjudicate the case. If a case contained fewer issues, it was adjudicated by a less experienced adjudicator. If a case contained more issues, it was adjudicated by a more experienced adjudicator. The case analysts review every case, but the information for military and civilian employees is recorded and sent to the CAF for review by a trained adjudicator, whereas, for contractor employees, the case analyst performing the review decides whether the case is clean and whether the clearance should be awarded.

Resources Required for Contractor Clean Case Screening Reviews

The Director, DSS, expressed concern that the evaluation of derogatory information, whether minor or major, should be performed by trained adjudicators and not case analysts, in a December 22, 1999, memorandum to the Acting Deputy Assistant Secretary of Defense (Security and Information Operations). In a February 7, 2000, follow-on memorandum, the Director, DSS, explained that in their efforts to improve the personnel security investigative process and comply with national standards, the adjudication process should meet national standards. The memorandum stated that although the Deputy General Counsel (Legal Counsel), DoD Office of General Counsel, and the Director, DOHA, agreed in principle that DOHA should adjudicate all contractor clearances, they were concerned with the lack of resources to accomplish the adjudications. Because case analysts at the PIC perform the clean case screening review concurrently with determining the completeness of the investigations, only one or two full-time equivalent staff years are required. However, a separate review by an adjudicator would require an increase in personnel; the Director, DOHA, estimated that an additional 30 full-time equivalents would be required.

DSS did not estimate the personnel required to continue performing the second clean case screening review because DSS did not intend that the case analysts at DISCO would continue performing a second review. DSS wanted the clean case screening review to be sent to DOHA. If the clean case screening is not moved to DOHA, DSS planned to train the PIC case analysts to use a new clean case screening guide, maintain the second review by the DISCO case analysts until quality issues are resolved, and then discontinue the second review because of its impact on the DISCO case analysts workload. The DSS target date for resolving the quality issues and discontinuing the second review is March 2001. If the second review is maintained at DISCO, DSS will require additional personnel to reduce the impact on case analysts' workload.

In a November 21, 2000, memorandum to the Under Secretary of Defense (Comptroller), the ASD(C^3I) recommended that the Central Adjudication Facility Requirements section of Program Budget Decision 434, "Defense Security Service," state:

> "The DSS Defense Industrial Security Clearance Office (DISCO) and the Defense Office of Hearings and Appeals (DOHA) comprise the Central Adjudication Facilities (CAFs) for Industry, and will continue to accomplish all clearance adjudications and trustworthiness determinations for Industry. To ensure industry investigative cases which do not warrant referral to DOHA can be consistently adjudicated in accordance with all applicable DoD guidelines by appropriately trained personnel, DSS is directed to conduct a comprehensive study of the DISCO adjudicative function to determine the number of additional FTEs [full time equivalents] that are required for DISCO to handle 'clean case screening' and enter appropriate data into the Joint Personnel Adjudication System. Staffing at DOHA is sufficient to address the present workload."

Compliance With Executive Order 12968

Executive Order 12968, "Access to Classified Information," August 4, 1995, established a uniform Federal personnel security program, except for due process for contractors covered under Executive Order 10865, "Safeguarding Classified Information Within Industry," February 20, 1960. As a result, the March 1997 uniform Adjudicative Guidelines are for all security clearances and Sensitive Compartmented Information access. Because DoD issuance of a security clearance, whether to military, civilian, or contractor employees, is reciprocal and results in access to the same documentation, one adjudication process for issuing security clearances based on clean cases is required in DoD.

DoD has two options to bring contractor employee security clearances into compliance with Executive Order 12968 and standardize it with military and civilian clearances. If DoD determines that the investigative agency should not also be the adjudicating agency, all contractor security clearances must be reviewed by the trained adjudicators at DOHA. If DoD determines that the investigative agency may provide the first level of adjudicative review, DoD must train the DSS case analysts at the PIC in adjudication, establish a firm

definition for a clean case, identify what is within the authority of the case analysts to award, and issue security clearances for military, civilian, and contractor employees that are based on clean case standards.

Conclusion

Executive Order 12968, "Access to Classified Information," requires that trained adjudicative personnel determine who should be eligible for access to classified information. However, DSS case analysts at the PIC, who are not trained in adjudication, have been granting contractor security clearances since the initiation of the clean case screening program in March 1984. Noncompliance with Executive Order 12968 may have resulted in clearances being issued to contractors when it was not in the best interest of national security, subjecting DoD to a higher risk of compromise.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Director, Defense Security Service, cease the practice of granting contractor security clearances without review by a trained adjudicator.

Defense Security Service Comments. The Director, Defense Security Service, concurred that appropriately trained adjudicators have not always been used for granting DoD contractor clearances when the derogatory information did not rise above a certain threshold. The Director also agreed that DoD has not defined the requirements for an appropriately trained adjudicator and believed that the DoD Personnel Security Adjudications Course and the DoD Personnel Adjudications Course should be the baseline requirement for adjudicators. However, the Director nonconcurred that the Defense Security Service should immediately stop granting contractor security clearances, stating that there are no resources to take on this function. To do so would result in further delay in clearance issuance. Also, absent a definition of training requirements, the Director believed that "…the DISCO case analysts currently performing this function have sufficient training to date…" Further, all DISCO analysts who perform the second review will complete the DoD Personnel Security Adjudications Course during March 6 through 16, 2001. The Director also stated that should ASD(C^3I) develop a minimum training requirement beyond the two previously mentioned courses, a plan would be developed to ensure that the additional training requirement was met.

Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) Comments. Although not required to comment, the Director of Security, OASD(C^3I), concurred, and stated that the current review process for contractor clearance cases should remain in place pending the completion of the Defense Security Service study required in Program Budget Decision 434 to identify additional adjudicative resources necessary to ensure timely and professional review.

Audit Response. The Director, Defense Security Service, comments meet the intent of the recommendation. A phased approach to achieving the intent of the recommendation is acceptable. We agree that the two courses serve as a baseline for adjudication training, but a definition of training requirements is needed. With respect to the OASD(C^3I) comments, we recognize that the Defense Security Service study is pending, but that does not preclude the establishment of minimum training and experience requirements for personnel granting security clearances raised in Recommendation 2.b.

2. We recommend that the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence):

a. Standardize the contractor, military and civilian security clearance processes in compliance with Executive Order 12968, "Access to Classified Information," August 4, 1995, by requiring all clearances to be granted by appropriately trained adjudicators either at the Defense Office of Hearings and Appeals and the seven other central adjudication facilities or by case analysts at the Personnel Investigations Center.

Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) Comments. The Director of Security partially concurred, and stated that the DoD adjudication process is already standardized, especially with respect to military and civilian personnel. The Director stated that once the appropriate additional adjudicative resources for the Defense Industrial Security Clearance Office have been identified and procured, the contractor clearance process will be entirely consistent with those of the other central adjudication facilities. The Director also agreed that all contractor investigations, "clean" or otherwise, be adjudicated by qualified adjudicative personnel. The Director stated that training case analysts at the Personnel Investigations Center to grant military, civilian, and contractor clearances based on clean cases was not acceptable.

Audit Response. The Director of Security comments meet the intent of the recommendation. The crucial point is that all contractor investigations, "clean" or otherwise, be adjudicated by qualified adjudicative personnel. Until that objective is achieved, the process for granting military, civilian, and contractor clearances is not standard.

b. Establish the minimum training and experience requirements for the personnel who are granting security clearances.

Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) Comments. The Director of Security concurred, stating the requirement would be included in the revision to the DoD Regulation 5200.2-R by September 2001.

Audit Response. The Director of Security comments are partially responsive. DoD Regulation 5200.2-R, "Personnel Security Program," January 1987, has been under revision for several years. The ASD(C^3I) November 10, 1998, memorandum stated that the uniform Adjudicative Guidelines and Temporary Eligibility Standards and Investigative Standards, signed by the President on

March 24, 1997, would be incorporated into DoD 5200.2-R no later than January 1, 2000. Since the updated regulation still has not been promulgated, the minimum training and experience requirements need to be established as soon as possible, and on an interim basis if necessary. Accordingly, we request that the ASD(C^3I) reconsider his position on the recommendation and provide comments on the final report.

c. Establish continuing education standards and a program to allow the development and certification of professional adjudicators.

Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) Comments. The Director of Security concurred, stating that the recommendation would be reviewed for implementation with the Security Policy Board's Adjudicator Training Working Group, the Defense Security Service Academy, and the Joint Security Training Consortium. In addition, the Academy will take over the Office of Personnel Management's Advanced Adjudicator Course in October 2001. The Director anticipates that the recommendation will be accomplished by September 2001.

Appendix A. Audit Process

Scope

Work Performed. We evaluated the DSS process for granting contractor security clearances for clean cases and we reviewed the pertinent Executive Orders, regulations, policy, and guidance for contractor security clearances.

DoD-Wide Corporate Level Government Performance and Results Act Goals. In response to the Government Performance and Results Act, the Secretary of Defense annually establishes DoD-wide corporate level goals, subordinate performance goals, and performance measures. This report pertains to achievement of the following goal, subordinate performance goals, and performance measures.

FY 2001 DoD Corporate Level Goal 2: Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineering the Department to achieve a 21st century infrastructure. **(01-DoD-2) FY 2001 Subordinate Performance Goal 2.1:** Recruit, retain, and develop personnel to maintain a highly skilled and motivated force capable of meeting tomorrow's challenges (**01-DoD-2.1) Subordinate Performance Goal 2.3:** Streamline the DoD infrastructure by redesigning the Department's support structure and pursuing business practice reforms. **(01 DoD-2.3) FY 2001 Performance Measure 2.3.1:** Percentage of the DoD Budget Spent on Infrastructure. **(01-DoD-2.3.1)**

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Weapon System Acquisition, the Information Management and Technology, and the Military Personnel Management high-risk areas.

Methodology

To determine how DSS grants contractor security clearances for clean cases, we interviewed DSS personnel to determine how they processed the clean cases and the adjudicative training provided to the case analysts at the PIC and DISCO. We compared the training of the case analysts to the training provided to the adjudicators at the other CAFs.

Use of Computer-Processed Data. We did not use computer-processed data to achieve the audit objective.

Audit Type, Dates, and Standards. We conducted this economy and efficiency audit from May 2000 through December 2000, in accordance with

auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD. Further details are available upon request.

Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, requires DoD organizations to implement a comprehensive system of management controls that provide reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We reviewed the adequacy of DSS management controls over the personnel security investigations program. We also reviewed the results of management's self-evaluation of those management controls.

Adequacy of Management Controls. We identified material management control weaknesses for DSS as defined by DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996. DSS management controls were not adequate to ensure an effective process for granting contractor security clearances for clean cases by trained adjudicators. The recommendations, if implemented, will provide an effective process for trained adjudicators to review and grant all security clearances based on clean investigative cases. A copy of the report will be provided to the senior official responsible for management controls in the Office of the Assistant Secretary of Defense (Command, Control, Communications, and Intelligence).

Adequacy of Management's Self-Evaluation. DSS officials identified its personnel investigation process as an uncorrected management control weakness. However, they did not identify the material management control weakness identified by the audit because they did not evaluate that stage of the process.

Appendix B. Prior Coverage

During the last 7 years, the Inspector General, DoD, issued eight reports; the General Accounting Office issued two reports; the Joint Security Commission II, the Commission on Protecting and Reducing Government Secrecy, and the Joint Security Commission issued one report each on security clearance background investigations.

General Accounting Office

General Accounting Office Report No. NSIAD-0012 (OSD Case No. 1901), "DoD Personnel, Inadequate Personnel Security Investigations Pose National Security Risks," October 27, 1999

General Accounting Office Report No. NSIAD-00215 (OSD Case No. 2055), "DoD Personnel, More Actions Needed to Address Backlog of Security Clearance Reinvestigations," August 24, 2000

Inspector General, DoD

Inspector General, DoD, Report No. D-2001-019, "Program Management of the Defense Security Service Case Control Management System," December 15, 2000

Inspector General, DoD, Report No. D-2001-008, "Resources of DoD Adjudication Facilities," October 30, 2000

Inspector General, DoD, Report No. D-2000-134, "Tracking Security Clearance Requests," May 30, 2000

Inspector General, DoD, Report No. D-2000-111, "Security Clearance Investigative Priorities," April 5, 2000

Inspector General, DoD, Report No. D-2000-072, "Expediting Security Clearance Background Investigations for Three Special Access Programs" (U), January 31, 2000 (SECRET)

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Appendix C. History of Granting Industrial Security Clearances

Defense Industrial Security Clearance Office (DISCO)

The DISCO was established in March 1965 as part of the Defense Supply Agency (now the Defense Logistics Agency) with two divisions that granted security clearances: the Personnel Clearance Division and the Adjudication Division. The reports of investigation for background investigations completed for contractor employees were sent to the Personnel Clearance Division of DISCO. The Personnel Clearance Division reviewed the case and either granted the security clearance when there was little or no derogatory information, returned the investigation for further information, or referred the investigation to the trained adjudicators in the Adjudication Division when there was derogatory information. When the Adjudication Division reviewed the case, it granted the security clearance, returned the investigation for further information, or wrote a statement of reasons and referred the case to the Directorate for Industrial Security Review (now DOHA) in the DoD Office of General Counsel. If the statement of reasons was appealed, the Directorate for Industrial Security Clearance Review would ultimately grant or deny the clearance.

In October 1980, DISCO became part of the Defense Investigative Service, which is now DSS. The Director of the Defense Investigative Service initiated a Clean Case Screening Program in March 1984 because of budget cuts. The Clean Case Screening Program's case analysts concurrently determined whether the investigation was complete and whether the case contained major derogatory information. If the case contained major derogatory information, the report of investigation was sent to DISCO for review by the Adjudication Division. If the case was favorable or contained only minor derogatory information, a Letter of Consent would be automatically generated for the contractor and the favorable results were electronically transmitted to DISCO. When this procedure was implemented, the adjudication positions at DISCO in the Personnel Clearance Division were eliminated.

Directorate for Industrial Security Clearance Review

In June 1985, the Adjudication Division of DISCO was transferred to the Directorate for Industrial Security Clearance Review in the Office of General Counsel, DoD. This change was made because of concerns by the DoD Industrial Security Review Committee (the “Harper Committee”) expressed in a report to the Deputy Under Secretary of Defense for Policy, “Analysis of the Effectiveness of the Department of Defense Industrial Security Program and Recommendations for Program Improvement,” December 10, 1984, that a study be conducted to assess the merits of centralizing the adjudication function (separately and distinctly from any investigative organization) within DoD. The

Committee explained that one careful review by a trained adjudicator meets the requirements of Executive Order 10865, "Safeguarding Classified Information Within Industry," February 20, 1960, to comply with the due process procedures required in security clearance cases.

Cases with Little or No Derogatory Information

Case analysts at the PIC used a screening guide, developed in March 1984, to determine whether an adjudicative review of a completed contractor employee security investigation would be needed. The screening guide used 8 of the current 13 adjudicative guidelines as a basis to determine whether a case was clean. The eight guidelines on the screening guide were Financial Considerations, Alcohol Consumption, Sexual Behavior, Emotional and Personality Disorders, Personal Conduct, Drug Involvement, Criminal Conduct, and Security Violations. Each guideline contained specific criteria or a threshold to screen the case against. If the case fell below the threshold, the case was considered clean. If the case fell above the threshold, the case contained too much derogatory information to be granted a clearance as a clean case and was sent to an adjudicator.

In September 2000, DSS developed a revised draft screening guide, "Chart for Identifying Potentially Disqualifying Factors," which was based on the 13 adjudicative guidelines signed on March 24, 1997, by the President. As of February 2001, the draft guide had not been implemented.

Case Analysts Granting Contractor Security Clearances

Case Analysts at the PIC. Case analysts at the PIC reviewed cases for accuracy and completeness of investigative scope and reporting and for specified unfavorable information. The case analysts then identified the cases with little or no derogatory information, and coded the case as clean in the database. However, DSS could not clearly define a clean case because it had not determined what constituted little derogatory information.

From March 1984, when DSS initiated the Screening Program, until October 1998, when it implemented the Case Control Management System, DSS electronically transmitted clean cases to DISCO where the Letter of Consent was automatically generated by the computer system. When the Case Control Management System became operational in October 1998, the Letter of Consent could no longer be generated automatically; therefore, a case analyst at DISCO had to print the Letter of Consent and mail it to the contractor.

Case Analysts at DISCO. GAO Report, "Inadequate Personnel Security Investigations Pose National Security Risks," October 27, 1999, stated that DSS investigations were inadequate and required that they be brought up to standard. As a result of the report, in December 1999, DISCO case analysts began to perform a second quality review of the clean cases prior to issuing the Letter of Consent. The DISCO case analysts were trained in the DoD Personnel Security

Basic Adjudication Course. The second quality review resulted in the clearance being issued because the case was clean, the case being returned to the PIC for further investigation because the investigation was incomplete, or the case being referred to DOHA for adjudication because derogatory information was found.

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
  Director, Special Programs
Assistant Secretary of Defense (Command, Control, Communications, and Intelligence)
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  Chief, Central Adjudication Facility
  Inspector General, Defense Intelligence Agency
Director, Defense Security Service
  Inspector General, Defense Security Service
  Director, Defense Industrial Security Clearance Office
Director, National Security Agency
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House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform
House Permanent Select Committee on Intelligence

Assistant Secretary of Defense (Command, Control, Communications, and Intelligence) Comments

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
6000 DEFENSE PENTAGON
WASHINGTON, DC 20301-6000

COMMAND, CONTROL, COMMUNICATIONS, AND INTELLIGENCE

January 31, 2001

MEMORANDUM FOR DIRECTOR, ACQUISITION MANAGEMENT SERVICES, DODIG

SUBJECT: Audit Report on DoD Adjudication of Contractor Security Clearances Granted by the Defense Security Service (Project No. D1999AD-0079.02) (Formerly Project No. 9AD-0046.02)

This is in response to your memorandum of December 22, 2000, subject as above, in which you requested comments on the report's finding and recommendation. The issue of clean case screening of contractor investigations by case analysts is not a new issue in DoD and has been under review and discussion with the Defense Security Service (DSS) and the Defense Office of Hearings and Appeals (DOHA) for the past year. These results of this review, in part, were captured in the November 21, 2000 memorandum, referred to in your report, from the ASD(C3I) to the USD(Comptroller). This memo supported the necessity for a professional adjudicative review of all contractor investigations and directed DSS to conduct a study to determine the resources necessary to accomplish that end.

The following comments address each of the recommendations contained in the report:

We recommend that the Director, DSS, immediately stop granting contractor security clearances unless the cases have been reviewed by a trained adjudicator.

C3I: Concur. Since all contractor clearance cases are currently being reviewed at the Defense Industrial Security Clearance Office (DISCO) by trained adjudicative personnel before a security clearance is granted, it is argued that the situation has been temporarily rectified pending the DSS study in PBD 434 to identify additional adjudicative resources necessary to ensure timely and professional clearance review. This arrangement should remain in place pending the completion of the study and the acquisition of the necessary resources and not returned to case analysts to resume clean case screening.

We recommend that the ASD(C3I):

Standardize the contractor, the military and the civilian security clearance process in compliance with Executive Order 12968, "Access to Classified Information August 4, 1995, by requiring all clearances to be granted by appropriately trained adjudicators either at DOHA and the seven other central adjudication facilities or by case analysts at the Personnel Investigations Center.

C3I: Partially concur. The DoD adjudication process is already standardized in accordance with EO 12968, especially with respect to military and civilian personnel. It is agreed that all contractor investigations, "clean" or otherwise, be adjudicated by qualified adjudicative

personnel. If this recommendation is suggesting that an alternative would be for the case analysts to also clean screen military and civilian personnel, in addition to contractors, then that would not be acceptable nor practical. Once the appropriate additional adjudicative resources for DISCO have been identified and procured, then the contractor clearance program will be entirely consistent with the other DoD CAFs.

Establish the minimum training and experience requirements for the personnel who are granting security clearances.

C3I: Concur. This requirement will be included in the revision to DoD 5200.2-R by September 2001.

Establish continuing education standards and a program to allow the development and certification of professional adjudicators.

C3I: Concur. This recommendation will be reviewed for implementation with the Security Policy Board's Adjudicator Training Working Group, the DSS Academy, and the newly created Joint Security Training Consortium. Since the DSS Academy will be taking over the Advanced Adjudicator Course, currently being administered by the Office of Personnel Management, in October 2001, we will be working closely with them and others to design an appropriate training doctrine to ensure that all DoD adjudicators have the opportunity to continuously update and refine their knowledge base in this area. It is anticipated that this recommendation would be accomplished by September 2001.

I trust this is responsive to your tasking. If you have any questions, please contact Mr. Peter Nelson, 703-697-3969 (Peter.Nelson@osd.mil).

Richard F. Williams

Richard F. Williams, CPP
Director of Security

Defense Security Service Comments

DEFENSE SECURITY SERVICE
P. O. BOX 46060
BALTIMORE, MARYLAND 21240-6060

JAN 23 2001

MEMORANDUM FOR ACTING INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on DoD Adjudication of Contractor Security Clearances Granted by the Defense Security Service (Project No. D1999AD-0079.02) (Formerly Project No. 9AD-0046.02)

This memorandum sets forth our comments on the finding and applicable recommendations in subject report.

We concur that appropriately trained adjudicators have not always been used for granting DoD contractor clearances when the derogatory information did not rise above a certain threshold (clean cases). It should be pointed out, however, that in cases where there was serious or potentially disqualifying information, the cases were referred to the Defense Office of Hearings and Appeals (DOHA). Beginning December 1999, case analysts at DISCO have been performing a second review of all clean cases. The DISCO analysts performing this review are all trained adjudicators. They have completed the DoD Personnel Security Adjudications Correspondence Course and have received on-the-job training. In addition, these analysts will attend the DoD Personnel Adjudications Course March 6-16, 2001.

We concur that DoD has not defined the requirements for an appropriately trained adjudicator and believe that the DoD Personnel Security Adjudications Correspondence Course and the DoD Personnel Adjudications Course, should be the baseline requirement for adjudicators.

As pointed out in the audit report, DSS has requested that DOHA perform all contractor adjudications. As it is unknown as this point whether this function will actually transfer to DOHA, we are assuming that clean case screening will remain a responsibility of DSS for some time to come. PBD 434, issued late CY00, directed that clean screening be conducted by DISCO case analysts and, in addition, that DISCO assume responsibility for trustworthiness determinations for contractors. The PBD recognized the need for additional resources and directed DSS to do a comprehensive study of the number of FTEs that will be required to do clean case screening and trustworthiness determinations for contractors for inclusion in the FY03 POM. Currently, the resources to conduct clean screening are being taken "out of hide," impacting DISCO's capability to perform their core mission.

Audit Report Recommendation 1: We recommend that the Director, Defense Security Service, immediately stop granting contractor security clearances unless the cases have been reviewed by a trained adjudicator.

We nonconcur that DSS should immediately stop granting contractor security clearances. There are no resources elsewhere to take on this function and, accordingly, there would be an unacceptable impact on contract performance by industry resulting from further delay in clearance issuance. Absent a definition of the training requirements to the contrary, we believe that the DISCO case analysts currently performing this function have received sufficient training to date and are trained adjudicators; therefore, there is not an unacceptable risk to national security. All DISCO analysts who perform the second review will have completed the DoD Personnel Security Adjudicators Course in the first half of March 01. Should ASD (C3I) develop a minimum training requirement which goes beyond the two courses identified in our recommendation in paragraph 3 above, we will develop a plan to ensure the additional necessary training is provided.

Please contact Ms. Suzanne Jackson, Inspector General, at 703/325-5318, should you have any questions.

CHARLES J. CUNNINGHAM JR.
Director

Audit Team Members

The Acquisition Management Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personnel of the Office of the Inspector, DoD, who contributed to the report are listed below.

Thomas F. Gimble
Mary L. Ugone
Robert K. West
Lois A. Therrien
Sheri D. Dillard
Mary A. Hoover
Setranique T. Clawson
Eric G. Fisher