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VULNERABILITIES TO WASTE, FRAUD, AND ABUSE: INSPECTORS GENERAL VIEWS ON NATIONAL SECURITY, INTERNATIONAL RELATIONS, AND TRADE PROGRAMS

HEARINGS

BEFORE THE

SUBCOMMITTEE ON NATIONAL SECURITY, VETERANS AFFAIRS AND INTERNATIONAL RELATIONS

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

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VULNERABILITIES TO WASTE, FRAUD, AND ABUSE: INSPECTORS GENERAL VIEWS ON NATIONAL SECURITY, INTERNATIONAL RELATIONS, AND TRADE PROGRAMS

THURSDAY, MARCH 15, 2001

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON NATIONAL SECURITY, VETERANS AFFAIRS AND INTERNATIONAL RELATIONS,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 9 a.m., in room 2247, Rayburn House Office Building, Hon. Christopher Shays (chairman of the subcommittee) presiding.

Present: Representatives Shays, Putnam, Weldon, Schrock, Otter, Kucinich, and Clay.

Staff present: Lawrence J. Halloran, staff director and counsel; Vincent Chase, chief investigator; Nicholas Palarino, senior policy advisor; Kristine McElroy, Thomas Costa, and Robert Newman, professional staff members; Alex Moore, fellow; Jason M. Chung, clerk; David Rapallo, minority counsel; and Earley Green, minority assistant clerk.

Mr. SHAYS. A quorum being present, the Subcommittee on National Security, Veterans Affairs and International Relations' hearing entitled, "Vulnerabilities to Waste, Fraud, and Abuse: Inspectors General Views on National Security, International Relations, and Trade Programs" is called to order.

In testimony before the subcommittee last week, Comptroller General David Walker described serious management challenges and high-risk operations in national defense, veterans, and international relations programs.

He called for sustained systemic improvements in efficiency and accountability in response to rapid technological advances, shifting security threats, changing demographics, and economic globalization.

Today, the Inspectors General [IGs] from nine departments and agencies within our oversight jurisdiction will amplify and supplement that reform agenda from their very unique perspective as internal auditors and watchdogs. Despite the diversity of the programs and functions under discussion this morning, recurring themes ring through each IG's description of wasteful information technology acquisitions, antiquated human capital policies, sloppy financial controls, and the lack of performance-driven, results-oriented management.

From the Marine Corps to the Peace Corps, from diplomacy to deep space, waste, fraud, abuse, and mismanagement threaten vital national missions and undermining public confidence in Government.

Our mission is oversight, best defined as "watchful and responsible care for Federal programs and resources." It is not an episodic game of "gotcha," but the vigilant, methodical examination of agency goals and performance. In that endeavor we rely heavily on our oversight partners, the General Accounting Office [GAO], and the inspectors general to illumine general trends and specific problems in need of reform. We welcome their testimony today, are grateful for their service, and look forward to their continued help in the subcommittee's work.

[The prepared statement of Hon. Christopher Shays follows:]

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Statement of Rep. Christopher Shays
March 15, 2001

In testimony before the Subcommittee last week, Comptroller General David Walker described serious management challenges and "high risk" operations in national defense, veterans and international relations programs. He called for sustained, systemic improvements in efficiency and accountability in response to rapid technological advances, shifting security threats, changing demographics and economic globalization.

Today, the Inspectors General (IGs) from nine departments and agencies within our oversight jurisdiction will amplify and supplement that reform agenda from their unique perspective as internal auditors and watchdogs.

Despite the diversity of programs and functions under discussion this morning, recurring themes ring through each IG's description of wasteful information technology acquisitions, antiquated human capital policies, sloppy financial controls and the lack of performance-driven, results-oriented management. From the Marine Corps to the Peace Corps, from diplomacy to deep space, waste, fraud, abuse and mismanagement threaten vital national missions and undermine public confidence in government.

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We welcome their testimony today and look forward to their continued help in the Subcommittee's work.

Mr. SHAYS. At this time I would recognize the vice chairman of the committee, Mr. Putnam.

Mr. PUTNAM. Thank you, Mr. Chairman.

I'm looking forward to hearing the testimony. I have no opening statement.

Mr. SHAYS. Mr. Schrock.

Mr. SCHROCK. No.

Mr. SHAYS. Mr. Otter.

Mr. OTTER. No, Mr. Chairman.

Mr. SHAYS. Thank you. So we are—Ed's ready and I'm ready and Mr. Putnam is ready.

Mr. Lieberman, we are going to swear you in, and Mr. Friedman.

Let me just announce who we have. We have Robert Lieberman, Deputy Inspector General, Department of Defense; and Mr. Gregory Friedman, Inspector General, Department of Energy.

If you'd raise your right hands, please.

[Witnesses sworn.]

Mr. SHAYS. Thank you.

It is great to have you here, Mr. Lieberman and Mr. Friedman, and we welcome your testimony.

Obviously, you may need to go beyond 5 minutes. I'm not sure, given the number of Inspectors General, how many questions we are going to have, but it is important we put on the record your testimony, so—Mr. Lieberman.

STATEMENTS OF ROBERT J. LIEBERMAN, DEPUTY INSPECTOR GENERAL, DEPARTMENT OF DEFENSE; AND GREGORY H. FRIEDMAN, INSPECTOR GENERAL, DEPARTMENT OF ENERGY

Mr. LIEBERMAN. Thank you, Mr. Chairman.

My written statement describes the top 10 internal management problem areas that we believe confront the Department of Defense. In brief, these are as follows.

First, Defense has a very poor track record for developing or acquiring information systems; yet, it depends heavily on thousands of information systems to carry out almost all of its activities and spends well over $20 billion a year on those systems.

Second, security is a major challenge to all users of network computer systems, and Defense is one of the largest such users in the world.

Third, a range of other security concerns also need continued attention. For example, there is a backlog of several hundred thousand overdue security clearance investigations, a problem of which you are well aware. Additionally, the task of protecting military technology by revamping the export control regime remains unfinished national business.

Fourth, Defense remains unable to compile auditable annual financial statements because its efforts to acquire systems that can meet new Federal accounting standards are incomplete. Even more fundamentally, Defense accounting systems are too complicated or error prone and do not provide reliable, timely, and useful information to managers for decisionmaking purposes.

Fifth, acquisition reform remains very much a work in progress, with major challenges remaining in terms of remolding the weap-

ons acquisition effort to match evolving national strategy, force structure, and available funding. At present, Defense has nearly 1,300 weapon acquisition projects worth $1.4 trillion underway. Besides reaffirming what capabilities are actually needed and affordable, the Department needs to do more to improve purchasing practices across the board to control costs and speed up acquisition lead time, but without cutting corners on testing or on the quality of material being put into the hands of the war fighters.

Sixth, the military health system faces enormous cost pressures, as do other public and private health care systems. It now costs about $20 billion annually.

Seventh, the Department must find better alternatives to the cold war practice of relying on huge stocks of supplies and parts. Modern, Web-enabled business practices are being introduced, but Defense remains behind the private sector in terms of efficient supply chain management.

Eighth, Defense must find ways to address major unfunded requirements in mundane infrastructure areas like facilities, where the backlog of real property maintenance, alone, is over $27 billion. But, at the same time, we must continue to trim unnecessary overhead and support costs. At least one more round of base closures is clearly needed.

Ninth, there is widespread consensus that the readiness of the armed forces is suffering from the combined effects of the force structure not being designed for the type and frequency of missions being performed and shortcomings throughout the whole range of support activities needed to train, equip, maintain, and sustain the forces. Also, Defense leaders have warned candidly of a logistics death spiral caused by the rapidly increasing cost and frustration of maintaining old weapons systems, especially tactical aircraft.

Tenth, the combined impacts of eliminating half a million civilian jobs without proportional workload decreases, the pending retirement of nearly half the remaining civilian work force, and severe competition for skilled workers have created significant staffing problems and dislocations throughout the Department. Outsourcing is a partial solution but brings its own oversight challenges.

In summary, this has been a very broad-brush treatment of numerous and formidable management challenges already acknowledged by the Department in various ways. The Office of the Inspector General looks forward to assisting in every way that we can as the new administration and Congress take on these problems. I am looking forward to discussing them with you in further detail.

That concludes my summary.

Mr. SHAYS. I thank you, Mr. Lieberman. Your statement is quite in-depth. It will be available, obviously, to us and the staff.

[The prepared statement of Mr. Lieberman follows:]

HOLD FOR RELEASE
EXPECTED 9:00 A.M.
MARCH 15, 2001

STATEMENT

BY

ROBERT J. LIEBERMAN

DEPUTY INSPECTOR GENERAL

DEPARTMENT OF DEFENSE

BEFORE THE

SUBCOMMITTEE ON NATIONAL SECURITY,
VETERANS AFFAIRS AND INTERNATIONAL RELATIONS,
HOUSE COMMITTEE ON GOVERNMENT REFORM

ON

TOP DEFENSE MANAGEMENT CHALLENGES

MARCH 15, 2001

Mr. Chairman and Members of the Committee:

I am pleased to be here this morning to discuss the management challenges facing the Department of Defense, from the standpoint of its internal auditors and investigators. My testimony will summarize and update the written analysis that we provided to various congressional leaders last December 1.* In that analysis, we identified 10 areas, each containing multiple significant challenges. Those areas were: (1) information technology management, especially acquiring new systems; (2) information system security; (3) other security concerns; (4) financial management; (5) acquisition of weapons, supplies and services; (6) peacetime health care; (7) supply inventory management; (8) other infrastructure issues; (9) readiness; and (10) human capital management.

Information Technology Management

Information systems are now as crucial to DoD management activities as the central nervous system is to the human body. Managers at all levels, regardless of their functions, depend on information that is compiled, analyzed, adjusted and reported with automated systems. During the Year 2000 computer conversion project, approximately 10,000 DoD computer networks were inventoried and the true extent of the Department's dependence on those systems became well understood for the first time. The magnitude of DoD spending on information technology is less well identified, but clearly it far exceeds $20 billion annually.

Given the considerable dependence on "IT" and the high cost of large system investments, the historically poor record of the DoD for controlling the proliferation of incompatible systems with nonstandard data elements, acquiring new systems that meet user needs within reasonable timeframes, controlling cost, and ensuring the quality and security of data has been a major concern. Recognizing that such problems are common across the Federal Government, the Congress specified in the Clinger-Cohen Act of 1996 that Chief Information Officers in each agency would oversee well disciplined information technology acquisition processes. This is a daunting challenge for a department with 71 major information system acquisition projects and hundreds of "smaller" system acquisition and modification projects belonging to dozens of organizations. The DoD has been candid about the need for more effective management controls in this crucial

* The letters of December 1, 2000 and the last several Inspector General Semiannual Reports to the Congress, which contain similar analyses of high risk areas, are available on-line at www.dodig.osd.mil.

area, but progress has been slow and the goals of the Clinger-Cohen Act have not yet been achieved.

I have mentioned the challenge of information system investments first because poor information is at the root of a very large number of DoD management problems, ranging from difficulty in making cost comparisons to poor supply inventory management practices. Due to your series of hearings on the backlog of personnel security clearance investigations, I know that you are particularly well aware of the serious problems caused by the failure of the Defense Security Service's Case Control Management System. Its problems were particularly egregious, but not unique by any means.

The Department has revised its basic information system acquisition procedures and tried to be responsive to our recommendations. Nevertheless, we believe this area deserves continued close attention as DoD experiments with portfolio management, integrated product teams and other management oversight concepts. At the present time, virtually every information technology project that we audit exhibits significant management problems. Those flaws include poorly defined requirements and frequent user dissatisfaction.

Information System Security

Another facet of information technology management is assuring the security of DoD systems and information. Guarding against the interception of military signals is an age-old problem and, until recently, was chiefly the province of the cryptographers. Although the DoD must always maintain tight security for its classified systems, the past few years have seen the massive expansion of networked and unclassified DoD information systems. In turn, this expanded DoD presence on the Internet has led to a proliferation of attacks and intrusions.

Unauthorized access to computer networks poses a multifaceted threat to national security that cuts across society's boundaries: it potentially affects both the public and private sectors, transcends national borders, and can cause problems in virtually all economic sectors and levels of government. To organizations, the threat is both internal and external, and constantly evolving. Perpetrators can include disgruntled or irresponsible employees, criminals, hobbyist hackers, agents of hostile states and terrorists.

Recent audits indicate that much more needs to be done to implement the Defense Information Assurance Program fully and to sustain a robust effort indefinitely, as 21st Century realities will demand. Although it was widely assumed that the successful management approaches and mechanisms developed to overcome the "Y2K" problem would be readily transferable to the information assurance challenge, this has occurred to a very limited extent.

The strongest part of the DoD effort currently is in the areas of intrusion detection and incident response. Several Defense Criminal Investigative Service agents, from my office, are an integral component of the Joint Task Force on Computer Network Defense, which gives DoD a powerful capability and is an excellent example of cooperation between the DoD information security and Federal law enforcement communities.

Consistent policies, procedures, training and security assessments in DoD computing centers and among system users remain weaker areas. In that regard, the Government Information Security Reform provisions of the National Defense Authorization Act for Fiscal Year 2001, which mandate annual information assurance assessments and IG validation audits in Federal agencies, should be very helpful in terms of focusing management attention on this problem area. It does not appear that DoD has done sufficient planning at this point to be able to conduct a comprehensive self-assessment this year. Nevertheless, one would expect to see significant incremental improvement each year and I recommend that Congress extend these reporting requirements beyond their current sunset date of October 30, 2002.

Other Security Concerns

In addition to the threat posed by unauthorized intrusion into DoD information systems, a wide range of other security issues confront the DoD. Those threats include terrorism against U.S. personnel and facilities, conducted by either conventional or non-conventional means, and the disclosure or theft of sensitive military technology. The terrorist attack on the USS COLE in Yemen and security breaches at the FBI, the Department of Energy, the Central Intelligence Agency and DoD graphically demonstrated that security vulnerabilities need to be matters of utmost concern.

Recent audits have indicated that the DoD needs to improve security measures to guard against both internal and external threats. We have not audited force protection issues, but we

have extensively reviewed a number of other areas where unacceptable vulnerability exists. These include, as previously mentioned, the Defense Personnel Security Program, whose capability to handle the investigative workload basically collapsed in the late 1990's.

Similarly, there is a consensus in the Executive Branch and Congress that the export license regime of the 1990's was inefficient and probably ineffective in controlling the unintended loss of U.S. military technology. During 2000, the DoD worked with other Federal agencies to streamline the licensing processes and approved additional resources to improve the speed and value of license application reviews. The task of determining to what extent the fundamental national export control policies need to change, however, remains unfinished business for the new Administration and Congress.

Recent audits have indicated that issues such as properly demilitarizing military equipment before disposal and controlling the access of contractors and visitors to technical information at military engineering organizations and laboratories need more attention.

Financial Management

The DoD made several major financial management improvements during the 1990's, but needs further reform and more senior management attention to address a wide range of serious concerns.

Perhaps the best known of those problems is that the DoD remains unable to comply with the requirements in the Chief Financial Officers Act of 1990 and related legislation for auditable annual financial statements. The results of audits of the DoD-wide and other major financial statements for FY 2000 were essentially the same as in previous years. The Military Retirement Fund statements received a clean audit opinion, but all other major DoD financial statements were unauditable. Previous goals for obtaining clean opinions on all or most annual year-end statements during the FY 2000 timeframe were unrealistic and it is unclear what a realistic goal would be at this point. A couple of relatively small DoD organizations and funds have achieved favorable opinions or may do so in the near future, but I see little prospect for a clean opinion on the DoD-wide year-end financial statements before the middle of this decade.

The root problem is that DOD lacks modern, integrated information systems that can compile auditable year-end financial statements. This also means that the financial data provided daily, weekly or monthly to managers and commanders is often unreliable.

During the past year, the DoD made hopeful progress in addressing major impediments to favorable audit opinions. These problems cannot be solved quickly and some could not be addressed previously until new Federal accounting standards were issued and interpreted, which is still an incomplete process and is not controlled by DoD. Policies were issued to implement several new accounting standards and more contractors were engaged to provide their expertise on a variety of issues, such as determining the value of different categories of property.

Most importantly, the Department took steps to apply the lessons learned from the successful DoD Y2K conversion program to the financial system compliance effort. The DoD Senior Financial Management Council, which had not met for several years, was reconstituted to ensure senior management control. A comprehensive program management plan was issued on January 5, 2001.

We strongly recommended this initiative. Indeed, I believe it is the most heartening development in this area in several years. I urge the new Administration and Congress to support this adaptation of the successful Y2K management approach to the somewhat similar information systems challenge involved in attaining CFO Act compliance. The Defense Financial Management Improvement Plan shows cost estimates of $3.7 billion for FY 2000 through FY 2003 to make critical reporting systems compliant with applicable standards. We believe those estimates are understated. With proposed spending of that magnitude, it is imperative that a highly disciplined management approach be used.

The new approach will fill a long-standing gap by providing good performance measures for the most important aspect of the DoD financial management improvement effort. As welcome as those metrics will be for measuring system compliance status, however, even they will not measure the usefulness of the data to managers, appropriators or budget committees. Numerous recent statements and testimony to Congress by the Office of Management and Budget, GAO and DoD officials have stressed that the ultimate goal of financial management reform legislation is ensuring useful financial information for sound decision-making

by managers throughout the year, not merely audit opinions on year-end financial statements. We agree. Audit opinions are a simple and readily understandable metric, but judging the usefulness of financial information is far more difficult. Likewise, audit opinions on financial statements provide little insight into the efficiency of functions such as paying contractors or capturing the cost of operations of individual bases and work units. The DoD has long-standing deficiencies in both of those areas.

Finally, we believe that the seemingly never-ending growth of complexity in the DoD chart of accounts needs to be reversed. It is incongruous that credit card companies can manage millions of accounts with 16 digits but DoD needs to put lines of accounting with up to more than 200 digits on huge numbers of contracts, vouchers and other documents, making frequent errors unavoidable. The system is designed to protect the integrity of hundreds of thousands of accounts as hundreds of millions of transactions are made, but accuracy is impossible and meanwhile many managers find the official accounting records to be of little use for day to day decision-making.

Acquisition

The DoD is working toward the goal of becoming a world-class buyer of best value goods and services from a globally competitive industrial base. The Department hopes to achieve this transformation through rapid insertion of commercial practices and technology, business process improvement, creating a workforce that is continuously retrained to operate in new environments, and heavily emphasizing faster delivery of material and services to users. In order to fulfill these objectives, the DoD has initiated an unprecedented number of major improvement efforts, including at least 40 significant acquisition reform initiatives.

Despite some successes and continued promises from ongoing reforms, the business of creating and sustaining the world's most powerful military force remains expensive and vulnerable to fraud, waste and mismanagement. In FY 2000, the DoD bought about $156 billion in goods and services, with 15 million purchasing actions. The Department currently is attempting to stretch its acquisition budgets across 71 major programs, estimated to cost $782 billion, and 1,223 smaller programs worth $632 billion.

The scope, complexity, variety and frequent instability of Defense acquisition programs pose particularly daunting management challenges. Aggressive acquisition cost reduction goals have been established, but it is too soon to tell if they are achievable. Many specific initiatives have not yet been fully implemented and are in a developmental or pilot demonstration phase.

In the push to streamline procedures and incorporate commercial practices and products, the Department cannot compromise its insistence on quality products and services at fair and reasonable prices. An inherent challenge throughout the Department's acquisition reform effort is ensuring that critically needed controls remain in place and there is proper oversight and feedback on new processes. Recent audits continued to indicate a lack of effective means for identifying best commercial practices and adapting them to the public sector; overpricing of spare parts; inattention to good business practices and regulations when purchasing services; poor oversight of the several hundred medium and small acquisition programs; and adverse consequences from cutting the acquisition workforce in half without a proportional decrease in workload.

Although the DoD must continue to address the challenges of how to control the cost of purchased goods and services, the most fundamental acquisition issues confronting the Department relate to requirements and funding. The expanding national dialogue on military missions and the ongoing Defense Review may result in radical changes to DOD missions, military force structure and acquisition requirements. Whether changes in requirements and the topline budget ultimately are major or relatively minor, there needs to be a far-reaching rebalancing of acquisition programs to match available funding.

Finally, we believe that the Department needs to put more acquisition reform emphasis on ensuring the quality, serviceability and safety of purchased equipment, parts and supplies. Concentrating on prices and timely delivery is vital, but quality should be the most important attribute for DoD purchases, especially for materiel used by the warfighters. Minimizing vulnerability to fraud, especially false statements regarding product testing and product substitution, remains imperative. We currently have nearly 700 open procurement fraud investigations and there were 134 convictions, with recoveries of $170 million, from procurement fraud cases during FY 2000.

Health Care

The Military Health System (MHS) costs over $20 billion annually and serves approximately 8.2 million eligible beneficiaries through its health care delivery program TRICARE. TRICARE provides health care through a combination of direct care at Military Department hospitals and clinics and purchased care through managed care support contracts. The MHS has dual missions to support wartime deployments (readiness) and provide health care during peacetime. The MHS faces multiple challenges: attaining full funding, cost containment, transitioning to managed care, and data integrity.

Cost containment for peacetime health care is challenged by program expansion, historically poor budget estimating techniques, lack of good cost information and significant levels of health care fraud. Lack of comprehensive patient-level cost data has made decisions on whether to purchase health care or provide the care at the military treatment facility more difficult.

To combat health care fraud, the Defense Criminal Investigative Service has developed an active partnership with the TRICARE Management Activity to give high priority to health care fraud cases, which comprise a growing portion of the overall investigative workload. We have about 500 open criminal cases in this area. In FY 2000, our investigations led to 94 convictions and $529 million in recoveries.

Supply Inventory Management

Supply management to support U.S. military forces, which are located around the world and use several million different types of weapon systems, other equipment, spare parts, fuel, apparel, food items, pharmaceuticals and other supplies, may be the most difficult logistics challenge in the world. Despite the clear need to modernize DoD supply operations, it should be noted that U.S. military logistics performance has been excellent in demanding situations such as recent deployments to comparatively remote areas of the world.

Every facet of supply management involves challenges and it is critically important to recognize that weapon systems and other equipment must be designed, selected and procured with logistics support as a paramount concern. The use of standardized parts, commercial items, non-hazardous materials and easy to maintain components will considerably ease the supply support problem for

each system or piece of equipment. Conversely, inattention to such factors during acquisition will increase the risk of higher costs and logistics failures.

The logistics community relies heavily on program managers and operators to help forecast supply requirements, and historically this has been very difficult. The Department has been justifiably criticized for accumulating excessive supply inventories, but supply shortfalls are at least as great a concern due to the impact on readiness. Current logistics reform initiatives are principally focused on introducing private sector logistics support practices, which in turn are based on applied web-based technology. The DoD has initiated a myriad of logistics improvement initiatives, most of which are still in early stages. For example, the Defense Logistics Agency started a five year "logistics makeover" of its acquisition, processing and distribution practices last August. As logistics reform continues, we anticipate continuing valid concerns about all phases of supply support, including requirements determination, procurement, distribution, and disposal.

Other Infrastructure Issues

Despite numerous management initiatives to reduce support costs so that more funds could be applied to recapitalizing and ensuring the readiness of military forces, more can and should be done. Organizations throughout the Department need to continue reengineering their business processes and striving for greater administrative efficiency.

Unfortunately, cutting support costs can easily become counterproductive if the quality of support services and facilities is degraded. In addition, there are numerous bona fide requirements in the support area that will be expensive to address. For example, the average age of structures on military installations is 41 years and wholesale recapitalization is needed. In the category of family housing alone, a third of the 285,000 units require replacement in the next several years. The backlog of real property maintenance is $27.2 billion.

The area with the most promise for reducing installation level costs is base closures. Some DoD studies indicate that the base facility infrastructure exceeds requirements by 23 percent. We believe one or possibly two more rounds of base closure and realignment would be prudent national policy.

Readiness

Concern about the readiness of U.S. military forces was a principal issue last year in congressional hearings and was addressed during the Presidential election campaign. There is a fairly broad consensus that readiness shortfalls exist, although the extent of impairment to mission capability is more contentious. Clearly, there are spare parts shortages; significant backlogs for depot maintenance ($1.2 billion); concerns related to recruiting, retention and morale; disproportionately numerous deployments for some units; unanticipatedly high operating tempo; and equipment availability problems. In response, the DoD and Congress have made major budget adjustments and military entitlements have been expanded. The Department's readiness posture ultimately depends, however, on the effectiveness of hundreds of support programs, which range from training to supply management.

The DoD audit community supported the successful program to overcome the Year 2000 computer challenge, which the Department considered to be a major readiness issue, with the largest audit effort in DoD history. The IG, DoD, issued 185 "Y2K" reports. Due to that massive commitment, resource constraints and other workload, our recent coverage of other readiness issues was severely limited. We plan to restore at least some of the necessary coverage during FY 2001, continuing our particular concentration on chemical and biological defense matters. On January 31, for example, we issued a report on the establishment of National Guard Weapons of Mass Destruction-Civil Support Teams. The audit indicated they were not yet ready for certification as mission-ready. We are working with the involved DoD organizations to ensure that the concerns related to those certifications are expeditiously and fully addressed. Likewise, we are reviewing the accuracy and usefulness of a number of performance measurements reported by DoD to the Congress, many of which relate to readiness.

Human Capital

Like most government organizations, DoD faces a range of serious personnel management issues. The deep cuts in both the military force structure and the civilian workforce after the end of the Cold War were not accompanied by proportionate reductions in military force deployments or in civilian workload. On the contrary, military operations tempo has been very high and there have been indications of morale problems among both military and civilian personnel. Among the negative effects of downsizing

are increased retention problems because of slow promotions and overworked staffs, recruiting problems and skills imbalances.

Human capital concerns apply in virtually all segments of the workforce. Our February 2000 report on the impact of cutting the DoD acquisition workforce in half was received with considerable interest by both the DoD and Congress. The Federal Chief Information Officers Council has been pushing vigorously for attention to problems in the information technology workforce. The Military Department Surgeons General have testified to Congress on the detrimental effect of cutting medical staff by 30 percent, without proportionate decreases in military treatment facility workload. The Secretary of Defense Annual Report to the President and the Congress for 2001 includes the following analysis of the DoD Test and Evaluation (T&E) community:

"Since 1990, the T&E business area has reduced government personnel by more than 40 percent, and T&E institutional budgets by 30 percent. Over this same period, developmental test and evaluation workload has remained essentially stable, and operational test and evaluation workload has significantly increased. As a result, T&E is not sufficiently funded or manned to effectively and efficiently address the test and evaluation challenges of the next decade. To be responsive to the philosophy of early use of T&E for discovery of military effectiveness and suitability issues, T&E personnel will be overextended. While the principles of the faster, better, cheaper acquisition reform philosophy are sound, the implementation which has stretched the resources of T&E has also resulted in a rush-to-failure mode for some acquisition programs."

In addition to rethinking what workforce size is needed to meet mission requirements, as opposed to cutting mission capability to meet arbitrary personnel reduction goals, the DoD needs to develop more effective training methods to enable continuous learning to keep abreast of emerging technology and changing management practices. It also must find ways to compensate for the pending retirement of a large portion of the experienced workforce, improve competitiveness with private industry, and develop better incentives for productivity improvement.

The recent initiatives on improving military pay and benefits, the development of a pilot personnel management reform program for acquisition personnel, and other new initiatives indicate

that human capital issues are now in the forefront of management concerns.

Summary

This has been a broad brush treatment of a large and complicated picture. A list of some of the FY 2001 audit reports pertaining to the top ten problem areas is attached for further information. In closing, I would like to emphasize that, on the whole, DoD managers react positively and generally do their best to correct the problems identified by my office. The Department agreed to take responsive action on 96 percent of the over 3,000 recommendations made in Inspector General, DoD, reports during the past three years. The fact that serious problems persist is generally attributable to their inherent difficulty or to conflicting priorities, rather than indifference toward the best interest of the Department and the taxpayer, and at least some progress is evident in all areas. The prospect of the new administration bringing fresh viewpoints and insights to bear on these problems also bodes well for making more progress on them.

This concludes my written statement.

Attachment

SELECTED INSPECTOR GENERAL, DEPARTMENT OF DEFENSE REPORTS FROM FY 2001

INFORMATION TECHNOLOGY MANAGMENT

D-2001-019 Program Management of the Defense Security Service Case Control Management System, December 15, 2000

The Defense Security Service did not effectively manage the high risk involved in the integration of the Case Control Management System and the Enterprise System. As a result, those systems had significant limitations and were insufficiently tested and evaluated for operational effectiveness prior to deployment in October 1998, leading to failures that degraded Defense Security Service productivity. As of September 2000, project management had been greatly improved, but high risks remained. Resolution of design problems was continuing and measurements for reliability and maintainability at production objectives were still needed.

The Air Force Program Management Office had developed a phased acquisition strategy to stabilize the Case Control Management System and the Enterprise System with product improvements and incrementally migrate it to an improved Enterprise System architecture between FY 2002 through FY 2008. However, the DoD needs to consider alternative solutions for processing personnel security investigations before further decisions are made on future system architecture.

D-2001-030, Oversight of Defense Finance and Accounting Service Corporate Database, December 28, 2000

There was high risk that DoD would not be able to achieve its goal of a single, integrated system, because management was focused on individual systems and system ownership is fragmented among many DoD Components. A more integrated management approach is needed to attain the full benefits associated with initiatives such as the Defense Procurement Payment System, Defense Standard Disbursing System, Defense Cash Accountability System, and Defense Departmental Reporting System. These benefits are a standard system for the business areas and a single database to store information.

D-2001-015, Defense Environmental Security Corporate Information Management (DESCIM) Program, December 7, 2000

The DoD did not effectively implement and manage the DESCIM Program, which did not achieve its stated goal of developing a standard system to meet mission reporting and management information requirements. The DoD spent 9 years and $100 million on DESCIM.

D-2001-014, Development and Implementation of a Joint Ammunition System, December 6, 2000

The DoD spent 8 years and $41.3 million developing a new system for the logistical and financial reporting of the ammunition inventory. Despite those efforts, DoD did not produce a working system. During the audit, DoD suspended work on the most recent development effort, the Joint Ammunition Management Standard System, and began considering other alternatives. However, DoD personnel were not adequately considering an existing Navy system, the Conventional Ammunition Integrated Management System, as one of the alternatives. Navy personnel indicated that, with limited modification, the Conventional Ammunition Integrated Management System would be capable of meeting mission requirements. Otherwise, DoD would spend $71 million unnecessarily and be forced to use multiple non-compliant systems in the meantime.

INFORMATION SECURITY

D-2001-046, Information Assurance at Central Design Activities, February 7, 2001

The three Central Design Activities we visited had not certified or accredited their software development environments as required by DoD policy. In addition, those Central Design Activities did not participate in the accreditation of software development environments created for them and housed at Defense Information Systems Agency facilities. As a result, there is an increased risk of unauthorized access to and modification of DoD software. Likewise, controls were inadequate to detect and remove malicious code from some software products under development at these sites.

D-2001-029, General Controls Over the Electronic Document Access System, December 27, 2000

System security controls were insufficient and additional efforts to improve security by several DoD organizations were needed.

D-2001-013, DoD Compliance With the Information Assurance Vulnerability Alert Policy, December 1, 2000

The Deputy Secretary of Defense issued an Information Assurance Vulnerability Alert (IAVA) policy memorandum on December 30, 1999. Recent events demonstrated that widely known vulnerabilities exist throughout DoD networks, with the potential to severely degrade mission performance. The policy memorandum instructs the Defense Information Systems Agency to develop and maintain an IAVA database system that would ensure a positive control mechanism for system administrators to receive, acknowledge, and comply with system vulnerability alert notifications. The policy requires the Commanders in Chief, Services, and Defense agencies to register and report their acknowledgement of and compliance with the IAVA database. According to the policy memorandum, the compliance data to be reported should include the number of assets affected, the number of assets in compliance, and the number of assets with waivers. The policy memorandum provided for a compliance review by the Inspector General, DoD.

As of August 2000, DoD progress in complying with the policy memorandum had not been consistent. At that time, all 9 Commanders in Chief, 4 Services, and 14 Defense agencies had registered as reporting entities with the IAVA database, but 4 other DoD Components had not. Also, information contained in the database for the alerts posted in 2000 showed that of the Components that had registered, only four Commanders in Chief, one Service, four Defense agencies, and two other DoD Components had reported compliance in accordance with the IAVA policy. As of November 2000, however, DoD had made significant progress.

D-2001-017, Unclassified but Sensitive Internet Protocol Router Network Security Policy, December 12, 2000

The DoD lacked authoritative and current policy to ban unauthorized Internet access connections. As a result, individual installations and commands may have made questionable decisions on commercial Internet access, complicating the security challenge.

D-2001-016, Security Controls Over Contractor Support for Year 2000 Renovation, December 12, 2000

The DoD Components used techniques, such as access controls, configuration management, and code verification, to monitor and control contractor access to the 159 mission-critical systems in

our sample that were renovated by contractor personnel during the year 2000 renovation effort. However, they did not assess risk for 103 of those 159 systems and did not reaccredit 119 systems from a security standpoint. As a result, at least seven DoD Components were not assured that documented security postures were valid. Further, potential risks to the mission-critical systems were unknown and the systems may be exposed to increased risk of unauthorized access and modification.

OTHER SECURITY CONCERNS

D-2001-065, DoD Adjudication of Contractor Security Clearances Granted by the Defense Security Service, February 28, 2001

Defense Security Service case analysts, in granting security clearances to DoD contractors, were using processes that did not meet the requirements of Executive Order 12968, "Access to Classified Information," August 4, 1995, which requires appropriately trained adjudicators and uniform standards for granting security clearances. As a result, contractor clearances may not have been properly justified in all instances.

D-2001-007, Foreign National Security Controls at DoD Research Laboratories, October 27, 2000

Procedures at the Army Research Laboratory and the Air Force Research Laboratory-Munitions provided reasonable assurance that release of controlled unclassified and classified information to foreign nationals was in accordance with visit authorizations or certifications. However, the Defense Advanced Research Projects Agency and the Naval Research Laboratory controls over the dissemination of foreign disclosure instructions needed improvement. Specifically, for 208 of 270 official visits reviewed, the Defense Advanced Research Projects Agency and the Naval Research Laboratory did not disseminate foreign disclosure instructions to the program managers hosting foreign nationals. As a result, program managers were hosting foreign nations on official visits unaware of national security foreign disclosure restraints and may have inadvertently released unauthorized technical information to other countries. The Military Department laboratories' approval processes for visits by foreign nationals were adequate. However, the Defense Advanced Research Projects Agency security controls over the approval process for foreign national visitors were weak. Specifically, controls for granting building access for foreign national visitors representing U.S. entities required improvement. Also,

the Defense Advanced Research Projects Agency database contained inconsistent and inaccurate data. As a result, controls over the disclosure of controlled unclassified information to foreign nationals were not effective and U.S. personnel may have inadvertently disclosed controlled unclassified information to other countries, including countries of concern, without authorization.

FINANCIAL MANAGEMENT

D-2001-071, Navy Financial Reporting of Government-owned Materials Held by Commercial Shipyard Contractors, March 2, 2001

The Navy reported the value of Government-owned materials held by contractors using the Contract Property Management System database, which did not provide complete or accurate financial data that met the requirements of Federal accounting standards. Furthermore, the Navy overstated the value of $4.3 billion of Government-owned materials reviewed at five commercial shipyards by at least $1.4 billion for FY 1999. As a result, the Navy disclaimed the appropriateness of the balance on its financial statements for FY 1999. For FY 2000, the Navy is not reporting any values for Government-owned materials held by contractors on its financial statements. Until corrected, the Navy will continue to report incomplete and inaccurate financial data in FY 2001 and beyond.

D-2001-070, Internal Controls and Compliance With Laws and Regulations for the DoD Agency-Wide Financial Statements for FY 2000, February 28, 2001

The DoD could not provide sufficient or reliable information for us to verify amounts on the FY 2000 DoD Agency-Wide Financial Statements. We identified deficiencies in internal controls and accounting systems related to General Property, Plant, and Equipment; Inventory; Environmental Liabilities; Military Retirement Health Benefits Liability; and material lines within the Statement of Budgetary Resources. The DoD processed at least $4.5 trillion of department-level accounting entries to the DoD Components financial data used to prepare departmental reports and the DoD Agency-Wide financial statements for FY 2000. Also, $1.2 trillion in department-level accounting entries to financial data, used to prepare DoD Component financial statements, were unsupported because of documentation problems or improper because the entries were illogical or did not follow generally accepted accounting principles.

D-2001-042, Accounting and Disclosing Intragovernmental Transactions on the DoD Agency-Wide Financial Statements, January 31, 2001

Since FY 1996, DoD made little progress in accounting for and disclosing amounts of eliminating entries. Similarly, the Department has been slow to initiate improvements that are needed to ensure that all of the intragovernmental transactions were captured and the amounts were accurate. In response to prior audit reports, DoD indicated that it could not perform the critical checks because many of the accounting systems did not capture all the data necessary to reconcile with partners or to accurately identify elimination transactions and balances.

The FY 1999 DoD Agency-wide financial statements reflected $229.4 billion in intragovernmental transactions between buyers and sellers that were not reliable and were not adequately supported. The DoD reported $236.7 billion in eliminating entries that were not reconciled with intragovernmental accounts and buyer and seller transactions. The Defense Finance and Accounting Service made $298.8 billion (absolute value) in accounting entries to intragovernmental and public accounts that were not adequately reconciled. In addition, the elimination of intra-agency transactions on the Statement of Net Cost were made to the total program cost and revenue lines and not by the specific programs that made up the totals. As a result, the DoD Agency-wide financial statements continue to contain material misstatements, the amounts reported for intragovernmental line items are unreliable, and unless corrected, will continue to contain material misstatements for FY 2000 and beyond.

D-2001-024, Performance Measures for Disbursing Stations, December 23, 2000

The Defense Finance and Accounting Service (DFAS) lacked a plan to measure and improve the performance of disbursing stations in reconciling differences in deposits, interagency transfers, and checks issued. The DFAS did not measure the performance of:

- 353 (90.1 percent) of the 392 disbursing stations with deposit activity,
- 67 (64.4 percent) of the 104 disbursing stations with interagency transfer activity, and
- all 500 disbursing stations that issue checks.

As a result, DFAS could not identify disbursing stations with significant unreconciled differences. The disbursing stations

with the 10 largest average differences in deposits, interagency transfers, and checks issued accounted for $3.5 billion (58.3 percent) of the $6 billion average difference (absolute value) reported on the September 30, 1999, and April 30, 2000, Statements of Differences and Comparison Reports. Reconciliation of those disbursing stations' differences would significantly reduce the total DoD differences in deposits, interagency transfers, and checks issued and improve the accuracy and auditability of the DoD Fund Balance With Treasury account.

ACQUISITION

D-2001-066, Acquisition of the Advanced Tank Armament System (ATAS), February 28, 2001

The Army did not establish a viable acquisition strategy to develop and acquire the ATAS beyond the program definition and risk reduction phase. Instead, the milestone decision authority considered the ATAS to be a program element for funding technology demonstrations, but did not appropriately manage and fund ATAS as a technology demonstration. As a result, the Army obligated about $85.8 million in research, development, test, and evaluation funds through FY 2000 and planned to obligate another $62.9 million from FY 2001 through FY 2007 for a program that the Army was not intending to fund for the engineering and manufacturing development phase or the production phase of the acquisition process.

D-2001-061, Waivers of Requirement for Contractors to Provide Cost or Pricing Data, February 28, 2001

Contracting officials properly justified, and used in appropriate circumstances, waivers of the legal requirement to obtain cost or pricing data in an estimated 189 of the reviewed contract actions, valued at $1.0 billion, where waivers were used. Contracting officers also ensured fair and reasonable prices for those 189 contract actions. The procedures that DoD contracting organizations used to process the waivers and to determine fair and reasonable prices were effective and not burdensome.

The information on cost or pricing data in the Defense Contract Action Data System was very inaccurate and misleading. We estimated that 4,264 actions (92.9 percent), valued at $789 million, of 4,590 contract actions were miscoded. The significant errors grossly inflated the reported number of

contract actions in which the requirement for contractors to provide cost or pricing data had been waived.

D-2001-036, Acquisition of the Combat Survivor Evader Locator, January 25, 2001

The Combat Survivor Evader Locator Program Management Office had planned for and managed the design and development of the system well, despite funding shortfalls. The Air Force had been funding the system through internal Air Force reprogramming below the threshold that required congressional notification. During the audit, we had concerns regarding how the Program Management Office would fund additional interoperability and security requirements and associated technological challenges. Although the Program Management Office had requested the research, development, test and evaluation funds needed to address those requirements and challenges, the funds were not included in the Air Force FY 2002 Program Objective Memorandum. We also were concerned that the Air Force plan to incrementally purchase its hand-held radio requirements through FY 2038 would not take advantage of economic order quantities and, more importantly, would not satisfy a critical mission need in a reasonable timeframe. Those concerns have been addressed by revised programming guidance. If fully funded by Congress, this program can meet its objectives.

D-2001-032, Use of Exist Criteria for Major Defense Systems, January 10, 2001

For seven of the nine programs reviewed, milestone decision authorities did not ensure that program managers proposed program-specific exit criteria for use at the future milestone decision point(s). As a result, the milestone decision authorities were limited in their ability to use exit criteria as a management tool to determine whether programs under their review and oversight should progress within an acquisition phase or continue into the next acquisition phase at milestone decision points.

Program Managers for three of the five major Defense acquisition programs reviewed did not report their status toward attaining exit criteria requirements in the quarterly Defense Acquisition Executive Summary. As a result, milestone decision authorities and Office of the Secretary of Defense action officers did not have adequate information for assessing each program's progress toward satisfying exit criteria requirements and for providing direction, when needed, between milestone decision points.

D-2001-012, Acquisition of the Armored Medical Evacuation Vehicle (AMEV), November 22, 2000

The Army did not have a viable acquisition strategy to acquire the AMEV at the completion of the engineering and manufacturing development phase of the acquisition process. The Army had obligated about $9.7 million in research, development, test and evaluation funds for the program from its inception in FY 1997 through FY 2000. Another $6.3 million was earmarked to complete the developmental effort in FY 2001 through FY 2003 for the program, but the Army did not intend to fund production.

SUPPLY MANAGEMENT

D-2001-054, Defense Logistics Agency Product Verification Program, February 21, 2001

Defense Logistics Agency product test center planning procedures were logical and in conformance with test objectives. Testing was conducted using contract specifications and objectives, appropriate test equipment was used, and suspected deficiencies were evaluated. However, the product test selections and the use of test results needed improvement. Random product test selections did not include all products available for testing at all depots. For nonrandom testing, the Product Verification Office did not fully consider management's quality priorities and initiatives in test planning. As a result, funds for product testing were not used in the most efficient manner and DoD lacked sufficient assurance that some critical products would perform as expected. For two of the three Defense Supply Centers, test failures were not consistently investigated and required actions on test failures were not always taken. Inconsistent adjudication and ratings of test results hindered the two Defense Supply Centers from resolving contractor issues for 36 percent of the 231 FY 1999 tests we reviewed, inflated quality ratings for as many as 54 contractors and allowed potentially nonconforming products to remain available for issue.

D-2001-035, Management of Potentially Inactive Items at the Defense Logistics Agency, January 24, 2001

Defense Logistics Agency (DLA) managers needed to purge more National Stock Number (NSN) items, for which there is not longer a demand, from the supply system. As a result of the audit, the Defense Supply Center Philadelphia developed a computer program

to expedite the review process and deleted 20,385 of the 26,434 NSNs that had been in a review status over 90 days at the Center. However, because there are 64,663 more NSNs that still require DLA item manager review, we believe that the number of potentially inactive NSNs that could be deleted is significantly greater. We calculated that DLA avoided a minimum of $17.2 million of costs by eliminating unnecessary cataloging and supply system files, and by reducing inventory for the 20,385 NSNs. The full extent of the monetary benefits will be quantifiable after management identifies and takes action to delete all inactive NSNs and disposes of obsolete, excess inventory.

D-2001-002, Defense Logistics Agency Customer Returns Improvement Initiative Program, October 12, 2000

The Defense Logistics Agency did not fully implement the Customer Returns Improvement Initiative Program. Therefore, some depots could not screen and suspend potentially nonconforming assets received through customer returns. The Defense Supply Centers did not regularly transmit listings of nonconforming assets to the depots that participated in the program, nor did they consistently provide all necessary information to distinctly identify the assets. As a result, as many as 28 percent of the Defense Logistics Agency's returned assets, comprised of over 176,000 individual supplies and spare parts that had been identified as potentially defective and returned to the depots, were not screened and could be reissued to customers without qualification. Conversely, the lack of detailed information on nonconforming assets forwarded to the depots may have resulted in some assets being unnecessarily suspended.

PEACETIME HEALTH CARE

D-2001-037, Collection and Reporting of Patient Safety Data Within the Military Health System, January 29, 2001

Significant effort to collect and report patient safety data is ongoing at the Military Treatment Facility level within the Military Health System. The proposed DoD patient safety reporting program has the potential to improve data consistency and provide a means for sharing the data and lessons learned throughout DoD. To effectively and efficiently implement the proposed patient safety reporting program, an implementation strategy is needed. Without an implementation strategy, the

proposed program's potential for improving health care through reduction of medical errors may not be maximized.

READINESS

D-2001-059, Armed Services Blood Program Readiness, February 23, 2001

The Armed Services Blood Program relies on frozen red blood cells for contingency purposes. Inventories were short and related data were inaccurate. The DoD relies on frozen blood up to 21 years old, but the Food and Drug Administration standard for non-military stocks is a 10 year shelf life. Various other testing, training and planning issues needed attention.

D-2001-045, Government Performance and Results Act Goals: Tank Miles, February 7, 2001

The DoD reported 681 tank miles for FY 1999 instead of the 567 M1 Abrams tank miles actually driven, on average, in installation-based training. Further, DoD did not fully identify, document, and report the reasons for the 29 percent shortfall in achieving the 800 tank miles goal and actions taken to improve the ability of DoD to achieve the goal. The existing measure established performance objectives for training-only tank units rather than for the training for the Army's combat arms teams. Further, limitations on the use of the "Tank Miles" measures to assess the Army's ground forces were not clearly explained in the Annual Report. As a result, the "Tank Miles" performance measure report to Congress provided incomplete information and was not useful.

D-2001-033, Government Performance and Results Act: Unfunded Depot Maintenance, January 12, 2001

The March 2000 DoD performance report was not based on the best available data and was not supportable. The presentation of this important readiness metric needs improvement to make the report more meaningful and useful to DoD and Congress.

HUMAN CAPITAL

D-2001-008, Resources of DoD Adjudication Facilities, October 30, 2000

The number of personnel security clearance cases requiring adjudication was rising at a rate faster than most central

adjudication facilities' ability to process adjudicative decisions in a timely manner, because the facilities' resource requirements had not been fully identified and budgeted. Without corrective action, obtaining a security clearance could become an increasingly lengthy process for DoD personnel and contractors and DoD may be subjected to a higher risk of compromise.

Mr. SHAYS. We need to deal with some housekeeping, Mr. Friedman, before we begin with you.

I would ask unanimous consent that all members of the subcommittee be permitted to place an opening statement in the record and that the record remain open for 3 days for that purpose.

Without objection, so ordered.

I'd ask further unanimous consent that all witnesses be permitted to include their written statements in the record. Without objection, so ordered.

Mr. Friedman, you have the floor.

Mr. FRIEDMAN. Thank you, Mr. Chairman.

Good morning to you, Mr. Chairman and members of the subcommittee. I am pleased to be here at your request to testify on the major performance and management challenges facing the Department of Energy. These challenges, which were reported in our November 2000, special report and actually are before you on the chart that you can see, are the startup of the National Nuclear Security Administration contract administration, energy supply and demand technology, environmental remediation, human capital, information technology, infrastructure, property controls and asset inventories, safety and health, and security.

Progress in resolving these issues is dependent in large measure on whether the Department effectively implements the Government Performance and Results Act. The Office of Inspector General continues to focus attention on the Department's performance measures and results.

I'd like to summarize my full statement, Mr. Chairman, by focusing on five of the challenge areas—startup of the NNSA, infrastructure, security, contract administration, and human capital.

First, I'd like to address the startup of the NNSA. As with the establishment of any organization, the NNSA faces a number of significant challenges. These include logistical and organizational issues and human capital concerns. The NNSA also faces a number of major policy issues. For example, it is responsible, as you are well aware, for the stewardship of the Nation's nuclear stockpile and for reducing the threat of nuclear proliferation and terrorism.

In addition, the NNSA will need to address many of the other departmental challenges that my office has identified. This is particularly true of the second challenge I will discuss, the nuclear weapons infrastructure.

For several years the Office of Inspector General has reported that the condition of the Department's infrastructure is inadequate and is, in fact, deteriorating at an alarming pace. The nuclear weapons production infrastructure is a case in point. According to the Department's own estimates, it will need between $5 and $8 billion over the current budgeted amount to address the deteriorating infrastructure of the weapons production plants. The Department and NNSA must act swiftly to counter the effects of deferred maintenance and the loss of certain critical manufacturing capabilities.

The third challenge I would like to discuss is security. Previous reviews by the Office of Inspector General, the Congress, and others have identified weaknesses in the Department's security program. For example, we have found that security ratings were

changed without documented rationale, computers were not always sanitized prior to disposal, and weaknesses existed that increased the risk that unclassified computer networks could be damaged by malicious attack. Lapses in security were also frequently cited during the debate leading to the NNSA's creation.

Contract administration also continues to be a major challenge to the Department. In short, we have concluded that many of the Department's contract reform goals have yet to be achieved. For example, while performance incentives have been included in most Department contracts, Office of Inspector General reviews have disclosed systemic weaknesses in the way these incentives have been administered.

Further, while contractor fees have risen dramatically, there has not been a commensurate increase in the financial risk and accountability of the Department's major contractors.

An integral part of contract administration is project management. My office has issued many reports that have been critical of the Department's planning, justification, and management of its major projects. Cost overruns, schedule delays, and other management problems have plagued Department projects, including the $47 billion tank waste project at Hanford and the National Ignition Facility at the Lawrence Livermore National Laboratory, which is now projected to cost in excess of $3.5 billion.

Finally, the Department faces a number of human capital issues. Since 1995, the Department has reduced Federal staff significantly through reductions in force, buy-outs, attrition, and a hiring moratorium. The staff eligible for retirement today has nearly doubled in the last 5 years. By the year 2005, 34 percent of today's Federal staff will be eligible to retire, and the Department's major contractors—specifically those dealing in the nuclear arena and the Defense complex—are experiencing similar and in some cases more severe losses. Many of those retiring take with them technical and scientific knowledge that is not easily replaced.

The Department and NNSA must take aggressive action to ensure that it maintains the technical, scientific, and management resources it needs to meet its critical mission requirements.

I want to inform you the Department has made progress in some areas. These include integrating research and development activities, commencing operations at the waste isolation pilot plant, and improving financial reporting of environmental liabilities. However, a great deal more needs to be done. In this regard, Secretary Abraham and General Gordon have asked me to provide regular briefings on the progress made in addressing the challenge areas.

Mr. Chairman and members of the subcommittee, this concludes my statement. I would be pleased to answer any questions that you may have.

Mr. SHAYS. Thank you very much.

[The prepared statement of Mr. Friedman follows:]

STATEMENT OF GREGORY H. FRIEDMAN

INSPECTOR GENERAL

DEPARTMENT OF ENERGY

BEFORE THE

SUBCOMMITTEE ON NATIONAL SECURITY,
VETERANS AFFAIRS, AND INTERNATIONAL RELATIONS
OF THE
COMMITTEE ON GOVERNMENT REFORM

U.S. HOUSE OF REPRESENTATIVES

FOR RELEASE ON DELIVERY
EXPECTED AT
9:00 AM

Thursday, March 15, 2001

Good morning Mr. Chairman and members of the Subcommittee. I am pleased to be here to respond to your request to testify on the major performance and management challenges confronting the Department of Energy (Department).

Recently, the Office of Inspector General (OIG) issued a special report on *Management Challenges at the Department of Energy* (DOE/IG-0491, November 2000). In that report, we categorized the most serious challenges facing the Department as follows:

- Startup of the National Nuclear Security Administration (NNSA)
- Contract Administration
- Energy Supply/Demand Technology
- Environmental Remediation
- Human Capital
- Information Technology
- Infrastructure
- Property Controls and Asset Inventories
- Safety and Health
- Security

Our analysis focused on those challenges that, in our view, warranted increased emphasis or appeared to have reached a heightened level of urgency. Many of our observations concerned issues related to the Department's national security and nuclear missions and may, therefore, be of particular interest to the Subcommittee.

Progress in resolving these issues will, in part, be impacted by the Department's effective implementation of the Government Performance and Results Act (Results Act). The Results Act requires an agency to develop goals, measures, and metrics to clearly establish what its intended outcomes are, what means it will use to achieve them, and

how it will know if it has been successful. The need to improve the Department's performance through better implementation of the Results Act has been a consistent theme of the work of my office. For example, in each of our last three annual reports on the Department's consolidated financial statements we have been critical of performance measures that were not meaningful or relevant, not quantifiable, and not clearly stated.

With regard to the overall management challenges, I am pleased to report that Secretary Abraham has asked that my office provide him with a full briefing on the challenge areas once his senior staff is in place. I will now briefly summarize our observations regarding the challenge areas.

Startup of the NNSA

NNSA was established in March 2000 pursuant to Title 32 of the National Defense Authorization Act for Fiscal Year 2000 (Public Law 106-65). NNSA is to provide clear and direct lines of accountability and has responsibility for the management and operation of the nation's nuclear:

- Weapons;
- Naval propulsion program; and
- Nonproliferation activities.

The NNSA faces a number of significant challenges. Logistical and organizational issues must be resolved; expectations, responsibilities, and authorities must be established; and, human capital issues must be addressed. In addition, many of the Department's longstanding challenge areas – notably contract administration, security, infrastructure, and information technology – now must be addressed by the NNSA as well.

Also, a number of major policy issues confront NNSA. One example is reducing the threat of nuclear proliferation and nuclear terrorism by helping to upgrade physical protection and material control and accounting systems at nuclear facilities in the states of the Former Soviet Union. Our audit on this subject, *Nuclear Material Protection, Control, and Accounting Program* (DOE/IG-0452, September 1999), disclosed that enhancements were needed to ensure that funds and equipment sent to these states were used for their intended purposes. We identified instances where low priority upgrades were funded and found that U.S. project teams lacked access to certain key facilities where upgrades were located.

Over the past several months, the OIG has worked to design a strategy for maximizing the effectiveness of our services relative to NNSA operations. General Gordon and I have met monthly since his appointment as Administrator of NNSA to discuss the unique challenges NNSA faces and ongoing OIG reviews of NNSA programs.

Contract Administration

In its Fiscal Year 2000 *Accountability Report*, the Department reported that most procurement challenges as defined by its Contract Reform effort have been resolved. Based on our observations and reviews, we have concluded that many of the Department's contract reform goals have yet to be achieved. For example, while incentives have been included in most Department contracts, OIG reviews have disclosed systemic weaknesses in the way these incentives have been administered. Further, while fees have, in fact, risen dramatically, OIG reviews have disclosed that there has not been a commensurate increase in financial risk or accountability of the Department's major contractors. In addition, performance measures have not been fully established to clarify expectations and monitor contractor performance.

In our judgment, improvement in contracting practices represents one of the greatest opportunities for enhancing the economy and efficiency of Departmental, including NNSA, operations. Of the Department's total budget of about $18 billion, over $13 billion is spent by its major contractors.

For the Department, an integral part of contract administration is project management. My office has issued many reports that have been critical of the Department's planning, justification, and management of its major projects. Cost overruns, schedule delays, and other management problems have plagued Department projects, including the $47 billion Tank Waste project at Hanford and the National Ignition Facility at Lawrence Livermore

National Laboratory, now projected to cost about $3.5 billion when completed. The Office of Management and Budget has included "improving the Department's program and contract management" as one of its 12 agency-specific priority management objectives for Fiscal Year 2001.

Energy Supply/Demand Technology

Another critical challenge facing the Department and the nation is assuring the adequate supply of affordable energy resources. In a 1997 report, the Energy Research and Development Panel of the President's Committee of Advisors on Science and Technology noted that the nation's economic well-being depends on reliable, affordable supplies of energy. The Panel further commented that "...our national security requires secure supplies of oil or alternatives to it..." and that, as a consequence, the United States must maintain its leadership in the science and technology of energy supply and use.

Last year's dramatic spike in oil prices led to a renewed national focus on the significance of oil imports and the technology that can mitigate energy dependency. Currently, the United States relies on petroleum for about 40 percent of its energy supply, and 51 percent of this petroleum is imported. Increasing energy demands for transportation, as well as for other sectors of our economy, are likely to exacerbate this situation. For example, the Department projects that U.S. oil imports will increase from 51 percent in 1999 to 64 percent in 2020.

In light of the implications for our economic and national security, the Department should, in our judgment, intensify its efforts in the following areas:

- Availability of competitively-priced oil and natural gas supplies;
- Efficiency and productivity of energy-intensive industries; and,
- Development and use of advanced transportation vehicles and alternative fuels.

Environmental Remediation

The Department's effort to address the environmental consequences of its nuclear weapons mission has been recognized as the largest remediation program of its kind ever undertaken. The Department is responsible for cleaning up 113 geographic sites located in 30 states and one territory. Sites range in size from as small as a football field to larger than the state of Rhode Island. Cleaning up the nuclear weapons legacy will take several decades and, according to the Department's most recent estimate, cost about $234 billion. This is the third largest liability on the nation's balance sheet.

The Department has made some progress in defining the cleanup effort, estimating its scope, and prioritizing individual projects. However, OIG reviews have illustrated the need for increased management attention to achieving intended environmental cleanup outcomes. For example, our audit of *The Management of Tank Waste Remediation at the Hanford Site* (DOE/IG-0456, January 2000) showed that this $47 billion project did not have a completed baseline, critical path, or comprehensive project management plan

despite similar OIG findings dating to 1993. During another audit, *Decontamination and Decommissioning Contract at the East Tennessee Technology Park* (DOE/IG-0481, September 2000), we found that the decontamination of three buildings at that site was two years behind schedule and $94 million over budget.

The magnitude of the cleanup effort, along with its technical complexities and uncertainties, ensures that it will remain a Departmental challenge for the foreseeable future.

Human Capital

The Department has reported that since 1995, it has reduced Federal staff by over 25 percent through reductions in force, buyouts, and attrition during a hiring moratorium to meet lowered budget estimates. The staff eligible for retirement has increased from 6 percent to 11 percent in the last 5 years. By 2005, 34 percent of today's Federal staff will be eligible to retire.

The Department's major contractors have experienced similar losses. For example, at Lawrence Livermore National Laboratory, three times as many scientists left the laboratory in the first eight months of 2000 as in all of 1999. A senior Department official recently testified before Congress that in 10 years, most of our weapons designers with nuclear testing experience will have retired. Many of those retiring or resigning take with them technical and scientific knowledge that is not easily replaced. As just one

example, when the Department's newest warhead, the W88, reaches the end of its original design life in 2014, we may no longer have anyone with test-based job experience to help evaluate modifications that may be required.

The OIG has been monitoring this issue through our role in the Federal Managers' Financial Integrity Act process and other audit work. For example, in our report on *The U.S. Department of Energy's Efforts to Preserve the Knowledge Base Needed to Operate a Downsized Nuclear Weapons Complex* (DOE/IG-0428, October 1998), we recommended that the Department develop and implement a performance plan to preserve the nuclear weapons program knowledge base, including capturing information that could be provided only by retiring weapons experts. Although that recommendation remained open as of December 31, 2000, the Department reported to us that it has taken steps to "reinvigorate" its knowledge and records management and has developed a comprehensive approach to preserving the nuclear weapons program knowledge base. While it is evident that management recognizes the seriousness of its human capital problem, the Department needs to take aggressive action to ensure that it maintains the technical, scientific, and management resources it needs to meet its critical mission requirements.

Information Technology

The Clinger-Cohen Act required the Department to appoint a Chief Information Officer (CIO). The CIO is responsible for developing and implementing (1) an effective agency-

wide information technology capital investment strategy, (2) specific performance goals and measures, (3) monitoring of and reporting on information technology programs, and (4) integrated information technology architecture.

Since 1996, the OIG has issued ten audit reports identifying problems associated with the Department's implementation of the Clinger-Cohen Act and its management of an estimated $1.6 billion in annual information technology expenditures. Two of our most recent reports illustrate an ineffective investment strategy for information technology. In our audit of *Corporate and Stand-Alone Information Systems Development* (DOE/IG-0485, September 2000), we found that the Department had spent at least $38 million developing duplicative information systems. Duplicative systems existed or were under development at virtually all organizational levels within the Department. Similarly, during our audit of *Commercial Off-the-Shelf Software Acquisition Framework* (DOE/IG-0463, March, 2000), we found that the Department failed to take advantage of enterprise-wide software contracts that could have saved nearly $40 million on just one desktop software suite.

In addition to these information technology management issues, the OIG has also conducted extensive reviews regarding aspects of "cyber security." In recent years, the OIG has developed significant capability and expertise in identifying security weaknesses relating to information technology. Our Technology Audit Group and Technology Crimes Section are working together to coordinate these reviews. I will include these efforts in my discussion of security issues.

Infrastructure

For several years, the OIG has reported that the condition of the Department's infrastructure is inadequate and, in fact, is deteriorating at an alarming pace. This is particularly true of the nuclear weapons production infrastructure. We have concluded that the problem has become severe, requiring prompt management attention.

In its recently revised Strategic Plan, the Department identified key objectives for National Security, including the ability to (1) maintain and refurbish nuclear weapons; (2) achieve "robust and vital" scientific, engineering, and manufacturing capabilities; and, (3) ensure the "vitality and readiness" of the national nuclear security enterprise.

Based on our audit of the *Management of the Nuclear Weapons Production Infrastructure,* (DOE/IG-0484, September 2000), we found that some Stockpile Stewardship Plan milestones and goals have slipped, restoration costs have increased, and future nuclear weapons production work, as required by a Presidential Decision Directive, is at risk. Knowledgeable Department officials estimate that between $5 billion and $8 billion over current budgeted amounts will need to be invested to address the deteriorating infrastructure of the weapons production plants. The Department and NNSA must swiftly act to counter the effects of deferred maintenance on the production infrastructure and critical manufacturing capabilities.

Our audit of *Implementation of Presidential Decision Directive 63, Critical Infrastructure Protection* (DOE/IG-0483, September 2000) also demonstrated that the Department had not implemented its Critical Infrastructure Protection Plan. As a result, the Department faced increased risk of malicious damage to cyber-related critical infrastructure that could adversely impact its ability to protect critical assets and deliver essential services. We noted that the Department had not developed specific performance measures or goals to guide implementation of the Presidential Decision Directive.

Property Controls and Asset Inventories

For several years the OIG has been reporting that the Department has extensive inventories of nuclear and non-nuclear materials that may no longer be necessary due to mission changes. We have been concerned that funds spent to store and handle materials that are not needed could be put to better use and that potential safety and health concerns exist. The OIG also has reported significant deficiencies in controls over Government property.

In January 2000, as part of a larger cost-savings initiative, the Inspector General suggested that the Secretary initiate a Department-wide review to specifically identify excess or unneeded assets and schedule their safe disposal at the earliest possible time. Based in part on the OIG recommendation, the then Secretary announced, in March 2000,

a Departmental initiative to "clean out the attic" of unneeded, unused property. Since March, Department managers have been working to deploy a number of new processes, including on-line auctions, to deal with this issue. As of late 2000, the initiative was still ongoing.

While the Department deserves credit for its attention to this long-standing problem, recent OIG reviews raised new concerns about the adequacy of controls over property for which the Department has a continuing need or a stewardship responsibility. Our audit of *Non-Nuclear Weapons Parts at the Rocky Flats Environmental Technology Site* (DOE/IG-0475, June 2000) disclosed problems with the way Rocky Flats controlled, accounted for, and reported the value of its non-nuclear parts inventory. In our *Inspection of Surplus Computer Equipment Management at the Savannah River Site* (DOE/IG-0472, June 2000) we determined that a contractor did not comply with property management requirements for disposal of surplus computer equipment. Stored information, including Unclassified Controlled Nuclear Information, was not cleared from all surplus computers.

Safety and Health

Ensuring the safety and health of its workforce and the public is one of the Department's most difficult, long-term challenges. Safety and health issues encompass all activities relating to the identification, testing, handling, labeling, cleanup, storage, and/or disposal

of radioactive and hazardous waste. Other activities relate to nuclear safety and occupational and worker safety and health (e.g., nuclear safety standards).

As with the Environmental Remediation challenge, the OIG does not expect that the Department will resolve these complex issues in the near term. Rather, Department managers should take aggressive action to ensure that safety and health activities are carried out as efficiently and effectively as possible. Several recent OIG reviews showed that this was not always the case.

During our audit of the *Federal Energy Regulatory Commission's Dam Safety Program* (DOE/IG-0486, October 2000), for example, we concluded that, overall, the Commission conducted a thorough and comprehensive dam safety program. However, management inefficiencies led to a backlog of safety reports needing review. As a result, the Commission did not have complete, timely, and important information about the safety condition of some dams under its jurisdiction.

The OIG also received allegations of criminal misconduct regarding safety and health issues. For example, we received information that one of the Department's subcontractors was mixing hazardous materials with non-hazardous/non-regulated paint waste material. After an OIG investigation, the subcontractor was sentenced to three years probation and fined for the treatment of hazardous waste without a permit and for transportation of hazardous waste without a manifest.

A separate OIG investigation disclosed evidence that the president of a Department subcontractor authorized the submission of false bioassay data. The false test results may have inaccurately identified a person's actual exposure to nuclear materials, thus placing the person at risk. The Department took steps to retest employees affected by the false test results. Following a guilty plea for submitting false claims and false statements, the president of the company was sentenced to 3 months in a Bureau of Prisons halfway house, ordered to pay restitution and fines, and debarred from government contracting for 10 years.

Security

One of the Department's national security objectives is ensuring that the Department's "...nuclear weapons, materials, facilities, and information assets are secure through effective safeguards and security policy, implementation, and oversight." The Department spends over $1 billion per year for physical and personnel security. This includes NNSA and other Departmental sites. Previous reviews by the OIG, Congress, and others have identified weaknesses in the Department's protection of nuclear weapons-related information. Lapses in security were frequently cited during the debate leading to NNSA's creation.

Our Inspection report on *Allegations Relating to the Albuquerque Operations Office Security Survey Process and the Security Operations' Self-Assessment at Los Alamos National Laboratory* (DOE/IG-0471, May 2000), showed that certain security survey

ratings were changed without a documented rationale. This inspection also disclosed that about 30 percent of the Los Alamos security operations division personnel interviewed believed they had been pressured to change or mitigate security self-assessments. Another inspection addressed *Allegations Concerning the Department of Energy's Site Safeguards and Security Planning Process* (DOE/IG-0482, September 2000), where we identified significant problems in the manner in which site safeguards and security plans were reviewed and quality assurance issues were closed.

An *Inspection of the Sale of a Paragon Supercomputer by Sandia National Laboratories* (DOE/IG-0455, December 1999) determined that Sandia failed to exercise prudent management judgment in its decision to excess and sell a supercomputer to a Chinese national. The supercomputer was one of the world's 100 fastest computers and had been used by Sandia to support the Department's nuclear weapons testing program. As noted previously, our inspection dealing with computer equipment at the Savannah River Site in South Carolina (DOE/IG-0472) disclosed that management at that site did not assure that surplus computers were sanitized prior to disposal.

In our audit of *Unclassified Network Security at Selected Field Sites*, (DOE/OIG-0459, February 2000), the OIG identified significant weaknesses that increased the risk that unclassified computer networks could be damaged by malicious attack. Even though the Department became aware of a number of network security problems in recent years, it did not, until recently, issue specific network security requirements. Ongoing OIG work regarding the Department's Cyber Security Incident Response and Virus Reporting will

assess how well the Department is protecting its computer systems from damage by malicious software and intrusions.

Recent passage of the Government Information Security Reform Act, with its requirement for an annual independent evaluation of the Department's information security activities by the OIG, represents a significant additional challenge and a major demand on our staffing resources. We are developing a comprehensive strategy for meeting this new requirement in a manner that fully leverages our in-house capabilities, contractor resources, and the expertise of other information technology groups within the Department.

Areas of Progress

The Department has taken steps to address a number of previously reported problems. Specifically, Department managers have implemented OIG recommendations or otherwise improved processes related to:

- Integrating research and development activities;
- Commencing operations at the Waste Isolation Pilot Plant (WIPP);
- Improving financial reporting on environmental liabilities; and,
- Correcting the Year 2000 computer problem.

As this list illustrates, progress has been made in areas representing significant complexity. The improvements came about as a result of strategic planning and goal-setting, management commitment, and the concerted efforts of many Department and contractor personnel.

Conclusion

The Office of Inspector General looks forward to working with the Department's senior staff and with the Congress in a continuing effort to improve Department programs and operations.

Mr. Chairman, this concludes my statement and I would be pleased to answer any questions you may have.

Office of Inspector General

DEPARTMENT OF ENERGY MANAGEMENT CHALLENGES

- **NNSA Startup**
- **Contract Administration**
- **Energy Supply/Demand Technology**
- **Environmental Remediation**
- **Human Capital**
- **Information Technology**
- **Infrastructure**
- **Property Controls and Asset Inventories**
- **Safety and Health**
- **Security**

Mr. SHAYS. Let me first welcome Mr. Kucinich. I don't know if you have any opening statement you want to make?

Mr. KUCINICH. Just include it in the record.

Mr. SHAYS. OK. We will include it in the record, and I'll start us out.

Basically, let me just start with you, Mr. Friedman. I'd like to know—and I am going to ask the same question of you, Mr. Lieberman, as well. I'd like—you both have been very helpful in outlining some key issues. I'd like to know the most serious problem that faces the Department. I'd like to know the least-serious on the list that you have given in your full statement. I also ultimately would like to know—and I'll jump back to them and remind you when I'm asking you—the easiest to address, the hardest to address, and the one that has been there the longest.

What's the most serious problem, Mr. Friedman, that you think needs to be addressed?

Mr. FRIEDMAN. Well, that's a difficult question, Mr. Chairman, but I think human capital may well be the most difficult problem. You can't address all the others unless you have the right people in place to take the appropriate corrective actions and to move forward into the future, so my quick answer to you would be that human capital is the most serious problem.

Mr. SHAYS. And you've given us 10 in your full statement of problems to deal with. What is the least-serious problem of these?

Mr. FRIEDMAN. I suppose property controls and asset inventories.

Mr. SHAYS. What would be the easiest to address?

Mr. FRIEDMAN. Well, I think, actually, all of them are significant challenges or they wouldn't be on the list, but I think the easiest to address are the ones that can be addressed in the shortest period of time—probably deal with contract administration.

Mr. SHAYS. In other words, the one if they just put their mind to it they could get it done.

Mr. FRIEDMAN. I think contract administration could be addressed quite easily.

Mr. SHAYS. And it could be done in the shortest period of time?

Mr. FRIEDMAN. That's correct.

Mr. SHAYS. OK. And, again, you said the hardest to address is what?

Mr. FRIEDMAN. Well, the hardest—let me state it differently. I think the most significant challenge in this certain in part falls within the purview of this committee—deals with the environmental remediation of the former weapons sites.

As you may be aware, Mr. Chairman, right now the unfunded liability in the Department's books for environmental cleanup is $230 billion, and that is to be a project the likes of which have never been seen in the free world or in any part of the world, for that matter.

I think over time—it is a 60 to 70-year project, so that is going to be the longest-term project that we face.

Mr. SHAYS. How many years?

Mr. FRIEDMAN. 60 to 70.

Mr. SHAYS. Why that long?

Mr. FRIEDMAN. Well, these are some of the most technologically challenging sites to clean up. The stuff is very hazardous. It is very

difficult. The technology is not always there. It is a major project, and funding is a function, as well. I mean, we couldn't spend that kind of money——

Mr. SHAYS. Are these dangerous sites?

Mr. FRIEDMAN. Absolutely yes.

Mr. SHAYS. I'm going to do something here. I want counsel to explain to the committee what our jurisdiction is as it relates, because we're hearing basically overall—you know, our jurisdiction basically is what, as it relates to Department of Energy?

The COUNSEL. The Department of Energy is military nuclear programs and the civilian support offices that engage with the nuclear safety—military security programs.

Mr. SHAYS. In other words——

The COUNSEL. And the laboratories.

Mr. SHAYS. Anything else?

The COUNSEL. That's it.

Mr. SHAYS. OK. The bottom line for us, we asked for that jurisdiction given national defense concerns and so on, and our concerns with the fact that we oversee the intelligence community and we oversee terrorism.

You said the problem has been there for years. If we went back 20 years, we would have seen this as a problem if Inspectors General had written reports on it?

Mr. FRIEDMAN. Well, the environmental remediation problem——

Mr. SHAYS. Will go out in years, but what——

Mr. FRIEDMAN. But it basically started 60 years ago with the Manhattan project.

Mr. SHAYS. Fair enough.

I'd like to ask the same round of questions to Mr. Lieberman, and then I'm going to yield to Mr. Kucinich—not yield, give him the floor.

Most serious problem facing DOD? You understand why I let you go second, don't you? It is a little bigger here.

Mr. LIEBERMAN. I do, Mr. Chairman.

Mr. SHAYS. So I gave you plenty of time.

Mr. LIEBERMAN. All I can say is——

Mr. SHAYS. Don't look so surprised. [Laughter.]

Mr. LIEBERMAN. I hope the rest of your questions aren't as tough as the first one.

Mr. SHAYS. OK. We can take—which one has been around the longest? We can go backward?

Mr. LIEBERMAN. I believe that the inability to provide good financial information to managers has been around for at least 25 years.

Mr. SHAYS. It's such a mammoth Department. It has just been hard to get a handle on information systems, financial?

Mr. LIEBERMAN. Yes. And I think there was a trend that goes very far back—as a matter of fact, probably 25 years is conservative. And that trend was that financial reporting was considered a control mechanism strictly to make sure that people did on the spend more money than they were authorized to spend.

Mr. SHAYS. OK.

Mr. LIEBERMAN. And that was fine. That's a legitimate goal for financial managers. Unfortunately, the idea of capturing costs and providing timely financial management information for managers

to use in decisionmaking, in comparing the costs of different alternative ways of doing business, got lost many, many years ago and Defense spent millions of dollars designing several hundred financial reporting systems back in the 1960's and 1970's, none of which provided that kind of cost information.

Mr. SHAYS. OK. Let me ask you, what is the hardest or easiest problem to address—again, whichever one you want to do first.

Mr. LIEBERMAN. The easiest is probably the infrastructure problem, simply because that is a money problem.

Mr. SHAYS. OK.

Mr. LIEBERMAN. And we know how to do base closures. All we need is authorization to do them.

Mr. SHAYS. OK. And the hardest?

Mr. LIEBERMAN. The hardest—I think is a very close race. I do think that the financial management situation is not going to be fixed unless a completely different mindset takes hold within the Department, and that may well happen with the new administration that is looking very hard at this particular question.

Mr. SHAYS. What would be the other one that is close first?

Mr. LIEBERMAN. The Department's inability to acquire useful information systems, no matter what their purpose is.

Mr. SHAYS. OK. And the most serious problem facing the Department?

Mr. LIEBERMAN. I think the decline in military readiness is the most urgent problem.

Mr. SHAYS. And the least-serious problem? I mean, not that it is not a problem, but——

Mr. LIEBERMAN. Well, I think the infrastructure situation is bad. It gets worse every year. But it is tolerable.

Mr. SHAYS. OK.

Mr. LIEBERMAN. It is painful and it is a morale depressor, but you can live with that.

Mr. SHAYS. Thank you.

Let me do this. Let me recognize Mr. Kucinich. I do want to welcome Butch Otter from Idaho. Nice to have you here, and we'll get to your questions as soon as Mr. Kucinich is finished.

Mr. OTTER. Thank you.

Mr. KUCINICH. Thank you very much.

Good morning, Mr. Chairman. Good morning to our witnesses.

One of the concerns that I have in reviewing areas that relate to NNSA is the area of Presidential policy directives. Mr. Friedman, are you charged with oversight to see if Presidential policy directives are, in fact, being followed with respect to the proliferation or non-proliferation initiatives?

Mr. FRIEDMAN. Well, that is within our area of interest, yes.

Mr. KUCINICH. And are you familiar with Presidential Decision Directive 60?

Mr. FRIEDMAN. I am not.

Mr. KUCINICH. You're not? I'm very interested in whether or not that policy directive is being followed, and also the work that your office does with respect to monitoring the stability of systems which puts thousands of nuclear missiles on alert.

Now, do you—what kind of control do you have in a situation where we have intercontinental ballistic missiles that are on a ready alert status? What is your work in connection with that?

Mr. FRIEDMAN. Well, to the extent the Department of Energy is involved, Mr. Kucinich, and as a role in implementation or execution of a particular Presidential decision directive, it would not be unusual for the Inspectors General to take a look to review the implementation and see what steps are being taken. I'm just not familiar with PDD 60.

To give you one example, we recently completed a review of Presidential Decision Directive 63, which deals with the critical infrastructure. So it is not unusual to do this; I'm just not familiar with No. 60.

Mr. KUCINICH. OK.

Mr. FRIEDMAN. And I couldn't obviously speak to the role of the Department of Energy in implementation of that particular PDD.

Mr. KUCINICH. But you can speak to oversight in connection with NNSA?

Mr. FRIEDMAN. Yes.

Mr. KUCINICH. In your testimony, I believe you mentioned that among the major policy issues which confront NNSA is reducing the threat of nuclear proliferation and nuclear terrorism by helping to upgrade physical protection and material control and accounting system in nuclear facilities in the states of the former Soviet Union.

Mr. FRIEDMAN. Right.

Mr. KUCINICH. Do you have teams which go to those states on a regular basis and are involved in inspection?

Mr. FRIEDMAN. Well, the last review we did of that program was about a 1½ or 2 years ago, and we found weaknesses in the way the program was being implemented in the fact that all of the money that was being appropriated by the Congress was not achieving what we thought were the goals of the Congress when the money was appropriated.

Mr. KUCINICH. Are the weaknesses in effect oversight weaknesses, or are they weaknesses in the way the programs are being managed? Are they weaknesses in the sense of we're not seeing an effective diminishment of the role of nuclear weapons in these former states?

Mr. FRIEDMAN. No. If I recall correctly, really there were three or four components. One was that the government at the time was siphoning off tax money from the money that was being appropriated, which reduced the amount of money that was actually achieving the goal for which the program was established.

Second, the U.S. Government Federal oversight of the work that was being done, the management of the work that was being done was inadequate.

But we thought there was progress being made in a general sense.

Mr. KUCINICH. So do you then, in connection with the work in the former Soviet states, help to keep track of the weapons, themselves?

Mr. FRIEDMAN. We do not. No. To the extent that the U.S. Government and the Department of Energy is involved in that process, we would review the actions from time to time of——

Mr. KUCINICH. Storage of such materials?

Mr. FRIEDMAN. It includes storage. The basic program was designed to ensure that nuclear devices that were in those states were protected from terrorist or rogue states obtaining them as an anti-terrorism move around the world.

Mr. KUCINICH. Now, does your directive include chemical and biological weapons?

Mr. FRIEDMAN. It does.

Mr. KUCINICH. Do you have anything to say about that? I guess that could wait until the next——

Mr. SHAYS. You can continue.

Mr. KUCINICH. OK. I had a discussion with the former Russian premier, Serge Kurienko, recently. He is now Governor of one of the largest areas in the old Soviet Union, in Russia. He was expressing to me concern about the condition of 40,000 tons of chemical weapons which exist in Russia which present, as he called it, the potential for a world ecological disaster. He has asked for attention to be paid to this, and I wondered if, you know—and since Russia has these large stockpiles of chemical and biological weapons materials, what is being done with respect to the policy of the United States in trying to re-engage Russia and assist them in an effective disposition of these chemical weapons?

Mr. FRIEDMAN. Mr. Kucinich, I misunderstood your question and I didn't answer appropriately, so let me clarify what I intended to say.

The Department of Energy, to the best of my knowledge, does not have responsibility for overseeing or participating with the Russian program.

Mr. KUCINICH. OK.

Mr. FRIEDMAN. What we do, though, through our Defense labs and other labs, is undertake for the Department of Defense and others a comprehensive program to work with biological select agents, including anthrax and others, to find ways to detect it before it is used and to prevent its use and to treat soldiers in the field, or whatever the case might be, in the event it is used.

Mr. KUCINICH. OK.

Mr. FRIEDMAN. And we have looked at that within the last 2 years.

Mr. KUCINICH. OK. I will save that for another hearing, then.

Mr. Lieberman, we've heard some of the record associated with the Department of Defense's financial management, much of it put forth by your own Department, and last week we heard Mr. Walker of the GAO give the Department of Defense a failing grade in terms of financial management and indicated that they're probably worse than any other agency in this regard.

What is your assessment of those—of the financial management and inventory practices?

Mr. LIEBERMAN. I believe there are profound problems in the financial management area, not only with financial reporting but, as I said, with providing useful decisionmaking information, which in-

cludes inventory information, to those people who need to manage our supply chain.

Mr. KUCINICH. One of the things that Mr. Walker said that I thought was noteworthy was he said that the Department of Defense's strategic plan "is not tied to desired mission outcomes." Would you agree with that?

Mr. LIEBERMAN. We've not really looked at that. I am aware of a very extensive set of performance measures and goals that Defense has put into place in response to the Results Act. GAO has criticized that list of measures for the last few years, but the IG has really not been involved in it.

Mr. KUCINICH. OK. You also indicated that the Department of Defense "Employs overly optimistic planning assumptions in its budget formulation; thus, all too frequently has too many programs for the available dollars, and tough decisions in tradeoffs between needs and wants are avoided."

Would you agree or disagree with that statement?

Mr. LIEBERMAN. Well, it is a sweeping statement, but I think I would basically agree that there are too many programs chasing too few dollars.

Mr. KUCINICH. Right. Well, what he told us then is that the Pentagon—and these are points that were made—not only doesn't fully know what it buys with its money, and where those purchases are, but also assumes it has as much money to spend on whatever it wants without considering what it needs to fulfill its mission.

That was, in essence, what I got out of that hearing, Mr. Chairman.

I just wondered if you would have any comment on that possibility.

Mr. LIEBERMAN. I don't quite understand the last part of that formulation. Did he say that Defense assumes it has enough money to do anything?

Mr. KUCINICH. Well, I'm making an interpretation that it has as much money to spend on whatever it wants. That is kind of an assumption. There seems to be very little control there in terms of standard budgeting practices, and their wants seem to propel far ahead of what the needs of any particular department might be.

Mr. LIEBERMAN. Well, I wouldn't go quite that far. Defense does have a very sophisticated, complicated budget formulation system, and the Congress intensively reviews proposed Defense budgets, at least as intensively as it reviews any other department's proposed budgets annually.

Projecting Defense requirements is not an easy business, and it is true that the military services are constantly pushing for more-advanced technology. I don't think it—it's certainly not fair to say that Defense assumes that it is always going to get enough money to catch up with whatever requirements it postulates. On the contrary, a lot of the inefficient behavior I think we see in program execution is caused by chronic under-funding—that is, too many programs chasing too few dollars—and therefore you get a lot of programs being run, for instance, at inefficient production rates because they are not fully funded.

I think that the ongoing review of the basic assumptions about what we need to buy is going to straighten out a lot of the current

imbalance here between stated requirements and what is actually program.

Mr. SHAYS. Thank you. Thank you, Mr. Chairman.

If we have another round, I'd like to get back into some of these accounting questions. Thank you.

Mr. SHAYS. OK. Thank you.

Butch Otter, you have the floor.

Mr. OTTER. Thank you, Mr. Chairman.

I apologize for not being here for both of your formal remarks, but I have had a chance to scan them. I just have a couple of questions, and I think most of them are relative to national policy rather than any specifics. But it concerns me, reflecting back on Mr. Friedman—you mentioned the Manhattan project. One of the greatest failures of an otherwise successful program, the Manhattan project, was that, while everybody was enthusiastic and very aggressively working to make sure that Manhattan project worked and was successful, nobody was working on the circumstances of what would happen if it was successful, and so consequently we ended up in a cold war for a long, long time because we failed to control and failed to understand the aspects and the costs of stand-down of that same project.

It seems to me that we really lack any kind of institutional memory and institutional discipline for some of that, because I take a look at some of the nuclear power plants that were begun and built, never operated, shut down, cost a lot of money, still costing a lot of money. I know up in my country in the Pacific Northwest we built one that never got started. It never started up and still had billions of dollars price tag on it.

When we put the economy at risk, I think we risk the national security.

I'm wondering if we are developing, along with the aspects of—it seems now we have a very enthusiastic time to develop a national energy policy and what it means to the economy, what it means to national security, what it means to our lifestyle and our values system.

Are we also in the process of that, Mr. Friedman, in developing a national energy policy? Do we have the capacity to also measure the stand-down costs and the costs of what if our national energy policy works, No. 1?

And, No. 2, when we have these problems of shutting these facilities down and scrapping them, it seems like the largest and long-term cost of cleaning them up, whether it be through EPA's Superfund sites or stockpiling of strategic and dangerous materials, what happens to those costs, as well?

I know that is kind of a general cornucopia of problems, but I'd like you to speak to the national policy of standing down our strategic energy requirements some day.

Mr. FRIEDMAN. Well, I want to give you as precise a response as I possibly can. Our responsibility in terms of the Department's responsibility, I should say—and I'm not here speaking for the Department, per se—the Department's responsibility with regard to the commercial nuclear plants—and I assume that's what you are referring to, at least in part—clearly is to ultimately accept the

waste from those plants at Yucca Mountain in Nevada or at some other site hopefully at some point in the future.

With regard to the—my area of expertise, if you will, deals more directly with the nuclear facilities that were created as part of the weapons program and the stand-down associated with those plants. But I do have some personal views about the overall process. And I hope I am being responsive to your question.

Mr. OTTER. Yes, you are.

Mr. FRIEDMAN. Right now, as I understand the numbers, we depend upon nuclear energy for about 20 percent of our electricity needs. That number may be not quite right, but it is pretty darned close. And those plants clearly are—there is a trend that they are going offline because of age.

One of the issues that I understand that is being addressed under the task force that the Vice President is heading is how do we fill the gap, the void that exists when those plants do, in fact—when they are, in fact, shut down and we have a shortage of electricity as a result of that power plant not being in existence.

So I think that, as I understand the charge from the President to the Vice President and what the Vice President has done with regard to the Department of Energy is to address broadly all of the issues that exist, both in terms of fossil fuels and nuclear and the rest, and what will happen as we move forward into the future.

I don't know if that is responsive to your question. I hope so.

Mr. OTTER. I think that is responsive to my question, Mr. Friedman.

I guess I have one followup right now. Is there any way—scrap that. How many production plants, nuclear power plants, do we have shut down today, not as a result of antiquated technology and exhausting their productive capacity, but for any other reason other than the plant is no longer able to produce energy? How many megawatts of electricity?

Mr. Friedman. On the commercial side?

Mr. Otter. Yes.

Mr. Friedman. I really don't have the answer to that.

Mr. Otter. Who would have the answer to that? Is that an important answer for you to know?

Mr. Friedman. Oh, absolutely. Well, it's an important answer in the interest of public policy. It's an important question to ask and it's an important answer to know. That information is absolutely critical, and should be critical, I think, to the Vice President's task force.

Mr. Otter. Wouldn't you agree that the general comfort of the population is also in the interest of national security, and the comfort that they would have with a potential energy supply, or lack of same?

Mr. Friedman. Well, absolutely.

Let me give you one statistic that is not on the nuclear side. Our daily consumption of petroleum in this country is in the neighborhood of 17 million barrels a day, or 18 million barrels a day. And worldwide demand is about 70 million to 71 million barrels a day.

So you can see that, in terms of the security of this country, the financial strength of the country, the way of living in this Nation, energy policy is absolutely critical in terms of the disproportionate

amount of worldwide supply that we utilize in this country to sustain our economic strength and our ability, if you will.

Mr. Otter. OK.

Mr. Lieberman, the same question relative to the stand-down aspects. Have we got somebody working on what happens if our national defense policy does work?

You know, you talked about shutting down some of the defense plants, whether it's a base or whatever. Do we have a life expectancy? You know, in the private sector—I come from the private sector—when I build a potato french fry plant that produced 350 million pounds a year, I knew exactly how long the life of that plant was going to last. I knew exactly at what point I've got to quit adding equipment and just shut it down and order the tombstone. Do you do the same thing with our national defense plants?

Mr. Lieberman. As far as industrial facilities are concerned, most of that is private sector now. The old arsenal system was basically dismantled after World War II. There are still a few naval shipyards and Defense facilities that do maintenance and things like that.

I would say that on the average, nowadays the physical plant, age-wise, is far beyond whatever projections would have been made originally. It's very over-aged. The average of any building on a DOD base, whether it be a barracks, a mess hall or whatever, is over 40 years. Many of these facilities are antiquated. And there really is no systematic replacement policy, such as you would find in the private sector.

Mr. Otter. Should there be?

Mr. Lieberman. Yes, I think so, but that is a concept that is very hard to implement in practice.

Mr. Otter. Mr. Chairman, is my time up? No?

Let me just ask you one question. Relative to some stuff that you said before, that you've got too many project demands and, I understand, many of those are congressionally inspired, many of those are beyond your scope. I'm the new kid on the block here, but I still understand that.

If, indeed, you had a life expectancy of every program that you put into place, and the cost of taking it out of production, private sector today, many antiquated plants, any energy inefficient, people inefficient, regulation inefficient—are kept going because they have with them a historical right to produce. And to open a new plant, you may not get the permits to produce.

So is the Department of Defense in that same trap, between shutting down an old project and getting permission to start a new one, and so subsequently we run terribly inefficient, cost-ineffective operations?

Mr. Lieberman. Generally, yes. If you look at the base structure, the Department's own studies say that we have, like, 23 percent excess capacity. The same thing holds true for industrial capacity.

In the aerospace industry or whatever, we are paying contractors their overhead costs for maintaining facilities that we don't really need at the present time.

But it's very difficult to shut things down. To shut a base, we need to have special authorization from Congress, the base closure process, which is very painful. The department has put forward a

request with this year's budget for another round of base closures. And certainly, there is not universal consensus that's going to happen, because nobody wants their base closed in their state or their district. Everybody says, "Yes, you should reduce the number of bases, but don't close mine." So, it is difficult.

And also, when we field weapons systems, if we're talking about capital equipment, who would have ever thought the B–52s would still be flying today? I read an article just the other day about mechanics working on Navy F–14 Tomcat fighters that are 29 years old. They're older than the mechanics. Originally when that system was fielded, no one ever imagined that those airframes would be called upon to still be in service after they're, say, 20 years old.

But that's the name of the game nowadays is to deal with systems and facilities that are clearly over-aged and very maintenance intensive, very costly to operate. That F–14 requires 40 hours of maintenance team work for each hour that it flies, and it eats up spare parts at a horrendous rate.

Mr. SHAYS. Let me use that to go to my question.

Your statement on page 6, Mr. Lieberman, you say, "Despite some successes and continued promises from ongoing reforms, the business of creating and sustaining the world's most powerful military force remains expensive and vulnerable to fraud, waste, and mismanagement." And this is the point I'm interested in—"in fiscal year 2000, the DOD bought about $150 billion in goods and services, with $15 million purchasing actions." Excuse me, this is the part—"The Department currently is attempting to stretch its acquisition budget across 71 major programs, at an estimated cost of $782 billion, and 1,223 smaller programs worth $632 billion." That adds up to $1.4 trillion. Over what period of time is that looking to be spent?

Mr. LIEBERMAN. In some cases that would stretch out 8, 10 years into the future for a large system with a very long production life.

Mr. SHAYS. Are we over budget, based on that number? In other words, given the budget we have today, I mean, is that just—is that like a balloon that just doesn't have the money to pay for it?

Mr. LIEBERMAN. Those are costs that may or may not ultimately get funded, depending on how much money Congress appropriates for procurement in the future.

Mr. SHAYS. Well, what I'm going to ask you to do, I want to know how over-subscribed are we, you know, using this last sentence with the 71 programs and 1,223 programs. My understanding is that we are billions and billions of dollars over-subscribed, given that—you know, if you were just to add the cost of living to the programs for the budget that we would add each year, if we did that for the next 10 years how much more would we need to pay this? We have about $60 billion a year, I think what we do. So that's $600 billion over 10 years. And yet you're saying we have $1.4 trillion. Is that correct?

Mr. LIEBERMAN. Well, $60 billion is increasing. That's in future years. Even in your terms of future years it would be more than that.

Mr. SHAYS. So if you do $60 billion and you add cost of living each year—I mean, in other words, the budget basically rises by the—should, ideally, unless we're just looking to expand.

Mr. LIEBERMAN. Well, but, Mr. Chairman, there have been real increases above inflation in——

Mr. SHAYS. Well, I know there have.

Mr. LIEBERMAN [continuing]. The procurement budgets for——

Mr. SHAYS. And we'll go bankrupt if that continues. I mean, the fact that it has happened can't keep the—I mean, I could make the same argument and say we haven't had proper accounting in the Department of Defense for years, so that doesn't mean I want to have it continue. I don't want to see us keep adding well beyond the cost of living every year to any budget, as a general rule.

But you have answered my question. If I took and factored in a cost of living to $60 billion, you're telling me that in the next 10 years we'd need $1.4 trillion to do all these programs.

Let me ask you, is that a 10-year? Over 10 years is that accurate?

Mr. LIEBERMAN. Ten years is just a guess.

Mr. SHAYS. OK.

Mr. LIEBERMAN. I would imagine a few——

Mr. SHAYS. Let's do this.

Mr. LIEBERMAN [continuing]. Of those programs——

Mr. SHAYS. I don't need the answer today, but that's a project I'm interested in. I'm requesting that you give us a sense of, given all the different programs that are on the books and anticipating one or two that are going to be coming, what would we need to fund them over a cycle that makes sense, not stretched out so they become even more expensive. Well, either way.

Let me just ask you, what did you mean by "logistics death spiral", that's very catchy phrase?

Mr. LIEBERMAN. It is, and the former Under Secretary of Defense for Acquisition, Technology and Logistics coined that phrase. I didn't.

Mr. SHAYS. What does it mean?

Mr. LIEBERMAN. It means that the equipment that we have in the hands of the forces right now is becoming more and more costly to maintain, harder to maintain, breaks more often, is more frustrating for the mechanics to deal with, and these logistics costs are steadily rising, which is unfortunate because the Department needs to save money in the logistics area so that it can apply those savings to modernization of the equipment, buying new equipment.

So we're caught in a trap. In order to maintain what we have out there in operational status, we have to spend an awful lot of money; therefore, we can't afford to replace it with new equipment.

The new equipment always costs more than the old equipment. In the case of aircraft, for example, several times more. That's——

Mr. SHAYS. I understand. What are the most significant open Office of Inspector General recommendations DOD has not addressed?

Mr. LIEBERMAN. I'd like to go back and think about that a bit, Mr. Chairman, and give you a list.

Mr. SHAYS. Yes. That's important to us. If you've made recommendations that are being ignored or they haven't made any progress, we'd like to know.

Mr. LIEBERMAN. We did provide a list of some of those in our December 1st letter to the congressional leadership, but that's a few months out of date, so I want to update it.

Mr. SHAYS. Why don't you. So you'll followup on that?

Mr. LIEBERMAN. Yes, sir.

Mr. SHAYS. Mr. Kucinich. And then we'll get to the next panel.

Mr. KUCINICH. Thank you very much, Mr. Chairman.

As the chairman was speaking, I was handed a page out of the December IG report, which says, "There needs to be a far-reaching re-balancing of acquisition programs to match available funding. That sounds like a modest statement. And it also goes on to say that, "We reported in June 2000, that, of 17 major weapons acquisition programs approved, the key development milestones between March 1996, and July 1999, 14 programs lacked clearly defined open system design objectives of strategy for achieving such objectives." That's the IG report. That seems to coincide with what Mr. Walker said before this committee, this subcommittee, last week.

Now, because I understand that GAO and the IG office have distinct missions, and sometimes you don't always—you may work parallel, but you don't always know what each other is doing, I wanted to share with you some of the observations that he made that may reflect, Mr. Chairman, on the issue of a logistics death spiral, because he said, "For example—" and this is a direct quote—"in the logistics area they may have the item. They may not know where it is or they may not know how many they have. Now, what's the result of that? They may order it when they don't need it. They may not be able to access it when they need it for operational purposes. We're not talking about small sums of money; we're talking about significant sums of money here. With regard to financial management, it is a basic tenet of accountability. The Department of Defense is provided over $300 billion a year. That's taxpayer money. There needs to be accountability over the use of that money, and there is a fundamental problem at DOD with regard to that."

He also went on to state something that I think needs to be reviewed, and that is with respect to the accounting system, itself, and how it is very difficult to be able to keep track of the equipment, and also that it is very difficult to be able to keep track of $1 out of every $3.

He showed us an accounting schematic which was fairly incomprehensible, and he talked about how the Department of Defense could not match $22 billion worth of expenditures to the items they purchased.

He talked about how the Navy had no financial information on $7.8 billion of inventory aboard ships and that it wrote up as lost $3 billion worth of in-transit inventory.

He also mentioned that in May 2000 a GAO report found that the DOD had nearly $37 billion of equipment it didn't need. In March 2000, the DOD Inspectors General reported that, of $6.9 trillion in Pentagon accounting entries, $2.3 trillion were not supported by enough evidence to determine their validity.

Now, sir, respectfully, that doesn't square. Those reports do not square with statements that suggest that the Department of De-

fense just needs more money to handle all the programs that it has.

Mr. LIEBERMAN. I've never made such a statement. I hope nothing I have said has been interpreted as saying all the Department needs is more money.

The Comptroller General's particulars there draw heavily from our reports. And I do agree, in general, with the GAO testimony.

In the list of the top 10 problems that I just ran down, I included, for example, not only financial management, but supply inventory management. When I talk about poor supply chain management, I'm talking about not knowing what we have where and not getting it to whoever needs it in an efficient manner.

There has been a chronic problem for years in keeping track of the many millions of different types of parts and supplies that Defense uses. We're not talking about a small operation that only has a few hundred different types of inventory items; we're talking about many millions of just spare parts, many million different kinds of items. It is a tough problem, and Defense has a long way to go.

You are absolutely right. For instance, inventory accuracy is a serious problem.

Mr. KUCINICH. Mr. Chairman, is that——

Mr. SHAYS. That's it. We have two——

Mr. KUCINICH. OK. I just had one final comment, if I may.

According to information staff has provided, it says that the Department of Defense has ignored the Inspectors General based on recommendations and completed recommendations, that your recommendations are ignored about 82 percent of the time.

Mr. LIEBERMAN. That's absolutely wrong.

Mr. KUCINICH. What percent of the time are they ignored?

Mr. LIEBERMAN. It's 4 percent.

Mr. KUCINICH. OK. So then if they are ignoring it only 4 percent of the time, how do you end up with not being able to keep track of $1 out of every $3? That's my question.

Thank you, Mr. Chairman.

Mr. SHAYS. The answer to the question is that some are bigger than others. Some are much bigger.

Mr. LIEBERMAN. That's certainly part of it. And also the Department agrees to do things that everyone agrees will take a while to get done. There are not instant fixes to a lot of these problems.

Mr. SHAYS. So, in other words, some are totally ignored and others are attempted to be dealt with, but——

Mr. LIEBERMAN. Let me clarify exactly——

Mr. SHAYS. No. I don't want——

Mr. LIEBERMAN. The 96 percent means they agree with our recommendation.

Mr. SHAYS. OK.

Mr. LIEBERMAN. And agree to try to implement it. Some of those are implemented immediately because they are easy. Others take years because the recommendation may be, for example——

Mr. SHAYS. Let me——

Mr. LIEBERMAN [continuing]. We need a whole new system.

Mr. KUCINICH. Mr. Chairman, I just have, for the record, some analyses of financial management recommendations and acquisi-

tion and security concerned recommendations that were made, and which ones were followed and which ones weren't.

Thank you, Mr. Chairman.

Mr. SHAYS. Yes. And the bottom line is their financial management is worse than bad, and you would acknowledge that. And it is pretty deplorable that we, as a Congress, haven't demanded that they make better progress, and I know that you have been eager to see that happen.

I'm just going to quickly mention that you did a report on the blood supply and pointed out that next year over 50 percent of the blood supply will be over 20 years old and we don't allow blood over 10 years old in the commercial marketplace, so we obviously have a double standard there.

The other concern I would just say to you is that, given this committee's staff when we were a different committee did a great deal on the safety of the blood supply. If we're going back 20 years some of that could be infected blood supply. I'd just raise a point of concern to you.

Just one last question to you, Mr. Friedman. Why is DOE doing chemical biological defense research?

Mr. FRIEDMAN. Well, it primarily is part of the non-proliferation efforts that are within the Department's mission. It is also doing a great deal of work under work for other programs for the Department of Defense and other Federal agencies.

Mr. SHAYS. So are you saying it's a Federal mandate, or they just began——

Mr. FRIEDMAN. No, I wouldn't say it is a Federal mandate. What I'm saying is that the Department's laboratories—the Department of Energy, Mr. Chairman, does about $6 billion——

Mr. SHAYS. Let me be more blunt.

Mr. FRIEDMAN. Yes?

Mr. SHAYS. Are they being asked to do it in part so we keep these labs operating? I mean, is this somewhat of a make-work effort?

Mr. FRIEDMAN. The total amount of money being expended in this area in biological select agents, as I understand it, is about $7 million a year or $8 million a year. It is an insignificant amount of the $1 billion a year budgets of the large defense labs, so I don't think that's the case.

Mr. SHAYS. OK.

Well, Mr. Friedman, it is nice to have you here. You are kind of a new Inspector General to this committee and I appreciate your being here.

Mr. FRIEDMAN. Thank you very much.

Mr. SHAYS. I know you have other committees to report, as well.

Mr. Lieberman, always good to have you back. We appreciate the work that both you and your staff do. Thank you.

Mr. LIEBERMAN. Thank you.

Mr. SHAYS. Our next panel is comprised of three Inspectors General: Richard Griffin, Department of Veterans Affairs; Ms. Roberta Gross, National Aeronautics and Space Administration [NASA]; and Mr. Richard Skinner, Federal Emergency Management Agency [FEMA].

If you'd come and remain standing we'll swear you in.

If you'd raise your right hands.

[Witnesses sworn.]

Mr. SHAYS. Note for the record all three of our witnesses have responded in the affirmative.

It is very nice to have you here. I think it worked well to have summaries of your testimony. At least the first two panelists did it quite well.

So I guess, Mr. Griffin, we'll start with you.

STATEMENTS OF RICHARD J. GRIFFIN, INSPECTOR GENERAL, DEPARTMENT OF VETERANS AFFAIRS; ROBERTA L. GROSS, INSPECTOR GENERAL, NATIONAL AERONAUTICS AND SPACE ADMINISTRATION; AND RICHARD L. SKINNER, DEPUTY INSPECTOR GENERAL, FEDERAL EMERGENCY MANAGEMENT AGENCY

Mr. GRIFFIN. Mr. Chairman and members of the subcommittee——

Mr. SHAYS. Let me just interrupt to say I have a meeting with the Speaker, so I am going to go out for a little bit and come back. Mr. Kucinich I will have working the hearing, and then I'm going to get back in time, I think, to ask some questions, as well. But please don't be offended if I leave for a little bit.

Thank you.

Mr. GRIFFIN. Mr. Chairman and members of the subcommittee, I am pleased to be here today to discuss major performance and management challenges facing the Department of Veterans Affairs and to highlight the contributions of the Office of Inspector General in combating crime, waste, fraud, and abuse in the Department.

Last November I responded to Chairman Burton's request for the Office of Inspector General views on the top 10 most serious management problems in the Department. Today I will discuss and briefly highlight recent activities of my office, focusing on four of these issues: quality health care, claims processing, inappropriate benefit payments, and VA consolidated financial statements.

Monitoring the quality of health care continues to be a top priority for my organization. To monitor the quality of VA's evolving health care delivery system, we developed combined assessment program reviews in 1999. A CAP review combines the skills and abilities of our major components to provide collaborative assessments of medical facilities. CAP review findings provide facility managers recommendations to improve the quality and delivery of care.

In fiscal year 2000, we completed 18 medical center reviews. Some of the CAP findings include inadequate staffing in nursing and pharmacy, lack of secure medication storage, lengthy waiting times, and patient safety issues. There is a direct correlation between quality of health care and patient safety. All of these issues contribute to increased patient risk.

Unfortunately, we have investigated incidents where health care providers have violated their sacred trust to care for our veterans. One specific case was the successful investigation and prosecution of Dr. Michael Swango for the murder of three veterans. Swango was hired by the State University of New York and worked as a resident in the Northport VAMC. Following a long and complex in-

vestigation, Swango was charged with three murders. He subsequently pled guilty and was sentenced to three life terms without the possibility of parole.

While successful criminal prosecutions are critically important, they reflect only one aspect of our mission. The strategic focus of our proactive health care reviews is to identify both best practices and vulnerabilities and to make recommendations for change to prevent incidents from occurring.

A second issue is claims processing. VBA continues to struggle with timeliness, accuracy, and quality of claims processing, particularly in the compensation and pension program. VBA faces high workload backlogs, unacceptable claims form processing times, and a high error rate.

Now, if we recognize that VBA's backlog was impacted by legislation mandating the duty to assist, the presumptive rating for diabetes, and an increase in the number of disabilities claimed by each veteran, which increases the time to adjudicate claims.

With the pressure to improve timeliness and reduce the backlog of claims, the potential is great for overlooking or ignoring appropriate internal controls; however, the purpose of these controls is to reduce the incidents of waste, fraud, and abuse.

We've worked closely with VBA to identify internal control vulnerabilities. Based on our findings, we have launched an initiative to do reviews of all the VBA regional offices on a cyclical basis.

A third issue involves the need for VBA to take a more active and aggressive role to identify inappropriate benefits. OIG audits and investigations have identified situations indicating that the appropriateness of compensation and pension payments is not always adequately addressed. For example, we have identified $61 million in over-payments to VA beneficiaries who were receiving dual compensation for compensation and training and drill pay as reservists; $170 million to incarcerated veterans whose benefits have not been cut; and to date $3.9 million in benefits that have been paid to deceased beneficiaries.

On a final note, we recently issued our report on the VA consolidated financial statements for fiscal year 2000. For the second consecutive year, the VA has received an unqualified opinion on the consolidated statement. This year's report, however, continues to identify information technology security controls as a material weakness and adds integrated financial management system and control issues as a new material weakness.

Mr. Chairman, this concludes my statement. I will be pleased to respond to any questions you or any other Member may have.

Mr. SHAYS. Thank you.

[The prepared statement of Mr. Griffin follows:]

STATEMENT OF THE
HONORABLE RICHARD J. GRIFFIN

INSPECTOR GENERAL
DEPARTMENT OF VETERANS AFFAIRS

BEFORE
THE UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON NATIONAL SECURITY, VETERANS AFFAIRS, AND INTERNATIONAL RELATIONS

HEARING ON VULNERABILITIES TO WASTE, FRAUD, AND ABUSE

MARCH 15, 2001

Mr. Chairman and Members of the Subcommittee,

I am pleased to be here today to discuss major performance and management challenges facing the Department of Veterans Affairs (VA) and to highlight the contributions of the Office of Inspector General in combating waste, fraud, and abuse in the Department.

Last November, I responded to Chairman Burton's request for the Office of Inspector General views on the ten most serious management problems in the Department. These issues are listed below:

- Health Care Quality Management and Patient Safety
- Resource Allocation
- Claims Processing, Appeals Processing, and Timeliness and Quality of Compensation and Pension (C&P) Medical Examinations
- Inappropriate Benefit Payments
- Government Performance and Results Act (GPRA) - Data Validity
- Security of Systems and Data
- VA Consolidated Financial Statements
- Debt Management
- Workers Compensation Costs
- Procurement Practices

Today, I will discuss and briefly highlight recent activities of my office focusing on four of these issues:

- Quality Healthcare and Patient Safety
- Claims Processing
- Inappropriate Benefit Payments
- VA Consolidated Financial Statements

Quality Healthcare and Patient Safety

Monitoring the quality of health care continues to be a top priority for my organization. Our recently published Strategic Plan for 2001 - 2006, includes the following goal:

> Improve veterans' access to high quality and safe health care by identifying opportunities to improve the management and efficiency of VA's health care delivery systems; and by detecting, investigating, and deterring fraud and other criminal activity.

To monitor the quality of VA's evolving health care delivery system, we developed Combined Assessment Program (CAP) reviews in 1999. A CAP review combines the skills and abilities of our major components to provide collaborative assessments of medical facilities. They provide an independent and objective assessment of key operations and programs on a cyclical basis. CAP review findings provide facility managers recommendations to improve the quality and delivery of care. In FY 2000, we completed 18 medical center reviews. Some of the CAP findings include:

- Inadequate staffing in nursing and pharmacy
- Lack of secure medication storage
- Lengthy waiting times
- Patient safety issues

There is a direct correlation between quality of health care and patient safety. All of these issues contribute to increased patient risk. Unfortunately, we have investigated incidents where health care providers have violated their sacred trust to care for our veterans.

One specific case was the successful investigation and prosecution of Dr. Michael Swango for the murder of three veterans. Swango was hired by the State University of New York and worked as a resident in the Northport VAMC. Following a long and complex investigation, Swango was charged with three murders. He subsequently pled guilty and was sentenced to three non-concurrent life terms without the possibility of parole.

During FY 2000, we investigated other cases involving patient abuse, theft, diversion of pharmaceuticals, the possession and sale of illegal drugs, embezzlement, assault and threats against VA employees. These cases are summarized in our Semiannual Report to Congress.

While successful criminal prosecutions are critically important, they reflect only one aspect of our mission. The strategic focus of our proactive health care reviews is to identify both best practices and vulnerabilities and to make recommendations for change to prevent an incident from occurring.

Claims Processing

VBA continues to struggle with timeliness, accuracy and quality of claims processing, particularly in the compensation and pension (C&P) program. VBA faces high workload backlogs, unacceptable claim processing times, and a high error rate. We recognize that VBA's backlog was impacted by legislation mandating the "duty to assist," the presumptive

rating for diabetes, and an increase in the number of disabilities claimed by each veteran, which increases the time to adjudicate claims.

Our 2001 - 2006 Strategic Plan includes the following goal:

> Improve the delivery of benefits and services by identifying opportunities to improve the quality, timeliness and accuracy of benefits processing; and reduce fraud in the delivery of benefits through proactive and targeted investigative efforts.

With the pressure to improve timeliness and to reduce the backlog of claims, the potential is great for overlooking or ignoring appropriate internal controls. However, the purpose of these controls is to reduce the incidence of fraud, waste, and abuse.

Following the disclosure of three employee embezzlement cases resulting in a loss of nearly $1.3 million, my Audit group conducted a study of claims processing internal controls. In June 1999, we issued "Management Implications of Employee Thefts from the C&P System, and Observed Internal Control Vulnerabilities." This study included a listing of 18 internal control vulnerabilities.

We performed an audit of the St. Petersburg VA Regional Office, one of VA's largest benefits offices, to test the 18 vulnerabilities. In July 2000, we issued our audit report that confirmed the presence of 16 of the 18 categories of vulnerability.

In FY 2000, we expanded our Combined Assessment Program to VBA. Based on our June 1999 list of vulnerabilities and subsequent meetings with VBA management representatives, we initiated a cyclical review of VA regional offices.

On February 2, 2001, we issued our first CAP report on a VA Regional Office. Areas reviewed which require greater management attention include: strengthening controls over C&P claims processing timeliness, processing of returned mail; C&P benefit overpayment prevention efforts; automated information systems; and veteran-employee records security.

The cyclical review of VA regional offices now complements our CAP reviews of VA medical centers. At our current staffing level, we will achieve a 6-year review cycle. Based on funding of future staffing requests, we hope to achieve a 3-year review cycle.

Inappropriate Benefit Payments

VBA needs to take a more active and aggressive role to identify inappropriate benefits. OIG audits and investigations have identified situations indicating that the appropriateness of C&P payments is not adequately addressed.

Dual Compensation of VA Beneficiaries

A review of VBA procedures in place to ensure that the disability compensation benefits of active military reservists were properly offset from their training and drill pay, found that procedures to prevent dual compensation need to be improved. We found that 90 percent

of the potential dual compensation cases reviewed had not had their VA disability compensation offset from their military reserve pay. We estimated that dual compensation payments of $21 million were made between FYs 1993 and 1995. Further, if this condition was not corrected, estimated annual dual compensation payments of $8 million would continue. Dual compensation payments have occurred since at least FY 1993 because procedures established between VA and the Department of Defense (DoD) were not effective, or were not fully implemented

Payment to Incarcerated Veterans

Our review of benefit payments to incarcerated veterans found that VBA officials did not implement a systematic approach to identify incarcerated veterans and dependents, and adjust their benefits as required by Public Law 96-385. A prior audit conducted in 1986 found that controls were not in place to cut off benefits to veterans when they were incarcerated. In that audit, we recommended a systematic approach be applied, but actions were not taken to implement the recommendations in the 1986 report.

Our more recent evaluation included a review of 527 veterans randomly sampled from the population of veterans incarcerated in 6 states. Results showed that VAROs had not adjusted benefits in over 72 percent of the cases requiring adjustment, resulting in significant overpayments. Projecting the sample results nationwide, we estimate that about 13,700 incarcerated veterans have been, or will be, overpaid about $100 million. Additional overpayments totaling about $70 million will be made over the next 4 years to newly incarcerated veterans and dependents if VBA does not establish a systematic method to identify these prisoners.

Our recommendation that VBA enter into a matching agreement with the Social Security Administration (SSA) for prison records was recently implemented. However, our recommendations that VBA (i) identify and adjust the benefits of incarcerated veterans and dependents, (ii) establish and collect overpayments for released veterans and dependents that did not have their benefits adjusted, and (iii) establish a method to ensure VAROs process identified cases timely and properly adjust benefits, are all unimplemented.

Payment to Deceased Beneficiaries

A February 1998 audit of VBA's current procedures to terminate beneficiary C&P benefits based on information about veterans' deaths received from SSA, found that VBA needs to develop and implement a more effective method to identify deceased beneficiaries and to timely terminate their C&P benefits. Based on information about veterans' deaths received from SSA, audit results showed that, only 156 of a sample of 281 veterans reported by SSA as deceased were, in fact, deceased. C&P benefit awards for 42 of 156 deceased claimants were (i) still running; (ii) had incorrect termination dates; or (iii) had incorrect suspense dates. We estimated approximately $3.9 million in erroneous payments were made throughout VBA.

VA reports that VBA's Master Veteran Record project is providing Notice of Death transactions to VA components by sending C&P extracts to the Master Veteran Record National Data Broker. Also, VBA has allocated the funds necessary to accomplish additional improvements.

Consolidated Financial Statement

On a final note, we recently issued our report on the VA consolidated financial statements for fiscal year 2000. For the second consecutive year, the VA has received an unqualified opinion on the consolidated statement. This year's report, however, continues to identify information technology security controls as a material weakness and adds integrated financial management system and control issues as a new material weakness. The report also discusses three other reportable conditions that, while not considered material weaknesses, are significant system or control weaknesses that could adversely affect the recording and reporting of the Department's financial information. These reportable conditions address the need for improving application programming and operating system change controls, business continuity and disaster recovery planning, and operational oversight.

Mr. Chairman, this concludes my statement and I will be pleased to respond to any questions you or the committee may have.

Mr. SHAYS. Ms. Gross.

Ms. GROSS. Good morning. Thank you for the opportunity to be able to comment on the management challenges facing NASA.

Our audits, investigations, and inspections cover the full range of NASA activities, and that covers exciting, unique programs like the international space station, to the more mundane but important areas of fiscal control and procurement, and, likewise, the key challenges to NASA's well-being range from very unique challenges to get low-cost launch vehicles so that we can explore space and make it common, like flying across the country, to more common, everyday tasks that need to be attended to—again, fiscal management and procurement.

Today I am going to discuss some of these key management challenges. The first one I am going to start with is safety. The NASA administrator correctly established safety as the agency's No. 1 value. NASA programs work in a very hostile environment of space—high-speed technology, cutting-edge environments. And in those high-risk environments, safety does need to be a No. 1 concern.

Many of you probably remember what happened after the "Challenger" incident. NASA basically shut down operations for 2 years while it re-examined itself. Safety has to be a priority.

Since 90 percent of NASA's dollars, or approximately 90 percent of NASA's dollars, go to the contracting community, we put a lot of attention, both from audits, reviews, and investigations, on the contractor community. One of the things we found was that NASA was being very proactive in starting affirmative programs for its future contracts, but did not go back and examine earlier contracts, which are very large, consolidated contracts going from multi years and multi million dollars to make sure those contracts had appropriate safety clauses and oversight by our safety personnel.

For example, when we looked at a number of contracts at Kennedy Space Station and Marshall, we found something like 60 percent of those contracts did not have required safety provisions in them.

Now, initially NASA had not concurred with going back and looking at the contracts. They said, "We'll look to future contracts." And the NASA administrator, who set safety as the No. 1 priority, correctly said, "We're going to look at those contracts and prioritize those."

In terms of our Office of Criminal Investigations, we prioritize safety, also. We look at contracts and we look at quality assurance issues that have to do with product substitution and false certifications, and we work with other agencies on those, and U.S. attorneys and the Department of Justice also prioritized those safety implications. Where NASA is at risk because of safety, we vigorously pursue those, as well as the Department of Justice.

The second priority challenge for NASA is information technology security. It has been a priority for my office. I was the first Inspector General to have the computer crimes unit. We also have a very aggressive audit program, as well as inspection group.

It is also a congressional priority—that is, we just recently have enacted the Government Information Security Reform Act, whereby

there's a lot of prioritization put on OMB, heads of agencies, and CIOs, as well as Inspectors General to prioritize IT security.

One place where we see it doesn't seem to be such a priority at all times is at NASA, and so we continuously have placed that as a high risk material weakness.

There's often a lot of no-cost, low-cost management techniques that NASA could use and does not use to help protect its critical infrastructure, as well as its information techniques.

We have found major problems in fragmented responsibilities. There's 10 NASA centers. There's 10 NASA CIOs. They don't report to the agency CIO. So you have people doing things without accountability.

We also have a lack of basic controls to protect mission-critical information systems, and we have many, many audits on that.

We have problems in hiring and training employees with specialized IT skills, including missing background checks when we do hire people to make sure that, in fact, No. 1, they are Americans, and, No. 2, if they are not, that they have had a background check.

We find weaknesses in very basic physical security controls—that is, just the environments. Are doors closed? Are locks implemented? Are passwords locked? That's No. 2.

No. 3 challenge is our international agreements. Knowledge and space have no boundaries, and they both continually expand, and that's what is exciting about working at NASA. And international agreements—NASA has something like 3,500 international agreements—bring a lot of capacity and a lot of opportunities for NASA, but it also brings some risks in all of how it does business.

For example, if you have critical paths, like with the international space station, and you are relying on international partners, that can create some problems. We did have cost overruns and we had delays because of issues associated with Russia and its internal politics and its ability to have funding for some of the commitments that they made.

We also have found in both our audits and reviews that we have a lot of foreign visitors, and that is important for NASA. NASA is a civilian space agency. It has both a national and international mission. We work with universities. We work with international companies.

On the other hand, we also have a lot of interesting technology that needs to be protected, and the NASA administrator has responsibilities under the Space Act to make sure of protecting national security interests.

Some of our audits have found that we can do better in foreign visitors and the security of that and making consistent policies. We can do better on our export control program.

To NASA's credit, they have stood up to the plate when we've made these recommendations and pointed these out.

One area of interest, I think, to the committee is we had looked at funding of some space research. NASA had funded a lot of Russian space research in order to give some employment to some of these scientists that were no longer working under the state. We don't want them working for other countries doing things that could be hurtful to our own national security.

One of the projects that was identified was funding for researchers associated with labs called Bioprepret. They used to do the biochemical warfare research for Russia. While the State Department is aware of this—we informed them of that, and one of the things they recommended is that NASA take vigilance on how we watch to see that that research is not being used in a dual manner, and we found that, in fact, we didn't put enough internal controls in there. NASA then has concurred that they will be much more vigilant when they give grants to foreign countries, particularly those that may not have always been aligned with our interests.

Another big issue for NASA, of course, is launch vehicles. Probably most people's memory of NASA is the space shuttle going up in a launch, one of the most dramatic views, I think, that we can see on television. It got reinforced, I think, by John Glenn's historic flight. I think that made Ohio very proud, I'm sure.

Indeed, we renamed the center after Glenn. It is now, instead of Lewis Center, the Glenn Center.

But one of the problems for NASA is that the space shuttle is very expensive because it is a human rated system. It is also very old. I mean, previous comments have been about old systems in the military. It is well over 25 years, and we are projecting it to go for another 10 to 12 to 15 years. We need to have cheaper, more accessible access to space, and that's a major problem for NASA and for the commercial launch industry.

We've had difficulties in some of the technologies applied for experimental launch vehicles, and that's a major problem for NASA—how it does its procurement and its oversight on launch vehicles.

Finally, in terms of program project management, one of the things I think that is important and is a key project management indicator is whether we have an independent cost assessment capability. If you don't have somebody you can look to as the managers, not always look to the IG or GAO or Congress, you have got to have an independent estimation and assessment capability to tell you whether or not you are being realistic in your cost projection, in your milestones, whether you are meeting your milestones, and whether or not you need to reevaluate whether you need to despoke or shut down a project. That's a major concern.

We've done a number of reviews, but we don't think that NASA has created truly an independent cost assessment capability, and that's a major concern, from our perspective.

I thank you for the opportunity and would welcome any questions.

Mr. SHAYS. Thank you. Thank you, Ms. Gross.

[The prepared statement of Ms. Gross follows:]

Statement of
ROBERTA L. GROSS
Inspector General
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

Before the
HOUSE SUBCOMMITTEE ON NATIONAL SECURITY, VETERANS AFFAIRS, AND INTERNATIONAL RELATIONS

March 15, 2001

Mr. Chairman and members of the Committee,

I thank you for the opportunity to be here today to discuss key management issues at NASA.

The Office of Inspector General (OIG) conducts audits, investigations, inspections, and assessments over the full range of NASA activities, from exciting unique programs like the International Space Station (ISS), to less glamorous—but still important—subjects such as outsourcing and oversight of cooperative agreements. The key management challenges confronting NASA likewise range from unique problems, such as determining an effective strategy for lowering the cost of space launches, to everyday issues of procurement and fiscal management.

Today, I will highlight some of these key management challenges. I will also update you on the Agency's performance and accountability measurements and goals under the Government Performance and Results Act.

Safety

The NASA Administrator established safety as the Agency's number one value. In the high-risk environments in which NASA works, safety must be a significant priority if the Agency is to successfully accomplish its missions. In particular, space is an unforgiving environment. As a result, we are emphasizing safety-related audits, reviews, and investigations.

Contractor safety
Since NASA distributes approximately 87 percent of its funding to contractors, any comprehensive Agency safety effort must necessarily include contractors. In 15 of 25 (60%) contracts we reviewed, however, we found that NASA was not applying existing basic safety provisions (such as including mandatory contract safety clauses, requiring contractor safety plans when the contract was awarded, and ensuring that NASA safety offices were involved in the procurement process). As a result of these omissions, NASA contractors, including some involved in hazardous operations, may not be sufficiently protected. We recommended that NASA identify all open contracts that either involve

potentially hazardous operations or exceed $1 million and determine whether those contracts have required safety clauses and contractor safety plans. The Administrator personally directed the Agency to implement our recommendations and the Agency is taking steps to comply.

In response to a Congressional request, we reviewed the contract and operations of the Kennedy Space Center (Kennedy) payload ground operations contractor (Boeing) to determine whether (1) safety responsibilities between Boeing and NASA were clearly defined; (2) hazardous materials were being used in Kennedy's processing facilities; and (3) hazardous materials were properly controlled. We found that ground workers were using potentially hazardous materials without exercising proper control and safety precautions. Improper use of these materials is hazardous to ground workers and increases the risk of damage to Space Shuttle payloads, including International Space Station hardware and equipment. We recommended that NASA increase surveillance of the Boeing safety office's compliance with inspection procedures and direct Boeing to analyze its use of materials that do not meet requirements for flammability and electrostatic discharge. Management concurred with our recommendations and has implemented a number of procedures to control the use of these noncompliant materials. However, in an ongoing audit, we are finding similar problems with potentially unsafe materials used by United Space Alliance's[1] shuttle processing operations.

Product safety and reliability

Our Office of Criminal Investigations works to improve safety at NASA by investigating and prosecuting cases where dishonest companies supply inferior parts for aircraft or space systems. Just last month, an Oklahoma company pled guilty to two counts in such a case. The company, a subcontractor to Boeing, contracted to produce aluminum battery alignment guides that will be used by astronauts to replace batteries on the International Space Station (ISS). The company made unauthorized welds to repair their manufacturing errors and attempted to hide the welds. Sentencing for the company is scheduled for May 25, 2001. In a case worked in cooperation with the Defense Criminal Investigative Service, we investigated a California company that provided parts for the Shuttle, ISS, and commercial and military aircraft. The investigators found that the company was not properly heat treating parts, causing the parts to be weaker than required. The company was fined $1.6 million and the company's general manager was sentenced to 55 months in prison.

In another case, we investigated a Florida company that sold fasteners to NASA and Department of Defense contractors and certified that they met military standards and specifications, when in fact they did not. The company's owner was sentenced to 18 months incarceration.

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[1]The United Space Alliance (USA) is a Boeing /Lockheed Martin joint venture responsible for day-to-day operations of the Space Shuttle.

To ensure safety in future NASA operations, we will continue to assess whether NASA is:

- properly training staff who conduct safety reviews and evaluations,
- ensuring that workers are aware of safety standards and regulations,
- maintaining adequate safety reporting systems,
- appropriately justifying, reviewing, and approving any variances to standard safety procedures,
- maintaining an effective emergency preparedness program, and
- appropriately protecting the crews of the Space Shuttle and the ISS.

International Space Station

The International Space Station (ISS) is currently being assembled in Earth orbit. The ISS is intended to serve as a long-duration orbital residence and laboratory. Six major elements of the ISS and a total of three NASA and Russian crewmembers are now in orbit. Additional ISS elements are on the ground awaiting launch. Some of the key issues we see facing NASA in this program are:

Russian logistics
The ISS program relies upon Russian vehicles to transfer crews and fuel to the station and to provide a crew rescue capability. Russia's ability to sustain ISS operations, however, remains a major concern. When NASA has paid Russia to provide ISS elements, Russian performance has been adequate. However, due to lack of funding, Russia's ability to fund its own contributions to the station remains in doubt. The President's recent blueprint for the FY 2002 budget (which may result in the termination of the propulsion module[2] and the Crew Return Vehicle) ensures that Russia will be supplying critical elements for the ISS for many years to come. We plan to monitor the situation and conduct in-depth reviews as necessary.

Barter arrangements
We are concerned about NASA's use of barter arrangements with its international partners in the ISS program. These arrangements allow the participants to trade elements of the program among each other without exchanging funds. (For example, the United States is launching some foreign-built ISS modules on the Shuttle in exchange for the rights to use those modules' research facilities.). While there are positive benefits to all parties involved in the barter, these agreements often escape internal or other oversight. They may solve short-term problems, but these solutions might not be in the best long-term interest of the nation. We reviewed one barter arrangement last year,[3] and plan to conduct a more wide-ranging review of ISS barter arrangements later this year.

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[2]Our draft report on the propulsion module recommended that NASA cancel the module due to its increased estimated cost.

[3]In response to a Congressional request, we reviewed the proposed airborne ISS Crew Medical Transport (available 24 x 7) and found that NASA was involved in a complex barter arrangement with a Japanese company to procure an aircraft. However, the Agency had not conducted a thorough assessment to determine whether the aircraft was the most effective means of meeting the Agency's needs.

Cost growth
The cost of assembling and operating the ISS is another major concern. Our review of ISS contract performance management found that the ISS prime contractor (Boeing) reported unrealistically low estimates of projected cost overruns to NASA management from October 1998 through February 1999. In March 1999, Boeing announced that actual and projected cost overruns on the ISS prime contract had grown by $203 million. This was the third major increase in reported overruns within 2 years—a total increase of $708 million over original cost estimates. Two ongoing audits are examining ISS costs, and we are currently monitoring the recently disclosed additional multibillion-dollar overrun.

Research on the space station
The ISS program has always experienced a tension between the engineers who are focused on building and launching the ISS and the research community who plan to use the ISS as an orbiting laboratory. We are concerned that recent budget problems may greatly reduce the research that can take place aboard the ISS. If NASA terminates its planned Crew Return Vehicle, the maximum-sized crew on the ISS will be reduced to six. However, very preliminary and assumption-driven assessments of crew productivity show that a seven-member crew will be able to devote more than twice as much time to research as a six-member crew. If the ISS crew never exceeds three astronauts, as some have proposed, astronauts may have very little time to conduct research. Additionally, if the Centrifuge module is cut, much of the ISS's life science research will be crippled. We will monitor the situation and report whether the ISS is able to accomplish its research goals.

Commercial ventures
The 1998 Commercial Space Act established as national policy that the economic development of Earth orbital space is a priority goal of the ISS. NASA is now developing policies and processes intended to stimulate industry investment in ISS economic development. In June 2000, NASA and a newly created company, Dreamtime Holdings, Incorporated, announced a partnership to provide unprecedented public access to space exploration by delivering high-definition television coverage of astronaut activities aboard the ISS, as well as on the Space Shuttle. The partnership is also intended to create an easily accessible, Web-searchable, digital archive of the best of NASA's space imagery. Effective management of the Agreement is essential in order to ensure that the Government's rights and interests are protected. Our ongoing review of the NASA/Dreamtime partnership found that to ensure that the Government's rights and interests are protected, more emphasis needs to be placed on oversight and accountability.

Information Technology Security

Our investigation, audit, and inspection activities continue to find a fragmented, decentralized NASA information technology security (ITS) program facing numerous management challenges. The Federal Bureau of Investigation echoed our concerns in a recent report that recommended numerous changes to address ITS weaknesses at NASA. The House Subcommittee on Government Management, Information, and Technology recently gave NASA's information security a grade of D-. The May 1999 Government

Accounting Office (GAO) Report, "Many NASA Mission-Critical Systems Face Serious Risks," indicated that significant management shortcomings exist in every aspect of NASA's ITS program, including risk management, policy implementation, monitoring and evaluation of policies and controls, training, and response to security incidents. Although NASA management had accepted many of the GAO's and our recommendations for improvement, they have not taken many of the (often low-cost or no-cost) steps necessary to ensure the security of the Agency's information systems. As a result, resource requirements have not been fully identified, funding shortfalls exist, priorities are unclear, and corrective action has been slow and incomplete.

Fragmentation
Responsibilities for ITS are divided among NASA's Centers. The Ames Research Center (California) has primary responsibility for ITS, Kennedy (Florida) and Headquarters (DC) split the communications security[4] functions, Goddard Space Flight Center (Maryland) performs incident response, Glenn Research Center (Ohio) develops ITS training, and Marshall Space Flight Center (Alabama) is responsible for firewall policies. In many cases, key functions are performed by individuals who have little or no backup support. To make matters worse, Center Chief Information Officers (CIO's) do not report directly to the Agency CIO. This fragmented approach has led to serious coordination problems and a lack of corporate oversight.

The NASA Administrator recently established a new organization, the Office of Security Management and Safeguards, to focus and advance the Agency's security efforts, particularly with respect to espionage and terrorism. This organization will coordinate with the CIO and the OIG on ITS issues. This coordination and new organization hopefully may help to reduce some of the vulnerability in the Agency's ITS program by focusing management's attention on risk assessments.

Collection of personal information
Online privacy has emerged as one of the most contentious issues surrounding the continued evolution of the Internet. Public Law 106-554 requires Inspectors General to report any activity related to the collection of personal information on their Agency's publicly accessible Internet Web sites. Our review of a sample of publicly accessible NASA Web sites found that none collected personally identifiable information without the user's permission. However, we found persistent cookies[5] in use at some sites we visited. NASA's use of these cookies is not in full compliance with Federal policies. The same

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[4]Communications security (COMSEC) is defined as the measures and controls taken to deny unauthorized persons information derived from telecommunications and ensure the authenticity of such telecommunications. Communications security includes cryptosecurity, transmission security, emission security, and physical security of COMSEC material.

[5]Cookies are text files saved in the browser's directory or folder. There are two types of cookies -- session and persistent. A session cookie is automatically deleted when the user's browser is closed. A persistent cookie is a small text file placed on a consumer's computer hard drive by a Web server. The cookie transmits information back to the server that placed it and, in general, can be read only by that server.

audit found that the Agency's Privacy Statement[6] is not in full compliance with Federal policies. We recommended that the Agency correct these problems and improve its management of publicly accessible Web sites. NASA's CIO has not yet taken appropriate steps to implement all of the report's recommendations.

Mission critical systems
During FY 2000, we audited several mission-critical information systems to determine whether NASA had implemented adequate controls to protect systems, data, and information from unauthorized access. The audits disclosed that NASA had not implemented adequate basic controls in areas such as system access, protection of critical files, system backup and restore procedures, privileged operations controls, and system audit and monitoring capabilities. These deficiencies increased the risk of unauthorized access that could result in loss of mission support, loss of mission data, and illegal use of computer systems. We are continuing to conduct audit work in this area.

Human resources
NASA has acknowledged the need to increase the number of employees with specialized IT skills. However, the Agency has not fully used all available tools to ensure that IT skills are present in the right mix and locations across the Agency. For example, NASA does not fully use recruitment, retention, and relocation bonuses and allowances in its attempts to recruit and retain key IT skills, in part, due to budget constraints and general restrictions on hiring.

The Agency also has a problem in sufficiently training its existing employees. Our assessment of NASA's IT training and recruitment/ retention program found that NASA is not moving aggressively to ensure that all individuals granted access to IT applications and systems have been appropriately trained. In addition, many critical IT security personnel, including IT security managers, Center CIO's, and personnel responsible for securing critical networks assets,[7] do not have the security clearances necessary to gain access to critical network threat information. Their ability to take the necessary precautions against threats without this information is seriously hindered. Given the increase in the frequency and sophistication of hacker attacks against NASA IT systems, NASA's lack of sufficient IT skills puts the Agency at risk and could compromise its IT resources and information.[8]

Physical security of IT facilities
In prior years, the OIG identified weaknesses in physical security controls at many of NASA's major data centers. For example, we identified weaknesses in the physical

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[6]A Privacy Statement contains an agency's privacy policy. The policy must clearly and concisely inform visitors to the site what information the agency collects about individuals, why the agency collects it, and how the agency will use it. Privacy policies must be clearly labeled and easily accessed when someone visits a Web site.

[7]Critical network assets include border routers, firewalls, and intrusion detection systems.

[8]NASA's lack of IT skills and awareness of threats has also impeded some of our computer-related criminal investigations.

security activities of a NASA space flight system and various other NASA systems that support the processing of mission, business, and restricted technology activities. Specifically, we found that NASA had not established or implemented procedures to ensure that controlled computing areas were adequately protected from unauthorized access. Inadequate physical access controls increase NASA's vulnerability to financial or operational losses in its IT environment.

Procurement

About 87 percent of NASA's funding is spent on procurement. For this reason, we expend significant resources on investigations, audits, and other reviews of procurement matters. Some key areas of focus include:

Outsourcing
The pressure is rising for Government agencies to outsource activities currently performed by civil servants. Nevertheless, Federal regulations and legislation continue to place constraints on the types of services that can be obtained through contracted sources. In particular, performance of personal services and/or inherently governmental functions by contractors continues to be prohibited. Two recent OIG reports examined NASA's use of support service contractors and found that NASA needs to establish adequate separation of the functions performed by civil servants and contractors. We recommended that NASA institute several Agencywide policy changes to ensure appropriate differentiation between civil servants and support service contractors. NASA management concurred with all of our recommendations.

NASA is also attempting to improve efficiency by outsourcing some IT functions. However, outsourcing brings with it considerable risks unless appropriate internal controls are established. Future reviews of the appropriateness of IT outsourcing will address the following questions:

- Does NASA include contract oversight clauses and does it provide oversight of the implementation of these clauses?
- Can/Does NASA ensure that contractors provide security screening for IT employees working on NASA information systems?
- Does the Agency know who has ownership interests in the service provider? Can/does NASA determine whether the provider has foreign ownership?
- Does NASA know the security posture of the provider? Is the provider compromised by organized groups/hostile entities?

Oversight of subcontractors
NASA is increasingly relying on its prime contractors and other Government agencies to provide oversight of subcontractor operations. NASA uses a risk-based acquisition management approach to determine how much contractor surveillance is necessary. NASA also relies on the Defense Contract Management Agency (DCMA) and the Defense Contract Audit Agency (DCAA) for oversight reviews and audits of contractors. Both agencies, however, have undergone major reductions in staff and have, therefore, experienced a significant loss of expertise. As a result, NASA contracting officers must

remain vigilant over the contracts for which they are responsible and request specific and detailed reviews of areas of risk.

Electronic commerce
NASA is moving rapidly to expand procurements that involve electronic commerce. The Agency now makes purchases through electronic catalogs; the Internet; purchase, fleet, and travel credit cards; and other electronic means, such as just-in-time purchase systems. The Agency is also delegating increased purchase authority to individual employees. NASA must ensure that prudent safeguards and internal controls are in place as the Agency implements these new technologies.

Our audit of NASA's use of SmartPay purchase cards found that the program was generally effective. Management had implemented appropriate controls over the majority (more than 95 percent) of sampled purchases, and the purchases were efficient and cost-effective. We believe that Center managers must continue their vigilance over purchases because we did find some problems by users, including non-conformance with the Federal Acquisition Regulation (FAR) and other Federal guidance. Future reviews will determine whether the Agency is taking full advantage of these new approaches to procurement and whether the Agency has established adequate internal controls over electronic procurements.

Criminal cases
Our Office of Criminal Investigations continues to investigate and prosecute those who commit procurement-related crimes. For example:

- Our investigation of rigged bidding on a computer maintenance contract led to three men pleading guilty to theft of government property, accepting kickbacks, and false claims.
- The principals of a Florida company conspired to create a fraudulent small woman-owned business to obtain NASA Shuttle Processing subcontracts. After our investigation, the company pled guilty to the Major Fraud Act, and paid restitution totaling $685,000.
- A Virginia company pled guilty to mischarging contractual labor hours, and paid restitution.
- Six people pled guilty to kickback conspiracy in a scheme that caused NASA's Stennis Space Center to order millions of dollars worth of materials that were not needed. (In some instances, the materials were subsequently stolen and resold to NASA.) Sentencing resulted in prison terms, fines, and the restitution of $209,000 to NASA.
- In March 2000, a NASA contractor agreed to settle a lawsuit involving unallowable sale-leaseback charges to contracts. The contractor agreed to pay back $38 million.
- Lockheed-Martin agreed to pay $450,000 to NASA after an investigation revealed that Lockheed Martin appeared to have had been underreporting rental income to NASA since 1989.

We have embarked on several outreach efforts to improve the effectiveness of our contract fraud investigation program. We are routinely speaking to both civil service and private

sector contracting officials to emphasize the need for these people to cast a watchful eye for suspected fraud and to notify us as soon as possible when they suspect criminal actions against NASA. We also are proposing a Federal Acquisition Regulation requiring the placement of our NASA OIG Hotline posters in most NASA contractor locations to encourage contractor employees to report crimes against NASA. Recently, we distributed to over 30,000 recipients a web version of our OIG Hotline poster.

Fiscal Management

Ongoing and recently completed audits have identified problems with NASA's fiscal management in a number of areas:

Integrated financial management and full-cost accounting
NASA continues to experience difficulty in moving towards an accounting system that would allow NASA managers, as well as the GAO, OMB, and Congress, to accurately determine the full costs of a project and to track whether projects are within budget. NASA's major effort in this direction was the Integrated Financial Management Program (IFMP), a NASA-wide, fully integrated, transaction-driven financial management system. The IFMP was intended to provide full-cost accounting and other budget information, but the contractor tasked to develop the IFMP was unable to deliver the promised system, and NASA issued a stop work order on March 10, 2000. Full implementation of the IFMP has slipped indefinitely. NASA is now focusing on the core financial elements of the IFMP. We remain concerned that delays in implementing the new system will result in continued reliance on outdated systems that do not efficiently provide the financial and management information that the Agency needs.

Program and Project Management.

NASA faces significant challenges in its program and project management. The Agency is aware of these challenges, and is attempting to improve its application of risk management techniques, human resources management, technology research, and project communication. NASA's Integrated Action Team released a December 2000 report discussing these challenges, and we expect a continuing dialogue with the Agency regarding the best approaches to improving program and project management. We are focusing on key areas, including:

Cost assessment
NASA's ability to provide accurate and credible cost assessments for its projects has been a concern for many years. The 1990 Report of the Advisory Committee on the Future of the U.S. Space Program recommended NASA form an independent cost analysis group made up of about 20 "top-notch specialized personnel" to advise the Administrator on significant cost estimates provided to the Office of Management and Budget and Congress. In 1992, the GAO emphasized that "estimates and analysis provided to the Administrator by the cost analysis group need to be independent in fact and appearance." However, our 1996 review of NASA's relocation of the independent assessment and cost estimation functions found that NASA had not fully implemented these recommendations. Instead,

NASA was creating a small assessment and cost estimation function at the Langley Research Center, reporting to the Director of that Center. We were concerned that this group would not have sufficient access to key project and program staff, and might not be considered impartial in any cost evaluations involving Langley.

Last year, we again reviewed the Agency's independent cost estimating capability. We found that NASA is taking steps to improve the Agency's independent cost estimating capability by establishing a Systems Management Office at each Center and adding cost estimators to the Independent Program Assessment Office at Langley. However, we found that NASA had not identified the cost estimating and cost analysis function as a discipline with a specific job series, had not established career development plans for its cost estimators, and did not have a requirement to develop independent cost estimates at all major reviews. Further, we question whether the Agency's reporting and funding structures provide assurance that the cost estimates are independent in fact and/or appearance. NASA Management took some steps to address our recommendations, but we remain concerned that the Agency still does not have the high-quality, independent cost estimation capability required to produce accurate and credible cost estimates.[9]

Faster, better, cheaper approach

Since 1992, NASA has sought ways to manage programs and projects using the "faster, better, cheaper"[10] (FBC) philosophy. Following the failure of some high-profile missions (including two missions to Mars)[11] conducted using the FBC approach, we reviewed NASA's implementation of FBC. We found that the FBC initiative has changed the way NASA does business, but has not been adequately defined in NASA's policies and guidance or strategic planning process. (A NASA Task Force on FBC also found that Agency guidance on this philosophy was not sufficiently articulated.) We recommended that NASA develop policies and guidance to define FBC and address how it is to be implemented at NASA, fully incorporate FBC into key strategic management documents and report the results in the annual performance report. We also recommended NASA align human resources with strategic goals, as discussed below.

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[9]The 1998 report of the Cost Assessment and Validation Task Force on the International Space Station (the Chabrow report) provides an example of how a small independent group of skilled cost estimators can provide highly useful budget predictions for NASA and Congress. The report is available on the web at http://www.nasa.gov/cavtf/cavtf_1.html.

[10]The "faster, better, cheaper" philosophy has never been clearly defined by NASA. However, compared to past NASA practice, "faster, better, cheaper" is generally understood to involve launching a larger number of smaller spacecraft on shorter schedules, and incorporating advanced technology into those spacecraft. In part, the purpose of "faster, better, cheaper" missions is to decrease the financial risk involved in losing large expensive projects. The missions also reflect a philosophy to "build, test, fly" scientific and technology experiments in the context of NASA's decreased budgets.

[11]After review teams found that a mistake involving conversions between English and metric units had contributed to the failure of one of the Mars missions, we reviewed NASA's use of the metric system and recommended changes to ensure that the NASA followed national and Agency guidelines for metric use.

Human Resources
Our audits have identified human resources challenges in a broad range of NASA programs and projects. In addition to the previously discussed IT security training and recruitment challenges, we found problems in management of human resources in NASA's Expendable Launch Vehicle (ELV) Program Office and in NASA-wide "faster, better, cheaper" projects. Our audit of the ELV Program Office found that during the initial stages of the ELV office at the Kennedy Space Center, the Office of Space Flight had not integrated strategic human resources management into the Office's staff planning. As a result, the ELV Office was understaffed and unable to meet customer demand without the use of overtime and compensatory time. NASA subsequently hired 15 additional engineers in support of the ELV Program Office.

We also identified human resource challenges on a NASA-wide level during our audit of NASA's "faster, better, cheaper" approach to program management. NASA determined that lack of resources (including qualified project managers) contributed to the unsuccessful Mars missions in 1999. We found that other NASA programs were also having difficulty building teams with sufficient skills and experience. We recommended that NASA align human resources with strategic goals in the Enterprise Strategic Plans and Center Implementation Plans. In addition, we recommended that NASA's Annual Performance Plan describe how the Agency is implementing human resources management and that NASA develop a workforce strategy addressing recruitment, training, awards, bonuses, promotions, retention, and succession planning.

Launch Vehicles

NASA's best-known launch vehicles are the Space Shuttles. Operated on a day-to-day basis by the United Space Alliance, the Shuttles are the world's most capable—and among the world's most expensive—launch vehicles. NASA buys commercial expendable launch vehicles (ELV's) to launch spacecraft that do not require the shuttle's unique capabilities. In addition, since the mid-1990s, NASA has funded technologies and prototypes intended to reduce the cost of access to space and eventually replace the Shuttle.

We continue to be concerned about the use of Space Shuttles to launch payloads that do not require the Shuttle's unique capabilities. The Commercial Space Act of 1998[12] requires the Federal Government to acquire space transportation services from United States commercial providers when feasible. However, our 1999 Assessment of the Triana Mission found that the proposed launch of the Triana spacecraft on the Space Shuttle may conflict with the Act's goals. Our ongoing audit of X-37 Project Management found a similar situation. NASA originally planned to launch the X-37 technology demonstrator vehicle twice on Space Shuttle flights, although the launches do not appear to require the Shuttle's unique capabilities. The X-37 is also being designed for possible launch on an ELV. For both Triana and the X-37, NASA used an exception in the Act that allows

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[12]Public Law 105-303

"secondary" payloads to be flown on the Shuttle. Neither Triana nor the X-37, however, strictly fit the Agency's only published definition of a secondary payload.

Our *Space Shuttle Payloads* audit discussed the challenge of setting prices for the launch of commercial or other non-NASA payloads on the Shuttle. NASA has provided customers with prices for individual commercial shuttle payloads, but has not developed a consistent pricing policy for such launches. NASA and the OIG disagree whether a pricing system is required by law,[13] and whether NASA must establish a definition for the "fair value" that must be charged to Department of Defense customers in accordance with federal law.[14] NASA management contends that a pricing policy is not required and that establishing pricing formulas for all conceivable cases would serve no purpose and would reduce the flexibility NASA requires.

Our audits have reported serious problems with NASA's X-vehicle programs.[15] We believe NASA must take care not to make the same mistakes in the Space Launch Initiative that were made in the cancelled X-33 and X-34 programs. For example, the arrangement under which a program is conducted contributes to the success or failure of a program. Our audit of the X-33 Cooperative Agreement found that use of a cooperative agreement[16] contributed to a variety of program management problems, which adversely affected X-33 program planning, execution, resource management, property control, and ownership rights. Another potential problem is ill-defined program goals. For example, our audit of the X-34 Technology Demonstrator found that NASA had established a requirement that the X-34 fly 27 times, but had not determined what the requirements were for each flight. In the Space Launch Initiative, we expect NASA to:

- determine clearly what the Agency's goals for the program are and how the funding should be distributed to support those goals,
- develop a management structure that protects the interests of the government, and
- protect the interests of the Government in any assignment of technology rights to industry partners.

Technology Development.

The National Aeronautics and Space Act of 1958 charges NASA with "the improvement of the usefulness, performance, speed, safety, and efficiency of aeronautical and space

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[13] 42 United States Code (USC) § 2466 sets forth a "reasonable customer incentives" provision which NASA contends provides them wide latitude.

[14] 42 USC § 2464

[15] NASA's X-Vehicle programs are aimed at building and flying experimental vehicles to test new technologies and concepts. NASA recently decided to end support for the X-34 technology demonstrator rocket-plane and the X-33, a program initiated to build and fly a prototype next-generation launch vehicle.

[16] Cooperative agreements are not procurement contracts as they do not acquire goods and services for the direct benefit of the U. S. Government. Also, these agreements are not subject to the procurement statutes, or the Federal Acquisition Regulation (FAR).

vehicles." To achieve this goal, NASA—often in partnership with industry and academia—researches and develops new aeronautics and space technologies.

Recent major changes have drawn our attention to NASA's technology development activities. At NASA, the Office of the Chief Technologist was abolished and the Agency's technology development efforts are now the responsibility of the Office of Aerospace Technology. While NASA's aeronautics research programs have been sharply curtailed, consolidation in the aerospace industry has left the United States with only one builder of large commercial aircraft. In space, the commercial space industry continues to drive new space technology development in many areas, but the International Space Station era has begun, opening up new opportunities for in-space research and technology development

We recently completed an audit of one NASA technology program: the Aviation Safety Program (AvSP). The AvSP consists of six projects that will provide research and technology needed to help the FAA and the aviation community to achieve the national goal of reducing the aviation fatal accident rate by a factor of 5 by 2007. We found that coordination between NASA, the Federal Aviation Administration (FAA), and other partners is adequate. However, NASA needed to make improvements in measuring the Agency's contributions toward meeting the National Aviation Safety goal in order to provide Congress, the aviation community, and the public a more accurate portrayal of the efforts and the risks involved. Management concurred with all recommendations.

Future reviews of NASA technology development activities will focus on a broad range of themes, including:

- ensuring a proper balance between scientific research and technology development and demonstration projects,
- continuing to refine the technology transfer process to ensure that U.S. industry achieves the maximum benefit from the new technologies identified,
- determining whether NASA's organizational structure effectively supports technology development and transfer,
- ensuring that NASA technology demonstrations do not unfairly distort the marketplace,
- ensuring that adequate controls exist on cooperative technology development programs,
- ensuring adequate protection of NASA-developed technology, and
- determining whether appropriate controls are in place on NASA's cooperative technology development programs.

Additional questions we may ask include:

- Is NASA considering the advice of its advisory bodies concerning technology development?
- Is NASA making appropriate use of technologies developed outside of the Agency? Is NASA duplicating technology research that has been (or would have been) developed outside of the Agency?

- Is NASA's technology development organization appropriately structured to ensure effective technology development? Are NASA's enterprises cooperating in research and technology development?
- Are NASA's technology demonstration programs being compromised by added requirements unrelated to technology demonstration?
- Is funding intended for technology development being diverted to other programs?
- Is NASA adequately ensuring that the technologies it develops are not misappropriated? Are trade secrets being protected? Is technology development information appropriately secured?
- Does NASA have the human capital necessary to conduct or oversee technology development programs?

International Agreements

The Space Act provides NASA statutory authority to enter into binding agreements with foreign entities. Since its inception, NASA has entered into approximately 3,500 international agreements. International agreements span every NASA Enterprise and involve numerous programs and projects—the most visible being the multinational ISS Program. International agreements can bring new capabilities to NASA programs, and can serve important foreign policy goals, but they can also increase the risks to mission success, compromise the security of NASA personnel and property, and result in the inappropriate disclosure of sensitive information.

Risks to mission success
International agreements are subject to changes in the policies of both the United States and the foreign governments involved. Changes in economic conditions can also affect some agreements. Untimely Russian contributions, for example, have led to delays and cost increases in the ISS Program. The delay, inability, or decision of a foreign partner to not fulfill an agreement can result in increased NASA cost, impacts to mission schedule, or failure. NASA must ensure that its programs and projects involving international agreements have plans to ensure mission success and/or minimize losses if an international partner is unable to provide their contribution. Our report on space station planning for international partners found that the ISS program's plans for contingencies involving international partners did not contain cost and schedule impacts for the contingencies, and did not clearly identify mitigation measures.

Foreign visitors
International agreements often involve NASA personnel working with foreign national personnel and foreign nationals visiting NASA installations. The Space Act requires the NASA Administrator to establish security requirements, restrictions, and safeguards[17] to protect NASA personnel, property, and the national security interests of the United States. Our review of Foreign National Visitors at NASA Centers found that controls over access to NASA Centers by foreign national visitors need to be strengthened and uniformly

[17]Possible safeguards include different-colored badges for foreign visitors, escorts, etc.

applied on an Agency-wide basis. In response to the report's recommendation, NASA agreed to modify applicable Agency policies to (1) establish a NASA-wide definition of a foreign national, (2) clearly define National Agency Check requirements[18] and procedures, (3) define procedures for escorting foreign national visitors, and (4) provide a standard badging scheme.

Export Control
NASA's international activities often involve the transfer of commodities, software, and technologies to foreign partners. NASA technology transfers are generally subject to export control laws and regulations, regardless of whether they occur in the United States, overseas, or in space. In response to previous audits, NASA has developed a catalog of classifications for specific exports, improved training and guidance for Export Control Program auditors, and enhanced and strengthened training for NASA employees involved directly or indirectly with technology control. Last year, we reviewed NASA's oversight of contractor exports of controlled technologies and found that the Agency lacked assurance that contractor export activities are performed in accordance with applicable laws and regulations. The review also identified potential export violations by two NASA contractors who were exporting NASA-funded controlled technologies to foreign contractors in furtherance of the International Space Station (ISS) and Space Shuttle External Tank programs. NASA agreed with the report's recommendations, and will provide greater insight on contractors' export activities and strengthen the oversight of NASA-directed exports of controlled technologies.

We followed up our finding of potential export violations with an audit of contractor exports of controlled technologies to determine whether major NASA contractors have established adequate controls over the export of controlled technologies. We found that a major Company did not have effective company policies in place with regard to ISS-related exports, and NASA did not provide sufficient oversight of that Company's export control program. As a result, that Company may have exported controlled technologies in noncompliance with U.S. export laws and regulations. We recommended that NASA management (1) require the Company to establish an appropriate export control program and a detailed company-wide export policy, and (2) periodically review the export control programs of the Company and its subcontractors to ensure that ISS-related exports are being accomplished in accordance with applicable U.S. export laws and regulations. NASA management agreed with the report's recommendations.

Funds paid to the Russian Space Agency
An auditor from the OIG participated in two NASA reviews concerning the payment of NASA funds to the Russian Space Agency. Following one of these reviews, we conducted an in-depth assessment that uncovered a significant problem with the Agency's oversight of NASA-funded Russian research. Our review found that NASA's funding of Russian

[18] A National Agency Check consists of a records check with the Federal Bureau of Investigation (FBI), Department of State, Immigration and Naturalization Service, Central Intelligence Agency, and the Defense Security Service to determine whether an agency's records contain any information on a specified individual's involvement in criminal or intelligence gathering activities.

biotechnology research (as part of a larger program to sustain Russian space researchers) was successful in some regards. However, NASA made a serious misstep. After learning that it was funding biotechnology research at institutes that had been part of the Soviet biological warfare program, and after being provided guidance by the State Department on how to collaborate safely with such institutes, NASA did not follow the State Department guidance. Management agreed with our recommendation that NASA carefully coordinate with the State Department on any future program that funds foreign researchers, particularly in nations not traditionally allied with the United States.

Environmental Management

We continue to review NASA's management of environmental issues because (1) oversight is often required to ensure that environmental regulations are correctly followed even in times of tight budgets, and (2) the potential downside for the Agency from environmental mismanagement is serious. Some of the issues we are working on include:

Environmental crimes
Our Office of Criminal Investigations has been active in uncovering and prosecuting environmental crime. In an interagency effort, NASA investigators found that a NASA and DOD contractor had regularly illegally stored and burned hazardous waste on its property. Federal criminal and civil cases are underway, but the company has already paid a $500,000 fine to the California Department of Toxic Substances Control. In another case currently in court, we found that a company shipped hazardous materials from a NASA Center and forged shipping documents to show that the drivers were certified to drive hazardous material cargoes, when in fact they were not.

Cost sharing
We found that NASA is not doing enough to pursue cost sharing and cost recovery agreements with potentially responsible parties (PRP's) in cleaning up contaminated sites. (PRP's are entities that may be responsible for contaminating a site and thus must help pay to clean up the site.) The latest in our series of audits on this issue found that NASA has not conducted the preliminary analyses necessary to start the PRP identification and cost sharing agreement process for some of NASA's contaminated sites. We estimate that NASA could save at least $37.9 million through cost sharing at these sites. (Management believes that $7.5 million was a more accurate total.) Although NASA has agreed to supplement its PRP guidance to aid the Centers' cost sharing efforts, we consider this issue to be a significant concern until Headquarters management can ensure that Centers are consistently and adequately implementing Agency policy.

Compliance with NEPA
The National Environmental Policy Act (NEPA) requires federal agencies to consider environmental values and factors in agency planning and decision-making. We audited the Agency's compliance with NEPA. As a result of the audit, the Agency has agreed to address NEPA planning in new guidance under development and to reassess each of the projects or programs that we reported as being noncompliant with NEPA. Again, we will continue to consider this on a significant issue until program and project managers at

NASA's Centers consistently and adequately implement Headquarters revised NEPA policies.

Results Act

The Government Performance and Results Act (GPRA) requires NASA to prepare strategic plans, an annual performance plan, and an annual performance report. We have reviewed and commented on all of these documents during their development, and in response to a Congressional request, we have conducted reviews of the Agency's performance reports. (The performance reports, which state whether the goals of the Performance Plan had been met, are released yearly in March.)

Our review of the FY 1999 performance report concluded that supporting data and information on about one in five performance targets we reviewed did not accurately support the results described. We recommended that NASA's CFO establish policies to ensure (1) that all targets in the annual Performance Plan are clear and specific and can be accurately measured and reported and (2) that the program offices effectively validate and certify supporting data and reported final results prior to submitting them for the annual Performance Report. NASA management concurred with the recommendations.

We are now preparing an audit report on NASA's FY 2000 Performance Report. The audit and NASA's report will be issued later this month. The audit reviewed the supporting data for 23 performance targets related to 6 critical areas: procurement, financial management, information technology, the ISS, program and project management, and safety and mission assurance. We found a significant improvement in the reporting of actual performance. However, again we found that the data did not accurately support the described results in approximately one in five performance targets we reviewed.

NASA could improve the accuracy of its performance reports by more effectively validating supporting data and by developing clearer, more specific performance targets. We plan to recommend that NASA verify and validate supporting data for the FY 2000 targets we did not audit; ensure the development of future GPRA targets that are clearer and better represent desired performance[19]; and ensure that data limitations are fully disclosed in future performance reports. These changes, if implemented, would make the Performance Report a more valuable resource for decision-makers.

Conclusion

NASA faces a broad range of challenges. Our audits, investigations, and other reviews are intended to assist the Agency in identifying challenges and to propose potential solutions.

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[19]For example, NASA's IT security metrics need improvement. An ongoing report on Information Technology Security Planning found that the limited IT security metrics in NASA's fiscal year 2001 performance plan do not provide an adequate assessment of NASA's IT security program. As a result, the IT security risks and metrics that NASA reports to the Congress may understate NASA's IT vulnerabilities and provide undue assurance on the integrity, availability, and confidentially of information.

We look forward to continued cooperation with management in promoting economy, efficiency, and effectiveness within the Agency.

If you are interested in learning more about the activities or reports referenced in this testimony, you can find the full text of most of our reports on the NASA OIG homepage, at http://www.hq.nasa.gov/office/oig/hq, or contact my Office at (202) 358-2061.

Again, thank you for the opportunity to discuss NASA's management challenges.

Mr. SHAYS. Mr. Skinner.

Mr. SKINNER. Thank you. Good morning.

Mr. SHAYS. Good morning.

Mr. SKINNER. I've provided this subcommittee with our written statement for inclusion in the record. I will summarize it briefly now.

Mr. SHAYS. Thank you.

Mr. SKINNER. Just 8 years ago, Congress actually introduced legislation to abolish FEMA, due, in a large part, to its poor performance after Hurricane Hugo and Hurricane Andrew. Today, FEMA is being called a model of Government success. I don't think anyone could deny that FEMA has made a remarkable turn-around. With all its success, however, FEMA is not free of problems.

Earlier this month, FEMA's financial statement received a clean opinion from our office. What our report doesn't show, however, is that FEMA still does not have the capability or procedures in place to track its financial status on a routine basis. FEMA needs to work on keeping track of its appropriations on a regular basis, not just once a year.

Furthermore, FEMA is not providing the oversight that is needed to ensure that billions of dollars in grant funds that it awards each year are being adequately safeguarded; consequently, our audits continue to find millions of dollars each year that are being misused or wasted.

In the information technology arena, FEMA will be very hard-pressed to pursue its e-government agenda in the future and provide adequate security over its cyber-based assets. Currently, FEMA is very limited, has very limited resources, both staffing and funding, to invest in new initiatives and new improvements and new requirements.

Also, as with most Federal agencies, FEMA is having a difficult time measuring and reporting on its performance, as required by the Government Performance and Results Act.

Our ongoing audit in this area is revealing that FEMA management may not be using the GPRA process as a tool to make decisions, and FEMA staff may not be receiving the support and direction they need from top management to implement the GPRA.

Now, regarding some program issues, the disaster response and recovery program has been and continues to be the cornerstone of FEMA's operations. Improvements in FEMA's public image can be directly attributed to the success of disaster response and recovery system. With all of its accolades, however, FEMA's disaster assistance program is constantly being challenged. The number of federally declared disasters has reached a record high over the past 10 years, making it critical that FEMA find ways to reduce costs, manage its disaster work force, ensure integrity of its programs, and improve the delivery of services.

Also, Presidential Decision Directive 39 designates FEMA as the lead Federal agency for consequence management in domestic terrorism events.

In recent reports and testimony, GAO has reported that domestic consequence management exercises were not well developed, and terrorism preparedness training programs are sometimes duplicative and not well coordinated among the various Federal agencies,

including FEMA, with those agencies with the terrorism preparedness responsibilities.

With regards to FEMA's preparedness overall responsibilities, FEMA still does not include all the data that is needed, in our opinion, to fairly evaluate the capabilities of the States to respond to any particular type disaster, manmade or natural.

Specifically, they do not—FEMA's assessments don't include local governments and all the applicable State agencies that would be involved in a Federal/State/local response. They do not identify State disaster assistance programs, and they do not assess State and local government response capabilities to handle disasters without Federal intervention. In other words, FEMA doesn't always know when it is time to go in.

In our opinion, these elements are important in order to take a true picture of a State's capability in their ability to respond to disasters.

In the mitigation arena, FEMA's success depends almost entirely on the commitment of State and local communities to embrace mitigation as doing—as a way of doing business, not just waiting for a disaster and not just as an afterthought to a disaster.

The recently enacted Mitigation Disaster Act of 2000 offers the potential to make mitigation a sustained effort, but its success still is dependent on non-Federal resources.

FEMA's largest mitigation programs, the hazard mitigation program and the national flood insurance program—over the past 10 years FEMA has awarded over $2.6 billion into the hazard mitigation grant program. A major component of that program is buyouts, which is aimed at removing homes located in repetitive flood hazard areas. Last month, the OIG issued a report that highlighted significant problems with the manner in which FEMA is implementing that program.

Given the significant role of buy-out in FEMA's mitigation program, it is critical that the program be effectively executed and addresses national mitigation priorities.

Concerning flood insurance, only about 4.3 million of the 9 million structures in special flood hazard areas throughout the country have flood coverage, and 40 percent of structures that are in the flood program are still subsidized by taxpayer dollars.

Furthermore, of the estimated 200 million in repetitive losses each year—that is, those policyholders who file claims again and again, year in, year out—about 96 percent of them are subsidized structures.

Finally, it should be pointed out approximately 50 percent of FEMA's 100,000 flood maps are 10 years old. Due to the importance of current flood maps to emergency managers at all levels of government, including FEMA's mitigation initiatives, it is important that FEMA find ways and means to update its maps in a more-timely fashion.

Mr. Chairman, this concludes my prepared statement. I've tried to limit my remarks to those critical areas of greatest concern to the OIG. You can be sure that our office will continue to place particular emphasis on those issues.

Again, I appreciate your time and attention and welcome any questions that you might have.

Mr. KUCINICH [assuming Chair]. I thank you very much.

[The prepared statement of Mr. Skinner follows:]

STATEMENT FOR THE RECORD

BY

RICHARD L. SKINNER

DEPUTY INSPECTOR GENERAL

OFFICE OF INSPECTOR GENERAL

FEDERAL EMERGENCY MANAGEMENT AGENCY

BEFORE THE

SUBCOMMITTEE ON NATIONAL SECURITY, VETERANS AFFAIRS, AND INTERNATIONAL RELATIONS

COMMITTEE ON GOVERNMENT REFORM

U. S. HOUSE OF REPRESENTATIVES

MARCH 15, 2001

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MARCH 15, 2001

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to be here today to discuss the major performance and management challenges confronting the Federal Emergency Management Agency (FEMA).

FEMA is the Federal agency charged with building and supporting the Nation's emergency management system. It works in partnership with groups such as State and local emergency management agencies, fire departments, 28 other Federal agencies, the American Red Cross and other voluntary organizations. It helps States and localities respond to and recover from disasters by providing services, resources, and personnel to perform necessary functions, such as transporting food and water, assisting with medical aid and temporary housing, and supporting the long-range restoration of public facilities. FEMA also works with the States and local communities during non-disaster periods to help prepare for disasters and to develop mitigation programs that minimize the effects of disasters.

The U.S. Fire Administration and the Federal Insurance Administration also are under FEMA's jurisdiction. The Fire Administration supports the Nation's fire services and emergency medical services communities with training, public education, and research in fire protection technologies and emergency response procedures. The Federal Insurance Administration makes flood insurance available to residents and businesses in communities that agree to enforce floodplain management practices. More than 19,000 communities participate in the National Flood Insurance Program, which has more than 4.3 million home and business policies in effect.

FEMA has approximately 2,400 full-time employees working throughout the country. In addition to its headquarters in Washington, DC, FEMA has 10 regional offices; area offices in Puerto Rico and Hawaii; a National Emergency Training Center in Emmitsburg, Maryland; and several disaster processing and support facilities throughout the country.

In addition to its team of full-time employees, FEMA also employs approximately 4,000 part-time and temporary employees who provide assistance and support to FEMA's full-time staff when a disaster occurs. FEMA's cadre of part-time and temporary employees helps minimize disruption in routine and ongoing FEMA activities during disaster response and recovery operations.

Eight years ago FEMA was under attack from all fronts, due in large part to its dismal response to Hurricane Hugo, the Loma Prieta Earthquake, and Hurricane Andrew. Congress had actually introduced legislation to abolish the Agency; the media was having a field day dissecting the organization; and State and local governments had lost confidence in the Federal government's capabilities to be responsive to the Nation's disaster response and recovery needs. Internally, FEMA was moldering from a lack of leadership, outdated programs that reflected priorities of prior administrations, and a stovepipe organizational structure that fostered inefficiencies and duplication of effort. The media, Congress, GAO and our office all underscored the shortcomings of FEMA's structure and operations. Identifying and reporting on FEMA's management and performance challenges was most certainly not a challenge.

Today, FEMA is being called a model of government success. Customer satisfaction ratings are at an all-time high. FEMA's renewal is studied in universities and is imitated literally by government agencies around the globe. FEMA's remarkable transformation can be attributed to both the outstanding leadership of its former Director and the many capable, dedicated career employees that work at FEMA. Their hard work has helped FEMA transform itself into one of the premier agencies in government, and I am confident that they will continue to strive to make the Agency a model of excellence.

With all of its success, however, FEMA is not free from problems. Success spawns increased exposure, higher public expectations, and new challenges. Based on our work, as well as our general knowledge of FEMA operations and programs, the Office of Inspector General believes FEMA must continue to address the following management and program initiatives in its efforts to ensure public accountability and improve program performance. FEMA managers acknowledge many of these management problems and are addressing them to varying degrees. Recognizing that a problem exists, however, will not solve it. Making a firm commitment to execute sustained and aggressive policy initiatives that will actually alleviate the problem is the most critical step toward management and program excellence.

Management Challenges

- **Financial Management.** Eight years ago FEMA did not have a general ledger, was unable to reconcile billions of dollars in appropriations, obligations, and expenditures, and was incapable of producing the most rudimentary financial statements. In essence, FEMA had lost track of the money entrusted to it by Congress. Three weeks ago FEMA's consolidated financial statements received an unqualified opinion from an independent accounting firm hired by our office. This is a notable achievement and the financial staff at FEMA should be commended.

What the auditor's report doesn't show, however, is that FEMA still does not have the procedures in place to track its financial status on a regular, timely basis, and fixing that is FEMA's next financial management challenge.

Although FEMA has made significant financial management improvements over the past eight years, there remains much work to be done. FEMA's goal over the past eight years has been to obtain an unqualified opinion on its annual financial statements, and therein lays FEMA's biggest problem. Too little attention has been given to enhancing FEMA's accounting system to dependably produce accurate, relevant, and timely financial statements and other financial information on an on-going basis for day-to-day management and decision-making. FEMA needs to work on keeping track of its appropriations on a regular basis, not just once a year.

During our audit of FEMA's fiscal year 2000 financial statements, we identified system deficiencies that resulted in material weaknesses in the internal controls over financial reporting. We concluded that FEMA's financial management system did not substantially comply with requirements identified in the Federal Financial Management Improvement Act of 1996 (FFMIA). For example, FEMA's financial management system was unable to support timely preparation of reliable and consistent financial statement information and the presentation of detailed financial statement information by organizational component.

To overcome the system limitations, FEMA employees and contractors had to engage in intensive efforts requiring expensive and time-consuming manual procedures to develop reliable information. FEMA continues to produce its financial statements using software that is not integrated with its core financial system. The non-integrated software requires significant manual data entry, increasing the cost and time required to prepare financial statements and increasing the likelihood of error. The software also does not ensure that various statement line items and footnote disclosures are consistent and it does not identify differences for resolution. As a result, FEMA was not able to adhere to a logical and specific timetable to produce its statements, and draft financial statements contained a significant number of errors, omissions, and inconsistencies.

In FY 2000, FEMA also eliminated its presentation of combining financial statements, which presents information by organizational component. This change was implemented in order to reduce the extensive manual efforts required to generate reliable information by organizational component. However, the change in presentation also reduced the usefulness of the financial statements to managers because the statements no longer provide information at a program level (i.e., by Directorate), which is useful to measure operational and financial performance by organizational component.

The primary reason these deficiencies exist is that FEMA has not recognized that the problems are significant. In both our FY 1998 and FY 1999 reports on FEMA's consolidated financial statements, we found similar problems and deficiencies and

concluded that the system does not meet FFMIA requirements. However, in response to both reports, FEMA disagreed that the problems were significant. In its FY 1999 Accountability Report, FEMA stated that the system complied with Federal system requirements. We believe it is unlikely that significant improvements can occur until management recognizes that these system deficiencies (1) substantially hinder FEMA's ability to generate reliable, timely, and consistent financial information and (2) result in significant wasted resources to manually generate information that should be readily available. To overcome the problems, FEMA needs to identify the systems deficiencies as a material weakness, fully analyze the nature and extent of the problems, develop a remediation plan, and secure the funding and support needed to implement the plan.

- **Information Technology Management.** FEMA relies heavily on information technology (IT) resources to accomplish its mission and faces several challenges in this area. The creation of a Chief Information Officer at FEMA, as well as the creation of the Information Technology Services Directorate, has contributed significantly in equipping FEMA with the tools it needs to effectively manage information technology. Although FEMA has prepared strategic plans to guide the acquisition, management, and funding of its IT initiatives, the Federal budget process makes investing in and acquiring the latest technology extremely difficult, particularly for those IT investments that require multi-year expenditures across multiple budget accounts. This coupled with tight annual budgets makes it very difficult to keep pace with the rapidly changing technology, and most certainly will make it very difficult for FEMA to pursue its e-government agenda.

  Also, as FEMA's IT capability grows, so do the inherent problems associated with security and privacy issues. First, FEMA must meet the requirements of Presidential Decision Directive 63 (PDD-63), which calls for Federal agencies to protect their critical infrastructure, especially their cyber-based systems, by May 2003. During a recent audit, we found that FEMA had not completely identified all of its critical cyber-based assets; was significantly behind schedule in conducting vulnerability assessments of those assets; and did not have a funding plan that included the full estimated cost to protect these critical assets.

  Similarly, we recently reported that FEMA's management of the entitywide system security program and planning needed improvement. Specifically, we reported that: (i) FEMA lacked a comprehensive program plan, (ii) the system security management structure was not adequate, (iii) system security program effectiveness was not sufficiently monitored from an entity-wide perspective, and (iv) certain system security related personnel policies had not been fully implemented.

  Although FEMA is committed to correcting these problems, its ability to do so is dependent on the availability of adequate resources, both staffing and funding. FEMA raised this as a fiscal year 2002 budget issue. Without the resources requested in FEMA's fiscal year budget, we agree that FEMA's ability to implement adequate security safeguards for its IT systems will be severely hampered.

Furthermore, based on our recent audit of FEMA's fiscal year 2000 financial statements, we have serious concerns with the lack of access controls and application program change controls over FEMA's automated financial management system. FEMA has taken some action to address these concerns but the risk of unauthorized access to FEMA's financial system remains high.

- **GPRA Implementation**. Measuring and reporting on performance, as required by the Government Performance and Results Act, continues to be a critical challenge for FEMA, as for most Federal agencies. FEMA complied with GPRA requirements that call for Annual Performance Plans and Reports. According to its March 2000 Annual Performance Report, FEMA met most of its performance goals.

  However, our ongoing audit of FEMA's administration of GPRA has identified shortcomings in FEMA's efforts. For example, FEMA managers may not be using the GPRA process as a management tool and the FEMA staff responsible for the execution of GPRA may not be receiving the support and direction they need from top management. We will issue our first report on GPRA implementation this year and begin additional audit work in our ongoing effort to evaluate GPRA implementation.

  We will also closely monitor FEMA's next GPRA challenge, linking its budget to its Annual Performance Plan. To date, FEMA has made little progress in explaining the relationship between budgetary outlays, performance activities and goals, and program results. At present, performance measures have little if any impact on the decisions made by FEMA managers in their allocation of resources or setting of program and management priorities.

- **Grants Management.** FEMA awards billions of dollars in grants each year to State and local governments to administer a myriad of preparedness, mitigation, and response and recovery projects. In fact, grants are the primary tool used by FEMA to administer its emergency management responsibilities. Although grant funds are spent at the State or local level, it is ultimately FEMA's responsibility to ensure that these funds are spent according to prescribed Federal laws and regulations. Therefore, it is imperative that FEMA have an effective grants management system in place to fulfill both its program and fiduciary responsibilities.

  This is particularly important in order to satisfy GPRA requirements. Not only must FEMA adhere to the procedural and compliance aspects of grants management, it must also focus on what grantees actually accomplish using FEMA grant funds. In order for FEMA to demonstrate their own program efficiency and effectiveness, it must require grantees to do so as well. Without requiring more internal accountability for results from grantees, FEMA will not have the data to demonstrate their own sufficient performance.

  Prior to fiscal year 1998, FEMA did not have a grants management structure that was sufficient to ensure the stewardship of Federal funds that it awards. FEMA has

acknowledged that major improvements were needed in its grants management structure and has made some improvements over the past three years. For example, improved policy guidance has been written and distributed to FEMA's regional offices to clarify and standardize procedures; training and credentialing are being implemented for grant managers; and grant closeout teams have been formed to facilitate the timely closeout of grants to provide technical assistance to regional office personnel in their close out efforts.

There still are, however, significant grant management problems that FEMA needs to address. FEMA, mostly through its 10 regional offices, is responsible for monitoring grant recipients in their use of Federal funds and enforcing their compliance with Federal regulations. FEMA's principal problem has been ineffective performance and financial oversight, which in turn has allowed grant recipients and subgrantees to misuse millions of dollars in Federal funds. Grant recipients' problems with financial management, procurement, and subgrant monitoring have gone undetected or uncorrected for as long as a decade or more.

We have documented waste and mismanagement at grantee and subgrantee agencies throughout the country over the past seven years. For example, between 1993 and 2000, our audits of disaster assistance grants have questioned the use of funds totaling nearly 900 million dollars. Our ongoing assessment of mitigation grants awarded between 1989 and 1998 has disclosed that $1.3 billion (50 percent) of the $2.6 billion in grant awards have never been spent. Also, we recently reported that States with emergency preparedness grants were carrying a combined balance of about $19 million in funds that were awarded in prior years and should have been spent in the year they were awarded.

In addition, during the past three years, we completed audits in 17 States covering their management of FEMA disaster grants. There are a number of grant management problems that we see recurring among the States. For example, States often do not monitor and accurately report on subgrant financial and performance activities, States do not always make payments or close out projects in a timely manner, and State financial status reports to FEMA are often incorrect or untimely. In addition, States do not always maintain adequate documentation supporting their share of disaster costs and other financial requirements. These findings are strong indicators that FEMA's grants management system is seriously flawed.

Until recently, FEMA focused its resources on awarding grants rather than ensuring their proper use. Although FEMA rules call for regular performance progress and financial status reports, FEMA monitored grantees superficially and inconsistently. Furthermore, it seldom used its enforcement power to compel grantees to fix problems, even when the grantees had long histories of noncompliance. Instead, FEMA relied primarily on grantees' assurances that they would manage funds properly. Whether intentionally or not, FEMA's "hands off" approach to oversight conveyed the message that Federal grant regulations were not important and Federal funds did not need to be safeguarded.

FEMA faces several hurdles in implementing its recent initiatives to improve its grants management system; in particular, it must resolve issues of staffing. FEMA needs to take the initiative to provide technical assistance and guidance to States to ensure they have reliable disaster grant management systems to safeguard FEMA funds. This will require resources. FEMA will also have to be persistent in its efforts to ensure that implementation of its recent initiatives does not lose momentum when the next catastrophic disaster strikes. Successful implementation will ultimately depend on the support that top management gives to an effective grants management system, including taking enforcement actions and withholding funds when warranted against noncompliant grantees.

Program Challenges

- **Disaster Response and Recovery**. FEMA's disaster response and recovery program has been and continues to be the cornerstone of FEMA's emergency management program, and managing it continues to be one of FEMA's largest challenges. Improvements in FEMA's public image over the past eight years can be directly attributed to the success of FEMA's disaster response and recovery system. Notwithstanding the record-breaking number of disasters over the past eight years, FEMA has managed to continue to make improvements to its disaster response and recovery system, and work to make it even more efficient and effective is in progress. The number of Federally declared disasters continues to increase, making it critical that FEMA reduce disaster response and recovery costs, better manage its disaster workforce, ensure the integrity of its many financial assistance programs, and improve program service delivery.

  FEMA is also faced with implementing recent changes in the Stafford Act. FEMA has begun initiatives to address all of these problems, however, much remains to be done. One of FEMA's initiatives is to reduce disaster field office (DFO) costs by limiting the number of DFO staff to the minimum necessary based on a pre-determined template. Another, one that FEMA is currently testing, is to turn over management of small disasters to States. Florida managed FEMA's Public Assistance Grant program for a small disaster in October 2000. That effort appears to have been successful, although we have not yet evaluated the results.

  In an effort to improve the efficiency and effectiveness of disaster recovery operations, FEMA has redesigned its largest recovery program, Public Assistance Grants (PA). The redesign included new policy guidance to clarify program requirements, improved customer service through training and enhanced State involvement, simplified processes, and performance targets. We are auditing the redesigned PA program to determine if the objectives are being met. We have identified some problems with the redesign and will report on the results of our audit later this year.

Another area where FEMA has made improvements, but problems remain, is debris removal. FEMA needs to continue improving its controls over the Debris Removal Program to prevent serious fraud, waste, and abuse. If left unchecked, the abuse within that program will detract from or overshadow the many improvements FEMA has made in its disaster response and recovery programs. Over the last 18 months, FEMA has focused on improving the management of debris removal activities by emphasizing disaster management oversight and improving its policies, procedures, and training. We are reviewing FEMA's efforts to improve the program and will report on their effectiveness.

Finally, pursuant to a proposal contained in the President's fiscal year 2002 budget blueprint, FEMA plans to improve its disaster assistance criteria guidelines for determining when and under what conditions a Presidential disaster declaration should be made. Neither the States nor the Federal Government currently has a clear understanding of the criteria that must be met in order for States to become eligible for Federal disaster assistance. Without clear criteria, FEMA runs the risk of rewarding States that do not need assistance while ignoring the legitimate needs of others. This reform effort will help to clarify the disaster declaration process, enable both the States and the Federal Government to better delineate their respective roles in disaster response and recovery.

- **National Security Support Program.** FEMA was recently assigned a key role in developing and maintaining a national strategy to support terrorism-related emergencies. Numerous Federal agencies have roles in Federal action plans to respond to terrorism, but the Federal Bureau of Investigation and FEMA are the lead Federal agencies for domestic operations. Presidential Decision Directive 39 establishes a management control structure for the Federal response to terrorist acts. It designates FEMA as the lead Federal agency for consequence management in domestic terrorist events. The Stafford Act empowers FEMA to direct other agencies to perform consequence management missions in support of State and local governments.

  In May 1999, GAO reported (GAO/NSIAD-99-135) that domestic consequence management exercises were not well developed. In more recent GAO reports and testimonies, GAO reported that terrorism-preparedness training programs are sometimes duplicative and not well coordinated among the various Federal agencies with terrorism-preparedness responsibilities. FEMA designated a Special Assistant for Terrorism Preparedness in early calendar year 2000. Since that time, FEMA has developed a strategic plan for terrorism-preparedness activities and has delineated responsibilities for terrorism-preparedness planning, training, and exercises. The OIG is planning a review of FEMA's role in terrorism-related preparedness and consequence management later this year. The primary objective of our review will be to determine how well FEMA is coordinating its terrorism programs with its Federal counterparts with terrorism-preparedness responsibilities.

- **State and Local Preparedness Program.** FEMA awards approximately $140 million each year to State emergency management offices to encourage the development of comprehensive emergency management, including for terrorism consequence management, at the State and local level and to improve emergency planning, preparedness, mitigation, response, and recovery capabilities. By combining several funding streams into a consolidated Emergency Management Performance Grant, FEMA's purpose is to ensure that recipients have the flexibility necessary to achieve measurable results in key functional areas of emergency management. This flexibility will be achieved within the standard grant administration process. FEMA has made considerable progress in streamlining and making the preparedness grant process more meaningful. Despite the progress, two major management challenges remain: (1) developing a reliable method of assessing State and local capability, and (2) developing a reliable basis to implement risk-based funding allocations to States.

  In February 1998, FEMA submitted its first report to Congress on "Capability Assessment for Readiness." This effort is a step in the right direction, but more needs to be done. Local governments and other applicable State agencies need to be brought into the process. Currently, there are plans to query local governments. State Emergency Management Agencies, local governments, and various Emergency Management Associations are reviewing an initial Local CAR draft. The process also needs to identify State disaster assistance programs, determine how large a disaster a State/local government can handle with its own resources, and measure a State's financial capability to respond and recover from disasters without Federal assistance. While CAR was never initially intended to provide a basis to assess States' financial capabilities, we continue to believe that financial capability is critical to States' ability to respond to disasters. We further believe that since the development of CAR will continue to be a dynamic process, FEMA needs to explore how financial capability can be assessed.

  To date, FEMA has not developed a basis to implement risk-based funding to States. We recommended such a basis for funding in our first report issued on the Comprehensive Cooperative Agreement process in March 1994. FEMA, however, is working on a risk assessment initiative. This initiative is called HAZUS (Hazards-US). HAZUS is designed to produce loss estimates for use by State, regional, and local governments in planning for natural hazard loss mitigation, emergency preparedness, and response and recovery. Currently, HAZUS has been developed for earthquakes and FEMA is working on expanding it into a multi-hazard methodology with models estimating potential losses from wind, floods, and tornadoes. HAZUS could provide the basis for developing a risk-based funding methodology. We believe FEMA needs to explore the potential of HAZUS in future funding allocations to States.

- **Flood Insurance Program.** The National Flood Insurance Program (NFIP), the largest single line property insurer in the nation with coverage totaling approximately $548 billion, presents a formidable management challenge for

FEMA. When Congress originally enacted the NFIP in the early 1970s, the flood program was expected to reduce the burden of flood disasters on the American taxpayer, and reduce the number of homes and businesses residing in the flood plain. These at-risk structures, which receive a subsidy for their risk from the NFIP, were expected to be gradually replaced over the years. By 1990, it was projected, only 10% of the homes would be subsidized.

Clearly, the projection was overstated. Today 40% of the structures in the NFIP policy base are still subsidized. These at-risk buildings are flooded again and again. The NFIP pays claims from these floods again and again, yet the policyholders are not required to pay risk-based premiums. It is not a small problem and it undermines the financial stability of the insurance program. Of the estimated $200 million in repetitive losses in the NFIP during an average year, about 96% are from these subsidized structures.

On the basis of our audit work, we believe there are three key parts to the NFIP – insurance, mitigation, and compliance - that need to be strengthened if it is to function more effectively and reduce repetitive losses. In order for this program to effectively accomplish its objectives, each part must complement the other.

It is estimated that there are more than 9 million structures located in special flood hazard areas throughout the country. Yet as of December 2000, only approximately 4.3 million of those structures have flood insurance coverage. FEMA not only needs to maintain a sustained campaign to provide insurance coverage for the millions of uninsured properties that are still at-risk, it also must promulgate rules that would eliminate subsidies to insurance policy holders who have filed repetitive loss claims, such as those proposed in the President's 2002 budget blueprint. While the two objectives of increasing coverage and at the same time reducing repetitive loss claims may appear to be in conflict with one another, FEMA has tools available to prevent this.

For example, the *Increased Cost of Compliance* terms in flood insurance policies can and should be used more frequently to reduce repetitive loss claims and further mitigation objectives. The *Increased Cost of Compliance* terms in flood insurance policies provides funds to homeowners who have filed flood loss claims to make repairs that would mitigate future flood damages. Additionally, stricter enforcement of the *Substantial Damage Rule* would further both repetitive loss and mitigation objectives. Under the *Substantial Damage* Rule, a substantially damaged structure must be elevated or flood-proofed to the same standards as new construction. In September 1999, the OIG issued a report that demonstrated weaknesses in communities' enforcement of the rule.

FEMA needs to focus on how each of these parts – insurance, mitigation, and compliance - can be coordinated to bring synergy to the NFIP. Specifically, FEMA needs to ascertain:

- How effectively is the Federal Insurance Administration (FIA) enforcing compliance with floodplain management criteria as a condition for maintaining eligibility in the NFIP?

- How effectively is FIA monitoring the enforcement of mandatory flood insurance purchase requirements for homeowners?

- How effectively is the Mitigation Directorate (MT) overseeing the Community Rating System to ascertain whether discounts given on flood insurance are warranted based on conditions and actions taken by a community?

- How does the MT monitor community enforcement of the substantial damage rule – critical to achieving mitigation objectives in a post-disaster environment?

- How can FIA increase insurance rates for homeowners identified by MT or through claim data who have sustained substantial damage and have not taken mitigation action?

- How effective and reliable are FEMA's performance measurement criteria and information systems in assessing whether insurance goals and objectives are being accomplished?

FEMA has recognized the need for a review of the NFIP to determine how effective this program is functioning and a study is underway. The OIG will continue to monitor the progress of FEMA's efforts.

❖ **Mitigation Program.** FEMA faces a significant challenge in effectively focusing very limited resources that address national mitigation strategies as well as ensuring that mitigation continues to be a long-term, sustained national effort. The long-term success of FEMA's mitigation efforts depends on the commitment of State and local governments to embrace mitigation as a way of doing business, not an afterthought of a disaster. Not until all State and local governments take full responsibility for properly insuring or protecting their communities, will FEMA's mitigation goals be realized. The recently enacted Mitigation Disaster Act of 2000 offers the potential to make mitigation a sustained effort, but its success is dependent on non-federal resources. FEMA needs to continue programs – distributing grants, raising public awareness, and promoting planning, training, and capacity building - that encourage individuals, communities, and States to take responsibility for mitigation. This will not be an easy task.

The Hazard Mitigation Grant Program (HMGP) is FEMA's largest mitigation program. FEMA funds equal to 15 percent of FEMA's disaster relief grants are allocated to the HMGP after a presidential declaration. This amount was increased to 20 percent by the Disaster Mitigation Act of 2000, which was signed by the President on October 30, 2000. Over the past 10 years, FEMA has awarded over $2.6 billion under the HMGP. A major component of the HMGP is buyouts. Last month the OIG

issued a report to Senator Bond that highlighted significant problems with the manner that FEMA implemented the special Hurricane Floyd buyout program. These are: (1) the need for reliable cost effectiveness determinations, (2) the need for additional guidance for buyouts, (3) improved mitigation planning by States, and (4) improved coordination with the NFIP. We also recommended that FEMA explore the idea of a National competitively based mitigation program. Given the significant role buyouts have within the HMGP, it is critical that FEMA ensure that they are effectively executed and address national mitigation priorities.

- **Mapping Modernization.** The modernization of FEMA's Flood Insurance Rate maps presents another special challenge to FEMA. Approximately 50 percent of the 100,000 maps are 10 years old. Studies indicate the re-mapping would place thousands of additional properties in special flood hazard areas and could trigger mitigation initiatives as well as stimulate the purchase of flood insurance. To date, FEMA has made little progress in making new maps, primarily because of the lack of adequate funding.

  FEMA has estimated that the modernization program will cost between $750 million and $1.2 billion over the next 7 years and it is unlikely that Congress will provide the level of funding that is needed. Due to the importance of current flood maps to emergency managers at all levels of government, FEMA needs to explore other alternatives and develop new strategies, such as the collaborative effort with North Carolina to share in the costs to complete new maps for the entire State, to ensure that the modernization of Flood Insurance Rate Maps moves ahead in a more timely and effective manner. The OIG plans to continue to examine FEMA's initiative to modernize maps over the next several years.

Mr. Chairman, this concludes my prepared statement. I have tried to limit my remarks to those 10 areas of greatest concern. You can be sure that our office will continue to place particular emphasis on these issues. Again, I appreciate your time and attention and welcome any questions you or members of the Subcommittee might have.

Mr. KUCINICH. Mr. Shays has asked me to continue to move the proceedings along here, so I want to introduce Mr. Clay, who is also a member of our committee, and go into the questions phase.

Mr. Griffin, what are the most significant open OIG recommendations that have not yet been addressed within your purview?

Mr. GRIFFIN. Well, off the top of my head I would say that our audit on incarcerated veterans, which I alluded to in my testimony, which represents over-payments in the amount of about $170 million. Unfortunately, we're the subject of a 1986 audit that was not properly implemented. We did the work again in 1998 to come up with the current dollar value of payments that continue to be made. To this date, there hasn't been action taken on those.

We have another audit that had addressed the need for quality standards in nursing homes that veterans are placed in, which is 2 or 3 years old at this point and there has yet to be a set of quality standards.

Mr. KUCINICH. Do you want to comment further on the combined assessment program?

Mr. GRIFFIN. Well, the combine assessment program is something that we initiated as a proactive project to get out to these medical centers in VHA to try to do a quality control check prior to an incident occurring.

As I alluded to, we had a case involving a murder up at the Northport VAMC. It doesn't do any good to learn about these things after the fact, so we wanted to get to these facilities, identify problems, share with the medical center directors those problems that have been identified at the other facilities in the system, and try and get the proper fix in place before an incident might occur at their facility.

Mr. KUCINICH. OK. I would like to now move to Ms. Gross. Thank you very much for being here.

What are the most significant open OIG recommendations that have not been addressed at NASA?

Ms. GROSS. What we find oftentimes is that what NASA does is they will concur and agree with the recommendations. What is the problem is the lag time between saying yes and actually doing the implementation.

We have more of a problem of what we call "dispositioning." We keep them open until we actually get proof that they are actually implementing the recommendations.

There would be things, like in the area of communications security. There have been a number of inspections that we have done. Communications security has to do with both the uplink or command control to destroy a vehicle if it is on a bad path or something like that. We want to make sure that either the commands are—if appropriate, should be encrypted, and also that you have some mechanism to make sure that the commands that it receives are authentic. That took about 3 years of talking and talking with the agency, despite the fact that safety was its No. 1 priority and that included assets.

I think that probably the biggest area of non-concurrence has been on the pricing policy for the shuttle, and commercial uses and DOD uses. NASA basically fundamentally disagrees with our inter-

pretation of the law. They think that you don't need to have a specific pricing policy; that you can do it case by case. In some sense they are correct in the sense that if you read down the statute it says that you can put in incentives, but that doesn't mean that you can't sort of display what the basis of your incentives are.

This is an area where we really had a total nonconcurrence on our audit, on their pricing policy. We think, particularly if you are ever going to have a commercial space policy, the private sector would want to know basically so they can plan and help negotiate. That doesn't mean you can't put in incentives, but you really do need a pricing policy if you want to encourage a commercial vehicle.

Mr. KUCINICH. Thank you.

Ms. GROSS. Policy. Not vehicle, policy.

Mr. KUCINICH. Do you have any comments on the faster, better, cheaper philosophy that has formed a basis of some missions?

Ms. GROSS. Yes. We recently gave the agency an audit. NASA, as a result of two Mars mission failures, NASA went to re-evaluate its faster, better, cheaper philosophy and is looking to see if that, in fact, contributed in some ways to these mission failures.

We did an audit to try to examine what is faster, better, cheaper and whether or not the agency has an understanding of it, and, if not, does that contribute to mission problems.

It is a philosophy, but nobody was able to exactly define what it means. I think that was also echoed in one of the independent reports that NASA commissioned on the Mars failures.

We also made recommendations that if that's going to be your philosophy, basically it means don't have long-term missions, do shorter-term missions with more focus so that you don't have a catastrophic failure that eats up 10 years of research, and also to have an infusion of technology.

All of that is very, very good, but you need to have a definition so people know what does that mean in terms of project management, what does that mean in terms of human capital, what does that mean in terms of communication.

So we made recommendations, as well as people in the private sector did. Particularly I'd want to point out the human capital issue.

One of the problems that was highlighted was at the jet propulsion lab. They didn't—we had so many missions we may not have mature project managers on them. You know, when you only had one 10-year, multi-billion-dollar project, you had a project manager that was on it from the beginning. That's a human capital issue that NASA needs to address, particularly in the light of the current freezes that are going on.

We have a Government-wide freeze on 14s and 15s and SESes at a time when NASA has been downsizing, and so it has to be an evaluation. Are you going to make it to be a disrespect to the Government that nobody gets promotions, that nobody values their 14s and 15s and SESes, when, in fact, we have a problem with program managers. That was a safety issue.

Mr. KUCINICH. Are you saying, then, that the downsizing could be counterproductive to NASA's mission?

Ms. GROSS. Downsizing can be if it is not done in the right priorities, if it is not also done with watching your projects, and if it is also done when you have—unless you are also allowed to have promotions and recruitments at a level commensurate with the complexity of your projects.

If you have a hold, basically, on 14s and 15s and SESes—and that's a Government-wide hold until there is more reevaluation. Meanwhile, projects are going on, money is being spent. These are projects that have occurred before and are continuing to go on. We need project managers.

Mr. KUCINICH. Thank you. Thank you very much.

I'd like to turn the question to Mr. Skinner. Could you indicate what are the most significant open OIG recommendations that FEMA has not addressed?

Mr. SKINNER. Right now I would have to say it is their attitude toward their financial management systems. I believe FEMA is in a stage of denial. For the last 9 years, we have continually and repeatedly reported that the financial management system is not producing reliable data, timely data, and data that the project managers can use to operate and project their expenditures and run their programs. The people in the Office of Financial Management within FEMA has made improvements over the years, but they've reached a plateau, and I think they are intent to operate without making any additional improvements, and that is going to present a problem for us down the road.

Mr. KUCINICH. Thank you.

As a followup to that—and if you said this, I apologize if I didn't hear you—what steps should FEMA take to improve financial management?

Mr. SKINNER. First they have to recognize they have a problem. That's the difficult problem we are facing.

Mr. KUCINICH. This is a 10-step program. [Laughter.]

Mr. SKINNER. And so we are going to start using different techniques and approaches to demonstrate and recruit the project managers and to demonstrate to them that the systems that they do have in place are going to get—are fraught with problems. They can produce a financial statement once a year, but beyond that it is not much real value.

Mr. KUCINICH. OK. Thank you. The questions that I have just asked were at the request of Mr. Shays, who is in a meeting with the Speaker.

Mr. Weldon is here to Chair the meeting, and I'm grateful for that.

Mr. WELDON [assuming Chair]. And I believe I am going to yield to you so you can ask your questions.

Mr. KUCINICH. Right. And then we'll get to Mr. Clay.

Thank you very much. We all work together here.

Of course, one of the things that Mr. Weldon and I worked closely together on is issues relating to NASA. We are both co-chairs of the Aerospace Caucus. And I just had a few questions that relate to NASA.

In your prepared remarks, Ms. Gross, you say, "The pressure is rising for Government agencies to outsource activities currently performed by civil servants." What kind of activities are you speak-

ing about where the pressure is being made to outsource those activities?

Ms. GROSS. Well, one large project that NASA was engaged in—and I think it is probably across the Government—is in your information systems, your desktops, your laptops, the whole management of those systems. People do that to save money and consolidate contracts.

The issue that we have on that is who is controlling your data. Who are the employees that they are hiring? Have they done their security checks?

Mr. KUCINICH. Security issues.

Ms. GROSS. Yes.

Mr. KUCINICH. Yes.

Ms. GROSS. Absolutely. When you have a criminal intrusion and we go to—it is no longer at NASA. It is at a different site, because that's where they are managing the operation. All of the sudden, if it is on your site you're not trespassing, but you may have to—it is harder to get onto a site that is not your own.

Mr. KUCINICH. Have there been criminal intrusions in trying to interfere with launches?

Ms. GROSS. We don't have any direct evidence of that. You can have, by accident, by—we've had actually a youth who was doing an intrusion. I believe it was in Marshall. He was doing a denial of service of a computer that secondarily had a support to a computer that was communicating with a computer that was talking to astronauts during the MIR docking. Now, what it did because it was a denial of service, it just interfered with it. The communication eventually went through. We also had backup.

This is just to illustrate that you can have unintended consequences because of the interdependencies of computers.

Mr. KUCINICH. In your remarks you talk about concern about the use of space shuttles to launch payrolls that do not require the shuttle's unique capabilities.

Ms. GROSS. Yes.

Mr. KUCINICH. What do you mean?

Ms. GROSS. By statute, by congressional legislation, NASA is supposed to be using expendable launch vehicles to encourage the commercial launch industry, unless it needs to use the unique capabilities of the shuttle. The shuttle is a very expensive way to launch payloads because you have manned space and you have to have all the safety precautions. So unless you need to have a manned space or you need to make sure, because of the security or the timing, by law you are not supposed to be using the shuttle. You're supposed to use the commercial. And there are times when NASA said something might be a secondary—a very undefined term, but it may be a secondary payload, and that's fine, it can just go along. But if, in fact, they are not defining the term, they may not be carrying out congressional legislation to use commercial launches.

Mr. KUCINICH. Thank you. And then if you could provide this committee, with the permission of the chair, some definition of the Government's involvement of assignment of technology rights to industry partners with respect to, you know, what the interests of what the Government might be.

Ms. GROSS. Yes.

Mr. KUCINICH. I know in your report you have some statement there.

Ms. GROSS. Yes.

Mr. KUCINICH. It might be helpful to the committee——

Ms. GROSS. OK.

Mr. KUCINICH [continuing]. To be able to get some definition of that, which programs you were talking about.

I have one final question, and that is for Mr. Skinner.

Is the Government involved in any kind of—are you beginning to interact with any Government policy with respect to global climate change?

Mr. SKINNER. No, sir, I'm not aware that we are involved in that. Certainly the OIG is not aware of it or not involved.

Mr. KUCINICH. In other words, any possible effects of global climate change, you're not really involved?

Mr. SKINNER. Not to my knowledge, sir.

Mr. KUCINICH. OK. Thank you.

I yield back to Dr. Weldon, and I guess Mr. Clay at some point.

Mr. WELDON. Yes. I just had a couple of questions.

Mr. Griffin, the Department of Veterans Affairs' budget for health expenditures was increased, I think, $1.6 billion in fiscal year 2000 and $1.4 billion, or in that range. It's about $3 billion over 2 years, which represents a sizable percentage increase for that agency.

I realize they had been flat for many years and there were a lot of needs. From your position as Inspector General, have you seen that their ability to properly utilize all those additional funds is proceeding as the taxpayers would want to see? Has that placed a lot of stress on the Department of Veterans Affairs in terms of properly managing that kind of a huge influx of new money?

Mr. GRIFFIN. I would say that in recent years, as you know, they have switched their focus from inpatient care to outpatient care, and in that regard they have established some 600 outpatient clinics that supplement the 172 medical centers that previously existed around the country.

I think those clinics have been very well utilized by veterans in the outlying areas who previously would have had to travel great distances to go to a VA medical center, but I'm not confident that the systems are in place to properly allocate money to the areas that might necessary have the greatest demand.

I say that based on an audit that we did. It has been probably 18 months since we issued this audit report, but the Veterans Health Administration created a decision support system which was supposed to capture incidents of patient care and it was supposed to be the basis for their knowing where the demand is, what type of health care problems are we dealing with throughout the system, and then allow them to allocate their money accordingly.

What our audit showed was half of the facilities roughly had adopted the DSS methodology, the other half didn't embrace it, weren't made to embrace it by the administration, and, as a result, you've got a system that was not properly implemented, and it made the results—the partial results that were obtained to be without value.

So I think the VHA could show impressive increases in the number of veterans served, but I'm not sure that there is a well-conceived plan for every dollar that they have been given in those increments that you've——

Mr. WELDON. Was your budget given an incremental increase to allow you to properly monitor the influx of those funds as part of that whole package, your staffing?

Mr. GRIFFIN. No. I can say unequivocally that's not the case. In 1989——

Mr. WELDON. Well, let me just followup with that to ask you, do you feel like the Office of Inspector General is adequately provided for the resources to monitor those new——

Mr. GRIFFIN. No.

Mr. WELDON [continuing]. Enterprises that the Veterans Administration is engaged in?

Mr. GRIFFIN. I don't feel that we are adequately budgeted. What I was going to mention is that in 1989, when the Department achieved Cabinet-level status, Congress passed a bill which created a statutory floor for the OIG. That floor was 417 FTE. We have not been at the statutory floor in 10 years.

Mr. WELDON. Where are you now?

Mr. GRIFFIN. At 365. In 1989, when that law was passed, VA's budget was slightly under $30 billion, and at that time the OIG organization had about 375 FTE. Today the VA's budget is slightly over $50 billion and we have 10 less FTE. There are 600 additional health care facilities out there that need oversight. Frankly, it is obvious that there has not been a proportionate growth compared to what has occurred in the Department.

I think you pay for that in the end. Final analysis.

Mr. WELDON. Thank you very much. Your testimony has been very helpful to me.

My time has expired. Maybe we can get into this further, but I'd like to yield to the gentleman from Missouri, Mr. Clay, for questions.

Mr. CLAY. Doctor, if I may, I'll forego an opening statement and submit it for the record, if that's OK.

Mr. WELDON. Without objection.

Mr. CLAY. I'd like to first ask Mr. Griffin about procedures that you mentioned in your testimony.

You mentioned that procedures to terminate benefits when veterans die is not working correctly. Did I understand you correctly that one problem is that VA thinks veterans have died when they have not died? Is that correct?

Mr. GRIFFIN. That is part of the problem. What is supposed to happen is there is supposed to be a data match performed by VBA with the Social Security Administration. Social Security Administration is the keeper of the death records, if you will, for the Federal Government. They have an even greater number of payees that they have to keep track of.

The problem is that there have been some problems with accuracy in the Social Security data base. Social Security has another data base, if I may, that is supposed to track incarcerated payees, which they use for purposes of suspending supplemental income payments. The Department needs to match against that data base

also because we know that there are a number of incarcerated veterans who also are to have their benefits reduced when they are incarcerated, and there hasn't been the type of precision in both of those matches that would serve the taxpayers' interests.

Mr. CLAY. OK. So Social Security Administration incorrectly reports a death to you, or——

Mr. GRIFFIN. Deaths get reported to them by people all around the country. There's no Federal agency that goes out and, you know, personally picks up a death certificate every time somebody in this country dies, so you are dependent upon that information being sent to Social Security.

What we have experienced is that the matching agreements have existed, but they haven't always been done, so we started doing some of that work ourselves with our investigators, working with individual regional offices in VBA, trying to get death certificates locally.

It is a very labor-intensive proposition, but it is just that activity during the last 18 months that has identified $9.5 million in overpayments just in the cities we have been able to work in so far.

Mr. CLAY. I guess your computers could talk to Social Security and they could probably talk to the different States that compile the death certificates, correct?

Mr. GRIFFIN. Well, I think, for purposes of efficiency, rather than have 15 different Federal departments getting MOUs with 50 different States, it was established that the repository for that information would be Social Security because they have the largest pool of payees.

Mr. CLAY. I see. All right. Thank you.

Ms. Gross, you mentioned that the Boeing Corp. had severely under-estimated its cost estimates for the international space station. I think you said that their estimate has grown by $708 million over the course of 2 years. We seem to have a similar problem at DOD with weapons systems acquisition. Do you feel that NASA leadership is playing an insufficient oversight role in this respect?

Ms. GROSS. I think so. I think that one of the problems that we pointed out in the audit that we had issued last year—and actually the audit was at the request of Dan Golden, the administrator of NASA—they found that the GNA rates have gone up so high, he wanted to know why was that. And, in looking at just that, he looked at——

Mr. WELDON. Excuse me. The what rates?

Ms. GROSS. It's the overhead rates, basically. And it was as a result of the consolidation of McDonnell-Douglas, Boeing, and we found that NASA absorbed a large percentage of that consolidation as opposed to the private sector and DOD, and partially that was because NASA wasn't aggressive about watching that and partially because DOD had a very favorable statute that said they get a two-to-one advantage of the consolidation.

But what we also found was, during that period of time, Boeing's prices were going up and schedule was going down, and the program people were aware of that but didn't communicate with the contracting officials and, nevertheless, Boeing got a fee award and they got to have something like—I believe it was $16 million. And

then NASA said, "Oh, wait a minute. They are over budget. We take back that award."

How they ever got that award when the program officials were aware that they were over budget and beyond schedule shows some inefficiencies in the program oversight.

We also think another deficiency in the program oversight that probably is going to come to fore in the recent issue on the overrun—which nobody quite has a handle on. I think Dr. Weldon is probably going to be grappling with this in another hearing in another setting—is what is the overrun. It goes anywhere from $4 billion to multi hundreds of millions, and nobody has a sense of what is this overrun that is about to be announced and looked at.

Mr. WELDON. If the gentleman would just yield for a second on that issue.

Mr. CLAY. Sure.

Mr. WELDON. Not meaning to be contentious with you, where were you in all this picture?

Ms. GROSS. I think we——

Mr. WELDON. Were you——

Ms. GROSS. Yes.

Mr. WELDON [continuing]. Throwing up red flags? Was that a problem? Do you have the resources to monitor this program properly? It has been a shock——

Ms. GROSS. No.

Mr. WELDON [continuing]. To all of us in the Congress to hear this kind of a discussion.

Ms. GROSS. I think I would——

Mr. WELDON. Were you aware that this was on the horizon?

Ms. GROSS. Not to the extent that it was. But let me say where I was. I was in front of your committee last year is where I was, and gave testimony that, on the very audit that we just talked about, and specifically stated to the committee that there was an overrun, that NASA procurement officials nevertheless gave a fee award, that we didn't believe that NASA was applying techniques like earned value management, which would measure how much you are spending with how much you are accomplishing, and we made a recommendation, and that, again—I testified to that—that they would have an independent assessment team evaluate the next year.

We did the evaluation in 1999 to 2000. NASA needed to do its own evaluation from an independent source.

They had the Shabro group look at it. If you recall, because I believe Shabro also testified before your committee, probably at the same time I was, Shabro had said, "It's going to be much, much more, much, much more than NASA was already projecting." They were doing it as an independent cost assessment.

We recommend NASA has to have an independent cost assessment group be able to tell its managers—that is, Dan Golden, Rothenburg, the Program Management Councils—when these kind of overruns are happening.

What happened is they concurred about having an independent assessment and it didn't happen.

So we made very, very strong recommendations because we saw a problem, and what we did is say, you know, "We are currently

following up on it, but no, I don't have the staff to followup on it every year." But NASA has got to manage its programs. That's what its responsibility is to do in order to have internal controls.

It shouldn't be always responding reactively to the Inspector General's office or to Congress. It has to have its own capacity. And that was a recommendation we met—we also said.

But, in terms of the flags, the flags were right up there in terms of Shabro's estimate was much, much closer than NASA's, and that was testified before your committee. I also testified before your committee that there were problems. I was there.

Mr. WELDON. Thank you for that accommodation. Sorry to step on your time.

Mr. CLAY. I yield back the balance.

Ms. GROSS. I appreciate the question.

Mr. WELDON. I'm sure we are going to be hearing more about this issue in the months ahead.

Ms. GROSS. Yes.

Mr. WELDON. Before we adjourn this section of today's hearings, I just had a few more questions for Mr. Skinner.

What steps has FEMA taken to prepare for its role as the lead agency for consequence management in domestic terrorist events? I think you were getting at a little of this earlier.

Mr. SKINNER. Yes.

Mr. WELDON. If you could elaborate on that in a little more detail for me, please.

Mr. SKINNER. Fortunately, FEMA had a jump start because of its role in preparedness and disaster response and recovery for all types of disasters, and that would include terrorist-type acts.

Just last year we—FEMA has hired or brought on board John McCall to be our chief of terrorist activities. Under his direction and still with a small staff and still growing they have developed a strategic plan. They have defined what FEMA's roles and responsibilities will be with regard to training, exercising, grants, and assistance to States and locals.

They are now beginning—for a couple of years we stumbled because it wasn't real clear where the programming was going to go. Was it going to be under DOD? Was it going to be under Justice? Was it going to be under FBI? We really didn't know who we had to start coordinating with.

Now that has been defined and clear lines of responsibility have been set up, there's still some policy issues whether it should be in Justice, but that's another issue altogether.

FEMA now has someone that they can work with, sit down with, and start coordinating with. GAO over time has—over the last 2 or 3 years has been very critical of the lack of coordination at the Federal level, people stumbling on one another with regards to delivery of training programs and that type of thing. That is now starting to clear up.

I think FEMA has made tremendous progress here. I don't view it as one of the—it is a problem. It is a challenge. It is something it's going to have to stay on top of. But, as far as consequence management, FEMA is, I think, headed in the right direction.

Mr. WELDON. Has the scope of what your agency is going to be doing been properly defined yet?

Mr. SKINNER. Yes. It is going to be consequence management. It is going to be after the fact, and we're going to be involved in working with State and local governments and others and getting them prepared. The Federal Government—if an incident occurs, the Federal Government is going to be the last people there because of our mere location. We have to get the locals and the States prepared to respond—the local fire departments, the local police, get them the right equipment, get them the right training, get them an understanding of what they have to do until Federal assistance can arrive, and generally that can be anywhere from 4 to 10 hours later.

Mr. WELDON. And is it going to be FEMA or another agency that will be training local governments in dealing with nuclear, chemical, biological——

Mr. SKINNER. It is going to be a variety of people. FEMA will be, I think, more involved in just the response mechanisms. The Department of Justice will have a training role; the police departments, as far as protecting a crime scene, for example; I believe other Federal agencies may have an involvement in training. HHS may have a—be involved in training the locals and States to recognize what type of chemical they may be dealing with, and that type of thing, so it is going to be a variety of people that will be providing the services.

Ours will be how do we develop a command and control operation to respond to the consequence of what happened.

Mr. WELDON. Well, I want to thank each of our witnesses. The hearing is in recess until 1, when we have the third panel coming in.

[Whereupon, at 11:30 a.m., the subcommittee was recessed, to reconvene at 1 p.m. the same day.]

[Additional information submitted for the hearing record follows:]

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

MAR 27 2001

The Honorable Christopher Shays
Chairman
Committee on Government Reform
Subcommittee on National Security, Veterans Affairs,
and International Relations
Room B-372, Rayburn Building
House of Representatives
U.S. Congress
Washington, D.C. 20515

Re: Hearing: Vulnerabilities to Waste, Fraud, and Abuse: Inspector General Views on International Relations and Trade Programs, March 15, 2001

Dear Chairman Shays:

I appreciated the opportunity to testify before your Committee on the work of the USAID Office of Inspector General. This letter provides information requested as part of my testimony.

During the hearing, I was asked or offered to respond to requests for more information on three subjects. That information is provided below and in the attachments to this letter.

1. Questioned Costs or Monetary Savings

On page 2 of my prepared Testimony I state that our audit reports found $87.0 million in Questioned Costs or funds which could be put to better use. I was asked to provide more specific information on those findings.

Attachment A provides the breakdown of the overall Monetary Findings for the period October 31, 1999 through September 30, 2000. Most of the findings were in the area of "Unsupported Costs." This means that justifications and documentation for the cost items were inadequate in the judgement of the auditors.

1300 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20523

I am also pleased to inform you that management decisions have been reached for all of these monetary findings and corrective actions are underway.

2. Corruption Perception

On page 20 of my prepared Testimony, I discuss the Agency's Management Challenges and the Corruption Perception Index developed by Transparency International (TI). Countries rated low are perceived to be highly corrupt. I was asked to provide the ranking of the high risk countries where USAID provides assistance.

Attachment B provides a list of countries receiving USAID assistance where the Corruption Perception Index is less than 4. These countries are considered "High Risk." The OIG has not performed audit work to address the specific challenges of delivering assistance in these countries.

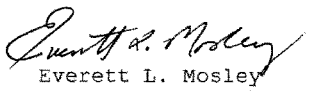
In response to a question from a Committee member on this subject, I discussed our Fraud Awareness Program. That program includes briefings on the subject of Fraud Awareness, a videotape and a Fraud Indicators Handbook. Enclosed is a copy of our Fraud Indicators Handbook in response to a request for that document (Attachment C).

3. Microenterprise Loans

I was asked about the failure rate for micro-enterprise loans. The OIG has not performed work in this area. We can provide the Agency's latest report with annex on Microenterprise Results Reporting for 1999 as Attachment D. The Report shows that loan loss ranges from .6 to 1.9 percent (page 24).

Please do not hesitate to contact me if I can provide additional information for the Committee.

Sincerely,



Everett L. Mosley
Inspector General

Attachments: a/s

cc: The Honorable Dennis Kucinich, Ranking Member

Attachment A

USAID OFFICE OF INSPECTOR GENERAL SEMIANNUAL REPORT TO THE CONGRESS

The following table provides the details of monetary recommendations by category reported to Congress by the USAID Office of Inspector General in the reporting periods October 1, 1999 to March 31, 2000 and April 1, 2000 to September 30, 2000.

The three categories are questioned ineligible costs, questioned unsupported costs, and funds put to better use. The three categories are defined as follows:

1. Questioned ineligible costs generally result from the financial audits of contractors and grantees and are reimbursed to USAID when determined to be unallowable by the responsible contract or grant officer. These costs are categorized as ineligible because they are unreasonable, prohibited by the agreement or applicable laws and regulations, or are not program related.

2. Questioned unsupported costs generally result from the financial audits of contractors and grantees and are reimbursed to USAID when determined to be unallowable by the responsible contract or grant officer. These costs are categorized as unsupported because they were not supported by adequate documentation or did not have the required prior approvals or authorizations.

3. Funds put to better use are generally the result of audits of USAID operations and identify funds that could be used more efficiently. Examples of this type of recommendation are (a) savings from the reprogramming or recapture of unliquidated obligations; (b) establishing or improving procedures; and (c) reductions or elimination of payments, costs, or expenses that would otherwise be incurred by USAID.

Attachment A

Table of Monetary Findings by Reporting Category ($ Thousands)

Monetary Category	October 1, 1999 To March 31, 2000	April 1, 2000 To September 30,2000	Total October 1,1999 To September 30, 2000
Questioned Ineligible costs	$19,673	$10,040	$29,713
Questioned Unsupported Costs	$50,765	$6,317	$57,082
Fund Put to Better Use	$202	$0	$202
Totals	$70,640,000	$16,357,000	$86,997,000

Attachment B

Transparency International 2000 Corruption Perception Index

Transparency International rates countries on a scale of 10 (highly clean) to 0 (highly corrupt).

Of 90 countries that Transparency International rated for 2000, 42 countries were perceived as being corrupt, having received a rating below 4. Of those USAID has been providing assistance to the following 36: (listed in descending order from 3.9 to 1.2)

Country	Rating	Country	Rating
Brazil	3.9	India	2.8
Turkey	3.8	Philippines	2.8
Croatia	3.7	Bolivia	2.7
Bulgaria	3.5	Ecuador	2.6
Ghana	3.5	Moldova	2.6
Senegal	3.5	Armenia	2.5
Slovak Republic	3.5	Tanzania	2.5
Latvia	3.4	Vietnam	2.5
Zambia	3.4	Uzbekistan	2.4
Mexico	3.3	Uganda	2.3
Columbia	3.2	Mozambique	2.2
Ethiopia	3.2	Kenya	2.1
Thailand	3.2	Russia	2.1
China	3.1	Angola	1.7
Egypt	3.1	Indonesia	1.7
Kazakhstan	3.0	Azerbaijan	1.5
Zimbabwe	3.0	Ukraine	1.5
Romania	2.9	Nigeria	1.2

VULNERABILITIES TO WASTE, FRAUD AND ABUSE: INSPECTORS GENERAL VIEWS ON NATIONAL SECURITY, INTERNATIONAL RELATIONS, AND TRADE PROGRAMS

THURSDAY, MARCH 15, 2001

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON NATIONAL SECURITY, VETERANS AFFAIRS AND INTERNATIONAL RELATIONS,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 1 p.m., in room 2247, Rayburn House Office Building, Hon. Christopher Shays (chairman of the subcommittee) presiding.

Present: Representatives Shays, Putnam, Platts, Otter, and Kucinich.

Staff present: Lawrence J. Halloran, staff director and counsel; Kristine McElroy and Thomas Costa, professional staff members; Alex Moore, fellow; Jason M. Chung, clerk; David Rapallo, minority counsel; and Earley Green, minority assistant clerk.

Mr. SHAYS. The Government Reform Subcommittee on National Security, Veterans Affairs and International Relations will come to order. This is a continuation of our hearing on Vulnerabilities to Waste, Fraud, and Abuse: Inspectors General Views on National Security, International Relations, and Trade Programs.

We have one panel this afternoon. It is technically a new hearing, but we have one panel this afternoon of four people. I will introduce them. We had very eloquent statements by the Members this morning, so we won't put you through that again.

Mr. Kucinich, do you have anything you would like to say?

Mr. KUCINICH. No, thank you, Mr. Chairman.

Mr. SHAYS. We have Ambassador Anne M. Sigmund. She is the Acting Inspector General of the Department of State. We have Mr. Everett L. Mosley who is Inspector General for the U.S. Agency for International Development. We have Mr. Charles D. Smith, Inspector General with the Peace Corps. We have another Acting Inspector General, Mr. Dev Jagadesan, for the U.S. International Trade Commission.

We will have you give your statements and then we will have some questions. I would now ask you to stand so we can swear you in.

[Witnesses sworn.]

Mr. SHAYS. I will note for the record that all have responded in the affirmative.

Ambassador, you may proceed.

STATEMENTS OF AMBASSADOR ANNE M. SIGMUND, ACTING INSPECTOR GENERAL, DEPARTMENT OF STATE; EVERETT L. MOSLEY, INSPECTOR GENERAL, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT; CHARLES D. SMITH, INSPECTOR GENERAL, PEACE CORPS; AND DEV JAGADESAN, ACTING INSPECTOR GENERAL, U.S. INTERNATIONAL TRADE COMMISSION

Ambassador SIGMUND. Thank you, Mr. Chairman. Distinguished members of this subcommittee, thank you for the opportunity to discuss the major management issues confronting the Department of State. However you chose to define these challenges, in reality they can be distilled to three things: people, security, and technology.

Their successful resolution requires sustained commitment on the part of senior managers, strategic planning and adequate resources. State is making real progress in meeting some of these challenges.

I would just note that Secretary Powell, in his testimony on the President's fiscal year 2002 budget for the Department of State identified these issues as his priorities. In the past the Department has been criticized for a reluctance to change.

Today, the Department is aggressively re-examining itself with a view to finding new ways to do its job better. Let me take a moment to highlight a few of the Department's management vulnerabilities. Protecting our people, our buildings and information are formidable challenges. A number of our facilities are falling down around our ears. Many need security upgrades to make them safer.

In the wake of the 1998 bombings in Nairobi and Dar es Salaam, the Department has moved rapidly to take advantage of the Emergency Supplemental Appropriation to improve security for our staff and buildings.

At that time it was important to move swiftly to deal with the immediate threat of global terrorism. In OIG's view, the Department now has an opportunity to re-examine these programs and to tailor them to the specific security requirements of individual countries.

The Department is developing an ambitious construction plan for replacing sub-standard embassies and renovating new ones. Senior managers must monitor these projects carefully if the mistakes of the past are to be avoided.

While OIG does not have the resources to evaluate each project with the same level of scrutiny, we are in close consultation with the Department to focus our efforts where they can do the most good.

The Department's information systems are antiquated. This makes them even more susceptible to penetration attempts. States financial systems, for example, may be vulnerable to cyber-base disruptions and have inadequate internal access controls.

States needs the connectivity Internet provides, but must, at the same time, protect sensitive information. OIG plans to consult

closely with the Department and the Congress on how best to address this challenge over the next few years.

Financial management remains a significant problem for the Department. For the last 4 years, OIG has given the Department's yearly financial statements a clean opinion. This year State even filed its financial by the required March 1 deadline.

Nevertheless, there are significant deficiencies to be dealt with. For example, problems related to the administration of Foreign Assistance Programs. The Department is keenly aware of these problems and is working with us to deal with them. OIG will be tracking the Department's progress in addressing these questions.

Another important management challenge is Chief of Mission authority. As the President's representative, the Ambassador is responsible for the direction, coordination and oversight of policy and programs for his country. Whether the issue is intelligence operations, foreign assistance or law enforcement activity, including narcotics, the buck stops at the Ambassador's desk.

In a growing number of our embassies around the world, State operations are dwarfed by the aggregate of new U.S. Government players in the international arena. Yet, the Ambassador has responsibility for coordinating and directing it all.

OIG believes that we need to find more effective ways to empower our Ambassadors so that they can do their jobs.

With respect to strategic planning, the Department has made some progress. However, OIG believes that the Department needs to develop overall priorities for its strategic goals and to devise a better process for linking resources with these priorities.

Recruitment, retention, and professional training for Department Foreign Service and Civil Service employees are critical issues. The Department's Foreign Service is significantly short of the numbers needed to do the job.

While the Department is beginning to develop the work force planning needed, it has a long way to go in this area. These human resource questions directly affect the Department's ability to carry out its goals.

Finally, we are also OIG for the Broadcasting Board of Governors. As with the Department, BBG's efforts to plan strategically fall short of what is required. In the post-consolidation period, BBG and the Department are working hard to develop and define their new relationship. But agreement has still not been reached on several key issues.

OIG strongly believes that it is in the interest of those organizations to find solutions to these problems and to resolve the remaining operational differences as quickly as possible.

Mr. Chairman and members of the subcommittee, thank you for your time. I will be happy to answer your questions at the appropriate time.

Mr. SHAYS. Thank you. Let me just ask you. How do you become an ambassador as an Inspector General? Can all these guys become Ambassadors, too, or do they have to work in State to get that opportunity?

Ambassador SIGMUND. I was an ambassador before I became Acting Inspector General.

Mr. SHAYS. So, being State Department Inspector General does not make you an ambassador?

Ambassador SIGMUND. No, it doesn't carry with it. No, it doesn't.

[The prepared statement of Ambassador Sigmund follows:]

Statement of Anne M. Sigmund,
Acting Inspector General of the
U.S. Department of State and
Broadcasting Board of Governors
for the
Committee on Government Reform
Subcommittee on National Security, Veterans Affairs,
and International Relations
U.S. House of Representatives
March 15, 2001

Mr. Chairman and Members of this Sub-committee:

Thank you for this opportunity to discuss with you today some of the serious management challenges facing the Department of State. This hearing continues the useful and productive on-going dialogue between this committee and the Department's Office of Inspector General. The State Department has made real progress in meeting some of its management challenges but sustained commitment, strategic planning and adequate resources are essential for their ultimate resolution. Viable solutions also depend on a cooperative relationship between the State Department with its OIG and committees like this one.

Summary

I want to discuss with you today a number of issues that were identified by my predecessor when she addressed this committee in July. One of the most pressing challenges for the Department is providing for the protection of its people, information and diplomatic facilities overseas. In the wake of 1998 bombings of two of our

embassies in Africa, the Department responded with alacrity to implement emergency supplemental measures. We commend the Department for its rapid response and its senior managers for their full engagement in dealing with this issue. The post-Africa bombing measures run the gamut from improved shatter resistant window film for all missions and strengthened perimeter defenses, to the institution of new initiatives like the surveillance detection, overseas wireless, and armored vehicle programs. These programs have given our embassies additional layers of real protection. The Department recognized the urgency of implementing these programs on a global basis. OIG believes that our staff and our buildings are better protected now than they were before the tragic bombings. In our forthcoming work, OIG will encourage the Department to consider whether some of these initiatives should now be adapted more specifically to local security environments with their unique characteristics.

The Department has made significant improvements in the area of financial management. However, serious problems persist and represent a challenge to State operations that must be met. I am pleased to note that, for the first time, the Department submitted its fiscal year 2000 financial statement with the required OIG audits to OMB by the March 1st deadline. For the fourth year running, our audit gave the Department an unqualified opinion to the effect that its financial statements were free of material misstatements. Nevertheless, in preparing this year's recent audit of State's financial statement, OIG reported significant potential weaknesses related to information systems security that will require continued, careful attention. On the positive side, at the end of fiscal year 2000, the Department has made significant progress in correcting the majority of weaknesses that were reported in the annual Federal Managers' Financial Integrity Act report.

Another major challenge for the Department is strengthening the authority of the Chief of Mission, as the President's representative, to coordinate the policies, resources, and activities of all agencies operating at our embassies overseas. The number of agencies, which have not traditionally operated overseas, has grown significantly in recent years. Our ambassadors must have the tools they need to provide effective

leadership for the achievement of multi-faceted foreign policy goals and for the advancement of U.S. national interests.

In the area of strategic planning, OIG notes that the Department continues to make progress in implementing the Government Performance and Results Act. However, we believe that the Department still needs to identify overall priorities for its strategic goals and to devise a better process to link resources with those priorities. With respect to international broadcasting, OIG determined that the Broadcasting Board of Governors' strategic plan did not comprehensively address its delivery systems or explain how surge capacity to support U.S. foreign policy objectives during a crisis would be provided. Although the BBG had a framework in place for assessing and planning for its transmission system, we recommended that BBG strengthen its strategy planning to bring it into greater conformity with OMB guidelines.

Office of Inspector General's Operations

OIG's mandate is to identify ways to improve the efficiency and effectiveness of the Department of State's and the BBG's operations, and to detect and prevent waste, fraud and mismanagement. In the period since we last testified before this sub-committee, we have conducted audits, including reviews of exchange program grants, the Department's financial statements, and of passport office operations. We have inspected a range of embassies in Latin America, Africa, Europe and Asia. In a number of these inspections we focussed on security and intelligence oversight. We place a high priority in assessing how well our embassies are able to respond to threats from terrorism, physical intrusion, intelligence penetration, and crime. We have also conducted investigations that have examined the ethics and accountability of both our employees and program activities, as well as pursued aggressively cases of passport and visa fraud. Our goal is to be proactive in helping the Department address the challenges it faces as the lead agency representing U.S. interests overseas. OIG is committed to strengthening the Secretary of State's ability to pursue the foreign policy objectives of the United States free from the impediments arising from mismanagement, waste and fraud.

I would like to turn now to a more detailed discussion of the management challenges that may be of most interest to this sub-committee.

Improving the Security of Our Staff and Facilities

The protection of American personnel and facilities overseas is one of the most daunting challenges confronting the Department. The nature and degree of the threat to our security are constantly changing. In the wake of the August 1998 bombings of our missions in Nairobi and Dar es Salaam, the Department has re-defined the environment in which our embassies must operate to reflect a high or critical threat from globally operating terrorist organizations. In the aftermath of the bombings, OIG worked closely with the Department to enhance the security of our traumatized staff in the interim facilities that had been selected. Our review of the interim facilities in Nairobi and Dar es Salaam produced a number of recommendations that were adopted by the Department and enhanced significantly the safety of our staff. However, even with a global threat that must now be regarded as affecting all our embassies, OIG believes that our people overseas are generally better protected than they were in the days preceding the 1998 bombings. The Department has made real progress in addressing security vulnerabilities. Many of the actions taken were in response to OIG recommendations. It should be underscored, however, that most of our embassies still lack adequate setback. This means that they are still vulnerable to attack from large vehicle bombs or from the terrorists who are ready to sacrifice not only their own lives but also the lives of those within.

Under these conditions, providing for the safety of our people and the security of our buildings must remain a high management priority for the Department. Adequate protection will require billions of dollars and sustained commitment for a number of years before the Department can replace the many chanceries, consulates and other buildings in which our personnel currently work at risk. The FY 1999 $1.5 billion Emergency Security Appropriation gave the Department the first significant funding in a

decade with which to address security weaknesses. These funds allowed us to replace some of our most vulnerable embassies and to make major security modifications to existing facilities by providing for new perimeter walls, blast resistant windows, shatter resistant window film, among the other physical security enhancements. The appropriation also covered replacement of our aging armored vehicles, new emergency radios and the creation of surveillance detection units for each embassy.

Since this major security supplemental, OIG has worked closely with the Department in overseeing these initiatives and looking for ways to improve security. The Department has done a commendable job in getting these new programs underway. As we have reported earlier, in a June 2000 review that looked at 42 embassies, OIG found that none of them met all physical security standards. The lack of adequate setback was the most prevalent deficiency. Addressing the setback question and providing anti-ram perimeter walls will require a major, long-term construction effort. In the interim, the Department has stepped up its pace to correct those vulnerabilities that can be addressed quickly, such as improving the local guard service, lighting or appropriate alarms at the chancery.

A program of sustained capital investment is essential to ensure the safety of our diplomatic infrastructure in the future. However, such a program will not immediately alter the circumstances of personnel overseas. Over the next five years, the Department will be taxed in its management of projected major construction projects at our posts overseas. Last November, FBO advised OIG that, subject to availability of funding, the Department would like to initiate as many as 15 new projects by the end of fiscal year 2001. Again subject to the availability of funds, as many as 17 would be started in fiscal year 2002. Regardless of the number of proposed projects, construction is expected to remain at significant levels through fiscal year 2005. This will require sustained commitment and attention from the Department's senior management.

In May 2000, Embassy Moscow moved into its new secure chancery after nearly six years of construction to replace an earlier building that had been extensively

compromised by Soviet technical intelligence penetration. The Moscow Secure Chancery project was unique in the attention given to security with respect to both its design and construction. Since 1994, OIG has worked in partnership with the Moscow Embassy Building Coordinating Office and the intelligence community to ensure any issues that might compromise security were identified early and corrected. Last fall, OIG completed its last oversight review and concluded that the construction had accomplished its objectives. Without getting into classified detail, I am pleased to note that OIG has worked closely with the Department to take the necessary additional action to provide adequate staffing and support necessary to maintain the secure chancery.

The planned construction for Embassy Beijing presents equally demanding challenges to those faced by the Department in the Moscow project. Once construction agreements are finalized, OIG intends to establish a China Oversight operation, modeled on its Moscow Oversight Team, to conduct ongoing security reviews of the China project from design phase through to final construction.

Other New Embassy Construction

Starting in 1999, OIG has sent small teams to evaluate security in the construction of new embassies and temporary or interim office buildings. I have noted our recommendations with respect to our interim facilities in Nairobi and Dar es Salaam. We also made recommendations regarding the new chancery in Kampala. We have reviewed construction in Luanda and Doha as well as in Pristina, Kosovo. In the case of the Pristina review, OIG commended the Department's efforts to protect our facility and staff.

The significant expansion of embassy construction over the next three years will also tax OIG resources. We are expanding our security oversight to include interdisciplinary reviews of building designs for new chanceries to determine if these designs have the security features necessary to meet the local threat situation. We will be looking for ways to make the building process more efficient as well. Given the costs to

the Department, OIG also plans contract and procurement audits as well as construction oversight. OIG, however, will not have the resources to examine each new project with the same level of scrutiny. In close consultation with the Department, we will seek to establish clear priorities in deciding where to focus our efforts, given current funding and personnel constraints.

Enhancing Emergency Preparedness

The need for more attention to emergency preparedness and the importance of conducting crisis management exercises and emergency drills is an issue of concern for OIG. Our inspection teams find that many posts are not conducting mission-wide exercises of all required drills in all facilities. In response to OIG recommendations, the Department issued instructions to all chiefs of mission to conduct these drills. The Secure Embassy Construction and Counter-terrorism Act of 1999 requires that the Department provide crisis management training for mass casualty and mass destruction incidents relating to diplomatic facilities. The Act also mandates a program of instruction in crisis management for personnel at embassies at least annually.

In August 1998, OIG strongly recommended that the Department implement worldwide "duck and cover" drills and install "imminent danger notification alarms" that could be activated by local guards protecting the embassy perimeter. Admiral Crowe's Accountability Report made this its first recommendation. In the more than sixty security oversight inspections we have conducted since then, OIG is encouraged by the progress in implementing these key security initiatives. Last August, OIG further recommended that embassy warning alarms be simplified so that there were only two warning tones: one for immediate "duck and cover," the other for immediate evacuation of the building. The Department is currently developing formal instruction for this change.

OIG recently concluded a comprehensive review of the Surveillance Detection Program and will shortly conclude audits of the Overseas Wireless Program and the Armored Vehicle program. These three new initiatives were also funded under the

Emergency Security Appropriation. The OIG commends the speed with which the Department implemented these programs and recognized, in the wake of the 1998 bombings, the need to get new security programs underway quickly. It is now time to tailor these programs more specifically to individual embassy needs. Forthcoming OIG work will recommend that the Department consider whether some of these programs should be adjusted to adapt better to the specific local security environment of our embassies.

Protecting Classified Information

OIG's previous work in this area highlights the protection of classified information, both domestically and abroad, as a continuing challenge for the Department. The Department's antiquated information systems add significantly to the difficulty of this task.

Last September, the Department issued a directive notifying all employees of the revised Information Security Incident Program. The revisions included measures, which strengthened the definition of a security violation, reduced the threshold to initiate administrative actions for security infractions from five violations to three, increased the window of the reporting period in which aggregate security violations would be counted toward a security clearance review from 18 months to three years, and created a Diplomatic Security electronic help desk to assist employees with information security questions. Revisions to the Foreign Affairs Manual included the requirement that all security incidents, whether overseas or domestic, be reported to the Office of Diplomatic Security for adjudication.

In addition to security briefings provided to all new Foreign Service and Civil Service employees, mandatory annual refresher briefings have been initiated for all employees. OIG will soon begin a compliance follow-up review of the Department's policies and procedures for protecting classified information at Main State Headquarters. We are working closely with INR and the intelligence community on ways to improve

the security of sensitive compartmented information (SCI) at Main State to ensure that it is protected under the provisions of the DCI's directives. We expect to complete a review of these measures along with an assessment of the Department's escort program by the end of June 2001. OIG will also assess the Department's progress in implementing recommendations to strengthen the Department's disciplinary actions on security incidents and violations.

Improving Information Technology

The Department has made significant improvements in its information technology infrastructure over the past few years. It successfully addressed the Y2K problem, which necessitated the fixing or replacing of hundreds of information systems and hardware devices. Key factors for the Department's success were the strong leadership and commitment demonstrated by the Department's senior managers to ensure that the Department's worldwide operations would continue unimpeded in the Year 2000. OIG will release shortly a report that examines the Department's and the foreign affairs communities' strategies for addressing the Y2K problem and draws lessons for future technology issues from their success. The report concludes that commitment, coordination and collaboration, recognizing and exploiting opportunities for management improvements, monitoring, reporting data, awareness and cultural differences were critical elements of successfully meeting the Year 2000 challenge. In our view the Department should adopt some of the practices it used during its Y2K efforts to address the challenges it faces in the area of information technology. According to the President's Fiscal Year 2002 budget blueprint, the Department anticipates developing a long-term investment strategy for new technology to address the needs of diplomacy. Its elements include modernizing the Department's secure communications capabilities and utilizing new access to the Internet, which offers real advantages with respect to information and communications. The Secretary has stated his intention to make sure that 30,000 desks throughout the Department are wired for unclassified access to the Internet. This is a decisive step in the right direction for the Department over the next

couple of years. The success of all of these initiatives will depend on sustained commitment to a long-term effort.

Enhancing Information Security

During the past year, OIG has developed work that demonstrates the difficulties information security represent to the Department's managers. For example, OIG reviewed the Department's plans and policies with respect to cyber infrastructure protection domestically and overseas. Recent OIG work on critical infrastructure protection revealed that the Department has developed a suitable framework for critical infrastructure, but its plan falls short in a number of areas. The plan, for example, does not address the vulnerability of the Department's overseas operations to possible cyber-based infrastructure disruptions. The Department's plan also does not adequately address the requirement to test the security controls of its critical systems at least once every three years. The Department generally agrees with our findings on critical infrastructure and is taking steps to improve its planning and implementation efforts.

OIG will conduct additional work on information security issues this year focused on both domestic and overseas systems. We will assess information security management at embassies as part of our post security inspection efforts. In addition, we will conduct an overall evaluation of the effectiveness of the Department's computer security program, as required by the Government Information Security Reform Act. We intend to consult closely with both the Department and Congress on how best to address the challenge information security presents over the next five years

Improving Financial Management

Despite significant improvements in this area, financial management remains a major challenge for the Department. As of this fall, the Department had corrected all but one of the ten material weaknesses reported in the 1998 Federal Managers' Financial Integrity Act report. While new weaknesses were subsequently added as a result of the consolidation with USIA, the Department has made real progress in this area.

Furthermore, the Department submitted its FY2000 principal financial statements by OMB's March 1 deadline with a clean opinion from OIG that its financial statements were free of material misstatements.

More, however, remains to be done. For instance, in its review of the Department's financial statements, OIG reported one material weakness based on GAO findings that the information system networks for domestic operations, including the financial management systems, which process data using these networks, may be vulnerable to unauthorized access. This weakness was first reported in OIG's opinion on the 1997 financial statements based on penetration tests performed by GAO. While the Department has implemented changes to address GAO's concerns, the network had not been re-tested as of March 1, 2001. The Department is currently making arrangements for an independent evaluation of the network. The Department has also made progress in dealing with significant weaknesses OIG identified with the Paris Financial Service Center's Accounting and Disbursing System, including access vulnerabilities, issues with the internal control environment, and concerns with physical security.

OIG reported significant internal control weaknesses related to the management of unliquidated obligations. While the Department made important improvements in managing these unliquidated obligations, including developing a database to track them, several new programs have been added, which has increased the balance from $1.7 billion as of September 30, 1998, to $3.5 billion as of September 30, 2000. These new programs include the USIA/ACDA consolidation, Plan Colombia and the emergency security supplemental. In addition, we reported weaknesses related to managerial cost accounting and the Department's financial and accounting systems, both of which constitute an internal control weakness and an issue of noncompliance with several laws and regulations such as the Chief Financial Officers' Act. The Department submitted a remediation plan to OMB in March 2000 to bring its accounting systems into compliance with the Federal Financial Management Improvement Act of 1996. OIG is tracking the Department's progress in implementing this plan.

Strengthening Chiefs of Mission Authority

The OPAP, Carlucci, and Stimson Reports have a common theme in strongly recommending the strengthening of chiefs of mission authority to direct, coordinate and oversee activities of all agencies operating under the embassy's umbrella. This includes foreign assistance programs, intelligence activity and law enforcement operations. Over the past two years, OIG has placed particular emphasis on enhancing ambassadors' authority and has worked with the Department to clarify chiefs of mission responsibilities.

Each of our post inspections evaluates the effectiveness of the ambassador in managing post operations and coordinating the activities of all agencies at post. Among the areas examined are intelligence and law enforcement operations. OIG reports have resulted in major improvements in training for chiefs of mission as well as recommendations for enhancing oversight and coordination at specific posts. In fiscal year 2001, OIG has tailored its inspection program specifically to assess how well ambassadors are overseeing and coordinating intelligence and law enforcement activities at missions with large counter-narcotics programs or law enforcement activities. OIG places particular emphasis on the importance of the 1996 Memorandum of Understanding in clarifying responsibilities. In addition, the projected re-issuance of the President's Letter of Instruction to chiefs of mission will be an important step in underscoring the responsibility of our ambassadors as the President's representatives for coordinating and supervising all U.S. Government activities at post. The President's instruction will also highlight ambassadors' responsibility for the safety and security of all official personnel not under the authority of a theater command.

The importance of coordinating USG programs and operations is particularly obvious for a number of key policy initiatives like the anti-narcotics programs in Latin America. In July 2000 OIG issued a report that reviewed aspects of our counter-narcotics effort in Colombia. Significantly, OIG concluded that despite the increased spraying of drug crops and the expenditure of over $100 million during fiscal years 1997 through

1999, the overall effectiveness of the eradication effort is uncertain. A major policy management concern for the Department is the challenge of providing effective oversight of the drug programs in Latin American, particularly in light of the recent appropriation of $1.3 billion in U.S. assistance to Colombia.

OIG has work underway to assess chief of mission oversight and his or her ability to coordinate the activities of the several agencies involved in narcotics operations. OIG plans to review specific aspects of Plan Colombia in coordination with GAO.

Managing Federal Assistance

The Department oversees the administration and management of a number of federal assistance activities, such as those mentioned above that relate to narcotics programs, as well as programs dealing with population, refugees and migration. These activities are funded through the Department. Increasingly, Economic Support Fund activities, traditionally handled by AID, are being managed by the Department in cases of countries where there is no AID operation. As a result of consolidation with the U.S. Information Agency, the Department is now responsible for a wide variety of educational and cultural programs totaling over $200 million.

The Department has responsibilities for managing and providing oversight for significant grants and other federal programs in areas where, in the past, its responsibilities were largely confined to policy formulation and implementation. OIG acknowledges the Department's efforts to address this important new function. OIG is currently working with the Department's managers to identify the scope and magnitude of assistance programs under its purview and the Department's capacity to manage them. OIG will assist the Department in establishing uniform policies and procedures for issuing and managing these funds.

Strategic and Performance Planning

As we reported in our most recent "Semiannual Report to Congress," overall the Department's strategic planning process is improving, although it does not yet fully comply with the Government Performance Results Act. OIG has highlighted the need for improved performance information in the Department's bureau-level plan. The Department has still not developed overall priorities for its strategic goals and consequently has no overall basis for allocating resources to those priorities.

Although the fiscal year 2001 Performance Plan is more comprehensive than its predecessors, it still falls short of adequately addressing shortcomings found in previous years. OIG found that the fiscal year 2001 plan provides more detail and uses a format that attempts to capture more of the performance goals and measures. However, the fiscal 2001 Performance Plan lists performance goals and measures by bureau, which does not readily translate to an assessment of the Department's performance as a whole. The plan lacks adequate discussion of interagency coordination, resource allocation, data limitations and data verification/validation.

One major planning challenge for the Department is to develop outcome-oriented annual performance goals and associated measures. This will require attention from the Department's senior managers in setting priorities and developing overall annual performance goals and measures that can be used to assess the Department's progress in meeting its strategic goals. Without senior management engagement, bureaus and embassies will remain frustrated with what they regard as a "paper exercise." Decision-makers will be limited in their ability to determine the effectiveness of their programs. OIG will continue to identify areas where the Department can improve its planning efforts so that the Department can fully comply with the Results Act.

Human Resource Challenges

In response to the challenges of attracting, retaining and training employees, the Department has undertaken several new initiatives. For example, the Department plans to extend the standard tour of duty for Foreign Service personnel at non-differential posts from three to four years. There will, of course, be exceptions for posts where conditions argue for retaining the three-year tour-of-duty. The new tour-of-duty will allow the Department to take fuller advantage of language and other specialized training and may result in some cost savings. Additionally, we reviewed the Civil Service to Foreign Service Hard-To-Fill Program and concluded that, overall, the program has been a useful expedient in reducing the impact of serious Foreign Service staffing shortages. The program has also broadened professional experiences for participating Civil Service employees.

One of the biggest retention problems for the Department – and one which is growing – is dual-career couples. This includes tandem couples, where both are in the Foreign Service, and couples where the other spouse has a career outside the Foreign Service. The Department continues to grapple with providing career opportunities and other support to dual career couples.

However, the Department needs to devise ways of dealing with the divisions among its three distinct workforce components: the Civil Service, the Foreign Service and Foreign Service Nationals. Divisions exist as well between State Department staff and the overseas staff of other agencies. As a result of our work in inspections, OIG believes that the Department should examine ways to integrate better the Foreign and Civil Services. One direction the Department should consider is greater assignment integration. The Department should also expand training and professional opportunities for both services. OIG will continue to monitor closely the Department's effort to develop a personnel structure more responsive to its needs.

The Department has made some improvements in its ability to project intake requirements for Foreign Service personnel and to calculate Foreign Service promotion opportunities. The Department has been using an Overseas Staffing Model and has recently completed the Diplomatic Readiness Plan for its human resource needs. A domestic staffing model to complement the Overseas Staffing Model is being prepared. The Department believes that his will greatly improve its ability to match resources with needs. However, OIG is still concerned that the Department's workforce planning remains fragmented. It lacks linkages to strategic planning processes, and is focussed almost exclusively on the American Foreign Service component of its workforce. As a result, the Department is still poorly positioned to define and defend the personnel requirements it needs to implement U.S. foreign policy objectives and strategies. More work is needed to develop comprehensive workforce planning strategies and the tools to implement them. OIG will continue to encourage the Department to move in this direction as rapidly as its resources permit.

The Department's senior managers acknowledge the importance of job-related training and longer-term professional education as essential for achieving both organization goals and for individual career advancement. Unfortunately, resources for this purpose still lag far behind the need. The Department believes that it requires approximately 1,200 positions and $100 million for full staffing and to create a "personnel float" that could be used to release employees from jobs for essential training and as well as providing greater flexibility to respond to crises. While the OIG has not verified these figures, it is clear to us that training continues to suffer because of serious understaffing problems.

OIG believes that the Department's Foreign Service Institute is fulfilling well its role as the premiere training facility for America's foreign affairs agencies. It recently established a very promising program for leadership management and training that should do much to overcome many of the leadership-related problems that OIG finds as a result of its inspection and audit field work. FSI has also pioneered successful programs for distance learning. In response to OIG recommendations, FSI carried out a creative

merger of the Career Transition and Overseas Briefing Centers, which reduced staff by three full-time positions at a savings of approximately $200,000.

In an inspection of an important geographic bureau, OIG found an absence of good workforce management, difficulty in recruiting and retaining officers and clerical staff and a need to increase project management skills. Understaffing had led to gaps in recruitment. This bureau was being forced to rely in a number of cases on rehired annuitants, contractors, and interns to compensate for the lack of full time employees. Officers were spending unnecessarily long hours drafting and clearing papers without sufficient guidance to ensure that were relevant to policymakers. This pattern can be found elsewhere in the Department and overseas.

OIG inspected 18 missions and a regional bureau in the last year. Those reviews revealed some problems at post arising from the initial phase of Department/USIA consolidation. Other systemic issues included the administrative difficulties faced by embassies in supporting a growing number of U.S. direct-hire staff, primarily from other agencies. Chronic staffing shortages and poor facilities, particularly in a number of African posts, continue to affect embassy operations.

FSN Retirement System

Many Foreign Service National employees do not have adequate retirement plans. Often, the local social insurance systems to which embassies and the FSNs contribute do not provide the benefits promised. This is especially true for FSNs in developing countries where the absence of legal and financial safeguards, with resulting corruption, make pension promises meaningless. In order to assist our FSNs, OIG supports the Department's efforts to establish an alternative pension plan to ensure adequate retirement incomes within the limits of local practice. The FSN pension issue and the problem it represents for our embassies have been cited in many post inspection reports throughout the last decade. Most recently, a discussion of this problem appeared in

inspections of Bamako, Mali, Dakar, Senegal, and Sarajevo, Bosnia-Herzogovina completed last fall.

In response to OIG recommendations, the Department has explored a variety of ways to establish an alternative FSN retirement plan, including establishing an off-shore retirement account, but has encountered significant legal difficulties related to the technical aspects of managing retirement funds. OIG would fully support a legislative initiative by the Department to resolve this issue.

Improving American Citizen Services

The Department places a great importance on providing services to American citizens abroad. Recently, the Department contracted out a survey to assess customer satisfaction and intends to identify areas where improvements can be made. OIG looks forward to working with the Bureau of Consular Affairs to assist in the process of evaluating progress by consular officers in eliminating the problems that will be identified in the survey. Although a high priority, the protection of Americans residing overseas is often complicated by poor communications infrastructure. In OIG inspections of consular services at embassies, one of the issues examined is the embassy's warden system used for contacting American citizens in emergencies. In general, we find that embassies take this responsibility very seriously.

Consular Operations and Border Security

Because many consular positions are filled with entry-level Junior Officers, Foreign Service understaffing and a decline in recruitment rates in the middle to late nineties have had an adverse affect on consular operations. These staffing constraints have not only reduced the ability of consular offices to meet all the needs of American citizens, but have also had a negative impact on visa operations, particularly at small posts. Recent OIG inspections in West Africa, for example, revealed that inadequate training and support for first-tour officers in consular positions has led to lapses in non-

immigrant visa management at some posts. OIG recommendations to counter this problem have led to the establishment of new regional consular officer positions to improve oversight of these small posts, and the development of new training programs specifically designed for entry level officers at one officer posts. The Bureau of Consular Affairs has been pro-active in upgrading training for its consular officers and in circulating information among its consular sections on patterns of fraud. Perhaps, one of the most serious obstacles to countering visa fraud is the lack of a fully integrated lookout system between the Department and INS. A more fully integrated system would utilize advances in electronic storage and retrieval of visa records and make visa fraud easier to deal with.

International Broadcasting

Also under OIG's purview is the now independent Broadcasting Board of Governors. In a recent report, OIG evaluated BBG plans and initiatives for management and operation of its worldwide broadcast transmission delivery system. The system, valued at more than $1.5 billion, broadcasts to more than 90 countries in 61 languages primarily using radio and television. We found that the BBG strategic plan did not comprehensively address the delivery system or the provision of surge capacity to support U.S. foreign policy objectives during crises. Although BBG had a framework in place for assessing and planning for the transmission system, we recommended that BBG strengthen its strategic planning to bring it into better conformity with OMB guidelines. We also recommended that BBG develop and document surge capacity plans to support U.S. foreign policy objectives. Notwithstanding, we noted that BBG transmitting stations themselves were well managed.

OIG will shortly issue a report reviewing BBG's compliance with the Foreign Affairs Reform and Restructuring Act of 1998, which mandated its transition to independence. As of October 1999, USIA was merged into the Department of State and BBG became an independent federal entity. BBG independence did not result in any significant broadcasting changes. However, BBG made a number of organizational

changes to incorporate some functions previously performed by USIA; e.g., legal counsel, contracting, security and civil rights. Notwithstanding, several operational issues remained unresolved with the Department of State in connection with independence. We found that BBG and the Department have not come to agreement on a Memorandum of Understanding on future operating arrangements between the two parties. Two key areas that continue to hinder resolution of the MOU include BBG's level of support for the Department's interactive and other diplomacy programming and the extent of chief of mission authority over VOA correspondent travel overseas. Lack of resolution of these issues is delaying important communications to overseas posts concerning how the new BBG and the Department will work together. OIG's report recommends that BBG and the Department finalize outstanding operational agreements and resolve their differences.

* * * * *

Mr. Chairman, these are the key issues I wanted to highlight today. Thank you for this opportunity to testify before your subcommittee on the major management challenges confronting the Department and the Broadcasting Board of Governors. I look forward to working with you and the members of this subcommittee to ensure that these management concerns are addressed. I would be happy to answer any questions you may have at the appropriate time.

Mr. SHAYS. OK.

Mr. Mosley.

Mr. MOSLEY. Chairman Hays, members of the subcommittee and subcommittee staff, good afternoon and thank you for the opportunity to appear before the subcommittee today.

I have entered my full statement for the record, but I would like to give you a very brief description of what OIG considers the two most important challenges facing the U.S. Agency for International Development and actions taken to address these challenges.

The top management challenge that USAID currently faces is improving its financial management systems so that they can provide accurate and timely information with which to manage.

As you know, that is right a series of legislative initiatives since the 1990's beginning with the CFO Act, the Government Management Reform Act and the Federal Financial Information Act, the Federal Government is supposed to produce and audit financial statements each year.

Unfortunately, USAID cannot currently meet these requirements. Reliable, timely information has not been something that USAID is able to produce at this time. USAID managers have therefore established programs where they can implement their systems and devise systems that will produce this type of information.

In the past 3 years, USAID has made considerable progress toward resolving these problems. USAID has dedicated resources toward additional improvements. As a result, financial management procedures are no longer considered a serious management challenge.

However, USAID still faces the following management challenges: Implementing an integrated financial management system; reconciling financial data; reporting accounts receivables; and implementing new procedures for direct loans.

USAID's goal is to implement an entire suite of integrated financial management and mixed financial systems in accordance with requirements by the end of fiscal year 2005. To attain this goal, USAID established the Office of Financial Systems Integration to plan for and acquire USAID's financial systems. This office, under the direction of the Chief Financial Officer, is also preparing an overall plan to modernize USAID's legacy systems as components of its integrated financial system.

USAID is in the process of implementing an integrated financial management system using commercial off-the-shelf software that will comply with Federal financial management systems requirements.

Because USAID's integrated system will include legacy system information, USAID will need to convert and move data from its existing systems to the new core financial management system.

This new system is being implemented in several phases. The first phase, development of an integrated financial management core system, called PHOENIX, began December 15, 2000. The second phase will concentrate on integrating various sub-systems that will feed procurement and financial information into the PHOENIX system.

USAID projections estimate that this phase will be completed by fiscal year 2001. During the third phase, USAID will develop a secure interface to allow the transfer of data from overseas missions to Washington, DC. System security will be enhanced through the use of risk assessments, technology upgrades, expanded training and data encryption. This work is scheduled for completion by the end of fiscal year 2002.

The final phase will enable the capability of an integrated cost accounting function into the PHOENIX financial system. This phase is estimated for completion by fiscal year 2003.

The OIG had identified several concerns with the PHOENIX implementation before its scheduled implementation on October 1, 2000. These included: Compressed and limited software testing of functional requirements and a decision not to begin operation in a parallel mode; delays in migrating data from the old to the new system; an incomplete and untested contingency plan. Such plans would allow the system to continue operation in the event of serious problems; deferral of some system functionality; uneven attendance at user participation training; and no process to document showstoppers and the final decision to implement the system. Showstoppers are critical problems that prevent proper functioning of the system.

The OID worked very closely with USAID management on these concerns and recommended that USAID thoroughly test PHOENIX and resolve any operational problems.

To address these concerns, USAID delayed the deployment, took action to conduct more testing, increased user participation and designed a project tool to assess the operational readiness of PHOENIX.

The OIG continues to monitor USAID's progress in implementing PHOENIX.

Human capital management is also a major challenge facing USAID. Continued staff reductions and limited hiring can greatly affect USAID's capability to operate effectively. According to institutions fiscal year 1999 Accountability Report, USAID staffing levels have declined by 38 percent over the last 10 years.

In fiscal year 2000, USAID's total work force attrition was 225, compared with projected attrition of 180. Like all public and private industry, USAID is faced with a maturing work force. USAID's current figures show that the average age of its work force is about 48. This is a particularly acute problem for USAID because about 50 percent of the staff is Foreign Service. The Foreign Service officers are eligible for retirement at age 50 with 20 years of service versus eligibility of Civil Service staff at age 55 with 30 years of service.

USAID currently has about 100 authorized but unfilled positions. Many of these unfilled positions are in critical high-turnover areas such as information management, financial management, and procurement.

According to its fiscal year 1999 Accountability Report, USAID has developed new and innovative training courses stressing management, procurement operations and technical skills.

In addition, it has delivered the framework for a new course in leadership and program operations. Through these courses, USAID

plans to target certain key personnel categories in its effort to address its human capital capabilities.

Accordingly, USAID was conducting training and workshops to train staff in strategic planning activities, information implementing, performance monitoring and evaluation, and acquisition planning.

We have begun an audit of USAID's staff training and development activities to determine whether USAID provides its employees with sufficient training to accomplish the agency's mission. The scope of this audit includes USAID's training activities conducted during fiscal years 1999 and 2000.

The audit is reviewing controls over the establishment of core competencies, using those competencies to identify training needs and evaluating the contribution of staff training and development activities.

We will also evaluate the strategy that USAID has designed to deal with the rapid loss of its most important asset, human capital.

Thank you.

[The prepared statement of Mr. Mosley follows:]

STATEMENT OF EVERETT L. MOSLEY.

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

HOUSE COMMITTEE ON GOVERNMENT REFORM

SUBCOMMITTEE ON NATIONAL SECURITY, VETERANS AFFAIRS, AND INTERNATIONAL RELATIONS

MARCH 15, 2001

CHAIRMAN SHAYS, RANKING MEMBER KUCINICH, MEMBERS OF THE SUBCOMMITTEE, AND SUBCOMMITTEE STAFF -- GOOD AFTERNOON, AND THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE THIS SUBCOMMITTEE.

TODAY I WOULD LIKE TO GIVE THIS SUBCOMMITTEE BRIEF OVERVIEWS OF BOTH THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) OFFICE OF INSPECTOR GENERAL (OIG) AND OF THE AGENCY ITSELF. I WILL DISCUSS OIG RESOURCES, ORGANIZATION, STAFFING AND ACCOMPLISHMENTS. I WILL ALSO DISCUSS USAID'S MAJOR MANAGEMENT CHALLENGES, USAID MANAGEMENT'S RESPONSE TO THOSE CHALLENGES AND OUR ACTIONS TO ASSIST MANAGEMENT IN ADDRESSING THOSE CHALLENGES.

PART I
OIG OVERVIEW

THE USAID OFFICE OF INSPECTOR GENERAL WAS ESTABLISHED ON DECEMBER 29, 1981 BY PUBLIC LAW 97-113. ON NOVEMBER 29, 1999 ITS RESPONSIBILITIES WERE BROADENED WHEN PUBLIC LAW 106-113 MADE THE USAID INSPECTOR GENERAL RESPONSIBLE FOR AUDITS AND INVESTIGATIONS OF THE AFRICAN DEVELOPMENT FOUNDATION (ADF) AND THE INTER-AMERICAN FOUNDATION (IDF), AS WELL AS USAID.

THE USAID OFFICE OF INSPECTOR GENERAL IS CURRENTLY ORGANIZED INTO THREE UNITS: (1) AUDIT, (2) INVESTIGATIONS AND (3) MANAGEMENT.

AUDIT

THE ASSISTANT INSPECTOR GENERAL FOR AUDIT IS RESPONSIBLE FOR SUPERVISING THE PERFORMANCE OF AUDIT ACTIVITIES RELATING TO USAID WORLDWIDE PROGRAMS AND OPERATIONS AND THE ADF AND IAF. AUDIT IS ALLOTED 126 POSITIONS AND IS ORGANIZED ALONG FUNCTIONAL LINES IN ITS WASHINGTON, D.C. HEADQUARTERS AND ALONG GEOGRAPHICAL LINES

OVERSEAS. IG/A/WASHINGTON CONSISTS OF FOUR DIVISIONS: PERFORMANCE AUDITS, FINANCIAL AUDITS, INFORMATION TECHNOLOGY AND SPECIAL AUDITS, AND HEADQUARTERS LIAISON AND COORDINATION. FIELD OFFICES ARE LOCATED IN CAIRO, EGYPT; SAN SALVADOR, EL SALVADOR; BUDAPEST, HUNGARY; MANILA, PHILIPPINES; DAKAR, SENEGAL; AND PRETORIA, SOUTH AFRICA. MOST AUDIT WORK IS CENTRALLY PLANNED AND MANAGED BY WASHINGTON DIVISIONS, WITH REGIONAL INSPECTORS GENERAL PROVIDING FIELDWORK SUPPORT IN THEIR REGIONS.

AUDITING ACTIVITIES INCLUDE BOTH FINANCIAL AND PERFORMANCE AUDITS OF USAID PROGRAMS AND OPERATIONS. USAID AUDIT ACTIVITY TOTALED 597 AUDIT AND RELATED REPORTS DURING OUR LAST TWO SEMIANNUAL REPORTING PERIODS (FY 2000). THOSE REPORTS IDENTIFIED APPROXIMATELY $87.0 MILLION IN QUESTIONED COSTS OR FUNDS WHICH COULD BE PUT TO BETTER USE.

WHILE COMING UNDER THE GENERAL HEADINGS OF FINANCIAL AND PERFORMANCE AUDITS, AUDIT ACTIVITIES ACTUALLY COVER A WIDE VARIETY OF WORK, INCLUDING: FINANCIAL STATEMENT AUDITS OF USAID PROGRAMS AND OPERATIONS (1 REPORT UNDER THE CHIEF FINANCIAL OFFICERS (CFO) ACT OF 1990 AND THE GOVERNMENT MANAGEMENT REFORM ACT (GMRA) OF 1994), FINANCIAL AUDITS OF USAID CONTRACTORS AND GRANTEES MANY OF WHICH ARE COVERED UNDER THE SINGLE AUDIT ACT (475 REPORTS WITH $70.7 MILLION IN MONETARY QUESTIONED COSTS OR MONETARY SAVINGS), FINANCIAL RELATED AUDITS OF USAID PROGRAMS AND OPERATIONS (19 REPORTS WITH $258 THOUSAND IN MONETARY RECOMMENDATIONS), AND PERFORMANCE AUDITS (45 REPORTS WITH $16 MILLION IN MONETARY SAVINGS). WE ALSO PRODUCED AUDIT REPORTS COVERING ENTERPRISE FUNDS (SIXTEEN REPORTS) AND VARIOUS SURVEY AND MISCELLANEOUS REPORTS (41 REPORTS).

WE DEVOTE SUBSTANTIAL RESOURCES TO AUDITING USAID GRANTEES AND CONTRACTORS. WE ADDRESS SINGLE AUDIT ACT AND OMB CIRCULAR A-133 REQUIREMENTS THROUGH AUDITS OF USAID'S U.S. GRANTEES. WE OVERSEE A PROGRAM EXTENDING SIMILAR AUDIT REQUIREMENTS TO NON-U.S. GRANTEES. WE ALSO AUDIT USAID'S U.S. AND NON-U.S. CONTRACTORS ACCORDING TO THE TERMS OF THEIR INDIVIDUAL CONTRACTS. OUR GOAL IS TO HELP USAID MAINTAIN ACCOUNTABILITY OVER MOST OF THE MONEY IT TRANSFERS TO GRANTEES AND CONTRACTORS IN FURTHERANCE OF AGENCY PROGRAMS AND OPERATIONS.

OVER THE PAST 10 YEARS, OUR FOCUS ON IMPROVING AND EXPANDING ACCOUNTABILITY OVER NON-U.S. GRANTEES HAS LED US TO WORK EVER MORE CLOSELY WITH A NUMBER OF RECIPIENT GOVERNMENT AUDIT ORGANIZATIONS COMMONLY CALLED SUPREME AUDIT INSTITUTIONS. THESE ORGANIZATIONS PRESENT US WITH AN OPPORTUNITY NOT ONLY TO IMPROVE ACCOUNTABILITY OVER FOREIGN ASSISTANCE, BUT ALSO TO HELP DEVELOP A RECIPIENT COUNTRY'S OWN AUDIT CAPACITY. OVER THE PAST SEVERAL YEARS, WE HAVE HOSTED REGIONAL CONFERENCES BRINGING TOGETHER RECIPIENT COUNTRY OFFICIALS, REPRESENTATIVES OF OTHER NATIONAL

ASSISTANCE AGENCIES INCLUDING THE WORLD BANK, GRANTEES, USAID OFFICIALS AND LOCAL COMMERCIAL AUDITORS TO DISCUSS COMMON ACCOUNTABILITY CONCERNS.

FOR EXAMPLE, I--ALONG WITH GRAHAM JOSCELYNE, AUDITOR GENERAL OF THE WORLD BANK AND WILLIAM TAYLOR, THE AUDITOR GENERAL OF THE INTER-AMERICAN DEVELOPMENT BANK--WAS A CO-CHAIR OF THE "ANTI-CORRUPTION SUMMIT 2000," WHICH WAS HELD IN SEPTEMBER 2000. THIS SUMMIT WAS ATTENDED BY INTERNATIONAL REPRESENTATIVES FROM SUPREME AUDIT INSTITUTIONS AND INSPECTORS GENERAL OFFICES AS WELL AS CIVIL SERVANTS AND PRIVATE SECTOR PROFESSIONALS. A VARIETY OF ANTI-CORRUPTION TOPICS WERE DISCUSSED, INCLUDING A KEYNOTE ADDRESS CONCERNING THE NEED FOR A GLOBAL RESPONSE TO CORRUPTION SUCH AS INTERNATIONAL MONEY-LAUNDERING AND THE INSTITUTIONS THAT FACILITATE THE MOVEMENT OF "DIRTY" MONEY FROM TERRORISTS, DRUG CARTELS, CRIME GROUPS AND CORRUPT FOREIGN OFFICIALS.

SUCH MEETINGS HAVE LED TO CLOSER COOPERATION BETWEEN THE USAID OIG AND THESE SUPREME AUDITING AGENCIES. OUR REGIONAL INSPECTORS GENERAL PROVIDE TRAINING, GUIDANCE AND INSTRUCTION TO MANY SUPREME AUDIT INSTITUTIONS WORLDWIDE, INCLUDING THE FOLLOWING, WITH WHICH WE HAVE WRITTEN AGREEMENTS THAT GUIDE OUR COOPERATIVE EFFORTS: BENIN, BOLIVIA, ETHIOPIA, EL SALVADOR, GHANA, HONDURAS, INDONESIA, MALI, PERU, SENEGAL, SOUTH AFRICA, ST. LUCIA, TANZANIA, THAILAND, UGANDA, ZAMBIA AND ZIMBABWE. WE HAVE FOUND THIS TO BE A VERY COST EFFECTIVE METHOD OF EXPANDING OUR AUDIT REACH WHILE HELPING DEVELOPING COUNTRIES TO STRENGTHEN THEIR OWN CAPABILITIES.

DURING THE PERIOD COVERED BY OUR LAST TWO SEMIANNUAL REPORTS TO CONGRESS, WE REVIEWED AND DISTRIBUTED SIXTEEN FINANCIAL AUDIT REPORTS PRODUCED BY NON-FEDERAL AUDITORS COVERING ENTERPRISE FUND OPERATIONS. ENTERPRISE FUNDS ARE U.S.-BASED NONPROFIT ENTITIES ESTABLISHED UNDER THE SUPPORT FOR EAST EUROPEAN DEMOCRACY (SEED) ACT OF 1989. ACCORDING TO THE SEED ACT, THESE FUNDS ARE SUBJECT TO AN ANNUAL FINANCIAL STATEMENT AUDIT PERFORMED IN ACCORDANCE WITH GENERALLY ACCEPTED AUDITING STANDARDS.

INVESTIGATIONS

THE ASSISTANT INSPECTOR GENERAL FOR INVESTIGATIONS IS RESPONSIBLE FOR SUPERVISING THE PERFORMANCE OF INVESTIGATIVE ACTIVITIES RELATING TO USAID, ADF AND IAF PROGRAMS AND OPERATIONS. INVESTIGATIONS OF CRIMINAL, CIVIL, AND ADMINISTRATIVE VIOLATIONS COVER ALL FACETS OF THE WORLDWIDE OPERATIONS OF THESE ENTITIES.

THE INVESTIGATIONS STAFF IS ALLOCATED 32 FULL-TIME POSITIONS AND IS ORGANIZED INTO THREE DIVISIONS: THE DOMESTIC DIVISION, THE OVERSEAS DIVISION AND THE

HEADQUARTERS LIAISON AND SPECIAL INVESTIGATIONS DIVISION. THE DOMESTIC DIVISION PROVIDES INVESTIGATIVE COVERAGE FOR USAID, ADF AND IAF PROGRAMS AND OPERATIONS IN THE UNITED STATES, CENTRAL AMERICA AND SOUTH AMERICA. IT ALSO HAS COGNIZANCE OVER THE SAN SALVADOR FIELD OFFICE.

THE OVERSEAS DIVISION IS HEADQUARTERED IN BUDAPEST, HUNGARY, WITH RESIDENT AGENTS ALSO ASSIGNED TO FIELD OFFICES IN CAIRO, EGYPT; DAKAR, SENEGAL; MANILA, PHILIPPINES AND PRETORIA, SOUTH AFRICA. THE OVERSEAS DIVISION PROVIDES INVESTIGATIVE COVERAGE FOR USAID AND ADF PROGRAMS AND OPERATIONS IN EUROPE, ASIA AND AFRICA.

THE HEADQUARTERS LIAISON AND SPECIAL INVESTIGATIONS DIVISION IS MADE UP OF TWO UNITS: POLICY, PLANNING AND QUALITY ASSURANCE AND SPECIAL INVESTIGATIONS. THIS DIVISION COORDINATES INVESTIGATIVE POLICY, PLANNING, AND QUALITY ASSURANCE EFFORTS WITHIN THE OIG AND INVESTIGATES CASES OF EMPLOYEE INTEGRITY ISSUES.

OIG INVESTIGATES APPARENT VIOLATIONS OF LAWS, RULES, AND REGULATIONS. WHEN THERE IS REASON TO BELIEVE THERE HAS BEEN A VIOLATION OF FEDERAL CRIMINAL LAW, WE REPORT DIRECTLY TO THE DEPARTMENT OF JUSTICE (DOJ). WE ALSO WORK CLOSELY WITH USAID'S OFFICE OF GENERAL COUNSEL AND THE DOJ IN MATTERS WHICH MAY RESULT IN CIVIL CLAIMS OR OTHER CIVIL ACTION.

OIG INVESTIGATES COMPLAINTS INVOLVING SERIOUS ADMINISTRATIVE IRREGULARITIES AND OTHER CONDUCT PREJUDICIAL TO USAID, ADF AND IAF PROGRAMS AND OPERATIONS. INQUIRIES WHICH DISCLOSE VIOLATIONS OF FEDERAL OR AGENCY RULES AND REGULATIONS ARE REFERRED TO USAID MANAGEMENT FOR ACTION. OIG ALSO CONDUCTS INQUIRIES AND DEVELOPS INFORMATION REQUESTED BY SENIOR MANAGEMENT OR CONGRESS TO FULFILL THEIR OVERSIGHT RESPONSIBILITIES.

OVERSEAS INVESTIGATIONS OFFER SPECIAL CHALLENGES AND DIFFER FROM DOMESTIC INVESTIGATIONS. USAID OIG INVESTIGATORS WORKING OVERSEAS MUST COPE WITH LANGUAGE AND CULTURAL DIFFERENCES, AND COMPLY WITH HOST COUNTRY LAWS GOVERNING THE INVESTIGATIVE PROCESS. OVERSEAS CRIMINAL INVESTIGATIONS ARE OFTEN COMPLICATED BY THE NEED TO INVOLVE THE HOST COUNTRY FOREIGN MINISTRY AND HOST COUNTRY INVESTIGATIVE AGENCIES. OIG INVESTIGATORS ARE LIMITED IN THEIR AUTHORITY TO QUESTION HOST COUNTRY NATIONALS. WHEN THIS IS PERMITTED, THE INVESTIGATOR MUST FOLLOW THE PARTICULAR STEPS FOUND IN LEGAL ASSISTANCE TREATIES OR AGREEMENTS.

OIG INVESTIGATIVE PRIORITIES ARE PROGRAM FRAUD, ANTI-CORRUPTION AND EMPLOYEE INTEGRITY. WE EMPHASIS A PROACTIVE APPROACH THROUGH FRAUD AWARENESS TRAINING TO AGENCY EMPLOYEES, CONTRACTORS AND GRANTEES THAT HIGHLIGHTS FRAUD

INDICATORS, PROCEDURES FOR REPORTING SUSPICIOUS OR ILLEGAL ACTIVITY, AND USE OF THE OIG HOTLINE. A FRAUD INDICATORS HANDBOOK HAS ALSO BEEN DEVELOPED AND DISTRIBUTED DURING TRAINING. THE HANDBOOK CONTAINS VALUABLE INFORMATION ON HOW TO DETECT FRAUD IN GOVERNMENT CONTRACTS, HOW TO RECOGNIZE FRAUDULENT SCHEMES IN PROJECTS AND PROCUREMENTS, AND HOW TO SPOT INDICATORS OF FINANCIAL FRAUD. ALTHOUGH DEVELOPED IN ENGLISH, THE HANDBOOK HAS ALSO BEEN TRANSLATED INTO SPANISH AND FRENCH TO MORE EFFECTIVELY COMMUNICATE THE ANTI-FRAUD INFORMATION TO NON-ENGLISH SPEAKING AUDIENCES. ADDITIONALLY, THE OIG FRAUD AWARENESS TRAINING PROGRAM HAS BEEN RECORDED ON VIDEOTAPE FOR DISTRIBUTION TO LOCATIONS WHERE THE ACTUAL TRAINING HAS NOT BEEN SCHEDULED.

OIG HAS ALSO DEVELOPED AND IMPLEMENTED AN ANTI-CORRUPTION STRATEGY CONSISTING OF THE FOLLOWING SIX PARTS: (1) SURVEY THE ENVIRONMENT - WE ASSESS HISTORICAL CORRUPTION IN HOST COUNTRIES AND IDENTIFY LOCAL THREATS AND VULNERABILITIES TO USAID, ADF OR IAF PROGRAMS. (2) ESTABLISH A CLOSE WORKING RELATIONSHIP - WE WORK CLOSELY WITH USAID, ADF AND IAF MANAGEMENT, NONGOVERNMENTAL ORGANIZATIONS, PRIVATE VOLUNTARY ORGANIZATIONS AND HOST GOVERNMENTS TO PROMOTE COOPERATION AND COLLABORATION WITH USAID, ADF AND IAF. (3) EMPHASIZE A TEAM APPROACH - WE ENCOURAGE THE TIMELY SUBMISSION OF REFERRALS AND WORK TOWARD THE EARLY SOLUTION OF PROBLEMS. (4) EDUCATE EMPLOYEES ABOUT FRAUD AWARENESS ISSUES - WE TRAIN EMPLOYEES AND PARTNERS IN FRAUD AWARENESS AND ANTI-CORRUPTION ISSUES TO ENSURE THAT EACH IS AWARE OF THEIR RESPONSIBILITIES WHEN CONFRONTED WITH FRAUD OR CORRUPTION. (5) ENFORCE THE FOREIGN CORRUPT PRACTICES ACT (FCPA) AGGRESSIVELY - THE FCPA PROHIBITS A U.S. FIRM OR AGENT OF THE FIRM FROM MAKING A "CORRUPT" PAYMENT TO A FOREIGN OFFICIAL FOR THE PURPOSE OF PROCURING OR RETAINING BUSINESS. OIG INVESTIGATORS WORK CLOSELY WITH THE DEPARTMENT OF JUSTICE (DOJ) IN INVESTIGATING FCPA VIOLATIONS AND USE THE FCPA AS A TOOL IN FIGHTING CORRUPTION IN USAID PROGRAMS. (6) OFFER RECOMMENDATIONS FOR SYSTEMIC IMPROVEMENT - WE RECOMMEND SYSTEMIC IMPROVEMENTS IF A WEAKNESS IS UNCOVERED IN A PROGRAM OR OPERATION AND WORK WITH USAID, ADF OR IAF TO CORRECT THE PROBLEM.

THE FOLLOWING CASE DEMONSTRATES SOME RECENT INVESTIGATIVE RESULTS ENSUING FROM THIS STRATEGY. DURING FY 2000, AN ONGOING OIG INVESTIGATION RESULTED IN THE CONVICTION OF TWO SEPARATE COMPANIES (ONE GERMAN AND ONE AMERICAN) ON ONE FELONY COUNT EACH OF PARTICIPATING IN A CRIMINAL CONSPIRACY TO RIG BIDS ON USAID-FUNDED CONSTRUCTION CONTRACTS IN VIOLATION OF THE SHERMAN ANTITRUST ACT. THE GERMAN COMPANY HAD PARTICIPATED IN A CONSPIRACY TO SUPPRESS AND ELIMINATE COMPETITION BY RIGGING BIDS ON TWO USAID-FUNDED WASTEWATER CONSTRUCTION PROJECTS IN EGYPT. THE COMPANY ACKNOWLEDGED THAT THE OBJECTIVE OF THE CONSPIRACY WAS TO PROTECT THE BIDS OF ITS SUBSIDIARY AND ENSURE THAT IT WOULD BE AWARDED THE LUCRATIVE USAID CONTRACT AT A HIGHLY

INFLATED PRICE. THE AMERICAN COMPANY ALSO ADMITTED TO HAVING CONSPIRED WITH OTHER PRE-QUALIFIED BIDDERS TO MANIPULATE BIDS ON SELECTED USAID-FUNDED CONSTRUCTION CONTRACTS IN EGYPT. A $30 MILLION CRIMINAL FINE WAS IMPOSED UPON THE GERMAN COMPANY, A $4.2 MILLION CRIMINAL FINE AND A $500,000 CIVIL RESTITUTION ON THE AMERICAN COMPANY.

IN ANOTHER CASE, A LARGE U.S. ENVIRONMENTAL ENGINEERING FIRM AGREED TO PAY A CIVIL PENALTY OF $400,000 AND GOVERNMENT INVESTIGATIVE COSTS OF $50,000 TO RESOLVE ALLEGATIONS THAT IT HAD VIOLATED THE FOREIGN CORRUPT PRACTICES ACT. THE ENVIRONMENTAL ENGINEERING FIRM HAD PROVIDED BENEFITS TO THE CHAIRMAN OF A FOREIGN ORGANIZATION TO INDUCE HIM TO USE HIS OFFICIAL INFLUENCE TO SUPPORT THE AWARD OF APPROXIMATELY $36 MILLION IN CONTRACTS TO THE FIRM. THE FOREIGN ORGANIZATION, AN INSTRUMENTALITY OF THE GOVERNMENT OF THE UNITED ARAB REPUBLIC OF EGYPT, WAS RESPONSIBLE FOR OPERATING SEWAGE AND WASTEWATER TREATMENT FACILITIES IN EGYPT. THE FIRM CONSENTED TO COOPERATE IN THE GOVERNMENT'S ONGOING INVESTIGATION AND TO INSTITUTE CERTAIN REMEDIAL ACTIONS, INCLUDING MODIFYING ITS EXISTING COMPLIANCE PROGRAM.

IN ANOTHER CASE, A U.S. SUBSIDIARY OF AN ITALIAN MANUFACTURER OF FLOUR MILLING EQUIPMENT PLED GUILTY TO ONE-COUNT OF OBSTRUCTION OF JUSTICE AND AGREED TO PAY A CRIMINAL FINE OF $325,000 AS A RESULT OF ACTIONS IT TOOK TO OBSTRUCT A JOINT USAID/OIG-U.S.CUSTOMS INVESTIGATION. WHEN THE COMPANY PRESIDENT DECLINED TO TALK WITH INVESTIGATORS, THE COMPANY'S LEGAL COUNSEL WAS CONTACTED BY AN ASSISTANT UNITED STATES ATTORNEY AND TOLD THAT SUBPOENAS FOR BOOKS AND RECORDS WOULD BE ISSUED. THAT NIGHT, INVESTIGATORS SEIZED THE COMPANY PRESIDENT'S TRASH, REVEALING THAT HE HAD DISCARDED DIARIES AND NOTEBOOKS SPANNING A THREE-YEAR PERIOD, AND NOTES AND REFERENCES AROUND WHICH THE INVESTIGATION WAS BASED. THE ATTEMPT TO DESTROY THESE RECORDS WAS THE BASIS OF THE OBSTRUCTION OF JUSTICE CHARGE AGAINST THE COMPANY. IN ADDITION TO THE FINE, THE COMPANY WAS PLACED ON PROBATION FOR A PERIOD OF TWO YEARS.

MANAGEMENT

THE ASSISTANT INSPECTOR GENERAL FOR MANAGEMENT LEADS A STAFF THAT HAS 29 AUTHORIZED POSITIONS. HE PROVIDES ADVICE AND ASSISTANCE TO ME AND MY ASSISTANT INSPECTORS GENERAL ON ADMINISTRATIVE, FINANCIAL, AND PERSONNEL MATTERS.

THE ASSISTANT INSPECTOR GENERAL FOR MANAGEMENT SUPERVISES PERSONNEL, BUDGET, ACQUISITION, INFORMATION MANAGEMENT, AND ADMINISTRATIVE SERVICES. THE MANAGEMENT OFFICE HAS THREE UNITS: PERSONNEL SERVICES, BUDGET AND ACQUISITIONS, AND INFORMATION MANAGEMENT.

OUR PERSONNEL SERVICES STAFF PROVIDES SUPPORT FOR BOTH

CIVIL SERVICE AND FOREIGN SERVICE PERSONNEL. THEY PROVIDE A FULL RANGE OF SERVICES INCLUDING RELOCATION SUPPORT FOR OVERSEAS STAFF, RETIREMENT, BENEFITS, CLASSIFICATION, STAFFING, PROMOTIONS, AWARDS AND TRAINING.

OUR BUDGET STAFF HAS FACED MANY CHALLENGES OVER THE PAST YEARS. THEY MANAGE THE OIG OPERATING BUDGET INCLUDING BUDGET FORMULATION, BUDGET JUSTIFICATION, BUDGET SUBMISSION, AND BUDGET EXECUTION.

OUR ACQUISITION STAFF PROVIDES A FULL RANGE OF PROCUREMENT SERVICES. THEY AWARD A WIDE RANGE OF SMALL AND LARGE CONTRACTS FOR GENERAL SUPPLIES AND SERVICES, ADP EQUIPMENT AND PROFESSIONAL SERVICES. THEY CONTINUE TO WORK CLOSELY WITH THE MISSION CONTROLLERS WHO ASSIST US IN OBLIGATING FUNDS AND MAKING USAID PAYMENTS TO CONTRACTORS AND VENDORS OVERSEAS.

THE INFORMATION MANAGEMENT (IM) STAFF PROVIDES TECHNICAL SUPPORT TO ALL IG OFFICES. THE SERVICES PROVIDED BY IM INCLUDE INTERNET AND INTRANET WEB ADMINISTRATION, NETWORK MANAGEMENT, AND USER SUPPORT. IM HAS RECENTLY PUBLISHED UPDATED VERSIONS OF THE INTERNET AND INTRANET WEB SITES. OUR INTERNET WEB SITE HAS RECEIVED NATIONAL RECOGNITION FOR ITS DESIGN AND EDUCATIONAL CONTENT. OUR INTRANET SITE PROVIDES AN ARRAY OF INFORMATION ON OUR OFFICES, IG SERVICES, AND LINKS TO RELATED SITES.

CONSISTENT WITH MANAGEMENT, IM IS DEDICATED TO PROVIDING EXCELLENT CUSTOMER SERVICE. IM HAS IMPROVED NETWORK STABILITY, IMPLEMENTED NEW HELP DESK PROCEDURES AND CONVERTED TO A MORE RELIABLE EMAIL SYSTEM. ADDITIONALLY, IM SEEKS TO EMPLOY ENTERPRISE-WIDE TECHNICAL SOLUTIONS TO ADDRESS THE BUSINESS NEEDS OF OUR IG COMMUNITY.

PART II
USAID OVERVIEW

USAID DIRECTLY CONTRIBUTES TO THE ACHIEVEMENT OF U.S. FOREIGN POLICY GOALS, AS ARTICULATED BY THE PRESIDENT AND THE SECRETARY OF STATE, THROUGH ITS DEVELOPMENT AND HUMANITARIAN ASSISTANCE PROGRAMS. SUSTAINABLE DEVELOPMENT IS THE PROCESS LEADING TO A LASTING INCREASE IN THE CAPACITY OF SOCIETY TO IMPROVE THE QUALITY OF LIFE OF ITS PEOPLE. HUMANITARIAN ASSISTANCE, WHICH CONTRIBUTES TO CRISIS PREVENTION AND MITIGATION, IS AN ESSENTIAL PART OF SUSTAINABLE DEVELOPMENT.

USAID DELIVERS MOST OF ITS ASSISTANCE BY ENTERING INTO CONTRACTS OR BY APPROVING GRANTS AND COOPERATIVE AGREEMENTS. USAID ALSO MANAGES SEVERAL CREDIT (LOAN AND LOAN GUARANTY) PROGRAMS.

LIKE MANY ORGANIZATIONS, USAID FACES SEVERAL MAJOR PERFORMANCE AND MANAGEMENT CHALLENGES. FOR SEVERAL YEARS, THE OIG HAS BEEN REPORTING ON THESE CHALLENGES THROUGH ITS SEMIANNUAL REPORTS, LETTERS TO CONGRESS AND OTHER VEHICLES. TODAY, I WOULD LIKE TO TAKE SOME TIME TO SUMMARIZE THOSE CHALLENGES FOR YOU, THE EFFORTS USAID HAS MADE TO ADDRESS THOSE CHALLENGES AND WHAT THE OIG HAS DONE TO ASSIST IN THESE EFFORTS.

FINANCIAL MANAGEMENT

THROUGH A SERIES OF LEGISLATIVE INITIATIVES BEGINNING IN 1990, THE FEDERAL GOVERNMENT HAS EMBARKED ON A COURSE TO IMPROVE THE QUALITY OF FINANCIAL INFORMATION USED TO MANAGE ITS ACTIVITIES. THESE INITIATIVES INCLUDE THE CHIEF FINANCIAL OFFICERS (CFO) ACT OF 1990, THE GOVERNMENT MANAGEMENT REFORM ACT (GMRA) OF 1994, AND THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA) OF 1996. EACH OF THESE LAWS CONCERNS THE PREPARATION AND AUDIT OF ANNUAL FINANCIAL STATEMENTS BY FEDERAL AGENCIES.

USAID CANNOT CURRENTLY MEET THE REQUIREMENTS OF THESE LAWS BECAUSE ITS FINANCIAL MANAGEMENT SYSTEMS DO NOT PROVIDE COMPLETE, RELIABLE, TIMELY, AND CONSISTENT INFORMATION. USAID MANAGERS, THEREFORE, CANNOT BE SURE THAT PROGRAM OBJECTIVES ARE MET; RESOURCES ARE ADEQUATELY SAFEGUARDED; RELIABLE FINANCIAL AND PERFORMANCE DATA ARE OBTAINED, MAINTAINED, AND REPORTED; AND ACTIVITIES COMPLY WITH LAWS AND REGULATIONS.

IN THE PAST THREE YEARS, USAID HAS MADE CONSIDERABLE PROGRESS TOWARD RESOLVING PROBLEMS WITH ITS FINANCIAL MANAGEMENT SYSTEM, AND IT IS PLACING SIGNIFICANT EFFORTS AND RESOURCES TOWARD ADDITIONAL IMPROVEMENTS. AS A RESULT, FINANCIAL MANAGEMENT PROCEDURES ARE NO LONGER CONSIDERED A SERIOUS MANAGEMENT CHALLENGE. HOWEVER, USAID STILL FACES THE FOLLOWING FOUR MANAGEMENT CHALLENGES:

- IMPLEMENTING AN INTEGRATED FINANCIAL MANAGEMENT SYSTEM;
- RECONCILING FINANCIAL DATA;
- REPORTING ACCOUNTS RECEIVABLE; AND
- IMPLEMENTING NEW PROCEDURES FOR THE DIRECT LOAN PROGRAM.

PROGRESS ON IMPLEMENTING AN INTEGRATED FINANCIAL MANAGEMENT SYSTEM

THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA) REQUIRES THAT EACH AGENCY IMPLEMENT AND MAINTAIN FINANCIAL MANAGEMENT SYSTEMS THAT COMPLY WITH FEDERAL FINANCIAL MANAGEMENT SYSTEMS REQUIREMENTS, INCLUDING, OFFICE

OF MANAGEMENT AND BUDGET'S CIRCULAR NUMBER A-127. USAID'S GOAL IS TO IMPLEMENT THE ENTIRE SUITE OF INTEGRATED FINANCIAL AND MIXED FINANCIAL SYSTEMS IN ACCORDANCE WITH THESE REQUIREMENTS BY FISCAL YEAR 2005.

TO ATTAIN THIS GOAL, USAID ESTABLISHED THE OFFICE OF FINANCIAL SYSTEM INTEGRATION TO PLAN FOR AND ACQUIRE USAID'S FINANCIAL SYSTEMS. THIS OFFICE, UNDER THE DIRECTION OF THE CHIEF FINANCIAL OFFICER, IS ALSO PREPARING AN OVERALL PLAN TO MODERNIZE USAID'S LEGACY SYSTEMS AS COMPONENTS OF AN INTEGRATED FINANCIAL SYSTEM.

USAID IS IN THE PROCESS OF IMPLEMENTING AN INTEGRATED FINANCIAL MANAGEMENT SYSTEM, USING COMMERCIAL-OFF-THE-SHELF SOFTWARE THAT WILL COMPLY WITH THE FFMIA AND THE CLINGER-COHEN ACT OF 1996. BECAUSE USAID'S INTEGRATED SYSTEM WILL INCLUDE LEGACY SYSTEM INFORMATION, USAID WILL NEED TO CONVERT AND MOVE DATA FROM EXISTING SYSTEMS TO THE NEW CORE FINANCIAL MANAGEMENT SYSTEM. THIS NEW SYSTEM IS BEING IMPLEMENTED IN SEVERAL PHASES.

- THE FIRST PHASE, DEPLOYMENT OF THE INTEGRATED FINANCIAL MANAGEMENT SYSTEM'S CORE COMPONENT (PHOENIX), BEGAN DECEMBER 15, 2000.

- THE SECOND PHASE WILL CONCENTRATE ON INTEGRATING VARIOUS SUBSYSTEMS (INTERFACES WITH INTERNAL AND EXTERNAL SYSTEMS) THAT WILL FEED PROCUREMENT AND FINANCIAL INFORMATION INTO THE PHOENIX SYSTEM. USAID PROJECT MANAGERS ESTIMATE THIS PHASE WILL BE COMPLETED DURING FY 2001.

- DURING THE THIRD PHASE, USAID WILL DEVELOP A SECURE INTERFACE TO ALLOW THE TRANSFER OF DATA FROM OVERSEAS MISSIONS TO WASHINGTON, D.C. SYSTEM SECURITY WILL BE ENCHANCED THROUGH THE USE OF RISK ASSESSMENTS, TECHNOLOGY UPGRADES, EXPANDED TRAINING AND DATA ENCRYPTION. THIS WORK IS SCHEDULED FOR COMPLETION BY THE END OF FY 2002.

- THE FINAL PHASE WILL ENABLE THE CAPABILITY TO INTEGRATE COST ACCOUNTING FUNCTIONS INTO THE PHOENIX FINANCIAL SYSTEM. THIS PHASE IS ESTIMATED FOR COMPLETION DURING FISCAL YEAR 2003.

THE OIG IDENTIFIED SEVERAL CONCERNS WITH THE PHOENIX IMPLEMENTATION BEFORE THE SCHEDULED DEPLOYMENT. THESE INCLUDED:

- COMPRESSED AND LIMITED SOFTWARE TESTING OF FUNCTIONAL REQUIREMENTS AND A LACK OF PARALLEL OPERATIONS.

- DELAYS IN MIGRATING DATA FROM THE OLD TO THE NEW SYSTEM.

- AN INCOMPLETE AND UNTESTED CONTINGENCY PLAN. SUCH PLANS ENSURE CONTINUED SYSTEMS OPERATION IN THE EVENT OF PROBLEMS.

- DEFERRAL OF SOME SYSTEM FUNCTIONALITY.

- UNEVEN ATTENDANCE AT USER TRAINING SESSIONS.

- NO PROCESS TO DOCUMENT THE SHOWSTOPPERS AND THE FINAL DECISIONS AUTHORIZING DEPLOYMENT OF THE SYSTEM. SHOWSTOPPERS ARE CRITICAL PROBLEMS THAT PREVENT THE PROPER FUNCTIONING OF A SYSTEM.

THE OIG HAS WORKED CLOSELY WITH USAID MANAGEMENT ON THESE CONCERNS AND RECOMMENDED THAT USAID THOROUGHLY TEST PHOENIX AND RESOLVE ANY OPERATIONAL PROBLEMS. TO ADDRESS THESE CONCERNS, USAID DELAYED THE DEPLOYMENT, TOOK ACTION TO CONDUCT MORE TESTING, INCREASED USERS' PARTICIPATION, AND DESIGNED A PROJECT TOOL TO ASSESS THE OPERATIONAL READINESS OF PHOENIX. THE OIG CONTINUES TO MONITOR USAID'S PROGRESS IN IMPLEMENTING PHOENIX.

PROGRESS ON CORRECTING FINANCIAL MANAGEMENT SYSTEM PLANNING DEFICIENCIES

THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT REQUIRES AGENCIES TO DETERMINE WHETHER THEIR FINANCIAL MANAGEMENT SYSTEMS MEET FEDERAL REQUIREMENTS DESIGNED TO ENSURE THAT MANAGERS RECEIVE RELIABLE INFORMATION. SUCH INFORMATION IS NECESSARY TO RELIABLY REPORT FINANCIAL AND PERFORMANCE RESULTS AND TO BETTER MANAGE AGENCY OPERATIONS. IN DECEMBER 1997, THE ADMINISTRATOR DETERMINED THAT USAID SYSTEMS DID NOT MEET THOSE FEDERAL REQUIREMENTS AND, IN DECEMBER 1998, USAID PREPARED A PLAN TO CORRECT SYSTEM DEFICIENCIES.

IN MARCH 1999, THE OIG REVIEWED USAID'S REMEDIATION PLAN AND REPORTED THAT THE PLAN WAS INADEQUATE. IN ADDITION TO PROBLEMS WITH THE PLAN, THE OIG ALSO REPORTED THAT USAID LACKED: (1) AN AGENCY-WIDE INFORMATION TECHNOLOGY TARGET ARCHITECTURE, (2) A FINANCIAL MANAGEMENT SYSTEM PORTFOLIO MEETING OMB'S GUIDELINES FOR SELECTING INFORMATION TECHNOLOGY INVESTMENTS, (3) A MODULAR ACQUISITION STRATEGY, AND (4) A PROGRAM MANAGEMENT OFFICE TO OVERSEE THE DEVELOPMENT OF AN INTEGRATED FINANCIAL MANAGEMENT SYSTEM.

IN AUGUST 2000, THE OIG REPORTED THAT USAID HAD MADE PROGRESS IN CORRECTING THESE FINANCIAL MANAGEMENT SYSTEM PLANNING DEFICIENCIES. HOWEVER, ONLY TWO DEFICIENCIES, THE ABSENCES OF AN AGENCY-WIDE INFORMATION TECHNOLOGY TARGET ARCHITECTURE AND A MODULAR ACQUISITION STRATEGY, HAVE BEEN FULLY CORRECTED. THE OTHER DEFICIENCIES HAVE BEEN ONLY PARTIALLY CORRECTED.

THE OIG AUDIT REPORT ADDRESSING THIS AREA RECOMMENDED THAT USAID MANAGEMENT: (1) DEVELOP AND IMPLEMENT A PROCESS FOR SELECTING INFORMATION TECHNOLOGY INVESTMENTS THAT COMPLIES WITH OMB AND GAO GUIDELINES, (2) REVISE USAID'S FINANCIAL MANAGEMENT SYSTEM REMEDIATION PLAN, AND (3) STRENGTHEN THE AUTHORITY OF THE OFFICE OF FINANCIAL SYSTEMS INTEGRATION.

USAID MANAGEMENT ACCEPTED THE OIG'S FINDINGS AND RECOMMENDATIONS CONCERNING THE INFORMATION TECHNOLOGY SELECTION PROCESS AND THE REVISION OF THE REMEDIATION PLAN. USAID MANAGEMENT ALSO AGREED TO ENSURE THAT THE CHIEF INFORMATION OFFICER, THE CHIEF FINANCIAL OFFICER, AND THE ASSISTANT ADMINISTRATOR FOR MANAGEMENT, ALONG WITH THE OFFICE OF FINANCIAL SYSTEMS INTEGRATION--COLLECTIVELY--WILL HAVE THE RESPONSIBILITY, AUTHORITY, AND STRUCTURE NECESSARY TO PROPERLY DIRECT THE DEVELOPMENT AND DEPLOYMENT OF ALL FINANCIAL-RELATED COMPONENTS OF THE INTEGRATED FINANCIAL MANAGEMENT SYSTEM PROGRAM.

DATA RECONCILIATION

DESPITE IMPROVEMENTS, RECONCILIATION OF FINANCIAL MANAGEMENT INFORMATION AT USAID CONTINUES TO BE A CHALLENGE. USAID HAS EXPERIENCED DIFFICULTY RECONCILING ITS FUND BALANCE WITH THE U.S. DEPARTMENT OF TREASURY (TREASURY) AND WITH THE ADVANCES IT HAS PROVIDED TO GRANTEES. THIS SITUATION HAS BEEN CONSISTENTLY REPORTED IN PREVIOUS OIG FINANCIAL STATEMENT AUDIT REPORTS ISSUED IN RESPONSE TO THE GMRA.

DURING THE OIG'S FY 2000 GMRA AUDIT, WE REVIEWED USAID'S PROGRESS ON BOTH TYPES OF RECONCILIATIONS. WE DETERMINED THAT USAID'S RECONCILIATION PROCESS FOR ITS FUND BALANCE WITH TREASURY HAD IMPROVED. THROUGH RESOLVING DIFFERENCES WITH TREASURY AND TRACKING RECONCILING ITEMS REPORTED BY OVERSEAS MISSIONS, USAID HAD GREATLY REDUCED THE NUMBER OF OUTSTANDING RECONCILING ITEMS AT SEPTEMBER 30, 2000.

ON THE OTHER HAND, OUR REVIEW OF USAID'S RECONCILIATION PROCESS FOR ADVANCES TO GRANTEES DID NOT IDENTIFY ANY SIGNIFICANT IMPROVEMENTS. IN ATTEMPTING TO ADDRESS THIS CHALLENGE, USAID ENGAGED THE U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (DHHS) TO PROCESS BOTH ADVANCES TO GRANTEES AND SUBSEQUENT LIQUIDATION OF THOSE ADVANCES. IT HAS ALSO CONTRACTED WITH A PUBLIC ACCOUNTING FIRM TO RECONCILE OBLIGATIONS THAT HAVE BEEN ESTABLISHED TO FUND ADVANCES TO GRANTEES. WE WILL REASSESS THIS SITUATION DURING OUR FY 2001 GMRA AUDIT.

ACCOUNTS RECEIVABLE

USAID CONTINUES TO HAVE A PROBLEM REPORTING ACCOUNTS RECEIVABLES IN AN ACCURATE AND TIMELY MANNER. WE REPORTED THIS ISSUE FOR THE FIRST TIME TO USAID MANAGEMENT IN 1996.

USAID IS BUILDING THE CAPACITY TO PROPERLY ESTABLISH AND REPORT OUTSTANDING ACCOUNTS RECEIVABLE INTO ITS NEW CORE ACCOUNTING SYSTEM. UNTIL THE NEW SYSTEM IS BROUGHT ONLINE, USAID WILL CONTINUE TO HAVE A MAJOR CHALLENGE IN ESTABLISHING AND REPORTING ITS OUTSTANDING ACCOUNTS RECEIVABLE.

DIRECT LOAN PROGRAM

USAID IS DEVELOPING AND DOCUMENTING PROCEDURES FOR MANAGING AND REPORTING ON THE FINANCIAL ACTIVITIES RELATED TO THE DIRECT LOAN PROGRAM. ADDITIONALLY, IN JULY 1998, USAID COMPLETED THE OUTSOURCING OF ITS CREDIT PORTFOLIO MANAGEMENT TO A COMMERCIAL BANK. AS PART OF OUR AUDIT OF USAID'S CONSOLIDATED FINANCIAL STATEMENT FOR FISCAL YEAR 2000, WE WILL DETERMINE WHETHER THE IMPLEMENTATION OF NEW PROCEDURES AND THE OUTSOURCING TO A COMMERCIAL BANK HAS SUFFICIENTLY REDUCED DIRECT LOAN PROGRAM VULNERABILITIES.

HUMAN CAPITAL MANAGEMENT

CONTINUED STAFF REDUCTIONS AND LIMITED HIRING CAN GREATLY AFFECT USAID'S CAPACITY TO OPERATE EFFECTIVELY. ACCORDING TO ITS *FY 1999 ACCOUNTABILITY REPORT*, USAID STAFFING LEVELS HAVE DECLINED BY 38 PERCENT OVER THE LAST TEN YEARS. IN FISCAL YEAR 2000, USAID'S TOTAL WORKFORCE ATTRITION WAS 225, COMPARED WITH PROJECTED ATTRITION OF 180.

DUE TO FUNDING CONSTRAINTS, THE TIME REQUIRED TO RECRUIT AND PROCESS NEW HIRES, AND THE FACT THAT ITS HIRING ACTIVITIES ARE KEYED TO PROJECTED ATTRITION, USAID CURRENTLY HAS MORE THAN 100 AUTHORIZED BUT UNFILLED POSITIONS. MANY OF THESE UNFILLED POSITIONS ARE IN CRITICAL HIGH-TURNOVER AREAS SUCH AS INFORMATION MANAGEMENT, FINANCIAL MANAGEMENT, AND PROCUREMENT. A MAJOR CONCERN IS THE STEADY DECLINE IN THE NUMBER OF EXPERIENCED FOREIGN SERVICE OFFICERS AND EMPLOYEES WITH IN-HOUSE TECHNICAL EXPERTISE. TO MANAGE ITS PROGRAMS FOR RESULTS, USAID MUST HAVE THE RIGHT PEOPLE--WITH THE RIGHT TRAINING AND SKILLS--IN THE RIGHT PLACES AT THE RIGHT TIME.

STAFF TRAINING

ACCORDING TO ITS *FY 1999 ACCOUNTABILITY REPORT*, USAID HAD DEVELOPED NEW AND INNOVATIVE TRAINING COURSES STRESSING MANAGEMENT, PROCUREMENT, OPERATIONS AND TECHNICAL SKILLS. IN ADDITION, IT HAD DEVELOPED THE FRAMEWORK FOR A NEW COURSE IN LEADERSHIP AND PROGRAM OPERATIONS. THROUGH THESE COURSES, USAID PLANNED TO TARGET CERTAIN KEY PERSONNEL

CATEGORIES IN ITS EFFORTS TO ADDRESS ITS HUMAN RESOURCE CAPABILITIES. ACCORDINGLY, USAID WAS CONDUCTING TRAINING AND WORKSHOPS TO TRAIN STAFF IN STRATEGIC PLANNING, ACTIVITY IMPLEMENTATION, PERFORMANCE MONITORING AND EVALUATION, AND ACQUISITIONS AND ASSISTANCE PLANNING AND ADMINISTRATION.

WE HAVE BEGUN AN AUDIT OF USAID'S STAFF TRAINING AND DEVELOPMENT ACTIVITIES TO DETERMINE WHETHER USAID PROVIDES ITS EMPLOYEES WITH SUFFICIENT TRAINING TO ACCOMPLISH THE AGENCY'S MISSION. THE SCOPE OF THIS AUDIT INCLUDES USAID TRAINING ACTIVITIES CONDUCTED DURING FISCAL YEARS 1999 AND 2000. THE AUDIT IS REVIEWING CONTROLS OVER THE ESTABLISHMENT OF CORE COMPENTENCIES, USING THOSE COMPETENCIES TO IDENTIFY TRAINING NEEDS, AND EVALUATING THE CONTRIBUTIONS OF STAFF TRAINING AND DEVELOPMENT ACTIVITIES.

INFORMATION RESOURCE MANAGEMENT

EXECUTIVE AGENCIES ARE REQUIRED BY THE CLINGER-COHEN ACT OF 1996 TO IMPLEMENT A PROCESS TO MAXIMIZE THE VALUE AND ASSESS THE MANAGEMENT RISKS INVOLVED IN INFORMATION TECHNOLOGY INVESTMENTS. OIG AUDITS AND OTHER STUDIES CONDUCTED OVER THE PAST SEVERAL YEARS HAVE DEMONSTRATED THAT USAID'S MANAGEMENT OF INFORMATION RESOURCES HAS NOT BEEN EFFECTIVE. ORGANIZATIONAL AND MANAGEMENT DEFICIENCIES HAVE HINDERED USAID FROM ACQUIRING AND IMPLEMENTING EFFECTIVE INFORMATION SYSTEMS AND HAVE ALSO HINDERED USAID MANAGERS FROM OBTAINING RELIABLE, COMPLETE, AND TIMELY FINANCIAL AND PERFORMANCE INFORMATION.

THE OIG IDENTIFIED THREE INFORMATION RESOURCE MANAGEMENT DEFICIENCIES: NEW MANAGEMENT SYSTEM REPORTING AND RESOURCE MANAGEMENT CAPABILITIES, INFORMATION RESOURCES MANAGEMENT PROCESSES AND USAID'S COMPUTER SECURITY PROGRAM.

NEW MANAGEMENT SYSTEM REPORTING AND RESOURCE MANAGEMENT CAPABILITIES

FOR YEARS, USAID MANAGERS HAVE NOT HAD TIMELY ACCESS TO FINANCIAL MANAGEMENT AND RESOURCE MANAGEMENT DATA THAT IS COMPLETE, RELIABLE, AND CONSISTENT. USAID'S NEW MANAGEMENT SYSTEM (NMS) WAS INTENDED TO CORRECT SYSTEM DEFICIENCIES RELATED TO ACCOUNTING, BUDGETING, AND PROCUREMENT, AS WELL AS PROGRAM OPERATIONS AND REPORTING. NMS FAILED TO DO SO BECAUSE OF SEVERE TECHNICAL AND IMPLEMENTATION PROBLEMS STEMMING FROM USAID'S DEVIATION FROM ACCEPTED SYSTEM DEVELOPMENT PRACTICES.

TO ADDRESS THIS WEAKNESS, USAID IS CURRENTLY IMPLEMENTING THE CORE FINANCIAL COMPONENT OF AN INTEGRATED FINANCIAL MANAGEMENT AND ACCOUNTING SYSTEM. THIS NEW SYSTEM (PHOENIX) WAS DEPLOYED IN WASHINGTON D.C. ON DECEMBER 15, 2000. IN ADDITION TO IMPLEMENTING PHOENIX, IN FISCAL YEAR 2000, USAID IMPLEMENTED A SYSTEM TO CAPTURE FIELD PROCUREMENT DATA. THIS SYSTEM WILL ADDRESS A WEAKNESS IN COMPLYING WITH FEDERALLY MANDATED PROCUREMENT REPORTING REQUIREMENTS UNTIL THE NEW PROCUREMENT SYSTEM IS IMPLEMENTED.

INFORMATION RESOURCE MANAGEMENT PROCESSES

IN 1997 AND 1998, THE OIG REPORTED A NUMBER OF SERIOUS INFORMATION RESOURCES MANAGEMENT DEFICIENCIES THAT CONTRIBUTED TO PREMATURE DEPLOYMENT OF THE NMS, A SYSTEM THAT HAD NOT BEEN TESTED AND DID NOT OPERATE EFFECTIVELY. USAID HAD ADOPTED A HIGH-RISK APPROACH THAT DID NOT FOLLOW ACCEPTED SYSTEM DEVELOPMENT PRACTICES AND HAD DEPLOYED THE SYSTEM WORLDWIDE THOUGH SEVERE PROBLEMS HAD BEEN PREVIOUSLY IDENTIFIED.

AS PREVIOUSLY DISCUSSED, USAID DECIDED TO REPLACE THE CORE FINANCIAL COMPONENTS OF NMS WITH A NEW SYSTEM: PHOENIX, A COMMERICAL OFF-THE SHELF PACKAGE. OUR CURRENT WORK ON USAID'S IMPLEMENTATION OF PHOENIX CONCLUDED THAT USAID IS STILL EXPERIENCING WEAKNESSES IN ITS INFORMATION RESOURCE MANAGEMENT PROCESSES.

FOR EXAMPLE, IN OCTOBER 2000, USAID PLANNED TO DEPLOY PHOENIX BEFORE THE SYSTEM HAD BEEN FULLY TESTED. THE OIG EXPRESSED CONCERNS WITH THE IMPLEMENTATION SCHEDULE AND RECOMMENDED THAT USAID THOROUGHLY TEST PHOENIX TO ENSURE THAT THE SYSTEM WOULD OPERATE EFFECTIVELY. IN THREE MEMORANDUMS TO THE USAID ADMINISTRATOR, THE OIG IDENTIFIED SPECIFIC RISKS AND CHALLENGES FACING PHOENIX, SUCH AS SOFTWARE TESTING WEAKNESSES, POTENTIAL DIFFICULTIES WITH DATA MIGRATION, AND THE NEED FOR CONTINGENCY PLANNING. TO ADDRESS THESE AND OTHER CONCERNS, USAID DELAYED THE DEPLOYMENT OF THE SYSTEM UNTIL DECEMBER 2000 AND TOOK ACTIONS TO CONDUCT MORE TESTING, ALLOW GREATER PARTICIPATION

BY SYSTEMS USERS, AND MORE THROUGHLY ASSESS THE OPERATIONAL READINESS OF PHOENIX.

IN ADDITION, USAID HAS TAKEN A NUMBER OF STEPS TO IMPLEMENT DISCIPLINED PROCESSES THAT COMPLY WITH CLINGER-COHEN ACT REQUIREMENTS. FOR EXAMPLE:

- USAID HAS OBTAINED A CONTRACTOR TO PROVIDE SPECIALIZED MANAGEMENT SUPPORT AND INFORMATION RESOURCE MANAGEMENT EXPERTISE AND HAS BEGUN TO IMPLEMENT A SOFTWARE ACQUISITION MODEL WHICH IS A RECOGNIZED ARCHETYPE FOR BOTH BENCHMARKING AND IMPROVING THE SOFTWARE ACQUISITION PROCESS.

- USAID HAS DEVELOPED PLANS TO SEEK INDEPENDENT VERIFICATION THAT ITS PRACTICES MEET COMMONLY ACCEPTED GOVERNMENT AND INDUSTRY STANDARDS AND ANTICIPATES THAT SUCH VERIFICATION WILL BE RECEIVED IN FISCAL YEAR ~~2001~~ 2002.

- USAID IS DEVELOPING AN INFORMATION TECHNOLOGY ARCHITECTURE THAT WILL CONFORM TO OMB REQUIREMENTS FOR AN ENTERPRISE ARCHITECTURE, A TECHNICAL REFERENCE MODEL AND A STANDARDS PROFILE.

THE OIG PLANS TO MONITOR THE PROCESSES ASSOCIATED WITH THE IMPLEMENTATION OF USAID'S PHOENIX SYSTEM. THE OIG WILL ALSO CONDUCT FUTURE AUDITS RELATED TO USAID'S INFORMATION RESOURCE MANAGEMENT PROCESSES.

COMPUTER SECURITY

DURING THE PAST YEAR, THE NATIONAL NEWS MEDIA HAS REPORTED SEVERAL HIGH-LEVEL LAPSES OF GOVERNMENTAL SECURITY INCLUDING COMPUTER SECURITY. GIVEN THE RECENT PRESIDENTIAL AND CONGRESSIONAL EMPHASIS ON THE IMPORTANCE OF COMPUTER SECURITY, THE OIG CONTINUES TO MAKE OVERSIGHT OF COMPUTER SECURITY ONE OF OUR TOP PRIORITIES.

THE OIG HAS ISSUED SEVERAL AUDIT REPORTS IDENTIFYING COMPUTER SECURITY DEFICIENCIES THAT EXPOSED USAID TO UNACCEPTABLE RISK THAT RESOURCES AND SENSITIVE DATA MIGHT NOT BE ADEQUATELY PROTECTED FROM LOSS OR DESTRUCTION. THESE DEFICIENCIES EXIST BECAUSE USAID HAS NOT IMPLEMENTED AN EFFECTIVE COMPUTER SECURITY PROGRAM AS REQUIRED BY THE COMPUTER SECURITY ACT AND OMB CIRCULAR A-130.

USAID HAS MADE SIGNIFICANT PROGRESS IN DEVELOPING A PROGRAM TO IMPROVE ITS ABILITY TO PROTECT COMPUTERIZED INFORMATION. FOR EXAMPLE, USAID HAS UPDATED SECURITY POLICIES, DEVELOPED A SECURITY EVALUATION PROCESS THAT REQUIRES CERTIFICATION BY USAID MANAGERS, DEVELOPED

PROCESSES AND CONDUCTED RISK ASSESSMENTS AT SIX MISSIONS, AND PERFORMED EVALUATIONS OF NMS AND PHOENIX.

IN ADDITION, USAID OFFICIALS HAVE CRAFTED A MODEL INFORMATION SYSTEM SECURITY PROGRAM. THIS PROGRAM PROVIDES A FRAMEWORK FOR IDENTIFYING AND DISSEMINATING TO OTHER GOVERNMENT AGENCIES A COMPLETE SET OF 'BEST PRACTICES' FOR IMPLEMENTING AN EFFECTIVE COMPUTER SECURITY PROGRAM. THE PROGRAM HAS BEEN RECOGNIZED BY THE CHIEF INFORMATION OFFICERS COUNCIL, GENERAL SERVICES ADMINISTRATION, AND OTHERS, AS AN INNOVATIVE AND COMPREHENSIVE APPROACH THAT COULD BENEFIT THE ENTIRE FEDERAL GOVERNMENT.

THE OIG ALSO CONTINUES TO WORK CLOSELY WITH THE USAID INFORMATION SYSTEMS SECURITY OFFICER AND TO PARTICIPATE IN THE INFORMATION SYSTEMS SECURITY WORKING GROUP. WHILE USAID HAS MADE SIGNIFICANT IMPROVEMENTS IN ITS INFORMATION SYSTEMS' SECURITY, MUCH WORK REMAINS TO BE DONE. USAID ESTIMATES THAT COMPUTER SECURITY VULNERABILITIES WILL NOT BE FULLY CORRECTED UNTIL 2003.

MANAGING FOR RESULTS

IN PAST YEARS, THE OIG HAS IDENTIFIED REPORTING OF PROGRAM RESULTS AS A MAJOR CHALLENGE FOR USAID MANAGEMENT. ALTHOUGH, IN SEPTEMBER 1999, USAID REMOVED RESULTS REPORTING FROM ITS LIST OF REPORTABLE WEAKNESSES UNDER THE FEDERAL MANAGERS FINANCIAL INTEGRITY ACT OF 1983, THE OIG CONTINUES TO VIEW RESULTS REPORTING AS A MAJOR MANAGEMENT CHALLENGE. AS DESCRIBED IN THE FOLLOWING PARAGRAPHS, USAID CONTINUES TO HAVE PROBLEMS DEVELOPING PERFORMANCE MEASUREMENT SYSTEMS THAT MEET EXTERNAL AND INTERNAL REPORTING REQUIREMENTS, INCLUDING THE REQUIREMENTS OF THE GOVERNMENT PERFORMANCE AND RESULTS ACT OF 1993 (RESULTS ACT). THE FOLLOWING DISCUSSES TWO COMPONENTS OF THAT CHALLENGE.

IMPLEMENTATION OF THE RESULTS ACT

THE OIG HAS TAKEN AN ACTIVE ROLE TO HELP USAID MEET THE REQUIREMENTS OF THE RESULTS ACT. OIG AUDITS HAVE REVEALED SEVERAL WEAKNESSES IN THE PERFORMANCE MEASUREMENT SYSTEMS USAID USES IN RESULTS ACT REPORTING. FOR INSTANCE, THE OIG, AS WELL AS THE GENERAL ACCOUNTING OFFICE, HAS NOTED THAT USAID NEEDS TO:

- MEASURE ITS PERFORMANCE USING DATA ATTRIBUTABLE TO ITS OWN PROGRAM PERFORMANCE RATHER THAN THAT OF THE ENTIRE DONOR COMMUNITY,
- CLEARLY LINK ITS PERFORMANCE GOALS TO ITS PROGRAM ACTIVITIES, AND
- USE TIMELY DATA TO REPORT ITS PERFORMANCE.

AS A RESULT OF THESE WEAKNESSES, THE INFORMATION REPORTED UNDER THE RESULTS ACT HAS LIMITED USEFULNESS FOR DEMONSTRATING USAID'S PROGRESS IN ACCOMPLISHING ITS GOALS AND OBJECTIVES.

TO MORE CLEARLY TIE THE PLANNED AND REPORTED RESULTS, USAID OFFICIALS ARE PREPARING A PERFORMANCE OVERVIEW REPORT, A REPORT WHICH COMBINES THE ANNUAL PERFORMANCE PLAN FOR FISCAL YEAR 2002 AND THE ANNUAL PERFORMANCE REPORT FOR FISCAL YEAR 2000. TO ASSESS USAID'S PROGRESS AND ASSIST IN FURTHER IMPROVEMENTS, THE OIG HAS BEGUN AN AUDIT OF THAT PERFORMANCE OVERVIEW REPORT AS WELL AS OF USAID'S REVISED STRATEGIC PLAN.

USAID'S INTERNAL SYSTEM FOR REPORTING RESULTS

USAID HAS AN INTERNAL SYSTEM FOR REPORTING RESULTS THAT IS NOT FULLY INTEGRATED WITH THE FRAMEWORK OF THE RESULTS ACT. THAT SYSTEM GENERATES THE "RESULTS REVIEW AND RESOURCE REQUEST" REPORT--THE MOST SIGNIFICANT PERFORMANCE REPORT THAT USAID OPERATING UNITS SEND TO THEIR RESPECTIVE BUREAUS.

IN A WORLDWIDE SERIES OF AUDITS, THE OIG DETERMINED AND REPORTED THAT THESE RESULTS REPORTS PREPARED IN 1997 CONTAINED DATA WHICH WERE NOT OBJECTIVELY VERIFIABLE, SUPPORTED, ACCURATE, COMPLETE OR VALIDATED. IN RESPONSE TO THE RECOMMENDATION IN THAT AUDIT REPORT, USAID:

- ISSUED GUIDANCE TO ITS OPERATING UNITS ON THE QUALITY OF INDICATORS AND DATA USED FOR RESULTS REPORTING,
- CONDUCTED TRAINING FOR USAID PERSONNEL ON THE IMPLEMENTATION OF THE GUIDANCE DISCUSSED ABOVE, AND
- REVISED USAID DIRECTIVES ON PERFORMANCE REPORTING.

IN AUGUST 1999, USAID OFFICIALS ASKED THE OIG TO PERFORM ADDITIONAL AUDITS TO ASSESS OPERATING UNITS' IMPLEMENTATION OF THE ABOVE USAID ACTIVITIES. THE OIG WORKED CLOSELY WITH USAID'S PERFORMANCE MEASUREMENT EXPERTS TO DEVELOP THE AUDIT OBJECTIVE AND METHODOLOGY. THE AUDITS CONDUCTED TO DATE REVEALED THAT OPERATING UNITS NEED TO:

- PREPARE AND CARRYOUT PERFORMANCE MONITORING PLANS TO BETTER ENSURE THAT CREDIBLE RESULTS WILL BE REPORTED, AND
- ASSESS THE QUALITY OF PERFORMANCE DATA INCLUDED IN THE RESULTS REPORT AND MORE FULLY DISCLOSE DATA LIMITATIONS, IF ANY, WHEN DATA ARE REPORTED.

USAID OFFICIALS PARTICIPATED AS OBSERVERS DURING THESE AUDITS, AND AGREED WITH THE FINDINGS TO DATE. THE OIG IS

CONTINUING THIS COLLABORATIVE AUDIT EFFORT IN FISCAL YEAR 2001.

IN RESPONSE TO THE AUDIT CONCERNS, USAID OFFICIALS REVISED USAID DIRECTIVES FOR PERFORMANCE MONITORING. IN ADDITION, USAID OFFICIALS HAVE BEGUN TO CONDUCT (1) TRAINING ON ASPECTS OF A PERFORMANCE MONITORING SYSTEM AND (2) SEMINARS ON THE NEW USAID DIRECTIVES. THESE ACTIVITIES ARE SCHEDULED TO CONTINUE THROUGH THE SPRING OF 2001.

USAID'S BROAD AND CHANGING MANDATE

USAID'S OPERATIONAL MANDATE IS EXCEEDINGLY BROAD. THE PRESIDENT'S COMMISSION ON THE MANAGEMENT OF A.I.D. PROGRAMS REPORTED IN 1992 THAT USAID WAS FACED WITH A MULTIPLICITY OF PROGRAMS AND UNCLEAR MANDATES IN AN ENVIRONMENT OF DIMINISHING OPERATIONAL RESOURCES. IN 1993, THE WHARTON TASK FORCE CONCLUDED THAT USAID HAD TOO MANY INDIVIDUAL COUNTRY PROGRAMS FOR THE SIZE OF ITS STAFF AND BUDGET. MORE RECENTLY, USAID HAS BEEN FACED WITH BROAD AND CHANGING INITIATIVES WHICH PLACE INCREASING DEMANDS ON ITS RESOURCES--SUCH AS DISASTER ASSISTANCE UNDER THE CENTRAL AMERICA AND CARIBBEAN RECONSTRUCTION SUPPLEMENTAL APPROPRIATION AND THE HIV/AIDS AND INFECTIOUS DISEASES RAPID RESPONSE.

IN ADDITION, ACCORDING TO USAID OFFICIALS, THE NATURE OF THE MANDATE ITSELF SEEMS TO BE EVOLVING SO AS TO ADDRESS KEY FOREIGN POLICY ISSUES OF THE DAY. USAID'S MANDATE ON SUSTAINABLE DEVELOPMENT IN THE POOREST COUNTRIES AND EMERGENCY ASSISTANCE IN RESPONSE TO NATURAL DISASTERS HAS EXPANDED TO INCLUDE ADDRESSING TRANSITIONS FROM COMMUNISM, HELPING NATIONS RECOVER FROM PERIODS OF CONFLICT AND PREVENTING FUTURE CONFLICT.

THE OIG HAS NOT MADE ANY GENERAL RECOMMENDATIONS IN THIS AREA. WITH REGARD TO THE MULTIPLICITY OF MANDATES AND PROGRAMS AND THE LACK OF ADEQUATE RESOURCES, THIS IS CLEARLY A MATTER THAT IS NOT ENTIRELY WITHIN USAID'S CONTROL. NEVERTHELESS, USAID HAS TAKEN SOME STEPS TO COME TO TERMS WITH THE CHALLENGES OF ITS BROAD MANDATE.

IN RESPONSE TO THE WHARTON REPORT, WHICH SAID THAT USAID HAD TOO MANY COUNTRY PROGRAMS, USAID CLOSED NUMEROUS MISSIONS WORLDWIDE--ALTHOUGH OTHER MISSIONS HAVE SINCE BEEN OPENED IN RESPONSE TO CHANGING U.S. FOREIGN POLICY INITIATIVES. AS A RESULT, SOME COUNTRIES NOW RECEIVE USAID FUNDS WITHOUT THE PRESENCE OF A USAID OFFICE IN-COUNTRY OR WITH ONLY A FEW USAID PERSONNEL. IN RESPONSE TO A RECENT OIG AUDIT, USAID HAS ISSUED GUIDANCE RELATING TO CONTROLS NEEDED FOR ACTIVITIES IN SUCH COUNTRIES. IN ADDITION, USAID IS TRYING TO FIND BETTER WAYS TO WORK WITH THE MISSIONS THAT REMAIN--MISSIONS THAT ARE TYPICALLY MUCH SMALLER THAN IN THE PAST. IN JUNE 2000, THE USAID ISSUED A GENERAL NOTICE ON HOW TO MAKE SMALLER MISSIONS MORE EFFECTIVE.

WITH REGARD TO RESPONDING TO BROAD AND CHANGING INITIATIVES, SUCH AS EXTENSIVE DISASTER ASSISTANCE OR INCREASED HIV/AIDS FUNDING, USAID HAS SOUGHT TO OBTAIN ADDITIONAL RESOURCES FOR PERSONAL SERVICES CONTRACTORS OR TECHNICAL ADVISORS TO HELP CARRY OUT SUCH INITIATIVES. IN ADDITION, USAID HAS SET UP A WORKING GROUP ON HOW TO COPE WITH THE RESOURCE DEMANDS OF SUPPLEMENTAL APPROPRIATIONS.

FINALLY, WITH REGARD TO THE EVOLVING RATIONALE FOR FOREIGN ASSISTANCE--AND THE INCREASING INVOLVEMENT OF THE DEPARTMENT OF STATE IN DEVELOPMENT ISSUES--USAID HAS SIGNED AN AGREEMENT WITH THE DEPARTMENT OF STATE TO ENHANCE COOPERATION AND COORDINATION BETWEEN THE TWO AGENCIES.

THE OIG IS PLANNING TO AUDIT THE EFFECTIVENESS OF REPORTING SYSTEMS IN COUNTRIES WHERE USAID DOES NOT HAVE A PRESENCE OR ONLY A VERY LIMITED PRESENCE, SYSTEMS WHICH WERE ESTABLISHED AS THE RESULT OF AN AUDIT WE ISSUED IN 1999.

ACCOUNTABILITY IN THE INTERNATIONAL ENVIRONMENT

ACCOUNTABILITY IN THE INTERNATIONAL ENVIRONMENT PRESENTS A SERIOUS MANAGEMENT CHALLENGE TO THE SUCCESS OF USAID'S ACTIVITIES.

USAID ADMINISTERS ITS ECONOMIC AND HUMANITARIAN ASSISTANCE IN AN OVERSEAS ENVIRONMENT HIGHLY VULNERABLE TO FRAUD AND CORRUPTION. TO ILLUSTRATE, EACH YEAR TRANSPARENCY INTERNATIONAL PUBLISHES ITS CORRUPTION PERCEPTIONS INDEX RATING COUNTIES SURVEYED ON A SCALE FROM 10 (LEAST CORRUPT) TO 0 (HIGHLY CORRUPT). OF THE 90 COUNTRIES TRANSPARENCY INTERNATIONAL RATED FOR 2000, 42 COUNTRIES RECEIVED A RATING BELOW 4 (FROM 3.9 TO 1.2). OF THESE 42 COUNTRIES, USAID HAS BEEN PROVIDING ASSISTANCE TO 36.

CORRUPTION AND LACK OF ACCOUNTABILITY ARE MAJOR IMPEDIMENTS TO ECONOMIC DEVELOPMENT, THE GROWTH OF DEMOCRATIC INSTITUTIONS, AND THE ABILITY OF DEVELOPING COUNTRIES TO ATTRACT SCARCE FOREIGN INVESTMENTS. OVER THE PAST FEW DECADES, AUDITORS, INVESTIGATORS AND OTHERS, INCLUDING THE MEDIA, HAVE IDENTIFIED INSTANCES WHERE FOREIGN AID FUNDS HAVE BEEN ADVERSELY AFFECTED BY CORRUPTION. SUCH ADVERSE PUBLICITY FROM CORRUPTION HAS HELPED TO ERODE THE U.S. PUBLIC'S CONFIDENCE IN AND SUPPORT FOR U.S. FOREIGN AID.

BOTH USAID AND THE OIG HAVE INITIATED VARIOUS ACTIVITIES IN RESPONSE TO THIS SERIOUS MANAGEMENT CHALLENGE OF OBTAINING ACCOUNTABILITY IN THE INTERNATIONAL ENVIRONMENT. FOR EXAMPLE, USAID'S SECOND STRATEGIC GOAL IS TO SEEK TO STRENGTHEN DEMOCRACY AND GOOD GOVERNANCE. WITHIN THIS STRATEGIC OBJECTIVE, USAID FOCUSES ITS EFFORTS ON FOUR

AREAS: STRENGTHENING THE RULE OF LAW AND RESPECT FOR HUMAN RIGHTS, ENCOURAGING CREDIBLE AND COMPETITIVE POLITICAL PROCESSES, PROMOTING THE DEVELOPMENT OF POLITICALLY ACTIVE CIVIL SOCIETY, AND ENCOURAGING MORE TRANSPARENT AND ACCOUNTABLE GOVERNMENT INSTITUTIONS.

THE OIG'S ACTIVITIES CAN BE CATEGORIZED AS THOSE DIRECTED AT PREVENTING LOSS AND THOSE DIRECTED AT DETECTING LOSS. THE OIG HAS DEDICATED SIGNIFICANT RESOURCES TO PREVENT LOSSES FROM CORRUPTION BEFORE THEY OCCUR IN AREAS WHERE WE ASSESS USAID AS HAVING THE GREATEST VULNERABILITY TO LOSS. FOR EXAMPLE, THE OIG REQUIRES ANNUAL AUDITS OF U.S.-BASED AND INDIGENOUS ORGANIZATIONS RECEIVING U.S. ASSISTANCE AND ALSO PROVIDES FRAUD AWARENESS TRAINING AND BRIEFINGS AROUND THE WORLD.

THE OIG'S STRATEGY FOR ACHIEVING ACCOUNTABILITY IN THE INTERNATIONAL ARENA ALSO FOCUSES ON EFFORTS TO DETECT FINANCIAL LOSS. THESE EFFORTS INCLUDE: ASSESSING CORRUPTION AND RISKS IN COUNTRIES; FOCUSING ON U.S. AND OTHER ORGANIZATIONS WITH A HISTORY OF NONCONFORMANCE TO U.S. REGULATIONS AND LAW AND CONCENTRATING ON PROGRAMS THAT HAVE BEEN VULNERABLE TO FRAUD, WASTE AND ABUSE; AND, SUPPORTING SUPREME AUDIT INSTITUTIONS WHO PERFORM REGULAR AUDITS OF VARIOUS GOVERNMENTAL MINISTRIES AND PROGRAMS IN THEIR COUNTRIES. THE OIG ALSO ENCOURAGES THE USE OF THE OIG HOTLINE AND OTHER REFERRALS TO IDENTIFY CORRUPT AND VULNERABLE ACTIVITIES AND ACTIVELY INVESTIGATES ALLEGATIONS OF FRAUD AND CORRUPTION.

USAID IS NOW FACED WITH A NEW CHALLENGE. ON OCTOBER 17, 2000, THE PRESIDENT SIGNED INTO LAW THE INTERNATIONAL ANTI-CORRUPTION AND GOOD GOVERNANCE ACT OF 2000. THE PURPOSE OF THIS LEGISLATION IS TO ENSURE THAT UNITED STATES ASSISTANCE PROGRAMS PROMOTE GOOD GOVERNANCE BY ASSISTING OTHER COUNTRIES TO COMBAT CORRUPTION THROUGHOUT SOCIETY AND TO IMPROVE TRANSPARENCY AND ACCOUNTABILITY AT ALL LEVELS OF GOVERNMENT AND THROUGHOUT THE PRIVATE SECTOR.

THIS LEGISLATION AUTHORIZES SPECIFIC PROJECTS AND ACTIVITIES THAT, AMONG OTHER THINGS: SUPPORT RESPONSIBLE INDEPENDENT MEDIA TO PROMOTE OVERSIGHT OF PUBLIC AND PRIVATE INSTITUTIONS; SUPPORT THE ESTABLISHMENT OF AUDIT OFFICES, INSPECTORS GENERAL OFFICES, THIRD PARTY MONITORING OF GOVERNMENT PROCUREMENT PROCESSES, AND ANTI-CORRUPTION AGENCIES; AND, IMPLEMENT FINANCIAL DISCLOSURE AMONG PUBLIC OFFICIALS, POLITICAL PARTIES, AND CANDIDATES FOR PUBLIC OFFICE, OPEN BUDGETING PROCESSES, AND TRANSPARENT FINANCIAL MANAGEMENT SYSTEMS.

WHILE USAID'S SECOND STRATEGIC GOAL OF STRENGTHENING DEMOCRACY AND GOOD GOVERNANCE ADDRESSES MANY OF THE NEW LEGISLATION'S CONCERNS AND GOALS, USAID NEEDS TO DEVELOP, IN

COLLABORATION WITH OTHER AFFECTED U.S. GOVERNMENT AGENCIES, A PLAN TO IMPLEMENT THIS NEW LEGISLATION. IT SHOULD BE NOTED THAT THIS IS AUTHORIZING LEGISLATION AND AT THIS TIME NO FUNDS HAVE BEEN APPROPRIATED FOR ITS IMPLEMENTATION. THE LEGISLATION REQUIRES ANNUAL REPORTING ON PROJECTS AND ACTIVITIES BEING CARRIED OUT UNDER PROGRAMS AUTHORIZED BY THE LEGISLATION AND REQUIRES AN INITIAL REPORT WITHIN 180 DAYS OF THE ENACTMENT OF THE LEGISLATION, OR APRIL 17, 2001. THE OIG STANDS READY TO ASSIST USAID IN ITS INPUT IN IMPLEMENTING AND REPORTING ON THIS LEGISLATION.

PART III
FOUNDATIONS OVERVIEW

TO ADDRESS OUR NEW RESPONSIBLITIES FOR AUDIT AND INVESTIVGATIVE COVERAGE OF THE AFRICAN DEVELOPMENT FOUNDATION AND THE INTER-AMERICAN FOUNDATION, OIG STAFF HAVE PERFORMED COMPREHENSIVE REVIEWS AT THE ADF AND THE IAF AND HAVE USED THESE REVIEWS TO DEVELOP STRATEGIES. UNDER OUR NEW AUTHORITY, WE HAVE ALREADY CONDUCTED A PERFORMANCE AUDIT AT EACH FOUNDATION. ADDITIONALLY, WE HAVE ALSO PERFORMED QUALITY CONTROL REVIEWS OF EACH FOUNDATION'S FINANCIAL STATEMENT AUDITS FOR FISCAL YEAR 1999.

MR. CHAIRMAN, THIS CONCLUDES MY TESTIMONY. THANK YOU FOR YOUR TIME AND ATTENTION.

Mr. SHAYS. Thank you very much, Mr. Mosely.

Now, we will call on Mr. Charles Smith, Inspector General with the Peace Corps. Welcome to the committee.

Mr. SMITH. Thank you, Mr. Chairman and members of the subcommittee. I appreciate the opportunity to appear before you today. I am pleased to report that the Peace Corps is in good health.

Today, there are 7,800 Peace Corps volunteers and trainees in 76 countries. Most volunteers serve 2-year tours. Their average age is 29; 11 percent are over 50; 14 percent are minorities; 61 percent are female and 39 percent are male.

The newest program is the Crisis Corps. 380 former volunteers have served as Crisis Corps volunteers for up to 6 months in 26 countries. Their projects principally focus on natural disasters, refugees, and HIV-AIDS. Soon they will be in Bosnia and Herzegovina working on small business and agribusiness and inter-ethnic reconciliation for youth.

The Peace Corps conducts programs with former volunteers in the United States as well. Peace Corps fellows in the Paul Coverdell World Wise Schools Program help introduce children around the Nation to many Peace Corps countries.

One exciting project brings this home. It is the Paul Coverdell World Wise Schools Water in Africa Project. In this interactive Web site designed for classroom use, volunteers in Africa tell how water is important to them and their African communities. It is located at www.peacecorps.gov/wws/water/Africa.

We direct major attention to overseas posts because that is where problems affecting volunteers and their work can be most pronounced. While the agency's decentralization limits the potential dollar cost of fraud, it also increases opportunities for carelessness and failure to adhere to agency rules and standards.

Our auditors focus on rule compliance, administrative procedures and the role of managerial and oversight systems. Our evaluators focus on volunteers themselves, their training, jobs, living conditions, safety and security and staff support.

Our investigators examine post safety and security, investigate allegations of fraud and abuse. Although fortunately infrequent, they also work on cases of assault, rape and murder of volunteers.

Three very important developments will modernize the Peace Corps' communications and financial controls. They will greatly improve our ability to examine the agency's activities.

First, 3 years ago the Peace Corps established in headquarters the International Financial Office, taking over many of the functions previously carried out by Embassy Financial Officers.

Second, a year ago the Peace Corps began migrating to a standard personal computer network system through a contract with a private firm. It has completed domestic migration and will begin overseas installation this year with completion in fiscal year 2004. Our work in this area will include implementing the requirements of the Government Information Security Reform Act.

Third, by the end of this fiscal year, the Peace Corps will implement a new financial management system. It will modernize our core accounting system and will link the overseas posts with the headquarters International Financial Office through our personal computer network system.

We find that the Peace Corps submits better detailed Government Performance and Results Act plans each year. Goal one merges health and safety and security. We have urged that they be presented as separate distinct goals in the GPRA. Health on the one hand, and safety and security on the other.

We are especially interested in the Peace Corps' changing gender profile. In the agency's first decade, approximately two out of three volunteers were male. Today the reverse is true. Almost two-thirds are female.

Volunteers are assigned to countries where girls are not equally educated. Women are accorded few rights. American women may be harassed and possibly endangered. This suggests that the agency should explicitly recognize that female volunteers are subjected to special and increased risks.

Through the Secure Embassy and Counter-Terrorism Act of 1999, Congress directed that all government employees in overseas missions be co-located within the Embassy Compound. The Peace Corps believes co-location will compromise separation from the day-to-day conduct and concerns of foreign policy. This, they contend, would seriously jeopardize the safety of all volunteers because they would be identified as part of the American foreign policy for intelligence functions.

The act includes a waiver provision and the Peace Corps is discussing this matter with the State Department in order to achieve the waivers necessary for proper Peace Corps function. I bring this to your attention as a high priority of the Peace Corps and to the safety and security measures that are part of the OIG's concerns.

In closing, I would like to report that 2 weeks ago the Peace Corps celebrated 40 years of service. President Bush issued a proclamation urging all Americans to honor the Peace Corps's 40th anniversary on March 1, 2001. He described Peace Corps volunteers as exemplifying the great and longstanding American tradition of voluntary service. He spoke of their dramatic and far-reaching effect around the world.

His proclamation continued,

> Since its inception, more than 161,000 have served as Peace Corps volunteers in 134 countries. Peace Corps volunteers have not only helped to fill immediate and direct human needs, but also have helped promote sustainable long-term development in agriculture, business, education, urban development, health care and the environment.
>
> In many countries of the world there exists an intense hunger for peace, hope and opportunity, for genuine social and economic development that is rooted in respect for human rights and a belief in human potential.
>
> Recognizing the dignity and worth of all peoples and determined to help individuals help themselves, Peace Corps volunteers serve as our nation's emissaries of hope and good will. Accordingly, their generous efforts have helped to foster mutual understanding and respect between the people of the United States and the citizens of other countries.

Thank you, Mr. Chairman and members of the subcommittee for the opportunity to testify today. We look forward to working with you and the subcommittee. I will be pleased to answer any questions you have.

Mr. SHAYS. Thank you, Mr. Smith.

[The prepared statement of Mr. Smith follows:]

STATEMENT OF

CHARLES D. SMITH
INSPECTOR GENERAL
PEACE CORPS

BEFORE THE

HOUSE COMMITTEE ON GOVERNMENT REFORM

SUBCOMMITTEE ON NATIONAL SECURITY, VETERANS AFFAIRS,
AND INTERNATIONAL RELATIONS

MARCH 15, 2001

Mr. Chairman and Members of the Committee, I appreciate the opportunity to appear before you today to examine performance and management challenges confronting the Peace Corps; the agency's economy, efficiency, and effectiveness; and its responsiveness to the Government Performance and Results Act. This testimony is prepared with particular attention to our Semi-Annual Report to Congress.

Two weeks ago, on March 1, the Peace Corps celebrated its 40th anniversary. Over those four decades, more than 160,000 Volunteers have served in 134 countries. When President Kennedy established the Peace Corps, he set out three goals: (1) to meet requests for trained men and women; (2) to promote an understanding of Americans by other peoples; and (3) to promote American understanding of other peoples. These goals are the purposes that define the agency today.

As the world has changed and countries have developed, so has the Peace Corps. The Peace Corps is no longer in India, South Korea, Chile, Turkey or Tunisia, and it

continues to work in Ghana, the Philippines, El Salvador, and Micronesia. It recently opened programs in Bangladesh, South Africa, Jordan, and Georgia. In 1998, Congress authorized expansion to 10,000 Volunteers, and the agency is moving slowly toward that goal through expansion of existing programs and new country entries, with funding being an important restraint.

Today, there are 7,300 Peace Corps Volunteers and Trainees in 76 countries. Their average age is 29; 11 percent are over 50; 14 percent are minorities; 61 percent are female and 39 percent are male. Most Volunteers serve two-year tours. The most common assignments are in education, environment, health, business, and agriculture. Special projects focus on women in development, HIV/AIDs education, and computer literacy. The newest program, now four years old, is the Crisis Corps. It returns former Volunteers for tours up to six months to the regions, but not necessarily the countries, where they served. More than 200 Returned Peace Corps Volunteers have been Crisis Corps Volunteers in response to emergencies like natural disasters and refugee flows. They have served with Non-Governmental or United Nations Organizations in Central America, Venezuela, East Africa, and Guinea, and they soon will be in Bosnia.

The Peace Corps' fiscal year 2001 budget is $264 million. The agency employs over 800 U.S. citizens worldwide and over 200 Foreign Service Nationals overseas. The most common vehicle the Peace Corps uses to meet its personnel needs overseas is the personal service contract. Some 1,500 foreign nationals and a few Americans work overseas under PSCs. Except for PSCs, all American employees are subject to the "five-year rule." This term-limit is, I believe, unique in federal service.

From the position of the Office of Inspector General, I am pleased to report that the Peace Corps is in good health. The Peace Corps is a valued and sought-after participant in communities and countries where Volunteers serve. Volunteers are courageous, energetic, idealistic, and skilled, and represent the best of America—not much different from the early Shriver days. Staff, too, is strong and dedicated. We find relatively little fraud, waste, or abuse. This is perhaps one consequence of the agency's budget being

subdivided into relatively small amounts with most money going for salaries, Volunteer stipends, and travel.

Office of Inspector General

The Office of Inspector General has 15 staff members—four auditors, four program evaluators, three investigators, two support staff, a Deputy IG, and an IG—and a budget of $1.6 million. (See Attachment 1 for the OIG organization chart.) Most of our work is done in the field, auditing Peace Corps overseas posts and assessing the quality of programming and the rigor of administrative systems. Volunteer, staff, and office safety and security are examined as a part of all OIG post visits, whether by an auditor, an evaluator, or an investigator specifically reviewing safety and security. We report our findings and recommendations to the agency at post and in headquarters through meetings, oral briefings, and written reports, which in final form include agency responses to each recommendation. We investigate allegations of serious administrative misconduct and criminality, in particular fraud and theft. We also work with posts, headquarters, and local and national police in those fortunately uncommon cases when a Volunteer has been assaulted, raped, or even murdered.

While the agency's decentralization limits the potential dollar cost of fraud, it also increases opportunities for carelessness and failure to adhere to agency rules and requires active oversight systems. Our audits focus on rule compliance, administrative procedures, and the role of managerial and oversight systems tied into headquarters, particularly the Office of Planning, Budget, and Finance (OPBF) and the three regions [Africa; Inter-America and Pacific (IAP); and Europe, Mediterranean, and Asia (EMA)]. At posts, we find waste and even abuse, particularly in the personal use of government resources. In our recent Semi-Annual Report to Congress (SARC), for example, we reported audit findings in South Africa (failure to collect for gardening services for private residences of American employees), Namibia (failure to bill for personal use of vehicles), and Papua New Guinea (procurement authority exercised by unauthorized staff). A common neglect is the failure to require that travel advances be cleared promptly. Another recurring problem is posts carrying unliquidated obligations on their

books when the need for the obligation no longer exists. This encumberment distorts the agency's budget, precludes using the resources elsewhere, and is a potential waste of appropriated funds. In other recent audits, we have reported posts receiving medical supplies late and orders being partly filled or filled with drugs having only a short remaining shelf life.

The Volunteer is the heart of the Peace Corps. Our evaluations focus on Volunteers—their training, jobs, living conditions, safety and security, and support by post staff. The typical evaluation field visit lasts three weeks. Evaluators prepare for their visit by meeting with headquarters staff, reviewing background documents, organizing trip details with the post, and sending all Volunteers a detailed confidential questionnaire to be completed and returned before the visit starts. During the trip itself, they visit and interview a representative sample of Volunteers at their sites. They also interview post management and program staff. Volunteers today are trained in their country of service. Based on Volunteer answers in questionnaires and interviews, interviews with training and other staff, and observation of training in process, we have found that training generally is excellent, particularly in culture and language. Some Volunteers become fluent in both a national and a local language. Our evaluations report that a principal area of concern is site selection: the choice of where a Volunteer will be posted, including the quality and expectation of the job, the safety and sanitation of housing, and the readiness of the community or the institution (e.g., the school, the clinic, the mayor's office, the NGO) to receive and work with the Volunteer.

As reported in our most recent SARC, the Volunteer force in Cape Verde is almost 80 percent female. Some housing provided by the host country government was in dangerous areas outside the community where the Volunteers worked. The post permitted Volunteers to dress and behave unprofessionally, affecting both performance and safety. The Director took personal interest in our report and asked the region to give him a detailed report on compliance with agreed-upon actions. We will revisit Cape Verde this year to follow up on our report and see whether actions were implemented and led to improvements. In South Africa, we found a post disoriented by the performance of

the country director (his tenure was cut short by agreement with headquarters) and unprepared to receive a new group of trainees. The agency agreed with our recommendation to skip a training cycle in order to have an effective, well-organized training program. In Namibia, the Peace Corps and USAID worked productively together on a secondary school curriculum project. However, as Volunteers moved around a school system in their USAID-provided vehicles, they became separated from their communities to the possible detriment of Peace Corps' second goal. The Peace Corps-USAID project ended successfully and the Volunteers moved back into more traditional roles while USAID extended its project into a new phase through contractors. In Mongolia, we found the joint medical facility serving Volunteers and embassy staff caused Volunteers to be underserved, as medical staff had difficulty scheduling travel to sites because embassy staff and families needed to be cared for in the capital. We recommended that the Peace Corps either work with the embassy to add health care staff to the joint facility or establish a health care unit devoted exclusively to Volunteer care.

Our investigative staff works on such traditional OIG cases as credit card fraud and serious administrative abuses. We also work with the agency, embassies, and local and national police in investigating and prosecuting charges of assault, rape, and murder of Volunteers. We report these cases in each SARC. For example, in Nicaragua, we worked from Washington with the country director and the embassy's Regional Security Officer to secure the dismissal of a local staff member on fraud charges, proving that he double billed and submitted false travel vouchers for payment out of the imprest fund. In Ecuador, we examined a Volunteer's charges of unprofessional conduct by a local staff member toward her. We determined the basic charges were accurate and the staff member resigned. An investigator traveled to Bolivia and worked with local police on a Volunteer's report of rape by a cab driver. The driver was interviewed and gave blood and hair samples. Our DNA analysis and other evidentiary problems led to the charge being dropped. At the request of the Office of Human Resource Management, we reviewed charges of nepotism in the hiring of a senior employee's spouse. We concluded the applicant spouse was clearly the best qualified; the employee spouse was not involved in the selection process; and the offer had not been unethically tainted, although the

employee spouse and supervisor should have consulted with the agency's ethics officer on how to ensure there were no ethical violations. In Guatemala, we worked with local prosecutors and accompanied a former Volunteer who testified in the rape trial of three suspects. They were convicted and sentenced to 12 years imprisonment. At headquarters, we determined that allegations of time and attendance abuse by a senior staff member were accurate, and the employee was placed on leave without pay and forfeited annual leave. In addition to investigations, our investigative staff conducts safety and security reviews at posts. They meet with the RSO; examine the security of the post's offices; review vehicle maintenance and usage; visit Volunteers at site, paying special attention to housing; study the safety of the public transportation systems Volunteers use; and review tests of the post's emergency action plan through which Volunteers can be contacted and brought out of their sites in emergencies.

Government Performance and Results Act Plans

We have examined the Peace Corps' GPRA plans and believe they increasingly show better detail and accurately reflect the agency's work and progress. We would take particular exception to one point. Goal One speaks of the "health, safety and security of … Volunteers and staff." We have urged that health and safety and security be presented as separate, distinct responsibilities. Historically, the Peace Corps has provided excellent health care for Volunteers. The agency's concern for Volunteer safety and security has been considered a responsibility of medical officers and of the Office of Medical Services. This placement was modified two years ago when the agency established the Office for Volunteer Safety and Overseas Security. It recognized that concerns about crime, threats, general harassment, transportation, housing, and overall safety are independent from traditional health concerns, are the responsibility of all staff, and require special expertise and separate monitoring. As part of this recognition, the agency for the first time issued a safety and security regulation (Manual Section 270.) These changes argue for health and safety and security to be addressed as separate goals in the GPRA.

Post Leadership

The fulcrum for Peace Corps success is the country director, and the Peace Corps is a decentralized agency. Each post develops its own programs based on formal agreements with the host country. The functions Volunteers fill—teacher, agronomist, health advisor—may be repeated in many countries, but the circumstances from country to country will differ substantially. Success, then, becomes time-, place-, and person-specific. The Peace Corps views this individuality as a strength: success rides on the shoulders of each country director. A strong country director can turn a weak program around, and a neglectful country director can damage a good program. A key to high quality agency performance is the recruitment, training, and support of country directors. We have participated in country director training, and we plan to review the agency's recruitment process for what we view as the most critical managerial position in the Peace Corps.

In addition to the headquarters training referred to above, each region holds regional and subregional meetings for its country directors. I have attended and made presentations at Africa and EMA regional meetings and hope to attend additional regional meetings this year to keep lines of communication open and report on the types of issues we encounter in our work with posts.

In July 1998, the agency published "The Country Director Handbook: Indicators of a High Performance Post and Strategies for Creating a High Performance Post." It covers the range of responsibilities facing every country director. While it lacks the mandatory nature of a regulation, we find it is one of the most useful reference books for us. We use it in reviewing a post's performance and can refer to it as the best single resource on how to succeed in that difficult job.

For assessing program effectiveness, our tools include publications from the Peace Corps' in-house "think tank," the Center for Field Assistance and Applied Research. The Center is producing a series that reflects years of agency experience in establishing and

managing programs and supporting Volunteers from the beginning of their work through their close of service. These publications and the training activities built around them are ongoing and provide important and necessary support for country directors. For the OIG, too, these Center publications are important, because they give us agency standards and expectations that we can use as criteria to measure post performance. Most aspects of post financial, property, contractual, and personnel administration are covered by regulations and other written guidance, but in programming, the agency has few mandatory standards. In the absence of such requirements, we use the Center's publications as points of reference in establishing accountability.

Headquarters Systems

Three developments will modernize Peace Corps' communications and financial controls. They are among the most important administrative changes in the agency during the past decade.

Three years ago, the Peace Corps established in the Washington headquarters the International Financial Office (IFO), taking over many of the functions previously carried out by embassy financial officers. Now, the certifying officer works at headquarters and reviews all payments made by the Peace Corps. The result is greater consistency and control over the payment process.

A year ago, the Peace Corps began migrating to a standard personal computer networked system through a contract with FedData Systems. The migration is completed domestically. Overseas installation will begin this year and is expected to be completed in fiscal year 2004. Our work in this area will include implementing the requirements of the Government Information Security Reform Act.

By the end of this fiscal year, the Peace Corps will implement a new financial management system. This will modernize our core accounting system, link it with the IFO system overseas, and be integrated with our PC networked system.

Emblematic of the type of problems the Peace Corps experiences in ensuring consistent managerial oversight is the intermittent use of an important tool first constructed some years ago, the "Administrative Management Control Survey." The AMCS is a lengthy checklist of internal controls and best practices covering all aspects of post management, including cash controls, personnel files, project site development, and emergency action plans. As recently as four years ago, all country directors were asked to voluntarily perform an AMCS review each year and report the results to the regions. That process then went out of use, in part, I believe, because of staff turnover. The AMCS has recently been updated to include the new IFO procedures. The agency consulted with us in the revision, including materials from the checklists we use for our audits and evaluations. We believe this is a significant management control process and have urged the AMCS' reissuance and required use.

Since its early days, the Peace Corps Act has placed a five-year term limit on the employment of Americans. Congress relaxed the requirement in 1985 to permit one-year extensions and, for up to 15 percent of the American staff, two-and-one-half year extensions. The absolute maximum became eight-and-one-half years. Accompanying the five-year rule is the corollary "in-and-out rule," which holds that, before being rehired, a person must be outside the Peace Corps for as long as he or she had worked for the Peace Corps: work four years, wait four years to reapply. (See Attachment 2, my memorandum to the PCIE Vice Chair about the five-year rule.) This is a double-edged sword. On the one hand, turnover keeps staff fresh, ideas new, and turf battles minimal. The Peace Corps does not have a career service. On the other hand, short terms block the development of true in-house expertise. For some offices, including the OIG, the General Counsel's office, and the budget and finance office, short terms make stability hard and in-depth work difficult. This may also be true for country director experience. While one could suggest that, like Foreign Service Officers, country directors should routinely be rotated to different countries, the five-year rule imposes a mandatory loss of important managerial and judgmental expertise in the agency's most important position. The

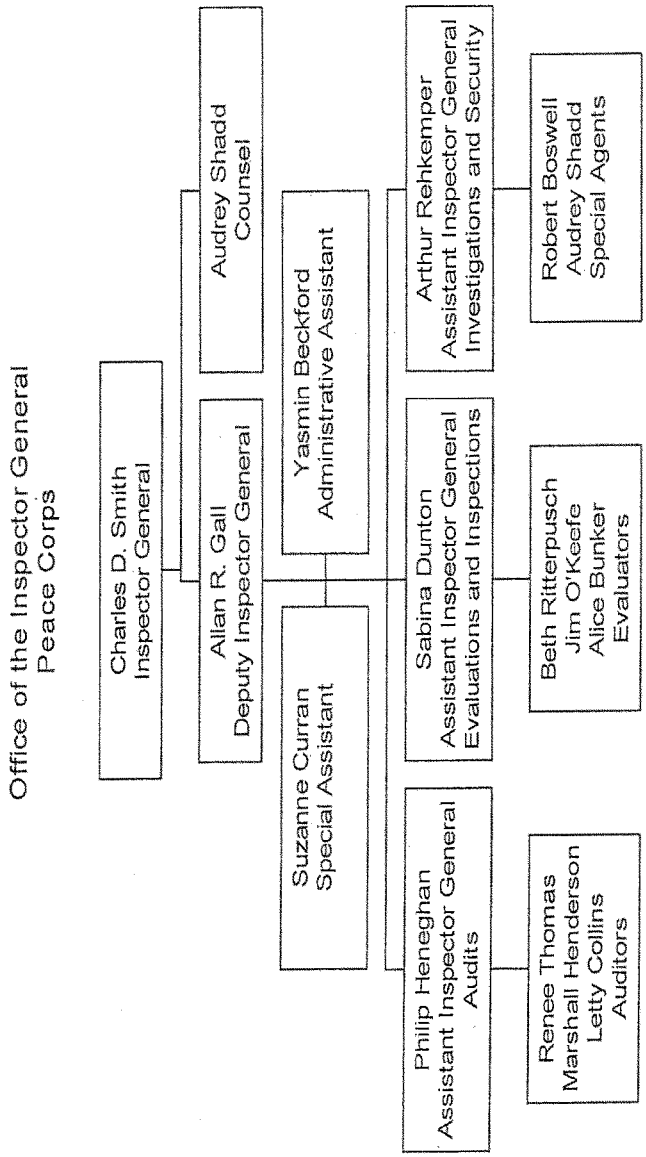
significance of this loss is amplified by the increasingly dangerous global atmosphere in which the Peace Corps operates.

Safety and Security

Of particular interest to our office is the changing gender profile of the Peace Corps because of its impact on Volunteer safety and security. In the Peace Corps' first decade, approximately two out of three Volunteers were male. Today the reverse is true. Almost two-thirds of the Volunteers are female. Volunteers are assigned to countries where girls are not equally educated, women are accorded few rights, and American women may be harassed and possibly endangered. This has potentially significant consequences for management. It affects how the agency carries out its responsibilities for every Volunteer's safety and security. It requires that the Peace Corps recognize that female Volunteers have special needs and are subjected to special and increased risks.

As part of the Government's program to ensure the security of our missions overseas, the Congress directed, through the Secure Embassy Construction and Counterterrorism Act of 1999, that all Government employees in overseas missions be collocated within the embassy compound. The Peace Corps is part of the American mission overseas, and the Ambassador is ultimately responsible for the safety and well-being of all Americans who are part of the mission's country team. The Peace Corps is an independent agency and is not part of the Government's foreign policy or intelligence operations. The Peace Corps believes collocation will compromise the Peace Corps' need for separation from the day-to-day conduct and concerns of foreign policy and will seriously jeopardize the safety of all Volunteers, as they would be identified as part of the American foreign policy or intelligence function rather than as part of a development and friendship organization. The Act includes a waiver provision, and the Peace Corps is discussing this matter with the State Department in order to achieve the waivers necessary for proper Peace Corps functioning. (Attachment 3 contains a letter from the Peace Corps Deputy Director that provides background to this issue.) I bring this to your attention as a matter of high priority to the Peace Corps and to the safety and security measures that are part of the OIG's concerns.

Attachment 1



Attachment 2

PEACE CORPS

Office of Inspector General

To: Gaston Gianni
Inspector General, Federal Deposit Insurance Corporation
Vice Chairman, President's Council on Integrity and Efficiency

From: Charles D. Smith
Inspector General

Date: August 17, 2000

Subject: Peace Corps' "Five-Year Rule"

This memorandum follows last week's ECIE meeting where we spoke briefly about term limits for IGs and the present terms at the Peace Corps.

The Peace Corps Act imposes a unique term-limit cap on employment with the agency.[1] The general rule, which dates from the directorship of Sargent Shriver, is that the Peace

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[1] The "five year rule," the "in-and-out rule," and the one-year extension were created by amendment in 1965. Congress granted "third tour" authority in 1985.

22 U.S.C. 2501, 2506(a)(2) provides:

> (A) no Foreign Service appointment or assignment [i.e., U.S. direct hire Peace Corps employee] under this paragraph shall be for a period of more than seven and one-half years, subject to paragraph (5) and except as provided in paragraph (6); and
> (B) no individual whose Foreign Service appointment or assignment under the paragraph has been terminated shall be reappointed or reassigned under this paragraph before the expiration of a period of time equal to the preceding tour of duty of that individual.

§ 2506(a)(5) provides:

> Except as provided in paragraph (6), the Director of the Peace Corps may make appointments or assignments of United States citizens under paragraph (2) for periods of more than five years only in the case of individuals whose performance as employees of the Peace Corps has been exceptional and only in order to achieve one or more of the following purposes:
> (A) To permit individuals who have served at least two and one-half years of such an appointment or assignment abroad to serve in the Untied States thereafter.
> (B) To permit individuals who have served at least two and one-half years of such an appointment or assignment in the United States to serve abroad thereafter.

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Corps cannot employ a U.S. citizen[2] for more than five years at a time; this is called the "five-year rule." Peace Corps policy has been to hire American staff under a 30-month initial contract (the "first tour") renewable for a second 30 months (the "second tour"); the two total 60 months or five years. There are two types of limited extensions beyond five years. Under the "third tour," the Director may grant an additional 30 months; no more than 15 percent of the total staff of U.S. citizen employees may be employed under a "third tour."[3] The Director personally may extend an employee's service for up to one additional year. While this is called a "sixth year" because it usually occurs after five years, it can also be granted after the "third tour." For an individual, the maximum possible employment tour at any one time is eight-and-one-half years. The "in-and-out rule"[4] moderates and complements the term limits. It holds that the Peace Corps cannot reemploy a U.S. citizen until that person has been outside Peace Corps employment for the same amount of time as s/he was employed. For example, someone who works for the Peace Corps for four years cannot be hired back until four more years have passed.

The 1988 Amendments to the Inspector General Act provide that designated Federal entity IGs have personnel authority within the terms of the laws and regulations governing their establishments.[5] For the Peace Corps, that provision imposes the "five-

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> (C) To permit individuals who have served at least two and one-half years of such an appointment or assignment in a recruitment, selection, or training activity to be reassigned to an activity other than the one in which they have most recently so served.
> (D) To promote the continuity of functions in administering the Peace Corps.
>
> At no time may the number of appointment or assignments of United States citizens in effect under paragraph (2) for periods in excess of five years exceed fifteen percent of the total of all appointments and assignments of United States citizens then in effect under paragraph (2).

§ 2506(a)(6) provides:

> Notwithstanding the limitation set forth in paragraph (2)(A) on the length of an appointment or assignment under paragraph (2) and notwithstanding the limitations set forth in paragraph (5) on the circumstances under which such an appointment or assignment may exceed five years, the Director of the Peace Corps, under special circumstances, may personally approve an extension of an appointment or assignment under paragraph (2) for not more than one year on an individual basis.

[2] The "five year rule" applies only to U.S. citizen direct hires, whether working in the U.S. or overseas. It does not apply to American contractors and consultants or to foreign national employees or contractors, regardless of citizenship. The majority of Peace Corps' overseas staff are foreign nationals, and some overseas contractors are U.S. citizens.

[3] Traditionally, only about 7 - 8 percent of the Peace Corps direct hires have worked under "third tour" appointments.

[4] Id. at section 2506(a)(2)(B).

[5] The Inspector General Act of 1978, 5 U.S.C. Appendix 3, subsection 6(a)(7)(a), provides:

> In addition to the authority otherwise provided by this Act, each Inspector General, in carrying out the provisions of this Act, is authorized— ... (7) to select, appoint, and employ such officers and employees as may be necessary for carrying out the functions, powers, and duties of the Office subject to the provisions of Title 5, United States Code, governing appointments in the

year rule" plus exceptions and the "in-and-out rule" with respect to the Director hiring the IG and the IG hiring OIG staff.[6]

The intersection of these two Acts has impacted the Peace Corps OIG in a number of ways. First is the IG's appointment. The Director applies Peace Corps' term limit restrictions, so the Peace Corps IG has a potential maximum of eight-and-a-half years.[7] Second is the complexity the IG faces in trying to establish a stable staff and work environment. Not only do OIG employees historically have an average tour of three-and-a-half years, but the agency staff with whom we work have a turn-over rate at least that fast. Corporate memory is hard to come by and, while Peace Corps staff generally are capable and decent, relationships come to resemble the movement in military service: on to the next assignment in a couple of years and we'll meet again down the road. Third is the fact that five years is a relatively short time (three-and-a-half years is even less!) to master a complex role and job. Fourth is the difficulty in attracting people to the work. We have had good candidates back out because of the "five-year rule."[8] Fortunately, the Peace Corps mission and the interest and even excitement of the work are attractive. Fifth is the inability to hire entry-level staff for complex OIG work; there simply is not enough time to train someone professionally as well as to the specific tasks and new culture. As a result, I have only hired experienced staff. Sixth is the problem facing any person coming to the end of employment. S/he must look for a new job, a task made

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> competitive service and the provisions of chapter 51 and subchapter III of chapter 53 of such title relating to classification and General Schedule pay rates.

In 1988, Congress extended the IG Act to "designated federal entities," including the Peace Corps, and gave personnel authority to DFE IGs, with the proviso that they apply their agency's laws and regulations. The operative amendment, subsection 8G(g)(2), provides (emphasis added):

> In addition to the other authorities specified in this Act, an Inspector General [of a designated Federal entity] is authorized to select, appoint, and employ such officers and employees as may be necessary for carrying out the functions, powers, and duties of the Office of Inspector General and to obtain the temporary or intermittent services of experts or consultants or an organization thereof, <u>subject to the applicable laws and regulations that govern such selections, appointments, and employment, and the obtaining of such services, within the designated Federal entity</u>.

[6] It is notable that the 1988 amendments established the law-and-regulation principle to personnel matters for DFE IGs, but there is no similar requirement for presidentially-appointed IGs. While I have not researched the reasons for the rule, I speculate that it is because some institutions brought within the compass of the IG Act by the 1988 amendments were not covered by Title 5--e.g., Smithsonian Institution and Legal Services Corporation--and the drafters wanted to be certain that established personnel rules were used in hiring the IG and OIG staff.

[7] My service at the Peace Corps began in February 1996, when I was hired as the Deputy IG. In July 1997, Peace Corps IG Charles Maddox left and I became the acting IG. In August 1998, I was appointed IG. Because the five-year rule applies from the time of hiring, at that time I was two-and-a-half years into my appointment. Director Mark Schneider has extended my appointment by one year, so I am scheduled to terminate my IG appointment in February 2002.

[8] After consulting with senior officials, in July 1999 I changed the 30-month contract policy for OIG hiring to a practice of offering a single five-year contract to new employees. I also offered current employees still in their first tour the option of adjusting their contracts to 60 months from the original starting date. All accepted the offer.

more difficult for people in mid- or late-career. This need inevitably must distract from full attention to one's work responsibilities.

A final point concerning the Peace Corps IG: the IG is not only subject to Peace Corps' term limits on employment, but as an FES employee,[9] the IG lacks foreign service protections. The Director may remove the IG at any time, although he must report the removal to Congress after the fact.[10] The result of this confluence of factors is that the position has relatively little protection and certainly none of the protections suggested for IG Act amendment, including fixed and renewable terms and removal for cause.

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[9] Foreign Executive Service is the equivalent category in the foreign service to Senior Executive Service in the civil service. Peace Corps Directors have set IG salaries at the FES III level enjoyed by most of the senior political appointees. This practice, of course, is not mandated and a Director could fix the IG's salary at a lower level within the FP system, which parallels the GS system.

[10] The IG Act, section 8(G)(e) provides:

> If any Inspector General is removed from office or is transferred to another position or location within a designated Federal entity, the head of the designated Federal entity shall promptly communicate in writing the reasons for any such removal or transfer to both Houses of the Congress.

Attachment 3

PEACE CORPS

MAKING A WORLD OF DIFFERENCE

July 28, 2000

The Honorable Bonnie R. Cohen
Under Secretary of State
for Management
Department of State
Room 5214
2201 C Street, NW
Washington, DC 20520

Dear Ms. Cohen:

As the Overseas Presence Advisory Panel nears the completion of its work and develops its recommendations, the Peace Corps is concerned that those recommendations make proper allowance for its distinctive mission and unique role among the U.S. Government agencies present overseas. This letter provides an historical context for what has been a successful, 40-year effort by the State Department and the Peace Corps to assure appropriate coordination and, equally important, separation of their respective operations and missions.

Congress and the President have vested the Secretary of State with responsibility for the overall coordination and supervision of U.S. Government activities abroad, including those of the Peace Corps. Peace Corps programs and staff at posts overseas are subject to the authority of the Chief of Mission, coordinate with the embassy, and depend upon it for support in several key areas, particularly security, communications, medical services, personnel management, and financial services. The Peace Corps Country Director is a member of the country team and responsible for keeping the Chief of Mission informed about the Peace Corps' activities in that country. The Peace Corps participates in the Emergency Action Committee and coordinates its Emergency Action Plan with the embassy. The Peace Corps also consults with the Regional Security Officer about safety and security issues affecting Peace Corps facilities or personnel and shares information about any safety and security incidents that occur. The Peace Corps relies upon the embassy for various communications services, including the diplomatic pouch, cables, and DTSPO. Peace Corps staff are appointed under the authority of the Foreign Service Act and receive medical services overseas through the embassy medical unit. In hiring foreign national personnel, the Peace Corps looks to the embassy for guidance and endeavors to assure, insofar as it can, that its local compensation plan and employment practices are consistent with those of the embassy. Finally, the Peace Corps avails itself of certain services offered by the embassy through ICASS.

There are other areas, however, in which there has been a longstanding tradition of separation between the Peace Corps' operations and those of other U.S. Government agencies overseas. As Secretary Christopher instructed Chiefs of Mission in 1995:

> "[t]o fulfill its responsibilities successfully and to retain its unique people-to-people character, the Peace Corps must remain substantially separate from the day-to-day conduct and concerns of our foreign policy. The

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> Peace Corps' role and its need for separation from the day-to-day activities of the mission are not comparable to those of other US government agencies."

Since the Peace Corps' inception almost 40 years ago, that separation has been critical both to the success of the Peace Corps' mission and to the safety and security of its Volunteers. The Peace Corps' presence in a country consists primarily of its Volunteers, who are not U.S. Government employees and, unlike those employees, do not enjoy any diplomatic privileges or immunities and are not clustered in capital cities, but are dispersed, often in remote sites, around the country. The safety and security of those Volunteers depends on their acceptance by their host communities and the confidence those communities have that the Volunteers are there, working at the grass-roots level, to respond to the needs and further the interests of the host country government, not to gather information or advance specific foreign policy goals of the U.S. Government.

As successive Secretaries of State have recognized, the role of the Peace Corps is fundamentally different from, but consistent with and complementary to, that of other U.S. Government agencies overseas. In a June 25, 1983, joint cable for Ambassadors and Peace Corps Directors, Secretary of State Schultz and Peace Corps Director Ruppe described the "essential role of the Peace Corps" as being

> "to build links between the U.S. and the peoples of developing countries at the grass roots level, to provide practical and humanitarian assistance on a voluntary basis, and to demonstrate through the personal commitment of the volunteers the interest and involvement of American citizens in the welfare of individuals in developing countries distinct and separate from the official relations and policies of governments. . . . [In fulfilling this role,] the Peace Corps contributes significantly to that building of international understanding and sympathy between people which is an integral long-term objective of American foreign policy."

While the success of the Peace Corps bears an intrinsic relationship to the accomplishment of broad, U.S. foreign policy goals, there is also a dynamic tension between the two. As Secretary Rusk observed in 1981, "the Peace Corps is not an instrument of foreign policy because to make it so would rob it of its contribution to foreign policy." For this reason, Secretaries of State have, as a matter of policy, interpreted and exercised their general supervisory responsibility for U.S. Government activities overseas in a broad manner "to provide the Peace Corps with as much autonomy and flexibility in its operations as possible, so long as this does not conflict with U.S. objectives and policies." *See* 1995 cable from Secretary of State Christopher to Chiefs of Mission. It is precisely this flexibility and autonomy that the Peace Corps trusts will be preserved in the final recommendations of the Overseas Presence Advisory Panel and in the eventual implementation of those recommendations.

There are several areas in which the Overseas Presence Advisory Panel's recommendations could affect the careful balance between coordination and separation that the Peace Corps and the Department of State have consistently tried to maintain in their overseas relationship and operations.

1. Security and Buildings/Facilities

In the area of facilities management and security, the Overseas Presence Advisory Panel appears to be focusing on collocating all U.S. Government facilities at post and making physical security improvements designed to harden those facilities against attack. There has been a longstanding recognition that, for programmatic and security reasons, it would be inappropriate to collocate Peace Corps offices with the embassy. The Foreign Affairs Handbook provisions on collocation identify the Peace Corps as an agency that "must minimize [its] association and connection with other USG operations in order to operate effectively in the host country environment." 12 FAH 5, H-312(d). A critical element of minimizing that association is locating the Peace Corps offices apart from the embassy. Indeed, in the recent Department of State cable providing guidance to posts concerning the Secure Embassy Construction and Counterterrorism Act of 1999, "facilities occupied by Peace Corps Volunteers" are specifically excluded from the collocation requirement. *See* Cable 82682, paragraph 5(D).

For almost 40 years, the Peace Corps has worked to preserve the fact and, as importantly, the appearance of independence from official U.S. foreign policy and intelligence activities. Collocating the Peace Corps with the embassy would seriously undermine the Peace Corps' ability to maintain that appearance and could jeopardize the safety of its Volunteers and the effectiveness of its program. Because Volunteers do not work in embassy compounds or live in expatriate enclaves, their daily security is not enhanced by placing the Peace Corps offices in an embassy compound. On the contrary, increased contact between Peace Corps Volunteers and the embassy simply exacerbates the risk that host country nationals may inaccurately perceive Volunteers to be intelligence or political agents of the U.S. Government. That perception, in turn, makes Volunteers more vulnerable by compromising the basis on which they are welcomed into and protected by the host communities where they live and work.

We trust that the Overseas Advisory Panel's recommendations will preserve sufficient flexibility to accommodate the Peace Corps' need to maintain offices separate from the embassy that both meet its security needs and serve its distinctive mission.

2. Right-sizing

A second area of potential concern is the Overseas Presence Advisory Panel's recommendations on right-sizing the U.S. Government's presence overseas. The decision-making process for right-sizing appears to be based on considerations that are fundamentally different from the considerations that govern the Peace Corps' decisions regarding the countries and program sectors in which to place Volunteers.

As noted above, the Peace Corps was established by Congress to further goals of mutual understanding and development that are distinct and separate from the official relations and policies of governments. In fact, the Peace Corps has successfully maintained a presence and continued to promote cross-cultural understanding in countries where other U.S. Government agencies have withdrawn or reduced their presence in order to further specific U.S. foreign policy objectives. To the extent that the right-sizing process is guided by the International Affairs Strategic Plan and has as its goal the allocation of staff and resources that will most effectively enhance important

bilateral relationships and serve United States' interests abroad, that process will provide neither a full picture nor adequate measure of the contributions that Peace Corps programs make towards achieving the agency's congressionally-mandated goals. As the Department of State recently advised Chiefs of Mission in connection with the Mission Program Planning process,

> "[t]he work done by the [Peace Corps] Volunteer and the value of that work should not be measured against official USG strategic goals. Volunteers are private U.S. citizens, not USG employees[, whose] activities are chiefly based on requests by the host country governments, and not U.S. strategic goals."

We do not believe that the Peace Corps contributes in any significant measure to the underlying problems that the right-sizing recommendations are designed to address. Because the number of U.S. direct-hire Peace Corps employees at a post is small, the Peace Corps offices are not collocated with the embassy, and the Volunteers are not government employees, the Peace Corps does not require the same level of support from the embassy as other agencies might. Indeed, the Peace Corps operates in countries where there is no U.S. embassy presence. Nonetheless, we appreciate the challenges that Chiefs of Mission face in supporting unanticipated increases in American staff at post and the need to improve the process for evaluating, coordinating, and funding any such increases. Although Congress has not used the legislative process to mandate increases in Peace Corps staff, we would support closer coordination and review by the Office of Management and Budget of any legislatively-imposed increases in the U.S. Government presence overseas.

Our primary concern, however, is that any right-sizing decisions regarding the size, location, and activities of the Peace Corps continue to be made in consultation with host government officials and with reference to the three goals set forth in the Peace Corps Act, and not solely with reference to the national interests and strategic goals of the International Affairs Strategic Plan.

3. Information Technology

The third area with implications for the Peace Corps is Information Technology. The Peace Corps supports efforts to improve the ease and efficiency with which U.S. Government agencies can communicate with each other. As technological advances permit greater information-sharing among agencies, it will be important to remain alert to any ways in which those advances might be perceived as compromising the Peace Corps' independence from the intelligence-gathering and information-sharing activities of other U.S. Government agencies at post. Again, we trust that any recommendations that the Overseas Presence Advisory Panel makes regarding information technology will enable the Peace Corps to participate in information sharing with other agencies overseas only to the extent it is useful and appropriate to the Peace Corps' mission.

The Peace Corps has learned much from the Overseas Presence Advisory Panel proceedings. Thank you for inviting us to participate. As the Peace Corps' last contribution to the process, I request that this correspondence be made part of the

record of the Overseas Presence Advisory Panel proceedings, as it encompasses our overseas history and current concerns.

Sincerely,

Charles R. Baquet III
Deputy Director

Mr. SHAYS. Mr. Jagadesan, welcome to the committee.

Mr. JAGADESAN. Mr. Chairman and members of the subcommittee, thank you for the opportunity to testify today to discuss the major management and performance challenges facing the International Trade Commission.

A brief introduction of the agency is needed for background purposes. The ITC is an independent, quasi-judicial, Federal agency with a wide range of trade-related mandates. The ITC has six commissioners appointed by the President and confirmed by the Senate.

In fiscal year 2001, the agency had a $48.1 million appropriation. Approximately 73 percent of the ITC's budget is for personnel, 12 percent for space rental, 8 percent for contract services and 7 percent for other support.

The agency does not expend any of its funds for grants or other non-operating expenses. The fiscal year 2001 staffing plan consists of 390.5 permanent positions and 11 term positions. The agency rents one building at 500 E Street, SW.

The major management challenges currently facing the ITC are: Human capital management, performance management, information resources management and improving business processes.

In regard to human capital management, the agency's work force demographics are in line with the rest of the Federal Government. Thus, in the near future the ITC will need to replace the knowledge and skills of a large percentage of its work force.

For example, in calendar year 2006, 31 percent of the ITC's current non-supervisory employees and 50 percent of the ITC's current supervisory employees will be eligible to retire.

On the positive side of this trend, this presents a significant opportunity for management reform in the next few years. For example, this affords the ITC a choice not to replace some retiring supervisors as a part of any management reform efforts.

Possibilities for reform include moving more toward using multidisciplinary teams instead of vertical management structures and more direct alignment of its organizational structure with its strategic operations.

The second management challenge is to go beyond performance-based management as a goal and toward performance based management as an actual day-to-day management culture that is interwoven into all aspects of its operations.

There appears to be more recognition on the part of ITC management that if properly implemented performance management can contribute to a more effective, more results-oriented agency.

The ITC has moved from GPRA being a paperwork exercise to fully embracing the concepts of performance-based management in certain areas such as performance budget. Clearly the ITC is improving the quality of its performance management as it learns from its previous efforts.

Performance management presents a challenge to the ITC because of the agency's quasi-judicial functions, which do not readily fit into the GPRA mold.

Information resource management is a major challenge for the ITC because of the rapid evolution of IT and the significant cost of IT. IT solutions bring about new opportunities as well as new secu-

rity issues. In many areas, the agency has been able to leverage IT opportunities.

The challenge is to adequately define its future IT requirements and to effectively manage the acquisition of hardware and software to meet those requirements. Recently the ITC has begun to implement some management reform in this area.

In line with an OIG audit recommendation, the agency has agreed to establish a Chief Information Officer position that will elevate the priority and attention given to IT.

Most importantly, the CIO may be able to further improve the management of the agency's limited IT resources as well as improve business processes with the proper application of IT.

Improving its business process also presents a major management challenge for the ITC. Current business processes are still largely paper-centric in regards to receiving public filings and dissemination of information inside and outside of the agency.

For example, the ITC currently does not accept electronic filings. However, the agency is working to add this service, which is an important part of its GPEA plan.

Additionally, while ITC reports are published on its Web site, the ITC continues to expend significant resources to print and distribute hard copies of its reports. While some of these paper-centric processes such as electronic filing require additional investments to improve, a significant amount of paperwork reduction could be achieved without any additional investment.

The challenge here is to critically self-evaluate ITC's business processes to improve them in light of advances in IT instead of merely applying IT to existing business processes.

We note that the ITC, if benchmarked against other Federal agencies would be an upper echelon agency in terms of efficiency of its business processes, however, we maintain the appropriate benchmark should be the private industry which provides a higher standard to achieve in improving ITC's business processes.

Once again, thank you for the opportunity to testify this morning. Mr. Chairman, that concludes my oral statement.

Mr. OTTER [assuming Chair]. Thank you, Mr. Jagadesan.

[The prepared statement of Mr. Jagadesan follows:]

STATEMENT OF
DEV JAGADESAN
ACTING INSPECTOR GENERAL OF THE
U.S. INTERNATIONAL TRADE COMMISSION

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON NATIONAL SECURITY, VETERANS AFFAIRS, AND INTERNATIONAL RELATIONS

U.S. HOUSE OF REPRESENTATIVES

March 15, 2001

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to testify before you to discuss the major performance and management challenges confronting the International Trade Commission (ITC); the economy, efficiency, and effectiveness in the operations of the ITC; and the ITC's ability to meet performance and accountability measurements and goals under the Government Performance and Results Act (GPRA). My testimony will be organized along the lines of the major performance and management challenges that I see as facing the ITC, with discussions of economy, efficiency and GPRA implementation included in the discussion of each challenge as appropriate.

Background

The ITC is an independent, quasi-judicial federal agency established by Congress with a wide range of trade-related mandates. Under its fact-finding authority, the ITC exercises broad investigative powers on matters of trade. In its adjudicative role, the ITC makes determinations with respect to unfair trade practices. The ITC also serves as a national resource where trade data are gathered and analyzed. Information and analysis are provided to the executive branch and the Congress to assist them in developing U.S. trade policy.

The ITC has six Commissioners, appointed by the President and confirmed by the Senate, who serve one term of nine years, unless appointed to fill an unexpired term. No more than three Commissioners may be of the same political party.

The Chairman and Vice Chairman are designated by the President and serve a two-year statutory term. The Chairman is responsible, within statutory limits, for the administrative functions of the ITC. Former President Clinton designated Stephen Koplan as Chairman and Deanna Tanner Okun as Vice-Chairman. Their terms began on June 17, 2000 and expire on June 16, 2002.

STATEMENT OF Dev Jagadesan, Acting Inspector General, USITC

In Fiscal Year (FY) 2001, the ITC had $48.8 million in available funds ($48.1 million appropriation). Approximately 73 percent of the ITC's FY 2001 budget is for personnel, 12 percent for space rental, 8 percent for contract services and 7 percent for other support. The ITC does not expend any of its funds for grants or other non-operating purposes. The ITC's FY 2001 staffing plan consists of 390.5 permanent positions and 11 term positions. All of its employees are located in one building at 500 E Street, SW, Washington, DC.

The mission of the ITC is twofold: Administer U.S. trade remedy laws in a fair and objective manner; and provide the President, the United States Trade Representative, and the Congress with independent, quality analysis and information on matters of international trade and competitiveness. In so doing, the ITC contributes to the development and implementation of sound and informed U.S. trade policy.

The ITC has five major operations that serve its external customers. These operations are detailed in the ITC's Strategic Plan and Annual Performance Plans. The five operations are:

(1) Import Injury Investigations
(2) Intellectual Property-Based Import Investigations
(3) Research Program
(4) Trade Information Services
(5) Trade Policy Support.

The Office of Inspector General fully staffed is allocated 3.5 positions. This level of staffing provides for a full time Inspector General, full-time Staff Assistant, part-time Attorney and part-time Auditor. Additionally, ITC has allocated $80,000 to the Office of Inspector General (OIG) for contract audit and review services for FY 2001.

Major Performance and Management Challenges

The major performance and management challenges the ITC faces in the near future are not unique to the ITC but are some of the same general challenges facing other federal agencies and the Federal Government as a whole. The top management challenges currently facing the ITC are:

- Human Capital Management
- Performance Management
- Information Resources Management
- Improving Business Processes

One factor serving to increase the magnitude of these challenges is the relatively small size of the ITC. In many cases, the ITC just does not have the resources to apply to its management initiatives that larger agencies have. However, it is capable of a rapid and effective response when the resources are available and it can overcome the organizational impediments that it shares to some degree with larger agencies.

STATEMENT OF Dev Jagadesan, Acting Inspector General, USITC

Human Capital Management

Strategic human capital management is a pervasive challenge to the federal government. The four key elements of this challenge are:

- Strategic human capital planning and organizational alignment
- Leadership continuity and succession planning
- Recruiting and developing staff with skills necessary to meet agency needs
- Creating results-oriented organizational cultures

Human capital is the ITC's largest resource. Currently, 73 percent of the ITC's budget is devoted to personnel compensation and benefits. However, the size of the ITC's workforce is significantly smaller than in the recent past. Staffing levels are down 20 percent in the last ten years, including a 10 percent reduction-in-force (RIF) in FY 1996. Recent reductions in staffing have been accomplished through normal attrition. Over the last three years the staff turnover rate has been about 10 percent per year.

The ITC needs to address succession planning as a matter of priority because of the potential human capital crisis it faces. This potential crisis, which is also common to the Federal Government as a whole, results from the significant number of employees becoming eligible for retirement over the next few years. More specifically, by calendar year 2006, 31 percent of ITC's current non-supervisory employees and 50 percent of ITC's current supervisory employees will be eligible to retire. To date, the retirement rate has been relatively low compared to the agency's retirement-eligible population. Eventually, however, the growing number of retirement-eligible employees will lead to increases in actual retirements. At that point, the ITC will face a significant challenge in trying to maintain leadership continuity and preserve institutional knowledge.

On the positive side of this trend, the ITC is likely to have a significant opportunity for management reform in the next few years. As noted, 50 percent of current ITC supervisors will be eligible for retirement over the next five years. The ITC may choose not to replace some retiring supervisors as part of a delayering initiative. Possibilities for change include replacing some of its hierarchical office structures with a team structure. This would formally recognize the fact that much of the ITC's investigative and research work is being done by multi disciplinary teams drawn from various offices. Another possibility for change is to more directly align the ITC's organizational structure with its five strategic operations.

Another significant challenge facing the ITC is the relative unpredictability and variability of its workload. As an example, the number of Title VII antidumping and countervailing duty cases filed over the last ten years has varied from a high of 133 in FY 1992 to a low of 14 in FY 1996. In addition, the Uruguay Round Agreements Act requires the ITC to conduct sunset reviews of all existing orders every 5 years. Initially the ITC was required to review 309 orders that were in existence prior to January 1, 1995. These reviews were to be completed during a three-year transition period beginning in FY 1998. This represented a significant increase in the ITC's workload, since some

sunset reviews require almost as much effort as new filings. Moreover, sunset reviews represent a permanent increase in the ITC's workload since all existing orders have to be reviewed every five years. One advantage of sunset reviews from the standpoint of workload management is that their numbers are more predictable than new filings.

The ITC's approach to handling the recent peak in its workload was to reassign staff and to hire term and temporary employees. The use of term and temporary employees avoids the large financial commitment associated with hiring permanent employees. The terms of service for temporary employees ranged up to three years with most appointments expiring in the latter half of 2001. This approach appears to have been relatively effective in handling recent variations in workload but needs further evaluation.

Building and maintaining a quality, mission capable ITC workforce in a competitive job market will require significant management attention. The choice the ITC faces is similar to the choice facing many Federal agencies: either devote additional management resources to address these human capital issues or react when they rise to crisis proportions. One positive step the ITC has recently taken was to appoint its Director of Personnel to its Strategic Planning Committee.

Performance Management

If the ITC can recruit and maintain a mission capable workforce, it faces the further challenge of managing its workforce so as to maximize performance results. Meeting this challenge requires that the ITC define its strategic objectives, develop and implement strategies for applying workforce and other resources to achieve these objectives, and measure and evaluate results-based performance.

The ITC has embraced the concept of performance-based management as embodied in the GPRA. The challenge for the ITC has been to go beyond performance-based management as a goal to performance-based management as an actual day-to-day management culture that is interwoven into all aspects of the ITC's operations.

The ITC established a Strategic Planning Board in 1994 soon after the enactment of GPRA. The ITC developed its first Strategic Plan in 1995, and a second edition in 1997. The third edition, currently in effect, covers the period ending September 30, 2003. The ITC has issued interim adjustments to its Strategic Plan as part of its FY 2001 and FY 2002 Performance Plans. The current Strategic Plan contains 19 strategic goals and 14 critical success indicators distributed across the ITC's five operations. During the current fiscal year, the ITC anticipates conducting a comprehensive update and revision of its Strategic Plan. Among other things, this update will provide a more specific linkage to goals and strategies for information technology and human capital.

The ITC issued its first Program Performance Report (PPR) for FY 1999. This PPR reported on performance achieved during the fiscal year and established a baseline for subsequent annual plans and PPR's. The ITC's second PPR, covering FY 2000, will be

submitted to Congress later this month. We briefly reviewed a draft of the ITC's FY 2000 PPR, which indicates that the ITC met 18 out of 19 established performance goals.

Although we plan to conduct a comprehensive review of the ITC's strategic planning in the near future, our preliminary assessment is that the ITC should define more of its performance goals in quantifiable terms. Expressed in quantifiable terms, performance goals become more understandable, and more easily evaluated as to achievement.

Additionally, there may be areas in the strategic plan where more outcome-oriented goals could be defined. In particular, the current goals are more process and output-oriented than outcome-oriented, but this is due mainly to the difficulty in developing outcome-oriented goals for the ITC's quasi-judicial operations. Outcome-oriented goals, if they can be developed, could probably not be quantified because of the unpredictability of trade remedy filings. However, the strategic plan could describe the linkage between these outcome goals and the quantifiable performance goals contained in the annual performance plans. Further, the annual PPR's could quantify performance in terms of these outcomes because these reports are retrospective in outlook.

Beginning in FY 2000, the ITC implemented a budget structure that allowed nearly all activity costs to be allocated among its five operations. This has enabled the ITC to readily identify and control the resources allocated to the various strategic operations. This type of performance-oriented budgeting should improve the efficiency of resource allocation within the ITC.

In summary, the GPRA process, if properly implemented, can contribute significantly to a more effective, more results-oriented ITC. On the other hand, it is not clear that the ITC makes a majority of management decisions based on GPRA information. The fact that ITC's Annual Performance Plans include some non-quantified goals and measurement standards indicates that in some areas GPRA may be treated only as a paperwork exercise to be completed as part of the funding cycle. To the ITC's credit, GPRA has taken root in some areas, but in other areas use of GPRA information has not been viewed, nor is it used, as a tool for improving the ITC's operations. Until performance-based management becomes more widely accepted, the ITC is unlikely to reap fully the benefits intended by GPRA.

Information Resources Management

The rapid evolution of information technology, particularly in the areas of networking and telecommunications, presents the ITC with enormous opportunities for modernizing its information and management systems. The introduction of additional automation into the ITC's business processes will promote greater economy and efficiency while freeing up human capital for higher-level activities such as planning, evaluation and research. Likewise, the application of more modern web-based information architectures will further transform the way the ITC interacts with its customers and the public.

STATEMENT OF Dev Jagadesan, Acting Inspector General, USITC

The General Accounting Office has identified five information resources management issues that continue to challenge agencies; and to a certain degree, the ITC faces those same challenges. They are: (1) fundamental weaknesses in information technology investment selection and management control processes, (2) slow progress in designing and implementing technology architectures, (3) inadequate cost estimating and system acquisition practices, (4) the need to build effective chief information officer leadership and organization and (5) significant computer security weaknesses.

It is important that ITC senior management provide the leadership to promote a shared vision of constant improvement in ITC business systems through the application of modern information technology. Such leadership is necessary to allow information technology to transform traditional business processes and achieve efficiencies common to the commercial environment. Senior management must also recognize that, in the new-economy environment, information technology is just as applicable to customer-facing strategic business processes as it is to back-office processes, like accounting, to which it has traditionally been applied.

In our observation, the ITC has a range of senior managers who embrace these concepts to varying degrees. However, a small minority of the ITC senior management is not willing to embrace these concepts and still view information technology as a support element of management. In contrast, the Congress has recognized the integral and indispensable nature of information technology in government through legislation such as the Clinger-Cohen Act of 1996, which elevated the importance of information technology in agency operations and management. To their credit, the Chairman and the Commissioners of the ITC have agreed to implement an OIG audit recommendation to establish a Chief Information Officer (CIO) position. Commensurate with the responsibilities of the CIO position and to attract quality candidates, the ITC determined that the CIO should be designated a Senior Executive Service position. The ITC is currently seeking approval from OPM for such a designation.

The appointment of a CIO elevated to an independent senior management position provides an opportunity for the ITC to improve its management structure in this vital area. Additionally, appointment of a CIO emphasizes the ITC's recognition of the importance of information technology to the agency and brings high-level focus to information technology within the ITC. Most importantly, the CIO may be able to persuade reluctant senior managers that business processes of the ITC are not so unique and can be improved with the proper application of information technology.

In contrast to previous years, the ITC's FY 2002 budget request reflects needed funding for several significant information technology projects. While we support the purpose and need for funding of these information technology projects, we have concerns that significant resources might be expended prior to a CIO joining the management of the ITC. It would be beneficial and prudent for the ITC to have its new management structure in place prior to expending these additional resources.

STATEMENT OF Dev Jagadesan, Acting Inspector General, USITC

Although the ITC has had very few information security incidents to date, it still faces, as do other federal agencies, the challenge of vulnerability to computer-based attacks. The sources of potential attack are numerous, and the issue is compounded by security holes in commercially available software and hardware. Managing these security risks presents a significant resource challenge to the ITC, particularly in view of the ITC's growing reliance on information technology. The ITC, like many federal agencies and private organizations, needs to continue to seek more efficient ways to ensure that information security risks affecting its operations are assessed fully and to implement appropriate controls to mitigate these risks.

Improving Business Processes

Improving the ITC's business processes presents a significant challenge for the ITC. This challenge is partly the result of an ingrained resistance to change and partly due to shortcomings in the ITC's ability to manage the change process.

Based on our general knowledge of the federal government, the ITC, if benchmarked against other federal agencies, would be an upper echelon agency in terms of the efficiency of its business processes. However, benchmarked against private industry, many of the ITC's business processes could not be viewed as efficient.

Specifically, the ITC's current business processes are still largely paper-centric in terms of receiving public filings and dissemination of information inside and outside the ITC. While some of these paper-centric processes require additional information technology investments to improve, a significant amount of paperwork reduction could be achieved without any additional investment. In general, the ITC has been slow to identify these processes and implement the changes that could lead to substantial savings of resources in this area.

An example of a process that needs improvement is the collection, processing, and dissemination of data and the filing of information with the ITC. Presently, this information arrives at the ITC in paper form, where much of it is optically scanned and made available to the ITC and interested parties through the Electronic Document Imaging System (EDIS). The scanning process, however, is a largely manual process requiring clerical personnel to feed paper documents into electro-mechanical scanners. Human and mechanical errors require additional clerical effort for quality review of the scanned output. The quality review, however, is not considered sufficiently reliable that the paper documents can be disposed of entirely. An obviously better approach to this process is to implement a technology solution that would allow data and documents to be submitted to the ITC in electronic form. This approach would also be consistent with the intent of the Government Paperwork Elimination Act. The ITC has allocated FY 2001 funds for this process improvement effort and is seeking additional funds for FY 2002.

Another process that could be improved is the internal exchange of information required to facilitate the work of the ITC. On a daily basis, the ITC internally disseminates in paper form a large amount of important information, which program offices use in their

substantive work. This paperwork could be significantly reduced, especially in light of the fact that the ITC's current information technology infrastructure has the ability to support the electronic dissemination of internal documents. Here, the main impediment to these changes is that ITC management and employees have been reluctant to change the manner in which they receive information. If electronic dissemination of this information could be implemented, it would result in more timely receipt of information as well as cost savings from reduced manual paperwork procedures.

One of the core functions of the ITC is to disseminate trade information to the public. Some of this information is in the form of reports and publications. All ITC reports are currently posted to the ITC's web site, which has resulted in significant savings. However, the ITC continues to expend resources printing hard copies of reports. The ITC currently has the capability to print reports to CD-ROM at about one tenth the printing cost of hard copies of reports. Additionally, mailing costs of a CD-ROM versus a hard copy are 66 percent less. To the ITC's credit, it has initiated a pilot program to compare the user acceptability of CD-ROM versions of its reports versus hard copies. An additional efficiency, which the ITC needs to consider, is the use of email lists to distribute its publications and notices similar to what the GAO and other agencies are doing. This again is an area where no additional information technology investments would be needed.

The ITC is required by statute to compile and publish the Harmonized Tariff Schedule (HTS) of the United States in a printed copy. Currently, the federal government spends over $180,000 in printing costs on the HTS. Significant savings could be achieved if the statutory requirement to publish a printed copy of the HTS were amended. There are alternative methods of distributing the information contained in this document, such as the Internet, which are both less expensive and more useful. The ITC has already published an unofficial version of the HTS on its Internet site (www.usitc.gov). It has also requested FY 2002 funding to facilitate user access to the HTS by enabling on-line searches as well as download/printing of selected pages.

Finally, several areas exist where the ITC could improve inefficient work processes by leveraging its information technology investments. An example is integration and automation of its administrative systems. This will require critical self-evaluation of the ITC's business processes to change and improve them in light of advances in information technology instead of merely applying information technology to existing business processes. Applying this concept will present a major challenge for the ITC.

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Once again thank you for the opportunity to testify this afternoon. Mr. Chairman, that concludes my testimony. I will be glad to answer any question you or members of the Subcommittee may have.

Mr. OTTER. The importance of this panel coming before the subcommittee this afternoon, I think, is demonstrated a great deal by the testimony that they have just given.

Being a participant in that world theater, I have been to all 42 countries as a businessman, but also as a politician because as Lt. Governor of Idaho, I led many trade delegations. But I spent most of my time working in the field in an effort to build business in foreign countries.

So, I am getting off the hook right now. Here comes our chairman. Well, I am still at the bottom of the food chain here.

Anyway, I just wanted to say that I as a participant, both as a businessman in the world, and my company was the one who supplied MacDonald's all over the world. I can tell you how important it was when I went to work for the company that supplied french fries to MacDonald's, how important our image was around the world.

The State Department is very important from that standpoint and how that country feels about us and how we feel about that country. The first one we put in was in Canada. That was a drop-dead success. The last one I remember participating in in the open house was next door to the Kremlin, which we didn't think you would ever see, the largest symbol of capitalism, the Golden Arches, casting a shadow on the wall of the Kremlin. So, that was very important.

USAID, Mr. Mosley, brings that image to the ground with the development, with the seeking of opportunities, fulfilling peoples' dreams in these foreign countries, sometimes through the eyes of experts from the United States. It is terribly important.

I work with farmers in order to get through USAID, to get them to build farming communities and eventually processing plants so that we could utilize their renewable resources for the business that we wanted to build in those countries.

Certainly, the Peace Corps continues to offer, not only on an academic level, but I think equally important, on a level that makes a community of the world for us from many different aspects. Some of the programs that the Peace Corps has taken on, I think, Mr. Smith, have done us proud and done us well in the world.

Of course, finally, Mr. Jagadesan, your organization has continued to operate on a very important level simply from the standpoint that it fills out the need that is required around the world.

So, with that, I would probably turn my attention, Ms. Sigmund, to the image that we want around the world. One of the images that I want around the world is that I don't necessarily want to be the toughest kid on the block, although most people would suggest my nickname, "Butch," would suggest that.

But I do know that we have to be strong and act with that strength to confirm the values that we have and the values that we built. I don't want to be part of the huddled masses. I don't want to be afraid to walk the streets of these foreign countries where we have an opportunity to engage, not only in keeping the peace, but also in expanding market horizons and value horizons.

So, tell me a little bit more, if you would, about how not only brick and mortar FE and I know brick and mortar and fences and

all that are important FE but it seems to me that the image and the attitude is equally important.

If we build the right image and the right attitude, it seems to me, maybe the brick and mortar isn't as necessary as we may think it is.

Ambassador SIGMUND. I agree with you, Congressman. One of the challenges for the State Department and its embassies overseas is to meet the new needs of Americans working and traveling overseas.

Embassies become advisors, consultants, sources of protection and safeguard for Americans who are trying to pursue a variety of interests overseas.

I think image is terribly important and with the consolidation of——

Mr. OTTER. Excuse me. I apologize.

Ambassador SIGMUND. No, that is all right. Am I too loud or not loud enough?

Mr. OTTER. No. I was trying to find out if I am done. I don't know all the rules here yet.

Mr. SHAYS [resuming Chair]. Let me just say, when we have two or three Members we just go on 10 minutes or so. We are not as strict unless we have more Members. So, you are doing fine.

Mr. OTTER. Thank you.

Ambassador SIGMUND. Image is very important. With the consolidation of USIA with the State Department there has been a recognition that public diplomacy which can contribute to a positive image for the United States overseas can advance our interests and our foreign policy goals is going to be more carefully grafted to the development of policy and its implementation.

I think one of the things that is detrimental to our embassy overseas is the often shabby, dilapidated state of our embassies. Not only are they eyesores in many cases, but they are not safe places to work.

The Department has recognized this and is developing a construction plan that will address some of these issues. But it is going to require sustained commitment on the part of the Department and it is going to require a partnership with the OIG to identify problem areas before they become costly mistakes.

Mr. OTTER. Mr. Mosley, I am very aware of many of the good things that USAID has done mostly in a physical sense, the construction, if you will, the building of programs and those sort of things.

I served under President Reagan for 17 months as sort of an ambassador-at-large at the U.S. Task Force on International Private Enterprise. Resulting from that, we brought to Congress a report called the Andres Report because it was chaired by Dwayne Andres of Archer, Daniels Midland.

I brought the agricultural aspect, I felt, coming from Idaho, to that. I found an alarming thing, a thing that sort of alarmed me. USAID was looked on more as a universal or an international, I guess I should say, "welfare agency" as much as it was looked on in some of the countries and invited in as a welfare agency rather than as one that was there to really establish not only the brick and mortar of private enterprise, but more importantly the con-

cepts, the idealism of private enterprise, of market discipline and those kinds of things.

I know that the Inspector General, when the Inspector General looks at things, it is easy to assess the value and the effectiveness of brick and mortar. It is a little more difficult the more esoteric, but the esoteric in this case, and especially your case, is a lot more important.

I would like to have an expression of how you assess that, the more esoteric, the image of whether we are there for welfare purposes. Let me speak directly to a couple of instances. When I was in Turkey, in an operation just South of Izmir, USAID was very, very effective, because the Turks wanted free enterprise.

When I was in Manila, I saw just the opposite. They were sort of there as a welfare agency rather than an agency that was going to leave a foundation, not only of concrete, but also of a belief that the marketplace should be the ruler.

Mr. MOSLEY. You are absolutely right, Congressman. USAID has to be more than just a welfare agency. I think the agency has embraced that fully over the last several years. The agency is working toward what is considered to be sustainable development, whereas you go into a country and not only do you help them out of a situation that they are in, but you help to provide, where they have the technical abilities, to work and sustain themselves once the U.S. Agency for International Development has moved on to some other countries.

Hopefully, there will be something called graduation by these countries. The image of the U.S. Government is never a problem as long as people understand that the Agency for International Development is a part of the U.S. Government.

I think they are doing a lot of things these days. For example, in some of the micro-enterprise programs where they help people start businesses, including small businesses, help them manage those businesses and move on and they grow to graduate from the need to have AID programs.

In addition to that, the Office of the Inspector General is involved in that same process. We work with a lot of the supreme audit institutions around the world and those are comparable to the General Accounting Office in the United States.

The agency provides funds to those supreme audit institutions so they can go to training, they can learn what the requirements are. We provide OIG the technical support to help them learn the standards and learn how to audit the dollars that come from not only the U.S. Agency for International Development, but all the U.S. Government agencies as well as other donors into their countries, help them account for those dollars and be able to report and assure that the funds went to accomplish what their intended purposes were. That, we consider, to be sustainable development.

Mr. OTTER. Thank you, Mr. Mosley. I would agree.

I would like to recognize the presence of Congressman Platts, who just arrived.

My time is up and so I will turn it over to the ranking member, Mr. Kucinich.

Mr. KUCINICH. Thank you very much, Congressman Otter and thank you, Mr. Shays, and members of the committee.

First of all, I want to welcome all the Inspectors General to his hearing. I look forward to working with each and every one of you in my capacity as the ranking Democrat.

I am looking at the prepared statements here. There are a couple of questions that I have beginning with Mr. Mosley. On page 2 of your prepared statement you talk reports identified approximately $87 million in questioned costs or funds which could be put to better use.

Would you be able to provide this committee, with the permission of the Chair, with that information in terms of what you are talking about in terms of those costs?

Mr. MOSLEY. Yes, sir. I certainly could.

Mr. KUCINICH. With respect to page 20 of your very comprehensive statement where you speak of accountability in the international environment, which I think is a principle that has to apply across the board to government everywhere, and that, of course, is the nature of this committee, you speak of the serious management challenge and its vulnerability to fraud and corruption.

You illustrate it by speaking about this publication by Transparency International. In it you cite that there are 36 countries in this report that have been getting assistance who have a rather low rating in terms of issues relating to fraud and corruption.

Could you provide a list of those countries and also, with the permission of the Chair, if you have such a list available, and I imagine you do, of what the major challenges are in those countries?

Mr. MOSLEY. Yes, sir. I could certainly provide that. In addition to that, if you would like, we have established what we call a fraud awareness program where we are in those countries. We assess the vulnerabilities at an early point, when AID goes in to start a program operation. Then we give them intelligence in terms of contractors or others who have had problems in the past.

We provide our Fraud Awareness training courses to the government officials, to the AID officials, the contractors and grantees so that they know what things to look for where there might be problems and we make sure they are advised of how they can advise us when there are problems and we can then followup to determine where there is a need for an investigation.

I could also provide you a copy of our Fraud Awareness Program that we put together.

Mr. KUCINICH. Thank you.

This question would be for Mr. Jagadesan. You mentioned in your background material that was provided to this committee with respect to the description of the powers of the ITC, its broad investigative powers on matters of trade and its adjudicative role in making determinations with respect to unfair trade practices.

I am new to this subcommittee, so I wonder if you have any kind of publication where you have listed or you have a flow chart available of the unfair trade practices that are currently under investigation country by country.

Mr. JAGADESAN. I am confident I could provide that to the committee.

Mr. KUCINICH. I am particularly interested in what is going on with respect to the dumping of steel. I come from a district, Mr. Chairman, that is being decimated by steel that is being dumped.

It is costing us thousands of jobs. This is in violation of the trade laws.

Notwithstanding whether an administration asks for an action under Section 201 of the 1974 Trade Act, I would like to know what you have in the pipeline with respect to active, if you can do that. Because most of these are generated, I think, by public process. Am I correct?

Mr. JAGADESAN. Yes.

Mr. KUCINICH. I would appreciate it if you could provide that information.

Mr. JAGADESAN. Sure.

Mr. KUCINICH. That is it. Thank you, Mr. Chairman.

Mr. OTTER. I would ask that the reports or lists that were requested by the ranking member, that you would supply him FE you meant that for the permanent record for the committee?

Mr. KUCINICH. I would like to have a chance to look at them, with permission of the Chair, of course. I am not working unilaterally on anything. I think it would be valuable for the committee to receive it.

Mr. OTTER. I would request that it be made part of the permanent record of the committee.

Mr. SHAYS. Thank you, Mr. Otter. Actually, it is probably fitting that you have control of the floor right now because I have to confess I have a blatant conflict of interest when it comes to Mr. Smith, being a former Peace Corps volunteer and given that my wife works in the World Wise School Program.

So, I have this deep affection for the Peace Corps and it is hard for me to imagine the Peace Corps could do anything wrong, that they would even need an Inspector General.

I was fascinated by your testimony, I wasn't here, but your written testimony that the mix of male to female was 60–40 and now it is the other way around with 60 percent of the volunteers being women.

I would say at first pass, and I don't mean this facetiously in any way, but based on my experience that some of the best volunteers were women. I am in awe of the women who could be in some of the most difficult places in the world and do so well.

In fact, I almost have a standard policy that if a Peace Corps volunteer, female, comes and is looking for a job, I hire her because I know that she would be extraordinarily competent.

But it does raise some interesting questions as it relates to the kinds of countries we are going into. I wonder if you could just speak to that. A number of the countries we are going into do not always treat women with the same equality that they would treat men. I am wondering if that is something you are looking into and I am wondering if that is something the women know about before they join the Peace Corps.

Mr. SMITH. First, I would draw to your attention that this proportion between men and women is tending more and more toward more women. This is what we see on college campuses today.

Mr. SHAYS. Do you mean just in terms of the number of people who go to college?

Mr. SMITH. Yes. I think it is like 55–45 now in colleges. Again, it is growing the direction of more women. I think that is reflected

in the Peace Corps. I expect that the Peace Corps, will it is 61 percent now, over the next few years we will be moving up toward 70 percent.

At that point it does seem to me that Peace Corps management should be asking, first one question. The question is: What would I do differently if the Peace Corps were all female? Is there anything that I would change in the way it operates. I think the answer would be yes. I think that there would be very explicit changes made, perhaps, in the medical services.

They would look much more closely and explicitly at the security questions and the safety questions facing women. The countries that the Peace Corps is in, there are many countries where it is difficult for women. They are out in villages and so forth and they are harassed. Many of these issues, of course, come through our office. So, it is highlighted more from the point of view that we bring to it.

Also, the Peace Corps, as part of its training, has training for women on how to deal with these cultural aspects of working in countries that are quite different from ours. They deal with questions of dress and demeanor, of where volunteers live, whether they live with families, for example, or alone.

So, there are many things that they really are looking at. I think it needs to be looked at even more.

Mr. SHAYS. Now, I am sorry to deal with something I am more personally involved in, but let me deal with this first. We love the State Department interaction, but we didn't want to be part of the State Department.

When we lived in a village, when we spoke their language, we didn't want them to feel that we were an extension of the government, though we were proud as can be to be Americans there. Congress has legislated that during times of crisis, Ambassador, we need to bring people into the embassy or into a safe haven.

Do we have that same requirement for Peace Corps volunteers?

Ambassador SIGMUND. The State Department understands that the Peace Corps is unique and that its ability to function effectively often requires a certain amount of psychological and physical distance from the Chancery and the people working therein.

The coordination between the Peace Corps Director and the Ambassador is always very close. The safety of the volunteers is paramount.

Mr. SHAYS. Do you technically need a waiver, though, to ignore the mandate of Congress?

Ambassador SIGMUND. I am not sure.

Mr. SMITH. With respect to the new building program, the Antiterrorism Law? It is my understanding there needs to be an explicit waiver.

Mr. SHAYS. You see, if you were in Congress, you would have asked if the gentle lady would yield.

Mr. SMITH. Excuse me, Ambassador.

Mr. SHAYS. I would never interrupt an ambassador. Why don't you finish, Mr. Smith? I am just having fun.

Ambassador SIGMUND. I am sorry, Mr. Chairman, I am not as familiar as I should be with this.

Mr. SHAYS. I am not that familiar either. It was just raised and so I guess it is something we need to look at. But your point has been that the State Department has traditionally been very conscious of the distinctions of that.

What I am hearing from your testimony, Mr. Smith, your written testimony, is that the possibility of needing some kind of waiver to make sure it is fairly clear that there should be a little more discretion there. Is that correct?

Mr. SMITH. Yes, and that these waivers should be looked at. But, granted, I would think in all cases, and perhaps placing some review on the Peace Corps as to how they are handling the security requirements they face.

But, it would be very dangerous in the Peace Corps to have volunteers coming in and out of the embassy and being watched by the intelligence services of the host countries, that they will be identified there.

Mr. SHAYS. Are you a former Peace Corps volunteer?

Mr. SMITH. I am, yes, sir.

Mr. SHAYS. You speak like one.

Mr. Jagadesan, let me ask you a question. You are a new party to our oversight. We wanted very much to have that oversight because we realize that trade is very much involved. We are getting involved in chemical and biological agents and with biological agents, we have to look at what businesses are doing. We have trade agreements between countries.

There is a whole host of issues that relate to our committee. So, it is delightful to have the commission be a part.

You are a fairly small entity. How many basic employees are we talking about with your total jurisdiction?

Mr. JAGADESAN. Our fiscal year 2001 staffing plan has 390.5 permanent positions. But I think we are at somewhere in the 360's of permanent employees on board.

Mr. SHAYS. What I meant was your total oversight for the commission.

Mr. JAGADESAN. Currently, I think it is about 360.

Mr. SHAYS. OK. So, it is fairly small.

Mr. JAGADESAN. Yes, we are small.

Mr. SHAYS. So, your office is about how large?

Mr. JAGADESAN. Three point five staff, but actually three on board.

Mr. SHAYS. How many years have you been doing this?

Mr. JAGADESAN. I have been counsel for about 3½ years. I have been in the Acting Inspector General for about 2 years.

Mr. SHAYS. OK, so you have had some history here. Where would be the area where you have had the biggest disagreement with the commission where they are the least receptive to your suggestions and your recommendations and your findings?

I am going to ask each of you that question, but you get it first.

Mr. JAGADESAN. To be honest, we have not had very significant disagreements. Where we have, we have been able to come to FE I wouldn't say "compromise" FE but come to an understanding.

Mr. SHAYS. Would you give me an example?

Mr. JAGADESAN. One of our most recent recommendations was that the commission should establish an office of CIF.

Mr. SHAYS. Did you say CFO?

Mr. JAGADESAN. CIF, Chief Information Officer.

Mr. SHAYS. OK.

Mr. JAGADESAN. There were significant discussion amongst the Commissioners and the office directors on whether that was a good recommendation. Ultimately, they have decided that it is a good recommendation and they intend to implement it.

Mr. SHAYS. When do they intend to do that?

Mr. JAGADESAN. Well, right now, sir, they have decided that the most appropriate level would be a Senior Executive Service position. For the agency to obtain a Senior Executive Service position that is allocated by OPM, they have sought the approval to have an additional position.

Mr. SHAYS. When would they do that?

Mr. JAGADESAN. My understanding of it is that it has been sent to OPM for approval.

Mr. SHAYS. OK. When did you end up with this dialog? When did you first make the recommendation?

Mr. JAGADESAN. Probably about a year ago.

Mr. SHAYS. Maybe a little longer than a year ago, probably; right?

Mr. JAGADESAN. It is not in the recommendation that is over a year old yet. It is not in that category.

Mr. SHAYS. Mr. Chairman, if you don't mind, if I could just go through each of them and then we will go back.

Mr. OTTER. The gentleman has the floor.

Mr. SHAYS. Mr. Smith, what would be the biggest area where you have made recommendations and haven't had a receptive audience?

Mr. SMITH. I would point to two areas. One is when we have made recommendations about the weaknesses in the actual programs, what volunteers do. We have had some resistance from the management staff.

Mr. SHAYS. I am not clear. Where you had what? I am sorry.

Mr. SMITH. When we have made recommendations about the work of volunteers, we have found volunteers, in our view, inadequately employed.

Mr. SHAYS. OK. So, there have been occasions where you have seen a volunteer and you are saying, listen, they are there but they are not being fully utilized.

Mr. SMITH. Exactly.

Mr. SHAYS. I know from my own experience that we saw that happening. We almost became an instrument for the government to say they had seven volunteers here. Sometimes they didn't want to move them from one district because they didn't want to offend the country. That kind of thing still happens?

Mr. SMITH. Sure it does. We have had some resistance from the management to change that. The other area is that when we have found on a few occasions that, in our judgment, the posts were not prepared to receive new trainees and we have recommended that they not send a training group, which would be, let us say, 30 trainees going into a country.

We have had some difficulty in their accepting that.

Mr. SHAYS. Well, I could say that problem has been there for years. You answered my next question.

Mr. Mosley.

Mr. MOSELY. Well, Mr. Chairman, I think probably the most significant area where we have had disagreement is our involvement in the establishment of the financial management system. Their first attempt at setting up an integrated financial management system was call the New Management System.

We tried to be involved very early. We were first resisted and they did not want to provide us information in terms of systems documentation. Their reaction was, "We are not ready for review."

We were trying to explain, "We need to review now and let you know the things you should be aware of before you make mistakes."

They basically did not listen to us. That system was a failure. It received a lot of attention up here in Congress and they were severely criticized.

With the current system that they are implementing FE basically, their response was that they didn't think that we were qualified to give them recommendations in a technology area FE we were able to show them that we could do those reviews and provide solid information, that we did have the expertise on staff to provide that information.

With the current system they are implementing they work with us very closely. As I have indicated, they even backed off of their initial implementation date for the PHOENIX system.

Mr. SHAYS. I have gone almost 15 minutes, so let me just quickly inquire of Ambassador Sigmund.

Ambassador SIGMUND. Let me first say that the OIG's relationship with the Department, I would characterize it as critical constructive rather than contentious. The Department's record of implementing our recommendations is a good one.

Where the Department hasn't implemented those recommendations tends to be areas where there is a lack of adequate resources. That being said, I would have to say that our biggest frustration has been with the Department's slowness to understand the importance of strategic planning.

The Department has been traditionally reactive. The need to develop plans for long-term construction, the need to develop work force plans, the Department has been slow to understand the importance of these issues.

Mr. SHAYS. I know the gentleman has to leave. Do you have any questions before you have to go?

Mr. OTTER. I just have one for Mr. Mosley. Let us go back to my statement relative to sometimes I felt like philosophically we were exporting more welfare than we were true business principles under USAID.

Is there anything in your investigations and oversight that would tell you that we do have a major problem there and that we should correct that? Then, how should we do that?

Mr. MOSELY. I can't say that we have anything right now which would indicate that. I think the programs the agency has moved toward, Democracy in Government, is trying to help the people in those foreign countries try to set up democracies and improve their operations so that they are sustainable. I think that has changed

tremendously over the years. So, we do not have anything to indicate that is a problem at this time.

Mr. OTTER. I see. I have one followup with that, you know, USAID, through the World Bank and many other organizations and then within their own budget generally supplies capital that can become available for startup entrepreneurs. What is the rate of success under USAID?

Mr. MOSELY. The rate of success in those programs is very high. I can't give you a percentage, but based on our audit work, they normally make loans to groups and those groups monitor themselves and each other. There is embarrassment if they fail.

Their rate has been very high in terms of success. There have been very few failures.

Mr. OTTER. Is there an area of the world that has a higher rate of failure?

Mr. MOSELY. I can't answer that at this time, sir. I could find out and let you know.

Mr. OTTER. That is all I have, Mr. Chairman.

Mr. SHAYS. Thank you very much. I appreciate your help today.

Mr. OTTER. Well, you are quite welcome.

Mr. SHAYS. I think I have about ten more minutes of questions.

Ms. Sigmund, let me just say this. I am very impressed with the young State Department employees that we have. I think I actually applied and didn't get accepted. I applied to CIA and the State Department and I didn't make the grade.

Ambassador SIGMUND. It was our loss, sir.

Mr. SHAYS. You mentioned unfilled positions. You didn't say "unfilled positions." You actually just said you had a shortage of staff. Is that because we don't create the positions, we aren't funding the positions or we can't hire for positions that are out there?

Ambassador SIGMUND. In the mid-1990's, for budgetary reasons, the State Department stopped hiring young officers.

Mr. SHAYS. Even though they had the slots, but they didn't have the dollars.

Ambassador SIGMUND. They have what are called the "FTEs" but they didn't have the dollars. They chose to deal with reduced levels by not hiring. That clearly has been a mistake and it has had an impact on a number of our operations overseas.

Mr. SHAYS. Give me an example of a negative impact.

Ambassador SIGMUND. Well, an impact on our consular operations, for example. Traditionally, young officers or new officers come in and their first assignment is with consular services. A number of our positions have gone unfilled overseas because we have not had the officers to put in those positions.

The Department understands its mistake, however. In the last year or two the Department has aggressively started recruiting and is trying to develop the kind of work force planning it needs to ensure that doesn't happen again.

Mr. SHAYS. But there has been talk, there was a suggestion made, and I don't know who made the suggestion, so I don't want to attribute that, that in some countries we combine and have regional offices or at least regional administrative offices.

Is that something you have given thought to?

Ambassador SIGMUND. We have given thought to it. In fact, as a result of some of our work, regional consular positions have been established. One most recently is for African posts where in fact there is a shortage of consular offices to staff sections in those embassies.

Clearly, looking at how we might use regional administrative capabilities is something that the Department needs to consider and in fact has begun to consider. For example, administrative services for the new independent states is provided on a regional basis out of Germany.

I think we are going to be seeing more and more serious study of just what might be handled regionally in order to free up space and positions in individual bys.

Mr. SHAYS. Let me just ask these questions because they are questions that particularly staff and I want to make sure are on the record.

Is the State Department exercising proper management controls over funds Congress has allocated for embassy upgrades?

Ambassador SIGMUND. Yes. Their record has been very good. We have looked into that issue.

Mr. SHAYS. How do you think the U.S. overseas presence should be restructured to address security operational and foreign policy interests?

Ambassador SIGMUND. Well, I think one thing that needs to be done is to increase the Chief of Missions authority to direct and define what agencies will be working and operating within his country. He is charged by the President, as his representative, to provide oversight and policy direction. He has the responsibility. He needs the authority to run the operations and agencies.

Mr. SHAYS. We have visited a number of embassies. At first I was surprised by the number of different operations we had. When we spoke to the employees, not in the State Department but in the State Department domain, about utilizing facilities they felt their first allegiance was to FE if they were Commerce, the Secretary of Commerce. They did acknowledge that the Ambassador has tremendous oversight, but their first response was to their long-term employer.

Are there opportunities that exist to reduce overseas staffing at some posts to reduce costs and security vulnerabilities or is that just simply not possible, not likely?

Ambassador SIGMUND. Clearly, I think, because it is a security issues as well as a resource issue, the size of our overseas missions needs to be examined. The work done in that area is only very preliminary.

Frankly, it is a challenge to get other agencies working in the international arena to work with the State Department to right size our embassy.

Mr. SHAYS. Mr. Mosley, we covered most of the issues that we wanted to ask about. I may come back on something separate. But let me to go Peace Corps and just ask this question.

How does the 5-year rule affect the agency and the Office of Inspector General? The 5-year, I think, is unique to the Peace Corps. You work for 5 years and then you are out.

Mr. SMITH. Yes, the 5-year rule sets a 5-year limit on employment.

Mr. SHAYS. You can come back 5 years later, right? But you can't work continuously for more than that?

Mr. SMITH. That is right. You can't extend it every 5 years. There are exemptions to that. You can get a 1-year, additional 1 year or an additional 2½ years. It is a maximum of 8½, but that 2½ year extension is very limited.

What it does to the Office of Inspector General is that it makes it difficult to develop the expertise that you need that you get over time with familiarity with the operations of an agency.

Mr. SHAYS. You come under that. You are not under the Inspector General?

Mr. SMITH. The Inspector General Act in Section 8(d) provides for the designated Federal entity, OIGs, that the personnel policies and rules that the agencies where they work apply to them. It was in response to the fact that Title V didn't apply to all of the new agencies being brought in by the 1988 Amendments to the Inspector General Act.

So, for us, we have a 5-year limit. If I want to extend someone beyond that for 1 year or 2½ years, I need to go to the Director of the agency and ask. So, my independence is limited in that respect.

Mr. SHAYS. But you could utilize, you can find very competent employees from other offices who can move in, who have had experience. They just wouldn't have had experience in the Peace Corps.

Mr. SMITH. From other Peace Corps offices?

Mr. SHAYS. No.

Mr. SMITH. From Inspector General offices?

Mr. SHAYS. Yes.

Mr. SMITH. Sure, sure. They just wouldn't have the Peace Corps knowledge, but they would have the IG knowledge.

Mr. SHAYS. Right.

Mr. Jagadesan, let me ask you this question: What is the current state of ITC's information technology systems? What must ITC do to modernize these systems and what are the costs and benefits of such modernization?

Mr. JAGADESAN. I would report that the current state is very good, but I think we are at a point in the commission's history where we can do some significant improvements that would affect and improve the agency dramatically.

The issue that is going to be an impediment to this is going to be funding. In a broader sense it is funding how smaller agencies are funded in general. What I mean by that is, if you look at our appropriations over the last several years, they are pretty much in line with the pay raise.

So, for us to embark on a significant IT project, and significant for our level is probably a $1 to $2 million project, when we come up and ask for that in Appropriation, it looks as though we are asking for a significant increase in our appropriations. It essentially makes its way to the chopping block pretty quick.

But, a $1 million investment in an agency of our size can go a long way in improving our IT infrastructure. When you look at the

way our budget is broken out, the bulk of our expenses are tied up in personnel and rent.

So, our discretionary funds are very limited and our ability, even if implementing all OIG recommendations, we are not going to squeeze a lot of dollars out of there for some of these big ticket items. When I say "big ticket items," I mean like electronic filing before the agency and things like that, which are really very important because some of the other agencies we deal with are going to be accepting electronic filing.

If we are not on a par with that, for instance, an attorney who is filing with the Patent and Trademark Office is going to file his application electronically. The same supporting documentation may be forced to come to us on paper, which is really a backward step in the process.

For instance, when we are appealing our cases to the Court of International Trade, we are going to be required, because of the way the administrators of the courts are, to file electronically. We may have received those supporting documents on paper in the first place.

So, projects like that have significant price tags. For us to fund projects like that is going to be crucial in the future I would hope we have some creative solutions in the Congress to help us with that.

Mr. SHAYS. Are the IGs invited to make presentations before the Appropriations Committee when the agencies go? Are you ever invited before Appropriations?

Mr. MOSELY. Most of the times we do not. I happen to be testifying before a subcommittee of House Appropriations next week on the hurricane mix activities and the use of the supplemental, but normally not for our budgets.

Mr. SHAYS. That is interesting. I would think that would be of tremendous importance to the appropriators to have you all testify. But as a general rule the testimony you all are giving me is that you don't.

Mr. Mosely, I would like to know what AID has done to address its recruiting and retention problems.

Mr. MOSELY. Basically, they have implemented a new program where they are trying to hire a lot more people. They call it the new entry program. They are trying to hire people who are not necessarily at the entry level, people with some experience and various skills. They are hiring people at this point. They put them through an extensive training program. Then they even send them to the field at some point on a temporary basis.

That is what they are working on most of all. Then, from a Civil Service standpoint, they are going through the normal Civil Service rules when they are trying to hire. But it gets very difficult now to hire people specifically in the areas of the information technology and some of the financial management areas. That is just a difficulty that everybody is facing. It takes time.

Mr. SHAYS. You could almost have a boilerplate for all IGs. You print it in your document. We just give it out to all IGs and they can all print it as something that is not unique to any agency.

Mr. MOSELY. That is correct.

Mr. SHAYS. I am going to close with my specific question with you, Ambassador, and just ask you the same basic question. I realize I asked you the question if you have a problem. But I don't know how you are solving the problem.

Ambassador SIGMUND. In fact, we are more aggressively recruiting. We are also looking at retention and Director-General Grossman has instituted some real improvements in making Foreign Service more attractive.

Mr. SHAYS. But you have up and out. You can be out real quick if you have not moved up in a certain period. It is somewhat like the military, I guess. I met some employees in their early 50's who are no longer working for the Department and yet they are very capable people.

Ambassador SIGMUND. That is true. OIG hasn't looked at that. I am a Foreign Service Officer, so I guess I would have to say that personally I understand, if not always sympathize, with the up and out approach.

It has served DOD and, I think, the State Department well in testing officers for both management and policy skills for the Senior Foreign Service.

Mr. SHAYS. But think about it. We all can think of somebody who is ideal for that position, but not necessarily ideal for the position above. Yet, you lose them.

Ambassador SIGMUND. I think that the time has come for us to re-examine all of those sacred cows and shibboleths.

Mr. SHAYS. That is something you can examine; correct?

Ambassador SIGMUND. We can examine it, yes.

Mr. SHAYS. Let me just ask you, is there a question that you had stayed up all night preparing for that we didn't ask that you wish we had asked? Then ask yourself the question and then answer it.

I am being, obviously, a little more facetious than I need to be.

Is there a question that I should put on the record that you need to answer? We are going to close up, so I am just going to give you the opportunity to respond to any particular question that you really think we should have asked and you wanted on the record. I am asking that of all of you. Do you want to start?

Ambassador SIGMUND. You could have asked if we have sufficient to do our job.

Mr. SHAYS. Do you have sufficient resources to do your job?

Ambassador SIGMUND. No, Mr. Chairman, we don't. The Department is about to embark on a very ambitious embassy construction project. We will be giving it close scrutiny, particularly the major building projects such as Beijing.

The problem is that our ability to provide oversight for those projects is very limited.

The other area where we are in as much disarray as the Department itself is in the area of information technology. We are dealing with the same problem of antiquated, antediluvian information systems that make our work very difficult.

Mr. SHAYS. Thank you. Is there any question you wanted on the table, Mr. Mosley?

Mr. MOSELY. Mr. Chairman, I would just like to agree with my distinguished colleague from the Department of State. We do not

have sufficient resources to do all the things that we really do need to do.

I think the one thing that I would like to emphasize, and this is not necessarily the question, but we have in the Office of Inspector General at AID, we have embarked on a vigorous program of proactive activities rather than the traditional audit and investigative work at the end of projects.

That has taken a lot of our resources. Yet, we still have to do our traditional work. So, we certainly could use some additional resources to do that.

Mr. SHAYS. So, the traditional work gets done, but there are lost opportunities in some other areas.

Mr. MOSELY. There are lost opportunities simply because we involved early on with the programs that the agency is doing and trying to give them input for corrective action before the money is out the door.

Mr. SHAYS. Mr. Smith, I realize I said that we don't need an IG because the Peace Corps does everything perfectly. But what I realize is that your job is not a gotcha, so you can always make an agency more efficient.

What question should I have asked you?

Mr. SMITH. The same. There is always a resource issue. In our case we have a total staff of 15.

Mr. SHAYS. Fifteen out of how many employees?

Mr. SMITH. We have a total of 15 staff in the IG's office.

Mr. SHAYS. You are talking about how many, 7,000 plus?

Mr. SMITH. 7,000 volunteers in 76 countries.

Mr. SHAYS. Yes, when you think about that, you clearly can't be out there.

Mr. SMITH. It is very difficult. When I started working in the IGs office, the goal was to visit every country in some fashion every 3 years. We now aim every 5 years because we just don't have the staff to do that.

Mr. SHAYS. And once you are there, you don't have much time to spend, obviously.

Mr. SMITH. That is the other issue.

Mr. SHAYS. You only have 15 employees?

Mr. SMITH. Fifteen employees. I have tried to hire people at mid and late career levels because we don't have the time to train people. When you have a 5-year period, you really can't spend that time. So, we have an excellent staff, but they are spread very thinly.

The impact, I think, affects our ability to examine larger issues that affect the agency as a whole, particularly headquarters issues.

Mr. SHAYS. It could have tremendous pay-back.

Mr. SMITH. I think so.

Mr. JAGADESAN. When we are fully staffed, I think our resources are right for the size of our agency. However, if you encourage Mr. Smith to take our most seasoned people, we would be in trouble.

Mr. SHAYS. Thank you. I am going to conclude. I would just point out that in the back of the room we had students from, I think, Monroe, Stamford, New Canaan and Fairfield participating in the Congress Youth Leadership Council Program. They stayed and lis-

tened to a great deal of this, which surprised me. Some students come in and out.

This is the kind of technical conversation isn't always interesting, though the work you are doing is fascinating.

I thank you all for being here. Please stay in touch. You are our right arms. You are very important to the agencies and you are very important to the work of this committee. We enjoy the good working relationship we have with all of you.

Thank you for what you do and for what your staff does as well.

With that, I thank our recorders. We will hit the gavel and end this hearing.

[Whereupon, at 2:25 p.m., the subcommittee was adjourned, to reconvene at the call of the Chair.]

[The prepared statements of Hon. Bernard Sanders, Hon. Wm. Lacy Clay, and additional information submitted for the hearing record follow:]

STATEMENT BY REP. BERNARD SANDERS REGARDING WASTE, FRAUD AND ABUSE IN THE PENTAGON

Mr. Chairman, thank you for holding this hearing today. It is no secret that in our great country we are spending large sums of money where we should not be spending it and we are not spending money where we should be spending it. Today, in the United States, over 43 million Americans have no health insurance, but we say we do not have the money to help those people. Today, in the United States, millions of senior citizens cannot afford their prescription drugs and they suffer and they die because the United States Government does not do what other countries around the world do and help seniors with their prescription drugs. Today, in the United States, at VA hospitals all over this country, veterans who have put their lives on the line defending this country are not getting the quality of care they need because the United States Congress is not adequately funding the Veterans Administration.

But, when it comes to military spending, it appears that the defense contractors not only are able to obtain all of the funding that they need, they also can commit as much waste, fraud and abuse as they want. When it comes to defense spending, we apparently have billions to spend on the construction of a national missile defense system that many scientists believe will not work and is not needed; billions to spend on aircraft carriers and fighter planes; billions to spend on military projects that, coincidentally, are built by contractors who contribute large sums of money to both major political parties; and as this hearing will demonstrate billions to throw away in waste, fraud and abuse at the Pentagon.

We spend over $300 billion a year for the Department of Defense, which represents about half of our total discretionary budget. DoD has assets of over $1 trillion. Yet, the DoD has been unable to pass an independent financial audit. Here are the trouble spots:

Over the past decade, the Pentagon has lost $17 billion. The Pentagon simply cannot account for $17 billion. It has nothing to show for it, not even an overpriced screwdriver. How can this happen?

The General Accounting Office found that the DOD maintains over $41 billion in obsolete parts. How did that happen? Apparently, the computer that orders spare parts can't communicate with the computer that knows what spare parts are currently on the shelf. This is unacceptable.

Apparently, the DoD cannot account for 56 airplanes, 32 tanks and 36 Javelin missile command-launch units. How can the military lose one tank, let alone 32?

DoD has purchased $1.6 billion in inventory that it does not need. Let me repeat: $1.6 billion. How can this happen?

As for the National Missile Defense system, *The New York Times* has uncovered serious allegations of fraud and cover-up at the Pentagon over this program. Since 1957, we have spent over $120 billion for a missile defense system, but we still have nothing to show for it.

Experiments with the current, National Missile Defense system have revealed that the system is "***inherently unable*** to make the distinction [between target war-head and decoys]."

Not only is the national missile defense system incapable of working, but, according to the *New York Times*, contractors and the Pentagon have purposely altered data to create a different appearance. The *Times* reported that the "Pentagon and its contractors had tried to hide this failure" and that Professor Theodore Postol at MIT "says the Pentagon conspired to cover up this sensor problem."

The *Times*, quoting from a classified letter and analysis, goes on to say, "the analytical team arbitrarily rejected and selected data to create an 'elaborate hoax' that was then hidden in reports by the use of 'misleading, confusing, and self-contradictory language." According to the *Times*, "the coverup, [the MIT scientist] said, was 'like rolling a pair of dice and throwing away all outcomes that did not give snake eyes."

I would like to ask the Inspector General at DoD what he thinks of Professor Postol's allegations of fraud and failure in the NMD system and what he intends to do about this.

What about our military contractors? According to the GAO, there is a continuing pattern of fraud and abuse at some of our largest military contractors. GAO has documented repeated cases of procurement fraud, kickbacks, and misuse of taxpayer funds. Yet, the Pentagon continues to carry on business as usual with the offending companies. Why is that? Why don't we have a 3 strikes and your out policy for repeat criminal Pentagon contractors?

Not one of the companies that are on the GAO list for repeat fraud and abuse violations are currently debarred from federal contracts because of the fraud. It is my understanding that federal procurement officers can debar or suspend companies (or pieces of companies) that commit fraud from future government contracts. Debarring these companies is a key tool to punish and prevent fraud against the Pentagon, yet this has not happened. Why?

The GAO has also reported that the Pentagon has failed to recover the majority of over $30 million in apparent overpayments for common grocery, prescription drug and clothing items. Wasting $30 million on cornflakes and candy bars is unacceptable. Especially when the money could be used to get our troops off food stamps.

Why can't the Pentagon hold its contractors accountable?

The bottom line is that we have got to stop wasting billions of tax dollars and force the Pentagon to be more responsible with our money. I thank the Chairman.

POSSIBLE QUESTIONS FOR THE INSPECTOR GENERAL AT THE DEPARTMENT OF DEFENSE REGARDING WASTE, FRAUD AND ABUSE IN THE PENTAGON

It's my understanding that over the past decade, the Pentagon has lost $17 billion. The Pentagon simply cannot account for $17 billion. It has nothing to show for it, not even an overpriced screwdriver. Is that $17 billion figure accurate or is it too high or too low? How can this happen?

The General Accounting Office found that the DOD maintains over $41 billion in obsolete parts. How did that happen? It's my understanding that the computer that orders spare parts can't communicate with the computer that knows what spare parts are currently on the shelf. Is this true? What can we do to correct this problem?

Apparently, the DoD cannot account for 56 airplanes, 32 tanks and 36 Javelin missile command-launch units. How can the military lose one tank, let alone 32?

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Why can't the Pentagon hold its contractors accountable?

Wm. Lacy Clay

OPENING STATEMENT-REP Wm Lacy Clay
Hearing on the Subcommittee on National Security, Veterans Affairs and International Relations

THANK YOU MR. CHAIRMAN. I WELCOME THE OPPORTUNITY TO MEET WITH THE COMMITTEE TODAY. LAST WEEK'S HEARING THAT INCLUDED THE TESTIMONY OF MR. DAVID M. WALKER, THE COMPTROLLER GENERAL OF THE U.S. GENERAL ACCOUNTING OFFICE (GAO), HIGHLIGHTED THE NEED FOR MORE IN-DEPTH HEARINGS WITH THE VARIOUS AGENCIES UNDER THE SUBCOMMITTEE'S JURISDICTION. ALTHOUGH MR. WALKER PRIMARILY CONCENTRATED ON DOD, FURTHER SCRUTINY REVEALS THERE ARE SERIOUS CONCERNS WITH MANAGEMENT, FINANCIAL, AND PERSONNEL RESPONSIBILITIES AT MOST OF THESE AGENCIES. MOST OF THE EMPHASIS TODAY WILL AGAIN BE ON DOD AS A FOLLOWUP TO LAST WEEK'S TESTIMONY.

I COMMEND YOU MR. CHAIRMAN AS WE ARE TAKING STEPS IN THE RIGHT DIRECTION TO STEM THE TIDE ON SOME OF THESE PROBLEM AREAS. I FURTHER COMMEND THE COMMITTEE FOR FOCUSING PAST DOD AND RECOGNIZING THAT THESE COVER A BROAD SPECTRUM OF THESE AGENCIES. TREMENDOUS SAVINGS IN MONEY CAN BE REALIZED BY ELIMINATING SOME OF THE MISMANAGEMENT, WASTE AND FRAUD THAT EXIST. THIS IS THE INITIAL STEP OF MANY IN THE RIGHT DIRECTION. THE SIZE OF THE BEAURACRACY CAN BE REDUCED SIMPLY BY BEING MORE EFFICIENT.

I ASK UNANIMOUS CONSENT TO SUBMIT MY STATEMENT TO THE RECORD. THANK YOU.

INSPECTOR GENERAL

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, D.C. 20436

March 30, 2001

The Honorable Dennis J. Kucinich
United States House of Representatives
1730 Longworth House Office Building
Washington, DC 20515

Dear Representative Kucinich:

Attached is my response to the questions you asked during my testimony on March 15, 2001, before the Subcommittee on National Security, Veterans Affairs, and International Relations. The attachment reflects the status of current USITC investigations as reported by the USITC to my office.

If I can be of further assistance, please contact me at (202) 205-2210 or djagadesan@usitc.gov.

Sincerely,

Dev Jagadesan
Acting Inspector General

Attachment

cc: Honorable Christopher Shays
Thomas Costa

Attachment

Response to Representative Kucinich from
Questions Posed to
Dev Jagadesan, Acting Inspector General, USITC
At the Hearing on March 15, 2001, of the
Committee on Government Reform
Subcommittee on National Security, Veterans Affairs, and International Relations

Question: Current ITC investigations underway, with particular reference to steel cases?

The International Trade Commission currently has underway 84 investigations of all types. Of the total of 41 antidumping (AD), countervailing duty (CVD), and five-year sunset reviews of AD/CVD cases, 28 (68%) relate to steel. In addition, two of the three proceedings under global safeguards (Secs. 201-204) concern steel. Other types of investigations include primarily Sec. 332 general fact-finding studies, and Sec. 337 investigations concerning violations of intellectual property rights in imported goods. All current investigations are listed in the Chart 1 on page 3. Steel-related investigations are in **bold**.

Question: Sec. 201 (Global Safeguards)– Status of investigations?

The Commission has no active Sec. 201 investigations pending *per se*. There is activity underway, however, with respect to various phases of the following Sec. 201 cases. (In the chart 1 these activities are cited under Sec. 204.)

- ***Circular welded carbon quality line pipe***– The Commission made an affirmative injury finding and remedy recommendation. The President subsequently imposed a tariff rate quota as a remedy for the period of 3 years and 1 day. A mandated Sec. 204 mid-term monitoring review has been instituted by the Commission with a completion date set for August 30, 2001.

- ***Steel wire rod.*** Commission was evenly divided in its injury determination, therefore all views were forwarded to the President for his decision as to which determination would be considered as the determination of the Commission. The President accepted the affirmative determination and imposed a tariff rate quota as a remedy for the period of 3 years and 1 day. A mandated Sec. 204 mid-term monitoring review has been instituted by the Commission with a completion date set for August 23, 2001.

- ***Lamb meat***– The Commission made an affirmative injury determination and remedy recommendation. The President imposed a tariff rate quota for a period of 3 years and 1 day as a remedy. A Sec. 204 mid-term monitoring report was forwarded to the President on January 22, 2001. (Australia and New Zealand have challenged the ITC determination

and the President's relief action as inconsistent with U.S. obligations under the WTO Safeguards Agreement. The U.S., Australia, and New Zealand have each appealed specific findings of the WTO dispute panel reviewing the U.S. action. A decision from the Appellate body is expected in late spring.)

- ***Wheat Gluten***– The Commission made an affirmative injury determination and remedy recommendation. The President imposed a quota as a remedy for the period of 3 years and 1 day. Under Sec. 204, the U.S. industry filed a petition to extend the remedy for an additional two years. The ITC is scheduled to forward its affirmative determination, findings, and recommendations concerning the extension to the President on April 2, 2001.

  On December 22, 2000, the WTO's Appellate Body issued a report finding that the U.S. is not in conformity with its obligations under the WTO's *Agreement on Safeguards* with respect to wheat gluten. Subsequently, on March 15, 2001 the USTR, Robert Zoellick, requested an advisory opinion from the Commission pursuant to Sec. 129(a)(1) of the Uruguay Round Agreements Act as to whether it could take steps in connection with the investigation that would render its action in the original Sec. 201 investigation not inconsistent with the Appellate Body's findings. The ITC has advised USTR that it could take such steps, and is awaiting a possible request from USTR for a determination that would render the ITC's action in connection with the wheat gluten case not inconsistent with the findings of its Appellate Body.

- ***Potential New Filing on Steel.*** Although a possible Sec. 201 investigation on steel has recently been the subject of much discussion, as of this date, no request for such an investigation has been filed. Two Congressional letters have been sent to the President asking that he request a Sec. 201 petition on steel. One from the Senate was signed by 14 Senators. A letter from the House was signed by 9 Representatives. USTR Robert Zoellick, in recent testimony on the Hill, said that he is seriously considering the option of a Sec. 201 investigation.

Response to Representative Kucinich from Dev Jagadesan, Acting Inspector General, USITC

Chart 1

USITC INVESTIGATIONS AS OF 3/26/01

Sec. 22 ***of the Agricultural Adjustment Act, relating to interference with Agricultural Programs***	
22-055	PEANUT BUTTER AND PEANUT PASTE (Suspended)
Sec. 204 ***of the Trade Act of 1974. Secs. 201-204 of that Act relate to global safeguards measures. Specifically, Sec. 204 pertains to mid-term monitoring reviews of Sec. 201 remedies, and in the case of wheat gluten cited here, it relates to a request for a two-year extension of the remedy.***	
204-004	WHEAT GLUTEN
204-005	**CIRCULAR WELDED CARBON QUALITY LINE PIPE**
204-006	**STEEL WIRE ROD**
Sec. 332 ***of the Tariff Act of 1930 concerns general fact-finding investigations that are requested by Congress, the U.S. Trade Representative, or the President.***	
332-288	ETHYL ALCOHOL FOR FUEL USE: DETERMINATION OF THE BASE QUANTITY OF IMPORTS
332-325	THE ECONOMIC EFFECTS OF SIGNIFICANT U.S. IMPORT RESTRAINTS
332-345	U.S. TRADE SHIFTS IN SELECTED INDUSTRIES AND RECENT TRENDS IN U.S. SERVICES TRADE
332-350	MONITORING OF U.S. IMPORTS OF TOMATOES
332-351	MONITORING OF U.S. IMPORTS OF PEPPERS
332-354	PROGRAM TO MAINTAIN U.S. SCHEDULE OF SERVICES COMMITMENTS
332-360	INTERNATIONAL HARMONIZATION OF CUSTOMS RULES OF ORIGIN
332-377	PROGRAM TO MAINTAIN INVESTMENT RESTRICTIONS
332-414	COMPETITIVE ASSESSMENT OF THE U.S. LARGE CIVL AIRCRAFT AEROSTRUCTURES INDUSTRY
332-415	U.S. TRADE AND INVESTMENT WITH SUB-SAHARAN AFRICA

Response to Representative Kucinich from Dev Jagadesan, Acting Inspector General, USITC Chart 1

332-416	THE ECONOMIC EFFECTS ON THE UNITED STATES OF THE EU-SOUTH AFRICA AGREEMENT ON TRADE, DEVELOPMENT, AND COOPERATION
332-421	PROCESSED FOODS AND BEVERAGES: A DESCRIPTION OF TARIFF AND NON-TARIFF BARRIERS FOR MAJOR PRODUCTS AND THEIR IMPACT ON TRADE
332-423	EU HORTICULTURAL BARRIERS
332-424	U.S.-ISRAEL FREE TRADE AGREEMENT
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332-426	NATURAL GAS SERVICES
332-427	U.S. MARKET CONDITIONS FOR CERTAIN WOOL ARTICLES
332-428	APPAREL OF SHORT SUPPLY MATERIALS
Sec. 731 ***of the Tariff Act of 1930 indicates an anti-dumping investigation.***	
731-921	FOLDING GIFT BOXES FROM CHINA (Preliminary)
731-922	AUTOMOTIVE REPLACEMENT GLASS WINDSHIELDS FROM CHINA (Preliminary)
731-923	OLEORESIN PAPRIKA FROM INDIA (Preliminary)
731-924	MUSSELS FROM CANADA (Preliminary)
731-539C	URANIUM FROM RUSSIA (Suspended)
731-740	SODIUM AZIDE FROM JAPAN (Suspended)
731-747	FRESH TOMATOES FROM MEXICO (Suspended)
731-868	**STEEL WIRE ROPE FROM CHINA**
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731-873	STEEL CONCRETE REINFORCING BARS FROM BELARUS
731-874	STEEL CONCRETE REINFORCING BARS FROM CHINA
731-875	STEEL CONCRETE REINFORCING BARS FROM INDONESIA
731-877	STEEL CONCRETE REINFORCING BARS FROM KOREA
731-878	STEEL CONCRETE REINFORCING BARS FROM LATVIA
731-879	STEEL CONCRETE REINFORCING BARS FROM MOLDOVA
731-880	STEEL CONCRETE REINFORCING BARS FROM POLAND
731-882	STEEL CONCRETE REINFORCING BARS FROM UKRAINE
731-888	STAINLESS STEEL ANGLE FROM JAPAN
731-889	STAINLESS STEEL ANGLE FROM KOREA
731-890	STAINLESS STEEL ANGLE FROM SPAIN
731-894	AMMONIUM NITRATE FROM UKRAINE
Sec. 1205 *of the Omnibus Trade and Competitiveness Act of 1988, related to proposed modifications to the Harmonized Tariff Schedule of the United States.*	
1205-005	PROPOSED MODIFICATIONS TO THE HARMONIZED TARIFF SCHEDULE OF THE UNITED STATES
Sec. 701 *of the Tariff Act of 1930 represents a countervailing duty case– Sunset– indicates the first of the cyclical five-year "sunset reviews", pursuant to the 1995 Uruguay Round Agreements Act*	
701-362	SEAMLESS PIPE FROM ITALY (Sunset)
701-364	OIL COUNTRY TUBULAR GOODS FROM ITALY (Sunset)

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Sec. 731, *of the Tariff Act of 1930 identifies an anti-dumping investigation. Sunset-- the first of the cyclical five-year "sunset reviews" for anti-dumping cases, pursuant to the 1995 Uruguay Round Agreements Act*	
731-678	**STAINLESS STEEL BAR FROM BRAZIL (Sunset)**
731-679	**STAINLESS STEEL BAR FROM INDIA (Sunset)**
731-681	**STAINLESS STEEL BAR FROM JAPAN (Sunset)**
731-682	**STAINLESS STEEL BAR FROM SPAIN (Sunset)**
731-702	FERROVANADIUM AND NITRIDED VANADIUM FROM RUSSIA (Sunset)
731-703	FURFURYL ALCOHOL FROM CHINA (Sunset)
731-705	FURFURYL ALCOHOL FROM THAILAND (Sunset)
731-706	CANNED PINEAPPLE FRUIT FROM THAILAND (Sunset)
731-707	**SEAMLESS PIPE FROM ARGENTINA (Sunset)**
731-708	**SEAMLESS PIPE FROM BRAZIL (Sunset)**
731-709	**SEAMLESS PIPE FROM GERMANY (Sunset)**
731-710	**SEAMLESS PIPE FROM ITALY (Sunset)**
731-711	**OIL COUNTRY TUBULAR GOODS FROM ARGENTINA (Sunset)**
731-713	**OIL COUNTRY TUBULAR GOODS FROM ITALY (Sunset)**
731-714	**OIL COUNTRY TUBULAR GOODS FROM JAPAN (Sunset)**
731-715	**OIL COUNTRY TUBULAR GOODS FROM KOREA (Sunset)**
731-716	**OIL COUNTRY TUBULAR GOODS FROM MEXICO (Sunset)**

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731-724	MANGANESE METAL FROM CHINA (Sunset)
Sec. 337 ***of the Tariff Act of 1930 concerns violations of intellectual property rights in imported goods-- "Modification" relates to an ancillary proceeding, subsequent to the initial investigation.***	
337-114	MINIATURE PLUG-IN BLADE FUSES (Modification)
Sec. 337 ***of the Tariff Act of 1930 concerns violations of intellectual property rights in imported goods***	
337-429	BAR CLAMPS, BAR CLAMP PADS, AND RELATED PACKAGING, DISPLAY, AND OTHER MATERIALS
337-430	INTEGRATED REPEATERS AND PRODUCTS CONTAINING SAME
337-432	SEMICONDUCTOR CHIPS WITH MINIMIZED CHIP PACKAGE SIZE AND PRODUCTS CONTAINING SAME
337-435	INTEGRATED REPEATERS, SWITCHES, TRANSCEIVERS, AND PRODUCTS CONTAINING SAME
337-439	HSP MODEMS, SOFTWARE AND HARDWARE COMPONENTS THEREOF, AND PRODUCTS CONTAINING SAME
337-440	4-ANDROSTENEDIOL
337-441	FIELD PROGRAMMABLE GATE ARRAYS AND PRODUCTS
337-442	CLOSET FLANGE RINGS
337-443	FLOORING PRODUCTS
337-444	SEMICONDUCTOR LIGHT EMITTING DEVICES
337-445	PLASMA DISPLAY PANELS AND PRODUCTS
337-446	INK JET PRINT CARTRIDGES
337-447	AEROSPACE RIVETS
337-448	OSCILLATING SPRINKLERS, SPRINKLER COMPONENTS AND NOZZLES
337-449	ABRASIVE PRODUCTS

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337-450	INTEGRATED CIRCUITS, PROCESSES FOR MAKING SAME, AND PRODUCTS CONTAINING SAME,
337-451	CMOS ACTIVE PIXEL IMAGE SENSORS AND PRODUCTS
337-452	PERSONAL WATERCRAFT
337-453	PROGRAMMABLE LOGIC DEVICES