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INDIAN HEALTH SERVICE MANAGEMENT: LOST PROPERTY, WASTEFUL SPENDING, AND DOCUMENT FABRICATION

HEARING

BEFORE THE

COMMITTEE ON INDIAN AFFAIRS
UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

JULY 31, 2008

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INDIAN HEALTH SERVICE MANAGEMENT: LOST PROPERTY, WASTEFUL SPENDING, AND DOCUMENT FABRICATION

THURSDAY, JULY 31, 2008

U.S. SENATE,
COMMITTEE ON INDIAN AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 9:39 a.m. in room 562, Dirksen Senate Office Building, Hon. Byron L. Dorgan, Chairman of the Committee, presiding.

OPENING STATEMENT OF HON. BYRON L. DORGAN, U.S. SENATOR FROM NORTH DAKOTA

The CHAIRMAN. Today, the Committee is going to hold a hearing on a recent GAO report documenting mismanagement and lost property at the Indian Health Service. This Committee has held a number of hearings on Indian health care, which confirms a full-scale crisis, including the rationing of health care in Indian Country. These hearings highlighted the significant unmet needs in health care facilities, contract health dollars, and other basic services.

Despite the documented need for health care, today the Committee will focus on the GAO report. The GAO investigation concluded that a complete lack of direction at the Indian Health Service from the top down led to millions of dollars in lost or stolen property, wasteful spending, and document fabrication.

As you can see on some charts I have, charts one and two show the key findings of the GAO report. The report found that 5,000 property items worth $15.8 million were reported lost or stolen. This was between 2004 and 2007. The report covered the Indian Health Service headquarters and only 7 of the 163 Indian Health Service units.

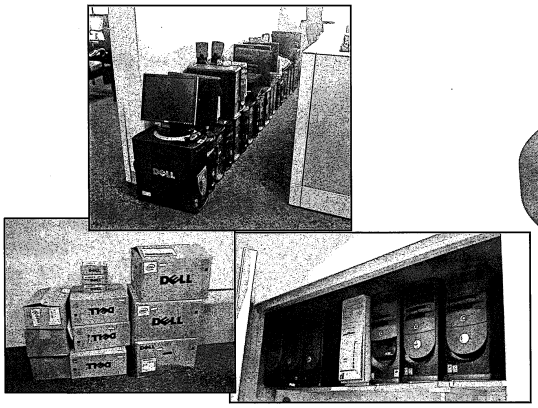
[The information referred to follows:]

Key GAO Report Findings

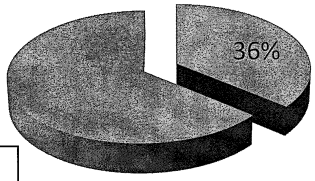
- **5,000 property items were unaccounted for, with a total value of $15.8 million.**
- **1,100 information technology items, such as laptops and digital cameras, were missing from the IHS headquarters in Rockville, MD.**
- **IHS missing an estimated 1,200 items of information technology equipment at 7 field offices, worth approximately $2.6 million—this is only 7 of 163 of the field offices.**

Information Technology Equipment at IHS Headquarters

Unsecured Equipment



36% of IT Equipment Missing



The losses include 1,100 information technology items at the headquarters. That mounts to more than one-third of the information technology equipment assigned to employees at the headquarters. GAO also identified thousands of missing property items controlled by the IHS. These items included tractors, all-terrain vehicles, pickup trucks, GPS systems, and even a Jaws of Life used by first responders in motor vehicle accidents.

More troubling in the course of the investigation, GAO reported employee document fabrication to cover up the mismanagement.

The Indian Health Service has known about this mismanagement for some time, if I can have chart three put up. We have a letter here showing that Mr. McSwain felt strongly enough 11 years ago when he was Acting Director of the Office of Management Support at the Indian Health Service to address the issue of unaccounted property. It took the department eight years to act on his concerns. In October of 2005, the Department of HHS issued a directive to implement a new universal information management system.

[The information referred to follows:]

DEPARTMENT OF HEALTH & HUMAN SERVICES — Public Health Service

Indian Health Service
Rockville MD 20857

MAR 12 1997

TO: Headquarters Staff

FROM: Acting Director
Office of Management Support

SUBJECT: Control and Custody of Personal Property

With the downsizing and restructuring taking place within the Indian Health Service (IHS) extra care and vigilance regarding personal property should be exercised. The potential for offices or work areas to be vacant may create opportunities for the theft, misappropriation, or vandalism of equipment, especially computers and related items.

Specifically, special efforts should be made to secure laptop computers as these are popular and easily accessible to theft. In recent months, IHS has lost eight new laptops as a result of theft due to negligence. During the past two years, thousands of dollars worth of computer equipment have been lost or stolen. If this negligence persists and the disregard of appropriate safeguards of ADP equipment and government property continues, the individuals who have responsibility for these items will be held liable and financially responsible for those missing items.

Please be aware that idle equipment not being used or that is intended for future use should be identified, collected and stored in secure areas or redistributed as soon as possible to preclude loss or damage. Property that is no longer required should be screened, transferred or disposed of in accordance with Indian Health Manual, Part 5, Chapter 12, titled "Personal Property Management."

Should you have any questions, please contact Ms. Gale Stevens, IHS Headquarters East Property Management Officer on 443-1095.

Robert G. McSwain

I had hoped the Secretary would be here today. I invited the Secretary of Health and Human Services. He indicated he would not come. He has some meetings on the Hill, but apparently because

of that scheduling conflict, he chose not to attend. I will say to the Secretary, I think he should have been here, and this Committee will ask him again to show up at this table and answer these questions.

It seems there is no clear understanding, to me, at the IHS headquarters of the location, condition or even the existence of significant losses of property purchased with taxpayers' dollars. One thing is clear, however: Migration to the property management information system, which began or was supposed to have begun in 2005 is clearly not functioning at the Indian Health Service.

I understand the IHS disagrees with the characterization of case studies that are in the GAO report. With that said, the Service has agreed to 9 of the 10 recommendations. They acknowledge a severe issue with property management and security at the IHS, so we have asked Director McSwain to give us his comments today.

This report has received a fair amount of attention in the past few weeks. I hope the explanations that we hear today will clear up some of this, but I must say that we have people dying in this Country because they don't get adequate health care. All of us see them when we go to reservations in our Native communities. There is full-scale rationing going on. We run out of contract health care money, in some cases early in the year in tribal governments.

I have described before my concern about the bureaucracy in the Bureau of Indian Affairs. I described my concern about the management in the Indian Health Service. This GAO report, I think, is a scathing indictment of the way things have been done at the Indian Health Service.

Mr. McSwain has just recently been confirmed. He has been on the job a relatively short period of time. Our Committee confirmed his nomination, but Mr. McSwain has inherited an agency that has, in my judgment, very serious problems.

I have described before circumstances where incompetent employees, rather than being dealt with as incompetent employees, are transferred from one area to another, so they transfer the incompetents, and the next group of patients is treated to the same incompetence and mismanagement. I tell you, it is enough to make you pretty depressed when you take a look at the way both the BIA and the Indian Health Service have been managed.

That is not to say there aren't some good people working in the system, but I am telling you, in my judgment this GAO report describes an agency in desperate need of repair, and one that is not doing what it should to serve the health needs of a very vulnerable population.

Senator Murkowski?

STATEMENT OF HON. LISA MURKOWSKI,
U.S. SENATOR FROM ALASKA

Senator MURKOWSKI. Thank you, Mr. Chairman.

You point out the number of hearings that we have had in this Committee that have looked to the issue of the inadequacy of Indian Health. Just within this Congress alone, the number of hearings that we have had, the discussion on the floor about Indian Health Care reauthorization, and time and time again we have heard about the struggles that the Indian Health providers face as

they try to stretch very, very limited resources to address the increasing health care costs.

Every year, this Committee issues its budget views and estimates letter, and we are always advocating for increases to the health care funding. Every year we are challenging our colleagues to do more to provide for Indian health care by increasing the appropriations, just a couple of weeks ago with the PEPFAR bill and efforts there.

But then to receive a report like we have before us today from the GAO about this wasteful spending and the property mismanagement by the IHS, I mean, it truly undermines the confidence in the structures that we have been defending when we say, well, we need more appropriations. But if internally we have this level of mismanagement going on, it really causes you to wonder how we truly move forward.

I am so disappointed that so many of the very basic shortfalls in property management were identified within this report. You would like to think that the management shortfalls that have been highlighted are limited just to these instances that are detailed in the report, but the concern that I have is that it is indicative of a much larger problem within the agency.

This is not just a spotlight on just a few issues that we have identified and there is nothing more. I think it goes much, much deeper than that.

I do understand that IHS was undergoing conversion to this new property management system. I understand that we may hear that the agency was short-staffed, but that is no excuse. It absolutely does not account for the fact that the taxpayers, we here in Congress, must be assured. We have to have the confidence that the basic procedures, that the proper procedures for management and accountability are in place and that they are followed.

So I look forward to the comments this morning from you, Mr. McSwain.

I do think that this is important to bring this up in as timely a manner as you have, Mr. Chairman, and I appreciate your doing so. Thank you.

The CHAIRMAN. Thank you very much.

Senator Tester?

STATEMENT OF HON. JON TESTER,
U.S. SENATOR FROM MONTANA

Senator TESTER. Thank you, Mr. Chairman, and thanks for having this hearing. I want to express my appreciation for the remarks that you and the Ranking Member both made on this topic.

I guess it explains a lot, after what I have seen over the last year and a half with IHS in the hearings we have had here and how the health care system in Indian Country is upside-down. I guess this is the way it ought to be. You know, $15.8 million for years, not knowing where the equipment went to.

I guess it fits in with the pattern of what we have been hearing here for the last year and a half and probably a lot longer before that before I came onboard.

I would just tell you this, it boils down to two things as far as I am concerned: flat, blatant incompetence, number one; and num-

ber two, a total vacuum when it comes to leadership. This isn't like developing technology for battery-powered cars. There are no excuses here.

I don't know who is responsible. It is probably multiple folks at different levels. But I will tell you this, if there was this kind of incompetence on my farm, people wouldn't be working there anymore, bottom line.

GAO came forth with some recommendations, and I look forward to hearing how these recommendations have been implemented, but the bottom line as far as I am concerned is that you don't get rid of incompetence like this without getting rid of the people who were responsible for the incompetence.

That is all. Thank you.

The CHAIRMAN. Senator Smith?

STATEMENT OF HON. GORDON H. SMITH, U.S. SENATOR FROM OREGON

Senator SMITH. Mr. Chairman, members of this Committee, thank you for moving out the two bills that were moved in the business part of this hearing. I appreciate that. One of them was my own.

I also want to thank you, Mr. Chairman, for moving this issue forward in the minds of the Senate and all those who are concerned with Indian health. I share your concern. I appreciate this GAO report and look forward to using it as a vehicle to improve Indian health care.

The CHAIRMAN. Thank you very much for your comments.

We will now call to the witness table Director McSwain and Greg Kutz from the Government Accountability Office. Mr. Kutz is the Managing Director of Forensic Audits and Special Investigations.

Mr. Kutz, we welcome you.

Director McSwain, we welcome you.

We will begin with the testimony of Mr. Greg Kutz. Mr. Kutz, you and your agency produced this Government report. We would like to hear your testimony, followed by the testimony of Mr. McSwain. Then we will proceed to one additional witness.

You may proceed.

STATEMENT OF GREGORY D. KUTZ, MANAGING DIRECTOR, FORENSIC AUDITS AND SPECIAL INVESTIGATIONS UNIT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. KUTZ. Mr. Chairman and members of the Committee, thank you for the opportunity to discuss Indian Health Service property and equipment.

Today's testimony highlights our investigation of allegations we received in June of 2007. The bottom line of my testimony is that these allegations were accurate. Specifically, IHS had millions of dollars of lost and stolen property, including items containing sensitive personal information.

My testimony has two parts. First I will discuss the problems that we identified. And second, I will discuss the causes of these problems.

First, IHS records show that from 2004 through 2007, at least 5,000 property items with an acquisition value of $15.8 million

were lost or stolen. Our own inventory work during Fiscal Year 2008 identified similar problems.

For example, at the Rockville, Maryland headquarters, 1,100 or 36 percent of IT property items were lost or stolen. This is based on a 100 percent inventory by my staff. In addition, based on a statistical sample of IT equipment at seven field locations, we estimate that 1,200 or 17 percent of these items were also lost or stolen.

The following cases give you a flavor for what we found. First, the poster board on my right shows four reports of lost or stolen property totaling over $1.8 million. IHS routinely writes off millions of dollars of these types of losses without holding anyone accountable.

The next poster board shows the Montana region writing off over $700,000 of equipment because it was infested with bat dung. And according to a Phoenix-area executive officer and others, a yard sale of Government furniture and equipment was held in Nevada. Fliers were provided to the public advertising this event.

We also found indications of the compromise of sensitive personal data. For example, a computer with Social Security numbers and medical information for at least 849 uranium miners was stolen from a New Mexico hospital. A PDA with medical information and patient names at an Arizona hospital was also lost. This PDA did not have encryption or password protection. And 17 computers that were not cleaned may have contained sensitive information for kids at a youth patient center in Arizona.

Let me move on to my second point, the causes of these problems. First, let me point your attention to the same memo the Chairman described earlier, that was in 1997 and written to all IHS headquarters employees. As you can see, lost and stolen property has been a problem for more than a decade. However, management has not fixed the problem or held anyone accountable. The clear message from the top is that the status quo is acceptable.

Although the problems we found are chronic, they are not complex. These are basic property management issues, or what I would refer to as property management 101. For example, we found lack of required annual physical inventories, property that was not properly bar-coded, lack of required hand receipts, and lack of required physical security. Notice that most of what we found is not flawed policy, but the lack of adherence to policies and procedures that are already in place.

I am encouraged that the letter we received from management in response to our report agreed with 9 of our 10 recommendations. However, the tone of that letter indicated ongoing denial of the problems. The letter even tries to rationalize an IHS employee fabricating 116 documents to make it appear that 571 property items were actually not lost or stolen.

In conclusion, nobody at IHS has been held accountable for the issues that we have described today, including the loss of millions of dollars and the compromise of sensitive data. So who then must pay for this problem? Unfortunately, it is the American taxpayer.

Mr. Chairman, this ends my statement. I look forward to your questions.

[The prepared statement of Mr. Kutz follows:]

PREPARED STATEMENT OF GREGORY D. KUTZ, MANAGING DIRECTOR, FORENSIC AUDITS AND SPECIAL INVESTIGATIONS UNIT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

GAO
Accountability · Integrity · Reliability

Highlights

Highlights of GAO-08-1069T, a testimony before the Committee on Indian Affairs, U.S. Senate

Why GAO Did This Study

In June 2007, GAO received information from a whistleblower through GAO's FraudNET hotline alleging millions of dollars in lost and stolen property and gross mismanagement of property at Indian Health Service (IHS), an operating division of the Department of Health and Human Services (HHS). GAO was asked to conduct a forensic audit and related investigations to (1) determine whether GAO could substantiate the allegation of lost and stolen property at IHS and identify examples of wasteful purchases and (2) identify the key causes of any loss, theft, or waste.

GAO analyzed IHS property records from fiscal years 2004 to 2007, conducted a full physical inventory at IHS headquarters, and statistically tested inventory of information technology (IT) equipment at seven IHS field locations in 2007 and 2008. GAO also examined IHS policies, conducted interviews with IHS officials, and assessed the security of property.

What GAO Recommends

In the report (GAO-08-727), on which this testimony was based, GAO made 10 recommendations to IHS to update its policy and enforce management policies. HHS agreed to 9 recommendations but did not agree to establish procedures to track all sensitive equipment if they fall under the accountable dollar threshold criteria. GAO disagreed with HHS's assessment and reiterated support for all recommendations.

To view the full product, including the scope and methodology, click on GAO-08-1069T. For more information, contact Gregory Kutz at (202) 512-6722 or kutzg@gao.gov.

July 31, 2008

INDIAN HEALTH SERVICE

Mismanagement Led to Millions of Dollars in Lost or Stolen Property and Wasteful Spending

What GAO Found

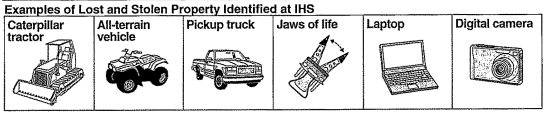
Millions of dollars worth of IHS property has been lost or stolen over the past several years. Specifically:

- IHS identified over 5,000 lost or stolen property items, worth about $15.8 million, from fiscal years 2004 through 2007. These missing items included all-terrain vehicles and tractors; Jaws of Life equipment; and a computer containing sensitive data, including social security numbers.
- GAO's physical inventory identified that over 1,100 IT items, worth about $2 million, were missing from IHS headquarters. These items represented about 36 percent of all IT equipment on the books at headquarters in 2007 and included laptops and digital cameras. Further, IHS staff attempted to obstruct GAO's investigation by fabricating hundreds of documents.
- GAO also estimates that IHS had about 1,200 missing IT equipment items at seven field office locations worth approximately $2.6 million. This represented about 17 percent of all IT equipment at these locations.

However, the dollar value of lost or stolen items and the extent of compromised data are unknown because IHS does not consistently document lost or stolen property, and GAO only tested a limited number of IHS locations. Information related to cases where GAO identified fabrication of documents and potential release of sensitive data was referred to the HHS Inspector General for further investigation.

The figure shows examples of the lost and stolen property GAO identified during the audit.

Examples of Lost and Stolen Property Identified at IHS



Source: GAO, Art Explosion.

GAO also found evidence of wasteful spending, including identifying that there are about 10 pieces of IT equipment for every one employee at headquarters. GAO's investigation also found computers and other IT equipment were often assigned to vacant offices.

GAO identified that the loss, theft, and waste can be attributed to IHS's weak internal control environment. IHS management has failed to establish a strong "tone at the top," allowing property management problems to continue for more than a decade with little or no improvement or accountability for lost and stolen property and compromise of sensitive personal data. In addition, IHS has not effectively implemented numerous property policies, including the proper safeguards for its expensive IT equipment. For example, IHS disposed of over $700,000 worth of equipment because it was "infested with bat dung."

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to discuss the results of our investigation of lost or stolen property at the Indian Health Service (IHS). In June 2007, we received information from a whistleblower through GAO's FraudNET hotline alleging gross mismanagement of property at IHS and wasteful spending. Specifically, the whistleblower, who was a cognizant property official, alleged that IHS could not locate 1,180 pieces of accountable personal property valued at over $1.8 million. The lost or stolen equipment included computers and other potentially sensitive information technology (IT) equipment at IHS headquarters. The whistleblower also claimed that officials at IHS headquarters wrote off millions of dollars worth of missing inventory without holding anyone financially liable. Based on the significance of these claims, we conducted an investigation to determine whether the whistleblower's allegations were valid. We described the results of the investigation in a recent report that was issued last month.[1]

Today, our testimony will summarize the results of our investigation and will describe the (1) substantiation of the allegation of lost or stolen property at IHS, (2) identification of examples of wasteful purchases and (3) identification of the key causes of any loss, theft, or waste that we detected.

As detailed in our recent report, to substantiate the allegation of lost or stolen property at IHS, we analyzed IHS property documents that identified lost or stolen property from fiscal year 2004 through fiscal year 2007. We conducted a full physical inventory of property at IHS headquarters[2] and performed random sample testing of IT equipment inventory at seven IHS field locations[3] that we selected based on book value of inventory and geographic proximity.[4] We did not attempt to

[1]GAO, *IHS Mismanagement Led to Millions of Dollars in Lost or Stolen Property*, GAO-08-727 (Washington, D.C.: June 18, 2008).

[2]IHS headquarters property consists mostly of IT equipment.

[3]We considered equipment to be lost or stolen in our physical inventory testing and random sample testing of seven field locations if we could not observe the item to confirm bar code and serial number, or if IHS could not provide us with adequate documentation to support the disposal of the equipment.

[4]The seven sites we selected account for 35 percent of the IT equipment items or 40 percent of the value of IT equipment. The seven locations we tested included both IHS area offices and service units such as hospitals and supply centers.

quantify the level of waste at IHS, but we identified instances of waste through observations during our equipment inventories at headquarters and random sample testing at the selected field locations. Although we did not perform a systematic review of IHS internal controls, we identified the key causes of lost and stolen property and waste by examining IHS policies and procedures, conducting interviews with IHS officials, and assessing the physical security of property through our inventory testing.

We conducted this forensic audit and related investigations from September 2007 to June 2008 in accordance with generally accepted government auditing standards.[5] Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Despite IHS efforts to obstruct our audit by making misrepresentations and fabricating hundreds of documents, we were still able to accomplish our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We performed our investigative work in accordance with standards prescribed by the President's Council on Integrity and Efficiency.

Summary

We confirmed the whistleblower's allegation of gross mismanagement of property at IHS. Specifically, we found that thousands of computers and other property, worth millions of dollars,[6] have been lost or stolen at IHS over the past several years. The number and dollar value of items that have been lost or stolen since 2004 is likely much higher because IHS did not consistently document lost or stolen property items. In addition, IHS did not provide us all the requested reports that IHS field offices used to document lost or stolen property since fiscal year 2004.

IHS's ineffective management over IT equipment has also led to wasteful spending. Our analysis of IHS records indicates that there are approximately 10 pieces of IT equipment for every one employee at IHS

[5]A forensic audit is a systematic evaluation of the effectiveness of internal controls over a program, process, and/or policies and procedures. Forensic audits identify ineffective controls and vulnerabilities and use data mining and investigations to expose areas of fraud, waste, abuse, and security vulnerabilities to show the effect of inadequate controls.

[6]The amount of lost or stolen property stated throughout the report was valued at acquisition cost which is how IHS typically values the property in its records.

headquarters.[7] We also found numerous pieces of recent-model excess equipment at IHS headquarters, including 25 brand new computers—valued at a combined total of about $30,000—that were not issued to any employees and were collecting dust in a store room.

The lost or stolen property and waste we detected at IHS can be attributed to the agency's weak internal control environment and its ineffective implementation of numerous property policies. IHS management has failed to establish a strong "tone at the top" by allowing inadequate accountability over property to persist for years and by neglecting to fully investigate cases related to lost and stolen items. Moreover, we found that IHS did not (1) conduct annual inventories of accountable property; (2) use receiving agents for acquired property at each location and designate property custodial officers in writing to be responsible for the proper use, maintenance, and protection of property; (3) place barcodes on accountable property to identify it as government property; and (4) maintain proper user-level accountability, including custody receipts, for issued property. IHS personnel also did not implement proper physical security controls to safeguard property.

As discussed in our recent report, we made 10 recommendations to IHS to update its policy and enforce property management policies. The Department of Health and Human Services (HHS) agreed with 9 of our 10 recommendations. HHS did not agree with our recommendation to establish procedures to track all sensitive equipment such as blackberries and cell phones even if they fall under the accountable dollar threshold criteria. We disagree with HHS's assessment and reiterate support for our recommendations.

IHS Has Had Millions of Dollars in Lost or Stolen Property

We substantiated the allegation of gross mismanagement of property at IHS. Specifically, we found that thousands of computers and other property, worth millions of dollars, have been lost or stolen over the past several years. We analyzed IHS reports for headquarters and the 12 regions from the last 4 fiscal years. These reports identified over 5,000 property items, worth about $15.8 million, that were lost or stolen from IHS headquarters and field offices throughout the country. The number and dollar value of this missing property is likely much higher because IHS did

[7]More specifically, each IHS employee is issued approximately 3 computers per person.

not conduct full inventories of accountable property[8] for all of its locations and did not provide us with all inventory documents as requested. Despite IHS attempts to obstruct our investigation, our full physical inventory at headquarters and our random sample of property at 7 field locations, identified millions of dollars of missing property.

IHS Records Indicate at Least $15.8 Million of Property Is Lost or Stolen

Our analysis of Report of Survey[9] records from IHS headquarters and field offices show that from fiscal year 2004 through fiscal year 2007, IHS property managers identified over 5,000 lost or stolen property items worth about $15.8 million. Although we did receive some documentation from IHS, the number and dollar value of items that have been lost or stolen since 2004 is likely much higher for the following reasons. First, IHS does not consistently document lost or stolen property items. For example, 9 of the 12 IHS regional offices did not perform a full physical inventory in fiscal year 2007. Second, an average of 5 of the 12 regions did not provide us with all of the reports used to document missing property for each year since fiscal year 2004, as we requested. Third, we found about $11 million in additional inventory shortages from our analysis of inventory reports provided to us by IHS, but we did not include this amount in our estimate of lost or stolen property because IHS has not made a final determination on this missing property. Some of the egregious examples of lost or stolen property include:

- In April 2007, a desktop computer containing a database of uranium miners' names, social security numbers, and medical histories was stolen from an IHS hospital in New Mexico. According to an HHS report, IHS attempted to notify the 849 miners whose personal information was compromised, but IHS did not issue a press release to inform the public of the compromised data.

- From 1999 through 2005, IHS did not follow required procedures to document the transfer of property from IHS to the Alaska Native Tribal Health Consortium, resulting in a 5-year unsuccessful attempt by IHS to reconcile the inventory. Our analysis of IHS documentation revealed

[8]Accountable personal property is personal property with an acquisition value of $5,000 or greater and all sensitive items with a value of $500 or greater.

[9]A Report of Survey is the document used to record and present findings and recommendations concerning the loss, theft, damage, or destruction of government property, to approve corrective actions, including financial recovery efforts, and to approve the resulting adjustments to property accountability records.

that about $6 million of this property—including all-terrain vehicles, generators, van trailers, pickup trucks, tractors, and other heavy equipment—was lost or stolen.

- In September 2006, IHS property staff in Tucson attempted to write off over $275,000 worth of property, including Jaws of Life equipment valued at $21,000. The acting area director in Tucson refused to approve the write-off because of the egregious nature of the property loss.

GAO Inventory Testing Reveals Lost or Stolen IT Equipment at IHS Headquarters

To substantiate the whistleblower's allegation of missing IT equipment, we performed our own full inventory of IT equipment at IHS headquarters. Our results were consistent with what the whistleblower claimed. Specifically, of the 3,155 pieces of IT equipment recorded in the records for IHS headquarters, we determined that about 1,140 items (or about 36 percent) were lost, stolen, or unaccounted for. These items, valued at around $2 million, included computers, computer servers, video projectors, and digital cameras. According to IHS records, 64 of the items we identified as missing during our physical inventory were "new" in April 2007.

During our investigation of the whistleblower's complaint, IHS made a concerted effort to obstruct our work. For example, the IHS Director over property misrepresented to us that IHS was able to find about 800 of the missing items from the whistleblower's complaint. In addition, an IHS property specialist attempted to provide documentation confirming that 571 missing items were properly disposed of by IHS. However, we found that the documentation he provided was not dated and contained no signatures. Finally, IHS provided us fabricated receiving reports after we questioned them that the original reports provided to us were missing key information on them. Figure 1 shows the fabricated receiving report for a shipment of new scanners delivered to IHS.

Figure 1: Example of Questionable Receiving Report

Receiving report chronology

October 2007 — Dec. 4, 2007



IHS provides incomplete information packet including blank receiving report



GAO questions blank receiving report



IHS completes fabricated receiving report (see below) on same day as GAO request

Fabricated receiving report

CONTRACT NO. (if any) HHSP233200430003B PAGE 2 OF 8

SUPPLEMENTAL INVOICING INFORMATION

If desired, this order (or a copy thereof) may be used by the Contractor as the Contractor's invoice, instead of a separate invoice, provided the following statement, (signed and dated) is on (or attached to) the order: "Payment is requested in the amount of $ _____. No other invoice will be submitted." However, if the Contractor wishes to submit an invoice, the following information must be provided; contract number (if any), order number, item number(s), description of supplies or service, sizes, quantities, unit prices, and extended totals. Prepaid shipping costs will be indicated as a separate item on the invoice. Where shipping costs exceed $10 (except for parcel post), the billing must be supported by a bill of lading or receipt. When several orders are invoiced to an ordering activity during the same billing period, consolidated periodic billings are encouraged.

RECEIVING REPORT

Quantity in the "Quantity Accepted" column on the face of this order has been: ☐ inspected, ☐ accepted, ☐ received by me and conforms to this contract. Items listed below have been rejected for the reasons indicated.

SHIPMENT NUMBER	PARTIAL / FINAL		DATE RECEIVED	SIGNATURE OF AUTHORIZED U.S. GOVT REP.	DATE
		✓	9/16/07	[signature]	12/4/07
TOTAL CONTAINERS	GROSS WEIGHT	RECEIVED AT	TITLE		
27			STAFF ASSISTANT, OPHS		

REPORT OF REJECTIONS

ITEM NO.	SUPPLIES OR SERVICES	UNIT	QUANTITY REJECTED	REASON FOR REJECTION
	"All items have been received" [signature]			

Source: GAO analysis of IHS data.

As shown in figure 1, there is almost a 3-month gap between the date the equipment was received in September and the date that the receiving report was completed and signed in December—even though the document should have been signed upon receipt. In fact, the new receiving report IHS provided was signed on the same date we requested it, strongly suggesting that IHS fabricated these documents in order to obstruct our investigation.

GAO Testing Identifies Lost or Stolen IT Equipment at Seven IHS Field Locations

We selected a random sample of IT equipment inventory at seven IHS field offices to determine whether the lack of accountability for inventory was confined to headquarters or occurred elsewhere within the agency.[10] Similar to our finding at IHS headquarters, our sample results also indicate that a substantial number of pieces of IT equipment were lost, stolen, or unaccounted for. Specifically, we estimate that for the 7 locations, about 1,200 equipment items or 17 percent, with a value of $2.6 million were lost, stolen or unaccounted for.[11] Furthermore, some of the missing equipment from the seven field locations could have contained sensitive information. We found that many of the missing laptops were assigned to IHS hospitals and, therefore, could have contained patient information and social security numbers and other personal information.

Wasteful Purchases Identified During Inventory Tests

IHS has also exhibited ineffective management over the procurement of IT equipment, which has led to wasteful spending of taxpayer funds. Some examples of wasteful spending that we observed during our audit of headquarters and field offices include:

- Approximately 10 pieces of IT equipment, on average, are issued for every one employee at IHS headquarters. Although some of these may be older items that were not properly disposed, we did find that many employees, including administrative assistants, were assigned two computer monitors, a printer and scanner, a blackberry, subwoofer

[10]We selected the seven field locations based on book value of inventory and geographic proximity. Five field office locations were selected because they had the highest dollar amount of IT equipment. We selected 2 additional sites because of their geographic proximity to the other field offices being tested.

[11]Because these estimates are based on a probability sample, they are subject to sampling error. For example, we are 95 percent confident that missing IT equipment is valued between $1.39 million and $4.53 million. Likewise, we are 95 percent confident that between 12 and 22 percent (or between 893 and 1588) of the IT equipment items were lost or stolen.

speakers, and multiple computer laptops in addition to their computer desktop. Many of these employees said they rarely used all of this equipment, and some could not even remember the passwords for some of their multiple laptops.

- IHS purchased numerous computers for headquarters staff in excess of expected need. For example, IHS purchased 134 new computer desktops and monitors for $161,700 in the summer of 2007. As of February 2008, 25 of these computers and monitors—valued at about $30,000—were in storage at IHS headquarters. In addition, many of the computer desktops and monitors purchased in the summer of 2007 for IHS headquarters were assigned to vacant offices.

Weak Tone at the Top and Other Control Weaknesses Leave IHS Highly Vulnerable to Loss, Theft, and Waste

The lost or stolen property and waste we detected at IHS can be attributed to the agency's weak internal control environment and its ineffective implementation of numerous property policies. In particular, IHS management has failed to establish a strong "tone at the top" by allowing inadequate accountability over property to persist for years and by neglecting to fully investigate cases related to lost and stolen items. Furthermore, IHS management has not properly updated its personal property management policies, which IHS has not revised since 1992. Moreover, IHS did not (1) conduct annual inventories of accountable property; (2) use receiving agents for acquired property at each location and designate property custodial officers in writing to be responsible for the proper use, maintenance, and protection of property; (3) place barcodes on accountable property to identify it as government property; (4) maintain proper individual user-level accountability, including custody receipts, for issued property; (5) safeguard IT equipment;[12] or (6) record certain property in its new property management information system.[13]

[12]For example, as noted in our recent report, because IHS did not properly protect its equipment against damage or destruction, IHS had to dispose over $700,000 worth of equipment because it was infested with bat dung.

[13]Because IHS has not entered all property information into its new property management information system, it does not have reliable inventory records related to expensive, sensitive, and pilferable property. Specifically, our investigation found that IHS failed to enter over 18,000 items, worth approximately $48 million, from headquarters and the sites we reviewed. Furthermore, over half of the items we selected while performing our random sample testing of the seven field locations were not recorded in the new property management information system.

Implementation of GAO Recommendations Will Lead to Better Management of IHS Property

To strengthen IHS's overall control environment and "tone at the top", we made 10 recommendations to IHS to update its policy and enforce property management policies of both the HHS and IHS. Specifically, we recommended that the Director of IHS should direct IHS property officials to take the following 10 actions:

- Update IHS personal property management policies to reflect any policy changes that have occurred since the last update in 1992.
- Investigate circumstances surrounding missing or stolen property instead of writing off losses without holding anyone accountable.
- Enforce policy to conduct annual inventories of accountable personal property at headquarters and all field locations.
- Enforce policy to use receiving agents to document the receipt of property and distribute the property to its intended user and to designate property custodial officers in writing to be responsible for the proper use, maintenance, and protection of property.
- Enforce policy to place bar codes on all accountable property.
- Enforce policy to document the issuance of property using hand receipts and make sure that employees account for property at the time of transfer, separation, change in duties, or on demand by the proper authority.
- Maintain information on users of all accountable property, including their buildings and room numbers, so that property can easily be located.
- Physically secure and protect property to guard against loss and theft of equipment.
- Enforce the use of the property management information system database to create reliable inventory records.
- Establish procedures to track all sensitive equipment such as blackberries and cell phones even if they fall under the accountable dollar threshold criteria.

HHS agreed with 9 of the 10 recommendations. HHS disagreed with our recommendation to establish procedures to track all sensitive equipment such as blackberries and cell phones even if they fall under the

accountable dollar threshold criteria. We made this recommendation because we identified examples of lost or stolen equipment that contained sensitive data, such as a PDA containing medical data for patients at a Tucson, Arizona area hospital. According to an IHS official, the device contained no password or data encryption, meaning that anyone who found (or stole) the PDA could have accessed the sensitive medical data.[14] While we recognize that IHS may have taken steps to prevent the unauthorized release of sensitive data and acknowledge that it is not required to track devices under a certain threshold, we are concerned about the potential harm to the public caused by the loss or theft of this type of equipment. Therefore, we continue to believe that such equipment should be tracked and that our recommendation remains valid.

Mr. Chairman and Members of the Committee, this concludes our statement. We would be pleased to answer any questions that you or other members of the committee may have at this time.

Contacts and Acknowledgments

For further information about this testimony, please contact Gregory D. Kutz at (202) 512-6722 or kutzg@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this testimony. In addition to the individual named above, the individuals who made major contributions to this testimony were Verginie Amirkhanian, Erika Axelson, Joonho Choi, Jennifer Costello, Jane Ervin, Jessica Gray, Richard Guthrie, John Kelly, Bret Kressin, Richard Kusman, Barbara Lewis, Megan Maisel, Andrew McIntosh, Shawn Mongin, Sandra Moore, James Murphy, Andy O'Connell, George Ogilvie, Chevalier Strong, Quan Thai, Matt Valenta, and David Yoder.

[14]This increased the risk that sensitive information could be disclosed to unauthorized individuals and was in violation of federal policy: OMB Memorandum M-07-16, *Safeguarding Against and Responding to the Breach of Personally Identifiable Information* (May 22, 2007).

Attachments

United States Government Accountability Office

GAO

Report to Congressional Requesters

June 2008

INDIAN HEALTH SERVICE

IHS Mismanagement Led to Millions of Dollars in Lost or Stolen Property



GAO-08-727

GAO
Accountability · Integrity · Reliability

Highlights

Highlights of GAO-08-727, a report to congressional requesters

June 18, 2008

INDIAN HEALTH SERVICE

IHS Mismanagement Led to Millions of Dollars in Lost or Stolen Property

Why GAO Did This Study

In June 2007, GAO received information from a whistleblower through GAO's FraudNET hotline alleging millions of dollars in lost and stolen property and gross mismanagement of property at Indian Health Service (IHS), an operating division of the Department of Health and Human Services (HHS). GAO was asked to conduct a forensic audit and related investigations to (1) determine whether GAO could substantiate the allegation of lost and stolen property at IHS and identify examples of wasteful purchases and (2) identify the key causes of any loss, theft, or waste.

GAO analyzed IHS property records from fiscal years 2004-2007, conducted a full physical inventory at IHS headquarters, and statistically tested inventory of information technology (IT) equipment at 7 IHS field locations in 2007 and 2008. GAO also examined IHS policies, conducted interviews with IHS officials, and assessed the security of property.

What GAO Recommends

GAO makes 10 recommendations to the IHS to update IHS policy, and enforce management policies such as conducting physical inventories, properly tracking inventory, and safeguarding assets. Although HHS agreed to 9 recommendations, HHS stated that the report contained inaccuracies and misinterpretations that they believe seriously weaken the conclusions. GAO disagrees with their assessment and reiterates support for all recommendations.

To view the full product, including the scope and methodology, click on GAO-08-727. For more information, contact Gregory Kutz at (202) 512-6722 or kutzg@gao.gov.

What GAO Found

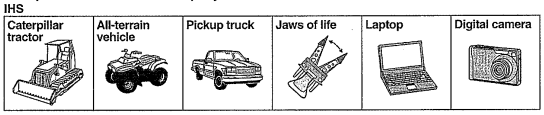
Millions of dollars worth of IHS property has been lost or stolen over the past several years. Specifically,

- IHS identified over 5,000 lost or stolen property items, worth about $15.8 million, from fiscal years 2004 through 2007. These missing items included all-terrain vehicles and tractors; Jaws of Life equipment; and a computer containing sensitive data, including social security numbers.
- GAO's physical inventory identified that over 1,100 IT items, worth about $2 million, were missing from IHS headquarters. These items represented about 36 percent of all IT equipment on the books at headquarters in 2007 and included laptops and digital cameras. Further, IHS staff attempted to obstruct GAO's investigation by fabricating hundreds of documents.
- GAO also estimates that IHS had about 1,200 missing IT equipment items at seven field office locations worth approximately $2.6 million. This represented about 17 percent of all IT equipment at these locations.

However, the dollar value of lost or stolen items and the extent of compromised data are unknown because IHS does not consistently document lost or stolen property and GAO only tested a limited number of IHS locations. Information related to cases where GAO identified fabrication of documents and potential release of sensitive data is being referred to the HHS Inspector General for further investigation.

The figure shows examples of the lost and stolen property GAO identified during the audit.

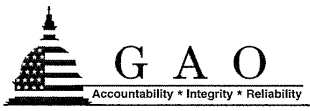
Examples of Lost and Stolen Property Identified at IHS



Source: GAO, Art Explosion.

GAO also found evidence of wasteful spending, including identifying that there are about 10 pieces of IT equipment for every one employee at headquarters. GAO's investigation also found computers and other IT equipment were often assigned to vacant offices.

GAO identified that the loss, theft, and waste can be attributed to IHS's weak internal control environment. IHS management has failed to establish a strong "tone at the top," allowing property management problems to continue for more than a decade with little or no improvement or accountability for lost and stolen property and compromise of sensitive personal data. In addition, IHS has not effectively implemented numerous property policies, including the proper safeguards for its expensive IT equipment. For example, IHS disposed over $700,000 worth of equipment because it was "infested with bat dung."



United States Government Accountability Office
Washington, DC 20548

June 18, 2008

The Honorable Henry A. Waxman
Chairman
Committee on Oversight and Government Reform
House of Representatives

The Honorable Nick J. Rahall, II
Chairman
Committee on Natural Resources
House of Representatives

In June 2007, we received information from a whistleblower through GAO's FraudNET hotline alleging gross mismanagement of property and wasteful spending at the Indian Health Service (IHS). Specifically, the whistleblower, who was a cognizant property official, alleged that IHS headquarters could not locate 1,180 pieces of accountable personal property, including computers and other potentially sensitive information technology (IT) equipment, valued at over $1.8 million. The whistleblower also claimed that officials at IHS headquarters wrote off millions of dollars worth of missing inventory without holding anyone financially liable. Based on the significance of these claims, you asked us to (1) determine whether we could substantiate the allegation of lost or stolen property at IHS and identify examples of wasteful purchases and (2) identify the key causes of any loss, theft, or waste we detect.

To do this, we analyzed IHS property documents that identified lost or stolen property from fiscal year 2004 through fiscal year 2007. We conducted a full physical inventory of property at IHS headquarters[1] and performed random sample testing of IT equipment inventory at seven IHS field locations[2] that we selected based on book value of inventory and

[1] IHS headquarters property consists mostly of IT equipment.

[2] We considered equipment to be lost or stolen in our physical inventory testing and random sample testing of seven field locations if we could not observe the item to confirm bar code and serial number, or if IHS could not provide us with adequate documentation to support the disposal of the equipment.

geographic proximity.[3] We limited the scope of our work to testing IT equipment because it is highly pilferable, can be easily converted to personal use, and potentially contains sensitive information that may be used for identity fraud or other malicious purposes. We did not attempt to quantify the level of waste at IHS, but we identified instances of waste through observations during our equipment inventories at headquarters and random sample testing at the selected field locations. Although we did not perform a systematic review of IHS internal controls, we identified the key causes of lost and stolen property and waste by examining IHS policies and procedures, conducting interviews with IHS officials, and assessing the physical security of property through our inventory testing.

We conducted this forensic audit and related investigations from September 2007 to June 2008 in accordance with generally accepted government auditing standards.[4] Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Despite IHS efforts to obstruct our audit by making misrepresentations and fabricating hundreds of documents, we were still able to accomplish our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We performed our investigative work in accordance with standards prescribed by the President's Council on Integrity and Efficiency. A detailed discussion of our scope and methodology is presented in appendix I.

Results in Brief

We confirmed the whistleblower's allegation of gross mismanagement of property at IHS. Specifically, we found that thousands of computers and other property, worth millions of dollars[5], have been lost or stolen at IHS over the past several years. The number and dollar value of items that have been lost or stolen since 2004 is likely much higher because IHS did not

[3] The seven sites we selected account for 35 percent of the IT equipment items or 40 percent of the value of IT equipment. The seven locations we tested included both IHS area offices and service units such as hospitals and supply centers.

[4] A forensic audit is a systematic evaluation of the effectiveness of internal controls over a program, process, and/or policies and procedures. Forensic audits identify ineffective controls and vulnerabilities and use data mining and investigations to expose areas of fraud, waste, abuse, and security vulnerabilities to show the effect of inadequate controls.

[5]The amount of lost or stolen property stated throughout the report was valued at acquisition cost, which is how IHS typically values the property in its records.

consistently document lost or stolen property items and did not provide us all the reports that IHS field offices used to document lost or stolen property since fiscal year 2004 as requested. Specifically, we found the following:

- We analyzed IHS reports from fiscal year 2004 through fiscal year 2007 and identified over 5,000 lost or stolen property items, worth approximately $15.8 million. These items included all-terrain vehicles, tractors, and pick-up trucks worth around $6 million; and "Jaws of Life" equipment worth over $20,000. In addition, a desktop computer that contained sensitive information (e.g., social security numbers and medical information) on 849 uranium miners was reported stolen in April 2007 and to date has not been found. In addition to these reports, the IHS Finance department recently reported a missing Personal Digital Assistant (PDA) in March 2008 when they requested a replacement. The PDA contained medical information and names of patients at a Tucson, Arizona area hospital. According to the IHS IT official, the device contained no password or data encryption. This was in violation of federal policy and increased the risk that sensitive information could be disclosed to unauthorized individuals.[6] Both of these cases have already been reported to the Department of Health and Human Services (HHS) by the IHS Office of Information Technology. The total dollar value of lost or stolen items and extent of compromised data are unknown because IHS does not consistently document lost or stolen property.

- Of the 3,155 pieces of IT equipment that were on the books at IHS headquarters in 2007, 1,140 items, or about 36 percent, were lost, stolen, or unaccounted for. These missing items, valued at about $2 million, include computers, computer servers, video projectors, and digital cameras. According to IHS records, 64 of the items we identified as lost or stolen during our physical inventory were "new" in April 2007. Further, IHS officials attempted to obstruct our investigation by making misrepresentations and fabricating documents to conceal this lost or stolen property.

- Based on our random sample of IT equipment at the 7 selected IHS field locations, we estimate that about 1,200 items worth approximately $2.6

[6] OMB Memorandum M-07-16, *Safeguarding Against and Responding to the Breach of Personally Identifiable Information* (May 22, 2007).

million were lost, stolen, or unaccounted for at these locations.[7] This represents about 17 percent of all IT equipment at the 7 field locations we visited. Because we only looked at 7 of the 163 IHS locations, the number and value of lost or stolen equipment is likely much higher. The missing equipment we identified included IHS hospital laptops, which may contain patients' social security numbers and medical histories. In order to avoid duplicating missing property items and dollar amounts, we did not combine the total amount of missing items and dollar values from our review of IHS documentation, physical inventory at IHS headquarters, and sample testing at the 7 field locations.

IHS's ineffective management over IT equipment has also led to wasteful spending. Our analysis of IHS records indicates that there are approximately 10 pieces of IT equipment for every one employee at IHS headquarters.[8] We also found numerous pieces of recent-model equipment at IHS headquarters, including 25 brand new computers—with a combined value of about $30,000—that were not issued to any employees and were collecting dust in a store room.

The lost or stolen property and waste we detected at IHS can be attributed to the agency's weak internal control environment and its ineffective implementation of numerous property policies. IHS management has failed to establish a strong "tone at the top" by allowing inadequate accountability over property to persist for years and by neglecting to fully investigate cases related to lost and stolen items. Furthermore, IHS management has not revised its personal property management policies since 1992.[9] Moreover, we found that IHS did not (1) conduct annual inventories of accountable property; (2) use receiving agents for acquired property at each location and designate property custodial officers in writing to be responsible for the proper use, maintenance, and protection of property; (3) place bar codes on accountable property to identify it as government property; and (4) maintain proper user-level accountability, including custody receipts, for issued property. IHS personnel also did not

[7] Because these estimates are based on a probability sample, they are subject to sampling error. For example, we are 95 percent confident that missing IT equipment is valued between $1.39 million and $4.53 million. Likewise, we are 95 percent confident that between 12 and 22 percent of the IT equipment items were lost or stolen. Additional information on our sample and estimates is presented in appendix I.

[8] More specifically, IHS has issued approximately three computers per employee.

[9] *Indian Health Manual*, Part 5, Chapter 12, "Personal Property Management" (Apr. 29, 1992).

implement proper physical security controls to safeguard property. For example, we observed computers worth thousands of dollars set aside in unsecured storage areas and hallways. Furthermore, IHS failed to migrate data to the new inventory management system by not properly recording certain property in its Property Management Information System (PMIS),[10] leaving about $48 million in inventory outside of this database and at an increased risk of loss or theft.[11] Some examples of property that we identified as not being recorded in PMIS included a $145,000 ultrasound unit, a $140,000 X-ray unit, and a $61,000 anesthesia machine.

We are recommending that the Director of IHS update IHS policy, and enforce property management policies such as conducting physical inventories, enforcing user-level accountability, properly tracking inventory, and safeguarding assets. In the case where we identified that an individual fabricated hundreds of documents and cases where there was a potential release of sensitive data—including employee social security numbers and patient information regarding missing computers from the human resource department and from IHS hospitals—we are making referrals to the HHS Office of Inspector General (OIG) for further investigation.

We provided a draft copy of our report to HHS for review and comment. While they believe that our report contains inaccuracies and misrepresentations, they agreed with 9 of our 10 recommendations. HHS did not agree with our recommendation to establish procedures to track all sensitive equipment such as blackberries and cell phones even when they fall under HHS's accountable dollar threshold criteria. Additionally, HHS commented that our report contained inaccuracies and misinterpretations by not considering IHS's unique property management system due to its collaboration with Indian Tribes; the implementation and reconciliation of IHS's new inventory tracking system; and depreciation value of lost and stolen items. Additionally, HHS cited six cases that they believe were misrepresented in our case studies. We believe that we fairly characterized and conservatively estimated our findings and reiterate support for all recommendations. See the Agency Comments and Our

[10] HHS mandated the property management information system, PMIS, which was implemented over a 2-year process effective October 18, 2007, and contains IHS personal property, including inventory that is capitalized and sensitive.

[11] While performing our random sample testing of the seven field locations, we also found that over half of the items we selected were not in PMIS.

Evaluation section of this report for a more detailed discussion of the agency comments. We have reprinted HHS's written comments in appendix II.

Background

IHS, an operating division of HHS, is responsible for providing health services to federally recognized tribes of American Indians and Alaska natives. In 2007, IHS provided health services to approximately 1.9 million American Indians and Alaska natives from more than 562 federally recognized tribes. As an operating division of HHS, IHS is included in the agency's consolidated financial statement and has not been audited independently since 2002.

IHS is divided into 12 regions and operates 163 service units throughout the country.[12] Service units may contain one or more health facilities, including hospitals, health centers, village clinics, health stations, and school health centers. There are 114 IHS-operated health facilities and 565 tribally operated health facilities. The IHS budget appropriation in 2007 was $3.2 billion, approximately 54 percent of which was administered by tribes through various contracts and compacts with the federal government.[13]

IHS Has Had Millions of Dollars in Property Lost or Stolen and Has Made Wasteful Purchases

We substantiated the allegation of gross mismanagement of property at IHS. Specifically, we found that thousands of computers and other property, worth millions of dollars, have been lost or stolen. We analyzed IHS reports for headquarters and the 12 regions from the last 4 fiscal years which identified over 5,000 property items, worth about $15.8 million, that were lost or stolen from IHS headquarters and field offices throughout the country. The number and dollar value of this missing property is likely much higher because IHS did not conduct full inventories of accountable property[14] for all of its locations and did not provide us with all inventory documents as requested. Despite IHS attempts to obstruct our

[12] IHS area offices are located in Aberdeen, South Dakota; Anchorage, Alaska; Albuquerque, New Mexico; Bemidji, Minnesota; Billings, Montana; Nashville, Tennessee; Oklahoma City, Oklahoma; Phoenix, Arizona; Portland, Oregon; Sacramento, California; Tucson, Arizona; and Window Rock, Arizona.

[13] Additionally, IHS reported about $ 800 million in third-party collections.

[14] Accountable personal property is personal property with an acquisition value of $5,000 or greater and all sensitive items with a value of $500 or greater.

investigation, our full physical inventory at headquarters and our random sample of property at seven field locations identified millions of dollars of missing property. We also found that IHS has made wasteful purchases over the past few years. For example, IHS has bought computer equipment that is currently unused in its original box and has issued IT equipment to its employees that duplicate the equipment already provided to them.

IHS Records Indicate at Least $15.8 Million of Property Has Been Lost or Stolen

Our analysis of Report of Survey[15] records from IHS headquarters and field offices shows that from fiscal year 2004 through fiscal year 2007, IHS property managers identified over 5,000 lost or stolen property items worth about $15.8 million.[16] Although we did receive some documentation from IHS, the number and dollar value of items that have been lost or stolen since 2004 is likely much higher for the following reasons. First, IHS does not consistently document lost or stolen property items. For example, 9 of the 12 IHS regional offices did not even perform a physical inventory in fiscal year 2007. Second, for each year since fiscal year 2004, an average of 5 of the 12 regions did not provide us with all of the reports used to document missing property since fiscal year 2004, as we requested.

The following cases provide information on five of the egregious examples of lost and stolen property we identified. In each case, IHS has not held any staff accountable for the missing items. In some of the cases, IHS did not even perform an investigation to try and locate the missing items or determine what actions should be taken.

- IHS staff held a "yard sale" of 17 computers and other property worth $16,660 in Schurz, Nevada, between June and July 2005. According to an IHS property manager, the equipment was advertised to the public via fliers indicating that excess federal property was to be given away for free. To date, IHS has not completed the investigation or held any IHS personnel responsible and, according to a 2006 report, intends to writeoff

[15] A Report of Survey is the document used to record and present findings and recommendations concerning the loss, theft, damage, or destruction of government property; to approve corrective actions, including financial recovery efforts; and to approve the resulting adjustments to property accountability records.

[16] In addition to the $15.8 million in lost or stolen property items that we identified in the Report of Surveys, we also found about $11 million in additional inventory shortages in the regional offices from our analysis of Inventory Status Reports provided to us by IHS. However, we did not include this amount in our estimate of lost or stolen property because IHS has not made a final determination on this missing property.

the missing equipment. According to the Phoenix area property manager, the 17 computers identified as missing were transferred from a youth patient center and could contain sensitive youth patient information because the computers were never "cleaned" before being transferred to the Schurz service unit. We are referring this potential release of patient data to the HHS OIG for further investigation.

- From 1999 through 2005, IHS did not follow required procedures to document the transfer of property from IHS to the Alaska Native Tribal Health Consortium, resulting in an unsuccessful 5-year attempt by IHS to reconcile the inventory. Our analysis of IHS documentation revealed that about $6 million of this property—including all-terrain vehicles, generators, van trailers, tractors, and other heavy equipment—was lost or stolen.

- In April 2007, a desktop computer containing a database of uranium miner names, social security numbers, and medical histories was stolen from an IHS hospital in New Mexico. According to an HHS report, IHS attempted to notify the 849 miners whose personal information was compromised, but IHS did not issue a press release to inform the public of the compromised data. In addition to this incident, the IHS Finance department recently reported a missing Personal Digital Assistant (PDA) in March 2008 when they requested a replacement. The PDA contained medical information and names of patients at a Tucson Area Hospital. According to the IHS IT official, the device contained no password or data encryption. This was in violation of federal policy and increased the risk that sensitive information could be disclosed to unauthorized individuals. Both of these cases have already been reported to HHS by the IHS Office of Information Technology.

- In September 2006, IHS property staff in Tucson attempted to write off over $275,000 worth of property, including Jaws of Life equipment valued at $21,000. The acting area director in Tucson refused to approve the write-off because of the egregious nature of the property loss. However, no investigation has been conducted to date.

- According to an IHS June 2006 report, a $4,000 Apple Powerbook laptop was stolen from an employee's vehicle in the Navajo area. Despite the lack of authorization, the employee took the laptop for use during off-duty hours—in violation of IHS policy. Because the employee violated IHS policy, IHS's initial determination, with which the employee agreed, was that the employee was responsible for the loss and therefore should reimburse the federal government for the value of the stolen computer. However, the IHS approving official reversed the initial determination

decision stating that the employee had since resigned and the loss was due to theft.

GAO Inventory Testing Reveals Lost or Stolen IT Equipment at IHS Headquarters

To substantiate the whistleblower's allegation of missing IT equipment, we performed our own full inventory of IT equipment at IHS headquarters. Our results were consistent with what the whistleblower claimed. Specifically, of the 3,155 pieces of IT equipment recorded in the records for IHS headquarters, we determined that about 1,140 items (or about 36 percent) were lost, stolen, or unaccounted for. These items, valued at around $2 million, included computers, computer servers, video projectors, and digital cameras. According to IHS records, 64 of the items we identified as missing during our physical inventory were "new" in April 2007. Furthermore, we found that some of the missing computers were assigned to the IHS human resources division. These computers likely contained sensitive employee data including names and Social Security numbers protected under the Privacy Act of 1974.[17] We are referring these cases where there was a potential release of sensitive data including employee social security numbers to the HHS OIG for further investigation.

During our investigation of the whistleblower's complaint, IHS made a concerted effort to obstruct our work. IHS officials made misrepresentations and fabricated documents to impede our work. Specifically,

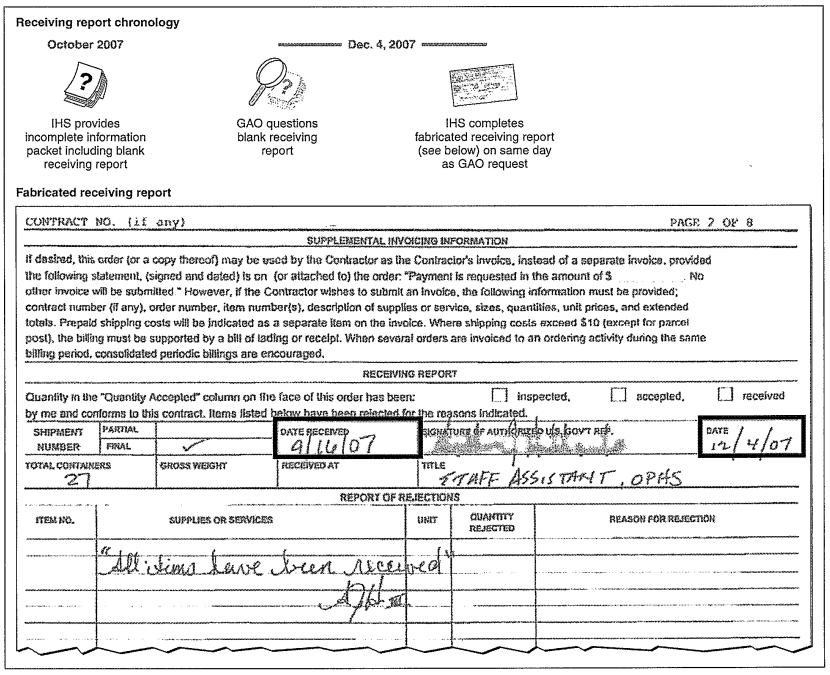
- The IHS Director responsible for property claimed that IHS was able to find about 800 of the missing items from the whistleblower's complaint. However, based on our physical inventory testing at headquarters, we found that this statement was a misrepresentation and that only some of these items have been found.

- An IHS property specialist attempted to provide documentation confirming that 571 missing items were properly disposed of by IHS. However, we found that the documentation he provided was not dated and contained no signatures. When we questioned the official about these discrepancies, he admitted that he fabricated the documents. We are referring this individual to the HHS OIG for further investigation.

[17] Privacy Act of 1974, Pub. L. No. 93-579, § 3, codified, as amended, at 5 U.S.C. § 552a.

- According to IHS policy, receiving reports are always signed by an authorized employee. As part of our inventory, we requested receiving reports for three recent purchase orders. For one purchase order, IHS was not able to provide us with any receiving reports. For the other two purchase orders, IHS provided us with receiving reports that were not properly completed; e.g., the reports were not signed by the person who received the property and did not contain the date that the property was received. When we questioned these discrepancies, IHS sent us "new" receiving reports for the three purchase orders, but all of them contained questionable dates and signatures. For example, figure 1 shows the fabricated receiving report for a shipment of new scanners delivered to IHS.

Figure 1: Example of Questionable Receiving Report



Source: GAO analysis of IHS data.

As shown in figure 1, there is almost a 3-month gap between the date the equipment was received in September and the date that the receiving report was completed and signed in December—even though the document should have been signed upon receipt. In fact, the new receiving report IHS provided was signed on the same date we requested it, strongly suggesting that IHS fabricated these documents in order to obstruct our

investigation. Further, after testing one of the other two fabricated receiving reports, we found that 10 brand new desktop computers worth almost $12,000 could not be located even though the receiving report indicated that they were "received" in July 2007.

GAO Testing Identifies Lost or Stolen IT Equipment at Seven IHS Field Locations

We selected a random sample of IT equipment inventory at seven IHS field offices to determine whether the lack of accountability for inventory was confined to headquarters or occurred elsewhere within the agency.[18] Similar to our finding at IHS headquarters, our sample results also indicate that a substantial number of pieces of IT equipment were lost, stolen, or unaccounted for. Specifically, we estimate that for the seven locations, about 1,200 equipment items, with a value of $2.6 million were lost or stolen.[19] As shown in table 1, our estimates are based on a statistical sample of 250 items from a population of 7,211 IT equipment items worth over $19 million recorded in property records for IT equipment at the seven field office locations. Of the 250 items that we sampled, IHS could not locate or substantiate the disposal of 42 items, or about 17 percent of the sample population.

Table 1: Sample Results of Seven IHS Field Locations

Total IT items selected in sample	250
Items physically observed during inventory	166
Items observed via picture with bar code and serial number	25
Items with documentation to support disposal	17
Total lost or stolen items	42

Source: GAO.

Furthermore, some of the missing equipment from the seven field locations could have contained sensitive information. Although personal

[18] We selected the seven field locations based on book value of inventory and geographic proximity. Five field office locations were selected because they had the highest dollar amount of IT equipment. We selected two additional sites because of their geographic proximity to the other field offices being tested.

[19] Because these estimates are based on a probability sample, they are subject to sampling error. For example, we are 95 percent confident that missing IT equipment is valued between $1.39 million and $4.53 million. Likewise, we are 95 percent confident that between 12 and 22 percent (or between 893 and 1588) of the IT equipment items were lost or stolen. Additional information on our sample and estimates is presented in appendix I.

health information requires additional protections from unauthorized release under the Health Information Portability and Accountability Act of 1996 (HIPAA) and implementing regulations,[20] we found that many of the missing laptops were assigned to IHS hospitals and, therefore, could have contained patient information, social security numbers, and other personal information. We are referring these cases where there was a potential release of sensitive data including patient information to the HHS OIG for further investigation.

Wasteful Purchases Identified During Inventory Tests

IHS has also exhibited ineffective management over the procurement of IT equipment, which has led to wasteful spending of taxpayer funds. IHS purchased excessive amounts of IT equipment for its staff, most notably at the headquarters office. An IHS official stated that IHS purchased new computers using "end of the year dollars." Some examples of wasteful spending that we observed during our audit of headquarters and field offices include the following:

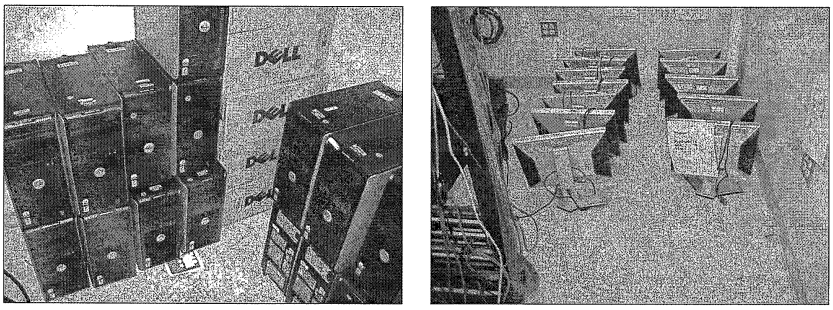
- Approximately 10 pieces of IT equipment, on average, are issued for every one employee at IHS headquarters.[21] Although some of these may be older items that were not properly disposed, we did find that many employees, including administrative assistants, were assigned two computer monitors, a printer and scanner, a blackberry, subwoofer speakers, and multiple computer laptops in addition to their computer desktop. Many of these employees said they rarely used all of this equipment and some could not even remember the passwords for some of their multiple laptops.

- IHS purchased computers for headquarters staff in excess of expected need. For example, IHS purchased 134 new computer desktops and monitors for $161,700 in the summer of 2007. As shown in figure 2, as of February 2008 25 of these computers and monitors—valued at about $30,000—were in storage at IHS headquarters. An IT specialist stated that the computers and monitors were "extras." In addition, we identified 7 new laptops that were stored in an unlocked cabinet at headquarters and never used.

[20] HIPAA, Pub. L. No. 104-191, § 264, The Secretary of Health and Human Services has prescribed standards for safeguarding medical information in the HIPAA Medical Privacy Rule. *See* 45 C.F.R. pt. 164.

[21] More specifically, IHS has issued approximately three computers per employee.

Figure 2: Storage of Excess Recent-Model Computers and Monitors



Source: GAO.

- Computers and other IT equipment were often assigned to vacant offices. For example, many of the computer desktops and monitors purchased in the summer of 2007 for IHS headquarters were assigned to vacant offices. In addition, as shown in figure 3, we found two computers, two monitors, and three printers in an employee's office at the Albuquerque field location we visited. The IHS area property manager stated that this equipment was issued to an employee who spends a majority of his time on travel to training and treatment centers.

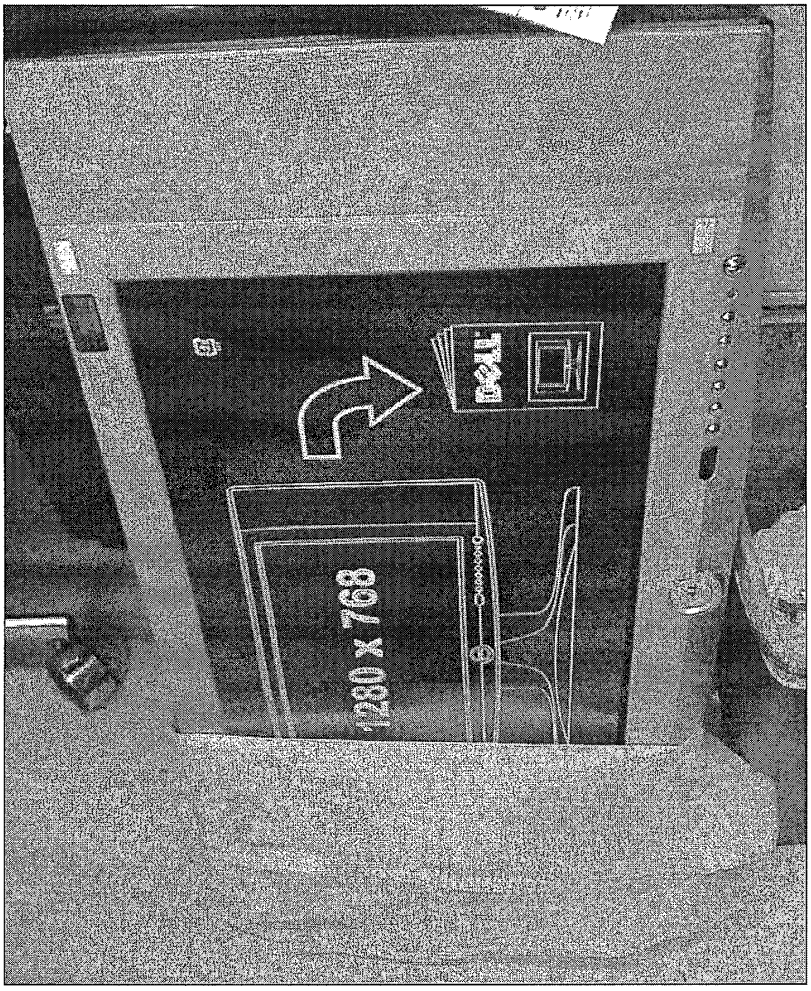
Figure 3: Excess Computers at Albuquerque, New Mexico Field Location



Source: GAO.

- An official for the IHS National Program stated that IHS purchased new computers using "end of the year dollars." For example, as shown in figure 4, one field office employee in Gallup, New Mexico had an unwrapped, 23-inch, widescreen monitor worth almost $1,700 in her office. The employee stated that she did not know why IT sent her the monitor and she claimed that it has never been used.

Figure 4: Unused 23-Inch Widescreen Monitor at Gallup, New Mexico Field Location



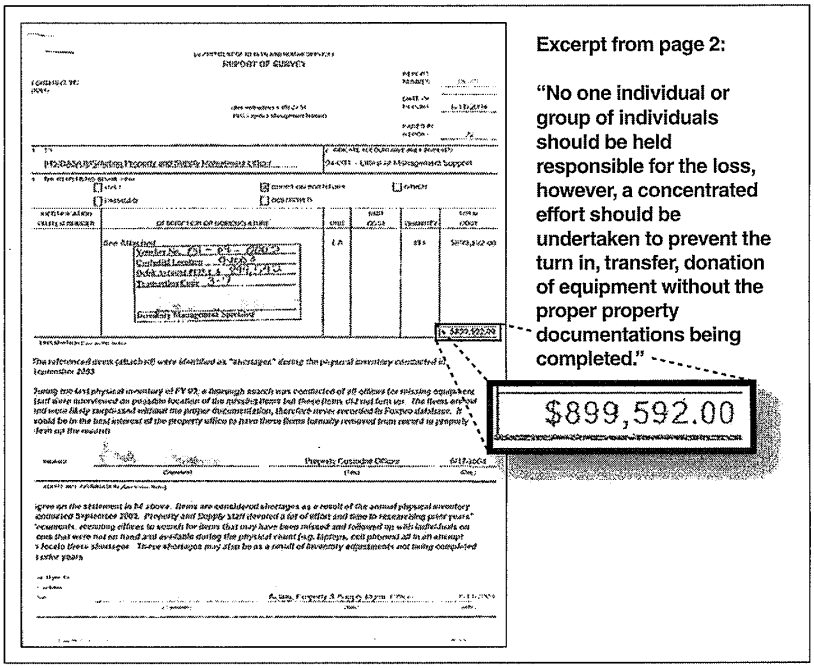
Source: GAO.

Weak Tone at the Top and Other Control Weaknesses Leave IHS Highly Vulnerable to Loss, Theft, and Waste

The lost or stolen property and waste we detected at IHS can be attributed to the agency's weak internal control environment and its ineffective implementation of numerous property policies. In particular, IHS management has failed to establish a strong "tone at the top" by allowing inadequate accountability over property to persist for years and by neglecting to fully investigate cases related to lost and stolen items. Furthermore, IHS management has not properly updated its personal property management policies, which IHS has not revised since 1992. Moreover, IHS did not (1) conduct annual inventories of accountable property; (2) use receiving agents for acquired property at each location and designate property custodial officers in writing to be responsible for the proper use, maintenance, and protection of property; (3) place bar codes on accountable property to identify it as government property; (4) maintain proper individual user-level accountability, including custody receipts, for issued property; (5) safeguard IT equipment; or (6) record certain property in its property management information system (PMIS).

Weak tone at the top: The importance of the "tone at the top" or the role of management in establishing a positive internal control environment cannot be overstated. GAO's internal control standards state that "management plays a key role in demonstrating and maintaining an organization's integrity and ethical values, especially in setting and maintaining the organization's ethical tone, providing guidance for proper behavior, removing temptations for unethical behavior, and providing discipline when appropriate." However, IHS management has failed to establish and maintain these ethical values. As far back as 1997, an IHS memo by the then Acting Director stated that the agency had problems with lost and stolen property at IHS headquarters. The memo also stated that unused equipment was not safeguarded against loss or theft. However, we found little corrective action was taken by IHS. For example, management failed to update IHS personal property management policies, which have not been revised since 1992. In addition, IHS has historically shown little motivation to hold its employees liable for missing property. Instead of investigating the circumstances surrounding missing property, IHS writes off the losses without holding anyone accountable. As a result, an IHS property official admitted to us that there is no accountability over IHS property. For example, figure 5 shows a report used to write off almost $900,000 worth of missing IT equipment in 2004, including laptop and desktop computers, servers, cameras, routers, and fax machines. This is just one of four reports that IHS used in 2004 to write off a combined total of $1.8 million dollars worth of IT equipment.

Figure 5: IHS Report Writing Off Thousands of Dollars in IT Equipment Inventory Without Holding Anyone Accountable



Source: IHS.

As shown in the figure, the report does not hold anyone responsible for the missing inventory, but it does call for the improvement of controls over property management. However, as shown by our audit and related investigations, IHS has made minimal efforts to improve property management and oversight. Despite this fact, IHS rewarded the individuals responsible for these functions in its property group with about $40,000 in merit awards from 2003 through 2007.

No annual inventories: HHS and IHS policies require IHS personnel to conduct annual inventories of accountable personal property, including property at headquarters and in field offices. However, IHS headquarters did not conduct any annual inventories from fiscal years 2004 through 2006. In addition, property managers were not able to accurately document the findings of their fiscal year 2007 inventory nearly a year

after it was conducted. Moreover, in fiscal year 2007, only 3 out of 12 regions conducted a full physical inventory.[22] Consequently, the extent of missing property at IHS is unknown.

Failure to use receiving agents and to designate property custodial officers: IHS policy requires that each accountable area[23] designate at least one receiving agent to receive purchased property. The receiving agent is responsible for documenting the receipt of the property (i.e., receiving report) and then distributing the property to its intended user. However, we found that acquired property is often sent directly to the user, bypassing the receiving agent. For example, the IT department sometimes receives new computers and IT equipment directly instead of utilizing the receiving agent. In addition, HHS requires the designation of property custodial officers in writing to be responsible for the proper use, maintenance, and protection of property. However, an IHS official said that property custodial officers have not formally been designated for headquarters because of high staff turnover.

Lack of property bar codes: HHS and IHS policy mandate that all accountable property have a bar code identifying it as government property. However, in our audit of IHS headquarters inventory, we identified over 100 pieces of IT equipment, including blackberries and digital cameras, that were not properly bar coded. Much of this equipment likely did not receive a bar code because, as discussed earlier, IHS does not receive property in a central location.

Lack of personal custody property records: HHS requires the use of hand receipts, known as HHS Form 439, any time property is issued to an employee. This form should be retained by a property official so that property can be tracked at the time of transfer, separation, change in duties, or when requested by the proper authority. By signing this form, an IHS employee takes responsibility for the government-issued equipment. According to an IHS property official, IHS headquarters does not use the HHS Form 439, nor do they use any other type of hand receipt. Officials from several IHS regions stated that they use the form only in limited cases. Without the issuance of this form, there is no documentation as to

[22] In addition, one region did conduct a partial inventory of its property.

[23] An accountable area is an area specifically defined by organizational or geographic limits throughout which property accountability is assigned to a designated accountable official.

where the equipment is located and no mechanism to hold the user accountable for the equipment.

Lack of user-level accountability: HHS requires IHS to document information on the user of equipment, including building and room number, so that property can be tracked and located. However, IHS did not properly maintain this information. Property personnel instead relied on their personal recollection to locate property items. For example, on several occasions during our headquarters inventory, IHS property staff could not identify the property user. As a result, the property staff had to make inquiries with other staff to obtain information on the user of the equipment. Further, IHS personnel in the field offices stated that it took them several days to locate items that were included in our sampled inventory.

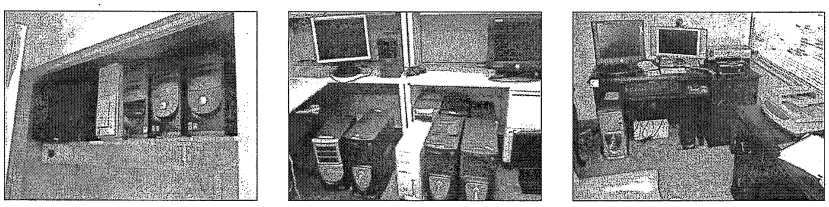
Furthermore, according to the IHS policy manual, when equipment is no longer needed by the user, a request for property action should be submitted in writing to the Property Accountable Officer (PAO). The PAO then determines if the item can be transferred to another user within IHS. However, in many cases, equipment is redistributed by the IT department or sent to another user without PAO approval. In our audit of IHS headquarters inventory, we found some items that were issued to an unspecified user or to employees who had retired or left the agency. To locate these items, IHS Headquarters staff had to inquire with the employee's colleagues to determine the location of the equipment. In several cases, IHS was not able to locate the equipment assigned to separated employees, raising the possibility that the equipment was stolen. For example, one IHS employee stated that equipment had "disappeared" from an office vacated by a former employee.

Weaknesses in physical security of IT equipment: According to the Indian Health Manual, property is to be adequately protected "against the hazards of fire, theft, vandalism, and weather commensurate with the condition and value" of the property. However, during our inventory review at both IHS headquarters and field office locations, we found that IHS did not follow this policy. Specifically, we found that IHS did not properly secure expensive IT equipment leaving them vulnerable to loss and theft. For example we found that:

- Surplus IT equipment that should have been disposed of was stored in unlocked employees' offices, suite areas, conference rooms, and storage rooms. For example, figure 6 shows computer equipment stored in an unlocked multipurpose storage room at IHS headquarters. In addition, an

IHS headquarters employee had newly purchased unsecured equipment, including a large flat screen TV, dual monitors, a printer, a scanner, a desktop, a subwoofer, a video camera, and a back-up power supply.

Figure 6: Pictures of Unsecured IT Equipment at IHS Headquarters



Source: GAO.

- IHS did not establish proper safeguards for storing IT equipment in IHS facilities or employees' offices. For example, at one of the IHS hospitals we visited, the IT department did not lock its storage area, leaving several computers unsecured.
- Because equipment was not protected against damage or destruction, IHS had to dispose over $700,000 worth of equipment because it was "infested with bat dung."

Failure to use accountable property management system: HHS policy requires that all accountable property with a value of $5,000 or greater and all sensitive items[24] with a value of $500 or greater be tracked by the PMIS property management system.[25] The PMIS system is intended to improve accountability and standardize property records across HHS. Equipment that is not recorded in PMIS is not inventoried or otherwise controlled, placing it at increased risk of loss or theft. Although IHS had 2 years to migrate from legacy systems to the new inventory system, it has

[24] Sensitive items are property items that are especially vulnerable to loss, theft, or misuse.

[25] Prior to the implementation of the PMIS system, each of the 12 IHS regions and IHS headquarters maintained separate property databases using different software programs.

not yet fully converted to the PMIS system.[26] Furthermore, officials from two field locations stated that they are not adding new equipment to the system because IHS headquarters told them not to use the system until further notice.

Because it has not entered all property information into PMIS, IHS does not have reliable inventory records related to expensive, sensitive, and pilferable property. Specifically, IHS has failed to enter over 18,000 items, worth approximately $48 million, from headquarters and the sites we reviewed. Furthermore, we found that over half of the items we selected while performing our random sample testing of the seven field locations were not recorded in PMIS. The types of equipment that were not entered into PMIS include a $145,000 ultrasound unit, a $140,000 X-ray unit, and a $61,000 anesthesia machine. In addition, although items such as blackberries, cell phones, and digital cameras do not meet the criteria for inclusion in PMIS, these items are highly sensitive and should be accounted for by IHS. Furthermore, the magnitude of equipment that was not entered into the system is likely much higher because we did not analyze data from IHS locations not included in our statistical sample.

Conclusions

Our audit confirmed the whisteblower's allegation of gross mismanagement of property at IHS. IHS has exhibited a weak control environment and disregard for basic accountability over its inventory. As a result, IHS cannot account for its physical property and is vulnerable to the loss and theft of IT equipment and sensitive personal data. Further, IHS' wasteful spending of IT equipment and lack of discipline or personal accountability for lost and stolen property and personal data has set a negative tone at the top that the status quo is acceptable. Moreover, intentional attempts of some IHS employees to thwart our investigation lead us to question the integrity and transparency of certain functions within the agency's property management group and call for stronger leadership to strengthen tone at the top as well as throughout property management functions.

[26] The official scheduled date that IHS was supposed to decommission the legacy systems and start using PMIS exclusively was October 18, 2007.

Recommendations for Executive Action

We recommend that the Director of IHS strengthen IHS's overall control environment and "tone at the top" by updating and enforcing its policies and procedures for property management. As part of this effort, the Director of IHS should direct IHS property officials to take the following 10 actions:

- Update IHS personal property management policies to reflect any policy changes that have occurred since the last update in 1992.
- Investigate circumstances surrounding missing or stolen property instead of writing off losses without holding anyone accountable.
- Enforce policy to conduct annual inventories of accountable personal property at headquarters and all field locations.
- Enforce policy to use receiving agents to document the receipt of property and distribute the property to its intended user and to designate property custodial officers in writing to be responsible for the proper use, maintenance, and protection of property.
- Enforce policy to place bar codes on all accountable property.
- Enforce policy to document the issuance of property using hand receipts and make sure that employees account for property at the time of transfer, separation, change in duties, or on demand by the proper authority.
- Maintain information on users of all accountable property, including their buildings and room numbers, so that property can easily be located.
- Physically secure and protect property to guard against loss and theft of equipment.
- Enforce the use of the PMIS property management database to create reliable inventory records.
- Establish procedures to track all sensitive equipment such as blackberries and cell phones even if they fall under the accountable dollar threshold criteria.

Agency Comments and Our Evaluation

We received written comments on a draft of this report from the Assistant Secretary for Legislation of the Department of Health and Human Services (HHS). HHS agreed with 9 of our 10 recommendations. However, HHS stated that our report contained inaccuracies and misinterpretations that it

believes seriously weaken our conclusions. In its response to our draft report HHS cited three limitations. First, HHS stated that our report did not appreciate the fact that IHS property management is a unique system in its collaboration with Indian Tribes and that it operates its service units throughout the country. Second, HHS said that unaccountable property may be lower than what our report identified because the ongoing process of reconciling the prior system to the new system makes it more likely that the number of currently unaccounted for property items will be reduced rather than increase as the reconciliation progresses. Further, they state that the implementation process for the new system made it more difficult for IHS to provide GAO with the necessary documentation for audit. Third, HHS also stated that we overstated the net worth of unaccounted for items by not taking into account the depreciated value of those items. In addition, HHS response also cited six specific cases that they believe were misrepresented in our case studies.

In response to HHS's first limitation, we do not believe that we mischaracterized the uniqueness of IHS's collaboration with Indian Tribes and the fact that it has service units throughout the country. In the report, we state that over half of IHS's budget is administered by the tribes through various contracts and compacts with the federal government. We also state that IHS operates 163 service units that include one or more health facilities, such as hospitals, health centers, village clinics, health stations, and school health centers. Furthermore, the scope of our audit only included testing IHS property, which does not include the Tribal communities. However, we believe that because IHS operates in this type of control environment, IHS should have strong internal controls over its property and not the weak controls that were apparent in our audit.

HHS also contends that the unaccountable property will be reduced from the reconciliation of the prior property system to the new system. However, we disagree—the lost or stolen property that was identified in our report came from IHS's Report of Surveys, our full physical inventory of all equipment at IHS headquarters, and random sample testing of IT equipment at 7 field locations. Reports of Survey only identify specific property items that were written off IHS's inventory books from physical inventories or other circumstances. Our physical inventory testing at IHS headquarters and random sample testing of IT equipment at the 7 field locations verify that there were additional missing property items to those identified in Reports of Survey. Furthermore, as stated in our report and HHS's response, IHS did not perform complete physical inventories of equipment for most of its regional offices. Specifically we identified that 9 of the 12 regions did not perform a physical inventory in 2007. In addition,

we reported that IHS did not complete the investigations of about $11 million of inventory shortages where a physical inventory was performed. As such, our estimate does not include lost or stolen property where physical inventories were not performed or where IHS did not complete its investigation of inventory shortages. Further, we do not believe that IHS's conversion to a new system should impact IHS's ability to maintain basic inventory documentation that is subject to audit. Without such documentation, IHS has no accountability of equipment that the American taxpayers entrusted to the agency. Thus, we believe that we likely underestimated, not overestimated, the amount of lost or stolen property.

Finally, in its written response to our draft report HHS states its belief that our report overstates the net worth of unaccounted for items by not taking into consideration the depreciation value of these items. While we agree that the actual "loss" is less because of depreciation, we consider acquisition cost very relevant because, if property that IHS has lost or is stolen was necessary, IHS will need to buy new replacement property. It is likely that replacement costs are as much, or more, than acquisition costs in this scenario. Furthermore, in our use of acquisition costs for property, IHS generally provided us the acquisition cost of equipment. IHS provided us little data that contained depreciation or fair market value of the equipment. Therefore, we modified our report to state that the value of lost or stolen property was represented as the acquisition cost.

We disagree with HHS's portrayal of the six specific cases cited in their response to our draft report. Specifically:

- **Report of survey for Alaska tribal self-determination award:** In its response, HHS stated that most of the $6 million that was written off in the Report of Survey was transferred from IHS to local Tribal communities, the U.S. Air Force, or abandoned on an IHS construction site. As stated in our report, none of these transfers or disposals were properly documented. Without proper documentation, it is impossible to determine what happened with the property, which is why we consider it to be lost or stolen. Although HHS's comments state that these items were old and had little remaining useful value, IHS continues to purchase new property to replace old, necessary items—in which case it is likely that replacement costs are as much (or more) than acquisition cost. Furthermore, analysis of IHS's response raises concerns about the nature of disposal for these items, including vehicles and machinery, which could cause environmental hazards as a result of abandonment.

- **Tucson Report of Survey and "jaws of life":** HHS stated that 45 items, including the "jaws of life" equipment that we reported as lost or stolen in our draft report, have been recently found. We identified that these items were lost or stolen because they were documented in a September 2006 Report of Survey. We followed up on the status of these property items on our site visits to Tucson on two occasions in late 2007 and early 2008. On both occasions, IHS confirmed that these items had not been found and that an investigation into their loss had not been performed. Based on this timeline, these items were lost for almost 2 years. IHS has not provided us any documentation to substantiate the location of the jaws of life or any other property identified in the Tucson Report of Survey. Therefore, we cannot validate that these items were found.

- **Allegation of misrepresentation by IHS property staff:** HHS stated that the majority of the 1,180 items that were not accounted for in the April 2007 inventory had been located and reconciled by January 2008. Additionally in our report, we state that the IHS Director responsible for property claimed that IHS was able to find about 800 of these missing items. However, based on our physical inventory testing at headquarters, which included verifying IHS's reconciled items in January 2008, we found that only some of these items have been found. We also identified items missing from IHS's April 2007 inventory in addition to the 1,180 shortage identified by IHS. Specifically, of the 3,155 pieces of IT equipment recorded in the records for IHS headquarters, we determined that about 1,140 items (or about 36 percent) were lost, stolen, or unaccounted for. Part of the discrepancy can be attributed to the fact that we did not accept fabricated documents that the IHS property management specialist provided us as discussed below. We continue to believe that the IHS Director responsible for property attempted to thwart our investigation through misrepresentations.

- **Allegation of fabricated documents:** HHS stated that IHS generated disposal records in January 2008 to "establish an audit trail" showing that 571 items missing during our inventory work were disposed of properly. However, when these documents were presented to us, they were identified as the actual supporting documents, not an "audit trail." Additionally, HHS fails to acknowledge that the disposal records were not dated and contained no signatures approving of the disposal. Because these records clearly did not meet evidence standards, we asked the IHS property employee who gave us the documents about their origin. He admitted to fabricating them in order to satisfy our request for the disposition of the property. By focusing on the January 2008 date of our request, HHS is missing the point of our finding—that an IHS employee tried to make the missing property properly accounted for by generating

documents and representing them as authentic disposal records. We have referred the matter to the HHS Office of Inspector General for further investigation.

- **Allegation of wasteful purchases:** HHS stated that it initiated a procurement strategy to increase the cost efficiency of replacing computer technology for its employees by buying in bulk so it can take advantage of pricing discounts and reduce the critical down time for IT tools. It also stated that the 25 on-hand "spare computers" noted in the report were an acceptable level of inventory. We agree that outdated technology should be replaced by taking advantage of bulk purchases. We also agree that there should be some inventory held in reserve for emergency needs that arise during the year. However, as stated in the report, we found that there were 3 computers for every person at IHS headquarters—a ratio that bulk ordering policies do not adequately explain. In addition to the 25 new and unused computers cited by HHS in its response, we identified several other examples of waste at IHS headquarters including computer equipment items issued to vacant offices and 7 new and unused laptops stored in an unlocked cabinet. We also noted examples of waste at the field locations, such as an unwrapped, 23-inch, widescreen monitor worth almost $1,700. The employee in possession of the monitor stated she did not know why IT sent her the monitor and claimed that it had never been used. We believe that such examples exemplify wasteful purchases of equipment rather than a prudent procurement strategy.

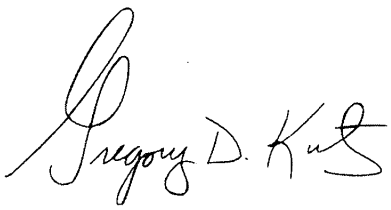
- **Yard Sale:** HHS stated that IHS headquarters staff have no knowledge of a "yard sale" of computers and other property in Nevada. We reported on this "yard sale" based on the confirmation of eight IHS property officials, including the Phoenix Area executive officer. In its response, HHS claimed that the 17 computers sold at this "yard sale" were used for educational purposes and thus likely did not contain sensitive information. The computers were located at a Youth Wellness Center and, according to the Phoenix area property manager, were never "cleaned" before transfer outside of the center. Hence, we continue to believe that the potential release of patient data and the obvious impropriety of holding a "yard sale" for government equipment make it prudent for the HHS OIG to investigate the matter.

  Finally, HHS disagreed with our recommendation to establish procedures to track all sensitive equipment such as blackberries and cell phones even if they fall under the accountable dollar threshold criteria. We made this recommendation because we identified examples of lost or stolen equipment that contained sensitive data, such as a PDA containing medical data for patients at a Tucson, Arizona area hospital. According to an IHS

official, the device contained no password or data encryption, meaning that anyone who found (or stole) the PDA could have accessed the sensitive medical data. While we recognize that IHS may have taken steps to prevent the unauthorized release of sensitive data and acknowledge that it is not required to track devices under a certain dollar threshold, we are concerned about the potential harm to the public caused by the loss or theft of this type of equipment. Therefore, we continue to believe that such equipment should be tracked and that our recommendation remains valid.

As agreed with your office, unless you publicly release its contents earlier we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies of this report to the Secretary of the Department of Health and Human Services, the Director of IHS, and other interested parties.

The report is also available at no charge on the GAO Web site at http://www.gao.gov. If you have any questions concerning this report, please contact either Gregory D. Kutz at (202) 512-6722 or kutzg@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix III.



Gregory D. Kutz
Managing Director
Forensic Audits and Special Investigations

Appendix I: Scope and Methodology

To substantiate the allegation of lost or stolen property and wasteful spending at the Indian Health Service (IHS),[27] we analyzed IHS documents of lost or stolen property from fiscal year 2004 through fiscal year 2007.[28] We also conducted a full physical inventory of property at IHS headquarters and statistically tested information technology (IT) equipment inventory at seven selected IHS field locations. To identify specific cases of lost or stolen property and wasteful spending, we analyzed IHS documents and made observations during our physical inventory and statistical tests.

We performed a full physical inventory at IHS headquarters because the whistleblower specifically identified problems at that location. Specifically, we tested all 3,155 headquarters property items which were largely comprised of IT equipment that IHS had recorded in its property records as of April 2007. We physically observed each item and its related IHS-issued bar code and verified that the serial number related to the bar code was consistent with IHS's property records.

Although IHS property in the field locations includes inventory items such as medical equipment and heavy machinery, we performed a statistical test of only IT equipment inventory at seven IHS field locations to determine whether the lack of accountability for inventory was pervasive at other locations in the agency. We limited our scope to testing only IT equipment items which are highly pilferable and can be easily converted to personal use such as laptops, desktop computers, and digital cameras. We selected the seven field locations based on book value of inventory and geographic proximity.[29] We selected five field office locations because they had the highest dollar amount of IT equipment according to IHS's property records. We selected the two additional sites based on their geographic proximity to the other field locations being tested. Our findings at these seven locations cannot be generalized to IHS's other locations.

[27] The scope of our audit only included testing IHS property, which does not include the Tribal communities.

[28] We analyzed Report of Survey documents identifying property as lost, stolen, missing, or shortages.

[29] The seven sites we selected account for 35 percent of the IT equipment items or 40 percent of the value of IT equipment. The seven locations we tested included both IHS area offices and service units such as hospitals and supply centers.

To estimate the extent of lost or stolen property at these seven locations, we selected a probability sample of 250 items from a population of 7,211 IT items that had a book value of over $19 million. Because we followed a probability procedure based on random selections with each item having an equal chance of being selected, our sample is only one of a large number of samples that we might have drawn. Since each sample could have provided different estimates, we express our confidence in the precision of our particular sample's results as a 95 percent confidence interval. This is the interval that would contain the actual population value for 95 percent of the samples we could have drawn. As a result, we are 95 percent confident that each of the confidence intervals in this report will include the true values in the study population. Based on this sample, we estimate the number, the percent, and the dollar amount of lost or stolen property at IHS. The 95 percent confidence intervals for each of these estimates is summarized below:

Table 2: 95 Percent Confidence Intervals for Statistical Sample Estimates

Description	Estimate	Lower endpoint of 95 percent confidence interval	Upper endpoint of 95 percent confidence interval
Estimated lost items	1,211	893	1,588
Estimated percentage items lost	17	12.4	22.0
Estimated dollar amount of lost or stolen	2,598,613	1,389,012	4,531,133

Source: GAO.

We considered equipment to be lost or stolen if (1) we could not physically observe the item during the inventory; (2) IHS could not provide us with a picture of the item, with a visible bar code and serial number, within 2 weeks of our initial request; or (3) IHS could not provide us with adequate documentation to support the disposal of the equipment.[30]

We performed appropriate data reliability procedures for our physical inventory testing at IHS Headquarters and sample testing at the seven case study locations including (1) testing the existence of items in the database by observing the physical existence of all items at IHS headquarters and IT

[30] To be conservative, we accepted properly documented disposed items, even though it is considered a poor property management practice.

equipment selected in our sample, and (2) testing the completeness of the database by performing a 100 percent floor-to-book inventory at IHS headquarters and judgmentally selecting inventory items in our sample to determine if these items were maintained in IHS inventory records. Although our testing of the existence and completeness of IHS property records determined that IHS inventory records are neither accurate nor complete, we determined that the data were sufficient to perform these tests and project our results to the population of IT equipment. In addition, we interviewed IHS agency officials, property management staff, and other IHS employees. We also interviewed Department of Health and Human Services (HHS) officials concerning the migration of the Property Management Information System (PMIS) and officials at the Program Support Center (PSC).[31]

Although we did not perform a systematic review of IHS internal controls, we identified key causes of lost and stolen property and wasteful spending at IHS by examining IHS and HHS policies and procedures, conducting interviews with IHS officials, and our observations of property through our inventory testing.

We conducted our forensic audit and related investigations from June 2007 to May 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Despite IHS efforts to obstruct our review, we were still able to accomplish our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We performed our investigative work in accordance with standards prescribed by the President's Council on Integrity and Efficiency.

[31] PSC is the support center within HHS that maintains PMIS.

Appendix II: Comments from the Department of Health & Human Services



THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, DC 20201

MAY 23 2008

Gregory D. Kutz
Managing Director
Forensic Audits and Special Investigations
U.S. Government Accountability Office
Washington, DC 20548

Dear Mr. Kutz:

Enclosed are the Department's comments on the U.S. Government Accountability Office's (GAO) draft report entitled, "IHS Management Led to Millions of Lost or Stolen Property" (GAO-08-727).

The Department appreciates the opportunity to review and comment on this draft before its publication.

Sincerely,

Jennifer R. Leong for Vincent J. Ventimiglia, Jr.
Assistant Secretary for Legislation

Attachment

COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS) ON THE U.S. GOVERNMENT ACCOUNTABILITY OFFICE'S (GAO) DRAFT REPORT ENTITLED: "IHS MISMANAGEMENT LED TO MILLIONS OF LOST OR STOLEN PROPERTY" (GAO 08-727)

IHS appreciates the opportunity to respond to GAO's report on IHS property management. IHS has been and remains committed to proper and accountable property management. To this end, IHS Headquarters and Area Offices have fully cooperated with GAO in the audit and investigation by providing detailed records, performing extensive data reconciliations upon request of the GAO, and participating in multiple and extended staff interviews.

Overview of the IHS inventory system

IHS is responsible for a national, comprehensive health care delivery system serving American Indians and Alaska Natives. The Agency structure is a decentralized organization, with a central Headquarters office located in Rockville, Maryland and 12 regions (Areas) throughout the United States. Each of the 12 regions is overseen by a senior Area Director, who reports to the IHS Director. IHS employs approximately 15,000 employees and the budget is approximately $4 billion annually. IHS currently uses the HHS Property Management Information System (PMIS) to inventory personal Federal property. The PMIS was first implemented in FY 2005, and continues to improve accountability of property at IHS.

Indian Tribes are authorized by Public Law 93-638, "Indian Self-Determination and Education Assistance Act," to assume control of programs administered by the IHS, including administrative support functions. The statute also permits IHS to transfer title to both real and personal Federal property associated with the operation of the contracted program.

Also, Public Law 86-121, "Indians, Sanitation Facilities," authorizes IHS to transfer property to Indian Tribes in order to maintain sanitation facilities. Additional authority for providing equipment to Tribes is found in the Public Law 94-437, "Indian Health Care Improvement Act," as amended, at 25 U.S.C. 1632, regarding safe water and sanitary waste disposal facilities, where the Secretary, acting through the Service, is authorized to provide under section 2004a of Title 42 [P.L. 86-121], financial and technical assistance to Indian Tribes and communities in the establishment, training, and equipping of utility organizations to operate and maintain Indian sanitation facilities.

In early FY 2005, HHS made a decision to utilize PMIS, a global system to be used by HHS Operating Divisions, including IHS. At that time, the IHS was focused on migrating then-current property data into the new PMIS. At implementation, the IHS-wide inventory was comprised of approximately 121,000 items with an original acquisition cost of $302 million prior to assigning new and higher HHS accountability thresholds and assessing value of depreciation.

At the time, IHS believed that the migration process would only take a few months to complete. Once migrated to the new PMIS, a physical inventory could be taken using the new system. IHS Property Managers in all 12 Areas were advised by HHS that our efforts should focus on preparing the property data for migration, and the conduct of physical inventories should be the second priority after data migration. Unfortunately, the migration of property data took nearly two years to complete, and there were several problems with the data that prevented approximately 20,000 records from being migrated. Some of these problems included lack of information for required data fields and the, need to update their catalog of item descriptions to accommodate the IHS inventory by the HHS Program Support Center, which administers the new PMIS.

The implementation of the new HHS consolidated PMIS, including staff training, took an extensive amount of time and resources. Training is still ongoing and is a continuous process. Conducting physical inventories using the new system therefore lagged and many IHS Areas reverted to some legacy systems that had not been decommissioned. The process for conducting wall-to-wall physical inventories became more challenging due to turnover of IHS staff, and depletion of experienced property management personnel, along with remaining property personnel being required to perform additional duties with multiple collateral responsibilities. Using and maintaining legacy property systems became too difficult to manage a large number of assets. As a result, some IHS Areas did not have the resources to conduct a wall-to-wall inventory on an annual basis.

The new HHS logistics management policy mandates that all "accountable" and "sensitive" property (not all Government equipment) be tagged with a Government decal. Accountable property is any item with an acquisition cost of $5,000 or more. Sensitive property is an item identified to be tracked with an acquisition cost between $500 and $4,999 that requires stricter inventory control. If a property item meets the new, higher dollar threshold or the sensitive items criteria, then a barcode tag is affixed to the property item and entered into the PMIS. After applying the new HHS accountability thresholds, the IHS inventory is comprised of approximately 49,000 items with a total original acquisition cost of $205 million. The PMIS includes a depreciation expense feature which will adjust the book value of the IHS inventory when it has been fully implemented, a feature which was unavailable in the legacy property system.

In 2007, a physical inventory was completed for 100% of accountable/sensitive property in 5 of the 14 accountable areas throughout the IHS, including IHS HQ. An additional 5 accountable areas completed partial inventories (50-90% of accountable/sensitive property) and the remaining 4 accountable areas examined 15% or less of their accountable/sensitive property in 2007.

Response to GAO Report

IHS believes that GAO's report continues to include many inaccuracies and misinterpretations. GAO itself acknowledges various limitations to its audit and

investigation, some of which are listed below. These limitations seriously undercut GAO's conclusions.

- The report fails to appreciate that IHS property management is a unique system compared to most other Federal agencies where interaction involves collaboration with sovereign nations which grew out of the special Government-to-Government relationship between the Federal Government and Indian Tribes. IHS operates service units comprised of health facilities, such as hospitals, health centers, village clinics, health stations, and school health centers throughout the country. More than half of the IHS budget is administered by Tribes through various contracts and compacts with the Agency.

- The report repeatedly notes that IHS did not consistently document "lost or stolen" property items and concludes that the number of currently unaccounted for items might actually be higher than GAO has identified. This fails to recognize the impact on IHS property management of the implementation of a new inventory tracking system in 2005. In fact, the ongoing process of reconciling the prior system to the new system makes it far more likely that the number of currently unaccounted for items will be reduced rather than increase as the reconciliation progresses. In addition, the implementation and reconciliation process has made it more difficult to provide GAO with the necessary documentation for the audit.

- The report also overstates the net worth of currently unaccounted for items by not taking into consideration the depreciation value of these items. Some items referenced in the report are 15 to 35 years old, and yet are assigned their original acquisition cost. For example, some of the large, non-IT items of inventory, such as all terrain vehicles (ATVs) are valued at the original acquisition cost despite the fact that the actual equipment was acquired between 1974 and 1999, well past their useful life expectancy of 8 years.

While GAO and IHS have met on multiple occasions to discuss specific situations addressed in the report, we believe that GAO continues to inaccurately describe some of the situations described below.

Alaska Tribal Self-Determination Award

At the time of the transfer of IHS property to the Alaska Tribal compact in 2000, personal property in use in Alaska reflected a ***non-depreciated*** value of approximately $13 million, of which approximately $7 million was transferred to the Alaska Tribal compact under the new agreement/award. The remaining $6 million of this original amount (representing 1,197 items) was written off the IHS inventory on a single Report of Survey in 2006, after several years of intensive on-site research and reconciliation performed by IHS and Tribal health officials on site in Alaska. On this Report of Survey, it clearly states that of the $6 million written off, most of the items were disposed of either by (1) transfer to local Tribal communities; (2) transfer to a local Air Force Base; or (3)

"abandoned" on an IHS construction site due to the extraordinary expense associated with the removal of the equipment, leaving $177,000 (68 items) that were identified as missing. The ATVs and tractors referred to in the report as "lost or stolen," were not among the 68 items that IHS identified as missing. Rather, they were identified on the 2006 Alaska Report of Survey as "transferred" or "abandoned in place". Some of the large construction equipment in the extremely isolated locations in Alaska has to be flown in, or shipped by barge. The acquisition dates of these 1,197 items span 15-35 years. The useful life and actual "value" of the items to be written-off were considered by the Board of Survey and the Determining Authority in the final decision to write-off the inventory.

Tucson Report of Survey and "Jaws of Life"

The 2006 Report of Survey for the entire Tucson Area reflected 114 items unaccounted for, or 3.5% of the total items in the Tucson Area inventory. The original acquisition cost of these items was $275,757, which represents 4.2% of the total original acquisition cost of the Area-wide inventory. The Tucson Area property staff is in the final stages of completing the 2008 physical inventory which includes reconciling any differences between the physical inventory and the property records. The initial work on the 2008 reconciliation process has resulted in locating and accounting for 45 items representing $114,601 that were listed on the 2006 Report of Survey, however, the report does not reflect this. Included in the items located are all of the Jaws of Life extrication equipment which the report characterizes as "lost or stolen." The Jaws of Life equipment is used in ambulances that are an integral part of an emergency medical services program operated by IHS in the Tucson Area. At the completion of the 2008 physical inventory and reconciliation process, the Tucson Area will prepare a final Report of Survey to list all items not accounted for.

Allegation of misrepresentations made by IHS property staff

When the GAO investigation commenced in August 2007, IHS property staff were starting to make progress on the reconciliation of the April 2007 physical inventory of IHS HQ. The initial results in April 2007 indicated that 1,180 items were still listed on the inventory, but were not located on site, and over 500 items were found on site, but were not listed on the HQ inventory. The inventory reconciliation process was delayed by several months, but by July 2007 IHS staff started to make significant progress on their research of inventory differences. The basic research included reviewing alternate records to determine if, perhaps, the unaccounted for items were in fact proper disposals that had not been documented, or if the items might have been missed in the initial physical inventory. After the basic research was completed IHS was able to account for the majority of the 1,180 items originally identified as unaccounted for.

More specifically, at the time GAO arrived on site in August 2007, efforts were already well underway by IHS staff to obtain verification from the Director of the HHS Federal warehouse where IHS turns in its surplus equipment. Independent verification with the Federal warehouse provided evidence in 2007 that 498 items had in fact been properly

disposed of as turn-ins to the warehouse. Additionally, in a subsequent inspection by IHS staff in late 2007, 222 items were found on site in IHS HQ that had been missed in the initial physical inventory taken in April 2007. The entire reconciliation process was completed in January 2008 and updated information was provided at that time to the GAO. Nevertheless, the report continues to categorize these items as "lost or stolen."

GAO's Allegation of Fabricated Documents

In January 2008, an IHS property staff member, in his effort to ensure that GAO received the needed information in a form he believed they would accept, generated blank disposal records and recorded the disposal information that was provided from the HHS Federal warehouse onto the HHS 22 forms. When these "HHS 22s" were provided to GAO, they reflected a current date of January 2008 and were clearly represented as having been created for purposes of establishing an audit trail using the independent warehouse verification. Although they were not backdated or otherwise falsified, GAO accused the property staff person of "fabricating disposal records." No one in IHS conveyed to GAO that these documents were anything but newly generated documents. IHS does not condone the actions of the staff person who generated the HHS-22s well after the fact, for the purpose of recording otherwise verified information for the review of the GAO, but we do not believe there was intent to deceive or mislead the investigators.

Allegation of "wasteful" purchases

In 2007, IHS Headquarters initiated a procurement strategy to increase the cost efficiency of the replacement of computer technology used by all its employees. The useful life of many desktop computers and smaller portable devices is 3-5 years. By buying in bulk to meet needs in advance, IHS can take advantage of bulk price discounts, and reduce critical down time of vital IT tools. The 25 on-hand "spare computers" noted in the report as "excess" and examples of "wasteful" purchases, represents roughly 6% of the total number of desktops deployed at IHS Headquarters. In the opinion of the IHS Chief Information Officer, this is an acceptable level of inventory. IHS makes only one bulk purchase of desktops each year in order to take advantage of bulk price discounts. Only the numbers of desktops that have exceeded their useful life are replaced in the annual bulk purchase. A very few additional computers must be purchased for emergent needs that arise during the year, such as new employees or to replace faulty equipment. IHS also uses those few additional computers, pending deployment to individual staff, for IT training purposes of all staff at both the Albuquerque and Rockville Headquarters locations.

"Yard Sale"

We have requested, but have not received, a copy of the "flier" that GAO references in the report. To date, staff at IHS Headquarters have not seen this flier and have no knowledge of the alleged yard sale. However, information regarding the property that is discussed in this section of the GAO report is described below. We have a written statement from the employee in the Phoenix Area property office that transferred the

computers at issue from the Desert Vision Youth Wellness Center to the Schurz Service Unit in 2005. He has verified that these computers were used for educational purposes at the Wellness Center, and were not used in a clinical setting in which the computers would more likely be used to store sensitive data.

HHS Response to GAO Recommendations

We concur with nine of the ten GAO recommendations addressed in the report to the Director of IHS to strengthen overall control environment for property management. We address individual recommendations below:

- Update IHS personal property management policies to reflect any policy changes that have occurred since the last update in 1992.
    - Concur. We have initiated this process. The revision process was started in 2002, however, was put "on hold" pending the implementation of a new property system that would inevitably change some of the business processes that would need to be addressed in the new policy. Additionally, recent revisions of the HHS Logistics Management Manual must be considered when revising the IHS policy.
- Investigate circumstances surrounding missing or stolen property instead of writing off losses without holding anyone accountable.
    - Concur. IHS will continue to accomplish the needed investigations regarding property that is unaccounted for, prior to write-off, and will hold employees accountable as deemed appropriate throughout the Report of Survey process.
- Enforce policy to conduct annual inventories of accountable personal property at headquarters and all field locations.
    - Concur. Instructions for conducting the 2008 physical inventory utilizing the PMIS have been distributed to the Area Property Management Officers. A personal property certification statement was included in the instructions that require the Property Custodial Officer/Asset Center Representative and the Area Property Management Officer to sign and date, certifying the physical inventory was conducted.
- Enforce policy to use receiving agents to document the receipt of property and distribute the property to its intended user and to designate property custodial officers in writing to be responsible for the proper use, maintenance, and protection of property.
    - Concur. Receiving agents and Property Custodial Officers will be assigned, trained and held accountable.

- Enforce policy to place barcodes on all accountable property.
    - Concur. IHS will continue to utilize the HHS policy to tag and control all accountable and sensitive property.
- Enforce policy to document the issuance of property using hand receipts and make sure that employees account for property at the time of transfer, separation, change in duties, or on demand by the proper authority.
    - Concur. IHS uses a clearance form for separating employees. This policy and the use of this form will be enforced prior to an employee's last day of work.
- Maintain information on the user of all accountable property, including building and room number, so that property can easily be located.
    - Concur. This information will be reviewed as the 2008 physical inventory is conducted and any updates to the PMIS will be made to reflect the current location of all accountable and sensitive property.
- Physically secure and protect property to guard against loss and theft of equipment.
    - Concur. IHS will continue to safeguard all property and plans to send a Special General Memorandum to all IHS employees reminding them of their personal responsibilities to safeguard property.
- Enforce the use of the PMIS property management database to create reliable inventory records.
    - Concur. Training and system implementation is nearly completed. As stated above, instructions for conducting the 2008 physical inventory utilizing the PMIS have been distributed to the Area Property Management Officers.
- Establish procedures to track all sensitive equipment such as blackberries and cell phones even if they fall under the accountable dollar threshold criteria.
    - Do Not Concur. IHS will continue to follow the HHS Policy for Sensitive Equipment and track only sensitive equipment that meets the criteria established by HHS for property accountability. Currently this policy requires sensitive items such as blackberries and cell phones to be tracked only if the purchase price is $500 or more, however, we agree it is important to protect all data that is considered sensitive.

      The following information describes security measures that are in place for sensitive IT equipment, and those planned for the future. IHS employs a number of management and technical measures to ensure a high degree of security for IT equipment. This includes: 1) All IHS laptops are

equipped with hard-drive encryption software; and 2) IHS policy prohibits the use or storage of sensitive information on mobile devices (e.g., blackberries) and portable media (e.g., CD/DVD). If a waiver is required, the mobile device or portable media must be encrypted. Plans are currently being developed to deploy software on all desktops for the encryption of portable media. Additionally, plans are currently under development for the encryption of hard-drives for IHS desktop computers that could contain sensitive information.

Appendix III: GAO Contacts and Acknowledgments

GAO Contact	For further information about this report, please contact Gregory D. Kutz at (202) 512-6722 or kutzg@gao.gov.
Acknowledgments	In addition to the individual named above, the following made contributions to this report: Verginie Amirkhanian, Erika Axelson, Joonho Choi, Jennifer Costello, Jessica Gray, Richard Guthrie, John Kelly, Bret Kressin, Richard Kusman, Barbara Lewis, Megan Maisel, Andrew McIntosh, Shawn Mongin, Sandra Moore, James Murphy, Andy O'Connell, George Ogilvie, Chevalier Strong, Quan Thai, Matt Valenta, and David Yoder.

The CHAIRMAN. Mr. Kutz, thank you very much.

Director McSwain, thank you for being with us. You don't look very happy today and I understand no agency will want to receive a report like this from the Government Accountability Office, and certainly this Committee is concerned, and I would say the entire Congress is concerned when they see a report of this type.

You are here, let me explain again that I invited you to testify. I also asked the Secretary of HHS to be present today. He has decided not to be present, but this Committee will continue to seek his testimony as well.

Mr. McSwain, why don't you proceed with your statement?

STATEMENT OF ROBERT G. MCSWAIN, DIRECTOR, INDIAN HEALTH SERVICE, U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; ACCOMPANIED BY RANDY GRINNELL, DEPUTY DIRECTOR FOR MANAGEMENT OPERATIONS, AND ATHENA ELLIOTT, DIRECTOR, OFFICE OF MANAGEMENT SERVICES

Mr. MCSWAIN. Thank you, Mr. Chairman and members of the Committee.

Good morning. I am Robert McSwain, Director of Indian Health Service. Today, I am accompanied by Randy Grinnell, Deputy Director for Management Operations, and Athena Elliott, Director of Office of Management Services. On behalf of Secretary Leavitt, we appreciate the opportunity to testify on the Indian Health Service's Property Management Program.

As you mentioned earlier, I did not envision that my term as Director of the Indian Health Service would begin in this fashion, but here we are. While the IHS does not agree with some statements

and allegations contained in the GAO report, IHS takes the GAO recommendations very seriously and concurs with 9 of the 10 GAO recommendations addressed in the report to strengthen the overall environment, to control the environment for property management, and has been and is now fully engaged in the ongoing process of updating its personal property management policies, conducting necessary investigations of any unaccounted property, and ensuring that employees are held accountable. I will speak to that in my closing comments.

I must point out that IHS has already been working with the department, as was mentioned, since the early 2002 through 2005, to begin to improve our property management systems. In fact, even more so in the recent year, we were working very feverishly to prepare for the implementation of the unified financial management system, which is a department-wide financial system that requires that some of our old legacy systems in property management be abandoned. We have now moved on to PMIS.

I will report to you that we have been moving inventories and training personnel in preparation for the full implementation. There are a couple of major concerns that we have with the GAO report, which was noted earlier, and GAO acknowledges itself various limitations to its audit investigation, some of which are listed, which I will talk about in a moment here.

The report asserts that IHS did not consistently document lost or stolen property items and concludes that the number of currently unaccounted for items might be much higher. But I can assure you with the new HHS PMIS system, that in fact we will be reducing those numbers significantly in the reconciliation process.

The report also overstates the net worth of currently accounted for items by not taking into consideration depreciation of those items. Some items referenced in the report at 15- to 35-year old. As you know, like our facilities that average 33 years across the Country, our property likewise is quite old. I think, for example, the comment about the property in Wyoming that was in fact infested was in fact transferred to the warehouse at zero value and was being held there to be disposed of by a process.

Now, the interesting thing is, this points up another major issue that we wrestle with in Indian Country, is that our facilities are so far out in remote locations that are not available to GSA disposal sites for many of them, so we wind up either housing it or putting it into a location to be able to move it out.

In this particular instance, the Billings area has engaged the Department of Defense and we will be moving property that has been excessed to them for their final disposition.

Now, to highlight the report, and I think in fairness to GAO I must point out that several of the updates on these highlights were submitted late, and in some cases not acceptable to the General Accounting Office, but we will include these updates in our 60-day response. As I understand, we have 60 days from the date of the report to the middle of September to provide our progress report on what we are doing with the recommendations outlined in the report.

The Alaska—I think it is so critical—the Alaska determination, in fact the ATVs, the tractors referred to in the GAO report as lost

and sold were identified in a 2006 Alaska border survey as transfers to communities or abandoned in place. Given the fact that Alaska, as Senator Murkowski said at the last hearing, is identified by the remoteness of the various locations.

When we move equipment out to these remote locations, and they are there for a period of time until we finish the water and sanitation projects, for example, we literally turn them over to the community to continue to operate and maintain. So as a matter of an artifact of process, the border survey in fact shows that much of that equipment was in fact transferred.

Now, I think it is also important that of the 1,097 items, the average age spans between 15 and 35 years. Two very important factors: this is really a one-time. We were building towards the ultimate complete takeover of the program by the Alaska Natives. They have done that, and we have—in fact, I have a note from a tribal leader up here that says basically that much of the equipment that was turned over to them is being used.

It was old, but I think it is important to point out that the 86–121 law that enables us to build water and sanitation facilities in Indian Country does enable us to transfer property and equipment to them, to the tribe, for their operation and maintenance of their system. In the case of Alaska, 98 percent of the $6 million of property identified was in fact transferred in that fashion, 98 percent of all the equipment, and the law authorizes us to transfer that equipment. This accounts for about $6 million of the $15.8 million in the GAO report.

The Tucson survey of the report for Jaws of Life, the fact that it got a lot of press as well, we have since found those five pieces, and in fact they were missed in one inventory. In the subsequent inventory, they were not available. I think the General Accounting Office made a look and couldn't find them. We subsequently found them. We have verified that the Jaws of Life are in fact in condition, have been used, but they are now accounted for. We will provide that in our response for the 60-day inventory.

The whole notion about fabricated documents is really an attempt by an employee to in fact provide the right form. We had actual information that tracked the property disposal. It was not in the right form and it was not acceptable to the General Accounting Office. But by creating these documents, it was referred to as fabrication. We do have evidence that tracks the actual request for property action.

The yard sale, we are investigating that as well. It was brought to our attention by the General Accounting Office and we have been investigating that very heavily. I think the important part is the particular PCs that were referenced were actually for educational purposes, for training and use in how-to-use computerized equipment. There was no patient information on it, nor student information on that.

But let me just close. I am sure you have questions on a whole host of issues, but let me just say that going forward, IHS is committed to strong enforcement and updating our policies. We have had the policies in its final throes. I want them on my desk in the next 60 days so that we can move forward with clear current policies.

I have recently held a conference call with the 12 area directors that manage the areas. I have advised them because of this particular report and my sitting here today, they are going to be held responsible. In fact, part of my assurance is to put a performance element in their performance contracts that cascades down to the service unit directors that will in fact hold them accountable performance-wise for accounting for and management of personal property.

We will tighten up our management internal controls. We use a self-assessment means. I am going to ask that our staff make random visits, as the GAO has done, to our remote sites to ensure that they are adhering to not only receiving reports of equipment, but also the proper disposal reports.

We will continue with the support of the department to fully implement UFMS and the PMIS, and I am confident that with the implementation of both, I look forward to a revisit, if you will, by the General Accounting Office at some point as they would desire, and that even in 60 days, I expect that our report on the status of our accomplishments will demonstrate significant progress, because we are doing it as we speak.

Mr. Chairman, this concludes my summary statement. Thank you for this opportunity to report on the property management in the Indian Health Service, and I will be happy to answer any questions you might have.

[The prepared statement of Mr. McSwain follows:]

PREPARED STATEMENT OF ROBERT G. MCSWAIN, DIRECTOR, INDIAN HEALTH SERVICE, U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Mr. Chairman and Members of the Committee:

Good Morning. I am Robert McSwain, Director of the Indian Health Service. Today I am accompanied by Randy Grinnell, Deputy Director of Management Operations, and Athena Elliott, Director of the Office of Management Services. We appreciate the opportunity to testify on the Indian Health Service's property management program.

The Indian Health Service provides health services to nearly 1.9 million American Indians and Alaska Natives (AI/ANs). In carrying out this responsibility, the IHS maintains a unique relationship with more than 560 sovereign Tribal governments located in the most remote and harsh environments within the United States as well as in modern metropolitan locations such as Anchorage and Phoenix. This geographic diversity and major health disparities offer extraordinary opportunities and challenges to managing and delivering health services.

The IHS and Tribal programs provide a wide array of individual and public health services, including clinical, preventive, and environmental health services. In addition, medical care services are purchased from outside the IHS system through the Contract Health Services (CHS) program when the care is otherwise not available at IHS and Tribal facilities.

The IHS is committed to its mission to raise the physical, mental, social, and spiritual health of all AI/ANs to the highest level.

IHS appreciates the opportunity to respond to GAO's report on IHS property management. IHS has been and remains committed to proper and accountable property management. To this end, IHS Headquarters and Area Offices have fully cooperated with GAO in the audit and investigation by providing detailed records, performing extensive data reconciliations upon request of the GAO, and participating in multiple and extended staff interviews.

Overview of the IHS Inventory System

IHS currently uses the HHS Property Management Information System (PMIS) to inventory personal Federal property. The PMIS was first implemented in FY 2005, and provide tools that enable IHS to continue to improve property accountability.

Indian Tribes are authorized by Public Law 93–638, the Indian Self-Determination and Education Assistance Act, to assume control of programs administered by the IHS, including administrative support functions. The statute also permits IHS to transfer title to both real and personal Federal property associated with the operation of the contracted program to the Tribes.

Also, Public Law 86–121, Indian Sanitation Facilities, authorizes IHS to transfer property to Indian Tribes in order to maintain sanitation facilities. IHS also has additional authority for providing equipment for safe water and sanitary waste disposal facilities to Tribes under the Public Law 94–437, the Indian Health Care Improvement Act, as amended. The Secretary of Health and Human Services (HHS), acting through the Service, also is authorized by P.L. 86–121 to provide financial and technical assistance to Indian Tribes and communities in the equipping of utility organizations to operate and maintain Indian sanitation facilities.

In early FY 2005, HHS made a decision to have all HHS Operating Divisions, including IHS, utilize the Property Management Information System (PMIS). At implementation, the IHS-wide inventory was comprised of approximately 121,000 items with an original acquisition cost of $302 million prior to assigning new and higher HHS accountability thresholds and assessing the value of depreciation. After applying the new HHS accountability thresholds under PMIS, the IHS inventory is comprised of approximately 49,000 accountable and sensitive items with a total original acquisition cost of $205 million.

The implementation of the new HHS consolidated PMIS, including staff training, took an extensive amount of time and resources. Training is still ongoing and is a continuous process. Conducting physical inventories using the new system therefore lagged and many IHS Areas reverted to some legacy systems that had not been decommissioned. The process for conducting wall-to-wall physical inventories became more challenging due to the volume of equipment and property, and the time and effort required to undertake such a process.

The new HHS logistics management policy mandates that all accountable and sensitive property, but not all Government equipment, be tagged with a Government decal. Accountable property is any item with an acquisition cost of $5,000 or more. Sensitive property is an item identified to be tracked with an acquisition cost between $500 and $4,999 that requires stricter inventory control. Property items meeting the new, higher dollar threshold or the sensitive items criteria are affixed with a barcode tag and entered into the PMIS. The PMIS includes a depreciation expense feature which will adjust the book value of the IHS inventory when it has been fully implemented, a feature which was unavailable in the legacy property system. As of 2007, a physical inventory was completed for 100 percent of accountable/sensitive property in 5 of the 14 accountable areas throughout the IHS, including IHS Head Quarters (HQ). An additional 5 accountable areas completed partial inventories (50–90 percent of accountable/sensitive property) and the remaining 4 accountable areas examined 15 percent or less of their accountable/sensitive property. By the end of FY 2008, a physical inventory of 100 percent of accountable and sensitive property will be conducted in 14 accountable areas throughout the IHS.

Response to GAO Report

IHS worked extensively with the GAO to provide detailed information regarding the agency's property management system. Their review was conducted at a time IHS was fully engaged in a transition from one outdated system to a newer, more efficient PMIS. As such, not all concerns cited by GAO in their report are current or defensible. GAO itself acknowledges various limitations to its audit and investigation, some of which are listed below. These limitations seriously undercut and are not reflected in GAO's conclusions.

- The report asserts that IHS did not consistently document "lost or stolen" property items and concludes that the number of currently unaccounted for items might actually be higher than GAO has identified. In fact, the ongoing process of reconciling the prior property management system to the new PMIS will reduce the number of currently unaccounted for items as the reconciliation progresses.
- The report also overstates the net worth of currently unaccounted for items by not taking into consideration the depreciation value of these items. Some items referenced in the report are 15 to 35 years old, and yet are assigned their original acquisition cost. For example, some of the large, non-IT items of inventory, such as all terrain vehicles (ATVs) are valued at the original acquisition cost despite the fact that the actual equipment was acquired between 1974 and 1999, well past their useful life expectancy of 8 years.

While IHS met with GAO on multiple occasions to discuss specific situations addressed in the report, GAO has persisted in defending some inaccurate situations described below.

Alaska Tribal Self-Determination Award

The ATVs and tractors referred to in the GAO report as "lost or stolen," were identified on the 2006 Alaska Report of Survey as "transferred" or "abandoned in place". Some of the large construction equipment in the extremely isolated locations in Alaska has to be flown in, or shipped by barge. The acquisition dates of these 1,197 items span 15–35 years. The useful life and actual "value" of these items were taken into consideration by the Board of Survey and the Determining Authority's final decision to remove the items from the inventory records for the Alaska Area.

At the time of the transfer of IHS property to the Alaska Tribal compact in 2000, personal property in use in Alaska reflected a *non-depreciated* value of approximately $13 million, of which approximately $7 million was transferred to the Alaska Tribal compact under the new agreement/award. IHS–Alaska Tribal health officials jointly researched and reconciled the inventory and wrote off the remaining $6 million of this original amount representing 1,197 items in a single Report of Survey in 2006. The Report of Survey clearly stated that most of the written off items were disposed of either by (1) transfer to local Tribal communities; (2) transfer to a local Air Force Base; or (3) "abandoned" on an IHS construction site due to the extraordinary expense associated with the removal of the equipment, leaving 68 items valued at a non-depreciated value of $177,000 unaccounted for.

Tucson Report of Survey and "Jaws of Life"

All of the Jaws of Life extrication equipment which the GAO report characterizes as "lost or stolen" has been accounted for by Tucson Area in early May 2008. The Jaws of Life extrication equipment had been stored in a Rescue Truck and the inventory team missed locating the items on their earlier attempts when conducting the physical inventory. The Tucson Area property staff is in the final stages of completing the 2008 physical inventory which includes reconciling any differences between the physical inventory and the property records. The initial work on the 2008 reconciliation process has resulted in locating and accounting for many of the items listed on the 2006 draft Report of Survey, however, the report does not reflect this.

Allegation of Misrepresentations Made by IHS Property Staff

The GAO report continues to categorize IHS HQ inventory items that have been accounted for by the IHS inventory as "lost or stolen." When the GAO investigation commenced in August 2007, IHS property staff were in the process of reconciling the April 2007 physical inventory of IHS HQ property with additional information, including a follow up on-site inspection by IHS staff and independent verification of returned property by the Federal warehouse. While the initial IHS April 2007 inventory results indicated that 1,180 items were listed but not located on site, and over 500 items were on site but not listed on the HQ inventory, subsequent research of alternate records determined that the property had been properly disposed or accounted for. Independent verification with the Federal warehouse in 2007 confirmed that 498 items had in fact been properly disposed of as turn-ins to the warehouse. Additionally, in a subsequent inspection by IHS staff in late 2007, 222 items were found on site in IHS HQ that had been missed in the initial physical inventory taken in April 2007. The entire reconciliation process was completed in January 2008 and updated information was provided at that time to the GAO, but GAO's report does not appear to have considered this additional information.

GAO's Allegation of Fabricated Documents

In January 2008, an IHS property staff member, in an effort to ensure GAO received needed information in an acceptable form, generated blank disposal records and recorded the disposal information that was provided from the HHS Federal warehouse onto "Request for Property Action" forms commonly referred to as HHS 22 forms. An HHS 22 form is used to document property transfers, turn-ins, and disposition instructions. This form is also used to document new receipts when other source documents are not available. When these "HHS 22s" were provided to GAO, they reflected a current date of January 2008 and were clearly presented as having been created for purposes of establishing the requested audit trail using independent warehouse verification. Although they were not backdated or otherwise falsified, GAO accused the property staff person of "fabricating disposal records." No one in IHS conveyed to GAO that these documents were anything but newly generated documents. The staff person who generated the HHS–22s after the fact, created them for the purpose of recording otherwise verified information for the review of the GAO, but there was no intent to deceive or mislead the investigators.

Allegation of "Wasteful" Purchases

In 2007, IHS Headquarters initiated a procurement strategy to increase the cost efficiency of the replacement of computer technology used by all its employees. The useful life of many desktop computers and smaller portable devices is 3–5 years. By buying in bulk to meet needs in advance and making those purchases once a year, IHS can take advantage of significant price discounts, and reduce critical down time of vital IT tools. Only the numbers of desktops exceeding their useful life are replaced in the annual bulk purchase. A very few additional computers must be purchased for emergent needs arising during the year, such as new employees or to replace faulty equipment. IHS also uses those few additional computers, pending deployment to individual staff, for IT training purposes of all staff at both the Albuquerque and Rockville Headquarters locations. The 25 on-hand "spare computers" noted in the report as "excess" and examples of "wasteful" purchases, represents roughly 6 percent of the total number of desktops deployed at IHS Headquarters, which is an acceptable level of inventory to meet these needs.

GAO alleges that IHS has assigned 10 computers to each employee in IHS Headquarters. This calculation appears to have been made by GAO by taking the total preliminary and unreconciled inventory (3,155 items) in April 2007 (which included items later verified to have been properly disposed) and divided the total by the number of IHS employees at HQ (about 300). If one uses the final reconciled number for the 2007 HQ inventory, approximately 1,500, the ratio is closer to about 5 items per employee.

"Yard Sale"

We are initiating an investigation into the allegation that a yard sale was conducted to dispose of surplus computers and other property. We appreciate the matter being brought to our attention by the GAO. In the meantime, we have verified that these computers were used for educational purposes at the Desert Vision Youth Wellness Center, and were not used in a clinical setting in which the computers would more likely be used to store sensitive data.

HHS Response to GAO Recommendations

IHS concurs with nine of the ten GAO recommendations addressed in the report to strengthen overall control environment for property management and has been, and is now, fully engaged in the ongoing process of updating its personal property management policies, conducting necessary investigations of any unaccounted property and ensuring that employees are held accountable as appropriate throughout the Report of Survey process. IHS is committed to strong enforcement of standing agency policies designed to ensure accurate and timely inventories of accountable personal property throughout the entire agency with official certification by property management staff. This includes enforcement of policies requiring proper use, control, maintenance and protection of federal government property and continued use of barcodes to identify and control all accountable and sensitive government property.

Mr. Chairman, this concludes my statement. Thank you for this opportunity to report on the property management program in the Indian Health Service, serving American Indians and Alaska Natives. We will be happy to answer any questions that you may have.

The CHAIRMAN. Mr. McSwain, thank you very much for your testimony. We all have a number of questions, of course, for you and Mr. Kutz. Before we get to those, I am going to ask Mr. Fernand Verrier, who is with us, he is one of three people who worked in the agency. Would you come forward to the witness table? You are going to give a short testimony.

You were Deputy Director of the Office of Finance and Accounting, and Chief Financial Officer for the headquarters, Indian Health Service, in Rockville, Maryland until March of 2008. If I might stipulate, you have in your testimony a substantial amount of information about your service in the Navy, the Far East, your direct commission, your service in Operation Desert Shield and Enduring Freedom and so on; one year at CENTCOM; one year at the U.S. Embassy in Yemen.

Let me stipulate, if I might for all of us, all of that information about your service to our Country and thank you for it, and ask if you would begin on page two of your information and describe. You say on page two, "I would like to share my personal experience."

Your description here is of a rather small area in the IHS, but I think you provide it as descriptive of what you think happens at the IHS with respect to inventory. If you would start there and go to the end, that way we will have on record your impression as someone who worked in those offices, then we will go to questions.

Mr. Verrier, thank you.

STATEMENT OF FERNAND R. VERRIER, FORMER DEPUTY DIRECTOR, OFFICE OF FINANCE AND ACCOUNTING, INDIAN HEALTH SERVICE, U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; CFO, HEADQUARTERS INDIAN HEALTH SERVICE

Mr. VERRIER. Thank you. As you stated, I would like to share my personal experience with the property management problems at IHS.

In the fall of 2007, the IHS Property Book Office submitted a request to our office requesting that we conduct a complete inventory of our computer equipment. Mr. Tommy Thompson, who was my direct boss at the time, directed me to perform this inventory. He said that was my responsibility.

Having not been there a long time, I asked a secretary to conduct the inventory. Out of the approximately 100 items, she could not locate approximately 20 items in our assigned office. Hearing this, I decided to conduct the inventory myself to determine the discrepancy. I did conduct the inventory and found the same discrepancy.

I then contacted the Property Book Office and asked them to come and conduct an independent inventory to verify ours. They performed the same inventory and came up with the same results. I then sent an e-mail to our staff, which is approximately 35 individuals, and asked them if they knew of the possibility of where these missing items could be located. Their response came and we located one laptop computer and one desktop computer that was located in the individuals' homes.

I asked for documentation that permitted these individuals to remove the Federal Government property and take it home. Their response was, we do not do that around here. My response was, effective immediately, you will do this.

I then contacted the Property Book Office and informed them of the location of the two missing items. The Property Book Office told me that they would prepare a new property book reflecting what they had found. My response was, okay. However, what are you going to do about the missing items? Their response was, we are going to write them off. My response was, what? You are going to write them off without conducting an investigation? And their response was, no, we write things off as we have always done. My response was, I can't believe this.

At this point, I contacted the Property Book Officer and informed him of what was going on. He told me he would check into it. I would estimate that the value of the property that was missing, the

18 items still missing, is approximately $18,000 to $20,000. If this is what is found in a small office at the headquarters of approximately 35 individuals, what would you expect in the other offices throughout the agency?

I am very grateful to have the honor and opportunity to address the Committee and to assist in the effort to help implement property control management within HHS. Proper property management control will allow IHS to allocate its funding wisely and frugally in providing medical care for our Native American and Alaskan natives which the funding is for.

At this time, I will answer any questions you have.

[The prepared statement of Mr. Verrier follows:]

PREPARED STATEMENT OF FERNAND R. VERRIER, FORMER DEPUTY DIRECTOR, OFFICE OF FINANCE AND ACCOUNTING, INDIAN HEALTH SERVICE, U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; CFO, HEADQUARTERS INDIAN HEALTH SERVICE

Thank you, Chairman Dorgan and Members of the Committee, for taking the time to hear my testimony in regards to the blatant fraud, waste, and abuse of property throughout Indian Health Service (IHS).

My name is Fernand R. Verrier. Until March 6, 2008, I was the Deputy Director of the Office of Finance and Accounting (OFA) and Chief Financial Officer (CFO) for Headquarters, Indian Health Service in Rockville, Maryland.

I have served in the Federal Government since 1976, starting as a GS–9 Auditor and working until my forced retirement on the 6th of March 2008, due to a hostile and stressful work environment. My final position was at the GS–15 grade. I have served in the Federal Government as an Auditor, Supervisory Accountant, Budget Analyst, Supervisory Budget Analyst, Supervisory Accountant, Supervisory Auditor, Financial Manager, Financial Advisor, Auditor, Senior Auditor, and Deputy Director (Supervisory Accountant).

I have also served in the Navy from 1962 to 1966 in the Far East. In 1977, I received a Direct Commission as a 1st Lieutenant in the Army Reserves and served on Active Duty during the following periods: Just Cause/Promote Liberty, Panama, December 1989 to September 1990; Desert Shield/Storm in Saudi Arabia, Kuwait, and Iraq, December 1990 to May 1991; and Operation Enduring Freedom in Bosnia from May 1996 to December 1996. After 9/11, I was once again called to Active Duty and served 1 year at Headquarters, Central Command, and 1 year at the U.S. Embassy, Yemen until my retirement at age 60.

My responsibility at IHS as Deputy Director of the Office of Finance and Accounting and CFO was to serve as the Principal Deputy Director to the office Director. This means that I fully shared in the responsibility to exercise broad authority for development, presentation, and justification of the IHS budget, and for the allocation and management of financial resources available to IHS executives on financial management matters. I also had responsibility for implementation the provisions of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. I applied supervisory responsibilities and managed the daily operations of the office; supervised and provided direction to subordinate staff either directly or through subordinate supervisors; served as principal advisor to the CFO on accounting principles, standards, practices, and functions and chief financial operating official requirements; and interpreted and provided direction for the development and execution of policies, guidelines, manual issuance, circulars, and other directives.

As Deputy Director, I reported to Mr. Tommy Thompson, Director of the Office of Finance and Accounting, who reported to Ms. Phyllis Eddy, Deputy Director for Management Operations, who reported to Dr. Charles W. Grim, Director of Indian Health Service.

I would like to share my personal experience with property problems at IHS.

In the fall of 2007, the IHS Property Book Office submitted a request to my office requesting that we conduct a complete inventory of all our computer equipment. Mr. Thompson, Director, informed me that as the Deputy Director, it would be my responsibility.

I asked our secretary to conduct this inventory. Out of approximately 100 items, she could not locate about 20 assigned to the OFA. Hearing this, I decided to conduct the inventory myself and found the same discrepancies. I then contacted the Property Book Office and asked if they could send someone to conduct and inde-

pendent inventory to verify ours. They performed the same inventory and came up with the same results. I then sent an e-mail to all our staff (approx. 35 individuals at the time) and asked whether anyone knew of the possible location of the missing items. The responses allowed us to locate one laptop and one desktop computer which individuals had at their homes.

I asked for the documentation that permitted these individuals to remove federal government property and take it home. Their response was, "we do not do this around here." My response was, "effective immediately we will begin doing this."

I then re-contacted the Property Book Office and informed them that we had located two of the missing items.

The Property Book Office told me they would prepare a new Property Book reflecting what we had found.

My response was, "O.K., however, what are you going to do about the items that are still missing?" Their response was, "We are going to write it off." My response to that was: "WHAT? Are you not going to conduct an investigation about the missing items?" And their response was, "NO, we just write it off as we have always done." My response was, "I can't believe this!"

At this point I contacted the Property Book Officer and informed him of what was going on. He told me that he would look into it.

I would estimate that the value of the approximately 18 items that were still missing was between $18,000 and $20,000.

Now you are probably asking how this relates to the GAO report, "IHS Mismanagement Led to Millions of Dollars in Lost or Stolen Property." Well, I say to you, that this is proof beyond a doubt that IHS has a very large problem in regards to property management. If this is what was found in a small Headquarters office of only approximately 35 individuals, what would you expect in the other offices and throughout the agency?

I am very grateful to have had the honor and opportunity to address this Committee and to assist its efforts to help implement proper property management control within IHS. Proper property management control will allow IHS to allocate its funding wisely and frugally in providing medical care for our Native American and Alaskan natives.

At this time, I am happy to answer any of your questions, if you have any.

The CHAIRMAN. Mr. Verrier, thank you very much for your thoughts about your observations in the Indian Health Service.

Mr. McSwain, Director McSwain, 11 years ago you wrote a memorandum, that is March 12, 1997, in which you said, look, we have had people stealing laptops around here, and we have a big problem. I assume back in 1997, 11 years ago, you were not Director, obviously. You were in the Indian Health Service raising a question about a problem you saw. I assume back then, just looking at that memorandum, you thought something serious was going on. When equipment gets stolen, that is a big problem, right?

And so you raised the question and the need to do something about it. Eleven years later, we are sitting here in a Committee hearing room with a GAO report saying this thing is a complete mess.

And your testimony, I must say, seems all too defensive of the existing system. For example, I read the report last night in full. I had read summaries before. But the report, for example, describes efforts by individuals in the Indian Health Service to fabricate documents to the Government Accountability Office. That is a very serious charge. You know, it seems to me that you have people fabricating information, that borders on criminal and you want to find out who would do that and get rid of them instantly.

So tell me your response to the allegation of fabrication of documents?

Mr. MCSWAIN. First of all, Mr. Chairman, as I mentioned, it was not necessary to even write those documents because we had the backup information that would attest to the disposal of the prop-

erty. But let me just say that this particular matter has been referred to the Office of Inspector General for their inquiry and investigation as well. So this matter is in fact under the IG's, I believe if the GAO didn't refer them, we certainly have referred the matter to the IG for their look.

The CHAIRMAN. But do you think it happened? If I were in your position and somebody did an audit or an investigation of my agency and they said, "IHS made a concerted effort to obstruct our work"—that is very strong language from the GAO; I don't know that I have ever heard that language of a Federal agency—"a concerted effort to obstruct our work." And then a misrepresentation, by the IHS Director over property items, and then fabricating receiving reports by the IHS property specialist.

If I were in that chair, I would be furious if you had half a notion that any of that was true, and I would damn well find out as quickly as I could. Your impression is, well, we are directing this to the IG.

Mr. MCSWAIN. As any kind of behavior of that type, we are duty-bound to refer them to the IG and we have done that. What I am saying is, and quite frankly the particular employee that attempted to—the interesting thing about this particular event was, yes, there were receiving reports that were filled out and they were dated the day they gave it to the, which was three months later than it was actually received. So the real fault there is the fact that a receiving report was not prepared as the policy requires upon receipt.

With the employee feeling that this form, this HHS–22, which is a form that literally manages and moves property around the system from acquisition to ultimate disposal was not there, their attempt to simply create one based upon documents that we already had that were not in that form, I question the fullness of "fabrication." He may have prepared a form, but it is borderline.

It is not like he completely backdated the document to the date of receipt. That would be fabrication, in my opinion, but not simply preparing the report and signing on today's date, and providing it to the GAO as requested is, in my view, not quite the same level of fabrication as completely going back and redoing the report and representing it as performed in accordance with the policy. But that is just my opinion, but the fact is that it did occur, so it has been referred to the IG for further investigation.

Mr. KUTZ. Mr. Chairman, could I address that?

The CHAIRMAN. Yes.

Mr. KUTZ. I don't have an opinion. I have facts. He is talking about two different matters. If you look at the board up there, that is one of the 116 documents that were fabricated, showing that 571 items have been transferred. Notice that there are no actual signatures on there. One of the individuals whose name was blocked out at the bottom did not even work there at the time that this transfer supposedly took place. We spoke to both people whose names are blacked out and they said that those documents did not exist.

The worst situation that shows this as a fabrication, some of the items that supposedly were transferred before April, 2007, which is what those documents say, we found in our physical inventory after that date, clearly showing that these are fraud and fabricated documents.

Mr. McSwain might not be aware of all the facts, but those are the facts.

The second case is a separate case, where we asked for three receiving reports, and that was a little bit different. The document wasn't fabricated. We were given a document that showed no signatures and no one had actually received the items. We got a second document the day we asked for it with a signature that day. So we have two copies of the same document, one with signatures on it and a date in December of 2007, and the other one with no signatures. So that is a separate incident from the 116 documents that were fabricated.

The CHAIRMAN. I will come back to that, but the report suggests that you can't locate a Caterpillar tractor? You know, the description of the property—a pickup truck, van trailers, heavy equipment lost or stolen. Is there a Caterpillar tractor gone?

Mr. KUTZ. It could very well be. It could be an inventory issue. It could be that something is gone. There are issues. I have read police reports of stolen vehicles. Other things may be just accounting issues.

The CHAIRMAN. And so, we hear about bat dung and yard sales and all of these issues. It seems to me, Director McSwain, that this is a mess, and they have only looked at seven of the 163——

Mr. KUTZ. One-hundred-and-sixty-three, I believe.

The Chairman.—seven of the 163 service areas around the Country. I wonder what we would be talking about here if all 163 were surveyed. Do you agree that we have a huge mess on our hands, Director McSwain?

Mr. MCSWAIN. I would not go as far as perhaps the GAO is going with their generalization, because a large amount of our equipment is in the hospitals. It is in the facilities. It is my belief that the accountability of equipment within those hospitals and health stations and health centers, what we are really talking about here is the disposal.

Much of what we are talking about is equipment that has completed its useful life and now is being processed out, either excessed in the case of the contaminated bat dung equipment, which was at zero value, was not being used, was no longer in the facility, even though it was health care equipment, it was so outdated that it was in fact moved out. That is one example.

Of course, in Alaska where the tractors and backhoes and the like that get flown out for projects up there, we have had conversations certainly with the native corporations, and they are fully aware of the fact that that equipment is in those locations and in many cases being used.

There is a term of art that we use, which is abandon in place, meaning that—and the requirements are that is it going to cost more to transport that piece of equipment back to a central place, or leave it in place.

So it is complicated. I wouldn't characterize it as a mess, but I certainly hear you.

The CHAIRMAN. But Director McSwain, your statement just now is at odds with your own admonition 11 years ago about property being stolen, with Mr. Verrier's experience of we have missing

property, what do we do? We write it off. We don't investigate. We write it off.

How much of that missing property was stolen? And you are telling us about a tractor that might have been airlifted in Alaska. We are talking past each other, I think. We have a GAO—the fact is that GAO is our own creation. They do work on our behalf. They have issued a report I think that is a scathing report, and you say today, you say that this system, inventory information management system is fully operational, and yet then you also say you are still migrating data and training staff. How can you have a system fully implemented if you are still migrating data and training staff?

Your approach here today is to suggest, you know what, the GAO probably doesn't quite understand it all. But you understood it 11 years ago. I am frankly surprised, Director McSwain. I would be furious, if I were you. I would be furious about having to answer for this staggering incompetence.

Mr. MCSWAIN. Let me assure you that 11 years ago, I certainly had a perception and I knew there were some things, there were reports being given to me, and I took action then. Fast forward to the current, I can assure you that I will make the changes that are necessary to bring accountability for this particular piece, as well as accountability in other parts of our system, as well as we have done with accountability for health care performance.

The CHAIRMAN. But do you still have the people working for you—I assume the answer is yes—who attempted to obstruct the work of the GAO? Who provided false information to the GAO? They have given us a list of things here—fabricated reports, backdated. Do you still have those folks working for you? Because you seem to be here today explaining what they did and the reason they did it. I don't think there is an explanation for that. Are those folks still working there?

Mr. MCSWAIN. Yes.

The CHAIRMAN. By what justification does that occur?

Mr. MCSWAIN. I think, Mr. Chairman, we have had this conversation before. As employees, at least in the executive branch, they have rights. We will certainly deal with them, but they also have rights as permanent employees. But we will deal with them appropriately.

The CHAIRMAN. Mr. Kutz, the work that was done here describes a system that is in chaos. Is that a fair description? And you heard Mr. Verrier's comments, and you described that the audit commenced as a result of whistleblowers. Whistleblowers are not very well thought of by agencies, as you know.

You started your testimony saying that the whistleblower allegations about inventory mismanagement were documented as accurate by the GAO. Is that correct?

Mr. KUTZ. That is correct.

The CHAIRMAN. Give me your impression of this entire system, and also answer for me, if you would, is it conceivable that the Indian Health Service could not have a fully operational system of property management in this period of time?

Mr. KUTZ. No, it is not.

The CHAIRMAN. If they don't have training staff trained, and are still migrating data?

Mr. KUTZ. No. I think they are migrating the system, but this is a problem of people, process and system. As I mentioned in the opening statement, one of the things you have is a management culture here that has kind of allowed this to happen over at least 13 years, because the memo there says there have been problems for two years. So really, the problems at least go back to 1995.

So you have the overall control environment issue. And then, as I said, the rest of it is property management 101. You have pretty good policies in place, but people aren't following them, and when they don't follow them, they are not held accountable. That is really where the culture needs to change.

So it isn't really rewriting all the policies. Property is required to be bar-coded. Hand receipts are given, which means like if a computer is given to me, there is some accountability for it. They know I have it. It is in my room, and that kind of thing. They don't use that at headquarters, for example, and other places, so basic policies that need to be followed. So it is going to take time to change the culture to fix a problem like this.

The CHAIRMAN. I have additional questions, but let me call on Senator Murkowski.

Senator MURKOWSKI. Thank you, Mr. Chairman.

You know, you mentioned the policies in place, and your opinion that the policies are probably adequate. It really comes down to enforcement and the accountability aspect of it.

Mr. McSwain, you mentioned that as a consequence of what we are dealing with, this GAO report, that you are moving to update the policies, was the terminology that you used. And you are going to put protocols in place, send folks out for random visits to kind of do your own internal audit there.

I am concerned that we probably do have the policies out there. I can't believe that we could have known to the level that we knew back in 1997 or whether it was 1995—obviously a good decade ago—that internally there were some property management issues that needed to be addressed.

I can't believe that we would not adopt and address policies at that point in time. I have to believe that the policies are there. I am very concerned about the lack of enforcement, and that is what it seems that we have in front of us today.

That is what leads me to believe, based on what I have heard described today, the background from the GAO report, that you really do have a situation of chaos, of chaotic management, of management that simply does not work.

I will tell you, I don't know how else to describe my reaction other than saddened, that as a consequence of this, what we are going to be doing now in order to address the audit and the very obvious and glaring problems within the system, we are going to be spending money to send people out to make sure that we are doing what we need to be doing in terms of the bean-counting, and it is not going to get out to the hospitals. It is not going to get out to provide for those who have had their health care rationed, as we talk about.

So in an effort to address this need, we are going to have to take some of these very scarce resource dollars that we all agree is a big part of our problem here, and we are going to have to direct them

to kind of the accounting end of it. When we are dealing with the accounting end of it, as important as it is, it is not getting more health care to those who need it within the system. So I am just kind of shocked at how we deal with some of the management issues.

Let me ask you just in terms of the new system that you have now moved to, Mr. McSwain. We have gone through this conversion, or it is maybe still in the process, as the Chairman has suggested. And maybe, maybe not, this conversion has contributed to some of the difficulty in conducting annual audits, although I have to suggest that if it goes back as long as we are talking about, it is not just the conversion issue that we can point to.

But with this new property management system, are we doing anything different in terms of the system itself, that will ensure that we don't have the problems? Or again, does it really all come down to whether or not we are enforcing the policies and protocols that we already have in place? I am trying to understand how we move forward from here.

Mr. MCSWAIN. Thank you, Senator. As you were speaking, I was thinking about the same sort of balancing dilemma that we face, that service unit directors face every day out in the service units. I could just see them saying, do I hire a nurse or do I hire a property person? Do I dedicate resources over here or over there? If I am sitting there and if I have a backlog of patients, I can kind of guess where their decision is going to be. They are going to hire the nurse. They are going to hire the doctor. They are going to hire the health care professionals to carry out the mission.

What I believe, and I firmly believe this, is that my experience of being around the Indian Health Service a number of years, we have had a number of property systems. We had something called the NECOP system, which is a non-expended control operating program, for years. It was a stand-alone. Areas did it. There was some data that was moved around, but it really wasn't a system. It was, for all intents and purposes, a spread sheet kind of a system that accounted for inventories. Then we moved forward to some later versions of online kinds of equipment—again, systems that were not integrated.

This time, we have a system that is integrated as a part of the unified financial management system that has entry points throughout the Indian Health Service, and throughout the department, for that matter.

So that ability to have the inputs, if you will, at the very local level is a system-wide application. That, coupled with—and I am not suggesting that we are going to go out and do queries and visits to every site—but it will tell us where the problems are and where we must go, so that we are not taking money away from patient care at the national level to provide these on-site reviews.

We are going to be doing that balance. So we start looking for a system that will tell us what is going on, much like we do with health care, the provision of health care. We look at the data and it tells us where we need to focus our efforts. We know from our process of GPRA outcomes which parts of the Country, through trend analysis, where we need to deploy resources, where we need

to make decisions. I am just taking that model and moving it to the management side.

Senator MURKOWSKI. Let me ask you, Mr. Kutz, if you think that this new management system is going to make a difference. You have been looking at it.

Mr. KUTZ. Yes, we haven't looked at the system necessarily, but I don't think it is an issue of software or hardware. Let's just use an example of bar-coding. You can have the greatest system in the world, but if people don't bar-code equipment and enter it into the system when it is purchased, it doesn't make any difference. We have found many, many items across the Country that weren't bar-coded, that weren't in the system.

You know, the $15.8 million and other items we have seen were things that were in the system that couldn't be found. There was a whole host of things that weren't in the system that weren't bar-coded, and things like that, which gets into beyond an accounting issue. If you look in the system and you see the stuff isn't there, you might actually ask Congress for money to buy some more. And then that doesn't go to health care either. So it is more than an accounting issue in that respect.

Senator MURKOWSKI. Let me ask you, on the issue that Mr. McSwain brought up with the items in Alaska, some of the heavy equipment. I just wanted to clearly understand, ANTHC was the Alaska Native Tribal Health Consortium. It is not your understanding that they were at fault or had been involved in any way in anything inappropriate, I guess?

Mr. KUTZ. No, from the documents we saw and the people we spoke to, there was $13 million involved. Seven million of it was inventoried and the tribal group accepted it. The $6 million was put on one of these reports of survey because it couldn't be found, is what we understand from the people we talked to and the documents we saw. So no, that never made it to the tribe, because they weren't going to accept it, because no one could find it.

Now, the other issue that came up that was interesting was just abandoning property. I don't know if that creates environmental issues, it is your State, so I am not sure if you would be pleased having property abandoned.

Senator MURKOWSKI. But your audit didn't show those assets as abandoned in place? They didn't register anywhere, is what you are saying?

Mr. KUTZ. They were on a report of survey in six or seven different categories. And a report of survey typically means that items are not found, they are damaged or they are stolen or whatever the case may be. Whereas the other $7 million that was involved was transferred and accepted. So that is why the $6 million is in question. There were no documents that we saw showing that the items were found and had been transferred.

Senator MURKOWSKI. What about Mr. McSwain's comment about the fact that so much of what we are dealing with when the inventory is old? We have had plenty of opportunity to talk about the inadequacy of facilities. I have every reason to believe that we probably have an awful lot of equipment out there that has, its value truly has depreciated to the point. How much of an issue was that in your findings?

Mr. KUTZ. Certainly some of it is old and things that have no value. Now, if they were still in service and they were lost, they would still need to be replaced. However, we did identify brand new items that were gone, also. For example, as of April 2007, 64 at least of the items that were missing at headquarters were in the system as new computers. There were 10 Dell computers bought last summer that were in the system that we could not find. So it wasn't just old junk. Some of it was old junk, certainly. But other things were new, usable items that were gone and couldn't be accounted for.

Senator MURKOWSKI. Mr. Chairman, I will defer to some of my colleagues at this point.

The CHAIRMAN. Senator Tester.

Senator TESTER. Thank you, Mr. Chairman.

Where to begin? Let's start with what Senator Murkowski was talking about. You had some kind of a document, this is for Mr. Kutz, a document that has inventory it, and you try to find where that inventory is and when you can't find that inventory——

Mr. KUTZ. The record was PMIS, the property management information system, and the subsidiary records. So from that information we would do physical inventories both from the records to the floor and then from the floor back to the records. That is where you find things that aren't bar-coded and aren't in the system.

Senator TESTER. So it is tough to lose a backhoe or a D8 Cat, even in a place as big as Alaska. So what is going on, Mr. McSwain? Are the documents not being filled out when you abandon something in place, or when you turn it over to a tribe or whatever happens to it? Are not those documents being filled out to show what the final resting place for a piece of equipment might be?

Mr. MCSWAIN. Well, bear in mind that this is part of the 86–121 program and we do buy equipment and the like, and we do actually transfer it to the community when they take over the system. So we don't operate and maintain, so——

Senator TESTER. So why isn't that reflected on your inventory list? Why is that equipment still on a list that the GAO would get and try to determine where it is at?

Mr. MCSWAIN. It goes to the very point I was trying to make earlier, is that the whole process of moving the ownership of equipment, either, in this case the $6 million of equipment shown on the report of survey for Alaska was in fact distributed to military bases and to communities and the like. And it was indicated, at least on the report as I read, and I like, I don't know whether GAO made a trip up there, but I have flown around Alaska and know how remote those locations are. That is important, Alaska is somewhat different. We don't have the same kinds of heavy equipment in the lower 48.

But let me just say that when you buy a piece of equipment and move it out there, it takes several years to complete its work, then we will say, look, we will just leave it there and turn it over to the community to use.

Senator TESTER. Why isn't that reflected in the documents?

Mr. MCSWAIN. We need to move it off, and that was the report of survey, was to move it off of our inventory.

Senator TESTER. Then why isn't it?

Mr. MCSWAIN. That is the question that the General Accounting Office is raising, that we didn't do that. That was incorrect. But the fact is——

Senator TESTER. So are they right, did you do it or didn't you do it?

Mr. MCSWAIN. We did do it. We did pull it off inventory. It was our report of survey that they are looking at.

Mr. KUTZ. The only difference is, the reports of survey I am talking about typically document lost, stolen or damaged property. He is representing it has been transferred. There was no evidence we found that it was properly found and transferred. It could have been, but the records didn't indicate that.

Senator TESTER. Which is exactly my point. The records have to be clear. Why aren't they clear?

Mr. MCSWAIN. Well, the issue is that in the 86–121 program, we have various agreements we make with Indian communities when we are building a system for them, and we transfer it to them. And we generally will include in that document, it also includes the following equipment for purposes of operation and maintenance. We did not do that.

Senator TESTER. Okay, thank you.

You had talked to the Chairman about the fact that employees have certain rights when it comes to screwing up. And you said, we are dealing with it, or something to that effect. What exactly are you doing?

Mr. MCSWAIN. Well, first of all, we are doing, certainly a review of the conduct. There are two kinds of ways to deal with employees, either through performance or conduct. In this case, we are looking at conduct, and was that conduct enough to move to disciplinary action. That is what we are doing.

Senator TESTER. Okay, and Mr. Verrier, you talked about 20 percent of the equipment, when you did your audit, being gone. What year, what was the time frame for that?

Mr. VERRIER. That was in the fall of 2007, I believe.

Senator TESTER. Fall of 2007. Okay, Mr. Kutz, is it the same facility, was it the same outfit?

Mr. KUTZ. It is at headquarters, we did a 100 percent inventory of headquarters in late 2007 into early 2008.

Senator TESTER. So are we inventorying the same equipment, and you found 36 percent gone and Mr. Verrier found 20 percent gone? Is it basically the same equipment?

Mr. VERRIER. That was just in my office of the——

Senator TESTER. Okay, so it was a bigger spectrum.

Mr. KUTZ. We looked at all 3,000 plus pieces of equipment.

Senator TESTER. Thank you very much. When you get the reports, computers do depreciate fairly rapidly, is that reflected on the reports you get, Mr. Kutz?

Mr. KUTZ. Their old system did not have the ability, one of the new features of the PMIS system is that it has depreciation. So one of the reasons we used acquisition costs is that is all there was. There wasn't depreciation information.

Senator TESTER. Okay, so I am just curious, did you allow for, when you found the bat manure on the computers in Montana, did

you allow for any sort of depreciation, or did you not know when they were new?

Mr. KUTZ. The only records involved were what the acquisition costs were. There was nothing on the report of survey that showed the date of acquisition of any of that property. There were things like treadmills from hospitals. Most of it was hospital equipment, actually, the bat dung incident. We don't know how old it was, because no records were available to show.

Senator TESTER. Sounds good. The computer that is missing from the New Mexico hospital, that you talked about, Mr. Kutz, the computer that was missing from the New Mexico Hospital, Mr. McSwain, was that turned over to the police?

Mr. MCSWAIN. Yes, it was. In fact, it was reported to the Navajo police because it was on the Navajo reservation.

Senator TESTER. And was there anything ever—I mean, what happened?

Mr. MCSWAIN. It took a while to get a police report from them before we actually went through the process. I have a whole, if you would like to know the whole detail of a series of events——

Senator TESTER. Did they find out who stole it?

Mr. MCSWAIN. It was stolen and it was reported, and we reported it up to the department because of the fact that it had personal information identification information.

Senator TESTER. Did they find out who stole it?

Mr. MCSWAIN. They are still investigating it. In fact, as of just last week, the area indicated that they are still, they believe they have a line on who took it, and so we are still waiting for that to occur.

Mr. KUTZ. Senator, if I could just add, I read the police report on that also. There were no signs of break-in on that, so it was potentially inside.

Senator TESTER. An inside job.

Mr. KUTZ. Yes.

Senator TESTER. Okay.

Mr. McSwain, you talked about a new computer system that you implemented, at least that is what I thought I heard you say, a new computer system you have implemented to take care of a lot of the GAO's concerns. Is that correct?

Mr. MCSWAIN. It takes care of the accounting part of it. I think that——

Senator TESTER. Well, the accounting part of it seems to be a pretty big part.

Mr. MCSWAIN. The accounting part of it is, but the most important thing I see here, and this is something that has surfaced with this whole process, and that is looking at boards of survey reports from around the Country. I have not looked at them in the past and I am looking at them now. Clearly, the ability—where those decisions are made, because boards of surveys take place when you have done one inventory year one, and year two you have an inventory and you reconcile between what happened to all the equipment that was on the year one inventory to year two—additions, deletions, losses. And so the system will record the first inventory and the second.

Now, bear in mind, I should by the fact that there are threshold values that the system will not capture.

Senator TESTER. Is this the new system you are talking about?

Mr. MCSWAIN. The new system will not—in fact, the department's policies on whether or not certain threshold levels, and I won't get into all those details.

Senator TESTER. Can you tell me what that threshold level is?

Mr. MCSWAIN. Well, the threshold level currently is $5,000.

Senator TESTER. So it would not capture a piece of equipment that is less than $5,000?

Mr. MCSWAIN. If it is sensitive equipment under $5,000 it will capture it.

Senator TESTER. But if it not sensitive, it won't capture it. So if I have a laptop for educational purposes, it won't be on the books?

Mr. MCSWAIN. That qualifies as a sensitive piece equipment so it will capture it.

Mr. KUTZ. Many agencies do that, Senator. They will use a $5,000 threshold for financial statement reporting purposes, but they will keep track of property that has personal information and things like that. That is what Indian Health Service's policy is.

Senator TESTER. Okay. All right.

The CHAIRMAN. On that point, my understanding is that is the point at which the Indian Health Service does not agree with the recommendations. They say they agree with 9 of the 10, but one of the recommendations they apparently do not necessarily agree with is this issue of the dollar threshold to track sensitive equipment such as BlackBerrys and cell phones, even if they fall under the accountable dollar threshold criteria.

I don't quite understand that. If you are assigning, for example, BlackBerrys to employees, you are not going to keep track of that?

Mr. MCSWAIN. It becomes a threshold accounting issue, but in practice we are in fact bar-coding. I am walking around with a BlackBerry right now that has a bar-code on it.

The CHAIRMAN. Then why would you object to the recommendation of the GAO?

Mr. MCSWAIN. The objection to, certainly the idea of simply tracking all equipment under $500 is a threshold issue. And they are suggesting, I think their recommendation is that we track all of those items by the issuance of bar-codes, I believe.

Mr. KUTZ. Our only suggestion was the PDAs and cell phones. That is what we disagree with, because those are gateways to potentially sensitive information. So it is not about dollars, it is about information. And most places do keep track of things like BlackBerrys. So hopefully they are going to agree conceptually with what are talking about. I think he actually agrees with our recommendation.

The CHAIRMAN. Except that they have expressed exception to that recommendation.

Mr. KUTZ. In writing they did, but it sounds like they agree with it conceptually, so I am not sure exactly where that puts them.

The CHAIRMAN. Senator Tester.

Senator TESTER. Just so you know, if you are not going to keep track of that equipment, I lost my BlackBerry a while back, it was $300. I mean, I quite frankly, hopefully that is going to be—let's

get right to the crux of it. Mr. McSwain, do you think you have a problem?

Mr. McSwain. Yes. I believe I have a problem. But not to the extent that is being portrayed.

Senator TESTER. How much do you think it is over-inflated by?

Mr. MCSWAIN. I couldn't tell you at this point, but it is certainly not $15.8 million. It is much less than that.

Senator TESTER. In your opinion, do you think it has been over-inflated by double?

Mr. MCSWAIN. For example, we just quickly parsed out that the $6 million worth of equipment in Alaska is deducted, $700,000 of the——

Senator TESTER. Well, I'm not——

Mr. MCSWAIN. I am trying to answer your question as to do I think it is inflated, yes. It is inflated, if not just from the fact that it is at cost value, not a depreciated value.

Senator TESTER. A couple of things. First of all, if we extrapolated this out to all 163 regions, we would be talking nearly $400 million, if the rate was the same. You could say they are inflated figures, they may be inflated figures if depreciation is taken into account.

But I will also tell you that it also points out to me that you are running different sets of books. I don't know how many sets of books you have out there, but they ought to be a lot clearer than that. Because quite honestly, the reason that person had to fabricate that form, by your admission, is because you had a different set of books than they though you had, and when they started changing forms, books, however you want to put it, they end up screwing up, and it ends up with two forms with different signatures on them and different equipment.

So the whole thing seems to be pretty well screwed up. If it is not the employees' fault, you have a systemic problem with your tracking system that quite frankly, you need to get somebody in to fix, and sooner, rather than later.

The other thing is this. If you have a Caterpillar that you have given away or a backhoe that you have given away, and it is okay to give it away under 86–121 and you are following the rules, that is fine. But it needs to be documented. And the truth is, what Mr. Kutz said was exactly correct. You can have the best policies in the world, and if you don't implement them, if there isn't somebody implementing those policies, they are worthless. They are worthless.

What actually is more disturbing to me than anything was the previous board you had up with a letter that was signed by you. And it was signed by Mr. McSwain, at the bottom, talked about 1997, that little memorandum right there, March 12th, 1997, where you said, we have a problem, it needs to be fixed. We are light years further, we have much better technology than we had in 1997. You knew that there was a problem, and there is a problem now that is equally as bad, maybe worse than it was in 1997.

The bottom line is this. I hear from folks in Native American Country all the time about, you have to plan when you are going to get sick, because the Indian Health Service never has enough money, Senator Murkowski talked about it. We come in here, we try to do the right thing, we try to get the money down to the peo-

ple who want it. And if you have employees who are walking out the door with laptops under their arms or with desktops, and it is not being documented, I can tell you this, employees do have rights. And I think they should have rights, by the way. But a thief has none.

And you guys honestly, you can downplay this all you want. But the fact is, this isn't going to get better until you admit there is a problem. I told the Chairman a minute ago, an alcoholic will never get better until they admit to themselves that they are an alcoholic. You have a problem within your agency that needs to be fixed. And if you are in denial, it is going to get worse. And the GAO came out with a report, you had an employee that came up and said, hey, I pointed this out. And I don't mean to lecture to you, but the truth is what I said in my opening statement, this is totally unacceptable. It is totally unacceptable. And it gives Government a bad name.

When I go home and people come up to me and tell me how worthless the Federal Government is, I personally take offense to it. But it's damned hard to justify it when this kind of crap is going on in the agencies.

The CHAIRMAN. Senator Tester, thank you.

Let me ask a couple of additional questions. I don't understand who has been in charge at the Indian Health Service of property inventory, all of these last years since you wrote the memorandum. Is there one person in charge in this system that sends out information to all the other agencies and so on, or all the other areas? And if so, who is that? Because you keep suggesting this is a system problem. Seems to me, it is a people problem as well, probably more a people problem.

I want to just ask Mr. Verrier, who said this. He took a look in his area, couldn't find 20 percent of the property, and the Property Book Office said they would prepare a new property book reflecting that. And then he said, okay, what are we going to about the items still missing? Their response was—was this the Property Book Office response?

Mr. VERRIER. The Property Book Officer.

The CHAIRMAN. Officer, I am sorry. Their response was, we are going to write it off. Mr. Verrier's response was: What? You are not going to conduct an investigation? The answer is: No, we just write it off like we have always done.

So the question is, you know, who was in charge and is that person still in charge, because I don't think—you know, it is not as if a system doesn't exist for inventory 10 years ago or today or 10 years from now. An inventory is something every agency does, every business does.

So who was in charge, Mr. McSwain?

Mr. MCSWAIN. Well, we have had I think a fair amount of turnover in that particular leadership position, but let me just clarify. I believe it is important. I didn't mean to say it was just a system problem. I think that you accurately describe that it is a people problem, because it is the people who in fact, as Senator Tester says, it is the people who are the custodial folks. These are people that are custodial people.

There are faces on the problem. There are faces on the fix.

The CHAIRMAN. And if they are writing it off without investigating what happened to the property, would that violate procedures at the Indian Health Service?

Mr. MCSWAIN. It certainly will in the future.

The CHAIRMAN. Would it in the past?

Mr. MCSWAIN. Well, in the past, if we couldn't find it, then this is a reasonable means. One of the things that I—excuse me, I am having a difficult time with Mr. Verrier's comments on the side while I am trying to speak. Thank you.

The whole issue of having the trained personnel in the positions has eroded over the years. That is something we have to fix. I say eroded because——

The CHAIRMAN. What does that mean? I don't understand that at all.

Mr. MCSWAIN. We have property officers. We don't have full-time property officers out there. We are moving, and a part of this new system is actually identifying individuals. In fact, we have increased the number of people who could be trained in proper receipt of equipment, which means receiving and tagging and inventorying equipment.

The other end of it is custodial personnel that are trained. When I say there has been an erosion over time, it is that we have had retirements, we have turnovers. We need to strengthen our people system, if you will.

The CHAIRMAN. Yes, but you have always had people in place to do these things, and somebody obviously hasn't been doing it. And so it goes back to my question, is anybody held accountable?

One of the things that you have said today, it appears to me from the GAO report, some property has been stolen, some property has been lost, some property has been misplaced. And you are describing to us, well, maybe that is true, but they are over-stating the value of what has been stolen, lost or misplaced.

You know, the fact is, I think it is pretty irrelevant what the value is. If you have people stealing property, you have people losing property or misplacing property, it doesn't matter to me so much what the value is. What matters to me is the system is broken and you have people who are supposed to be in charge that aren't doing the job.

I want to ask a question of Mr. Kutz. What was the date on which you finished your GAO investigation? When it was completed generally?

Mr. KUTZ. This spring, and then what we did is send a report to the agency and give them a chance to comment.

The CHAIRMAN. But you say this spring. Generally, when did you send the report to the agency for comment?

Mr. KUTZ. May.

The CHAIRMAN. In May. Now, it is the end of July. That is 60-plus days, I suppose. Any personnel changes in your system of inventory, Mr. McSwain, down at the Indian Health Service? I mean, any changes with respect to those that were alleged to have fabricated? Those who were alleged to have obstructed? Those that I assume had been in charge, but hadn't really been in charge?

Mr. MCSWAIN. I guess, let me just say that I am very fortunate in the fact that we pulled a property officer back into the position

as acting, that knows the system. Our biggest challenge now will be to fill that job permanently, the agency property officer.

But no, there haven't been any real changes in the last 60 days. Other than that, there were some individuals who took other jobs and left the agency, out of the property staff. But aside from that, there haven't been any changes in personnel or leadership. That is not saying there won't be.

The CHAIRMAN. Do you understand how that sounds to me, when I have a report from the GAO, and by the way, I have worked with the GAO for over 20 years. I have read a lot of GAO reports. We rely on them. And they say that your agency, you had people inside the agency that worked for you, and I am talking about the headquarters now, who tried to obstruct their investigation, some who tried to fabricate information.

And you say, well, we have not had any changes in personnel, and we have the GAO saying you have some people down there that have really crossed the line in a very serious way. How do you reconcile that?

Mr. MCSWAIN. The way I reconcile it, certainly, is given the bright light that has been shined on our property management system is to review it across the Country, beginning with headquarters. We are doing that. We will be improving the staffing, dedicating more staff to it. I think during this process of the last few years, we moved the property function from Albuquerque. It was out there for a number of years, in my recollection. We moved it to Rockville. We haven't been able to fully staff the property function in headquarters and are continuing to do so.

It is my sincere hope that we will fill those positions very soon, and have the people trained and accountable, and not have the kinds of issues that surfaced during the investigation.

The CHAIRMAN. But these aren't just issues. These are some pretty fundamental things that the GAO has said. Frankly, I think you are destined to fail unless you shake this up in a significant way. I don't hear that here.

I tell you what, if I had to explain what the GAO has said about an agency I am now in charge of, and I recognize you have just assumed this role. You have been there for a long while, but you just assumed the role of Director. I would be furious sitting here reading that someone in my agency took actions that the GAO interpreted to be fabrication or obstruction. I would be furious. I tell you what, employee or not, they would be working at a different place right now, 60 days later.

At any rate, here is what I am going to suggest; I am almost at a loss to try to figure out what we do with some of these agencies. You know, the Indian Health Service is desperately short of money, under-funded. You have health care rationing going on. We have massive bureaucracy. I went through a clinic and they said, here is where our new X-ray machine is going to be; we desperately need it; we are waiting for it. How long have you been waiting? Well, it has been about 18 months the requisition has been in, but it just needs a signature, but it has been waiting 18 months for signature at the region.

You know, I hear that stuff all the time. I just think we have such a serious problem. This GAO report is an embarrassment to

an agency that just has to be doing much better work to try to address health care needs that cry out for assistance among the Native American population.

I am going to ask on this subject, Mr. Kutz, whether the GAO could in about 90 days go back in. That is about five or six months after you have engaged with the Indian Health Service, and provided a report to them, if in about 90 days you would be willing to send somebody back in and give me an assessment of what has been done in 90 days from this date, to give us some assurance that things are happening there that keep track of property, that we don't have future reports of stolen property, lost property, misplaced property.

Are you able to give us some service to do a review in about 90 days?

Mr. KUTZ. Sure. As you mentioned, we work for you, so we would be happy to work with you and your staff and Mr. McSwain, looking forward.

The CHAIRMAN. We will be in touch. The staff of this Committee will be in touch with you and Director McSwain. I really hope that we could get a report. I am not asking for a full audit. I am just asking for a consultation between you and the Indian Health Service so you can give us an assessment of what has happened since you submitted this information in May to the Indian Health Service.

Senator Barrasso?

STATEMENT OF HON. JOHN BARRASSO,
U.S. SENATOR FROM WYOMING

Senator BARRASSO. Thank you very much, Mr. Chairman. I ask that my statement become part of the record.

But you are absolutely on point. Senator Tester used the word unacceptable. You used the word we should be furious. To me, this is offensive. We have the Wind River Reservation. We have the Northern Arapaho, the Eastern Shoshone. I visited with some tribal members yesterday, others when I was back in Wyoming on Sunday. Health care is vital to these people, and we need to make sure that the money, the investment that we as a Nation are making is getting to the right place, getting to the patients who are in need, and not being used this way.

I don't want to repeat some of the questions that may have been asked before I got here.

Mr. Verrier, if I could, in your estimation, are these findings of the GAO, are they in any way isolated instances? Or is this really a systematic nationwide problem with the Indian Health Service?

Mr. VERRIER. I have worked for the Department of the Army, Department of Defense, troop support agencies, National Institutes for Health, and I have never experienced in my over 30 years of Federal Government service or 30 years in the military, such blatant disregard for property accountability.

The problem, as I see it, is lack of holding people accountable for the loss, lack of documentation having individuals sign for equipment, and lack of annual follow-up of inventory on the property.

Senator BARRASSO. There was a little interchange earlier where there was a question of is property carefully looked at, and you

were shaking your head no in the past. Do you want to just expound on that a little bit?

Mr. VERRIER. What can I say? You know, when equipment is missing, the procedures that I experienced with the Property Book Office was if you have a missing piece of equipment, they write it off. Okay? They re-do the property book, okay? To me, that is not the answer, okay? Somebody needs to do an investigation and inquiry on what happened to the piece of equipment, okay?

Senator BARRASSO. Mr. McSwain, I understand you have only been there two months in this position. But Congress is being asked to provide a substantial funding increase for Indian Health Services, an increase. And we all know that our facilities are held together by, as they say in Wyoming, with duct tape and baling wire.

If taxpayers are going to increase their investment in the Indian Health Service, then you really do need to act immediately to correct the problems, don't you agree, to regain the public trust?

Mr. MCSWAIN. Yes, Senator. It is our intention to certainly begin acting. We have already begun to act on the recommendations, and fully engage on all of the recommendations, and we are moving ahead. I welcome the 90-day visit.

Senator BARRASSO. That was a question for Mr. Kutz. Any other recommendations that you would have for us as members of this Committee on ways that we can make sure that the public is getting their money's worth, that the folks on the reservation in Wyoming are getting the health care that they need with the services going to them, and not this loss?

Mr. KUTZ. Well, I think what Senator Dorgan said, not to walk away from this until you are satisfied it has been addressed. That is what oversight is all about. So we would support your continued oversight of these matters.

Senator BARRASSO. Thank you, Mr. Chairman.

[The prepared statement of Senator Barrasso follows:]

PREPARED STATEMENT OF HON. JOHN BARRASSO, U.S. SENATOR FROM WYOMING

Last month, the Government Accountability Office—commonly known as the "GAO"—released a shocking and disturbing report. The GAO uncovered and substantiated claims that the Indian Health Service or "IHS" has grossly mismanaged government property and taxpayer dollars. The GAO report identified over 5,000 lost or stolen items worth about $15.8 million. These items include all-terrain vehicles, tractors, Jaws of Life equipment, and—most egregious—computers containing social security numbers. A physical inventory found an additional 1,100 IT hardware items such as laptops and digital cameras were also missing from IHS headquarters. These lost or stolen items cost the taxpayers another $2 million.

If Congress is going to be asked to provide significant funding increases for Indian health services, then the IHS must act *immediately* to correct the problems identified by the GAO. Safeguards and accountability measures need to be implemented so that these issues do not re-occur. Fraud, abuse, and theft problems are not created by small children. These issues are the responsibility of adults—and it is time that the people who allowed this to occur start acting like adults and put an end to it. Inaction only serves to condone this wasteful, abusive, and even criminal behavior. The standard defense of "this is just how the federal government operates" is not acceptable.

Many of our state's IHS facilities—particularly those in rural and frontier areas—are literally held together with duct tape. This year, the Senate worked in a bipartisan way to pass the Indian Health Care Improvement Act. I included an amendment in that bill requiring the GAO to report how various government and local programs coordinate health care services in Indian Country. This comprehensive re-

port is even more important now that the GAO has uncovered systemic IHS mismanagement. If we do not know: (1) where resources are being spent, (2) the number of programs dedicated to provide various health care services, or (3) how health care services are coordinated; then we are not maximizing our ability to help Native Americans and Alaska Natives.

My amendment asks the GAO to focus its research efforts on programs such as Medicare, Medicaid, the State Children's Health Insurance Program (SCHIP), and the IHS. It also requires GAO to explain how these federal programs interact with efforts by state, local, and Tribal groups to deliver essential health care services. By pinpointing service gaps and rooting out wasteful, abusive spending, then we can develop reasonable, commonsense solutions that streamline and improve Indian health care. It is essential our Committee have the information it needs to evaluate the current delivery system—exposing barriers that prevent collaboration, networking, innovation, and sharing of resources. This way, we can target federal funds to programs making the greatest impact—then focus on additional areas where Native American and Alaska Natives need our support.

Mr. Chairman, the GAO is well known as "the investigative arm of Congress" and the "Congressional Watchdog". GAO helps Congress improve the federal government's performance and ensure programs meet strict accountability standards—all for the benefit of the American people. We rely on their expert, unbiased recommendations to make sound policy decisions. This oversight shows us ways to make government more efficient, effective, ethical, and equitable. It uncovers what is working, what is not, and offers advice on how best to fix it. But, most importantly, this oversight helps us plan for the future.

I do not believe anyone wants to play a game of "gotcha" with the GAO's findings. Neither can we sit back, turn a blind eye, and accept that this is "business as usual". The American Taxpayers deserve better. Native Americans and Alaska Natives who depend on the IHS for their medical care deserve better. I am going to continue to fight to make sure individuals living on the Wind River Reservation, and all Native People across America, have equal access to quality medical care. But we cannot achieve this goal when the money we invest in IHS programs is wasted and property worth millions goes missing.

Thank you for holding this hearing today, Mr. Chairman. I look forward to hearing the panel's testimony.

The CHAIRMAN. Senator Barrasso, thank you very much.

Senator Barrasso brings to this Committee a unique perspective as a physician. Dealing with Indian Health Care has been frustrating because we know there has not been sufficient funding, and we know that the management of the system has not been good. We know contract health care money runs out. We have a lot of problems.

Director McSwain, we rely on you to work with us. As Senator Barrasso indicated, we have only just confirmed your nomination, and yet you have inherited what I think is a mess. We want you to succeed, but we have big problems, in my judgment.

Mr. Kutz, thanks to the GAO. We appreciate your work. We will look forward to having an additional report from you, and we will have a hearing on that report.

Mr. Verrier, thank you. Those that are whistleblowers, I believe you had whistleblower status at one point. I am not certain of that, but they are pretty nettlesome to agencies. Agencies don't like people who speak out when they see wrongdoing. But it is critically important that those employees that have the courage to speak out understand the value of that. I personally thank you, Mr. Verrier, for coming here today.

Director McSwain, you have a lot of work to do. We appreciate your being here. I hope you will report directly to the Secretary of HHS, who should have been here today, but we will seek to get his comments at another time.

Mr. Kutz, thanks to you and the GAO for your work.

[Whereupon, at 11:07 a.m., the Committee was adjourned.]

A P P E N D I X

PREPARED STATEMENT OF DR. STEVEN J. MILLER, DIRECTOR, IHS NATIONAL COUNCIL OF THE LABORERS INTERNATIONAL UNION OF NORTH AMERICA

Chairman Dorgan and members of the Committee, I respectfully submit this testimony in response to the July 31, 2008 hearing on the misuse of property at the Indian Health Service (IHS).

First, LIUNA's IHS National Council ("the Council") wants to commend Chairman Dorgan for holding this important hearing and for requesting the GAO investigation into the misuse of property at IHS. LIUNA represents over 500,000 workers around the nation, including over 8,000 Indian Health Service workers in 23 states. Our members include physicians, nurses, dental professionals, pharmacists, engineers, food service, medical technicians, housekeeping, and maintenance workers. We also represent workers in the property division at IHS. Most of our members not only work at IHS, but also use IHS services as enrolled tribal members.

The Council has two primary goals in submitting this testimony. First, we unfortunately must concur with GAO's finding that there is rampant mismanagement at IHS, and believe we must share our workers' constant problems with management with the Committee. Hopefully we can provide the Committee with information that will assist you in working toward our shared goal of having a well-run agency that adequately serves our Native American population—as employees and users of IHS services. Second, the Council wants to ensure that the workers we represent are treated fairly in the course of this ongoing GAO investigation. We already have reason to believe that IHS violated federal law by failing to inform the union when our bargaining unit employees (BUEs) were questioned during the course of this investigation. We now want to ensure that if any of our bargaining unit employees are disciplined that they receive the due process to which they are entitled under federal law and the union's contracts with IHS.

Misuse of Property Is Just One Example of the Pervasive Management Problems at IHS

LIUNA and our BUEs face constant challenges dealing with IHS management. This is not an isolated problem in one area or service unit. It is pervasive and severe. The result is less money and staff for this already resource challenged Agency to provide health care related services to Native American people. Our BUEs are constantly harassed, demeaned, discriminated against, and otherwise mistreated by IHS management. In a given year, LIUNA files upwards of 75 grievances, and dozens of unfair labor practice charges against the agency. These grievances range from wrongful discipline to management unilaterally (and illegally) making changes in working conditions to sexual harassment. This year, LIUNA filed a group grievance against IHS on behalf of our BUEs for wanton and widespread Fair Labor Standards Act overtime violations based on numerous reports that our workers were being forced to work overtime without compensation and were improperly classified so the agency would not have to pay them the overtime they were owed under federal law.

I.H.S. is notorious for the misapplication of personnel practices and policies and regulatory requirements that cost employees millions of dollars over time such as the failure to address compensation for standby status and failure to pay appropriate uniform allowances. Then to add insult to injury, the delay in dealing with the problems causes additional costs and resources. In 2002, the Union prevailed on a back standby pay claim and the interest was in many cases equal or greater than the back pay due.

Instead of following the law and the labor-management contract, IHS will attempt to terminate, demote, or otherwise discipline workers who attempt to exercise their rights at work, or who report wrongdoing at the agency. The agency also has a widespread practice of "shuffling around" supervisors who are found to have violated the law or our contracts instead of terminating or disciplining them. This is an unacceptable double-standard. This mistreatment of our BUEs not only is unfair to

them, but is yet another example of the widespread management problems at IHS. These practices have created a culture of fear amongst the IHS workforce that impairs our BUEs' ability to do their jobs.

The union's legal and contractual rights are also often ignored by IHS. The Union has been forced off of IHS property twice in the past year when we were exercising our legal right to organize and otherwise assist our BUEs. And during the course of this GAO investigation into the misuse of property, IHS failed to notify the union that our BUEs were being questioned. This is a violation of federal law (*see, 5 USC 7114(a)(2)(A)*) and yet another example of management problems at IHS.

All of these issues greatly harm morale at the agency, and show that IHS has little respect for the law, its employees, the unions representing its workers, and the clients IHS serves. LIUNA's goal in raising these serious issues is to hopefully shed some light on other pervasive management problems at IHS—labor-management relations and mistreatment of IHS employees—in order to work with the Committee, and IHS, to remedy them.

LIUNA Wants to Ensure That the Appropriate IHS Employees Are Held Accountable for the Property Issues at IHS

LIUNA shares the Committee's goal of holding accountable those responsible for misuse of property at IHS. However, we also want to ensure that the appropriate individuals are held accountable. We believe those are the managers who make IHS policy and direct our BUEs to follow it, not the BUEs who must follow those orders.

LIUNA is concerned that IHS management may try to "scapegoat" our BUEs by unfairly blaming them for the misuse of property issues at the agency. Managers and supervisors make decisions about property policies at IHS. BUEs, by statutory definition, cannot make these types of policy decisions and still be represented by the union.

If IHS managers directed or encouraged our BUEs to violate federal law or IHS policies regarding the use of property, those managers should be the ones held accountable, not the workers who were merely carrying out orders. IHS managers have great power over their employees, and employees can and do face discipline for refusing orders from management. Workers at IHS are thus faced with the terrible choice of standing up and refusing to violate the law or IHS policy, knowing that many other IHS workers have lost their jobs for refusing such orders from their boss, or following a manager's misguided orders in order to protect themselves against being terminated or otherwise disciplined.

If any BUEs are found to have willfully and knowingly broken the law, LIUNA wants to ensure that they are held accountable. But if IHS, or Congress, attempts to discipline our BUEs regarding the misuse of property issues discovered and alleged by GAO, proper procedures must be followed and workers' rights must be protected (such as the right to have a union representative present during questioning, a worker's right to present evidence in his/her defense, etc.). This right to due process is granted to the worker under both federal law and the union's contract with the agency. The right to due process separates those workers who are represented by a union from those who are "at-will," or lacking union representation. Unlike BUEs, "at-will" employees have no statutory right to defend themselves when charged with wrongdoing. The right to due process does not mean that the worker cannot ultimately be disciplined; it simply means that the agency or Congress must follow certain procedures to ensure fairness and impartiality during the course of its investigation and any subsequent disciplinary process.

Conclusion

LIUNA is very concerned about the allegations raised in the GAO report, *"Indian Health Service—IHS Mismanagement Led to Millions of Dollars in Lost or Stolen Property,"* and those raised at the July 31 hearing in your Committee. Our workers have dedicated themselves to improving the lives of Native Americans by ensuring they have access to adequate health care services. This mismanagement by IHS takes essential funds away from patient care and other needed services at the agency, makes it harder for our workers to do their jobs, and harms the agency's reputation. The mismanagement, however, is not limited to misuse of property.

Our BUEs face discipline, harassment, and other types of mistreatment every day from IHS managers. The culture at IHS is one of acceptance of this mismanagement and mistreatment of our workers, and this is simply unacceptable. LIUNA hopes that the Committee will continue to work to fix these rampant mismanagement problems at the agency so that our workers can do their jobs in a supportive, rather than a hostile, work environment. LIUNA further requests that our BUEs are treated fairly during the course of the ongoing GAO investigation, and not scapegoated by the managers who actually made the decisions resulting in lost and stolen prop-

erty at IHS. We look forward to working with the Committee as you continue your work in this area.

PREPARED STATEMENT OF ISABELLE FLORENCE YOUPEE, MEMBER, FORT PECK SIOUX TRIBE

Dear Chairman Dorgan and Distinguished Committee Members:

Thank you for allowing me to address this Committee.

My name is Isabelle Florence Youpee. I am 61 years old and enrolled in the Fort Peck Sioux Tribe in Poplar, MT. I have worked in various capacities at various Indian Health Service facilities throughout more than 20 years of my lifetime. Most recently, from 1996 until May, 2008, I was employed as HIPAA Compliance Officer/Computer Technician at the Spotted Bull Treatment Center in Poplar, MT, which is an alcohol/chemical dependency treatment center for treating residential aftercare adolescent clients and outpatient adult clients. It is fully federally funded through a 638 grant to the Fort Peck Tribes.

Though there are several incidents I could relate regarding this subject, for this testimony, I wish to report on only some most recent. I feel, in doing so, it may help shed light on ways which may help to correct the problems resulting from IHS mismanagement.

For the past several years at Spotted Bull Treatment Center, there has been gross mismanagement through political interference of Tribal Council members appointing unqualified personnel to run the treatment center. An incident stemming directly from this occurred in September 2006 when, in my capacity as HIPAA Compliance Officer/Computer Technician, I discovered that several computers had been given away to employees and the public without proper authorization, without proper processing, and without the necessary cleaning and reformatting of the hard drives. As a result, sensitive client information on those computers was released and accessible to whomever received the computers. This client information was completely accessible because it was in no way coded or protected. This occurred because the Tribal Council had appointed a Director with no knowledge whatsoever regarding the laws, rules and regulations governing chemical dependency programs. When I reported this information to the Billings Area Alcohol Coordinator, Dr. Kathy Masis, she agreed that this should not have happened but she was not concerned about it, not did she seem concerned about the HIPAA/Privacy violations resulting from the incident. When I requested she do an investigation, I was told, "it's up to the Tribes." Dr. Masis was satisfied to let this incident pass without any accountability or oversight. It appeared to me that she didn't want to ruffle any tribal feathers should she have investigated the matter and found the Tribes at fault for hiring an unqualified Director.

Another incident occurred because the Tribal Council appointed another unqualified Director in November, 2006. In January, 2007, this new Director appointed a Safety Officer who was in violation of the Indian Child Protection and Family Violence Prevention Act with regard to background checks. When I raised the concern, by memo, with the new Director, I was rebuffed because she was not even aware of this Federal law and did not seem to care because this employee was a friend of hers. In early February 2007, I took my concerns to the next higher authority by letter to the Tribal Chairman who did not recognize the importance of the matter and did not take any action. I then telephoned our Contracting Specialist at the BAO IHS, Robert Wallette who did not take any action but referred me to the higher-ups in IHS. In mid-February 2007, I wrote to the OIG for DHHS seeking help and asking that my correspondence be forwarded to the proper authority if necessary. On April 3, 2007, the IHS Program Integrity and Ethics Director sent a memo to the Billings Area IHS Director requesting a Fact-Finding Review. It was not until July 5, 2007 that the BAO IHS Director finally issued a Report of Findings which upheld my argument, but by then the Tribal Chairman had been pressured by one of his political supporters to take the corrective action. To this day, I don't believe the Chairman took this action because of the legal necessity because I don't believe he understood the risk to our adolescent residential clients explained through this law; I believe he took the action because of the political pressure he received. I say this because he did not take any action until he heard from his political supporter, even though he had received my letter several weeks earlier.

In relating these incidents to you, it is not my intention to demean tribal leaders; my intention is to show that there is a severe lack of understanding and knowledge of the laws, rules and regulations by tribal councils when it involves managing any federally-funded program. There is also, as I've described, a lack of engagement and concern on the part of our immediate IHS administrators when such violations are

reported. There must be a way to insure that those wishing to contract or manage these programs have the basic knowledge to do so; and if it takes mandatory training and testing BEFORE taking over a program, then so be it. There is no excuse for allowing IHS programs to operate willy-nilly with no regard for the laws, rules and regulations under which they are supposed to operate.

At Fort Peck, we do not have at present nor have we in the past 20+ years, anyone on our tribal council who has knowledge of how these facilities must be operated with respect to laws, rules and regulations. This ignorance has led to IHS management's ability to do whatever they want, including completely ignoring their oversight responsibilities. It seems the Area office personnel who are directly responsible for oversight have bent over backwards to please the tribal council by adopting the attitude that "anything goes," and "whatever the tribe wants." I feel the Area and Service Unit personnel actually depend on Congress to ignore the problems so IHS can continue operating the way they do.

In conclusion, we will never have the accountability we need to make IHS work the way it is supposed to until these real problems are rooted from the system. It is never right to allow tribes to play politics with the federally funded programs they contract, and allow IHS personnel at all levels to ignore their oversight responsibilities with no consequences. I am not of the opinion that IHS needs to have an influx of additional funding , as recent findings show that there is a great deal of waste at the administrative level, however, I do feel that we need more funding allocated specifically for medical services. IHS needs to be restructured, with special attention paid to overhead and bureaucratic costs, especially the high salaries paid to Area Office and Service Unit administrators who cannot or will not do their jobs. Throughout the years, the Service Unit Director has never taken responsibility for oversight in these matters; it's as though that level of recourse does not exist in the procedural chain. To address these issues, the structure and administration of IHS need to be reviewed immediately and a straightforward procedure for reporting and correcting such things in the future must be established, widely disseminated, and promoted; employees need to know that it is not only permissible but expected that they report such mismanagement.

Thank you for allowing me this opportunity.

