

GAO

Testimony

Before the Committee on Indian Affairs,
U.S. Senate

For Release on Delivery
Expected at 9:30 a.m. EDT
Thursday, July 31, 2008

INDIAN HEALTH SERVICE

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

Statement of Gregory D. Kutz, Managing Director
Forensic Audits and Special Investigations





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.

INDIAN HEALTH SERVICE

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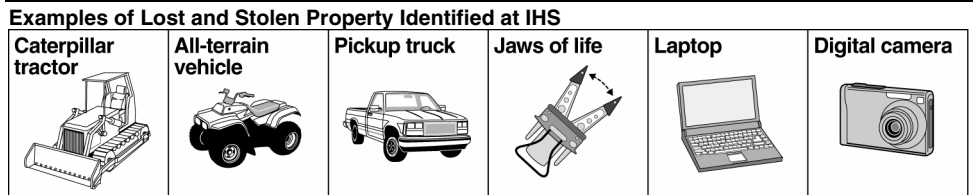
What GAO Found

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.



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 headquarters² and performed random sample testing of IT equipment inventory at seven IHS field locations³ that we selected based on book value of inventory and geographic proximity.⁴ We did not attempt to

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

²IHS headquarters property consists mostly of IT equipment.

³We 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.

⁴The 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

⁵A 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.

⁶The 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

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

not conduct full inventories of accountable property⁸ 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 Survey⁹ 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

⁸Accountable 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.

⁹A 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.

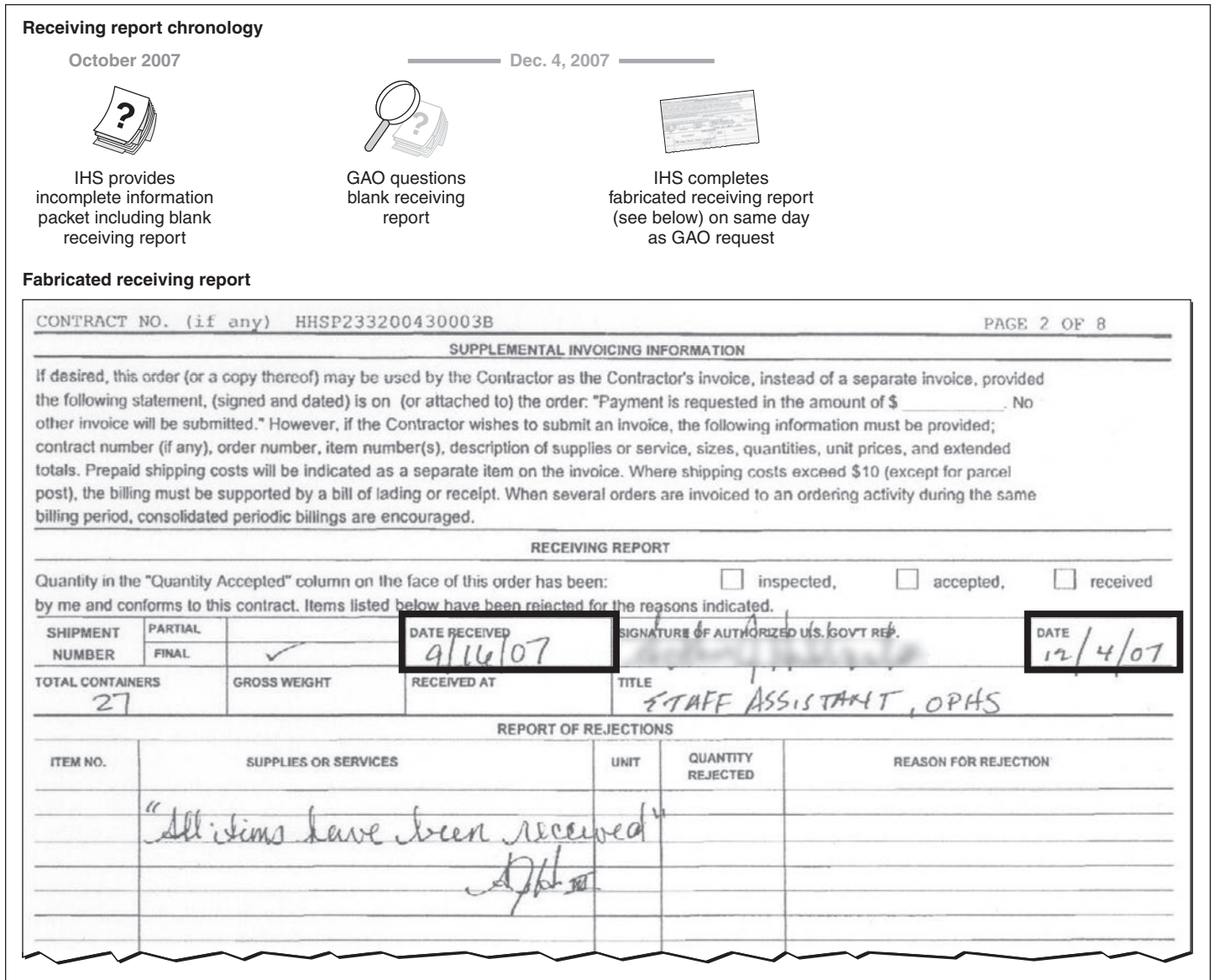
- In September 2006, IHS property staff in Tucson attempted to write off over \$275,000 worth of property, including Jaws of Life equipment valued at \$21,000. The acting area director in Tucson refused to approve the write-off because of the egregious nature of the property loss.

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



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

¹⁰We 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.

¹¹Because 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

¹²For 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.

¹³Because 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.

¹⁴This 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).

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