
A Message from the Editor-in-Chief

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We were given authority to be independent voices for effectiveness and efficiency within Federal departments.

The next two editions of the Journal will be special editions. This issue will focus on the past work of the Inspectors General that has contributed to improved competency and efficiency in Government. The next issue will focus on the important issues facing the next presidential administration, as seen from the viewpoint of the PCIE and the ECIE.

Our approach in this issue is to examine the impact of the Inspectors General on the various programs and activities of Government. We have elected to divide the activities of Government into broad issue areas and to examine the impact in each of these areas.

The job of the Inspectors General is an unusual one. The legislation that created us was powerful and clear, as was the legislative history that surrounded its passage. We were given authority to be independent voices for effectiveness and efficiency within Federal departments. We were placed in Government agencies to give us valuable insider perspectives and an understanding of departmental operations to avoid imposing learning curves that would prevent our work from being timely or insightful.

The investigator's mission is to combat fraud and misconduct but also to prevent it. Inside Federal programs we provide a visible symbol of the rule of law and of America's insistence on clean Government. This symbol was intended to be a constant reminder to Government departments that Federal programs serve the people. Likewise, we are a visible reminder to Government managers that inaction can be as risky as tough action.

The Inspectors General inform debates great and small. We explain difficult matters and shine light in dark places. We ask hugely unpopular questions, sometimes taking arrows from both sides of combatant forces. We are intended to provide a patch of neutral ground where information vital to decisions and debates can be gathered and presented objectively.

Often we are the contrarians in Government, standing in the path of great policy initiatives whose tremendous velocities can mask jarring program flaws and unexamined questions. When we are at our best our instincts and character navigate us toward the truth regardless of political considerations. Indeed, in order to do our job we have to fully understand the politics of being apolitical. Our mission calls upon us to have the courage to illuminate unpleasant truths and insist on inconvenient acts of justice. 🏠

Introduction: The Inspector General Community

Today's civilian IGs are charged with a similar mission: detecting and preventing fraud, waste, and abuse and promoting economy, effectiveness, and efficiency so that their agencies can best serve the public.

For those readers who are not familiar with the Inspector General community, in October 1978 Congress passed the Inspector General Act to create independent audit and investigative offices within 12 Federal agencies. Before that time, most Federal audit and investigative resources were under the management of specific Federal program offices, which meant that Federal auditors and investigators were frequently under the direction of the programs they were reviewing. This splintered system made it hard for these small audit and investigative offices to see a pattern of abuse against their agencies' own programs.

The IGs serving at the cabinet-level departments and major sub-cabinet agencies are nominated by the President and confirmed by the Senate. Only the President can remove these appointees. Inspector Generals at smaller independent agencies, corporations and other Federal entities called "designated Federal entities" are appointed by their agency heads, who can also remove them from office. In either case, both houses of Congress must be notified of the reasons for removal.

History and Objectives of the OIGs

The name "Inspector General" may seem unusual for an office of civilian auditors and investigators. The modern civilian IG was derived from the military custom of having an independent "Inspector General." IGs were first used in the American military during the Revolutionary War, when General Washington charged General von Steuben with providing an independent review of the combat readiness of the Continental Army's troops. Today's civilian IGs are charged with a similar mission: detecting and preventing fraud, waste, and abuse and promoting economy, effectiveness, and efficiency so that their agencies can best serve the public.

The primary difference between IGs and other Federal officials is their independence. The Inspector General Act authorizes IGs to:

- conduct investigations and issue such reports as they believe appropriate (with limited national security and law enforcement exceptions);
- issue subpoenas for information and documents outside the agency (with same limited exceptions);
- have direct access to all records and information of the agency;
- have ready access to agency heads;
- administer oaths for taking testimony;
- hire and control their own staff and contract resources; and
- request assistance from any Federal, state, or local Government.

This statutory independence is meant to ensure the impartiality of OIG audits and investigations. OIGs frequently provide “technical advice” on a particular issue or piece of legislation to officials within their agencies and to Members of Congress. Many OIGs participate in their agencies’ senior councils, and frequently OIG staff provide advice to agency “reinvention councils.”

This edition of the Journal describes many examples of how the OIGs meet their specific statutory mission to:

- conduct and supervise audits, investigations and inspections relating to the programs and operations of the agencies;
- review existing and proposed legislation and regulations relating to the programs and operations of their agencies;
- provide leadership for activities designed to promote economy, effectiveness, and efficiency and fight fraud, waste and abuse in their agencies programs; and
- inform their agency heads and the Congress of problems in their agencies’ programs.

In performing this mission, the IGs prepare a variety of reports:

Audit Reports—OIG audits evaluate the performance of agency programs and supporting administrative and financial systems as well as compliance with relevant laws and regulations. Audit reports note whether there are ways that funds could be put to better use and whether contractors and/or grantees have met their responsibilities to the Government. Finally these reports highlight whether people or firms doing business or receiving benefits from the Government have received funds to which they are not entitled and should make restitution. By law, OIG audits are performed under auditing standards set by the General Accounting Office (GAO).

Inspection Reports—Inspections are similar to policy and program evaluations. Several of the OIGs have adopted inspections as a quick way to spot test the effectiveness of their agency programs or to do a broad review on issues affecting agency programs. The PCIE and ECIE have adopted professional standards to ensure the validity and independence of OIG inspections.

Investigation Reports—In accordance with professional standards and guidelines established by the Department of Justice (DOJ), OIGs perform investigations of both criminal and administrative wrongdoing against agency programs. When they deem necessary, IGs investigate outside beneficiaries, contractors or grantees, or Federal officials—indeed, IGs are empowered to investigate anyone who may have defrauded their agencies’ programs. IGs are required to report suspected violations of criminal law directly to the Attorney General and frequently work cooperatively with DOJ on criminal investigations.

Semiannual Reports to Congress—these reports are specifically required by the Inspector General Act. IGs must summarize their most significant accomplishments, recent reports and management’s actions on significant IG recommendations. These reports provide a useful overview of OIG activity and demonstrate the value each IG contributes.

Cumulative Achievements

Over the past 22 years, the Inspector General concept has proven to be of significant benefit to the Government. The IG concept gradually has been expanded to most of the Federal Government because of these successes. In fiscal year 1999, there were 57 Offices of Inspector General providing oversight to 59 Federal agencies

Each year billions of dollars are returned to the Federal Government based on recommendations from IG reports. Since 1991, the Inspectors General have collectively achieved the following: \$106 billion dollars have been recovered or put to better use (these are funds that could be used more efficiently if management of an establishment took actions to implement and complete the recommendation); 122,774 successful

prosecutions; 47,351 sanctions against contractors (debarments and suspensions); over \$13 billion obtained in investigative recoveries; and over 19,000 personnel actions.¹

This edition of the Journal is devoted to summaries of some of the more significant results of OIG audits, inspections, and investigations since 1978. The examples provided are grouped accordingly:

- Entitlements
- Grants and Loans
- Contracts and Acquisitions
- Health Safety
- Safety and the Environment
- Information Technology, Planning and Investment
- Financial Management and Asset Protection
- Security, Information Technology and Facilities
- Revenue Protection
- Government Integrity and Operations
- Partnering

Within this context we present this issue of the *Journal of Public Inquiry*. It is a compilation of research and statistics provided by the various offices of the Inspectors General regarding their work and impact. Any opinions expressed do not represent the opinions or policies of the United States or any Department or Agency of the United States Government. 🏛️

¹These figures are estimates based on the available cumulative summary information obtained from PCIE and ECIE annual and semiannual reports dating back to 1981. The ECIE was not created until Fiscal Year 1992; thus it did not start reporting cumulative statistics until then.

ENTITLEMENTS

The sheer size of entitlement programs makes them particularly vulnerable to fraud and abuse: out of a nearly \$1.8 trillion in the fiscal year 2000 federal budget, about half is directed to entitlements, either mandatory or means-tested. Entitlements flow from such large and varied programs as social security, Medicare, and Medicaid to veterans' benefits, workers' compensation programs, unemployment insurance, national flood insurance, and assistance to farmers. The Inspectors General are especially keen on ensuring that entitlement recipients receive what they deserve, all the while verifying that programs are run efficiently and without fraud. Offices of Inspector General (OIG) must be concerned both with ensuring programs are run efficiently and effectively and with thwarting outright fraud.

Paper or Plastic?

Entitlements reflect the diversity of roles that Federal agencies play in serving the nation. It is the programs providing entitlements for food that are among the largest and most visible to the general public. For instance, U.S. Department of Agriculture (USDA) is responsible for the Food Stamp Program (FSP). As such, USDA OIG is heavily involved in combating food stamp fraud. USDA OIG also monitors the use of the Electronic Benefits Transfer (EBT) system for food stamps. About two-thirds of all FSP benefits are now being issued via EBT cards, as opposed to paper food stamps.

Ensuring that EBT is implemented effectively throughout the country has major implications for numerous entitlement programs whose futures are paved with plastic rather than paper. At least a dozen Federal and state benefit programs could use EBT to replace paper delivery systems. These include food assistance programs under USDA and cash benefit programs under the Departments of Defense, Education, Health and Human Services, Labor, and Veterans Affairs as well as the Office of Personnel Management, the Railroad Retirement Board and the Social Security Administration.

While EBT is still subject to fraud and misuse, its implementation has put a damper on illegal activities because it provides a record of transactions. A case in New York City shows how large food stamp fraud involving paper coupons can become. A complex USDA OIG investigation over the past several years uncovered \$63 million in food stamps fraudulently redeemed by 46 defendants connected to 20 stores authorized to participate in the FSP. Another food stamp case culminated in the capture by an USDA OIG special agent of the leader of a nationwide-armed robbery ring.

Matching Records Nabs Felons

In allowing food stamps to be used to track fugitive felons, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Welfare Reform Act) has been a boon for law enforcement. Now law enforcement agencies' felony fugitive files can be matched with social service agencies' food stamp recipient records, thus facilitating the location and apprehension of fugitives who may also be illegally receiving benefits.

The Social Security Administration (SSA) OIG employed the Welfare Reform Act to institute a similar program for fugitives receiving Supplemental Security Income (SSI) payments for which they are ineligible. The Fugitive Felon Project led to the arrest of 1,586 fugitives in FY 1999. Overpayments of \$17.2 million were identified with a total of \$27 million in estimated savings. In addition, SSA OIG has extended its work into prisons to uncover and recommend ways to save millions of dollars in faulty Social Security and SSI payments to prisoners.

Moreover, SSA OIG served on the federal/state Illegal Income Investigation Task Force, which thwarted an individual who was assisting others to fraudulently obtain SSI and state welfare benefits. His misdirected efforts resulted in seven years' incarceration with three years probation as well as the payment of \$370,000 restitution, a \$12,500 fine, and a special assessment of \$1,600. This multi-agency task force won the coveted Hammer Award in 1998 for its efforts.

Protecting Children's Benefits

Taking from children—even in the form of paper entitlements—is looked upon unkindly by society. With Operation "Kiddie Care," USDA OIG has addressed the criminal

practice of bogus claims in the Child and Adult Care Food Program (CACFP). This national Presidential initiative has been highly successful in identifying, removing, and prosecuting unscrupulous CACFP sponsoring organizations, such as the one that created a nonexistent home on a vacant lot in order to apply for and receive benefits. As of FY 1999, 20 sponsoring organizations receiving approximately \$42.3 million annually in food and administrative funds have been terminated from CACFP. Thirty-six individuals have pled guilty or were convicted, 32 of whom have been sentenced for their illegal activities. The president and assistant of a day care operation in Michigan were among those convicted. They were found guilty of fraud, embezzlement, conspiracy, and money laundering related to defrauding CACFP of an estimated \$17 million between 1989 and 1993. The jury also awarded forfeiture of more than \$1.1 million in cash and three properties. The president was recently sentenced to nine years in prison and ordered to pay more than \$13.5 million in restitution and a \$10 million fine.

In another effort to ensure that children are receiving their entitlements, the Department of Health and Human Services' (HHS) OIG helped develop "Project Save Our Children" to investigate interstate violations of child support obligations. A series of Federal/state task forces has overcome previous coordination problems and a high volume of cases with low priority to achieve more than 200 criminal convictions with restitution ordered in excess of \$5.3 million. As the success of the task forces continues, it is believed that this approach to investigating such cases will be the standard.

Better Medicine through Auditing

Making sure that veterans receive their entitlements is vital. The Civilian Health and Medical Program of the Department of Veterans Affairs (CHAMPVA) was

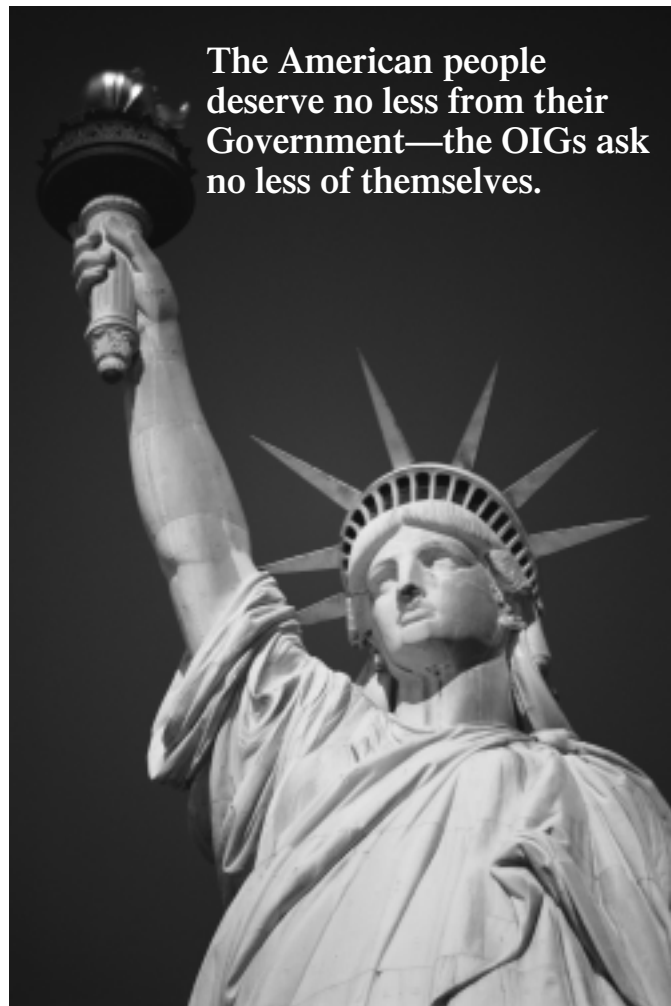
established to provide health care benefits for the dependents of totally and permanently disabled veterans and survivors of veterans who died from service-connected disabilities. VA OIG has performed several audits over the years to improve CHAMPVA. A 1996 review identified 203 duplicate payments, totaling \$191,000, and 22 ineligible beneficiaries, totaling \$33,000. VA OIG also advised management regarding prospective use of Medicare reimbursement rates for CHAMPVA claims.

Based on 1994 claims processed, the use of Medicare rates could reduce program costs by more than 10 percent. In addition, CHAMPVA management initiated action to convert to a Medicare-based rate system.

Scrutiny of Medicare itself is the business of HHS OIG. Many of the nation's insurance companies, through inadvertence, inaction, or manipulation, have caused Medicare to pay millions of dollars in claims as primary insurer, even though primary payment responsibility lay elsewhere. The result has been significant and continual overpayments by Medicare. HHS OIG has made continuous contributions toward understanding the vulnerabilities in Medicare Second Payer (MSP) program management, having completed approximately 40 separate audits and evaluations concerning MSP since 1984. After much congressional testimony and resulting legislative remedies, the Medicare

program has or will save approximately \$14.5 billion.

Audit work has also looked into Medicaid. State Medicaid agencies are required to establish payments to hospitals that serve a disproportionate number of Medicaid and other low-income patients with special needs. A series of HHS OIG audits disclosed abuses in the ways states used tax and donation programs to establish and make disproportionate share hospital (DSH) payments. These abuses generated massive amounts of inappropriate Federal matching funds. Prompted by the findings, Congress passed two key pieces of remedial legislation that saved taxpayers \$12.55 billion.



A Helping Hand

Another important program to help people bridge the gap to better living is Unemployment Insurance (UI). Internal controls to prevent and detect overpayments of UI benefits have been a longstanding concern of the Department of Labor (DOL) OIG. Since the early 1980s, the agency has conducted audits to examine the effectiveness of techniques used by the state employment security agencies to ensure claimants receive only those benefits to which they are entitled. A recent audit identified an overpayment detection and prevention tool that is potentially more effective than the current method—the Welfare Reform Act requires employers to report new hires within 20 days after their hiring date, thus enabling states to better identify individuals who are working and at the same time receiving unauthorized benefits.

Disability payments also help to bridge an income gap—but they are not intended as a fraudulent income supplement. The Railroad Retirement Board OIG was vigilant in cracking down on an individual who was receiving an occupational disability annuity from RRB while working full-time and earning around \$50,000 per year. RRB OIG calculated overpayment of approximately \$190,000 in disability annuity benefits.

In another case, a professional employee was accused of filing false statements in order to obtain benefits under the Federal Employees Compensation Act (FECA). With cooperation from DOL OIG, the National Labor Relations Board OIG determined that the person had submitted false information from 1987 to 1995 concerning both alleged disability and self-employment status and earnings. Improper disability compensation of nearly \$187,000 was identified, the employee was forced to retire, and the case has been referred to a U.S. attorney to recover the funds.

The Tennessee Valley Authority (TVA) OIG, from the mid-1980s to the beginning of FY 1999, has closed more than 500 cases related to Office of Workers' Compensation Programs (OWCP) fraud. As a result of TVA OIG investigations, benefits were reduced or terminated for 132 individuals, creating projected long-term savings to TVA of more than \$66.6 million, and 36 individuals were convicted of charges related to making fraudulent statements to receive FECA benefits. Recoveries, including OWCP-declared overpayments, civil settlement agreements, and restitution, totaled over \$6.6 million.

VA OIG has also reviewed the FECA program for VA, applying a three-step approach: a comprehensive national audit; a joint audit/investigative fraud detection effort; and the development of a case management and fraud targeting protocol for future use by VA managers. These efforts have identified dozens of potentially fraudulent workers' compensations claims and yielded hundreds of millions of dollars in savings and cost avoidance; fraud awareness was enhanced throughout VA with a protocol package for network oversight, a handbook for facility-level oversight, a pamphlet for employees, and a web site.

Risky Business

The Government sometimes must step in where others are reluctant to tread, specifically with certain types of insurance. Prompted by the civil unrest of the 1960s, the Federal Crime Insurance Program (FCIP) was established in 1970 to provide burglary and robbery coverage to businesses, homeowners, and tenants through the Federal Government in states where such insurance was unavailable and unaffordable. At its peak in 1980, there were over 83,000 active policies. An audit by the Federal Emergency Management Agency (FEMA) pointed out that, by 1994, participation had dropped greatly, bringing into question whether FCIP addressed a valid need that still could not be effectively served by the states and/or commercial market. Subsequent to FEMA's audit, Congress did not reauthorize FCIP.

Another FEMA audit found problems with the 1988 Upton-Jones Amendment to the National Flood Insurance Act of 1968. The amendment did not accomplish its primary goal to encourage homeowners to relocate their houses, while insurance risks and costs increased. After completion of the audit, Congress repealed the Upton-Jones amendment.

No Respite for the Inspectors General

The preceding examples highlight only a sampling of accomplishments by OIGs in terms of ensuring that entitlements are delivered effectively, efficiently, and fairly. The American people deserve no less from their Government—the OIGs ask no less of themselves. 🏠

GRANTS AND LOANS

As Federal departments and agencies are increasingly called upon to “do more with less,” agency management and staff, the Congress, and the American taxpayer look to the Federal inspectors general to ensure the efficient use of Government dollars. One of the areas of Government operations that inspectors general are responsible for overseeing in their respective departments and agencies is the management and administration of grants and loans. In addition to the mandates of the Inspector General Act, in March 1987, the President directed all affected agencies to issue a grant management common rule to adopt government-wide terms and conditions for grants to states and local governments. The Office of Management and Budget, in an effort to “establish consistency and uniformity among federal agencies in the management of grants and cooperative agreements with local, state, and federally-recognized Indian tribal governments,” has provided Federal agencies with the necessary guidance on grant management.

Since the passage of the IG Act of 1978, the Inspectors General have accomplished much in their efforts to ensure that grants and loans made and administered by their departments and agencies are received by qualified individuals and entities, that the grants and loans are monitored as necessary, and that funds are used for their intended purpose. IG efforts have resulted in indictments, convictions, sentences, restitution, and savings to the Government, along with actions by Department and Agency officials to improve the grant and loan management process. Some of these accomplishments are highlighted below.

Inappropriate Approval of Disaster Loan Uncovered

An OIG audit of the Small Business Administration’s (SBA) disaster home loan approvals revealed that the loans were inappropriately approved. SBA’s disaster loans are long-term, low-interest loans provided to homeowners, businesses, and renters to compensate for losses not covered by private insurance in disaster losses. Using statistical sampling, the OIG estimated that 7,811 disaster home loans were approved for about \$175 million, although documentation in the files did not demonstrate that applicants met repayment ability, creditworthiness, or other eligibility criteria. Borrower cancellations reduced loan disbursements to \$114 million, of which OIG estimated \$14 million would be charged off due to borrower non-payments. The liquidation and charge-off rate for inappropriately approved loans was higher than the rate for loans approved in accordance with SBA policies and procedures. Another OIG audit of the defaulted Northridge earthquake loans showed that some loan recipients had cash flow or credit problems at origination, which ultimately caused the failures. The OIG projected that 2,316 loans totaling \$90.1 million had problems at the time of origination that contributed significantly to the defaults.

As a result of the audit, SBA management took actions to reduce errors made at loan origination. The loan officer’s report has been automated, eliminating many errors. In addition, annual quality assurance reviews have been initiated for each of the disaster area offices, a standardized training manual for new loan officers is being developed, and a modified form of credit scoring has been adopted.

Pell Grant Program Scam Uncovered

As the result of an investigation involving the Department of Education’s Pell Grant Program and other Federal subsidy programs, conducted by the Social Security Administration and Department of Education OIGs and other Federal agencies, four individuals were sentenced for their roles in a conspiracy to defraud, embezzle, launder money, commit tax, wire and mail fraud, and make false statements in the theft of over \$32 million in Pell grant monies and monies from other Federal subsidy programs. The defendants used dummy corporations, obtained money for nonexistent people, filed fraudulent documents to qualify people for grants and/or subsidies, and transferred money through more than 100 bank accounts. They also used false names and social security numbers on the bank accounts. At the sentencing for the four defendants, the total amount of restitution ordered was in excess of \$32 million, with prison sentences ranging from 30 to 78 months.

Investigations of Fraud in Home Loan Program Yield Millions in Recoveries

One of the most significant accomplishments of the Department of Veterans Affairs (VA) OIG has been the work conducted in the Department's Home Loan Guaranty Program. The problem of fraud in connection with the VA Guaranteed Home Loan Program plagued the VA for years. In the 1970's, the Federal Government experienced significant monetary losses due to widespread abuse of various mortgage insurance programs, one of which was VA's. The IG Act of 1978 resulted in an increased scrutiny of the VA Loan Guaranty Program and several efforts were undertaken to determine where fraud existed, and if it did, to address it with a systematic attack that would lead to prosecution of the individuals involved.

In the early 1980's, a proactive investigation entitled "Project Sable" (sellers, appraisers, buyers, lenders, and entitles) was initiated jointly with the FBI and the Department of Housing and Urban Development (HUD) OIG. As part of the investigation, an analysis of foreclosure rates on VA loans was conducted. In what led to one of the first prosecutions resulting from this project, audit analysis indicated suspicious patterns and high foreclosure rates on VA and HUD loans in Puerto Rico. Extensive investigative efforts resulted in the conviction of 10 individuals on numerous counts of false statesmen's, forgery, perjury, and conspiracy. In addition, five corporations involved in the Loan Guaranty Program were suspended from both VA and HUD programs and thousands of dollars in restitution, fines, and penalties were collected.

In 1983, inquiries and audit analysis identified a high rate of defaults and foreclosures involving real estates firms and mortgage companies in Camden and Willingboro, New Jersey. Again, investigative efforts led to numerous indictments and convictions of individuals involved in fraud against the Government and unsuspect-

ing veterans. In this investigation, four principals of a real estates company, in what a Federal prosecutor described as the largest single family real estates equity skimming case ever tried in the United States, were convicted of real estates fraud involving 343 homes worth over \$41 million. In addition to losses suffered by the Government when it pays off a guaranty and by the veteran who is the victim

of fraud, loan origination fraud and single family equity skimming can also have a substantial impact on the local economy. The City Manager of Willingboro, in a letter provided to investigating agencies, detailed the positive economic impact OIG investigative efforts had on the town after these perpetrators of fraud had been stopped.

As a result of these experiences, along with other cases of abuse, the OIG developed methods for profiling market segments of the country where similar fraudulent activities were believed to be occurring. A two-fold approach was used to combat fraud, i.e., education of employees involved in the loan process to identify indicators and patterns of fraud, and concentrated investigative efforts in cases where patterns were found. Over the next several years, hundreds of investigative cases were initiated. These cases led to over 500 judi-

cial actions with sentences totaling 275 years in prison and 615 years probation. Fines, penalties, and restitutions were in the millions.

Review of Guaranteed Loans Saves Government Over \$20 Million

Between 1986 and 1992, the Department of Commerce OIG audited lenders' requests for payment on 31 guaranteed loans before disbursement. In more than 80 percent of these cases, the OIG determined that the lender had not administered the loan in accordance with the terms and conditions of its agreement with the Federal Government.



Primarily as a result of this audit work, the Department's Economic Development Administration (EDA) and International Trade Administration terminated 16 guaranty agreements and sought recovery of payments on three others. This OIG audit work, supported by EDA and the Department's Legal Counsel, saved the Federal Government about \$20.5 million. In addition, the Department renegotiated other guaranteed loans based on OIG audit work, reducing EDA's potential liability by some \$6.8 million.

Improvements in Grants Management Capability

The Federal Emergency Management Agency (FEMA) disburses millions of dollars to states each year in disaster recovery grants and annual disaster preparedness grants. Therefore, an effective grants management structure is essential. However, several significant OIG reviews have demonstrated that FEMA has not had a grant management structure sufficient to ensure the stewardship of Federal funds. For example, in the 1993 report on FEMA's response to Hurricane Andrew, the OIG noted that procedures used to account for funds did not provide adequate controls over the funds. Financial data was not used by managers because it was located in at least four different tracking systems, and program managers had difficulty determining how much had been spent for each program. In addition, FEMA's budget system did not permit identification of fund allocations by object class, so funds allocated for one grant program were being used for another.

In the 1995 report on FEMA's Disaster Relief Fund, the OIG again pointed out that FEMA did not have an adequate grants management system to ensure that funds were used properly. Shortcomings were identified in the pre-award process, cash management, monitoring, and the grant closeout process.

The OIG issued a similar report in 1998 on FEMA's grantee compliance with selected grant management

requirements. The audit disclosed that eight of nine grantees did not make required cost-share payments or made them late, or improperly computed the value of in-kind contributions used to satisfy the cost-share requirements. The same eight grantees drew down almost \$10 million in Federal funds in excess of immediate needs and retained them for extended periods, and did not properly record, report, collect, or return overpayments.

A series of three OIG reports in 1994, 1995, and 1996 identified grants management problems with FEMA's non-disaster annual grants to states for emergency preparedness. FEMA restricted states' flexibility to use funds in areas of greatest need by providing funds through 17 separate grants, did not monitor states' emergency management capability, and did not ensure accountability for the funds.

As a result of OIG recommendations contained in these reports and a concerted effort by FEMA's Office of Financial Management, FEMA has come a long way toward building effective grants management capability. The Chief Financial Officer initiated a grants management improvement study in 1997, and the process for managing disaster grants is being reengineered. Improved policy guidance is being developed to clarify and standardize procedures, financial accountability and cash management is being stressed, training and credentialing are being implemented for grant managers, and the grant closeout process is receiving additional emphasis and staffing. In regard to the non-disaster annual preparedness grants to states, FEMA has consolidated most of the 17 individual grants into a single grant and increased states' flexibility to distribute funds where they are needed most. FEMA is implementing the Emergency Management Planning Grant concept, which will further consolidate grants and should streamline the application process, financial reporting, and progress reporting. In addition, FEMA is developing guidelines for states to use in assessing hazard risks, improve performance measures and accountability for the use of grant funds, and improve its ability to measure states' emergency management capability. 🏠

CONTRACTS AND ACQUISITIONS

The Federal Government purchases billions of dollars of goods and services every year. It is a varied and complex process that encompasses the procurement of items from aircraft carriers to pencils and paperclips. Further complicating the process is the dynamic nature of the contracting environment. Continual efforts are being made by Congress as well as within the Executive Branch to reform the contracting process thereby creating new rules and requirements. The very size and complexity of the acquisition process creates many opportunities for abuse.

Investigations of Procurement Fraud

It is essential to have an effective investigative capability within the Federal Government to address procurement fraud. Fraudulent activities may include bribery, kickbacks, product substitution, thefts, and false statements. Corruption within the acquisition process undermines public confidence, creates additional costs to the Government and, in cases involving product substitution, can jeopardize the health and safety of individuals who use the item being procured. As demonstrated by the following examples, Federal Inspectors General have established a record of vigorous and effective investigations in the area of procurement fraud.

Highway Construction Fraud

The Department of Transportation (DOT) Inspector General began investigations of highway construction fraud and bid rigging in early 1979. The investigations, which eventually spread to 27 states, uncovered that highway construction firms and asphalt companies bidding on highway construction projects were agreeing to prices before bids were unsealed. The investigations concluded with more than 700 indictments, conviction of 270 individuals and 290 corporations, \$51.6 million in fines, 87 years of incarceration and 114 years of probation.

Nonconforming Parts

An investigation by the Defense Criminal Investigative Service, the criminal investigative arm of the Department of Defense OIG, disclosed that a Defense contractor had been manufacturing capacitors in the Dominican Republic in violation of contract specifications. Additionally, the investigation found that company officers directed employees to not report test failures, to falsify test data, not to perform required tests and to conceal where the parts were manufactured and tested. In February 1996, the company agreed to pay the Department of Justice \$65,354,000 in settlement of civil claims relating to the fraudulent activity. Seven employees pled guilty to conspiracy and/or submitting false claims.

Wedtech

From 1986 through 1991, several offices of Inspector General participated in an investigation of a contractor in the Small Business Administration (SBA) Section 8(a) set-aside program designed to aid disadvantaged businesses. The Defense Criminal Investigative Service, the SBA OIG, the Federal Bureau of Investigation, the Internal Revenue Service and other Federal agencies conducted this investigation jointly.

The investigation found that representatives of Wedtech used a variety of money laundering and other financial manipulations to make illegal payments to Government officials. As an example, one scheme involved the payment of excessive consulting fees to individuals who were in a position to influence the award process. Wedtech was awarded 27 Government contracts worth over \$500 million over a six-year period. The investigation resulted in the conviction of 22 persons, including two U.S. congressmen and a former SBA regional administrator.

NASA Contract Mischarging

An investigation by The National Aeronautics and Space Administration's (NASA) Inspector General focused on the mischarging of unallowable expenses on vouchers submitted by a contractor to NASA. The majority of the mischarging came from costs associ-

ated with a restaurant. The chairman of the contracting firm passed expenses associated with the restaurant back to NASA in monthly vouchers. Other allowable expenses billed to NASA included European vacations, an apartment used by a girlfriend of one of the contractor's officers and personal living expenses of the officers.

The Chairman, Executive Vice-President and Vice-President for Administration of the Firm were convicted of making false statements and conspiracy. Each received sentences ranging from two years in prison to five years probation and fines of \$10,000 to \$100,000. A civil settlement required the contractor to repay the Government up to \$15.5 million.

Audit Oversight

Inspectors General play a key role in overseeing the acquisition process. IG audits of acquisition programs and contracting actions frequently have uncovered evidence of criminal activity that are then referred to an appropriate investigative authority. Additionally, audits have identified weaknesses in management controls that increase opportunities for fraud and decrease assurances that procurement funds will be used effectively. Recommendations and findings by Inspectors General have been utilized by both Government managers and Congress to improve program management, and to shape legislative proposals and regulatory initiatives.

DOD Spare Parts

The Department of Defense (DOD) Inspector General conducted a series of audits in the 1980's that indicated that DOD paid excessive prices for spare parts and supplies, primarily from sole source contracts. Several problems in the procurement process were identified but in particular the IG, DOD, found that contractors were not providing accurate, current and complete cost or pricing data, as required by the Truth in Negotiations Act.

The Defense Department implemented several initiatives to correct the problems which, together with passage

of the Competition in Contracting Act in 1984, were credited with reducing spare parts costs by several hundred million dollars from 1985 through 1988.

A series of audits during 1998 and 1999 reexamined the procurement of spare parts and found that the problem of excessive prices for sole source spare parts had returned. Congress and DOD had implemented various acquisition

reform initiatives that emphasized the use of commercial buying practices in Defense procurements. The audits by the DOD IG indicated that the Department had not yet learned how to establish equitable business relationships with sole source vendors for commercial parts. Contracting officers were accepting catalog prices up to several hundred times higher than prices paid under previous, cost-based contracts.

Managers took corrective actions that could reduce costs by about \$200 million in the audited areas and initiated measures to train contracting officers on commercial pricing, improve policy and coordinate previously disjointed purchasing actions. Congress, industry and defense managers relied heavily on the audit advice and acknowledged that the

acquisition reform effort needed reliable and timely feedback so that imperfections could be addressed and the intended results could be achieved.

Satellite Acquisitions

The Commerce Inspector General has worked closely with the National Oceanic and Atmospheric Administration (NOAA) over the past 12 years to improve weather satellite program operations and financial management. The Commerce IG has issued seven audit and inspections reports which have resulted in \$400 million in funds put to better use and in strengthened controls over acquisition funding.

A 1991 Commerce IG audit recommended that OMB oversee a Government-wide study to help identify opportunities for consolidating environmental satellite programs and avoid unwarranted duplication. This recommendation contributed to the decision to consolidate the Commerce and Defense polar-orbiting satellite systems in the new

CONTRACT 9501
JOHN DOE

CUSTOMER'S ORDER NO. 00096 DEPT. DOD DATE 1/13/00

NAME John Doe
ADDRESS Washington, D.C.

MADE BY Bill Wilikins

LINE	DESCRIPTION	CHECK	AMOUNT
1	Bid rigging		
2	Falsify test data		
3	Sole Source Bidding		
4	Consulting fees		
			1,002,678.18

MADE BY Ed Scott

KEEP THIS SLIP FOR REFERENCE

National Polar-Orbiting Environmental Operational Satellite System. The new system, scheduled for operation in about 10 years, is expected to save taxpayers approximately \$1.3 billion.

Inspectors General oversight of the acquisition process has resulted in significant benefits for Federal managers and Congress. Trends in Federal procurement will pose new challenges to effective oversight. The emphasis on contracting out commercial activities will expand the relationship between the Federal Government

and private business. Additionally, proposed procurement reforms could limit or repeal current controls such as the False Claims Act, the Truth in Negotiations Act and cost accounting standards. The results of IG audits and investigations will be important to both the executive and legislative branches of Government as they continue their efforts to find a balance between maintaining safeguards needed to protect the American taxpayer and finding new and creative ways to successfully harness the energies of the private sector. 🏠

HEALTH SAFETY

Public spending for health care services increased five-fold between 1980 and 1998 from about \$104.8 billion to \$522.7 billion—or almost half of the nation's \$1,149.1 trillion health care tab in 1998. During the same period, Federal spending for Medicare, Medicaid and health care programs for veterans, military personnel and Federal civilian employees grew from about \$72 billion to \$376.9 billion, or about three-quarters of all public expenditures for health care.

The rapid growth in spending has created unprecedented opportunities for fraud, waste and abuse in Federal health care programs. Inherently vulnerable because of their size and nature, Medicare, Medicaid and other Federal health care programs are inviting targets for scam artists whose only purpose is to take advantage of the taxpayer. A secondary problem is legitimate health care providers whose aggressive business practices cross over the line to fraud.

Joining Forces Against A Multi-Billion Dollar International Corporation

From offices such as the Office of Personnel Management (OPM) to DOD, the Offices of Inspectors General play an important role in safeguarding Federal health care programs from fraud, waste and abuse through coordinated audits, investigations and inspections designed to identify and correct program weaknesses.

One of the most successful efforts in the battle against health care fraud was the nationwide multi-agency investigation of National Medical Enterprises, which owned the now-defunct Psychiatric Institutes of America (PIA). Based on allegations that PIA was engaged in numerous kickback and billing schemes to defraud Federal health care programs, a multi-agency national task force was formed to investigate the allegations. Office of Inspector General agents from HHS, the U.S. Postal Service, OPM and DOD took part in the task force.

The investigation revealed that PIA allegedly paid millions of dollars in kickbacks to physicians and other health care professionals in return for patient referrals to PIA hospitals for inpatient psychiatric care. Once referred and admitted to PIA hospitals, patients were often kept until their insurance benefits for inpatient hospital care expired. This resulted in PIA fraudulently billing Medicare, Medicaid, the Civilian Health and Medical Program of the Uniformed Services and the Federal Employee Health Benefit Program for unnecessary patient days and inpatient hospital services. In addition, PIA allegedly billed for services not rendered or not medically necessary; billed for services when, in fact, no services were provided; and billed multiple times for the same service.

The investigation resulted in PIA's successor, National Medical Enterprises, settling with the Government in 1994 for a then-record \$379 million in criminal fines, civil damages and penalties for misconduct at psychiatric and substance abuse hospitals in more than 30 states. As part of the settlement agreement, National Medical Enterprises agreed to cooperate with the Government in its efforts to identify and prosecute individuals within the company who perpetrated the fraudulent criminal schemes. The National Medical Enterprises' investigation was one of the first Federal, state and local law enforcement efforts to combat health care fraud on a national level.

Diversity within the Inspector General Community

The role of most Inspectors General is diverse and dynamic. Collectively, the IGs have oversight responsibility for thousands of Federal programs, which have their own specific rules, regulations, and legislative authorities. Yet, all of the IG offices share a common goal—to eliminate fraud, waste and abuse from specific jurisdictions while making those programs more efficient and effective. The following examples serve to illustrate our varied responsibilities.

Tennessee Valley Authority (TVA): The TVA OIG audit and investigative staff completed a series of audits and an investigation concerning TVA's medical insurance plan administered by a contractor. The OIG's reviews provided direct benefits to TVA employees both through

The investigation resulted in PIA's successor, National Medical Enterprises, settling with the Government in 1994 for a then-record \$379 million in criminal fines, civil damages and penalties for misconduct at psychiatric and substance abuse hospitals in more than 30 states.

improved administration of TVA's medical insurance plan--thus reducing future costs--and through creation of a trust fund established from a negotiated settlement of \$8.37 million the administrator refunded to TVA. Working with management, the OIG identified areas of improvement for TVA's administration of the plan, particularly in closer review of the administrator's costs and compliance with contract terms.

Railroad Retirement Board: The U.S. Railroad Retirement Board (RRB)

OIG initiated an investigation of a railroad worker who claimed and received RRB Unemployment Insurance and Sickness Insurance benefits while working. Investigation determined that the employee forged documents, including a doctor's signature, and submitted them to the RRB for payment. The worker had an extensive criminal history including charges for dealing drugs and weapons violations. He had been released from prison just before filing the false claims for the \$25,000 in benefits under this program. The worker was indicted, convicted and sentenced to 12 months incarceration, three years probation, drug treatment and restitution to the RRB.

U.S. Department of Agriculture: Following a March 1997 outbreak of the hepatitis A virus that sickened 190 Michigan schoolchildren, a U.S. Department of Agriculture's OIG investigation found that a California food processing company fraudulently substituted Mexican strawberries for domestic strawberries for the Federal school-lunch program.

The company, through three brokers, had supplied 1.7 million pounds of frozen strawberries to the school-lunch program, with the brokers receiving more than \$900,000 for the strawberries. The USDA contract called for frozen strawberries that were 100 percent grown and

processed in the United States. The company's owner certified that all of the strawberries had been domestically grown and processed when in fact 99 percent of the strawberries had been grown in Mexico. The owner of the company was sentenced to ten months in prison, and the company paid more than \$1.6 million in fines and civil damages.

Department of Defense: A six-year task force investigation and prosecution determined that an organized group of Russian immigrants headed by two brothers fraudulently billed the Civilian Health and Medical Program of the Uniformed Services and numerous private pay insurance companies of an estimated \$1 billion. The brothers' scheme consisted of a criminal enterprise rivaling an international drug cartel. Patients without "fee for service" type insurance were discarded while the remaining patients' insurance companies were billed thousands of dollars each for needless and/or nonexistent medical treatment. The Government seized over 10 million records and 25 computers which disclosed that the brothers had created over 450 clinics and utilized over 500 stolen or altered tax identification numbers to prepare millions of fraudulent medical claims. It is interesting to note that during this fraud scheme, the brothers established over 150 bank accounts in the U.S. and foreign countries to launder and conceal stolen monies.

On July 3, 1991, a 175-count Federal indictment charged the brothers and other co-conspirators with multiple counts of mail fraud, false claims, money laundering and racketeering. All defendants either subsequently pleaded guilty or were found guilty following jury trials. Several of the defendants received some of the most severe sentences in health care fraud cases to date.

Department of Health and Human Services: In recent years, the Medicare home-health benefit has been one of the fastest growing parts of the Medicare program. Medicare spending for home health services grew from \$2 billion in 1988 to almost \$20 billion in 1997. More than 20 reports issued from 1995 to 1997 by the Department of Health and Human Services' Office of Inspector General repeatedly document how fraud, waste, and abuse contribute significantly to the high growth of home-health expenditures.

A 1995 audit in Florida, for example, identified more than a 20 percent error rate in the percent of home health visits paid by Medicare that did not meet Medicare guidelines. A later audit, issued in 1997, disclosed that 40 percent of the claims sampled in four of the most populated states—California, Illinois, New York and Texas—should not have been reimbursed. These services were not reasonable or necessary, were provided to beneficiaries who were not homebound, or did not have either valid physician orders or were not adequately documented. As a result,

OIG estimated that unallowable claims totaled about \$2.6 billion of the \$6.7 billion claimed in these four states.

Partly due to the work of the OIG in the home health program, the Balanced Budget Act (BBA) of 1997 was enacted to strengthen and protect the Medicare home health benefit. The BBA incorporated several OIG recommendations and modified the method used by Medicare to pay home health agencies by incorporating prospective-payment principles rather than cost-per-visit payments previously authorized. Until the prospective-payment system goes into effect, new payment and visit limits have slowed expenditures significantly. Further, because of the widespread problems in this area, in September 1997 President Clinton declared an unprecedented six-month moratorium on allowing new providers to enter the program until the BBA provisions and other safeguards were implemented.

To determine whether the program changes were having a positive impact on Medicare reimbursement, the Health Care Financing Administration asked OIG to replicate the previous four-state review. The audit, issued in November 1999, revealed that the error rate had, in fact, been significantly reduced from 40 percent to 19 percent. Although this reduction indicates notable progress, a 19 percent error rate is still too high. The recommendations of the OIG called for closer physician involvement in assessing patient needs and consideration of the 19 percent error rate when developing the prospective-payment rate for home health agencies.

Oversight Includes Improving the Quality of Care

Along with combating financial fraud in the Federal health care programs, the Inspectors General have helped improve the quality of care for Federal health care program beneficiaries. Medical errors cause serious patient injuries and even death in every sector of American medical practice. Sophisticated studies have led some experts to estimate that more than 180,000 such injuries and deaths occur in the United States every year. The Department of Veterans Affairs' Veterans Health Administration (VHA) manages a very difficult and complex population of patients whose advanced ages and serious illnesses place them at increased jeopardy of incurring harm during the course of their treatments. The VA OIG's Office of Healthcare Inspections initiated a series of nationwide evaluations of VHA's application of policies and procedures for safeguarding patients' safety.

One inspection focused on how effectively VA managers responded to the deaths of two elderly patients while they were restrained in their beds. The inspection found that most VA clinicians and clinical managers investigated the incidents and communicated the information relatively quickly along established communication channels. All VA

medical centers were aware of the incidents and what steps could be taken to prevent similar harm to patients within two months after the first patient incidents. However, the inspection found that even though medical center managers consistently communicated the information to nursing managers, the information was not always relayed to employees who directly care for patients. The inspection found several other areas in the patient incident reporting and investigative processes that could be strengthened to improve patient safety.

The VA Under Secretary for Health agreed with the OIG recommendations and used the inspection report, along with other medical error information, to establish a National Center for Patient Safety within the Veterans Administration—the first such initiative in American medicine.

An Ounce of Prevention

While there will always be a need for strong enforcement actions to curb health care fraud, prevention is the real key to safeguarding Federal health care programs from fraud, waste and abuse. The HHS OIG has been at the forefront of the development of voluntary compliance programs for the health care industry. The HHS OIG believes that compliance programs are a cost effective and efficient way to ensure adherence to Federal health care program requirements. Effective compliance programs also contribute to the continued success and solvency of Federal health insurance programs, principally Medicare and Medicaid.

The development of compliance programs in the health care industry is relatively new, as compared to, for example, the defense industry. The HHS OIG has played a major role in the creation and shaping of health care compliance programs in two major ways—compliance program guidance (CPG) and corporate integrity agreements (CIAs). Compliance program guidance provides the various health care industry sectors with detailed suggestions and concrete

These services were not reasonable or necessary, were provided to beneficiaries who were not homebound, or did not have either valid physician orders or were not adequately documented. As a result, OIG estimated that unallowable claims totaled about \$2.6 billion of the \$6.7 billion claimed in these four states.

advice on how to establish and implement, on a voluntary basis, effective compliance programs. Corporate integrity agreements, on the other hand, arise from fraud settlements with particular wrongdoers, and are mandatory compliance obligations that include annual reporting obligations to HHS OIG.

Corporate integrity agreements (CIAs) are entered into in conjunction with civil fraud settlements. They are imposed upon a provider in exchange for the OIG's waiver of its authority to exclude or debar the provider from participation in the Federal health care programs based upon the provider's fraudulent conduct. The HHS OIG currently monitors over 420 CIAs. The CIAs are typically for a term of three to five years, and generally include mandatory training of employees and contractors, written policies and procedures, the appointment of a compliance officer, annual audits

of bills or claims, the establishment of confidential reporting mechanisms, such as a toll free hotline, and annual reporting to the HHS OIG regarding the provider's compliance efforts. Finally, if the provider materially breaches the terms of its agreement, the HHS OIG has the authority to impose monetary penalties or to exclude the provider from participation in the Medicare and Medicaid programs.

As health care providers embrace the concept of developing voluntary compliance programs to meet Federal health care program requirements, it's likely the effort will cut down on fraud, waste and abuse in the larger health care arena. Moving the health care industry to police itself can help ensure that legitimate health care providers have mechanisms in place to help them stay on the right side of the law. 🏠

SAFETY AND THE ENVIRONMENT

It is estimated that nearly 52,000 Americans lose their lives in accidents every year. The emotional toll on families and society in general is largely incalculable but the economic costs of these injuries and deaths run to the billions annually. The bulk of these accidents—nearly 45,000—involve automobiles and trucks. Another 602 people died in railway accidents. In contrast, non-transportation accidents in the workplace in 1998 (the last year for which data is available) claimed the lives of 4,881 Americans. For example, 1,204 people died in construction accidents; 695 died in manufacturing accidents.

Equally important to public safety is the environment, where the statistics are less grim, but the numbers are still alarming. For example, there are currently 1,405 hazardous waste sites across the United States, whose clean-up is administered by the Superfund program. The Environmental Protection Agency (EPA) estimates that almost 40 percent of the nation's waterways assessed by States still do not meet water quality goals. Additionally, the EPA estimates that the cost of clean water projects—those that control sewage discharge and those that reduce polluted runoff—is projected to be \$128 billion.

Ensuring the safety of the American public and protection of the nation's environment are among the Federal Government's most important functions. Since its inception in 1978, the Inspector General community has been at the forefront of work in these two critical areas. The following highlights some of this work.

The Department of Transportation OIG and Transportation Safety

Because Americans make more than one billion trips by land, air, or water each day, ensuring that these journeys are safe is the Department of Transportation's first goal. Aviation safety has been a focus at DOT-OIG for two decades and has been one of the nation's most prominent transportation issues. Three areas have drawn special attention:

- Runway incursions—Close hits involving aircraft and other aircraft, vehicles or people on airport runways—are a growing problem. A 1997 DOT OIG audit found that runway incursions increased 54 percent over a 4-year period (from 186 incursions in 1993 to 287 in 1996) and continued to increase in 1997. DOT OIG made eight recommendations to improve FAA's oversight. In July 1999 DOT OIG issued a second report on runway incursions, finding incursions had increased 11 percent in 1998 over the previous year and recommending stronger follow-through on Federal Aviation Administration (FAA) anti-incursion plans. As a result, FAA implemented stronger program oversight by high-level management.
- Another area involves the growth in airline alliances known as "code-sharing." U.S. carriers partner with airlines from regions of the world where aviation safety oversight and safety records are not as strong as they are in the United States. In 1999, DOT-OIG found that safety is not currently treated as a major factor in the code-share approval process, and FAA has not taken an active role in the approval or oversight of international code-share agreements. A review of major safety standards used worldwide for oversight of foreign air carriers and the advantages and disadvantages of using International Civil Aviation Organization standards to evaluate the safety of code-share carriers was initiated as well.
- Complementing the audit work in aviation safety has been active OIG investigative work fighting suspected unapproved aircraft parts (SUPs) and falsification of aviation maintenance records. Working closely with the FAA and other Federal agencies, OIG has raised industry awareness of these problems and prosecuted many offenders. Moreover, OIG has worked closely with Congress on this issue. Tough SUPs enforcement tools were contained in FAA's fiscal year 2000 reauthorization legislation. Since 1990, OIG SUPs investigations have spurred 258 indictments, 213 convictions of individuals and companies, and sentences totaling 143 years in prison, 362 years probation, and \$65 million in fines, restitution, and recoveries.

Motor Carrier Safety

At the end of the 106th Congress, the House and Senate approved legislation creating a Federal Motor Carrier Safety Administration. The new law also mandated stiffer and swifter enforcement actions against motor carriers and commercial drivers who threaten the safety of the traveling public. This historic effort was the culmination of extensive DOT OIG audit and investigative work. Indeed, OIG work in the past year led to a renewed national focus on motor-carrier safety, as it became the primary safety issue facing the Department.

In 1998, 5,374 deaths resulted from crashes involving large trucks, a toll comparable to a major airline crash with 200 fatalities every two weeks. The OIG's comprehensive review of Office of Motor Carrier (OMC) oversight of the trucking industry and its compliance with OMC safety regulations began with the December 1998 report, *Motor Carrier Safety Program for Commercial Trucks at U.S.*

Borders. This review disclosed that too few trucks are inspected at the U.S.-Mexico border, and too few of those inspected comply with standards. In fact, 44 percent of the Mexican trucks inspected did not meet U.S. safety standards. OIG recommended stronger enforcement against repeat violators, stiffer fines, procedures to remove operating authority from carriers failing to pay penalties, and shutdowns of carriers with unsatisfactory safety ratings. We recommended, too, an increase in the numbers of safety inspectors at the border, improved inspection facilities, and the creation of a separate Motor Carrier Safety Administration within DOT.

Follow-up on this work was reflected in the April 1999 report on the *Motor Carrier Safety Program*, which found that OMC was not effective enough in enforcing safety regulations and deterring noncompliance. Almost half of the OMC safety investigators who responded to an OIG survey rated their own enforcement program as "poor to fair." Almost 86 percent indicated that more enforcement actions and stiffer penalties were needed.

OIG also continued extensive investigations of motor carriers. Since August 1996, OIG investigations of unlawful trucking operations have resulted in 81 indictments, 69 convictions, and \$6.2 million in fines, restitution, and recoveries. Most of these probes target trucking companies whose owners and managers force drivers to violate Federal hours-of-service regulations. OIG particularly focuses on companies with poor regulatory or enforcement histories and those that move hazardous materials.

The General Services Administration OIG and Civilian Aircraft Management

The General Services Administration (GSA) was assigned responsibility for assisting Federal civilian agencies in

work to improve the safety and cost-effectiveness of more than 1,500 Federal Government civilian aircraft. The GSA OIG subsequently audited the GSA-sponsored Interagency Committee for Aviation Policy (ICAP). The review disclosed that ICAP was a positive influence on the agencies' aircraft operations, but that data was inaccurate, incomplete, and of questionable value, all leading to safety concerns. Spurred by this report, Congress requested the President's Council on Integrity and Efficiency (PCIE) to undertake a comprehensive examination of the civilian aircraft program. In December 1996, GSA's OIG summarized the work of other IGs looking at the civilian aircraft fleet. It noted that individual agency aircraft programs continued to experience many of the safety and operational shortcomings that had concerned Congress. Collectively, more than \$56 million in potential savings was identified by the IGs' respective agencies if operational recommendations were adopted. GSA OIG also urged GSA and ICAP to develop aircraft safety operations manuals and training inspection programs to assist the agencies in improving their programs.

The Department of Labor OIG and Mine Safety

Another significant safety initiative involved "Operation Turnpike," a Department of Labor OIG investigation looking at the integrity of the mine inspection process and to root out corruption among Mine Safety and Health Administration (MSHA) inspectors. The OIG found that some MSHA inspectors accepted gratuities and gifts in return for lax inspection and safety enforcement practices. Following a yearlong investigation of official corruption involving MSHA inspectors in eastern Kentucky, three Federal inspectors and one state inspector were arrested in May of 1994 and charged with bribery or extortion. All four either pled guilty or were convicted at trial of accepting bribes from coal company operators in exchange for favorable mine inspection reports.

These investigations put MSHA employees nationwide on notice that compromising the inspection process and putting miners' lives at risk would not be tolerated.

The Department of Agriculture OIG and Unapproved Pesticides

A final, intriguing investigation undertaken by the U.S. Department of Agriculture's OIG disclosed that a fumigator, under contract with General Mills to spray 19 million bushels of oats with the pesticide Reldan, had lied about the chemicals he was using. Instead of using Reldan, he used a cheaper and unapproved chemical while billing General Mills for the Reldan applications. For more than a year,

contaminated oats were used in the production of approximately 160 million boxes of the popular cereals, Cheerios and Lucky Charms. Some of the boxes were sold to the public before the problem was discovered, although the EPA has found that traces of the unapproved chemical used on the cereal do not pose a health threat. As a result of the work of the USDA OIG, the fumigator was sentenced to 5 years in prison; nationwide cleanup of the facilities could cost General Mills well over \$100 million.

The Department of Energy OIG and Pipeline-Construction Violations

In addition to safety, an equally critical Federal issue is how to manage and care for the environment. In this area as well, the OIGs have had much success. An ambitious investigation undertaken by the Department of Energy (DOE) OIG involved a company that built a natural-gas pipeline from Ontario, Canada to Long Island Sound in New York States. More than 600 boxes of documents were seized or subpoenaed during the investigation, with agents reviewing, analyzing and summarizing the documents. The DOE OIG case agent led a group of special agents, scientists, engineers, and prosecutors on excavation of this in-service pipeline at two dozen locations. The searches provided physical evidence critical to verifying a lack of environmental and safety devices which should have been installed. As a result, the company was forced to excavate its pipe at more than 45 locations. The investigation also determined that the company did not clean up various wetlands and streams disturbed during the construction and failed to install ero-



sion control devices and trench barricades on wetlands crossed during construction. Ultimately, the company pleaded guilty in Federal court to four felony violations of the Clean Water Act and agreed to pay \$22 million in fines and penalties.

The Tennessee Valley Authority OIG and PCB Elimination Strategy

PCBs, or polychlorinated biphenyls, is a class of synthetic organic chemicals. They are used as insulating fluid in transformers. However, they have also been determined by the EPA to represent a potential risk to human health and the environment. The Tennessee Valley Authority (TVA) has a significant amount of electrical equipment containing PCBs. Federal regulations generally allow the continued use of the equipment with appropriate recordkeeping, marking, storage, disposal and spill cleanup.

The TVA OIG audited the adequacy of TVA's PCB-elimination efforts, the potential risks associated with the existing inventory, and the cost to TVA of managing its inventory. OIG found that TVA has had some success in reducing the amount of equipment containing PCBs, but that a more concerted effort was needed.

These are only a few examples of safety and environmental work done by the OIG community during the past 20 years. Each one illustrates, however, the important role that OIGs play in ensuring that everyone—from those who run the programs to those who are served by the programs—is cognizant of the key Federal role in promoting safety and maintaining environmental integrity. 🏠

INFORMATION TECHNOLOGY, PLANNING AND INVESTMENT

The value of information within the Federal

Government may not be easily quantifiable in dollar terms but we know it is a key asset of the United States. The combination of the value of this information and its vulnerability to loss, alteration, theft or misuse is driving information security to be an important force in shaping future Federal planning and investment in information resources. As President Clinton noted in his January 2000 "National Plan for Information Systems Protection":

"...A concerted attack on the computers of any one of our key economic sectors or Governmental agencies could have catastrophic results... If we are to continue to enjoy the benefits of the Information Age, preserve our security, and safeguard our economic well-being, we must protect our critical computer-controlled systems from attack."

Y2K Efforts

The Y2K¹ readiness effort forced the Government into strategic management of its information resources. Mobilized by the fear of catastrophic collapse of critical infrastructures, both the Government and the private sector attempted to identify the mission criticality of individual systems only to find such distinction blurred by network interdependencies. End-to-end testing performed to assess Y2K readiness became an exhausting exercise in defining the boundaries of networked environments.

Office of Inspector General organizations played a key role in helping their agencies and departments meet the Y2K challenge. At the same time, it became apparent that these efforts were laying the foundation for future information security initiatives:

- Department of Transportation OIG provided comprehensive, value-added audit service to DOT for the Y2K computer challenge, resulting in 10 separate assessments of Office of Management and Budget (OMB) quarterly report submissions; 6 appearances before House and Senate Committees, and one department-wide report. The reports identified critical issues requiring management actions, such as new systems being developed without Y2K compliance assurance; procurement of non-Y2K compliant products; incomplete repairs and inadequate testing of Y2K fixes; and incomplete responses from regulated entities regarding Y2K readiness. Actions taken on OIG recommendations are expected to result in improvements for the next information-technology challenges, information security and better communication and coordination.
- The Department of Defense faced the most daunting Y2K conversion task, owning over a third (2,107) of Federal mission-critical computer systems. In addition, the DOD operates over 20,000 other systems, 639 installations, over 5,000 critical suppliers, and interoperability requirements with dozens of allies and coalition partners. The Deputy Secretary of Defense and Chief Information Officer relied heavily on nearly 180 OIG audits of which were performed over a two-year period on all facets of the Y2K conversion program. The auditors were especially effective in identifying initial problems such as unrealistic contingency plans, misreporting of system status, lack of coordination with host countries, buying and selling non-compliant items, lack of focus on mainframe computers and insufficient testing. The lessons learned from Y2K are expected to be of great benefit to the DOD's future information technology efforts, particularly in information security.

The success in the Y2K transition was partly as a result of knowing what the problem was and when it would occur. This knowledge permitted the application of a phased approach of assessment, renovation, validation and implementation of compliant informa-

¹On February 4, 1998, the President issued an Executive Order 13073, "Year 2000 Conversion," stating that because of a design feature in many electronic systems, some computer systems and other electronic devices may misinterpret the date change to the year 2000. This flaw was labeled the "Y2K problem" because it could cause systems to compute erroneously or simply not run.

tion systems. In sharp contrast, a state of constant vigilance is required to defend the critical infrastructure of our nation that will have no completion dates.

Hacker Alerts

Recent news headlines have highlighted the vulnerability of our information systems to malicious hackers. Many of these attacks are random and relatively unsophisticated. However, that is not always the case and the trend towards increasingly sophisticated and organized attacks will continue due to the explosive growth of Internet use for routine business operations. Hackers frequently take advantage of international jurisdictional limitations to confound criminal investigation of their activities. The problem then becomes one of determining how much security is enough. This decision is ultimately a matter of judgment in weighing priorities and resources. Further complicating information security planning is that the payback from an investment in security is uncertain compared to competing demands for resources that have more visible positive outcomes. On the other hand, failure to adequately provide security can also result in headlines. For example:

- On January 17, 2000, the Superior Court of Justice in the Province of Ontario, Canada sentenced a hacker to 12 counts of computer crime charges related to intrusions into U.S. Government computers. The hacker pled guilty to criminal activities including destruction of the web page of NASA, and intrusion into National Oceanic and Atmospheric Administration and NASA computer systems with intent to damage. Investigation into this matter was conducted jointly by the Federal Bureau of Investigation, Royal Canadian Mounted Police and the NASA OIG.
- On February 23, 2000, the U.S. District Court, Boston, MA charged a hacker with one count of Interfering with a DOD Computer System, one count of computer fraud, and one count of intercepting electronic communications. These charges

resulted in an investigation into the subject's computer hacking into numerous computers around the United States. The subject also illegally accessed a computer owned by NASA, and used that computer to launch attacks against other computer systems, to include the May 1999 defacement of the Department of Interior web page. This investigation was conducted by the FBI, Defense Criminal Investigative Service (the criminal investigative arm of the DOD OIG), and the NASA OIG.

These cases highlight the investigative challenges in pursuing hackers because their efforts to thwart detection and investigation often involve multiple victim agencies.



Clinger-Cohen Act

Federal agencies are increasingly focused on agency information technology architectures due in part to implementation of the Clinger-Cohen Act of 1996², but also, in part to the realization that security concerns go well beyond the boundaries of any one Federal program. Information security does not stop at the doorstep of any one agency, the Federal Govern-

ment, or even this nation. Information security planning as required by OMB Circular A-130, Management of Federal Information Resources³, must take a more global perspective in defining both the threat and the response necessary to ensure continuity of operations. The citizens of the

²The Clinger-Cohen Act of 1996 has established within federal agencies the corporate framework for management of information resources, including both Government information and information technology. The establishment of chief information officers was singularly one of the most positive steps taken to focus attention on the management of information. Importantly, the Act called for a comprehensive information technology architecture that provides the integrated framework for both existing and newly acquired hardware and software.

³OMB Circular A-130 calls for a plan for adequate security of each general support system and major application as part of the organization's information resources management planning process. The security plan shall be consistent with guidance issued by the National Institute of Standards and Technology (NIST). Independent advice and comment on the security plan shall be solicited prior to the plan's implementation. A summary of the security plans shall be incorporated into the strategic information resources management plan required by the Paperwork Reduction Act (44 U.S.C. Chapter 35) and Section 8(b) of the circular.

United States rely on many Federal programs. Therefore, information security weaknesses can have a potentially dramatic effect on our economic well being as highlighted by recent OIG reviews:

- The capital markets and Federal securities regulatory activities rely heavily on companies providing information to investors (referred to as “full disclosure”), so they can make informed investment decisions. The Full Disclosure Program of the Securities and Exchange Commission (SEC) uses the Electronic Data Gathering and Retrieval (EDGAR) System to collect this voluminous information from public companies and disseminate it to investors. For several years, the SEC OIG carried the lack of adequate computer contingency planning and backup for all SEC information systems as a “significant problem” in its semiannual report to Congress. Prompted by the OIG, the SEC obtained the necessary funding and, in phases, developed a computer backup capability for EDGAR. Testing of the disaster recovery capability was successful. Subsequently, after an electrical fire at the main EDGAR site, the backup site was able to provide EDGAR services to the public companies and investors for several days, thus avoiding a cessation of these vital services to the securities market.
- A major public accounting firm monitored by the SSA OIG performed the FY 1999 audit of the Social Security Administration financial statements, internal controls, and compliance with laws and regulations. The audit found weaknesses in the SSA-wide security program including: distributed and mainframe system security; control over operating systems configurations; physical access controls; and certification and accreditation of certain general support and major application systems. Recommendations were made in 11 key areas aimed at strengthening the overall organization-wide security architecture.

OIG Mandate

Presidential Decision Directive (PDD) 63, Critical Infrastructure Protection, issued in May 1998, has started agencies looking more globally at information security activities.⁴ It establishes goals, milestones, and a national framework for protecting critical infrastructure that includes public-private partnerships in recognition of shared dependencies. The President of the United States

⁴PDD 63 addresses critical infrastructures that include physical and cyber-based systems essential to the minimum operations of the economy and the Government. This article addresses only the information assurances aspects of PDD 63.

recently issued PDD-63 that called for a National Plan for Information Systems Protection. As part of the Plan, the White House issued a blueprint for cyber defense that identified a role for the OIG community in verifying adequacy of Federal agency infrastructure protection plans and in independently assessing critical information infrastructures.

The OIGs are taking steps on a collective basis to help ensure our nation’s critical information technology security. The NASA OIG is coordinating the President’s Council on Integrity and Efficiency Government-wide review of Federal agency implementation of PDD 63. Twenty-one OIGs have already agreed to participate. This is one of many positive steps, but the challenge remains to work together to address information security as the global problem that it is rather than compartmentalize it within our respective agencies.

Further impacting the nature of involvement of the OIG community in information security is the proposed Government Information Security Act of 1999, S.1993. The primary objective of this legislation is to update existing statutory information security requirements. The legislation requires, among other things, that the OMB Director establish Government-wide policies for the management of programs that support the cost effective security of Federal information systems by promoting security as an integral component of each agency’s business operations. Federal agencies would be required to “identify and afford security protections commensurate with the risk and magnitude of the harm resulting from the loss, misuse, or unauthorized access to or modification of information collected or maintained by or on behalf of an agency.”

Of particular interest to the OIG community is the requirement for annual independent evaluations of agency information security programs and practices. Starting March 1, 2001, statutory Inspectors General would be required to submit annual reports to the OMB Director, on their evaluations. Such evaluations would include an assessment of compliance with statutory and regulatory requirements and agency information security policies, procedures, standards and guidelines, as well as testing the effectiveness of information security control techniques. 📄

Federal agencies are increasingly focused on agency information technology architectures due in part to implementation of the Clinger-Cohen Act of 1996, but also, in part to the realization that security concerns go well beyond the boundaries of any one Federal program.

FINANCIAL MANAGEMENT AND ASSET PROTECTION

The decade of the 90s has been a time of greatly increased challenges and opportunities for the IG community with regard to Federal financial management. Major legislation enacted over the past 10 years has further expanded the IGs responsibilities with respect to financial management. The Chief Financial Officers Act of 1990 (CFO Act) and the Government Management Reform Act of 1994 (GMRA) require that the Inspector General, or contractors under the oversight of the Inspectors General, audit the financial statements of the 24 major executive agencies. In addition, the Office of Management and Budget has designated certain component entities within the 24 executive agencies for separate audited financial statements.

The Federal Financial Management Improvement Act of 1996 (FFMIA) also emphasized the role of IGs in providing for improved Federal financial management. FFMIA requires that each agency implement and maintain financial management systems that substantially comply with Federal Financial Management Systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. IGs are required to report if their agency's financial management systems do not comply with the FFMIA requirements. For those agencies not in compliance, IGs are required to report on the nature, extent and reasons for the non-compliance, as well as the recommended remedial actions and time frames for implementation of such actions.

Offices of Inspector General throughout Government have continued in their traditional role of auditing programs with an accent on financial management because of the requirements included in these laws. In addition to the myriad of improvements suggested as a result the audits and evaluations done as a routine part of the requirements of the Inspector General Act, emphasis on financial management has resulted in a wide array of findings, recommendations and accomplishments specifically related to these activities. In meeting these requirements, OIGs will continue to work with operational managers not just in this area of financial management but in all their audit and evaluation activities to identify fraud, waste and abuse and to improve Government programs.

Financial Statement Audits—Identifying and Correcting Deficiencies

The CFO Act and GMRA requirements for audited financial statements was a daunting challenge for the IG community, in many cases compounded by a lack of additional funding to meet this new responsibility. It thrust the IG community into a central role in identifying, reporting and monitoring critical, longstanding financial management deficiencies in the Federal Government. Much of the focus of these audits has been on whether an agency receives an unqualified, or "clean" audit opinion. However, the broader benefit has been to highlight major financial management systems deficiencies, poor accounting practices, and material weaknesses in management controls which must be addressed to enable Federal agencies to produce timely and reliable information for operating purposes as well as periodic financial reporting.

The Department of Labor OIG was a pioneer in financial statement audits. In 1987, three years before passage of the CFO Act, they presented the first audited financial statements for two major DOL program agencies and the first ever compilation of the DOL consolidated financial statements. Progressive improvements in financial management at DOL and certain other agencies, upon which DOL must rely, resulted in the first unqualified opinion on DOL's FY 1998 financial statements. The DOL OIG also has been instrumental in providing audit support to other Federal agencies. In particular, they perform an annual audit of the data developed by DOL's Office of Workers' Compensation Programs, which is used by the 24 CFO Act agencies in reporting future workers' compensation benefits in their financial statements.

The requirement for audited financial statements has been a major challenge for CFOs as well as IGs, and a critical success factor in meeting this collective challenge has been for CFOs and the IGs to forge effective working relationships and develop aggressive but realistic strategies to implement the audit requirements. Most agencies had never been audited and lacked effective financial management structures, systems and controls.

Attempting full scope audits in the initial years of the CFO Act would have been costly with efforts likely resulting in no audit assurance. This led many agencies to develop incremental approaches, with the first priority being to identify major financial management deficiencies, which needed to be addressed to enable auditable financial information.

The Treasury Department faced such a challenge in implementing its financial statement audit requirements. Treasury is responsible for a broad range of programs and activities that produce many of the most significant account balances reported in Federal financial statements. These include collecting over 98% of Federal revenues, and managing the Federal debt, central banking activities, and investments in international financing institutions. None of these activities had been audited prior to the CFO Act. The Treasury OIG undertook a proactive approach to meet this challenge by reallocating internal resources and leveraging outside resources to gradually achieve full audit coverage in the most efficient and economic manner. An integral part of this strategy was an Memorandum of Understanding with United States General Accounting Office (GAO) establishing respective audit responsibilities at Treasury of GAO and the OIG. A close working partnership with Department and bureau level management was also essential.

The Department of Commerce offers another good example of incremental implementation of the audit requirements. The Commerce OIG performed surveys at 12 of the Department's entities. These survey costs were a small fraction of full scope audit costs, however they identified major financial management problems, which needed to be addressed to enable successful audits. Although obtaining a clean audit opinion on the Department-wide statements is still a major challenge; the emphasis on correcting material weaknesses is clearly showing positive results. The audit of the FY 1996 consolidated Commerce



statements reported 37 material weaknesses, however this number has been reduced to only 12 material weaknesses in less than two years.

The Federal Emergency Management Agency (FEMA) also adopted a phased approach over three years for implementation of its audit requirements. Each year FEMA increased the number of statements available for audit, and the OIG performed agreed-upon procedures for accounts not included in the audits to help FEMA move toward inclusion in the next year's audited statements. FEMA accomplished its goal in March 1999, receiving an unqualified opinion on its FY 1998 financial statements.

The Environmental Protection Agency offers yet another example of positive results achieved through cooperative efforts by the CFO and IG to address financial management problems impeding a

successful audit. In collaboration with the CFO, the OIG performed comprehensive reviews of the causes of a broad range of financial deficiencies, which resulted in sweeping recommendations in EPA's accounting, budgeting and cash management practices. These efforts were instrumental in enabling EPA to obtain a clean opinion for the first time on its FY 1997 financial statements.

Financial statement audits and related follow-up work have also helped to focus attention on managerial cost accounting and the need for good cost accounting to support the determination of user fees. For example, during FY 1999 the Department of Transportation's OIG determined that the Federal Aviation Administration had understated equipment value by about \$4.5 billion. It is expected that improvements in property accounting and other areas should enable the department to more effectively support recovery of its costs through user fees.

The benefits of reliable financial statements for cost recovery through user fees is well illustrated at the Federal Trade Commission. Agency managers are able to use audited numbers to demonstrate that the agency is largely

self funded by pre-merger filing fees collected from parties seeking merger or acquisition approval. In fiscal years 1997 and 1998, only 29 percent and 20 percent, respectively, of the agency's net cost of operations came from taxpayer funds.

Notwithstanding the notable accomplishments since inception of the CFO Act, many challenges remain to meet the financial management objectives of the CFO Act and the GMRA. Several major agencies, notably Department of Defense, have not been able to achieve audit assurance on their financial statements. Just as importantly, many of the agencies which have obtained clean opinions have been able to do so only through extensive efforts after the year-end closing to overcome material weaknesses to produce auditable information. Although this may result in materially correct annual financial statements, it does not achieve the broader goal of accurate, reliable and timely information during the year. Most agencies still have major deficiencies in financial systems and management controls that must be addressed. The extent of this problem is underscored by the fact that 20 of the 24 Federal agencies (based on FY 1997 audit results) were reported as being not in substantial compliance with the financial management systems requirements of FFMIA.

Asset Protection and Efficiency Improvement

In the category of asset protection, several OIGs have identified property management controls, processes and systems as needing improvement. For example, the Department of Justice OIG determined that a property management system was not dependable and, in fact, the department could not locate over \$3 million of property and over \$4 million of property was not being used because of this inadequate management information system. The OIG at DOJ also identified shortcomings in the department's asset seizure and forfeiture activities. The weaknesses in this program resulted in unnecessary interest expenses, overcharges and storage cost in excess of \$18 million, over a nine-year period.

The Department of Veteran Affairs (VA) OIG, over a four-year period, identified many shortcomings in the department's debt management activities. Their audits of debt prevention, consolidation and collection issues identified opportunities to avoid overpayment, establish debt, or improve collection of amounts equaling \$260 million.

At the Department of Health and Human Services, the OIG reported that accelerating the deposit of payroll taxes would generate substantial revenue for the Federal Government without increasing taxes and without creating an undue administrative burden. Conversely, delays in deposit-

ing taxes withheld from employees' wages caused the Government to incur unnecessary debt. Legislation consistent with the OIG's recommendations was enacted and it was estimated this saved about \$5.5 billion.

In a review of property management at the Equal Employment Opportunity Commission, OIG found that the system could neither accurately determine the location of agency property or its dollar value. An inventory sample from the property accounting system of headquarters and four other facilities found discrepancy rates that ranged from 16 percent to 100 percent. In addition to sixteen recommendations to improve the property management inventory system, OIG's review resulted in an agency-wide initiative to reengineer the way property is managed and accounted for.

The OIG at the United States Postal Service reviewed the management of rail trailers inventories and contracts. Working with management, the OIG identified savings of \$50 million over a five year period in rail detention costs and made several other observations and related recommendations to improve the management of this program overall.

The Department of Labor OIG took an in-depth look at the Job Corps program during the early nineties and again in 1996 and analyzed the cost and benefits of this program. The results of these reviews assisted departmental management in their determinations regarding accountability and decision making for this program. Another effort by the DOL OIG resulted from concerns raised as a result of their financial statement audits. This involved the DOL Back Wage and Disbursement System, which tracks the collection and disbursement of back wages. As a result of this effort the OIG identified many ways to improve the system and the corresponding controls. One suggestion involved contacting 17,000 workers (representing \$5 million in back wages) through the use of information from credit bureaus.

The OIG at OPM reviewed the OPM revolving fund to identify factors contributing to an impending violation of the Anti-Deficiency Act. This review showed that improvements were needed in many facets of the management of the fund and in the financial information available for its managers.

The Department of Commerce OIG studied the many intra and inter agency agreements under which Commerce operates. The Department had over 4,700 agreements representing more than \$1 billion annually. The reviews showed there were many areas needing the attention of management—specifically an absence of written agreements and the use of agreements instead of traditional procurement contracts to acquire goods and services. As a result of these reviews, management strengthened controls, procedures and oversight over agreements. 🏠

SECURITY, INFORMATION TECHNOLOGY AND FACILITIES

With the increased attention on computer security, many Federal managers recognize the heightened need to address the risk of a cyber or physical threat to Federal information. The Office of Management and Budget Circular A-130 charges agency managers with ensuring the confidentiality, integrity, and availability of Federal information resources.

As agencies become more and more dependent on electronic data, special consideration must be given to protecting the transmission, storage and processing of sensitive data. During fiscal year 1999, the Inspector General community identified potential vulnerabilities in controls that ensure the confidentiality, integrity, and availability of Federal information resources. An inspection conducted by the SBA OIG identified security, legal, and organizational challenges that both public and private sector managers need to address before converting existing paper-based procedures to electronic processes. SBA OIG's inspection demonstrated that if agency managers are well informed and proactive, they will be able to significantly reduce security risks, from inadvertent leaks of sensitive information to deliberate attempts to exploit system vulnerabilities and commit theft, fraud, or other crimes.

The work of the IG community provides an invaluable source of information to agency managers to assist them in meeting the requirements of OMB A-130 and mitigating the risks of cyber or physical compromises of critical Federal assets. IG audits, evaluations, inspections and investigations aid agency managers in developing and implementing corrective action to mitigate the impact of the vulnerabilities.

Confidentiality ensures that unauthorized persons do not access Federal information resources. IG reviews have identified deficiencies in security control measures, which are expected to prevent unauthorized access to Federal networks and facilities, as well as deficiencies in personnel practices for determining user suitability.

Network Security

The dramatic increase in computer interconnectivity and the prolific use of the Internet raises concerns about attacks on Federal information resources. It also raises concern about the risks associated with protecting the privacy, integrity, and availability of Federal data processed, stored or transmitted in a networked environment.

The Federal Trade Commission (FTC) and SSA OIGs evaluated their respective agencies' effectiveness in preventing unauthorized access. The FTC OIG and SSA OIG (through the use of contracted auditors) performed penetration tests of the agencies' computer systems. These tests involved (a) external probes, (b) external probes through dial-in modems, and (c) internal probes of the network from within FTS. Both OIGs identified similar concerns. Auditors penetrated the internal network in the same way that a "hacker" would likely attempt to access the network. Both OIGs provided the penetration test findings and recommendations to agency management. In order to minimize the agency's vulnerability to unauthorized users, management took action to address system vulnerabilities by disconnecting unused modems and changing system default passwords.

FTC OIG also conducted additional work reviews of password cancellation procedures and email security. These reviews identified former employees whose passwords had not been cancelled and that about 40 percent of the current employees, including several agency attorneys, did not password protect their email accounts.

Through continual follow-up audit work and dialogue between auditors and agency managers, SSA has a corrective action plan to address the network security issues identified by the contract auditors.

Physical Security—Domestic and Foreign

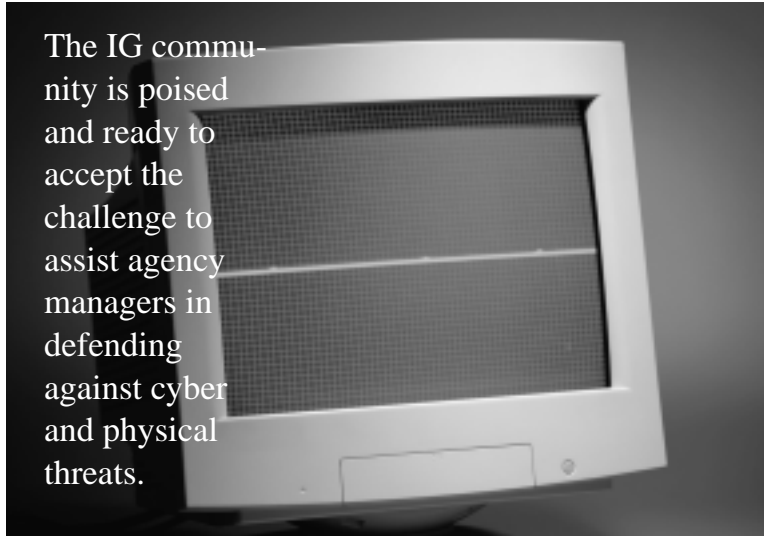
The aftermath of the destruction of the Alfred P. Murrah Federal Office Building in Oklahoma City and previous attacks on US-occupied buildings on foreign soil have heightened the sensitivity to the need for adequate physical security. Treasury's Inspector General for Tax Administration (TIGTA) took a proactive stance to thwart attacks on Internal Revenue Service (IRS) facilities. The use of the Internet, computer encryption technology, and traditional investigative techniques led TIGTA agents to the arrest of two individuals. The first person admitted to placing the chemical Mercaptan, which created a noxious odor, in an IRS office. This forced IRS employees to evacuate because of headaches and nausea. TIGTA linked this individual to similar past attacks.

Using the Internet, TIGTA located a second suspect in Canada. After he fled to the U.S. to avoid charges in Canada, TIGTA analyzed the suspect's computer files and anonymous messages. As a result, agents linked a computer encryption "secret key" found on this subject's computer with encrypted anonymous threatening messages posted to the Internet. This provided the crucial evidence linking this subject to anonymous Internet messages. Agents also linked the subject to numerous other threatening email messages sent to the President, several U.S. Senators, and Microsoft Chairman Bill Gates.

After a seven-day trial, the second individual was convicted on four felony counts relating to the death threats. The trial testimony focused on using computer encryption codes to prove the subject was the author of the anonymous Internet messages. This was the first trial to use evidence involving computer encryption codes to prove the identity of an author.

The General Services Administration's OIG has ongoing oversight of the GSA's progress toward improving the level of physical security nationwide. GSA has made progress in working with other Federal agencies to develop a comprehensive set of physical security standards for new and major renovation construction projects. However, GSA needs to address similar concerns for newly leased facilities. GSA still needs to complete its guidance on providing better security within Federal facilities.

The IG community is poised and ready to accept the challenge to assist agency managers in defending against cyber and physical threats.



Similarly, State Department OIG projects have identified potential vulnerabilities including lapsed security planning, inadequate management, and/or failed equipment at facilities abroad. OIG recommendations have helped define the fundamentals of embassy construction. Through an interdisciplinary and interagency security oversight organization, the OIG has established a security team to conduct a global program of audits and inspections of the State

Department's diplomatic infrastructure. Recently, the State Department implemented OIG recommendations for imminent danger warning processes, and embassy personnel are practicing OIG recommended "duck and cover" drills throughout missions. Currently, State OIG has several ongoing reviews aimed at assessing critical security controls on foreign soil. As a result of prior OIG work, the

State Department initiated a five-year remedial effort to ensure security operations. For example, audits flagged serious security concerns over the reliance on Foreign Service nationals to operate and maintain communications systems abroad.

The Veterans Administration OIG reviewed its agency's security measures for the storage and distribution of pharmaceutical inventories. Since 1980, VA OIG has issued several reports that recommended improvements in facility controls over pharmaceutical inventories. In addition, seven audit reports contained recommendations for improved system-wide effectiveness and efficiency in drug management.

Personnel Security

Authorized access requires an evaluation of the person's "suitability" for the position. Suitability is generally determined through a variety of background checks and/or security clearance procedures, depending on the sensitivity of the person's position. A Department of Justice OIG report determined that 60 percent of the U.S. Attorney Office's (USAO) court personnel (including court reporters, office support staff, office couriers, and translators) who had access to grand jury material did not have adequate security clearances. The court reporters at these USAOs were either never given background investigations, or were working with expired clearances. In addition, court reporter person-

nel clearances at several USAOs were either incomplete or nonexistent.

GSA OIG has reported that the safety and protection of Federal employees and property could be compromised because regional criminal investigation activities were operated autonomously, with no program accountability or performance standards. GSA OIG is currently focusing on GSA's Contract Security Guard Program. Although this review is ongoing, GSA IG has alerted management to significant concerns warranting their immediate attention, such as guards being on post without proper background clearances, or without passing (or taking) the required written test.

Integrity controls ensure that data is not altered by unauthorized persons in a way that cannot be detected by authorized users. It is essential to be able to have confidence that information is correct, and that the sources of information can be trusted.

The OIG at the Environmental Protection Agency has been pursuing data quality and integrity issues for many years through EPA's vast data systems. The reliability of this data is of the utmost importance since it is used to formulate national policy, enforce regulations, and take appropriate legal actions against offenders. Because of OIG work, EPA has taken a more unified approach to the collection of environmental and financial data that has improved the consistency and reliability of the data. Also, in response to OIG work, EPA created a new organizational component, the Office of Environmental Information, which reports directly to the administrator.

Availability controls ensure that Federal data and/or systems are available to authorized users. Disruptions in the availability of data and/or systems can impact customer service and job performance. Agencies should have a contingency plan in place to address service disruptions of any magnitude.

The SSA OIG conducted a series of reviews on SSA's contingency planning program and identified several deficiencies related to: (i) the overall infrastructure of the contingency planning program, (ii) testing of the contingency

plan, and (iii) the oversight of contracted support services. In addition, an independent public accounting firm, under contract with SSA OIG, identified contingency planning as a reportable condition in their report on the agency's internal controls. In response to these concerns, the agency convened a work group to identify critical assets and perform a business impact analysis. In addition, SSA OIG and agency managers are working collaboratively to convene a cross-disciplinary team to address contingency planning issues and critical infrastructure protection issues. The cross-component team, led by the chief information officer, consists of representatives from the agency's systems and finance components as well as the OIG. The team functions as a work group under the Infrastructure Protection Subcommittee of the Agency's Executive Internal Control Council.

What's Next?

The impending passage of the Government Information Security Act of 1999 (S.1993) will set the stage for the Inspectors General to play a critical role in helping agencies ensure the confidentiality, integrity, and availability of information resources. This legislative action, if passed, will require IGs (or their designees) to perform annual reviews of agency information security programs. The IG community will continue its traditional role of combating waste, fraud, and abuse. However, the venue for conducting audits, evaluations, inspections and investigations, may take place over a boundless Internet. The traditional audit or investigation will no longer support the necessary cyber-based reviews of the future. In order to remain effective in the ever-changing world of technology, IGs will rely more heavily on computer forensics, information systems audits, and computer assisted audit techniques and tools.

The achievements described here demonstrate that the IG community is poised and ready to accept the challenge to assist agency managers in defending against cyber and physical threats. 🏠

REVENUE PROTECTION

Billions of dollars are lost each year through fraud, waste, abuse, and mismanagement among the hundreds of programs in the Federal Government. Improved management, including improved central coordination of internal controls and financial accounting could significantly decrease these losses.

Since the inception of the Office of Inspectors General in 1978, the OIGs have conducted numerous audits that identified areas needing increased revenue protection. The major areas are highlighted below and include: underpayment of royalties, fee collection (user and filing fees), and the use of revenue through the collection of airport revenues, financial interchange, and adjustments to trust funds. In addition, numerous fraud schemes have been identified at a variety of Federal agencies.

Improving Collections at the Minerals Management Service

The Federal Oil and Gas Royalty Management Act of 1982 requires the Secretary of the Interior to establish comprehensive inspection, fiscal and production accounting, collection, and auditing systems. Approximately \$4 billion a year in royalties is collected by the Minerals Management Service (MSS) which has the responsibility to collect and account for royalty payments and to determine whether royalties received represent fair and equitable value to the lessor.

During the past 20 years, the OIG conducted approximately 175 audits to determine MMS' effectiveness in collecting royalties. These audits identified significant underpaid royalties that were then subsequently billed and collected. Examples include: (1) \$133 million in underpaid royalties from top royalty payers and gas processing plants, (2) approximately \$750 million not collected because the MMS had not established a policy for the collection of royalties from contract settlements, and (3) approximately \$27 million in additional payments possibly owed the Government because of excess allowance deductions.

As a result of the OIG's recommendations, MSS changed and improved its collection processes to realize an increase in collections of at least \$212 million.

User Fee Collections reviewed by the Department of Interior OIG

In 1952, Title V of the Independent Offices Appropriation Act was passed authorizing Federal agencies to establish and collect user fees for services and special benefits provided to non-Federal beneficiaries. The three offices predominately involved with collecting user fees are the National Park Service (NPS), the U.S. Fish and Wildlife Service (FWS), and the Bureau of Land Management (BLM).

The President's Council on Integrity and Efficiency, in cooperation with four OIG offices, conducted a multi-department audit of user fees and identified over \$1.2 billion in additional user fees that could be collected, including \$24 million that could be collected by the Department of Interior (DOI).

In separate audits, the DOI OIG opined that the NPS could increase its collections by approximately \$105 million if entrance and user fee programs were enhanced and fees established in all parks. An additional \$123 million could be collected if the Congress removed statutory requirements and restrictions against fee collections at designated parks. Also, NPS did not consistently implement its authority to collect and retain fees for special park uses which resulted in differences among the parks regarding the types of activities subject to a fee, the basis for determining the amount of the fee, and the uses of fee revenues. Overall, agencies did not collect user fees in part because receipts went to the Department of Treasury rather than remain with the agencies, despite the agencies incurring costs to administer fee collections.

Subsequent to these reviews, the Congress enacted the Recreation Fee Demonstration Program. This program granted NPS, FWS, and BLM authority to assess, collect and retain fees for use in improving the quality of visitor experience, and also enhancing, protecting, and preserving resources; operating and maintaining facilities; and paying for the cost of fee collections. However, an audit of BLM recreation fees showed that BLM could have collected an added \$15 million from 17 demonstration fee site locations.

Inadequate Program to Collect User Fees at the Department of the Treasury

In 1992, the OIG issued a report showing that Customs needs better controls to ensure accurate collection of air passenger user fees. According to the OIG's audit, and Customs' own analyses, commercial airlines may have underpaid fees to Customs by as much as \$45 million since the 1986 inception of the user fee program.

In a 1998 follow-up audit, the OIG determined that Customs had not adequately addressed the problems identified in its 1992 report. However, in the 1998 audit, the OIG recommended a different approach to help solve this problem that the OIG estimated would provide the Government with nearly \$49 million in additional realized revenue. Customs agreed that the new approach offered many benefits and has acted to implement or address the OIG recommendations.

Securities and Exchange Commission: Delinquent Filing Fees

Every year, the Securities and Exchange Commission (SEC) collects several hundred million dollars in filing fees, primarily from the registration of securities. An OIG audit of the collection process confirmed the SEC's previous assessment that internal controls over fees were materially deficient. The OIG report also concluded that the control weaknesses created a high risk that errors and irregularities, including fraud, could occur without being detected.

SEC management has since acted to strengthen its internal controls over fees, including current development

of a new information system for fee collections. System implementation is expected to ensure adequate accountability over fees.

Department of Transportation: Airport Revenue Diversion Significant Use

As a condition of receiving airport improvement grants, Federal law requires airport sponsors to agree to use airport revenues only for airport purposes. Between August 1991 and January 1999, the OIG issued 58 reports on the use of airport revenue, finding significant weaknesses in FAA's oversight and identifying \$235 million in prohibited airport revenue diversions. As a result, the Congress passed legislation to curb airport revenue diversions.

A September 1998 OIG report on Airport Financial Reports showed the FAA was slow to respond to congressional mandates related to airport revenue use. For example, Section 112 of the Federal Aviation Authorization Act of 1994, directed the FAA to publish revenue use policy no later than November 21, 1994. However, at the time of the report, the policy had not been issued. The FAA issued a Final Policy on Use of Airport Revenue on February 16, 1999, more than four years after the date required by the Congress.

Improvements Yield Credits at the Railroad Retirement Board

In 1951, amendments to the Railroad Retirement Act introduced the concept of a financial interchange between the RRB and the SSA. The financial interchange is a major source of funding for benefits payable under the Railroad Retirement Act. Each year, the two agencies formally agree on how the estimates are made of the additional benefits and administrative expenses that would have been paid from the Social Security trust funds. The agencies also estimate the additional payroll and income taxes that would have been collected, including an allowance for interest.

Between 1987 and 1999, the OIG examined different aspects of the calculations of the financial interchange and



identified incorrect or missing information. As a result, corrective action yielded credits of approximately \$325 million to the RRB trust funds. The most recent audit concerned the inclusion of unrecovered overpayments in the financial interchange calculations. The RRB's Actuary agreed to seek the concurrence of SSA officials on the matter. When implemented, auditors estimated the financial impact of a one-time transfer would be \$48 million (including \$18 million in interest) to the RRB trust funds related to 1985–1997 and \$2 million for each year thereafter.

Adjustments to the RRB Trust Funds

Between 1986 and 1989, the RRB OIG examined the flow of billions of dollars in tax payments by railroad employers. These payments are collected by the IRS, deposited in the Department of Treasury's account via the Federal Reserve System, and recorded in a separate tax receipts account maintained by the Department of the Treasury for the RRB. The Department of Treasury makes daily transfers from the account in the RRB's trust funds and, at the close of each fiscal year, adjusts the trust funds to reflect any differences between the actual tax receipts and the daily transfers to the trust funds.

The OIG conducted three audits of the RRB's trust funds and concluded that they did not receive the correct amount of credits. The OIG projected that an additional \$49 million of interest income would be realized over the next five years. Over \$21.4 million in interest income was lost on those receipts that could not be recovered. The second audit covered fiscal year 1985 and identified \$4.2 million in tax receipts that had been incorrectly deposited to another agency's fund. A third audit, during fiscal year 1989, identified over \$11 million in tax receipts that had been incorrectly credited to another agency's fund.

Fraud Schemes Perpetrated against Agency Programs

Since 1996, the DOI OIG has been investigating allegations of underreporting of Federal royalties by lessors operating on Federal and Indian lands with Federal leases. As part of the lease agreements, companies entering into leases with the Government agree to pay DOI a portion of the royalties, which reflect the value of the oil, gas or coal.

In response to a Qui Tam civil fraud filing, the Department of Justice intervened and an OIG investigation was launched against five major oil companies. The investigation revealed that the Government was not receiving the appropriate Federal share of the oil produced from Federal leases, and that the companies were providing production figures only from their production company at the lease site. This practice was carried out over many years and conservatively resulted in the companies receiving hundred of

millions of dollars in increased profits that should have been paid to the Federal Government, individual states and Indian tribes as their share of the lease for oil obtained from Federal land.

As a result of this investigation, Civil Demand letters were issued and settlement negotiations ensued. The first settlement was reached with the Mobil Corporation that resulted in a \$45 million dollar recovery that included payments to the states and Indian tribes. A related investigation resulted in an additional \$7.3 million settlement for under reporting by Oxy USA.

The OIG conducted another investigation that dealt with the underreporting of coal mined from a Federal lease. From this investigation, the Peabody Holding Company agreed to settle for \$11 million for underpaid royalties owed to the Government from July 1989 through September 1994.

The first settlement was reached with the Mobil Corporation that resulted in a \$45 million dollar recovery that included payments to the states and Indian tribes.

Department of Labor: Fraud in Employment and Training Incentive Programs

The Department of Labor OIG's Office of Investigation conducted the first successful investigation of potential program fraud of the Targeted Jobs Tax Credit (TJTC) program that resulted in prosecution and sentencing. On November 24, 1993, two corporate officials from the Jerard Group, Inc., a TJTC consultant firm, were sentenced in the Western District of Texas to prison for a scheme that defrauded the Government.

These officials, who were brothers as well, submitted fraudulent documents to obtain certificates which could be used by their clients when claiming one-time, Federal tax credits that amounted to as much as \$2,400 per employee. One official was sentenced to 30 months imprisonment; three years supervised probation and ordered to pay \$23,000 in restitution. The other brother was sentenced to three years probation. Due to the early detection of the scheme, Burger King, Inc., a client of the Jerard Group, waived approximately \$500,000 in tax credits because of tainted certificates.

In 1994, the OIG conducted a nationwide audit of the TJTC program and determined that approximately 92 percent of the employees in the audit sample would have been hired regardless of the tax credit. In testimony before the House Committee on Government Operations, the OIG recommended that the TJTC program be eliminated. The Administration also testified that it did not support exten-

sion of the program in its current form. As a result, the TJTC program was not re-authorized during that session of the Congress. Subsequent investigations followed, resulting in at least one other conviction of a TJTC consultant. The TJTC program was dormant for approximately three years, but was enacted recently as the Work Opportunities Tax

Credit (WOTC) program.

Between August 1991 and January 1999, the OIG issued 58 reports on the use of airport revenue, finding significant weaknesses in Federal Aviation Administration oversight and identifying \$235 million in prohibited airport revenue diversions.

Department of Transportation: Motor-Fuel Tax Evasion

In the legitimate fuel market, gasoline and diesel fuel are subject to Federal and states excise taxes. Federal motor-fuel taxes are collected by IRS and deposited into DOT's Federal Highway Trust Fund (HTF), which is administered by the Federal Highway Administration (FHWA). The HTF

contains funds earmarked for both transit and highway uses and, as of fiscal year 1998, the highway account totaled

\$16.5 billion. Approximately 85 percent of the tax revenues in the HTF are motor-fuel taxes, for use in highway construction. Beginning in fiscal year 1990, FHWA was authorized to use funds from the HTF to support motor-fuel tax-enforcement activities of the IRS and the states.

In July 1990, FHWA and the IRS formed the Joint Federal/States Motor Fuel Tax Compliance Project. At the same time, the DOT OIG joined the IRS Criminal Investigations Division on a number of joint law-enforcement task forces across the country. The schemes investigated involved multiple sham businesses created for the express purpose of avoiding the payment of Federal and states taxes.

The DOT OIG has had a role in task-force cases including major prosecutions of the largest and the most complicated motor-fuel tax-evasion groups, including organized crime. Chief among these investigations were two task-force operations in the northeast United States probing the evasion of more than \$400 million in Federal and state taxes. Those two investigations alone netted 60 convictions, 121 year of total confinement, 128 years of supervised release and probation, and fines totaling \$413,300. Overall, cases in which DOT OIG participated have amassed 141 convictions, \$1.3 million in fines, \$2.5 million in restitution, \$2.5 million in Federal recoveries, \$4.7 million in state recoveries, and sentences totaling 181 years. While the OIG continues to remain an active member in these multi-agency task forces, changes in the fuel-distribution system to curb abuses have helped foil these crimes. Tax-reform laws also have been useful in addressing the problem. 📌

GOVERNMENT INTEGRITY AND OPERATIONS

One of the nation's top priorities as we begin this new century must be to increase public confidence in our Government's institutions. A central component to building such confidence is the need to ensure that Government employees and law enforcement agents are held accountable for their actions. To this end, the Federal Government must commit itself to maintaining well-trained and well-financed independent organizations to investigate allegations of impropriety.

Public confidence is critical as we look toward challenges facing the Federal Government in the 21st century. IGs are in a unique position—given their independence, experience, and integrity—to provide the high level of public accountability needed in an oversight body. To be effective, an oversight body must be vigorous and independent. IGs are independent by statute and by their actions, as evidenced by the scope of their audits, inspections, and investigations of senior agency officials. To be effective, an oversight body must be experienced. Because the investigative jurisdiction of IGs focuses on misconduct by employees or civilians who attempt to improperly influence agency employees, IGs have significant experience with bribery and corruption cases in their particular area of expertise. To be effective, an oversight organization must have integrity. IGs have illustrated this over the years through the quality of their work products and special investigations.

IGs throughout Government also assist their agencies in many other ways, including proactively deterring misconduct by providing integrity awareness briefings to employees. These briefings are more than refresher courses on standard ethics regulations. They are practical discussions of the temptations and consequences associated with various job-related integrity and conduct issues, and they serve as tangible reminders that an IG presence nearby is prepared to respond to misconduct.

Corruption

A major objective of the Department of Labor OIG is to conduct investigations into labor racketeering activities of pension and employee welfare benefit plans officials, plan administrators, and service providers. One of the OIG's long-running investigations concerned the New England Teamsters & Trucking Industry Pension Fund. The investigation focused on systematic graft and corruption through control or influence over the decision-making process of officials at Teamsters union and benefit plan offices in New England. It resulted in the guilty plea of two individuals on several charges related to their manipulation of Teamsters union and benefit plan-related funds to benefit their personal real estates ventures and several bank fraud schemes.

An allegation that a General Services Administration employee solicited a bribe from a contractor in exchange for awarding a repair contract led to an investigation by the GSA OIG. A covert review of procurement documents disclosed patterns of contract awards by certain GSA building managers to a select group of contractors. Through the use of consensual monitoring and confidential informants, the OIG identified additional corrupt employees and contractors. This investigation led to over 200 hours of consensual monitored conversations between corrupt GSA building managers and contractors.

Many nations around the world also have undertaken initiatives to fight corruption and infuse standards of ethical conduct. The Department of State OIG has extended its outreach to many nations that have requested assistance in combating corruption and promoting ethical behavior in Government. At the Vice President's 1998 Global Forum on Fighting Corruption, in which more than 180 countries participated, the State Department OIG chaired and the Department of Justice IG participated in a panel on internal oversight. Discussions included strategies to prevent, detect, and investigate fraud, waste, and misconduct.

Employee Misconduct

Despite their proactive efforts to deter misconduct and promote ethical behavior through integrity briefings and other means, IGs continue to pursue investigations of misconduct. Following are examples of this oversight's effectiveness.

An investigation by the Treasury Inspector General for Tax Administration determined that two TIGTA auditors conspired with numerous individuals to prepare and file fraudulent Federal income tax returns and IRS audit reports in a scheme to generate fraudulent tax refunds or to eliminate existing tax liabilities. The employees took steps to prevent the fraudulent tax returns from being audited and routinely used IRS computer systems in furtherance of the scheme. Both often demanded and received bribes of up to one half of each fraudulent tax refund. The potential loss to the Government in this scheme was estimated at approximately \$500,000. The investigation has so far resulted in \$442,762 in court ordered restitution to the Government.

OIG, in conjunction with the Department of Justice and the Federal Bureau of Investigation, investigated the theft of monies by an Equal Employment Opportunity Commission (EEOC) attorney and his brother from a one million-dollar settlement fund established to compensate victims of discrimination. The attorney and his brother were found guilty of criminal conspiracy, theft of Government money, and making false statements to the EEOC. Both were sentenced to prison terms and directed to make restitution totaling \$90,000. The investigation resulted in five convictions, \$13,000 in fines, over \$100,000 in restitution and 100 hours of community service.

A series of investigations by TVA concluded that some senior TVA officials engaged in misconduct and violated TVA's standards of employee conduct. Several officials

accepted gratuities from investment managers who were actively seeking to obtain or maintain TVA Retirement System accounts. Some of the gratuities directly violated TVA rules on the acceptance of gifts, entertainment, and favors. As a result of the investigative findings, disciplinary action was taken against a number of TVA employees, while others resigned during the investigation.

A Securities and Exchange Commission OIG investigation disclosed that an SEC employee had accessed the computer of a manager without authority to do so, had


repeatedly loaded an application on a file server that users did not want loaded, and had upgraded the employee's user privileges on the network through unauthorized means. Computer forensics lab personnel recovered deleted files, which assisted in conducting the investigation.

Misconduct by High Level Executives

The Equal Employment Opportunity Commission OIG investigated allegations involving a member of the Senior Executive Service (SES) who, among other things, solicited and received numerous loans and gifts from subordinate employees including one in the amount of \$10,000 to cover closing costs in connection with her purchase of a residential property. The SES employee received smaller loans and gifts from subordinate staff which often included direct pay-

ments made by the employees to cover the cost of such items as concert tickets, a telephone bill and golf lessons. OIG's investigation, which included findings of criminal misconduct, led to the employee's termination.

A regional administrator for the Nuclear Regulatory Commission (NRC) resigned from Federal service after the NRC OIG conducted an investigation into an allegation that the official solicited the aid of subordinates to move personal household goods, used NRC equipment and secretaries for personal business, and manipulated his official



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travel to allow personal business at Government expense. A subsequent investigation also found that the official provided false information regarding his availability to undergo a drug-screening test.

The National Labor Relations Board OIG conducted an investigation of a Senior Executive Service employee accused of fraud in connection with the unauthorized use of Government equipment and personnel, and theft of other funds. This investigation disclosed that the employee used agency video equipment for personal use, ordered agency personnel to assist him in using printing equipment and supplies for personal means, illegally used his staff to do shopping for him on Government time, and made false statements regarding agency funds.

A former Treasurer of the United States was charged with Federal felonies involving false statements and tax evasion as a result of an investigation involving the Department of the Treasury OIG. The former Treasurer attempted to conceal from the Department, the Office of Government Ethics, and the Senate certain facts concerning her fitness to hold the position of Treasurer and failed to report taxable income on which she owed over \$47,000 in additional Federal income taxes for one year.

Checks and Balances

Following FEMA's response to Hurricane Andrew in August 1992, there was much criticism about FEMA's response to the disaster. Responding to these complaints, FEMA's OIG conducted a review of the Disaster Management Program. The OIG issued a report containing 113 recommendations to management for improving the disaster program. Many of FEMA's improved processes today stem from the recommendations made in the report. FEMA is now regarded as a premier Federal agency and has been lauded for its ability to respond to disasters and to assist the public in better preparing itself for impending disasters.

The Department of Justice OIG conducted an investigation into allegations of wrongdoing and improper practices within the Federal Bureau of Investigation Laboratory. The allegations implicated fundamental aspects of Federal law enforcement: the reliability of the Laboratory procedures to analyze evidence, the integrity of those engaged in the analysis, and the objectivity of the testimony given by Laboratory examiners. The investigation found deficient practices in several cases handled by the Laboratory, and the OIG recommended that the FBI pursue Laboratory accreditation, restructure portions of the Laboratory, change procedures, improve case documentation, institute a coordinated training program, and more closely monitor examiners' court testimony. These recommendations were designed to enhance the quality in the Laboratory.

A request by the Secretary of Energy led to the Department of Energy OIG's review of foreign travel taken by the Secretary over a 30-month period. This inspection found that internal control deficiencies existed, including the lack of written internal control procedures for planning, coordinating, and executing international trade missions. Several recommendations were made and the Department of Energy took corrective action.

Deception

In response to numerous complaints received from consumers regarding the Federal Record Service Corporation (FRSC), SSA OIG began an administrative action against FRSC alleging that the company violated Section 1140 of the Social Security Act, which prohibits using SSA's program words, symbols, or emblems to convey the false impression of approval, endorsement, or authorization by SSA. FRSC agreed to a permanent injunction barring it from sending solicitations in violation of the laws that prohibit deceptive Social Security-related mailings, agreed to pay a \$195,000 penalty to the U.S. Government, and agreed not to sell, give, or transfer any sensitive personal information it received about consumers from its data cards. The OIG's joint efforts with other agencies in this matter sent a clear message to the direct mail industry that bilking consumers using SSA trademarks and logos will not be tolerated.

A scheme designed to circumvent the Agricultural Stabilization Conservation and Service (now Farm Service Agency, FSA) program regulations was investigated by the Department of Agriculture OIG. During 1990 through 1992, approximately 35 million pounds of tobacco valued at \$57.5 million that should not have been sold was sold by illegal means. Tobacco is a regulated commodity, and this tobacco was in excess of the tobacco that was sold as part of the national quota. Tobacco in excess of a farmer's quota may be sold legally if the purchaser submits a penalty to the Government. As a result of the investigation, a total of 40 persons, including tobacco dealers and warehousemen (including a former North Carolina Lieutenant Governor), farmers, and a Federal employee were indicted and convicted or pled guilty. Forfeitures to the Government included over \$3 million in cash, a plantation, and a quarter horse stallion. This investigation also led FSA to pursue the collection of approximately \$19 million in penalties against multiple tobacco warehouses.

Conclusion

IGs will continue to ensure integrity in Government. As independent oversight bodies, IGs will actively provide the high level of public accountability necessary to instill public confidence as we move through this new century. 🏛️

PARTNERING

As IG organizations have developed over the years and have become of critical importance to the Congress, OMB, GAO, as well as department and agency heads, they have found new and innovative ways to carry out their mandated tasks. The results of the initiatives discussed below, all undertaken in partnership with others, provide evidence that this approach to ensuring that taxpayer dollars are used as effectively as possible, and that fraud, waste, and abuse will be not be tolerated, has been a success.

Partnerships are developed among law enforcement agents in 23 states and identify \$170 million in federal and state savings relating to Medicaid costs.

- Over 420 people are arrested and drugs with a street value of nearly \$170,000 are seized.
- Over \$15 million is collected from a hospital, including money stolen from the project, legal and audit costs, and double damages.
- A corporation agrees to a permanent injunction barring it from sending solicitations in violation of laws prohibiting deceptive mailings.
- Over \$823 million is recovered from clinical diagnostic laboratories for fraudulent billing schemes.
- Over 4,900 fugitive felons, who may be illegally receiving food stamp benefits, are arrested.

These results stem from audits and investigations conducted by the Offices of Inspector General. But what distinguishes these cases is the fact that they were all conducted in partnership with other OIGs or federal, state, and local law enforcement agencies and organizations. By definition, a partnership is one or more persons who work together, often against an opposing side. While this definition may, on the surface, seem simplistic, when viewed in light of what IG offices have been able to accomplish since their inception, while joining forces with others who have similar goals and responsibilities, it's right on target.

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Federal/State Partnership Initiative a Resounding Success

A six-year old Federal partnership with state Governments to rein in soaring Medicaid costs has greatly broadened and strengthened oversight of program benefits identified through joint audit reviews as vulnerable to waste, fraud, and abuse. Called "Federal/State Partnership Project," the program was developed in 1994 by the HHS OIG, for voluntary participation by individual states in an effort to improve the effectiveness and efficiency of their respective programs. Its introduction came during a period when Medicaid costs were increasing at an annual rate of 25 percent and Federal and state audits of the Medicaid program were scarce as diminishing resources were devoted to other higher priority tasks.

A compelling interest in better safeguarding Medicaid against waste, fraud, and abuse through collaborative and innovative actions that maximized the utility of limited resources was the guiding principle in the development of the Partnership Project, which has been enthusiastically embraced by states. Since its inception, more than a score of states have participated in partnership projects, and several others are in the process of developing projects. To date, completed projects have saved Medicaid tens of millions of dollars and have identified areas where improvements in program operations could be

achieved, unallowable program expenditures recovered, and future cost savings realized.

Primarily intended to broaden and strengthen interGovernmental cooperation and oversight, the Partnership Project works in three ways to achieve program improvements and reduce the cost of providing needed services to Medicaid beneficiaries. First, it involves the OIG and state auditors working jointly on projects which have mutually beneficial results. Reviews of programmatic aspects of the Medicaid program led to: (1) joint audit recommendations for savings at both the Federal and state levels; and (2) improvements in internal controls and computer system operations. Because state auditors have different mandates, joint projects are designed to be as flexible as necessary to meet the different requirements of each state and to avoid hindering work plans of states auditors. Second, the partnership involves the OIG sharing with state auditors the methods used and the results achieved in past Medicare and Medicaid audits. This information provides state auditors with leads for audits of health care provider operations and Medicaid agencies' systems for paying the health care providers. Third, and equally important, the partnership involves states auditors sharing their audit methods and results with the OIG. This enables the OIG to assess the potential nationwide impact of cost saving recommendations implemented by states.

Since the introduction of the project, active partnerships have been developed in 23 states and have identified about \$170 million in Federal and state savings. The partnerships have examined such issues as Medicaid payments for prescription drugs, excessive payments for durable medical equipment, and the unbundling of clinical laboratory services.

A recent partnership with Florida found that in calendar year 1996, the state improperly paid about \$15.9 million in health care benefits for individuals who were dually eligible for Medicare and Medicaid and were enrolled in Medicare Health Maintenance Organizations (HMOs). The improper payments occurred when the beneficiaries received medical services and drugs that should have been covered by a Medicare HMO. However, these services were submitted to and paid by the Florida Medicaid Fee-for-Service Program rather than the HMOs. The claims went unchallenged because the Florida Medicaid agency failed to check Medicare coverage data to identify dually eligible beneficiaries enrolled in Medicare HMOs. Florida is acting on HHS OIG recommendations that the improper payments are recovered and safeguards are implemented to prevent such payments in the future.

The results of this and other Partnership Project studies will be shared with all other state audit groups so that they can benefit from such work and implement recommended changes, as appropriate, in their own programs to better ensure a more effective, efficient, and economical delivery of health care services and the best use of audit resources.

Operation Safe Home Improves Quality of Life for Housing Residents

On February 4, 1994, Vice President Al Gore, Attorney General Janet Reno, former Department of Housing and Urban Development (HUD) Secretary Cisneros, former Treasury Secretary Lloyd Bentsen, and former National Drug Control Policy Director Brown announced "Operation Safe Home" in a joint press conference at The White House. Months prior to this announcement, former Secretary Cisneros had asked the HUD Inspector General whether the HUD OIG could take a more proactive, rather than reactive, stance in identifying and combatting major types of crime that were undermining HUD programs. The OIG identified these three major types of crime as: (1) violent crime in public and assisted housing; (2) fraud in the administration of public housing; and (3) equity skimming in multifamily insured projects, which is the illegal diversion of revenues. In order to address these crimes, three OIG Task Forces determined that OIG had to be willing to engage in new kinds of work; leverage their resources by focusing other law enforcement agencies, as well as HUD and HUD partners, on these crimes; publicize their enforcement successes as a deterrent effect; and make a substantial long-term commitment to the effort.

Violent Crime in Public and Assisted Housing

HUD spends billions of dollars a year for public and assisted housing, much of which has become plagued with violent crime, with law-abiding residents, many of them elderly, terrorized by drug and gang activity. The HUD OIG attributed the rising tide of violence, in part, to poor communication/cooperation between housing authorities and local law enforcement, inadequate emphasis on crime prevention (as opposed to law enforcement), and fragmented federal, state, and local law enforcement efforts. In order to address these problems, and as a result of their outreach effort, HUD OIG became a participant in over 100 Federal law enforcement task forces; assumed significant responsibility for relocating witnesses of violent crime; sponsored a dialogue among police chiefs, the Department of Justice, and HUD program managers; and developed an anti-crime legislative proposal. Other participants in these task forces include the Federal Bureau of Investigation; the Drug Enforcement Administration (DEA); the Bureau of Alcohol, Tobacco, and Firearms (ATF); the U.S. Marshals Service; the U.S. Secret Service; the U.S. Customs Service; the U.S. Postal Inspection Service; the Immigration and Naturalization Service (INS); IRS; DOJ. Law enforcement personnel from individual states, counties, cities, and housing authorities are also typically represented on the task forces.

Since the inception of Operation Safe Home, OIG agents have participated in executing over 2,600 search

warrants, and have participated in making over 20,400 arrests in and around public and assisted housing sites. In the course of these operations, they have become involved in joint seizures of drugs valued at over \$48 million, over \$7.5 million in cash, and over 2,800 weapons, including over 280 shotguns and assault weapons. In one case, dubbed "Operation Clean," the ATF, DEA, HUD OIG, Marshals Service, District of Columbia Metropolitan Police Department, Prince George's County, MD Police Department, U.S. Attorney's Office, and the Washington/Baltimore High Intensity Drug Trafficking Area task force participated in the first ever multi-agency joint operation targeted at the high levels of street narcotics trafficking and related violent crime occurring on the border of Prince George's County and the District. This area includes a heavy concentration of HUD public and assisted housing communities. As a result of the operation, 429 people were arrested and marijuana, cocaine, heroin, and cash were seized. In addition, efforts were undertaken to identify anyone arrested who is a HUD public or assisted housing resident and pursue their eviction.

More importantly, in many cases, these task forces have succeeded in removing entire gangs that terrorized residents, thereby allowing housing authorities to return residents to a sense of community. As the fight against violent crime in public and assisted housing continues, there is evidence that these efforts are paying increased dividends in the form of improved quality of life for residents. More and more residents have expressed their appreciation for these law enforcement operations, and have participated in post enforcement activities. Post enforcement activities are directed toward continuing to keep the criminal element away by enabling residents, housing authority management, and the local community to participate in reclaiming their neighborhoods. Post enforcement efforts are usually initiated after a major law enforcement effort has rid the area of crime. Experience has shown that it is only when residents are allowed to reclaim their neighborhoods that the criminal element finds it difficult to re-enter.

Equity Skimming in Multifamily Insured Projects

For years, the HUD OIG has warned the Department about the high risk of significant defaults within its multifamily insurance portfolio. This portfolio consists of HUD's outstanding obligations via underwriting mortgage insurance for residential apartment complexes that are owned and managed by private entities. In the event such a complex defaults on its mortgage to a financial institution, HUD pays the insurance claim.

Equity skimming plays a significant part in the realization of losses to the Federal Housing Administration insurance funds. Equity skimming is the willful misuse of any part of the rents, assets, proceeds, income or other funds

derived from a property covered by a mortgage. When owners fail to pay their mortgages, in addition to the financial losses incurred, the living conditions in the complexes generally deteriorate because the funds intended to maintain individual units and common areas are diverted for unauthorized uses. Another side effect noted in multifamily complexes, especially in urban areas, is that as mortgages go into default and projects fall into disrepair, incidents of violent crime generally increase.

Despite the serious consequences of multifamily equity skimming, in the past HUD's track record in pursuing equity skimming cases developed by OIG auditors was poor. As part of Operation Safe Home, the OIG initiated a campaign against equity skimming by: (1) focusing on affirmative civil enforcement opportunities; (2) referring civil cases directly to U.S. Attorneys, rather than through HUD's Office of General Counsel, as had been the practice, in order to speed up the resolution of those cases where equity skimming was found; and (3) empowering OIG auditors to make civil referrals without involvement by the OIG Office of Investigation. The HUD OIG has worked closely with DOJ in this effort. OIG outreach efforts to all 94 U.S. Attorneys and conferences with Civil Assistant U.S. Attorneys from around the country have paid off. Since the initiation of Operation Safe Home, OIG Auditors, working with Assistant U.S. Attorneys from DOJ's Affirmative Civil Enforcement Unit, have pursued aggressive, affirmative litigation to stop owners and management agents from illegally diverting funds. Settlements have been reached in 104 cases, with required repayments totaling over \$69 million. Court judgments in 16 cases have amounted to \$17.5 million, and repayments required as a result of 27 criminal convictions have totaled over \$4 million.

In an unparalleled recovery of damages resulting from an OIG equity skimming case, \$15.8 million was collected from a hospital in Puerto Rico. What began as a routine OIG audit of the hospital's nursing home operations in 1991 led to the discovery of violations by the owners and operators of this HUD project, who skimmed project funds for their own use at a time when the project mortgage was in default, or the project lacked surplus cash funds. About \$5.4 million was determined to have been taken from the project. The matter was referred to the U.S. Attorney in Puerto Rico, who observed that "the Government accomplished all of its goals: collected its mortgage in full, imposed a civil penalty, collected its costs and sent a message that violations to regulatory agreements and HUD laws and regulations will not be left unpunished."

Operation Talon Successful in Communities

For more than two years, the USDA OIG has coordinated a nationwide law enforcement initiative known as Operation Talon, which has resulted in the arrest of over 4,900 fugi-

tive felons. This initiative, which has been carried out in conjunction with other law enforcement agencies and states social service agencies across the country, was designed to identify, locate, and apprehend dangerous and violent felons who may also be illegally receiving benefits through the Food Stamp Program.

Operation Talon began as a pilot project in Kentucky. In May 1997, in partnership with the Office of the Attorney General for the state of Kentucky and several other states and local law enforcement agencies, the first 85 felony arrests were made. From there, Operation Talon has grown into a nationwide dragnet, currently encompassing 24 states. Included in the total number of arrests made to date were 33 fugitives who were wanted for murder or attempted murder, 24 for child molestation, 13 for rape or attempted rape, 8 for kidnapping, and 1,617 for assault, robbery, and drug offenses. A number of states are removing arrested fugitives from their food stamp roles, resulting in savings to the program.

In December 1997, Vice President Gore, along with the Secretary and the Inspector General of the Department of Agriculture, announced the success of Operation Talon during a press conference at the White House. The Inspector General subsequently sent a copy of his Operation Talon report to the Governors of all 50 states, Puerto Rico, and Guam, advising them of the operation's success and urging them to consider similar actions. A number of additional operations are now underway.

The benefits of Operation Talon are numerous. But perhaps of most value to the American people is the often-intangible benefit of violent and dangerous criminals having been removed from their communities.

"Uncle" Convicted in Award—Winning Task Force Investigation

The Social Security Administration's OIG Office of Investigation in Seattle, the FBI, and the state of Washington Department of Health and Human Services have worked jointly on the Illegal Income Investigation Task Force. This Task Force conducted an investigation involving a person who was helping individuals fraudulently obtain Social Security and state of Washington welfare benefits.

A man known as "Uncle" was charged and convicted on 16 counts of mail fraud. The charges state that "Uncle" acted as a middleman in assisting approximately 50 people in obtaining Social Security disability and state of Washington welfare benefits amounting to about \$1 million. He charged up to \$3,000 for helping with the fraudulent Social Security claims. Other services ranged from loaning money to providing rides to doctors' offices. "Uncle" was sentenced to 84 months incarceration and 3 years probation, and was ordered to pay \$370,000 in restitution, a \$12,500 fine, and a \$1,600 special assessment.

In recognition of its efforts, the Task Force received the coveted Hammer Award in 1998.

Focus on Corruption Yields Seizure, Forfeiture, and Sentencing

Operation Port Sweeper, a joint investigation by the Office of Inspector General at DOJ, the FBI, and the U.S. Customs Service, targeted allegations that corrupt INS and Customs Service inspectors facilitated the smuggling of drugs between Mexico and the United States. The reputed ring-leader, a former INS Inspector, was arrested, as were four co-conspirators, on various cocaine smuggling charges. Two pled guilty and a Federal jury convicted the remaining three. Search warrants resulted in the seizure and forfeiture to the Government of \$1.2 million in drug profits. The INS inspector was sentenced to 27½ years in prison and 8 years supervised release. The Customs Service inspector was sentenced to 24 years in prison and 5 years supervised release, and was fined \$4 million. The former INS employee was sentenced to life in prison and ordered to forfeit 4 residences and \$100,000. One co-conspirator received over 17 years in prison and 5 years supervised release, and was ordered to forfeit a vehicle and real property valued at \$115,000. Another was sentenced to 20 years in prison and 5 years supervised release.

Dozens Guilty, Millions Recovered From Disaster Fraud Scheme

In 1994, the Small Business Administration Office of Inspector General opened an investigation of a Southern California disaster loan packager following a tip from a concerned citizen, and expanded the scope of the investigation based on a referral from SBA's west coast disaster office. Agents from the Secret Service subsequently joined the investigation. The case focused on a business specializing in preparing SBA loan applications and supporting documents subsequent to three Los Angeles area disasters: the 1992 civil unrest; the 1993 fires; and the 1994 earthquake. The investigation uncovered numerous fraudulent loan applications. Some of the perpetrators applied for disaster loans in the names of businesses that did not exist, using copies of fictitious income tax returns or altered copies of actual tax returns. The packager knowingly assisted in the preparation of most of the fraudulent applications.

By 1998, the joint investigation had resulted in guilty pleas by 27 of the 28 persons charged with crimes in the case. The case has generated nearly \$12 million in court ordered restitution and fines, loans declined, and loans cancelled. The loan packager, who was the main target of the investigation, was sentenced to 6½ years in prison and ordered to pay \$7,069,332 in restitution, almost twice the amount of the loan applications to which he pled guilty to fraudulently preparing. The other 26 who pled guilty were sentenced to a total of 28 months incarceration.

In addition to the guilty pleas, prison sentences, and restitution, this joint investigation served as a potential deterrent to future crimes when it was the subject of a multi-page article in Parade Magazine. Furthermore, the early results of the investigation persuaded the Administrator of the SBA to institute a new Tax Return Verification Program.

The concept of “partnering” is working well for the Offices of Inspector General and other agencies and organizations that participate in these joint efforts. It is apparent from these success stories that the sharing of resources and a commitment to economy, efficiency, and effectiveness in the way Federal programs and operations are carried out is enabling the Offices of Inspector General to serve as positive agents of change. 🏠