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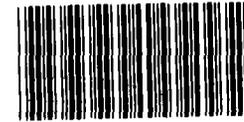
ACCOUNTING AND FINANCIAL MANAGEMENT DIVISION
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May 18, 1982

B-207395

RELEASED

The Honorable John D. Dingell
Chairman, Subcommittee on Oversight
and Investigations
Committee on Energy and Commerce
House of Representatives



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Dear Mr. Chairman:

Subject: Validity and Comparability of Quantitative
Data Presented by the President's Council
on Integrity and Efficiency on Inspectors
General (~~IG's~~) Activities (GAO/AFMD-82-78)

This report is in response to your December 22, 1981, request for a review of the accuracy of the quantitative data contained in the first two "Summary Reports of Inspectors General Activities" and accompanying fact sheets issued by the President's Council on Integrity and Efficiency. These reports highlight the Government-wide activities of the Offices of Inspector General for the 6-month periods ending March 31, 1981, and September 30, 1981, and were intended to provide a basis for assessing the impact and effectiveness of these organizations. The numerical data in these reports have been widely publicized by the President and the news media. A portion was also included in the Office of Management and Budget's "Major Themes and Additional Budget Details, Fiscal Year 1983."

The President's Council on Integrity and Efficiency was established by Executive order in March 1981, to strengthen the inspector general program and spearhead the administration's campaign to reduce fraud and waste in Federal programs and operations. Council membership consists of the statutory inspectors general; representatives of the Departments of Defense, Justice, and the Treasury; the Federal Bureau of Investigation; and the Office of Personnel Management. The Council is chaired by the Deputy Director of the Office of Management and Budget (OMB). (See encl. I for a membership list.)

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this assignment was to determine the accuracy of the data contained in the Council's reports. Specifically, we were requested to concentrate on

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- the validity and comparability of the data reported in the "audit recoveries," "costs avoided," and "questioned costs sustained" tables and
- the methodologies the Council used to calculate the percentage increases reported for recoveries, indictments, convictions, and hotline operations.

Our evaluation of the Council's reports consisted primarily of a review of (1) the data collection instrument and accompanying instructions and definitions sent to each agency and (2) the data furnished by the various agencies to see whether it was comparable and properly consolidated and summarized by the Council. At selected inspector general offices, we reviewed the supporting documentation for judgmentally selected report table data to determine whether it was accurate, properly compiled, and met the criteria contained in the Council's definitions for various data categories. During the course of our work, we also conducted numerous interviews with agency and Council officials.

We conducted our work at the Office of Management and Budget, the Department of Defense, the Merit Systems Protection Board, and inspector general headquarters offices at the Environmental Protection Agency (EPA), the General Services Administration (GSA), the National Aeronautics and Space Administration (NASA), and the Departments of Agriculture, Health and Human Services, and Transportation. The audit was performed from January through April 1982, and was conducted in accordance with our current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

SIGNIFICANT PROBLEMS EXIST
THAT AFFECT THE VALIDITY AND
COMPARABILITY OF REPORT DATA

Our review disclosed that the data collection methodology for each report was different, standard definitions were not used, and some agency figures were double-counted. Because of these problems, we have some concerns about the validity and comparability of the report tables and the Council's claim of taxpayer savings of \$2.1 billion (see encl. II) resulting from inspector general activities for the 6-month period ending September 30, 1981.

Data collection methodologies
differed for each report

The Office of Management and Budget used completely different methods to collect the data presented in each of the Council's first two reports. Council representatives obtained all

data for the first report from the inspector general semiannual reports for the 6-month period ending March 31, 1981. While preparing this report, they found that IG semiannual reports contained data based on different definitions and did not contain all of the figures the Council needed. To eliminate these problems and give the IG's the direct involvement they wanted in developing the figures and definitions used, the data collection methodology was revised. OMB representatives developed new definitions and forwarded them with data collection sheets to the IG's for use in compiling and submitting data for the second report.

We found that although OMB distributed definitions for comment, revised them based on comments obtained, and forwarded the new definitions to the IG's, some IG's still did not use these revised definitions in preparing the data for the second report. In general, this happened because agencies continued to disagree with the revised definitions and because IG information systems could not generate data based on the new standardized definitions. The failure of the IG's to use the standardized definitions, coupled with the problems associated with using two different data collection methodologies, affected data validity and precluded meaningful analyses and comparisons of the data in as well as between the two reports.

Figures reported as "audit recoveries"
do not represent actual recoveries

The second Council report showed audit recoveries of \$388 million for the 6-month period ending September 30, 1981. We examined the audit recovery figures for the Department of Transportation (DOT) and the General Services Administration because they accounted for \$282 million, or 73 percent of the total recoveries reported. We found that these recoveries were overstated because the agencies did not use the Council's report definitions.

The Council defined audit recoveries as "amounts recovered through management actions to collect on questioned costs sustained." Our examination revealed that DOT's audit recoveries of \$190 million were based on the agency's and not the Council's definition of the term. Rather than actual recoveries, it consisted of total questioned costs sustained of \$51 million and costs avoided of \$139 million. DOT officials said they used their own definition because the Council gave them very little time to provide the data.

DOT officials were unable to tell us the amount actually recovered during the 6-month period ending September 30, 1981. In

fact, in a January 22, 1982, report we issued 1/ they reported that as of June 30, 1981, actual recoveries on audit costs disallowed during fiscal 1978, 1979, and 1980 amounted to only \$3.3 million. After our report was issued, DOT reported additional audit recoveries of \$16.9 million for the period. The wide disparity between the \$20.2 million recovered over 3 years, as reported to us, and the \$190 million recovered over 6 months, as reported to the Council, appears to be due in large part to problems of definition.

Also, because DOT used its own definition, \$139 million was double-counted in the calculation of the \$2.1 billion savings the Council reported and the President and the Office of Management and Budget referred to in supplemental documentation for the fiscal 1983 budget. The Council arrived at the \$2.1 billion savings by aggregating totals from the second Council report tables on "audit recoveries," "litigation recoveries and penalties," and "costs avoided." (See encl. II for the calculation of the \$2.1 billion.) Because DOT used its definition and not the Council's, it reported the \$139 million twice, once as "costs avoided" and again as a component of "audit recoveries."

We found similar problems at GSA. Officials told us that the \$92.2 million represented potential cost avoidances and not actual recoveries. They did not know how much would eventually be recovered but said it would be substantially less than \$92.2 million. In fact, GSA reported to us recoveries of only \$1,000 as of June 30, 1981, on audit costs disallowed during fiscal 1978 through 1980. 1/

Significant adjustments are needed in figures reported as "costs avoided"

In its second report, the Council showed that as a direct result of inspector general efforts, over \$1.7 billion in expenditures were avoided for the 6-month period ending September 30, 1981. We found problems with definition and data collection at the Department of Defense (DOD) and the Department of Agriculture that affected the validity of the entire "costs avoided" table. The figures reported by these agencies represented 84 percent of the over \$1.7 billion reported.

The Council defined costs avoided as "those costs which will not be incurred in the future because of an Inspector General recommendation." However, we found that the over \$1 billion DOD

1/"Federal Agencies Negligent in Collecting Debts Arising From Audits," AFMD-82-32.

reported represented "potential cost avoidances" if audit recommendations were implemented. DOD pointed this out in its submission to the Council; however, the Council did not footnote or highlight that point in the report. When asked about this, a Council official stated that because DOD had numerous problems with the Council's definitions, it was not considered practical to footnote each problem.

In addition, a major portion of the \$1.2 billion figure--\$537.9 million--represented costs the Air Force avoided because of program changes to the Precision Location Strike System and the Advance Location Strike System. This amount, which was confirmed by management in December 1979, was reported in a May 1980 audit report. Because it does not represent costs avoided due to inspector general activities for the 6-month period from April through September 1981, we believe that it should not have been reported as costs avoided in the second Council report.

DOD's cost avoidance figure was based on reports issued by its internal audit, internal review, and military exchange service audit organizations. Defense Contract Audit Agency (DCAA) findings were not included even though it issued 338 audit reports with cost avoidance recommendations for DOD of approximately \$133 million. This amount was not included because DOD interpreted the Council definition as including only internal audit and review group findings, not those of external organizations.

At the Department of Agriculture, we found that \$253 million was reported as per annum costs avoided rather than one-time savings. This happened because Agriculture's inspector general officials who provided the data to the Council did not coordinate their efforts. The official who made the original submission correctly reported the \$253 million as a one-time savings. When the Council sent the draft of its second report out for final corrections and review, another official changed the \$253 million to per annum savings without consulting with the first official.

DCAA figures were double-counted in determining "questioned costs sustained"

The "questioned costs sustained" table shows that agency management agreed to over \$4 billion in costs questioned by auditors. We reviewed these figures to determine if DCAA audit findings had been double-counted in arriving at this total. Most of our work was conducted at DOD and NASA, two of DCAA's major users. We found that double-counting had occurred and that the Council did not address the double-counting issue when it requested agency data or when it prepared the report tables.

A majority of the questioned costs sustained--\$3.5 billion--was reported by DOD. Based on discussions with DCAA officials, we found that the \$3.5 billion represented DCAA findings for work done for all customers during the period and not just those pertaining to audits conducted for DOD. In fact, DCAA performs audits for all of the agencies included in the Council's report.

DCAA's information system can generate separate questioned costs sustained data for NASA but not for any of the other agencies, including DOD, for which it conducts audits. According to DCAA officials, \$63 million pertained to audits conducted for NASA. Since DCAA could not identify specific figures for the other agencies, we requested it from three other inspectors general. The Inspectors General at GSA, EPA, and DOT included \$5.3 million that resulted from DCAA audits in their questioned costs sustained figures. According to DCAA officials, this amount was included in the \$3.5 billion DOD reported. Officials at NASA, GSA, EPA, and DOT stated that they did not know that their figures were included in the figures DOD reported to the Council.

We discussed the double-counting issue with a Council official to determine the steps taken to ensure that it did not occur. The official stated that the Council was not aware of the problem and that it was not considered during report preparation. Based on our findings, this official contacted representatives from all Council member agencies, notified them of the problem, and asked that they take steps to ensure that double-counting does not occur in the future.

PROBLEMS AFFECTING THE VALIDITY OF PERCENTAGE INCREASE FIGURES

The fact sheet accompanying the second Council report on inspector general activities states that:

"The semi-annual report released by the Council shows a 46% increase in recoveries, a 59% increase in indictments, and a 28% increase in convictions over the past six months."

These same percentage increases are reflected in the Office of Management and Budget's "Major Themes and Additional Budget Details, Fiscal Year 1983." In addition, the Chairman of the Council stated in a press conference that the number of hotline calls and letters on fraud and abuse in Government had increased 80 percent. We found that these percentage increase statistics were misleading, and, in the case of recoveries, the amount of actual recoveries was unknown.

The Council did not have documentation supporting its percentage increase calculations. We were told that the figures were prepared on "scratch paper" by comparing figures for those agencies that reported recoveries, indictments, convictions, and hotline data in both the first and second Council reports. Using the method described, we computed the percentage increase figures reported. All four percentage increases proved to be arithmetically correct. (See encls. III, IV, V, and VI.) However, we identified several problems that affect the validity of these increases.

- The data collection methodology was different for the two reports.
- The percentage increases were based on data from only 7 to 14 of the 18 agencies listed in the report.
- The agencies used different definitions in compiling figures on recoveries.

COUNCIL EFFORTS TO IMPROVE FUTURE REPORTS

We discussed our findings with the OMB representative responsible for preparing the Council reports. This individual stated that the Council was aware that there were problems with the reports and that it was attempting to correct them. OMB has placed major emphasis on eliminating current differences in definition and on revising the report tables.

OMB is working closely with Council agencies in an attempt to obtain universal acceptance of the report definitions. It revised the definitions used in the second Council report and sent them to the inspectors general for comment. Based on the comments received and on discussions with agency officials, we found that there is still no general acceptance of the new definitions that will be used in the report covering the 6-month period ending March 31, 1982. An OMB representative stated that although progress has been made, the Council recognizes that problems still exist. At the current time, its goal is to obtain general acceptance of the definitions in time for use in the report covering the 6-month period ending September 30, 1982.

The Council is also revising the tables contained in the report. One table will be added ("investigation recoveries"), two will be eliminated ("questioned costs sustained" and "unresolved questioned costs"), and one table heading will be adjusted to better describe its contents ("audit recoveries" will be changed to "total amounts referred for recovery"). It is making these changes so that the reports will more accurately highlight inspector general accomplishments.

Future reports will show the data on questioned costs sustained and unresolved questioned costs in a section dealing with agency followup on inspector general recommendations. In addition, they will not specifically identify actual agency recoveries but will report them as a portion of the amounts referred for recovery. The Council believes that the actual recovery of funds is a program management rather than an inspector general responsibility. According to a Council representative, data on actual recoveries should be available from each agency.

CONCLUSION

At the present time, the President's Council on Integrity and Efficiency has prepared two semiannual reports to highlight the Government-wide activities of the offices of inspector general and provide the Congress with a basis for assessing the impact and effectiveness of these audit and investigation organizations. However, we believe these first two reports are of questionable value in making these assessments because data comparability and validity have been compromised by the change in data collection methodology, problems with the definitions, and the double-counting noted in this report. Unless these problems are corrected, the credibility of future reports will continue to be suspect.

Although we have some problems with the Council's first two semiannual reports, we strongly support the need for such a report and believe the Council's current activities to develop and obtain acceptance of standard definitions are a step in the right direction. We believe that once these problems are eliminated, the reports will provide both the administration and the Congress with valuable information needed to evaluate the inspectors general and their effect on Government operations.

We are not making recommendations at this time because the Council is well aware of the problems presented in this report. However, we plan to continue monitoring OMB's progress in dealing with the issues discussed here.

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At your request, we have not obtained agency comments on this report. Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days

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from its date. At that time, we will send copies to interested parties and make copies available to others on request.

Sincerely yours,



W. D. Campbell
Acting Director

Enclosures

COUNCIL MEMBERSHIP

Office of Management and Budget
Department of Agriculture
U.S. Agency for International Development
Department of Commerce
Community Services Administration
Department of Defense
Department of Education
Department of Energy
Environmental Protection Agency
General Services Administration
Department of Health and Human Services
Department of Housing and Urban Development
Department of the Interior
Department of Justice
Department of Justice - Federal Bureau of Investigation
Department of Labor
National Aeronautics and Space Administration
Office of Personnel Management
Small Business Administration
Department of State
Department of Transportation
Department of the Treasury
Veterans Administration

INSPECTOR GENERAL SAVINGS REPORTED IN THE SECOND
COUNCIL ON INTEGRITY AND EFFICIENCY REPORT

<u>Department or agency</u>	<u>Audit recoveries</u> (thousands)	<u>Litigation recoveries and penalties</u> (thousands)	<u>Costs avoided</u> (thousands)	<u>Total</u> (thousands)
Agriculture	\$ 2,466.0	\$ 1,700.0	\$ 253,000.0	\$ 257,166.0
Agency for International Development	728.0	1,016.3	(a)	1,744.3
Commerce	(a)	30.1	2,755.9	2,786.0
Community Services Administration	(a)	27.9	(a)	27.9
Defense	(a)	b/ 782.4	c/ 1,190,225.7	1,191,008.1
Education	2,800.0	56.0	2,300.0	5,156.0
Energy	4,112.9	-	3,145.5	7,258.4
Environmental Protection Agency	(a)	229.0	47,500.0	47,729.0
General Services Administration	92,200.0	266.6	(a)	92,466.6
Health and Human Services	d/ 43,900.0	1,203.9	17,600.0	62,703.9
Housing and Urban Development	23,949.0	2,300.0	(a)	26,249.0
Interior	3,712.1	733.4	7,038.3	11,483.8
Labor	5,243.3	1,198.0	(a)	6,441.3
National Aeronautics and Space Administration	18,900.0	421.3	5,100.0	24,421.3
Small Business Administration	147.0	6,523.5	400.0	7,070.5
State	176.3	(a)	2.4	178.7
Transportation	190,000.0	898.8	139,000.0	329,898.8
Veterans Administration	(a)	372.7	47,121.0	47,493.7
Total	\$ 388,334.6	\$ 17,759.9	\$ 1,715,188.8	\$ 2,121,283.3

a/ Data not available.

b/ Represents amounts only for cases opened and closed during this reporting period.

c/ \$160.7 million of this is actual collections and monetary savings--pertains to internal audits, reviews, and military exchange service audit organizations.

d/ Represents the period January 1, 1981, to June 30, 1981.

CALCULATION OF PERCENTAGE INCREASE IN AUDIT RECOVERIES AND LITIGATION RECOVERIES
AND PENALTIES REPORTED BY THE COUNCIL ON INTEGRITY AND EFFICIENCY

Department or agency	Audit recoveries	Audit recoveries	Increase/ (decrease)	Litigation recoveries	Litigation recoveries	Increase/ (decrease)
	10/80-3/81 Council report (thousands)	4/81-9/81 Council report (thousands)		and penalties 10/80-3/81 Council report (thousands)	and penalties 4/81-9/81 Council report (thousands)	
Agriculture	\$ 4,200.0	\$ 2,466.0	\$ (1,734.0)	\$ 6,000.0	\$ 1,700.0	\$ (4,300.0)
Agency for International Development	(a)	728.0	b/ 728.0	(a)	1,016.3	b/ 1,016.3
Commerce	(c)	(c)	(c)	(c)	30.1	b/ 30.1
Community Services Administration	-	(c)	(b)	20.0	27.9	7.9
Defense	(c)	(c)	(c)	(c)	d/ 782.4	b/d/ 782.4
Education	4,800.0	2,800.0	(2,000.0)	3.0	56.0	53.0
Energy	(a)	4,112.9	b/ 4,112.9	(a)	-	(b)
Environmental Protection Agency	(c)	(c)	(c)	(c)	229.0	b/ 229.0
General Services Administration	52,700.0	92,200.0	39,500.0	2,300.0	266.6	(2,033.4)
Health and Human Services	(a)	e/ 43,900.0	b/e/ 43,900.0	(a)	1,203.9	b/ 1,203.9
Housing and Urban Development	14,300.0	23,949.0	9,649.0	347.0	2,300.0	1,953.0
Interior	100.0	3,712.1	3,612.1	231.0	733.4	502.4
Labor	4,300.0	5,243.3	943.3	1,228.1	1,198.0	(30.1)
National Aeronautics and Space Administration	(c)	18,900.0	b/ 18,900.0	29.0	421.3	392.3
Small Business Administration	100.0	147.0	47.0	f/ 6,100.0	6,523.5	423.5
State	(a)	176.3	b/ 176.3	(a)	(c)	(c)
Transportation	(c)	190,000.0	b/190,000.0	2,400.0	898.8	(1,501.2)
Veterans Administration	(c)	(c)	(c)	87.0	372.7	285.7
Total	80,500.0	388,334.6	307,834.6	18,745.1	17,759.9	(985.2)
Less total for agencies reporting figures in only one report (note b)		(257,817.2)	(257,817.2)		(3,261.7)	(3,261.7)
Total for agencies reporting figures in both reports	\$ 80,500.0	\$ 130,517.4	\$ 50,017.4	\$ 18,745.1	\$ 14,498.2	\$ (4,246.9)

Calculation of percentage increase

$$\frac{\$50,017.4 + \$ (4,246.9)}{\$80,500.0 + \$18,745.1} = \frac{\$45,770.5}{\$99,245.1} = 46.1\%$$

- a/ Figures not included because agency had a different reporting period.
b/ Agency figures were included in only one Council report. Actual increase or decrease is unknown.
c/ Data not available.
d/ Represents amounts only for cases opened and closed during this reporting period.
e/ Represents the period January 1, 1981, to June 30, 1981.
f/ Does not include penalties.

CALCULATION OF PERCENTAGE INCREASE IN INDICTMENTS
REPORTED BY THE COUNCIL

<u>Department or agency</u>	<u>Indictments-- Council report 10/80-3/81</u>	<u>Indictments-- Council report 4/81-9/81</u>	<u>Increase/ (decrease)</u>
Agriculture	381	670	289
Agency for International Development	(a)	-	(b)
Commerce	3	11	8
Community Services Administration	-	3	3
Defense	(c)	(c)	(c)
Education	5	41	36
Energy	(a)	1	b/ 1
Environmental Protection Agency	2	3	1
General Services Administration	41	15	(26)
Health and Human Services	(a)	168	b/168
Housing and Urban Development	88	111	23
Interior	16	6	(10)
Labor	40	50	10
National Aeronautics and Space Administration	7	4	(3)
Small Business Administration	6	23	17
State	(a)	2	b/ 2
Transportation	40	20	(20)
Veterans Administration	3	51	48
Total	632	1,179	547
Less indictments for agencies reporting figures in only one report (note b)	---	(171)	(171)
Total for agencies reporting figures in both reports	<u>632</u>	<u>1,008</u>	<u>376</u>

Calculation of percentage increase

376 (Column 3)
632 (Column 1) = 59.5%

a/ Figures not included because agency had a different reporting period.

b/ Agency figures were included in only one Council report. Actual increase or decrease is unknown.

c/ Data not available.

CALCULATION OF PERCENTAGE INCREASE IN CONVICTIONS
REPORTED BY THE COUNCIL

<u>Department or agency</u>	<u>Convictions-- Council report 10/80-3/81</u>	<u>Convictions-- Council report 4/81-9/81</u>	<u>Increase/ (decrease)</u>
Agriculture	235	329	94
Agency for International Development	(a)	1	b/ 1
Commerce	3	7	4
Community Services Administration	3	9	6
Defense	(c)	4	b/ 4
Education	12	16	4
Energy	(a)	3	b/ 3
Environmental Protection Agency	1	3	2
General Services Administration	28	9	(19)
Health and Human Services	(a)	106	b/106
Housing and Urban Development	51	68	17
Interior	11	15	4
Labor	26	30	4
National Aeronautics and Space Administration	10	5	(5)
Small Business Administration	10	21	11
State	(a)	-	(b)
Transportation	31	20	(11)
Veterans Administration	3	11	8
Total	424	657	233
Less convictions for agencies reporting figures in only one report (note b)	_____	<u>(114)</u>	<u>(114)</u>
Total for agencies reporting figures in both reports	<u>424</u>	<u>543</u>	<u>119</u>

Calculation of percentage increase

$$\frac{119 \text{ (Column 3)}}{424 \text{ (Column 1)}} = 28.1\%$$

- a/ Figures not included because agency had a different reporting period.
b/ Agency figures were included in only one Council Report. Actual increase or decrease is unknown.
c/ Data not available.

CALCULATION OF PERCENTAGE INCREASE IN HOTLINE
OPERATIONS REPORTED BY THE COUNCIL

<u>Department or agency</u>	<u>Hotline activities-- Council report 10/80-3/81</u>	<u>Hotline activities-- Council report 4/81-9/81</u>	<u>Increase/ (decrease)</u>
Agriculture	130	187	57
Agency for International Development	(a)	b/ 3	c/ 3
Commerce	30	68	38
Community Services Administration	d/ 59	112	53
Defense	245	806	561
Education	34	78	44
Energy	(a)	45	c/ 45
Environmental Protection Agency	18	19	1
General Services Administration	604	777	173
Health and Human Services	(a)	693	c/693
Housing and Urban Development	146	226	80
Interior	187	344	157
Labor	549	982	433
National Aeronautics and Space Administration	e/ 98	68	(30)
Small Business Administration	56	380	324
State	(a)	15	c/ 15
Transportation	173	194	21
Veterans Administration	184	291	107
Total	2,513	5,288	2,775
Less hotline operations for agencies reporting figures in only one report (note c)	_____	<u>(756)</u>	<u>(756)</u>
Total for agencies reporting figures in both reports	<u>2,513</u>	<u>4,532</u>	<u>2,019</u>

Calculation of percentage increase

$$\frac{2,019 \text{ (Column 3)}}{2,513 \text{ (Column 1)}} = 80.3\%$$

- a/ Figures not included because agency had a different reporting period.
b/ Agency hotline not established during this period. Figure represents two GAO and one Special Counsel referral.
c/ Agency figures were included in only one Council report. Actual increase or decrease is unknown.
d/ Only hotline calls.
e/ Figure represents totals through June 26, 1981.

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