



NATIONAL RECONNAISSANCE OFFICE

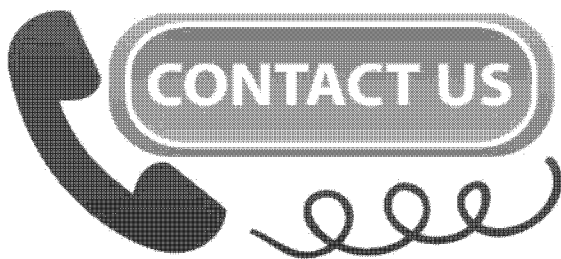
OFFICE OF INSPECTOR GENERAL

## (U) SEMIANNUAL REPORT TO THE CONGRESS

1 April 2018 - 30 September 2018  
31 October 2018

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**Office of Inspector General**

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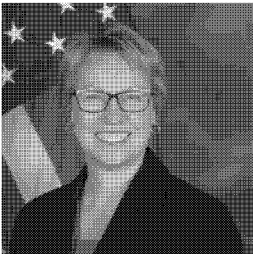
**Anonymous Hotlink**

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**Email:**

(secure)  
nro\_oig@nro.mil (unclassified)

Procurement Fraud • Counterfeit Parts • Unethical Behavior • Conflict of Interest  
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**(U) MESSAGE FROM THE INSPECTOR GENERAL**

31 October 2018

(U) On behalf of the National Reconnaissance Office (NRO) Office of Inspector General (OIG), I am pleased to submit this report highlighting the OIG's activities for the period 1 April – 30 September 2018. The activities described in this report exemplify our commitment to improving the efficiency and effectiveness of the NRO programs and operations.

~~(S//TK//REL TO USA, FVEY)~~ The OIG issued nine reports and continued its work on another eight projects during this reporting period. The work covered a wide range of issues including risk management and ground station operations. For example, the OIG evaluated NRO's Supply Chain Risk Management Program, Insider Threat Program, and TEMPEST Program and conducted reviews on Aerospace Data Facility (ADF) East, ADF Southwest, [redacted]

(U) In addition to its core mission work—promoting economy, efficiency, and effectiveness, as well as preventing and detecting fraud, waste and abuse, in the administration of NRO programs and operations—the OIG continued its outreach and transparency activities. I participated in multiple forums across the Inspector General Community and federal government, the Audits Division co-hosted an Intelligence Community (IC) Information Technology Auditors' Summit with great success, and the Inspections Division hosted a special running of the *SIGINT Schoolhouse* for IC OIG and oversight personnel, with more than 100 attendees. The OIG also posted a redacted copy of our most recent semiannual report to the Council of the Inspectors General on Integrity and Efficiency's oversight.gov webpage.

(U) As is always the case, we enjoyed a collaborative relationship with Director Sapp and with NRO's leadership and workforce. Director Sapp continues to require that NRO components brief her on open OIG recommendations at Program Status Reviews, and NRO managers are actively engaged in addressing open recommendations and implementing corrective actions. The OIG did not experience any issues related to accessing NRO records or personnel.

(U) In June, we selected [redacted] to serve as our Assistant Inspector General (AIG) for Inspections. She comes to us on a Joint Duty Rotation from the Office of the Director of National Intelligence where she led the Human Capital team. We are very excited and fortunate to have [redacted] as our AIG for Inspections. I would also like to welcome Mr. Michael Atkinson, the new Inspector General of the Intelligence Community (IC IG). Michael visited the NRO in June, met OIG and NRO leadership, and received the NRO Mission Overview Briefing. We look forward to working with Michael and applaud his efforts to reinvigorate the IC IG Forum.

(U) I very much appreciate the cooperation and support of the Congress and its staff as we continue to effect positive change at the NRO. As always, I would like to thank the dedicated and professional NRO OIG staff for their continued hard work and commitment to providing effective oversight of NRO programs and operations.

Susan S. Gibson  
Inspector General

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## (U) SEMIANNUAL REPORT HIGHLIGHTS AND ACCOMPLISHMENTS


(U) During this reporting period, the National Reconnaissance Office (NRO) Office of Inspector General (OIG) focused its oversight efforts and resources to address management challenges and issues of greatest risk to the NRO. Specifically, the OIG performed work on 17 projects, 9 of which were completed and 8 are ongoing. The projects derive from mandated requirements or the OIG annual work plan; respond to alleged violations of law, regulation, or policy; or evaluate emerging issues. The OIG's efforts enhanced the economy, efficiency, and effectiveness of NRO programs; assisted in detecting and preventing fraud and abuse; and supported the NRO mission.

### (U) RISK MANAGEMENT FOR THE NRO

(U//~~FOUO~~) The OIG continued to focus its efforts and resources on the issue of risk management at the NRO. Four of the nine completed projects, two audits and two inspections, addressed aspects of risk management. Further, the Investigations Division conducted numerous cases that identified security and/or other risk-related issues involving NRO systems and operations. Those audit and inspection projects and investigations include the following:

- (U//~~FOUO~~) The **Audit of Supply Chain Risk Management (SCRM)** evaluated whether NRO SCRM procedures are designed and implemented to ensure the integrity of the NRO supply chain. The OIG found that the NRO designed and implemented its SCRM procedures to enhance the NRO's ability to identify and investigate supply chain risk for its Major Systems Acquisitions. The OIG found some opportunities for the NRO to enhance its SCRM efforts to

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- (U//~~FOUO~~) The **Audit of NRO's Insider Threat Program** evaluated whether the NRO has an established program that complies with federal requirements and is positioned to prevent, detect, and deter these types of threats to its mission. The audit identified deficiencies the NRO should address to improve the Insider Threat Program strategic, organizational, and programmatic elements.
  - (U//~~FOUO~~) The **Inspection of the NRO's TEMPEST Program** assessed the NRO's execution of National, Intelligence Community (IC), Department of Defense (DoD), and NRO TEMPEST requirements to protect any unintentional electronic emanations from interception or exploitation. The OIG identified deficiencies within the NRO's TEMPEST Program that hinder the NRO's ability to review the TEMPEST posture of all NRO accredited facilities.

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- (U//~~FOUO~~) The Investigations Division supported a joint operation with Homeland Security Investigations and the Defense Criminal Investigations Service in the seizure of a website belonging to PRB Logics. The company owner is charged in a 30-count federal indictment, which alleges that he acquired outdated, used, and/or discarded integrated circuits from Chinese suppliers that had been repainted and remarked with counterfeit logos.

#### (U) CONTINUED OUTREACH AND EDUCATION

(U) The OIG recognizes the importance of increased outreach efforts as it promotes the accessibility of the OIG staff to the workforce, raises awareness of OIG roles and responsibilities, and promotes cooperation across the IC. The OIG led or participated in more engagement and outreach activities than it has in previous reporting periods. Our efforts ranged from outreach displays, co-hosting an IC auditors' summit, the IG's participation on various IC and Council of the Inspectors General on Integrity and Efficiency (CIGIE) panels, to IC participation in the OIG off-site. Examples include the following:

- (U//~~FOUO~~) Detecting counterfeit parts and bringing their producers to justice remains a priority for the OIG in light of the potential harm caused by this form of fraud. In May, the OIG Investigations Division presented a fraud awareness and outreach display at the Westfields



cafeteria. Special Agents used counterfeit parts and other artifacts from actual investigations to engage NRO personnel by drawing attention to the effects of fraud at the NRO. Special Agents discussed past cases and current trends, described the OIG mission, and addressed a broad range of questions from interested employees.

- (U) The NRO OIG co-hosted the second IC Information Technology (IT) Auditor Summit in September. The summit provided a conference opportunity for the IC IT auditors, inspectors, and investigators to exchange current practices and ideas for future direction of IT audit work in the IC. The schedule included presentations from the IC Chief Information Officer, NRO, and National Geospatial-Intelligence Agency (NGA) OIG personnel on the use of data analytics in support of audits and investigations, and the Central Intelligence Agency (CIA) OIG on mitigating security and counterintelligence risks in IT supply chains. Nearly 70 attendees from the IC, National Security Agency (NSA), NGA, Defense Intelligence Agency (DIA), CIA, and NRO OIGs joined in the event.
- (U) The IG had multiple engagements across the Inspector General Community, the IC, and the federal government. Some of the most notable engagements included
  - serving as a panel member at the CIGIE annual conference in May, discussing how we leverage diversity in our work;
  - participating in a panel discussion titled *Preparing for the Next 40 Years of Independent Oversight*, along with representatives from the Office of Management and Budget, the Department of Justice, and the Department of Commerce, at a CIGIE-sponsored Conference at the U.S. Capitol commemorating the 40<sup>th</sup> Anniversary of the passage of the IG Act of 1978; and
  - making a presentation on Legal Ethics, Unauthorized Disclosures, Client Confidences, and Whistleblowing with the DIA General Counsel at the IC Legal Conference in June.
- (U//~~FOUO~~) The OIG held its annual off-site in May in Charlottesville, Virginia. Representatives from six NRO Directorates and Offices, as well as NSA and DIA, provided information briefings to the OIG staff. In addition, the Director, NRO (DNRO) opened the off-site with insightful remarks on NRO successes, the challenges facing the NRO, and her thoughtful ideas on how the OIG can improve its effectiveness. Her remarks were timely and of great interest as the OIG staff entered the initial phase of the OIG Annual Work Plan and Management Challenges Report processes.

(U) The NRO OIG increased its engagement and professional education opportunities for the NRO workforce to learn more about the OIG mission. The OIG workforce also took advantage of training and educational opportunities to learn more about the NRO and IC mission.

- (U//~~FOUO~~) OIG staff used awareness events to increase interest in the NRO University's (NROU) course, "Procurement Fraud in the NRO Case Studies." The Investigations Division developed this course to educate employees on fraud awareness and indicators, with a spotlight on actual NRO criminal cases and mechanisms to report suspected fraud to the OIG. In addition to training and scheduled events offered to the NRO workforce, OIG Special Agents are available for dedicated fraud awareness events upon request at the OIG's Westfields, Denver [ ] operating locations.
- (U//~~FOUO~~) OIG Special Agents provided several days of instruction in support of the CIGIE Criminal Investigative Academy's *Contract and the Grant Fraud Training Program* in Salt Lake City, Utah. Student attendees included auditors, investigators, and attorneys from across the federal government. Topics of instruction included the source selection process, contract administration, and sources of contract information available when auditing or investigating contract issues.
- (U//~~FOUO~~) OIG Investigations Division personnel assigned to the [ ] Field Office participated in several training courses provided by NROU at the Aerospace Corporation facility in El Segundo, California. This NROU "roadshow" is of immense value to OIG agents in [ ] who have a limited number of in-person training opportunities at their field location.
- (U//~~FOUO~~) OIG Inspections Division coordinated a special one-day presentation of the NRO's SIGINT Schoolhouse for over 100 senior IC and DoD IG, General Counsel, and Compliance staff to provide a strong foundational knowledge of NRO space systems used to support customers across the Department of Defense and IC organizations.

#### (U) SUCCESSFUL CLOSURE OF OIG RECOMMENDATIONS

(U//~~FOUO~~) The DNRO proactive initiatives of adding the status of OIG recommendations to the [ ] an NRO management tool to identify the status of top focus items, and to Program Status Reviews (PSR) has aided the OIG in closing recommendations in a timely manner. As a result of the DNRO's efforts, recommendation closures have increased significantly. Specifically, the OIG closed 343 recommendations in Fiscal Year (FY) 2018 as compared to closing 213 recommendations in FY 2017. The Directorates and Offices (Ds and Os) focused efforts toward resolving longstanding and new open recommendations strengthens the NRO's ability to effectively and efficiently execute its mission.

**(U) SIGNIFICANT FINDINGS AND RECOMMENDATIONS**

(U) The *Inspector General Act of 1978*, as amended, requires OIGs to report on agencies' significant deficiencies found during the reporting period, and on significant recommendations for corrective action to address those deficiencies. It also requires OIGs to report each significant recommendation described in previous semiannual reports for which corrective action is not complete.

**(U) SIGNIFICANT FINDINGS AND RECOMMENDATIONS FOR THE CURRENT REPORTING PERIOD**

(U//~~FOUO~~) While the OIG issued nine reports during this semiannual reporting period, only one report, the *Audit of the Insider Threat Program*,

**(U) STATUS OF PRIOR SIGNIFICANT RECOMMENDATIONS**

(U) In its prior semiannual reports, the OIG reported a number of significant findings and recommendations. The status of these prior recommendations is shown in **Table 1**.

**(U) TABLE 1: STATUS OF PRIOR SIGNIFICANT RECOMMENDATIONS**

**(U) SUMMARY OF COMPLETED AND ONGOING PROJECTS****(U) COMPLETED PROJECTS – OVERVIEW**

(U) **Table 2** identifies the completed projects for this semiannual reporting period. Following the table are short descriptions of the conclusions and recommendations made for each project.

**(U) TABLE 2: COMPLETED PROJECTS – 1 April - 30 September 2018**

(U) Title	(U) Date Completed
(U) Audit of NRO Insider Threat	18 April 2018
(U) Evaluation of National Reconnaissance Office Fiscal Year 2017 Improper Payment Compliance	7 May 2018
(U) Inspection of the Aerospace Data Facility East (ADF-E)	10 May 2018
(U) Audit of National Reconnaissance Office Supply Chain Risk Management	19 June 2018
(U) Audit of Management Oversight of Federally Funded Research and Development Centers throughout the National Reconnaissance Office	6 July 2018
(U) National Reconnaissance Office (NRO) Geospatial-Intelligence (GEOINT) – Financials Statement on Standards for Attestation on Engagements No. 18 Service Organization Controls Report for the Period 1 July 2017 to 30 June 2018	8 August 2018
(U// <del>FOUO</del> ) Inspection of the National Reconnaissance Office's TEMPEST Program	27 August 2018
(U) Inspection of NRO's Launch Capabilities at NRO Vandenberg	30 September 2018
	30 September 2018

Table is ~~S//TK/REL TO USA, FVEY~~

**(U) COMPLETED PROJECTS – CONCLUSIONS AND RECOMMENDATIONS****(U) Audit of the National Reconnaissance Office Insider Threat Program.**

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**(U) Evaluation of National Reconnaissance Office Fiscal Year 2017 Improper Payment Compliance.**

(U) The *Improper Payment Information Act of 2002*, as amended by the *Improper Payments Elimination and Recovery Act of 2010* and the *Improper Payments Elimination and Recovery Improvement Act of 2012*, establishes agency requirements regarding improper payments and requires OIGs to determine whether the agency is in compliance each FY. The OIG conducted an evaluation and determined that the NRO complied with all applicable requirements and identified areas that would strengthen future improper payment reporting and risk assessment survey methodology and documentation.

(U) The OIG made four recommendations to the Director, Business Plans and Operations Directorate (D/BPO), and Director, Office of Contracts (D/OC). Since the OIG issued the report, the D/BPO and the D/OC have issued guidance on the appropriate procedures for the processing of rejected invoices, and the OIG closed the associated recommendation.

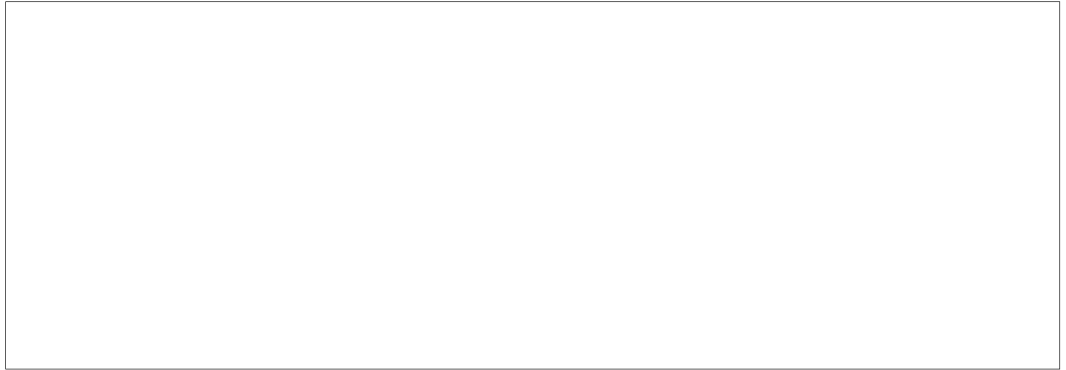
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**(U) Inspection of the Aerospace Data Facility East.**

(U//~~FOUO~~) The NRO OIG conducted an inspection of the Aerospace Data Facility East (ADF-E). The OIG conducts inspections of the Mission Ground Stations (MGSs) [REDACTED] the OIG issued its final report from the last inspection of ADF-E on 11 February 2014.

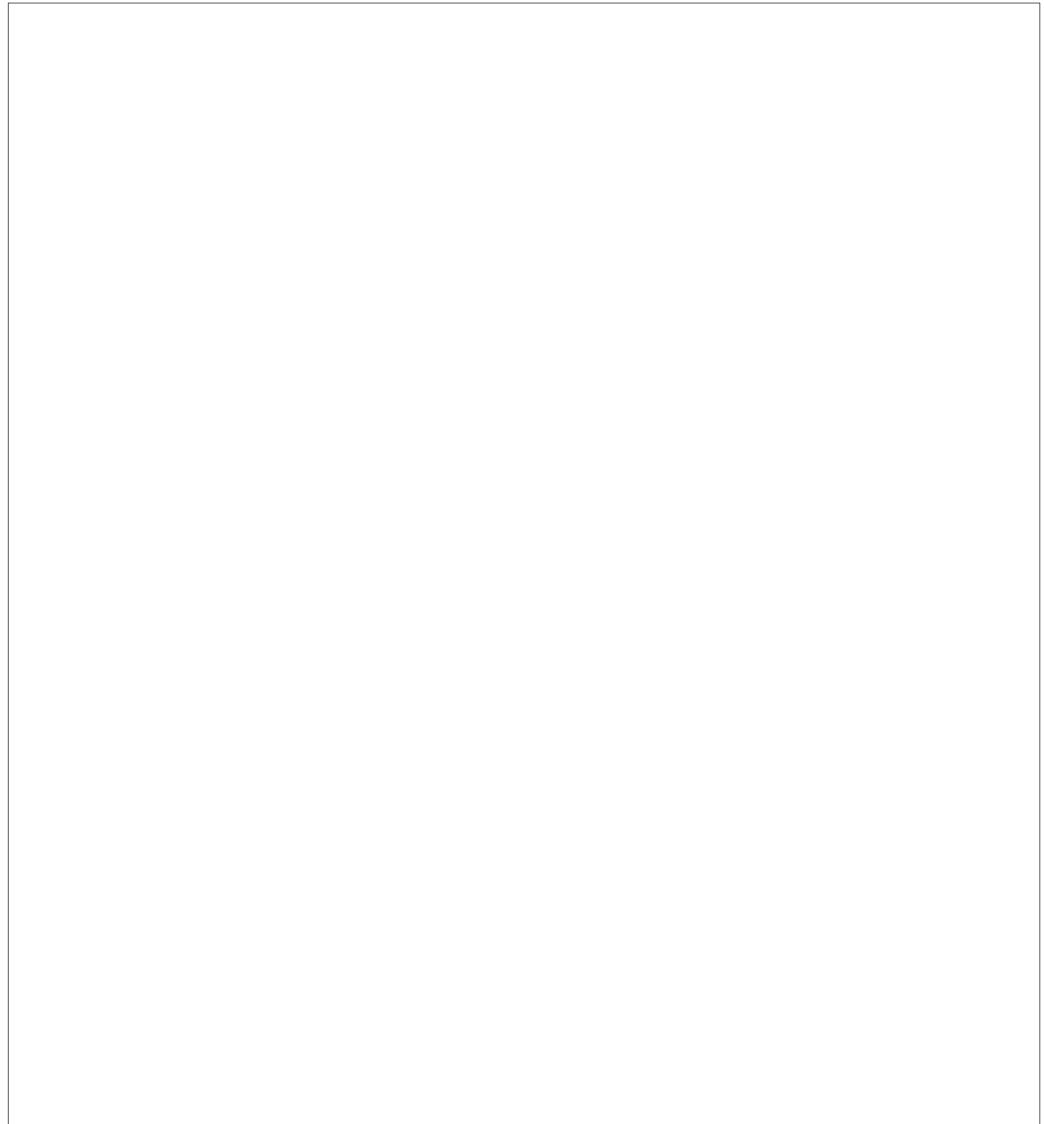
(U//~~FOUO~~) The objective of the inspection was to evaluate the effectiveness and efficiency of the ADF-E in performing its mission. The focus of the inspection included the following areas: Command Topics, Mission Systems and Engineering, Information Technology and Systems, Security, Intelligence Oversight, and Resource Programs.

~~(S//REL TO USA, FVEY)~~ The OIG commended the ADF-E personnel for their efforts and dedication to mission success in support of national security requirements. While the OIG commended the Site for its commitment and dedication, the inspection team found some challenges and areas needing improvement. Inspectors identified the following issues:



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**(U) Audit of National Reconnaissance Office Supply Chain Risk Management.**



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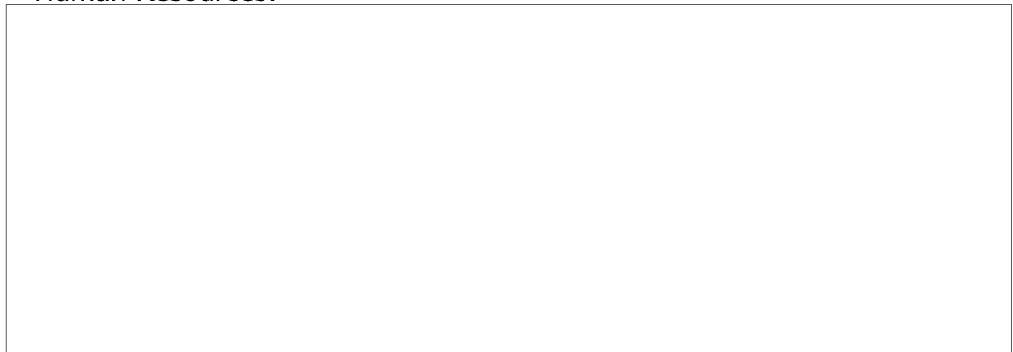
**(U) Audit of Management Oversight of Federally Funded Research and Development Centers throughout the National Reconnaissance Office.**

(U//~~FOUO~~) Each year, the NRO spends over [ ] on sole-sourced contracts to acquire support from DoD Federally Funded Research and Development Centers (FFRDCs). The HPSCI recommended that the NRO OIG conduct a follow-up review to assess the effectiveness of NRO management's actions in response to prior OIG recommendations regarding FFRDCs. The objective of this audit was to determine whether the NRO implemented additional management oversight controls of FFRDCs based on the findings and recommendations of prior audits.

(U//~~FOUO~~) The OIG determined that the NRO established additional management oversight controls for use of FFRDCs based on the findings and recommendations of the prior audits. The NRO also implemented a number of corporate changes to FFRDC oversight such as increasing awareness of the requirements for FFRDC use by issuing policy and through limited training to portions of the government workforce. In addition, the NRO pursued direct contracting options for one of its FFRDCs. While this progress is commendable, the OIG found areas for further improvement. For example,



(U) The OIG made the following three recommendations. The first two recommendations are to the Director, Business Plans and Operations Directorate and the third recommendation is to the Director, Office of Human Resources:



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**(U//~~FOUO~~) National Reconnaissance Office Geospatial-Intelligence-Financials Statement on Standards for Attestation on Engagements No. 18 Service Organization Controls Report for the Period 1 July 2017 to 30 June 2018.**

(U//~~FOUO~~) On 8 August 2018, the OIG issued the FY 2018 NRO GEOINT-Financials (GEO-F) Statement on Standards for Attestation on Engagements (SSAE) No. 18 Service Organization Controls Examination



Final Report and Management Letter completed by the Independent Public Accounting (IPA) firm Kearney and Company (Kearney). As a service organization, the NRO is a service provider to the NGA for supporting the NGA's general ledger accounting. The NRO services are likely to be relevant to the NGA's internal control over financial reporting. The SSAE objective was to report on the fairness of the presentation of NRO management's description of the GEO-F application and the suitability of the design and operating effectiveness of the controls to achieve the related control objectives included in the description.

(U//~~FOUO~~) Kearney issued an unqualified opinion (meaning the control objectives tested were designed and operating effectively, as described by NRO management) on the controls surrounding the GEO-F application and its hosting environment. The OIG issued four Notifications of Findings and Recommendation (NFRs) to address deficiencies in

(U) NRO concurred with the NFRs, and the IPA will assess NRO progress as part of the FY 2019 SSAE effort.

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**(U//~~FOUO~~) Inspection of the National Reconnaissance Office's TEMPEST Program.**

~~(S//TK//NF)~~ The OIG conducted an inspection of the NRO's TEMPEST Program to assess the NRO's execution of National, IC, DoD, and NRO TEMPEST requirements to protect any unintentional electronic emanations from interception or exploitation.

~~(S//TK//NF)~~ Overall, the OIG identified deficiencies that hinder the NRO's effective execution, as well as long-term sustainability, of the TEMPEST Program.

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**(U) Inspection of NRO's Launch Capabilities at NRO Vandenberg.**

(U//~~FOUO~~) The OIG conducted an Inspection of NRO's Launch Capabilities at NRO Vandenberg (NROV) to evaluate NROV's ability to efficiently and effectively prepare for and successfully launch NRO satellites now and in the future. During pre-inspection activities, the OIG

conducted testing of NROV's facilities, security processes, support equipment, and mission operations, including launch support processes.

(U//~~FOUO~~) The OIG noted no deficiencies in the selected areas reviewed. Based on the pre-inspection results, the OIG made a risk-based assessment that further inspection activities were not warranted.

Notwithstanding, [REDACTED]

[REDACTED]

(U//~~FOUO~~) The OIG provided a consideration that the NRO should thoroughly assess the need for, and associated requirements of [REDACTED]

[REDACTED]

**(U) ONGOING PROJECTS – OVERVIEW**

(U) **Table 3** identifies the ongoing projects for this semiannual reporting period. Following the table are short descriptions of the objectives for each project.

**(U) TABLE 3: ONGOING PROJECTS – 1 April – 30 September 2018**

(U) Title	(U) Date Initiated
(U) Inspection of the National Reconnaissance Office's Workplace Violence Prevention Program	11 January 2018
(U) Inspection of the National Reconnaissance Office's	26 January 2018
(U) Office of Inspector General 2018 Federal Information Security Modernization Act of 2014 Evaluation	15 February 2018
(U) Inspection of the Aerospace Data Facility Southwest	28 February 2018
(U) Audit of FY 2018 Financial Statements	19 March 2018
(U) Audit of NRO Source Selection Activities	21 May 2018
(U) Audit of National Reconnaissance Office Management of Industrial Security Control Systems Security Controls	6 June 2018
(U) National Reconnaissance Office Joint Operations Transformation	19 September 2018

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**(U) ONGOING PROJECTS – OBJECTIVES**

**(U) Inspection of the National Reconnaissance Office's Workplace Violence Prevention Program.** Objective: Evaluate the efficiency and effectiveness of the NRO's Workplace Violence Prevention Program, compliance with NRO Directive 100-14, *Workplace Violence Prevention Program*, and benchmark with other federal agencies to identify potential best practices.

**(U) Inspection of the National Reconnaissance Office's**

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**(U) Office of Inspector General 2018 Federal Information Security Modernization Act of 2014 Evaluation.** Objective: Provide an independent assessment of the effectiveness of the NRO information security program and practices, in accordance with Federal Information Security Modernization Act (FISMA) and associated implementation guidance, and follow up on findings and recommendations from the prior years' FISMA Reports.

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**(U) Inspection of the Aerospace Data Facility Southwest.** Objective: Evaluate the effectiveness and efficiency of the Aerospace Data Facility Southwest in performing its mission, focusing on Command Topics, Mission Systems and Engineering, Information Technology and Systems, Security, Intelligence Oversight, and Resource Programs.

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**(U) Office of Inspector General Audit of the National Reconnaissance Office Fiscal Year 2018 Financial Statements.** Objective: Determine whether the financial statements and related notes are presented fairly in all material respects, in accordance with guidance issued by the Federal Accounting Standards Advisory Board, Office of Management and Budget, and other authoritative guidance. The auditors will also review internal controls and compliance with laws and regulations and follow up on the status of prior-year audit findings.

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**(U) Audit of National Reconnaissance Office Source Selection Activities.** Objective: Determine whether NRO source selection activities contain effective cost evaluations to enable contract execution within the awarded contract cost.

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**(U) Audit of National Reconnaissance Office Management of Industrial Control Systems Security Controls.** Objective: Conduct an assessment of NRO ICS physical and IT controls across the facilities enterprise to determine the extent of ICS security controls in place to reduce the risk posture and minimize protection gaps.

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**(U) National Reconnaissance Office Joint Operations Transformation.** Objective: Evaluate whether the Joint Operations Transformation is promoting effective and efficient standard enterprise processes.

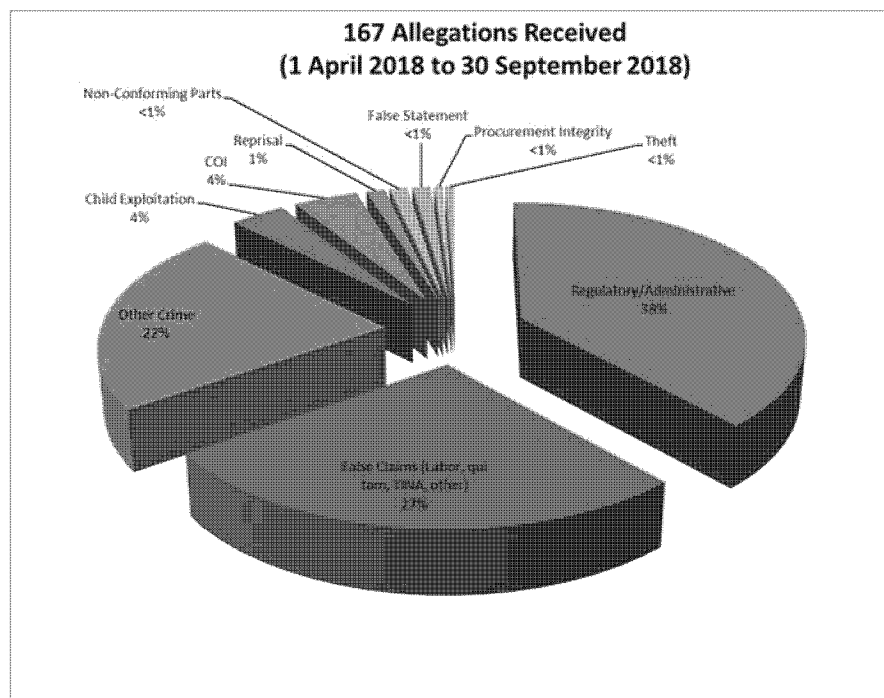
**(U) INVESTIGATIONS**

(U) The OIG Investigations Division conducts criminal, civil, and administrative investigations into alleged violations of federal laws, regulations, and policies involving NRO funds, operations, and programs. It also investigates allegations of whistleblower retaliation in accordance with appropriate statutes and Presidential Policy Directive - 19.

(U) All investigative records and information, starting with complaint intake through the final report, along with the full disposition of each referred case, are maintained using the Investigations Division's Case Management and Tracking System (CMTS). The data in this section is derived from all relevant records in CMTS covering the reporting period of 1 April – 30 September 2018.

(U//~~FOUO~~) The Investigations Division responded to 167 allegations this reporting period. The range of allegations included, but were not limited to, aspects of fraud and other varied allegations of wrongdoing within NRO programs. This period saw an increase in the "Other Crimes" category.\* This increase was due, in part, to the number of cases referred to external law enforcement agencies where the allegation involved NRO personnel exclusive of their actions on NRO programs. **Figure 1** illustrates the types and percentages of these cases opened during this reporting period.

**(U) FIGURE 1: SUMMARY OF ALLEGATIONS RECEIVED BY THE NRO OIG INVESTIGATIONS DIVISION**



\*(U) "Other Crimes" includes a broad category of alleged criminal wrongdoing reported to the OIG. Allegations that do not fall into the category of fraud, waste, and abuse affecting NRO programs are referred to the appropriate investigative agency. Other crimes subject to investigation by the OIG may include, but are not limited to, wire fraud, counterfeit and forgery of official documents, private conversion of NRO resources, or deliberate damage to NRO property.

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**(U) REPORTS OF INVESTIGATION**

(U) During this reporting period, the Investigations Division produced 21 Reports of Investigation and identified more than \$8.35 million due back to the NRO or the United States Treasury. The OIG provides all Reports of Investigation to OS&CI for security consideration and action as appropriate. **Table 4** illustrates the additional details of these cases.

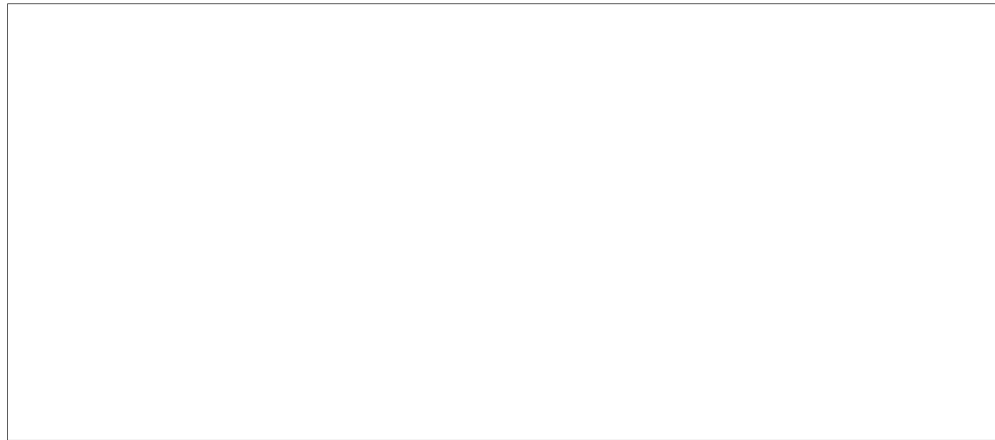
**(U) Table 4: Summary of Referrals and Indictments**

<b>(U) Item</b>	<b>(U) Number</b>
Total Reports	21
Referrals to Federal Prosecutor	20
Referrals to State Prosecutor	0
Indictments	2

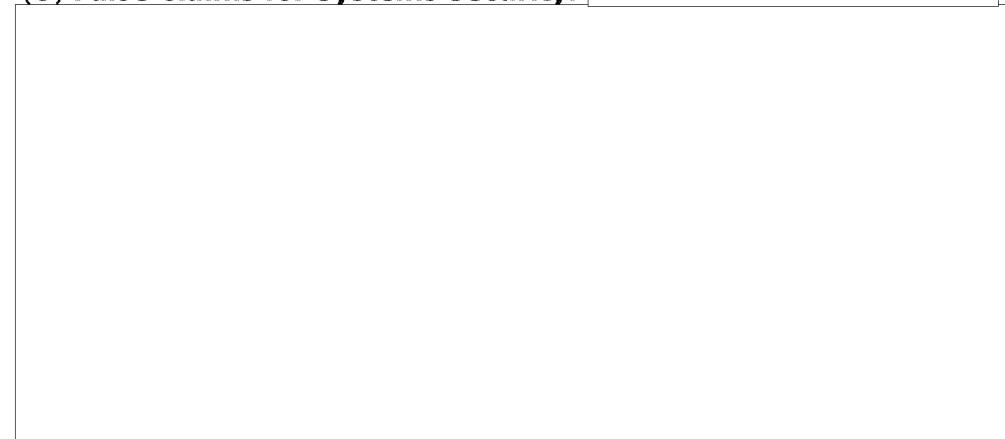
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**(U) SELECTED INVESTIGATION SUMMARIES**

(U) **False Claims for labor.** The Investigations Division completed 15 investigations of False Claims. Of these cases, 12 involved NRO contractor employees mischarging their time and were pursuant to *18 U.S.C. § 287*. In total, these investigations identified approximately \$332,000 in funds recoverable to the NRO or the United States Treasury. The United States Attorney's Office (USAO) declined prosecution for each of these cases in favor of an administrative settlement. The OIG referred each case to the NRO Office of Contracts for administrative action within the terms of any affected contracts, including financial restitution and suspension and debarment. The Office of Contracts addressed the recovery of funds and removal of contractor personnel as appropriate in each case, but the OIG did not receive any notices from the Office of Contracts regarding suspension or debarment actions during this reporting period.



(U) **False Claims for Systems Security.** [redacted]



(U) **Procurement Integrity and Conflicts of Interest.** The OIG completed two related investigations involving a GS-15 NRO manager and a GS-14 NRO contracts officer using their respective positions to provide competitive advantage to [redacted] (Company A) during a competitive acquisition valued at approximately [redacted]. The manager provided Company A with acquisition-sensitive information upon request, which allowed Company A to plan in advance of its competitors regarding the pending notice of an upcoming acquisition. The manager also accepted gifts in the form of food and hospitality from Company A [redacted] which is prohibited under Title 5 of the Code of Federal Regulations. The contracts officer engaged in several actions to give Company A competitive advantage over rival contractors in the same acquisition. Like [redacted], the contracts officer provided Company A with acquisition-sensitive information, including expected fees and appropriate profit margins, in advance of any public announcement.

(U) The USAO declined interest in prosecuting the government officers with the understanding that the NRO stopped the acquisition from taking place. Both officers are pending disciplinary action by the NRO.

(U) **Kickbacks.** In coordination with the Defense Criminal Investigative Service and the Air Force Office of Special Investigations (AF/OSI), the

OIG completed its investigation of a contractor's employees receiving gifts from a subcontractor to potentially influence future contracts, as well as allegations of inflated labor rates by the subcontractor in violation of *41 U. S. C. § 8701-8706, Kickbacks*, and *31 U.S.C. § 3729*, respectively. The joint investigation revealed that the employees received lavish gifts from the subcontractor in the form of various goods and services, and that two affected contracts were priced \$31,706 in total, above comparable General Services Administrative rates. In its settlement agreement with the USAO, the company agreed to pay a fine of \$100,000. The subcontractor and three of its employees were submitted for suspension and debarment by the Air Force General Counsel's Office for Contractor Responsibility.

(U) **Defective Pricing.** The OIG and the AF/OSI completed a joint investigation involving allegations of defective pricing by a contractor for a certain category of labor applied to the cost of procuring materials associated with launch services provided to both the NRO and the Air Force over the span of several years. The investigation found that the company used a labor rate estimating model resulting in inflated costs billed to the government. This case was brought forward to the government under the 31 U.S.C § 372, *Civil False Claims Act*. As a result of the civil settlement with Department of Justice, the company agreed to pay \$432,826 to the government to account for the inflated labor costs.

#### (U) OTHER INVESTIGATIVE ACTIVITIES

(U) **Non-Conforming Parts.** On 1 May 2018, a joint investigation involving the NRO OIG Investigations Division, the Defense Criminal Investigative Service, and the Department of Homeland Security, Immigration and Customs Enforcement/Homeland Security Investigation resulted in the arrest of Rogelio Vasquez, the owner of PRB Logic, a seller of electronic components based in California. The arrest followed Mr. Vasquez's indictment for the manufacturing and distribution of counterfeit integrated circuits, some of which could have been used in national security applications. Subsequent to his arrest, the USAO acted to seize the company website and replace its homepage with a warning banner (Figure 2).



**(U) FIGURE 2. COMPANY WEBSITE REPLACED WITH WARNING BANNER**

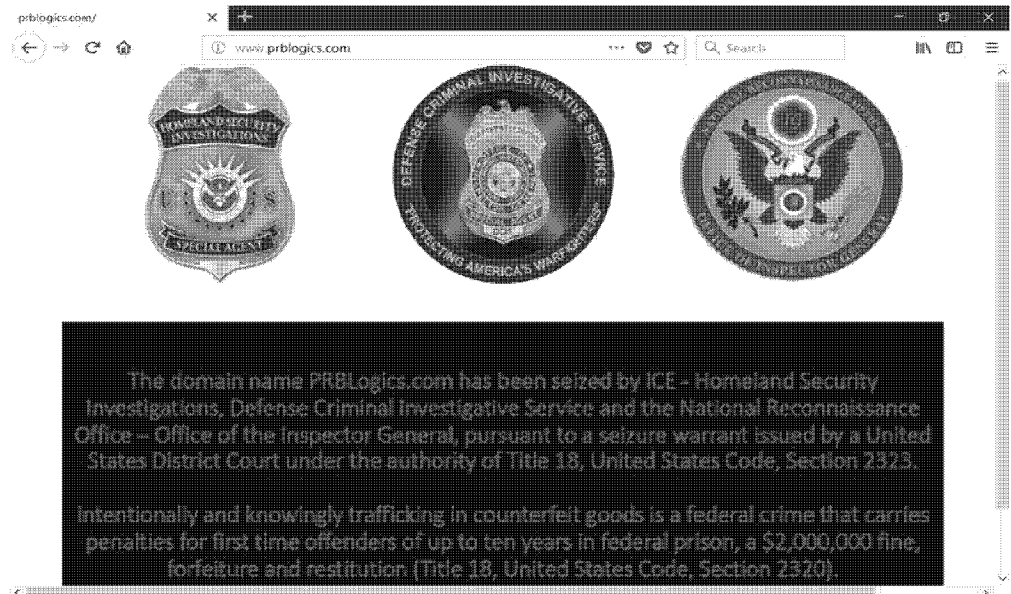


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(U) This case remains open pending further investigation, to include examining any implications for NRO programs, and final action by the USAO. A summary report will be forthcoming once all actions are complete.

**(U) POTENTIAL MONETARY BENEFITS**

(U) The following tables identify potential monetary benefits resulting from the NRO OIG's audits, inspections, and reviews, as required by the *Inspector General Act of 1978*, as amended (IG Act).

**(U) Table 5: Summary of Questioned Costs**

Reports with Recommendations that Include Questioned Costs*	Number of Reports	Dollar Value
For which no management decision was made by 1 April 2018	0	N/A
That were issued between 1 April and 30 September 2018	0	N/A
Disallowed costs for which a management decision was made between 1 April and 30 September 2018	0	N/A
Costs not disallowed for which a management decision was made between 1 April and 30 September 2018	0	N/A
For which no management decision was made by 30 September 2018	0	N/A

\*(U) According to the IG Act, the term "questioned cost" means a cost that is questioned by the OIG because of (a) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (b) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (c) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

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**(U) Table 6: Summary of Better Use of Funds**

Reports with Recommendations that Funds Be Put to Better Use*	Number of Reports	Dollar Value
For which no management decision was made by 1 April 2018	0	N/A
That were issued between 1 April and 30 September 2018	1	\$3.8 Million**
For which a management decision was made—and the dollar value of recommendations was agreed to by management—between 1 April and 30 September 2018	0	N/A
For which a management decision was made—and the dollar value of recommendations was not agreed to by management—between 1 April and 30 September 2018	0	N/A
For which no management decision was made by 30 September 2018	0	N/A

\*(U) According to the IG Act, the term "recommendations that funds be put to better use" means a recommendation by the OIG that funds could be used more efficiently if management took actions to implement and complete the recommendation, including (a) reductions in outlays; (b) de-obligation of funds from programs or operations; (c) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (d) costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor, or grantee; (e) avoidance of unnecessary expenditures noted in pre-award reviews of contract or grant agreements; or (f) any other savings that are specifically identified.

\*\*~~(U//FOUO)~~ The dollar value relates to the number of FFRDC Staff Year of Technical Effort (STE) that the NRO BPO Resource Management team reallocated in FY2018, multiplied by the average cost per STE from the FY 2018 Congressional Budget Justification Book.

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**(U) REVIEW OF LEGISLATION AND REGULATIONS**

(U) The *Inspector General Act of 1978*, as amended, requires federal agency OIGs to review existing and proposed legislation and regulations relating to their agencies' programs and operations. Based on these reviews, the OIGs are required to make recommendations in their semiannual reports concerning the effect of the legislation and regulations on (1) the economy and efficiency of programs and operations of their agencies and (2) the prevention and detection of fraud and abuse in programs and operations of their agencies.

(U) The NRO OIG conducts such reviews and provides comments and recommendations to Congress, when warranted, through a variety of means including reports and coordination with the CIGIE, the Council of Counsels chaired by the Office of the Inspector General of the Intelligence Community, as well as through other efforts. For example, during this reporting period, the NRO OIG reviewed the National Defense Authorization Act and other legislation that may affect the operations of the NRO and/or the NRO OIG. The OIG also engaged with the Council of Counsels and the IC IG Forum Whistleblower Working Group to develop best practices in complying with the requirements of PPD-19 and Section 11 of the IG Act of 1978, as amended, and addressed proposed standards of review in execution of PPD-29, part C. Further, the OIG worked with other IC element OIGs in developing a legislative proposal to amend the current Annual Report requirement set forth in Section 8H(g) of the IG Act.

**(U) FINANCIAL SYSTEMS COMPLIANCE**

(U) As required by the *Inspector General Act of 1978*, as amended, this Semiannual Report provides information regarding the NRO's compliance with the requirements of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Specifically, the FFMIA requires organizations to implement and maintain financial management systems that are substantially in compliance with federal accounting standards and with federal financial management systems requirements.

(U) For FY 2018, the NRO OIG engaged Kearney to audit the NRO's financial systems for compliance with applicable laws and standards as part of its *Audit of the National Reconnaissance Office Fiscal Year 2018 Financial Statements*. Kearney is currently performing this audit for the NRO; it should provide updated information on the extent to which NRO financial systems comply with applicable standards and requirements. The OIG expects Kearney to publish the FY 2018 financial statement audit report in November 2018.

## (U) PEER REVIEWS

(U) The *Inspector General Act of 1978*, as amended, requires that OIGs report on peer reviews conducted during this semiannual reporting period. The purpose of a peer review is to determine whether an organization's system of quality control is suitably designed and whether its staff is effectively implementing those quality controls and conforming to applicable professional standards. Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States require that audit organizations performing audits, attestation engagements, or both, and undergo a peer review at least once every three years by reviewers independent of the audit organization to determine whether an appropriate internal quality control system is in place. Similarly, the *CIGIE Guide for Conducting Peer Reviews of Inspection and Evaluation Organizations of Federal Offices of Inspector General* (January 2017), provides standards for conducting peer reviews of Inspections Divisions within the IG community.

### (U) PEER REVIEW OF THE NRO OFFICE OF INSPECTOR GENERAL

(U) No peer reviews of the NRO OIG were conducted during this reporting period.

### (U) PEER REVIEW OF OTHER AGENCIES' INSPECTORS GENERAL

(U) The OIG continues to support colleagues across the IC by participating in peer reviews. The methodology for these peer reviews is directed by CIGIE and is designed to ensure IG colleagues throughout the IC adhere to the professional standards required by the *Inspector General Reform Act of 2008*.

(U) The OIG participated in the DIA OIG-led external peer review of the NSA OIG Audits Division. The NSA OIG Audit systems of quality control were functioning as designed, and NSA received a "pass."

**(U) INDEPENDENCE**

(U) The *Inspector General Act of 1978*, as amended, established Offices of Inspector General to create organizationally independent and objective units to support agency oversight, effectiveness, and accountability. To assist the OIGs in maintaining independence, CIGIE developed Quality Standards for Federal Offices of Inspector General, and the Government Accountability Office (GAO) established guidance for evaluating and ensuring the statutory independence for each OIG organization as well as the independence of individual staff members. In accordance with the CIGIE and GAO guidance on maintaining independence, the OIG has established significant controls to ensure that its staff members are "free both in fact and appearance from personal, external, and organizational impairments to independence."

(U//~~FOUO~~) The NRO OIG encountered no threats to its independence during this semiannual reporting period. The OIG continues to maintain its independence while working cooperatively with NRO senior leadership, staff, and contractor personnel to carry out its oversight responsibilities.

(U) One key to the OIG's effectiveness is the cooperation and collaborative working relationship it holds with the NRO leadership and staff. The Director, NRO, the NRO leadership team, and staff continue to be forthcoming with information and access to records and other documentation the OIG needs to carry out its mission. In addition, the NRO leadership is actively engaged in addressing open recommendations and implementing corrective actions.

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**(U) APPENDIX A: SEMIANNUAL REPORTING REQUIREMENTS**

(U) The National Reconnaissance Office (NRO) Office of Inspector General (OIG) conducts audits, inspections, investigations, and special reviews in accordance with the requirements of *Inspector General Act of 1978*, as amended. Those requirements include promoting economy, efficiency, and effectiveness; detecting and preventing fraud and abuse; and supporting the mission of the NRO. The Act also establishes semiannual reporting requirements that highlight activities and significant issues that arise during the reporting period that may be of interest to Congress. **Table A1** identifies the semiannual reporting requirements and the location of the corresponding information in this report.

**(U) TABLE A1: SEMIANNUAL REPORTING REQUIREMENTS**

(U) Reporting Requirement		(U) Page
SEC 4(a)(2)	<u>Legislation and regulation review</u>	21
SEC 5(a)(1-2)	<u>Significant problems, abuses, and deficiencies; recommendations for corrective action</u>	5
SEC 5(a)(3)	<u>Prior significant recommendations not yet implemented</u>	6
SEC 5(a)(4)	<u>Matters referred to authorities resulting in prosecutions and convictions</u>	16
SEC 5(a)(5)	Summary of refusals to provide information	None
SEC 5(a)(6-7)	<u>List and summary of reports issued during the reporting period</u>	7
SEC 5(a)(8-9)	<u>Tables showing questioned costs and funds that should be put to better use</u>	20
SEC 5(a)(10-12)	Summary of reports with no management decision; description and explanation of revised management decisions; management decisions with which Inspector General disagrees	None
SEC 5(a)(13)	<u>Financial systems' compliance with federal requirements</u>	22
SEC 5(a)(14-16)	<u>Peer review reporting</u>	23
SEC 5(a)(17-18)	<u>Tables showing numbers of investigative reports and a description of the supporting metrics</u>	16
SEC 5(a)(19)	Investigations of senior government employee misconduct	None
SEC 5(a)(20)	Descriptions of whistleblower retaliation	None
SEC 5(a)(21)	<u>OIG independence</u>	24
SEC 5(a)(22)	Descriptions of audits, inspections, evaluations, and investigations not disclosed to the public	N/A

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**(U) APPENDIX B: RECOMMENDATIONS OLDER THAN SIX MONTHS**

(U) **Table B1** summarizes all open recommendations described in previous National Reconnaissance Office (NRO) Office of Inspector General (OIG) semiannual reports for which corrective actions are not yet completed. Open recommendation details are in **Tables B2–B19**.

**(U) TABLE B1: RECOMMENDATIONS OLDER THAN SIX MONTHS**

(U) Report Title	(U) Report Date	(U) Total	(U) Open
(U) Audit of NRO Cyber Incident Detection and Response	17 December 2014	10	2
	25 March 2015	59	15
(U) Final Report Audit of the National Reconnaissance Office Management of the Silver Eagle Contract	29 September 2015	8	1
(U) Joint Inspection of Aerospace Data Facility Southwest and National Geospatial-Intelligence Agency Southwest	30 September 2015	16	3
(U) Inspection of the Mission Integration Directorate's Support to Users	29 October 2015	9	1
(U) Audit of the NRO Aerospace Data Facility Colorado Facilities Infrastructure	15 August 2016	2	1
	30 September 2016	34	9
(U) Audit of the NRO's Transition to an Enterprise Information Technology Audit Capability	6 December 2016	5	3
(U) Inspection of NRO Supervisory Control and Data Acquisition Systems (SCADA)	28 December 2016	5	3
(U) Joint Inspectors General Inspection Report Aerospace Data Facility Colorado, National Geospatial-Intelligence Agency Denver	8 February 2017	91	22
(U) Inspection of the NRO Defense Civilian Intelligence Personnel System Performance Management Process	17 February 2017	7	1
(U) Inspection of the	31 March 2017	15	5
(U) Consolidated Facilities Operations and Maintenance Performance Audit	25 July 2017	3	1
(U) Special Review of the Enterprise Procurement Contract	28 August 2017	2	1
(U) Follow-up Inspection of the NRO DoD Cadre	29 September 2017	14	4
	26 January 2018	107	45
(U) Audit of Fleet Management	14 February 2018	5	5
(U) Inspection of NRO Mission Resiliency	2 March 2018	5	5

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