



U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

May 30, 2012

Chairman Joseph Lieberman &
Ranking Member Susan Collins
Committee on Homeland Security and Government Affairs
U.S. Senate
Washington, DC 20510

Dear Senators Lieberman and Collins:

I am in receipt of your letter of May 10, 2012, which requests continued updates on matters that have surfaced since the release of our Management Deficiency Report on the 2010 Western Regions Conference (WRC). We appreciate the Committee's solution-based approach to oversight of the General Services Administration (GSA), its continued support of our office, and your words of commendation. On multiple occasions since the release of our report, my office has met with the Committee staff to discuss ongoing oversight activities, and we will continue to brief your staff on further developments.

Your letter asks that my office 1) conduct a review of other GSA conferences and travel expenses; 2) examine a representative sampling of other contracts supporting the activities of GSA's regional offices to determine the frequency of procurement violations; 3) conduct additional audits and investigations into purchase card use throughout GSA; 4) recommend changes to the organizational structures of both the Agency and my office to trigger earlier detection of similar incidents of waste and abuse; and 5) keep the Committee apprised of the status of my office's recommendations to GSA that stem from the on-going 2010 WRC investigation. My reply addresses each of these areas sequentially.

Conferences

Our management deficiency report on the 2010 WRC triggered additional investigations into other conferences held by Region 9 and by the Agency at large. These investigations are ongoing. In addition, the Agency provided my office with a list of conferences with dates, number of attendees, and associated costs. Our Office of Audits selected all reported conferences for the period starting October 2010 through April 2012. We limited the conferences of interest to those with 25 or more attendees and filtered out any with total costs, including travel, of less than \$10,000. The result was a list of 59 conferences with a total reported cost of about \$5.8 million. We calculated and compared reported conference cost per attendee, excluding travel, for each conference and grouped the results into three risk bands. The highest risk was defined as a cost per attendee that was more than 2.5 times the overall mean (\$151 per attendee) for the entire group of 59 conferences. Topping that group was the 2010 WRC, with a cost of \$1,250 per attendee. The next highest reported conference cost was \$493 per attendee. In total, five conferences rated as high risk, 19 as medium risk, 32 as low risk (less than 1.25 times the overall mean), and three were unrated with no attendee counts provided.

In general, the cost per attendee data analysis paints the 2010 WRC as excessive among GSA conferences. To further validate these results, we will have to conduct substantial survey work. Our next step will be data collection for a sample derived from our analysis. If the cost variance is found to be excessive, we will undertake additional review and analysis.

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Contracts

Regarding the contracts awarded by GSA's Public Buildings Service (PBS) regional offices, my office has reviewed contracts that GSA regional offices awarded as part of GSA's implementation of the American Recovery and Reinvestment Act of 2009 (Recovery Act). We found that PBS in several cases violated the competition requirements of the Competition in Contracting Act, as well as other procurement requirements of the Federal Acquisition Regulation. As a result, there is no assurance that all of these contracts, some of which exceed \$100 million, have been awarded at a fair and reasonable price. In light of these procurement issues, we will continue to audit and examine PBS regional contracts in an effort to prevent and detect fraud, waste, and abuse within GSA.

As for the regional contracts in the GSA's Federal Acquisition Service (FAS), we performed a number of audits of the regional Client Support Centers (CSCs). We found that opportunities exist to improve adherence to procurement regulations. We are in the final stages of auditing the Region 9 telecommunications service contracts. A similar review will be performed in Region 5 during fiscal year (FY) 2013. In addition, we continue to conduct contract and internal audits of the Multiple Award Schedules program. This is a national program which, at the end of FY 2011, consisted of over 19,600 contracts with sales of \$39 billion. We will continue to keep the Committee apprised of any emerging trends of contract irregularities that we observe in our audits.

Purchase Cards

Inappropriate use of GSA's travel, purchase, and fleet charge cards, as well as effective internal controls over the GSA SmartPay® program have long been of concern to the OIG. The Office of Audits completed a 2009 audit¹ of GSA's purchase card program identifying inadequate controls over the purchase card application and the maintenance and account closure processes, an absence of policy regarding the span of controls for approving officials and cardholders, insufficient documentation of purchase approvals, and improper use of purchase cards. The audit report included four recommendations, directed to the GSA Office of the Chief Financial Officer, to ensure a more efficient and effective program. In addition, our Office of Forensic Auditing has conducted targeted reviews of purchase card transactions in GSA Regions 4, 5, 9 and 10, resulting in referrals of numerous suspicious transactions to the Office of Investigations for further investigation. Additionally, my Office of Investigations has an ongoing initiative with the GSA Fleet Fraud Prevention team that emphasizes early detection and prevention of fraudulent use of fleet charge cards. This fiscal year to date, the Office of Investigations has initiated 46 fleet credit card investigations and five purchase card investigations. Through forfeitures, restitutions, fines, seizures, recoveries, and penalties, the Office of Investigations has recovered over \$1.9 million in government charge card cases since 2009. We will continue to provide oversight of charge card transactions, monitor program policies and procedures, and conduct targeted audits and investigations of high-risk questionable purchasing activities across the GSA Smart Pay® charge card program.

We note that the transactional data on the government purchase card items for the 2010 WRC did not raise red flags on the surface. In fact, most items could be deemed legitimate purchases and did not indicate wrongdoing. Only when extrapolated with other 2010 WRC conference costs did it become evident that some of the items purchased were for the 2010 WRC.

Early Prevention

Your letter mentions that, absent the Deputy Administrator's tip on the 2010 WRC, our office would not have investigated the conference. It is important to note how OIG investigations are typically initiated. While some of our investigations are generated by audit findings or are proactive, a significant number of

¹ May 11, 2009. Report Number A080090/B/F/F09006.

them come to us as Hotline complaints or tips. As such, whistleblowers are often necessary to trigger investigations. In that regard, investigations are somewhat akin to fire departments; firefighters cannot predict when and where each fire will occur and must rely on calls as the catalysts for responsive action. The same is true for investigations. Regarding the 2010 WRC, our Office of Investigations received no complaints leading up to or directly following its occurrence. Our investigation revealed that the absence of whistleblowers concerning Region 9 conferences had much to do with the atmosphere of intimidation that allegedly existed there. Since the 2010 WRC report's release, we have seen a considerable increase of Hotline tips. Our special agents continue to conduct Integrity Awareness Briefings for GSA employees nationwide to reinforce employees' valuable roles as the first line of defense against fraud, abuse, and mismanagement.

Furthermore, OIGs' audits and investigations are structured to reflect the programmatic functions of the Agency they oversee. As a result, the GSA OIG's offices of audits and investigations are structured to focus on high dollar contracts and federal buildings. We focus our resources on audits and investigations that can yield significant monetary recoveries to the United States. For instance, our investigation into Oracle generated a \$199.5 million settlement to resolve allegations that Oracle knowingly failed to comply with the price reduction clause of its GSA contract by not disclosing to GSA discounts Oracle gave to its commercial customers. To date, this is the largest False Claims Act settlement that the GSA OIG has ever obtained. In fact, since 2005, our audits and investigations have achieved over \$6.5 billion in savings to the taxpayers. Additionally, GAO found in a 2008 report that the GSA OIG has an average return of \$19 per dollar budgeted.²

The absence of Agency financial control and top-down accountability allowed the 2010 WRC expenditures to occur unchecked. As I stated in my testimony before the Senate Committee on Environment and Public Works (enclosed), systemic changes can be put into place at GSA to eliminate opportunities for excessive, impermissible, and unchecked spending in the future. I have proposed, among other things, that the GSA Office of the Chief Financial Officer (CFO) be centralized to ensure that the CFO has direct authority over all regional and service budget offices as well as visibility into all Agency budgeting, down to the dollar level. Acting Administrator Dan Tangherlini has stated his intentions to pursue these reforms. I look forward to working with the Agency and the Committee to assess these and other reforms once they are implemented.

Recommendations

My staff will keep you apprised of the status of our recommendations to GSA management stemming from the 2010 WRC, and we plan to meet regularly with your staffs to inform them of our progress on these aforementioned and other oversight activities.

Again, I thank the Committee for its substantive approach to our oversight activities and for your continued support of our oversight efforts. Please call my office at 202-501-0450 or Jen Riedinger of my staff at 202-501-4634 if we can answer any questions.

Sincerely,



Brian D. Miller
Inspector General

Enclosure

² "Inspectors General: Actions Needed to Improve Audit Coverage of NASA." GAO Report 09-88 2008 (p. 33).

Testimony of IG Brian Miller
Addendum on Agency Improvements

To build on a familiar GSA theme as emphasized by previous Administrators, the agency needs to become "One GSA." One GSA, with top to bottom control and accountability should replace a system of diffused "matrix" management that has led to fiefdoms and feudal kingdoms. No Administrator should have to plead ignorance or weakness when the public trust is being abused. If the agency's senior leaders are going to be held accountable for the work of the agency -- and they will be as recent events show -- leadership must have the authority and tools for carrying out their responsibility. As it is, with senior regional leadership having two supervisors, accountability becomes divided and diffused. The supervisory matrix really becomes a sieve through which oversight is lost.

This is the problem with a weak CFO structure. One GSA accountable to the Administrator, as the WRC failures attest, also requires One CFO. When financial responsibilities are so dispersed they fall beyond the control of the CFO, there is no CFO -- and the Administrator is deprived of one of an agency head's lead reins to control spending and provide leadership over agency programs.

A theme of a unified GSA leads to a unified CFO and a unified CIO. Diffused information systems lead to redundancies, cost, and barriers that are inimical to the concept of accountability and transparency.

(1) Centralize program and budget management.

- The GSA's Chief Financial Officer's testimony before the Subcommittee on Economic Development, Public Buildings and Emergency Management of the House Committee on Transportation and Infrastructure indicated that the CFO is essentially a figurehead.
- The CFO should have direct authority over all regional and service budget offices (and should be the only employee with the title "CFO"). The OCFO should have visibility into all agency budgeting, down to the dollar level.

(2) Centralize agency information management.

- Likewise, the agency Chief Information Officer should have control over all agency information systems. Currently, it is not clear that the OCIO is even aware of the full list of the agency information systems that exist. The OCIO should have final authority to access and manage all systems.
- Despite the Inspector General Act's requirement that the IG is authorized "to have access to all records" of the agency that relate to the OIG's responsibilities, currently requests by the OIG for read-only access to agency information systems are often met with extraordinary delays (sometimes over a year) or are never fulfilled. Agency systems "owners" who fail to provide access to the OIG within fourteen days should be required to make an explanation of that failure to the Administrator, with a copy to the Inspector General, by the end of the fourteen-day period.

(3) Get back to basics.

- As the Acting Administrator has stated, GSA needs to re-focus on its core missions – procurement and building operations. We found that many agency contracting personnel did not understand fiscal law or the Federal Travel Regulation, or were unaware of the existence of agency policies that directly governed their daily work. This is unacceptable.
- The agency must separate its contracting function from its program functions. That is, the CO should not report to the program officer.

(4) Get out of the “matrix.”

- As the former GSA Administrator testified, GSA employee supervision is not presently linear; it is a "matrix." Because many high-level personnel report to two supervisors, each supervisor can deflect supervisory responsibility onto the other, or claim to. The matrix is really a sieve.

(5) Require procurement accountability.

- Currently, agencies that violate the Anti-Deficiency Act must "report immediately to the President and Congress," as well as the Comptroller General, the facts surrounding each violation and the actions taken to remedy the problem. 31 U.S.C. § 1517(b). This same accountability requirement should be added to the Competition in Contracting Act, which requires that agencies "obtain full and open competition through the use of competitive procedures in accordance with the requirements of [CICA] and the Federal Acquisition Regulation." 41 U.S.C. § 3301(a)(1). This accountability would indicate that the agency takes seriously the concerns of businesses, particularly small businesses, that have not received a full and fair opportunity to compete for federal contracts.