Foreword

This report, submitted pursuant to the Inspector General Act of 1978, as amended, summarizes the activities of the Office of Inspector General (OIG) for the 6-month reporting period that ended March 31, 2001.

Many of our reports addressed vital aspects of major Agency programs and operations. In the area of security and safety, we reported on means to expedite employee background checks for childcare workers, alerted management to long-existing fire safety hazards at a major building complex, and offered recommendations for enhancing the exchange of security information among Federal Protective Service law enforcement personnel nationwide. In business matters, we assessed the first phase of an Agency-wide contract effort to provide standardized hardware, software, and support to Agency personal computer users, and we examined the Federal Technology Service's customer billing practices for specialized services. Our work in building operations identified some of the major causes for escalating repair and alteration costs, while review of GSA efforts to respond to utility deregulation found that GSA has taken sound steps to control costs. We also fulfilled a Congressional mandate to assess and report on whether personal privacy is in any way breached when members of the public access Agency computer Web sites.

Working with the Department of Justice, we obtained $9 million in a settlement related to a computer manufacturer's overcharging Federal customers for computer systems. Savings achieved from management decisions on audit financial recommendations, civil settlements, and investigative recoveries totaled over $99 million.

I would like to add a personal note. This will be the last Semiannual Report I will submit as GSA's Inspector General as I have decided to retire from Federal service on June 1, 2001. For the past 15 years, I have been given an extraordinary opportunity to serve this Agency and the country. I have been an eye-witness to tremendous challenges and change throughout the Federal Government and time and again have come to appreciate the ability of Federal agencies and the dedication and commitment of Federal employees to meet these challenges head on. I am especially proud of the OIG's role in GSA's efforts to redefine itself and to improve its abilities to serve our country's taxpayers. My experiences as the Inspector General have been most rewarding largely due to the fine people of our OIG. I commend them for their continued professionalism, dedication, and

willingness to accept new challenges. I truly believe this is the best Office of Inspector General in the Government. I also want to thank the GSA Acting Administrator, GSA's senior managers, and the Congress for their support during my years at GSA. I have thoroughly enjoyed my tenure here and am deeply honored to have had the opportunity to serve as GSA's Inspector General.

WILLIAM R. BARTON
Inspector General
April 30, 2001

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This semiannual report may be accessed on the Internet at the following address: http://www.gsa.gov/Portal/org.jsp?CID=59

Summary of OIG Performance

OIG Accomplishments

October 1, 2000 - March 31, 2001	
Total financial recommendations	$77,713,445
These include:	
• Recommendations that funds be put to better use	$67,256,972
• Questioned costs	$10,456,473
Audit reports issued	115
Referrals for criminal prosecution, civil litigation, and administrative action	261

Results Attained

Management decisions agreeing with audit recommendations, civil settlements, and court-ordered and investigative recoveries	$99,326,549
Indictments and informations on criminal referrals	28
Cases accepted for criminal prosecution	32
Cases accepted for civil action	13
Successful criminal prosecutions	23
Civil settlements	2
Contractors/individuals debarred	6
Contractors/individuals suspended	31
Employee actions taken on administrative referrals involving GSA employees	15

Executive Summary

This period we continued our work in addressing what we believe are the major issues facing GSA. We worked to help improve Agency operations by providing a variety of services, including program evaluations, contract and financial auditing, management control reviews, investigative coverage, litigation support in contract claims, civil fraud and enforcement actions, and criminal prosecutions. In addition, we provided professional assistance through enhanced consulting services and the use of alert reports designed to quickly inform management of potentially serious deficiencies or other concerns prior to completion of all analytical work and formal report issuance.

Major Issues

In November 2000, we identified to members of the Congressional leadership what we believe to be the most serious management challenges currently facing the Agency. A summary of these issues is provided on the inside front cover. This report highlights a number of reviews that address some of these issues. These reviews are in the areas of Federal facilities and personnel protection, information technology, management controls, and aging Federal buildings. Our efforts during this period focused on the following:

Protection of Federal Facilities and Personnel

Childcare protection

The OIG continues to review GSA's progress in improving the security of Federal buildings and the individuals who occupy them. We performed a follow-up review of the Childcare Program to determine if all employees of the GSA-licensed childcare centers received background clearances before they were allowed to work. We found that although GSA has made progress in strengthening its processes for helping to ensure that personnel hired by childcare providers are properly screened and undergo background checks, not all personnel have undergone proper checks before beginning work. Additionally, the required time to complete a background check remains unacceptably lengthy (page 2).

Fire safety

A previous facility and fire safety survey identified the need to install sprinklers in a three-building complex leased by GSA. During a recent follow-up site visit, numerous safety system and structural deficiencies were found. Such deficiencies included: the absence of building-wide automatic sprinklers, smoke detectors, and visual fire alarms; a lack of emergency power for fire pumps and elevators; inadequate stairwell egress; and large volumes of paper and other materials stored in hallways and stairwells. Because of these problems and concern for the safety of the 2,500 Federal employees housed in this complex, an alert report was issued for management's immediate attention (page 4).

Law enforcement information sharing

We performed a review of the Federal Protective Service's (FPS) Intelligence Sharing Program (ISP). The program was designed to develop strategic alliances with other Federal, state, and local law enforcement agencies as part of a criminal intelligence information network that provides information regarding potential threats to employees, customers, and GSA property. We found that FPS is not optimally managing the ISP since regional offices are operating autonomously with different levels of effort and personnel resources devoted to the program. As a result, FPS cannot ensure that it fully achieves its mission of providing a safe and secure environment in Federal facilities (page 5).

Smart card controls

We examined the management controls over smart cards – computer-readable cards for building access – at a regional office building. We found that the existing controls did not prevent unauthorized access to Federal buildings by former employees and others. Our recommendations included keeping an updated, accurate, and manageable list of authorizing officials and other steps to assure proper controls were in place (page 6).

Information Technology

Computer privacy

The Consolidated Appropriations Act of 2001 required us to review GSA's Federal Internet sites to determine whether these sites were collecting personally identifiable information using a particular computer technology referred to as "cookies." The review assessed over 100,000 Internet pages managed by GSA finding 15 Web portals where "persistent cookies" – those retaining data beyond a single computer session – were either currently being used or had been recently removed. We found that either the Web sites did not disclose appropriate privacy policy statements or such statements were weak in the areas of security intrusion and detection language. Also noted was that GSA did not have policies and procedures in place to direct the appropriate use of cookies or to ensure that personally identifiable information is adequately protected (page 7).

IT support

In 1999, GSA began implementing an effort to standardize information technology hardware, software, and support for personal computer users across the Agency. The program, called Seat Management, is aimed at improving performance and productivity and lowering overall technology costs. However, our review of Phase I of the program found that GSA was not able to effectively determine whether it should continue on to Phase II since performance measures relative to Agency mission and the efficient utilization of resources were lacking. We noted that GSA experienced challenges in four areas during Phase I including: cost

savings, uniform maintenance and IT support, communications, and funding. Until such challenges are addressed, the Office of the Chief Information Officer has postponed the implementation of Phase II for a minimum of 6 months (page 9).

Management Controls

Financial management

During a recent review, we found GSA does not always obtain adequate advance funding prior to providing specialized support services to its high level national security Federal customers. As a result, GSA has overspent 280 customer orders by a total of $6.4 million since Fiscal Year (FY) 1993. Additionally, we found that GSA did not always attempt to obtain additional funding for these overspent orders. Conversely, GSA has approximately 500 customer orders, dating back to FY 1993, with unused funding balances totaling over $7.9 million. Unless GSA informs its customers of such unspent balances, they are not given the chance to recoup the funds for alternative uses (page 10).

Billing/collection process

In FY 2000, GSA's billings to Federal customers totaled $13.3 billion; however, we found that amounts due from customers are growing and at year's end were in excess of $2.0 billion. GSA is concerned that these amounts due are causing cash flow problems. GSA has taken positive steps with the Defense Finance and Accounting Service to improve the ordering, billing, payment, and collection processes between the respective agencies. Similar efforts with other customers would be beneficial (page 13).

Transportation costs

GSA's Logistics Operations Center runs four distribution facilities. We performed a review on one of the four Distribution Centers to determine whether the most cost-effective carriers were selected to deliver supplies to its customers. While we found that the center was selecting the most cost-effective carriers, we noted that overpayments were made to one of the small package carriers. The small package carrier acknowledged overcharges were made in error; however, the Distribution Center failed to detect these improper charges before certifying the invoices for payment. We recommended that Agency management: review all future carrier billing statements for accuracy; ensure GSA receives credit for incorrect billings; and verify whether the carrier made similar mistakes in billings at any of the three other Distribution Centers (page 14).

Aging Federal Buildings

Buildings repairs

GSA obtains construction services for repairing and remodeling public buildings under its repair and alteration (R&A) program by contracting with the private sector. We performed a review of 10 R&A projects completed in FY 1998 and 1999 with contract values of $142 million. Change orders to these projects were valued at nearly $53 million, a cost growth of 37 percent. To better manage these projects and control costs,

the Agency has promoted the Construction Excellence Program which aims to deliver the highest quality construction for the best value. While we found that renovation project teams are involving tenant agencies in defining project goals, design, and schedule, the teams are not documenting the delays and increased costs caused by the tenant agencies. Our recommendations to Agency management included continuing the Construction Excellence Program initiatives and improving change order management (page 15).

Procurement and Related Activities

A central part of the OIG's work is to support the Agency's contracting officers and to protect the integrity of GSA's procurement programs and operations by detecting and preventing fraud, waste, and abuse.

Civil recovery

As a result of our audit and legal work, Gateway 2000, Inc., a computer manufacturer, agreed to pay $9 million to resolve potential civil liabilities under the False Claims Act (page 18).

Energy reviews

GSA has been very active in trying to control and reduce the energy costs of its Federal agency customers. For example, GSA, along with other Federal agencies in the Pacific Rim area, entered into an agreement with the Bonneville Power Administration to purchase electricity which has saved its Federal customers almost $4 million. However, this agreement expires in April 2002, at which time the Agency may be exposed to the volatility of market-based pricing presently occurring throughout California. If prices remain at today's levels, GSA's electrical energy costs will increase dramatically (page 19). In other energy reviews, we found that GSA was being billed for various state and local utility taxes and other charges from which it is specifically exempt. We recommended that GSA review its utility bills to ensure it is not paying for these exempt charges. We also recommended that GSA conduct annual rate reviews to ensure that utility companies are billing GSA the most economical rate available for its individual buildings (page 20).

Equipment maintenance

GSA relies on contractors to maintain accurate equipment inventories, formulate preventive maintenance schedules, and properly perform mechanical maintenance on equipment such as heating and air conditioning equipment and elevators. Our review found inaccurate equipment inventories and incomplete performance in the preventive maintenance services. We concluded that GSA needs to clearly identify the responsibility for inventories and preventive maintenance programs and monitor quality control plans submitted by the contractors (page 21).

Construction contractor prosecutions

As a result of an OIG investigation, Morse Diesel International, Inc. (MDI), a multinational construction services firm, was charged with and pled guilty to making a false claim involving double billing for performance and payment bonds in connection with a major courthouse construction project. MDI received and has paid a $500,000 fine. GSA proposed MDI and six of its employees for debarment from Federal contracts. The Agency subsequently lifted the debarment action against the company; the action against the employees remains pending (page 22). Another investigation, conducted jointly with other law enforcement agencies, resulted in the conviction of two executives of ABC Project Management, Inc., for submitting fraudulent bid, performance, and payment bonds to the Government. The company and both executives were debarred from Federal contracting by the Department of the Army (page 23).

Partnering with GSA Management

At the request of GSA management, we continued to provide consulting services to review business practices and make recommendations for improving operations across a wide range of GSA activities in all Agency components.

We assessed the process for awarding and administering contracts to supplement personnel in one region (page 24); reviewed contractor performance for facility management at a Federal Courthouse and made suggestions concerning contract administration to Agency management (page 24); and analyzed contract documentation to determine if the Agency was being properly billed (page 25). In addition, we issued advisory reports concerning a proposed procedure for paying vendors without requiring a receiving report (page 25) and concerning best practices among various public and private sector entities in issuing annual reports (page 26).

The OIG provided value-added professional assistance to GSA through participation in Agency project teams, task forces, and working groups. We provided input to the task force established to develop performance measures for FSS's Office of Acquisition (page 27). We continued to participate in a project team to address courthouse occupancy issues (page 27), and to oversee the renovation of a Federal building (page 27). We also reviewed policy changes on an Agency building delegation program (page 27). In addition, we participated on two work groups to establish a coordinated ongoing process concerning improper purchase and travel card activity (page 28), and to assist other agencies in developing procedures to file for fuel tax refunds (page 28). We participate in the Information Technology (IT) Council which discusses information technology issues relevant to GSA (page 28).

The OIG participates in a number of interagency committees and working groups that directly affect our ability to add value to the Agency. For example, we are a member of the PCIE IT Roundtable, and PCIE IT Security and Audit Workforce working groups (page 28). We also participate in the Procurement Executives Council (page 28).

Other Criminal Investigations

This reporting period, one GSA computer specialist was terminated and a co-worker suspended for the roles they played in gaining unauthorized access to confidential GSA electronic mail files (page 30). We completed an investigation that resulted in a former GSA official pleading guilty to soliciting a bribe from a GSA construction contractor in return for the award of repair and renovation contracts (page 31). In addition, a former GSA contract guard, assigned to the immigration area of a Federal building, pled guilty to charges of bribing an Immigration and Naturalization Service official (page 31).

Summary of Results

The OIG made over $77 million in financial recommendations to better use Government funds; made 261 referrals for criminal prosecution, civil litigation, and administrative actions; reviewed 183 legislative and regulatory actions; and received 1,087 Hotline calls and letters. This period, we achieved savings from management decisions on financial recommendations, civil settlements, and investigative recoveries totaling over $99 million. (See page v for a summary of this period's performance.)

OIG Profile

The GSA OIG was established on October 1, 1978 as one of the original 12 OIGs created by the Inspector General Act of 1978. The OIG's five components work together to perform the missions mandated by Congress.

Organization

The OIG provides nationwide coverage of GSA programs and activities. Our components include:

- **The Office of Audits**, an evaluative unit staffed with auditors and analysts who provide comprehensive coverage of GSA operations through program performance reviews, management controls assessments, and financial and compliance audits. The office also conducts external reviews in support of GSA contracting officials to ensure fair contract prices and adherence to contract terms and conditions. The office additionally provides advisory and consulting services to assist Agency managers in evaluating and improving their programs.

- **The Office of Investigations**, an investigative unit that manages a nationwide program to prevent and detect illegal and/or improper activities involving GSA programs, operations, and personnel.

- **The Office of Counsel**, an in-house legal staff that provides legal advice and assistance to all OIG components, represents the OIG in litigation arising out of or affecting OIG operations, and manages the OIG legislative/regulatory review functions.

- **The Internal Evaluation Staff**, a multidisciplinary staff that plans and directs field office appraisals and conducts internal affairs reviews and investigations.

- **The Office of Administration**, an in-house staff that provides information systems, budgetary, administrative, personnel, and communications services.

Office Locations

The OIG is headquartered in Washington, D.C., at GSA's Central Office building. Field audit and investigation offices are maintained in Boston, New York, Philadelphia, Atlanta, Chicago, Kansas City, Fort Worth, San Francisco, and Washington, D.C. Sub-offices are also maintained in Auburn and Cleveland.

Staffing and Budget

As of March 31, 2001, our on-board strength was 275 employees. The OIG's FY 2001 budget is $34.4 million.

Major Issues

The OIG is committed to helping to address major management issues facing GSA. We identified and shared with Congress and management issues that present key challenges to the Agency. We made recommendations in several major areas that GSA management needs to take steps to address. It is our mission to assist management in improving Agency operations.

Significant OIG Accomplishments

Protection of Federal Facilities and Personnel

Childcare Center Security

There are over 110 childcare centers in GSA-managed space throughout the United States, with an enrollment of over 7,700 children. In addition to providing the space for the centers, GSA is responsible for the utilities, furnishings, and equipment, and works with the Federal agencies and independent Boards of Directors to select the childcare providers to operate the centers. Typically, the Board contracts with the providers and is responsible for ensuring that the providers comply with the terms and conditions of the GSA License Agreement.

Public Law 101-647 requires that personnel employed at childcare centers in Federally-controlled space be subjected to criminal history background checks. The background checks are to be based on a set of the employee's fingerprints obtained by a law enforcement officer and on other identifying information. The checks are conducted through the Federal Bureau of Investigation (FBI) and state criminal history repositories of all states in which an employee, or prospective employee, has resided. The law allows an uncleared worker to be provisionally employed if within the sight and under the supervision of a staff person whose background check has been completed. However, current GSA policy states that no employee will be allowed to work in the centers unless a preliminary "name check" has been satisfactorily completed and the required documentation (Statement of Personal History and fingerprint cards) has been received by the regional Federal Protective Service (FPS) office. The "name check" is a quick preliminary screening using the FBI's National Crime Information Center (NCIC) Interstate Identification Index and wanted person files.

As a result of concerns expressed in a 1995 OIG audit report, the Childcare Program, primarily the criminal background issue, had been identified as a material weakness in GSA's 1995 through 1998 Federal Managers' Financial Integrity Act Reports. Management reported in 1999 that corrective actions had been completed. The primary objective of our current review was to determine if the actions implemented corrected the prior weakness, if all employees of the GSA-licensed childcare centers received background clearances before they were allowed to work, and if not, why.

Protection of Federal Facilities and Personnel (continued)

Based on our review of 37 childcare centers in four regions, we determined that GSA has greatly strengthened its processes and systems designed to ensure that personnel hired by childcare providers are properly screened and undergo background checks. All childcare centers reviewed had some employees who had undergone criminal background checks, whereas our previous audit showed about one-third of the reviewed centers had no personnel who had undergone the background check.

The time lapse before background checks are completed remains unacceptably lengthy.

Despite the improvements, the time lapse before the background checks are completed remains unacceptably lengthy because of a number of bottlenecks in the process. For example, some childcare centers are slow to obtain and submit the applicant's paperwork, sometimes allowing a worker to be on the job for a period of months without any background check having been performed. Center Directors were not aware of particular requirements, including the need for volunteers to be cleared and the requirement that new-employee fingerprints and personal history forms be submitted before the worker starts on the job. GSA Regional Childcare Coordinators do not adequately monitor and enforce the background check requirements. Finally, FPS is not processing the paperwork as quickly as possible.

In addition, the License Agreement between GSA and the childcare provider is vague regarding the criminal history background check requirements. While the agreement refers to the background checks, it does not identify the specific requirements.

In our November 14, 2000 report, we recommended to the Commissioner, Public Buildings Service that the:

National Director of Childcare Operations:

- Incorporate specific background check requirements into the License Agreement.
- Require Childcare Center Directors to obtain the data necessary to initiate the "name check" prior to, but no later than, the first day of employment.
- Establish a clearance package monitoring system.
- Develop a Statement of Personal History form applicable to childcare employees only.

Protection of Federal Facilities and Personnel (continued)

Assistant Commissioner, Federal Protective Service:

- Require regional FPS offices to establish procedures to ensure that fingerprinting is done expeditiously.
- Process the "name check" as soon as data is received, or request unrestricted access to the NCIC system.
- Direct the appropriate organizational elements to generate reports of childcare employees requiring background check updates and forward them to the relevant Regional Childcare Coordinator for action.

A responsive management action plan was provided for implementing the report recommendations.

Fire Safety Deficiencies

Fire safety deficiencies require immediate attention.

Current law prohibits the use of funds for the lease of Federal employee office buildings over a certain size unless the buildings have automatic sprinkler systems or an equivalent level of safety. As part of our ongoing review of GSA's Safety and Fire Prevention Practices, we visited a three building complex leased by GSA for another Federal agency. These buildings, which house approximately 2,500 Federal employees, are of a size requiring the above level of protection. However, during our recent site visit, we found numerous safety system and structural deficiencies, including: the absence of building-wide automatic sprinklers; no smoke detectors or visual fire alarms; a lack of emergency power for fire pumps and elevators; and inadequate stairwell egress. We also noted large volumes of paper and other materials being stored in hallways and stairwells, all of which could significantly compromise the safety of the buildings' occupants, contents, and structures.

We issued an alert report to the Regional Administrator on January 9, 2001 because the significance of these concerns warranted management's immediate attention. Given the gravity of the matter, we requested that management provide written comments on the actions it has taken or plans to take to address these concerns. We also advised management that the subject matter may be addressed further in our final audit report on GSA's safety and fire prevention practices.

Management's response indicated concurrence with our conclusions that the risk to the buildings' occupants must be mitigated. GSA has already

Protection of Federal Facilities and Personnel (continued)

taken actions to initiate the installation of an automatic sprinkler system and a partial smoke detection system in these buildings. Additionally, the Agency has notified the proper Fire Marshal's office, which should facilitate the correction of the many safety issues.

FPS Intelligence Sharing Program

Improvements needed in FPS intelligence and criminal investigative programs.

The Federal Protective Service (FPS) started the Intelligence Sharing Program (ISP) based on recommendations of the Department of Justice, which stated that agencies involved in providing security must be part of a comprehensive intelligence process. The intent of the ISP was to develop strategic alliances with other Federal, state, and local law enforcement agencies as part of a criminal intelligence information network. This network would be designed to provide information regarding potential threats to employees, customers, and GSA property.

We concluded that FPS is not optimally managing the ISP. This is because the regional offices are operating autonomously with different levels of effort and personnel resources devoted to the program. As a result, FPS has no means to ensure that it fully achieves its mission of providing a safe and secure environment in Federal facilities. We noted:

- The overall FPS criminal investigative program, first reported in a July 1997 OIG audit, continues to reside in a fragmented organization with varying degrees of regional management support, resulting in imbalanced staffing allocations.

- Operational issues are impacting the day-to-day success of the program including: program guidelines not being distributed to all agents, a lack of clear direction on specific concerns of agents, and a need for improved exchange of information between the regions and Central Office.

- Participation in task forces and other intelligence-related groups has been inconsistent among regions.

- Limited resources and inconsistent approaches could adversely impact the Regional Threat Assessments, an offshoot of the ISP, designed to provide a systematic review and analysis of the major threats facing each region and prioritizing the greatest threats.

Protection of Federal Facilities and Personnel (continued)

In our March 23, 2001 report, our recommendations to the Acting Assistant Commissioner, Federal Protective Service, included taking action to:

- Commission a resource allocation study to determine how to best address regional criminal investigative staffing needs and inconsistencies.
- Conduct follow-up training at the Federal Law Enforcement Training Center to focus on agent concerns relative to daily ISP responsibilities.
- Have the Federal Bureau of Investigation's Joint Terrorism Task Force members conduct a presentation on actual GSA-related case experience for the benefit of regional officials who have been reluctant to allow such task force participation.

Management officials agreed with our recommendations in the report. The audit is still in the resolution process.

The 106th Congress considered legislation which would have restructured FPS to enhance direct line authority between GSA Central Office and the various regions. On November 17, 2000, the GSA Administrator, in response to this legislative initiative, issued an order that placed the regional FPS Directors under the direct control of the FPS Assistant Commissioner. This should help facilitate the improvements that we recommend. The criminal intelligence database has been restructured to function as a centralized and networked system accessible by all regions, and will facilitate the capture of valuable intelligence information.

Controls Over Smart Cards

GSA's controls over the issuance and retrieval of smart cards are deficient.

A smart card has a computer microchip embedded in a plastic card the size of a standard credit card. These cards can be used for access, identification, travel, and other applications. As the Government continues implementation of smart cards, it is imperative that adequate controls are set up and maintained to ensure the cards are being used properly and by the persons authorized to use them.

Since 1996, GSA has been developing and implementing in-house smart card programs. We initiated this review to assess the management controls over smart cards at one regional office building. In this building, these cards are used primarily as a visual identification card to enter the building during regular working hours. However, the building can be accessed at anytime after hours via one of the entrances equipped with a smart card reader.

Protection of Federal Facilities and Personnel (continued)

The region issues smart cards to employees of GSA, another Federal tenant, and contractor employees of both agencies. We found flaws in the region's management controls to ensure smart cards are issued with the proper authorization. This is due, in part, to the large number of authorized approving officials and lack of formally documented procedures. We also found that controls are deficient for smart card retrieval upon a building occupant's departure. These deficiencies have enabled some former employees to retain possession of their smart cards and to improperly gain access to the building.

GSA is making efforts to implement a more encompassing set of procedures regarding smart card issuance, retrieval, and disposal within the region. However, we do not believe that these procedures, as drafted, will be sufficient to correct the discrepancies regarding smart card retrieval and deactivation.

The ultimate responsibility for building access, security, and control resides with GSA. Regardless of who the occupants are, GSA is responsible for overall building security. Additional steps need to be taken to ensure that only appropriate personnel gain access to the building.

In our March 21, 2001 report to the Acting Regional Administrator, we recommended that:

- Steps be taken to ensure that the listing of authorized officials is updated, kept accurate, and contains a manageable number of names. This listing should be used to verify all smart card applications.

- Procedures for incoming and outgoing personnel be amended to include any occupant of GSA-controlled space, not just GSA employees.

Management officials agreed with the recommendations in the report. The audit is still in the resolution process.

Information Technology

GSA's Use of "Cookies"

The Consolidated Appropriations Act of 2001 requires OIGs to report on their agencies' use of Federal Internet sites to collect or review personally identifiable information through the use of "cookies." A cookie is a small text file that is placed on a consumer's computer hard drive by a Web server. Web sites use both session and persistent cookies. Session cookies are stored temporarily in the random access memory of the

Information Technology (continued)

user's computer, used only during the browsing session, and destroyed when the user exits the Web browser. Persistent cookies, however, remain stored on the user's computer until specified expiration dates. These cookies provide information on the technical activities for an individual user's computer and do not necessarily themselves contain personally identifiable information. Personal information, such as an individual's name, e-mail address, postal address, telephone number, social security number, or credit card number must be voluntarily provided by individuals before it can be linked to information that is collected automatically with cookies technology. With the widespread use of the Internet, concerns have been raised with the Federal Government's use of the cookie technology on its Web sites.

In our review of the Appropriations Act reporting requirement, we searched over 100,000 GSA Web pages and located over 800 Web portals operated by GSA. We found 15 Web portals containing persistent cookies that are currently being used, or were recently removed because of specific concerns with the possibility of using cookies technology to gather personally identifiable information over a prolonged period of time. We also found a third party agreement with a vendor permitting the collection of personally identifiable information at one GSA Web site where persistent cookies were in use.

"Cookies" found on 15 GSA Web sites.

Although Office of Management and Budget (OMB) guidance states that every Federal Web site must include a privacy policy statement to inform visitors to the site about how the agency handles any information that is collected through the site, we found that GSA officials had not disclosed appropriate privacy policy statements for 4 of the 15 Web sites. The privacy statements for the remaining 11 Web sites were weak in the areas of security intrusion and detection language. In addition, GSA does not have policies and procedures in place to direct the appropriate use of cookies or to ensure that personally identifiable information is adequately protected.

Based on a review conducted by the GSA Office of the Chief Information Officer (CIO) in October 2000, the Agency Administrator approved the use of persistent cookies on seven Web sites identified by the CIO. However, the list of cookies identified in October differs significantly from what we found. Only 3 of the 7 Web sites tested positive for cookies, but we found 12 additional Web sites with persistent cookies. These additional sites have not obtained approval from the GSA Administrator, as recommended in OMB policy guidance, and have not provided a business case that identifies a compelling need for using these cookies. Persistent cookies on six Web sites were subsequently removed as a result of our review.

Information Technology (continued)

Seat Management

For a number of years, GSA's personal computer and related technology equipment has been a mixture of system types, categories, and manufacturers, which varied among and even within Agency services and staff offices. The diversity in design and capabilities led to significant added costs in support and maintenance, as well as to difficulties in developing desktop and software standardization. As the need arose to connect one computer to another throughout GSA, the local area network (LAN) evolved without a specific design or comprehensive plan.

Seat Management Phase I results show some problems–missing performance measures make assessing program benefits difficult.

GSA began the implementation of Seat Management in 1999 with the stated intention of standardizing the Agency's information technology (IT) infrastructure; reducing support, maintenance, and training costs; and improving performance and productivity of the desktop users. Our review of Phase I, a 3 year, $34 million effort which provides services for 1,160 desktop and laptop computers, found that GSA was not able to effectively determine whether it was successful enough to continue to Phase II, which is intended to expand services to the GSA Regional Offices. This is because performance measures relative to Agency mission and the efficient utilization of resources were lacking. Instead, performance measures were designed for specific contractor performance points, such as the availability of personal computers and the response time for the help desk to answer calls.

GSA, therefore, had to rely on users' comments, which were generally favorable about the equipment. Users, however, found problems with the contractually defined response time. Where they once were able to obtain immediate response to concerns, they now had to wait up to 4 hours, in accordance with contract provisions. In addition, a stated response time objective of Seat Management was to enable GSA LAN managers to perform other duties as day-to-day maintenance requirements were shifted; however, these duties were not always well defined.

GSA experienced challenges in four main areas during Phase I of Seat Management implementation:

- While a program objective was to reduce overall costs, costs have not been quantified, and costs may be even higher under Phase II.
- More uniform maintenance and IT support were planned, but not all users and technicians readily adjusted to the new delivery methods.

Information Technology (continued)

- Problems have been encountered because of ineffective communications among GSA, the contractor, and the users.
- Decentralized funding makes it more difficult for the Agency to implement the program and to act cohesively, at either the Service level or across the regions, regarding IT business solutions.

Because of these challenges, the Office of the Chief Information Officer (CIO) stressed additional standardized processes were needed for a smoother transition to Seat Management, and accordingly, postponed plans for Phase II implementation for a minimum of 6 months.

We agree that it is appropriate to assess these major issues and to sharpen the Agency's approach before expanding implementation. We intend to monitor future progress and perform additional work as needed in the future.

Management Controls

Information Security Support Services

GSA provides specialized support services to Federal agencies with high level national security, defense, diplomatic, and communications missions, and develops Government policy on information security matters. The Agency provides recurring monthly maintenance and repair work, time and materials work, and acquisition and installation of equipment on a reimbursable basis. Until recently, GSA provided these services on an advance billing basis, with the requesting agency obligating and disbursing its funds prior to the start of work by GSA.

The IT Fund was used to pay $6.4 million for overspent customer orders.

During a recent review, we found that GSA does not always obtain adequate advance funding before providing information security goods and services to its customers, and therefore, spent $6.4 million more than it had collected on 280 customer orders since FY 1993. These expenditures have been paid using reserves from the Information Technology (IT) Fund. GSA did not always attempt to obtain additional funding for these orders, nor did management define a point at which overspent amounts were to be declared uncollectible. GSA's billing system allowed income to be recognized before the actual receipt of payment. Because the Agency did not obtain additional funding from the purchasing agencies, GSA's income was overstated in previous years.

Conversely, GSA has approximately 500 customer orders, dating back to FY 1993, with unused funding balances totaling in excess of $7.9 million.

Management Controls (continued)

Unless GSA promptly informs its customers of the unspent balances, the customers, who are funded by yearly appropriations, are not given the opportunity to recoup and reprogram these funds for alternate uses.

In addition, GSA regularly transferred funds between orders, often to offset the overspent orders, without always ensuring that transfers were between orders having a similar purpose and scope. GSA may only use a customer Agency's funds for purposes that address the same legitimate need cited in the original interagency agreement, which serves as the obligating document.

In our March 23, 2001 report to the Commissioner, Federal Technology Service, we recommended:

- Prompt resolution of customers' orders with overspent and excess funds.
- Development of written policies establishing proper procedures for incurring obligations.
- Development of an order management system.
- Assurance that orders accepted represent current legitimate needs of the customer agencies.
- Development of written policies on procedures to be followed if a customer's order is completed and excess funds remain.
- Development of an employee training program covering the statutory basis for GSA's Governmentwide information technology programs.
- Assurance that transfers of funds between orders occur only between those orders addressing the legitimate need that was present at the time of the initial obligation.

We concluded that GSA lacks sufficient controls to ensure that funds, available as reimbursement for services provided customer agencies, are reasonably protected. We also concluded that the control environment, as presently constituted, does not provide reasonable assurance that fraudulent misapplication of customer agency funds will be prevented. We noted the existence of customer accounts, containing large sums of money, that had been inactive for a considerable amount of time; and further noted that customers were not aware of these unused funds.

Management Controls (continued)

We had issued an alert report on November 29, 2000 to advise management of our concerns in this matter that we believed warranted immediate attention. In response to that report, management developed a preliminary action plan. Generally, those actions are consistent with the recommendations cited in our March 23, 2001 report, with which management concurred. The audit is still in the resolution process.

Ensuring Contractor Compliance with IFF Reporting Requirements

The Federal Supply Service (FSS) Schedules Program, with sales of $15 billion in FY 2000, provides Federal agencies with a streamlined process for acquiring supplies and services, as well as a simplified process for contractors to sell to Government agencies under a single contract. To recover the costs of operating this Program, contractors are responsible for collecting a 1 percent industrial funding fee (IFF) that is built into the sales price remitted by user agencies. Contractors are then required to remit the fees collected to FSS on a quarterly basis.

During a 2-month period, 17 of 191 contractor site visits resulted in IFF recoveries of more than $100,000 from unreported sales.

We reviewed one region's efforts to monitor and collect the IFF. In order to facilitate enforcement of the reporting and remittance requirements, GSA representatives visit contractor sites to verify that the sales tracking system is identifying all FSS Schedules sales, and that the contractor is correctly reporting those sales to GSA. About 10 percent of these visits result in recovery of fees from unreported sales. During 2 months of 2000, 17 of 191 visits resulted in dollar recoveries of more than $100,000.

However, since GSA does not have the resources to visit all contractors annually, and to improve the effectiveness of contractor visits on a national basis, FSS hired a consultant to develop a plan for selecting contractors to visit. The sampling plan identified those contractors to be visited in FY 2001 for each region and will be used to develop a comprehensive plan for future years. While we are concerned that many large contractors in this region have not been included in the sample, regional management stated they intend to review as many additional contractors as possible after the required visits have been completed, as time and resources allow.

So that the future comprehensive plan can be developed, the region is obligated to complete the requirements of the consultant's sampling plan for FY 2001, which include reviews of contractors at all sales levels. As such, we had no recommendations in our January 31, 2001 report.

Improvements in interagency billing and collection needed to avoid cash flow problems for GSA revolving funds.

Management Controls (continued)

Billing and Collection Processes for Federal Customers

GSA provides a variety of goods and services for nearly every department within the Federal Government. In FY 1999, GSA billings totaled $13.1 billion; billings increased slightly in FY 2000 to $13.3 billion. Accounts receivable at the end of FY 1999 amounted to $1.6 billion, while $2.0 billion was due at the end of FY 2000. Substantially all accounts receivable are from other Federal agencies. GSA is concerned about the cash flow problems in its funds that can result from receivables not being collected timely and is working to resolve this issue.

During our review of GSA's billing and collection processes, we contacted 14 customer agencies. Although the customers generally expressed satisfaction with GSA's current practices, they were able to provide suggestions for improving the process, such as including more information on GSA bills and billing on a transaction-by-transaction basis. The review results indicate that both GSA and its customers have room for improvement in the areas of communication and information flow.

In an attempt to improve the payment of information technology billings, GSA and the Defense Finance and Accounting Service (DFAS) formed a Joint Solutions Team, and entered into a Memorandum of Understanding (MOU) in November 2000. The MOU cites the communication and information responsibilities of each organization and anticipates using the features of the Department of the Treasury's upcoming Intragovernmental Payment and Collection (IPAC) System when implemented in June 2001. The IPAC System will allow for transaction-by-transaction billing, which should improve ordering, billing, payment, and collection processes for both agencies and facilitate reconciliation of their business activities.

GSA should complete the action items identified by the DFAS/GSA Joint Solutions Team and initiate solutions teams with its other Federal trading partners. The work of the Team should also be used as a model to improve billing and collection processes within the Agency's three major services.

Because GSA is working to improve its billing and collection processes, through the Joint Solutions Team, our January 26, 2001 report does not contain formal recommendations. We briefed the Chief Financial Officer, his staff, and representatives of GSA's service offices on the highlights of our review results.

Management Controls (continued)

Transportation Costs at a GSA Depot

GSA's Logistics Operations Center operates four distribution facilities in the United States to receive goods for stock, store the items in inventory, and ship them to customers. The Distribution Center located in one region had FY 2000 sales of about $200 million. This Center spent $13.7 million on outbound transportation to ship material to customers. The Center has a performance goal to keep direct operating costs below a certain level. Since outbound transportation costs are a significant portion of the direct operating costs, failure to control shipping charges could negatively impact achievement of the goal. The OIG performed a review to determine if the Distribution Center was using transportation carriers that provide economical services for outbound freight shipments.

The review determined that the Distribution Center is generally selecting the most cost-effective carriers to deliver supplies to its customers. We noted, however, that overpayments, estimated to be about $64,000, were made to the predominant small package carrier during FY 2000. These occurred because the carrier inappropriately increased billing rates, applied special surcharges, and billed in duplicate. The Distribution Center failed to detect these improper charges before certifying the invoices for payment.

We discussed these billing issues with carrier personnel, who acknowledged that the overcharges in question had been made in error. The carrier agreed to review billing statements for all four of the Distribution Centers and issue credits as appropriate.

In our February 6, 2001 report, we recommended that the Director, Logistics Operations:

- Direct the Distribution Center to review all small carrier billing statements for accuracy prior to certification for payment.
- Ensure that GSA receives credit for the incorrect billings noted during our audit.
- Require the other Distribution Centers to review the carrier's billing statements to determine whether the noted billing problems occurred at those Distribution Centers as well, and recover any overpayments identified.

Management Controls (continued)

Management officials agreed with our recommendations in the report. The audit is still in the resolution process.

Aging Federal Buildings

Minimizing Cost Increases on Repair and Alteration Projects

Repairing, remodeling, and improving public buildings is a GSA function intended to maintain the Federal building inventory and ensure an acceptable level of customer satisfaction. GSA obtains these construction services by contracting with the private sector under its repair and alteration (R&A) program. Historically, GSA has experienced significant cost increases in the R&A program and has identified contract change orders as a major contributing factor to this increase. These change orders result primarily from unforeseen/differing site conditions, tenant agency requests, and design deficiencies.

Recently completed modernization projects experienced a 37 percent cost increase for change orders.

Controlling cost increase on R&A projects is increasingly important given the limited resources of the program. Despite a General Accounting Office report in March 2000 stating that GSA faces a $4 billion backlog of R&A projects, only $671 million is available for the program in FY 2001.

We reviewed 10 projects substantially completed in FY 1998 and 1999 with a contract value of $142 million. Change orders for these projects were valued at nearly $53 million, a cost increase of 37 percent. We found that the primary causes for the cost increase were the same as found in prior studies, that interior renovation projects experienced the highest increase factor (up to 57 percent), whereas elevator and exterior renovations were lowest, ranging from 3 to 11 percent.

GSA has identified areas where the construction program could be improved and has recommended initiatives to reduce cost increase. The Agency has been promoting the Construction Excellence Program, with the goal of delivering the highest quality construction for the best value, as one way to better manage these projects and control costs.

During our audit, we also reviewed projects at various stages of design and construction to determine the extent that Construction Excellence Program principles, practices, and initiatives were incorporated into the projects. While we saw that project managers were incorporating some of the initiatives to varying degrees, several initiatives had not been fully

Aging Federal Buildings (continued)

implemented, which hinders the Program's effectiveness. Some of our concerns were related to project delivery, procurement methods, and to Occupancy Agreements (OAs).

- There are three main project delivery methods that project managers can use. The traditional design/bid/build method, where the construction contractor is selected after the Architect-Engineer has completed the design, is most often used by GSA to modernize building systems, perform façade work and renovate interior space. The other two delivery methods, design/build and construction manager as constructor, where the construction contractor is brought on board at different stages of project design to provide insight and expertise, are relatively new to GSA and are used less often than the traditional method. The latter methods of delivery should aid in the reduction of change orders for design changes and the related cost increase.

- GSA has transitioned from the traditional past method of selecting contractors based on the lowest bid, with no consideration given to past performance. By adding additional performance criteria applicable to a specific project, the Agency may be able to establish project parameters and minimize cost increase.

- OAs are used to involve the tenant agency in up-front decisions regarding project goals, design, schedule, and the appropriate delivery method. The renovation project teams are developing OAs, but are not documenting the tenants' responsibilities for delays and increased costs caused by the tenant agency.

We found that management can minimize unforeseen site conditions with preventive practices such as maintaining building drawings, funding up-front surveys and testing, and sharing lessons learned on prior projects. We also found that improper classification of change orders masks the root cause of the change, making it difficult to assess the cause and assign responsibility to the appropriate party. In addition, we noted that current performance measures neither consider all project costs nor emphasize project savings.

Finally, we noted that some offices were not settling change orders issued as price-to-be-determined-later until after the work had been completed despite the Agency's goal to do so before the work is 50 percent complete. Timely settlement provides incentive for the contractor to accomplish work in the most efficient manner.

In our February 16, 2001 report, our recommendations to the Acting Commissioner, Public Buildings Service included:

- Continuing to advocate the Construction Excellence Program initiatives.
- Improving change order management.

The Acting Commissioner agreed with the recommendations in the report. The audit is still in the resolution process.

GSA is responsible for providing working space for almost 1 million Federal employees. GSA, therefore, acquires buildings and sites, constructs facilities, and leases space, and also contracts for repairs, alterations, maintenance, and protection of Government-controlled space. GSA also manages the transfer and disposal of excess and surplus real and personal property and operates a Governmentwide service and supply system. To meet the needs of customer agencies, GSA contracts for billions of dollars worth of equipment, supplies, materials, and services each year. We conduct reviews and investigations in all these areas of activity to ensure that the taxpayers' interests are protected.

Significant OIG Accomplishments

Over $9 Million in Civil Recoveries

During this period, the Government entered into 2 settlement agreements in which companies agreed to pay a total of over $9 million to resolve their potential civil liabilities under the False Claims Act. These agreements, negotiated by representatives of the Department of Justice and the GSA OIG, reflect the ongoing efforts of the OIG to pursue cases involving procurement fraud and other practices that threaten the integrity of the Government's procurement process. Highlights of cases follow:

Civil Settlements

- On October 27, 2000, computer manufacturer Gateway 2000, Inc. (Gateway), agreed to pay $9,000,000 to settle the Government's claim that it overcharged Federal customers for computer systems. The Government alleged that, contrary to the provisions of its Multiple Award Schedule (MAS) contract, Gateway charged customers the price of its product on the day it was ordered, rather than the often-lower price of the product on the day it was delivered or installed. The OIG audit had determined that the company had no system in place, during most of the contract, that would have insured that the repricing of its orders was in compliance with the requirements of the contract.

- Back in February 1997, Gandalf Systems Corporation (Gandalf) had tentatively agreed to pay the United States $289,000 to resolve the company's potential False Claims Act liability. The Government had alleged that Gandalf engaged in defective pricing in the negotiation of its 1987-1990 MAS contract to provide automated data processing equipment, and that it overbilled the Government in its administration of that contract. An OIG audit disclosed numerous instances of commercial customers receiving more favorable discounts, terms, and concessions than those disclosed in Gandalf's response to the GSA solicitation. In addition, on numerous occasions, Gandalf charged Federal agencies state and/or local sales tax, from which the agencies are generally exempt under statute and regulation. However, before the settlement could be finalized, Gandalf went into bankruptcy, and

was unable to proceed with the settlement agreement. On March 15, 2001, the receiver-in-bankruptcy for Gandalf paid the United States $57,800 to finally resolve the company's liability in this matter.

Electric Utility Deregulation Challenges

Interagency Agreement

Deregulation of the electricity market in several states was intended to introduce competition, spur innovation and economic growth, and promote efficiencies in the electricity industry. In California, recent developments have led to a shortage of electricity and sharp increases in costs to consumers. During FY 2000, GSA paid about $22 million for electricity provided to buildings under its cognizance in the Pacific Rim Region, which includes California. GSA purchases its electricity from investor-owned utility companies under area-wide contracts awarded by GSA's Public Utility Office in Washington, DC, or from municipal entities in some cities.

GSA has been very successful in meeting the challenges of deregulation of the electricity market and has saved $3.8 million.

GSA has mitigated high electricity costs by pooling energy needs with other Federal agencies and entering into an interagency agreement to purchase electricity from the Bonneville Power Administration at a price that varies with the open market but within a fixed floor and ceiling. While GSA continues to acquire 100 percent of its electricity requirements from the California utility companies, Bonneville sells its electricity on the open market on GSA's behalf, and if the market price is above the ceiling, GSA receives the credit. Although it has not happened, GSA's costs could increase if the market price drops below the floor price. GSA has saved about $3.8 million since the inception of this agreement in May 1998. However, the agreement, which represents 60 percent of GSA's regional electricity needs, expires in April 2002, at which time the Agency will be exposed to the volatility of market-based pricing throughout the state, without the benefit of rate freezes, which will have ended by that time.

In an aspect of our review, we noted that GSA may be exempt from certain state and local utility taxes and surcharges and needs to ensure that it only pays those it is required to pay. We found some taxes and surcharges from which the Government was clearly exempt had been paid. Individuals processing utility contracts and bills need to know which charges are acceptable and which are exempted to avoid overpayment. We found that individuals were not aware of specific exemptions and/or did not review agreements and bills for these items.

In our March 15, 2001 report, we recommended that the Assistant Regional Administrator:

- Develop a plan to competitively procure electricity in California by identifying GSA facilities and other entities willing to join in solicitations aggregating electricity demand.
- Provide a reference list of utility taxes and surcharges that must be paid and those from which the Government is exempt to be used in reviewing utility bills.
- Instruct contracting officials ordering utility services to routinely include provisions citing specific tax exemptions of the Government in initial orders for service.
- Initiate recovery action for taxes and surcharges inappropriately paid.

Management officials agreed in principle with our recommendations in the report. The audit is still in the resolution process.

Competitive Electric Contracts

In a review performed in three additional GSA regions, we found that the Agency has been successful in meeting the challenges of electric deregulation, with awards of several competitive contracts aggregating GSA's power requirements with those of other Federal agencies, that have achieved savings of about $11 million for those participating in the GSA contracts. We noted, however, a need for improvement in the amount of review/supervision given to work conducted by contractors who prepare GSA to analyze offers and ultimately award competitive contracts.

The level of controls exercised over the processing of monthly utility bills in the three regions generally provides reasonable assurance that the bills are accurate and do not include sales taxes for which the Government is exempt. We found surcharges on the utility bills; however, there was no review performed by GSA to determine the appropriateness of these items. We believe these surcharges should be identified and then researched for the possibility of obtaining refunds or credits due GSA.

The review showed that the Agency is not conducting annual rate reviews to ensure that GSA buildings are receiving the most economical rate available from the utility company; nor is GSA complying with post-payment examination of utility bills, as proposed by the General Accounting Office.

In our January 11, 2001 report to the Commissioner, Public Buildings Service, and Chief Financial Officer we recommended:

- Closer supervision and review of contractors and their work, especially when the work is to be used in analysis of offers of potential contracts.
- Annual rate reviews of utility accounts with annual values exceeding the simplified acquisition threshold ($100,000).
- That surcharges be identified then researched for the possibility of obtaining refunds or credits due GSA.

A responsive management action plan was provided for implementing the report recommendations.

Operating Equipment Inventories

In recent years, GSA has changed the manner in which operations and mechanical maintenance contracts are procured and administered. Rather than specifying the frequency, quantity, and type of activities to perform, the new performance-based contracts GSA uses are supposed to be results oriented. GSA now relies more on the contractor to maintain accurate equipment inventories, formulate preventive maintenance schedules, and properly maintain the equipment. Recent reviews by our office have indicated some cause for concern that GSA is not getting what it pays for. Inadequate equipment inventories was seen as a potential problem area.

Inaccurate equipment inventories impair preventive maintenance.

Our review in one region found inaccurate equipment inventories in nearly half of the buildings visited. Accurate inventories are important because they allow prospective contractors bidding on contracts to know what equipment they will be responsible for and form the basis for preventive maintenance programs. Accurate inventories also provide an exit checklist at contract end so that all equipment can be inspected and responsibility for needed repairs identified.

More significantly, at every location visited, we found deficiencies in the preventive maintenance schedules. Although these schedules were being submitted monthly, we found that preventive maintenance was not being performed because contractors were not following their quality control programs and GSA representatives were not physically inspecting the work performed. While these contracts were nominally written to require contractors to prepare preventive maintenance schedules, lacking appropriate oversight by GSA, some work does not get done.

Our March 27, 2001 report included recommendations that the Assistant Regional Administrator ensure that:

- Responsibility for accurate equipment inventory, history records, and preventive maintenance programs be clearly identified.
- Quality control plans submitted by contractors be monitored for compliance during the contract period with inspections of work performed.

Management officials agreed with our recommendations in the report. The audit is still in the resolution process.

GSA Courthouse Construction Contractor Convicted; Pays $500,000 Fine

On December 12, 2000, Morse Diesel International, Inc. (MDI), a multinational provider of construction services, was convicted on a guilty plea of one count of making a false claim against the Government in connection with its GSA contract for the construction of the Thomas F. Eagleton Courthouse in St. Louis, Missouri. MDI was assessed and has paid a $500,000 fine.

An OIG investigation of MDI found that MDI had provided a false invoice to GSA as part of a claim for payment on the Eagleton Courthouse. The criminal fraud involved double billing by MDI for its performance and payment bonds, which resulted in an increase of the overall contract price to GSA. A related civil fraud case against MDI is currently being litigated in the U.S. Court of Federal Claims by the Department of Justice, Civil Division, Commercial Litigation Branch. That case includes fraud allegations against MDI involving its GSA construction contracts for the Eagleton Courthouse, the U.S. Courthouse and Federal Building in Sacramento, California, and the U.S. Customs House in San Francisco. In addition to allegations regarding false invoices for performance and payment bonds on all three projects, the Government's complaint also alleges fraudulent installation of defective doorframes and late payments to subcontractors on the Eagleton Courthouse contract.

On January 25, 2001, the GSA Office of Acquisition Policy, based on the plea agreement, proposed MDI for debarment, effectively suspending the company from receiving new Federal contracts pending a final determination. On February 28, 2001, six of MDI's current and former employees were also proposed for debarment based upon information developed in the investigation. (On April 30, 2001, GSA terminated the debarment proceeding against MDI based on the Agency's determination of present responsibility. The action against the individuals remained pending.)

Top Executives of a Project Management Company Sentenced for Submitting Fraudulent Bonds

An OIG investigation was initiated when a GSA contracting officer reported that the president of ABC Project Management, Inc., may have submitted a fraudulent bid bond in response to a GSA solicitation for the renovation of a Federal day care center. The investigation confirmed the allegation and also found that the president had presented fraudulent bid bonds to the Port Authority of New York and New Jersey and several other Federal agencies.

On October 20, 2000, the president of the company was sentenced to 5 years supervised release and ordered to pay restitution in the amount of $259,370 for his role in submitting fraudulent bid, performance, and payment bonds to the Government.

In addition, on December 5, 2000, the vice president of the company was sentenced in U.S. District Court to 12 months and one day of incarceration, 36 months supervised release, and ordered to pay restitution in the amount of $43,375 for his role in submitting fraudulent bid, performance, and payment bonds to the Government.

The company and both executives are currently debarred from Federal contracting as a result of a Department of the Army action.

This investigation was conducted jointly with the Federal Bureau of Investigation, the Port Authority of New York and New Jersey, and the Small Business Administration OIG.

Value-Added Assistance Services

We continued to offer value-added professional assistance to GSA management through consulting services and advisory reviews, and through participation on Agency improvement task forces, committees, and working groups. Our efforts help the Agency to become more efficient and effective by providing management with timely information, often at its request, to improve decision-making, program outputs, and mission accomplishment. These services are provided in addition to our more traditional services.

Consulting Services. These OIG efforts are initiated by Agency officials and are designed to provide management with quick responses to specific program concerns. Requesting officials both define and limit the scope of the consulting project. Information objectively developed by the OIG is provided for the interpretation and discretionary use of the requesting official in a true partnering relationship with management. Additionally, consulting service products are distributed only to the requesting official and contain observations and alternatives for consideration in lieu of formal audit recommendations. Some recent efforts are highlighted below:

- **Use of Contracts to Supplement Personnel.** Following a major reorganization, management asked us to assess the process for awarding and administering contracts to supplement personnel in one region. During our review, we observed some vulnerable areas, both procedural and organizational, where the region needs to consider revisions to its use of contract resources as it redefines its service delivery structure. In discussions with the contracting staff, we noted inconsistent practices and a lack of controls in obtaining the regional requirements for supplemental service contract personnel. In our November 15, 2000 report, we identified certain risks to the region's efforts toward strengthening its contract resources and building greater consistency in its business operations. We suggested the region establish a centralized core procurement staff for certain awards.

- **Commercial Facility Management Contractor Performance.** The Agency requested assistance in determining whether the contractor responsible for the day-to-day facilities operations at a Federal Courthouse was meeting the basic requirements of the contract, and if the contractor adequately administered and reported public realm activities at the Courthouse. Based on a review of contractual reporting requirements and tenant satisfaction feedback, we concluded that the contractor met basic performance requirements and adequately administered public sector activities. We also concluded that GSA should execute the upcoming 3-year option to extend the

contract, which is valued at about $3 million. However, in our November 17, 2000 report, we suggested that management consider the following activities:

- have someone with technical expertise periodically assess the contractor's mechanical quality control practices;
- develop mutually agreed-upon benchmarks for performance standards;
- streamline monthly reporting to create an "at a glance" overview of building operations; and
- use excess proceeds from private events to fund court and community-related event security costs.

- **Compliance with cost and billing terms of a contract.** Management asked for our assistance in researching contract documentation to determine if the Agency was being properly billed. Due to a series of modifications that occurred over an extended period of time, the price of the contract had increased to $5.4 million and significantly changed in complexity. The OIG developed a summary schedule of GSA payments and a comparison of authorized expenditures to vouchered and paid costs. We concluded that the contractor had applied the proper labor and indirect expense billing rates in its voucher submissions to GSA and that total payments were less than the contract value. We provided this information to management in a November 27, 2000 report.

Advisory Reviews. These OIG services are designed to develop information useful to Agency managers who are responsible for making decisions and initiating program improvements. Typically, we identify benchmarks and analyze best practices used in both private industry and Government agencies to determine if GSA is delivering comparable products and services as effectively as other provider entities. Advisory reviews are usually initiated by the OIG, although management may request them as well. Our reports provide observations and conclusions, without recommending corrective actions. The following highlights two such reviews accomplished during this period:

- **FTS Procedures for Paying Invoices without Receiving Reports.** Due to a problem with obtaining information from client agencies, GSA is incurring significant levels of interest payments under the terms of the Prompt Payment Act. Management asked us to evaluate a proposed procedure for paying vendors without requiring a receiving report. We advised management that, at this time, we do not support the elimination of receiving reports because the Agency lacks internal controls to support the initiation of such a payment process. Our

review of invoice processing procedures submitted by the regions showed that no standard exists on where the vendor is required to send its invoice, how the invoice is to be reviewed, or how receipt of the item is to be verified. While we concluded that the Agency needs to standardize operating procedures to reduce the levels of interest payments, we did offer an alternative procedure for management use as an interim measure. We issued our advisory report to the FTS Commissioner on November 17, 2000.

- **Best Practices for Annual Report Preparation.** The Chief Financial Officers (CFO) Act of 1990 and the Government Management and Reform Act (GMRA) of 1994 require agencies to prepare and submit annual reports to the Office of Management and Budget (OMB). Under the guidelines of an OMB-sponsored "accountability report" pilot program, GSA expanded the coverage of its annual report to include information such as Government Performance and Results Act performance data. The CFO, concerned with GSA's report process, asked the OIG what procedures other agencies used to coordinate and issue their annual reports in order to determine if future GSA reports could be completed more efficiently.

  We benchmarked with several public and private sector partners to identify best practices in this area. Although private sector reporting responsibilities required by the Securities and Exchange Commission differ from the evolving requirements imposed on Federal agencies, our focus was more on the process for publishing an annual report than on its contents.

  We observed that:

  - all of our benchmark partners assign responsibility for producing the annual report to a specific organizational component and delegate responsibility for the major parts to the components responsible for those functions;
  - firm deadlines are established and met;
  - the CFO is responsible for all financial aspects of the reports; and
  - marketing/communication departments prepare writeups on organization goals, objectives and strategies, and current accomplishments.

  Our advisory report was issued to the CFO on March 7, 2001.

Task Forces, Committees, and Working Groups. The OIG provides proactive advice and counsel to GSA while monitoring ongoing Agency initiatives. Our representatives advise management at the earliest

possible opportunity of potential problems, help ensure that appropriate management controls are provided when reinventing Agency systems, and offer possible solutions when addressing complex financial issues.

Our direct participation with the Agency on task forces, committees, and working groups allows us to contribute our expertise and advice, while improving our own familiarity with the Agency's rapidly changing systems. We also benefit by expanding our new initiatives within the Federal community. We nevertheless maintain our ability to independently audit and review programs. Our participation in the task forces is typically as a non-voting advisory member. We maintain a strict policy of excluding staff members who have served on developmental task forces from subsequent audits of the same subject areas.

Some areas in which we have been involved this period include:

- **FSS Performance Measures Task Force.** In August 2000, the OIG began participating in a task force established to develop performance measures for FSS's Office of Acquisition. Our office has attended several task force meetings that included developing a measure for evaluating the effectiveness of contract pricing. We will continue to provide input to the task force as it finalizes performance measures for commercial acquisition.

- **St. Louis Courthouse Project Team.** As the St. Louis Courthouse approaches full occupancy, the OIG has continued its participation in the Courthouse project team. Team meetings have been held on a periodic basis to address various building occupancy issues. As requested by members of the team, the OIG has performed, and continues to perform, audits of contracts that were awarded to complete construction.

- **Richard Bolling Federal Building Project Team.** In response to a request from regional management, the OIG is participating on a project team assembled to oversee the renovation of a Federal building in Kansas City, Missouri. The renovation is scheduled to be performed in three phases over 5 years, and the total project cost is estimated to exceed $185 million. The team currently meets on an as-needed basis, but regular meetings will likely be held after the construction contract is awarded.

- **PBS Building Delegation Program.** GSA holds monthly meetings with delegated agencies operating in both Government-owned and leased space to review and discuss current policies and practices and make any needed changes. Representatives of our office attend these meetings, at the request of the Agency, and provide input deemed appropriate.

- **Charge Card Usage Work Group.** The OIG and Office of Finance met to establish a coordinated ongoing process for the prevention and detection of improper purchase and travel card activity by GSA cardholders. We recently developed and are now testing a guide for the effective review of charge card activity. When final, we will make it available to Agency officials responsible for reviewing and approving charge card use.

- **Fleet Users Work Group.** Management requested our participation in the Fleet Users Work Group, the purpose of which is to assist other agencies in developing processes and procedures they could use to file for fuel tax refunds from state revenue departments. Future meetings will address Fleet card contractors' processes and procedures. This initiative should continue through FY 2001.

- **The Information Technology Council.** The Council monitors policies and programs to ensure information technology (IT) consistency throughout the Agency. It is comprised of the Chief Information Officers of the various GSA services and staff offices. Representatives from our office attend the meetings at the request of the Agency.

The OIG participates in a number of interagency committees and working groups that directly affect our ability to better add value to the Agency. For example:

- The President's Council on Integrity and Efficiency (PCIE) IT Roundtable discusses various IT audit activities throughout the Inspector General community.

- The Procurement Executives Council is an interagency council consisting of Executive Branch procurement executives. The Inspector General is the PCIE representative to the Council.

- The PCIE IT Security and Audit Workforce working groups help to determine what types of security audits the OIGs should perform and what types of actions can be taken to recruit and retain IT-qualified staff.

- We assisted the Office of Personnel Management with its development of a new occupational job series for the Federal IT workforce, with specific input on the inclusion of a new classification for IT auditors.

- Our Assistant Inspector General for Auditing represents all civilian Government agencies on the Cost Accounting Standards Board, which promulgates, amends, and revises Cost Accounting Standards designed to achieve uniformity and consistency in cost accounting practices governing measurement, assignment, and allocation of costs to contracts with the Government.

In addition to detecting problems in GSA operations, the OIG is responsible for initiating actions to prevent fraud, waste, and abuse and to promote economy and efficiency.

Significant Preaward and Other Audits

The OIG's preaward audit program provides information to contracting officers for use in negotiating contracts. The pre-decisional, advisory nature of preaward audits distinguishes them from other audits. This program provides vital and current information to contracting officers, enabling them to significantly improve the Government's negotiating position and to realize millions of dollars in savings on negotiated contracts. This period, the OIG performed preaward audits of 55 contracts with an estimated value of nearly $541 million. The audit reports contained over $67 million in financial recommendations.

This period, we audited Multiple Award Schedule (MAS) contracts and claims for increased costs allegedly caused by the Government during the construction of Federal buildings. Four of the more significant audits contained proposed prices totaling $431 million, and recommended adjustments of $49 million. An audit of a MAS contractor found that the prices afforded the Government are substantially less favorable than the prices given to the offeror's other customers. In an audit of a claim for increased electrical costs, we adjusted the subcontractor's methodology for measuring labor inefficiencies, and also advised the contracting officer of overstatements in the amounts claimed for liquidated damages and other direct costs. In an audit of a claim for increased costs due to a differing site condition and design deficiencies, we advised the contracting officer that field office costs were overstated and direct labor hours and rates were incorrect. In another audit of a delay claim, we adjusted the overhead and labor costs claimed by a subcontractor.

Federal Managers' Financial Integrity Act Review

The Federal Managers' Financial Integrity Act (FMFIA), Section 2, requires GSA management to provide assurance to the President and the Congress that Agency resources are protected from fraud, waste, mismanagement, and misappropriation.

Each year, we review the Agency's FMFIA process to assess its completeness in reporting weaknesses and deficiencies. This year, the Commissioner, Public Buildings Service, and the Chief Information Officer did not submit timely assurance statements to the Management Control Oversight Committee. Accordingly, their statements were not part of our review. Therefore, we were unable to fully accomplish our objective of assessing the adequacy of the disclosure of known control weaknesses by Agency managers.

We advised management of several control weaknesses that should be considered for reporting in the Administrator's assurance statement. We found problems under the Contract Guard Program that potentially

compromised the safety and protection of Federal employees, and raised concerns over the adequacy of security controls for critical assets and cyber-based infrastructures. We also found that agencies did not have adequate documentation ensuring that vendors received an opportunity to compete for vehicle acquisition and leasing services. Finally, we conveyed the results of a 2000 General Accounting Office report that concluded that GSA's ability to satisfy the multi-billion dollar repair and alteration needs of Federal buildings is hampered by funding limitations, inadequate program data, and the lack of a strategic approach. All of these issues were identified in the Agency's FMFIA report to the President, dated January 11, 2001. GSA has either initiated corrective action or is currently in the process of developing corrective action plans for the cited control weaknesses.

We also advised management of two other matters, both of which were reported previously, where corrective actions need to safeguard and enhance the quality of the Agency's operations. These include the adequacy of controls over credit card purchases and the integrity of data used by managers to make business decisions.

Integrity Awareness

The OIG presents Integrity Awareness Briefings nationwide to educate GSA employees on their responsibilities for the prevention of fraud and abuse, and to reinforce employees' roles in helping to ensure the integrity of Agency operations.

This period, we presented 16 briefings attended by 423 regional employees. These briefings explain the statutory mission of the OIG and the methods available for reporting suspected instances of wrongdoing. In addition, through case studies and slides, the briefings make GSA employees aware of actual instances of fraud in GSA and other Federal agencies and thus help to prevent their recurrence. The briefings have in fact led GSA employees to report instances of suspected wrongdoing to the OIG for investigation.

Employee Misconduct

Unauthorized Access to Electronic Mail Files

Based upon a complaint from the Office of the Chief Information Officer (CIO), the OIG initiated an investigation into charges of illegal access to electronic mail files. The investigation determined that two GSA computer specialists used their system administrator rights to gain unauthorized access to the confidential electronic files of their GSA supervisor.

On December 27, 2000, the CIO terminated one computer specialist and suspended a co-worker for 13 days for the roles they each played in gaining unauthorized access to confidential GSA electronic mail files.

Former GSA Employee Pleads Guilty to Bribery Charge

As the result of an OIG investigation, on November 9, 2000, a Federal Grand Jury in the Eastern District of New York returned a two-count indictment against a GSA official for soliciting a bribe from a GSA construction contractor in return for the award of repair and renovation contracts. The GSA official retired while under investigation. On February 5, 2001, he pled guilty to one count of accepting a gratuity. He was subsequently sentenced to 36 months probation, and ordered to pay $3,500 in restitution and a $3,000 fine.

In addition, on December 21, 2000, the GSA construction contractor pled guilty in U.S. District Court to bribing the GSA official. Sentencing is scheduled for May 16, 2001.

Bribery Conspiracy Exposed

Based on information received from a supervisory contract guard, a joint investigation was initiated by the GSA/OIG, Department of Justice/OIG, and Federal Bureau of Investigation. The investigation looked into the bribery of Immigration and Naturalization Service (INS) officials by employees of a travel agency and a GSA contract security guard assigned to the immigration area of the New York City Federal building. The review determined that bribes were paid to obtain confidential information, restricted INS documents, and fraudulent passport stamps for INS clients.

On December 1, 2000, two travel company employees were each sentenced to 12 months confinement and probation after having pled guilty to bribery. In addition, on December 7, 2000, the GSA contract security guard pled guilty in U.S. District Court to charges that he bribed an INS official. Sentencing is pending. Finally, on February 5, 2001, an Information Officer at the INS pled guilty to charges of receiving bribes and is currently awaiting sentencing.

Hotline

The OIG Hotline provides an avenue for concerned employees and other concerned citizens to report suspected wrongdoing. Hotline posters located in GSA-controlled buildings, as well as brochures, encourage employees to use the Hotline. We also launched our FraudNet Hotline platform to allow Internet reporting of suspected wrongdoing. During this reporting period, we received 1,087 Hotline reports. Of these, 113 complaints warranted further GSA action, 23 warranted other Agency action, and 951 did not warrant action.

Financial Statements Audit

The Chief Financial Officers Act of 1990 requires the OIG to conduct or arrange for an annual audit of the GSA consolidated financial statements. The Act also requires a report on the GSA system of internal accounting controls and compliance with laws and regulations. This audit was performed, as in past years, by an independent public accounting firm (IPA), with oversight and guidance from the OIG.

In our audit report dated February 14, 2001, transmitting the auditor's opinions, GSA received unqualified opinions on its financial statements and on management's assertions regarding the effectiveness of internal controls over financial reporting. However, the IPA did identify three reportable conditions concerning GSA's need to improve: (1) its entity-wide system security management and oversight, (2) development, implementation, and change controls over the Agency's information system environment, and (3) the controls over the integrity of rent data.

Additionally, the IPA reported a potential instance of noncompliance with a law arising from an advance between two GSA funds. This matter was reported in the IPA's FY 1998 financial statement audit and again in its FY 1999 audit. Although GSA changed its practice by liquidating the advance quarterly instead of annually, this did not resolve this issue during FY 2000. However, the Office of the Chief Financial Officer (CFO) has now established procedures to liquidate this advance monthly, more closely associating the funds with the services provided. This new approach should address the concerns our office has regarding this matter.

The OIG conducted the portion of the audit related to the design and operation of internal controls over the performance measures reported in GSA's FY 2000 Annual Report Overview. Accordingly, we obtained an understanding of the design of the significant internal controls relating to the existence and completeness assertions, and determined whether they have been placed in operation, as required by the Office of Management and Budget (OMB) Bulletin No. 01-02.

In our FY 1998 report, we identified a reportable condition regarding the need to clearly assign responsibility and accountability within GSA for verifying and ensuring the reliability of the data supporting the reported performance measures. While we noted a similar problem in our FY 1999 report, GSA had initiated steps to implement appropriate controls to ensure the integrity of performance measures. The CFO had developed an action plan that identified and defined Agency managers' responsibilities with regard to performance measures, and required managers to formally assert that the data supporting performance exist and are complete. At the time, we felt sufficient actions had been taken

so that GSA's control problems should no longer be considered a reportable condition. However, this year we noted that the CFO had not made sufficient progress in implementing these controls, and we believe this lack of progress in implementing these identified internal controls represents a reportable condition. In addition, we conducted limited risk assessments for three performance measures and reported that in some cases these controls were not in place, or that the data were materially incomplete.

We also reviewed GSA's internal controls over the revenue and disbursement cycles of the Information Technology (IT) Solutions regional Client Support Center programs and the Federal Systems Integration and Management Center. These programs serve regional customers by providing business development, coordination and oversight, product development budgeting, and financial management; in FY 1999, they had $2.1 billion in business volume. They also assist agencies in acquiring and utilizing information systems and information technology, and generated $856 million in revenue in FY 1999. We found that the controls over the revenue and disbursement cycles of the IT Solutions programs appear to effectively and efficiently meet the desired control objectives.

Finally, we reviewed GSA's internal controls over the payroll function, which is performed at the National Payroll Center (NPC) located within the Heartland Finance Center. NPC uses the automated Payroll Accounting and Reporting System to process payroll for GSA's employees and a number of independent agencies and presidential commissions. We reported that the internal controls over the payroll functions appear to be operating effectively and efficiently to meet control objectives.

For FY 1999, the IPA expressed an opinion that except for two areas of non-conformance, GSA's financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger were fairly stated, in all material respects. The two areas of non-conformance were related to the systems security requirements of OMB Circular No. A-130 and systems development requirements of OMB Circular No. A-127. At the time, these situations represented substantial noncompliance with the Federal financial management systems requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996. Accordingly, GSA management was required to issue a remediation plan addressing these issues. To date, we have not been provided a copy of this plan and therefore cannot assess management's proposed improvements. Although these issues have been reported as concerns in the IPA's Opinion on Management's

Assertion Regarding the Effectiveness of Internal Control Over Financial Reporting in FY 2000, the IPA determined that GSA met the requirements of FFMIA during FY 2000, due to changes in the criteria contained in relevant OMB guidance.

Review of Legislation and Regulations

The Inspector General Act of 1978 requires the OIG to review existing and proposed legislation and regulations to determine their effect on the economy and efficiency of the Agency's programs and operations and on the prevention and detection of fraud and mismanagement.

During this period, the OIG reviewed 151 legislative matters and 32 proposed regulations and directives. The OIG provided comments on the following proposed regulations:

- *Draft Acquisition Letter on Negotiations Measurement and Improvement for Federal Supply Service (FSS) Contracts.* We provided comments to FSS on a draft acquisition letter aimed at improving FSS contract negotiations, including Multiple Award Schedule (MAS) contract negotiations. GSA plans to accomplish the improvement through instituting three types of contract review procedures, including pre-negotiation clearance procedures (PNCs). PNCs would require a contracting officer (CO), for certain designated major contract actions, to consult with and obtain the approval of a panel of contracting supervisors, including auditors, before negotiating and awarding a contract. We noted that this PNC review could only improve the quality of contract negotiations. However, we also noted that PNC reviews were no substitute for instituting performance measures for contract actions, and we urged FSS to consider formulating such performance measures. We also made specific revisions to the draft letter's text to focus the PNC process more on contract pricing.

- *Draft Acquisition Letter on Pricing MAS Professional Services Contracts.* We provided comments to FSS on a draft acquisition letter aimed at providing guidance to COs on awarding MAS contracts for professional services. We noted that more guidance is needed in this important and emerging area, and we commended FSS for attempting to provide it. Our key concern centered on whether GSA COs would be able to obtain hourly rates for these services that were consistent with GSA's most-favored customer pricing goal for MAS contracts. Specifically, we noted that in the commercial world services are priced based on a specific task to be performed. GSA negotiates hourly rates, however, without solid reference to particular underlying tasks. We suggested that the price analysis portions of the guidance be expanded by emphasizing the types of cost information COs should ask for to conduct price analyses, and by encouraging COs to ask for audit assistance in such negotiations. We also noted that the letter should more clearly separate out guidance meant for GSA COs who negotiate the MAS contracts versus COs from ordering agencies who may be placing task orders under the contract.

- *FSS Proposal to Alter Contract Retention Periods for MAS "Evergreen" Contracts.* We provided informal comments to FSS on a preliminary proposal to limit records retention requirements for MAS contracts that have been "Evergreened" – extended through the use of three 5-year option periods. Our principal objection related to our position that COs need access throughout a potential 20-year contract term to pricing or other information submitted in early years to ensure that contract pricing continues to be fair and reasonable.

- *FSS Guidance on Variations Between General Accounting Office (GAO) and GSA Records Retention Periods and MAS Contracts.* We provided the Office of Acquisition Policy with informal comments on planned guidance by FSS to the contractor community relating to differing records retention periods for MAS contract documents. The guidance generally provided specifics on the interplay between GAO's requirements, and attendant fairly broad audit authorities, and GSA's more limited requirements and audit authorities.

- *GSA Acquisition Manual Issuance on Administrative Agreements Between Agency Suspension/Debarment Authority and GSA Contractors.* We provided comments to GSA's suspension and debarment authority on contemplated coverage in the GSA Acquisition Manual relating to administrative agreements entered into between GSA and contractors. We suggested that a provision requiring the suspension and debarment authority to obtain adequate assurances regarding a contractor's remediation of a prior misconduct problem be extended to all contractors, rather than just to those indicted or convicted of felonies. Our thinking was that GSA should also obtain assurances from contractors involved in prior misconduct resulting in a civil fraud action or serious performance-based action. We also urged GSA to include in the issuance a provision that any material breach of such an administrative agreement would be cause for immediate suspension or debarment proceedings.

- *Department of Justice/Federal Alternative Dispute Resolution Report on Confidentiality in Alternative Dispute Resolution (ADR).* We provided comments to the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency (PCIE/ECIE), to be incorporated in a collective OIG response, on the Department of Justice's report relating to "Confidentiality in Federal Alternative Dispute Resolution Programs." We commended the report for providing guidance on confidentiality, and noted in particular the usefulness of the "Model Confidentiality Statement for Neutrals" contained within the report. We had, however, certain concerns and suggestions regarding the report. Our chief concern was a statement in the report that seemed to imply that statutes, like the Inspector

General Act, could not be used as bases to require disclosure of ADR-related confidential disclosures or statements. We also noted that the report needed to conform various definitions of "dispute resolution communication" used within the document, and that the questions and answers should be clarified to set out the exceptions to the general rule against disclosure by neutrals of confidential communications.

- *PCIE/ECIE Strategic Plan.* We provided comments to the PCIE/ECIE on a draft strategic plan the organizations had formulated. We suggested that the PCIE/ECIE consider creating a Human Resources Committee to help eliminate barriers to recruitment and boost staffing efforts in the OIG community. We also suggested that the performance measures in the strategic plan needed to be better defined and to state described goals, rather than just activities to be undertaken. Finally, we noted our belief that administrative staff for the PCIE/ECIE could best be established by obtaining specific statutory authority allowing for interagency funding.

- *Association of Inspectors General Draft Principles and Standards.* The Association of Inspectors General is an organization of Federal, state and local IGs that addresses issues common to all of these offices. The Association has been in the process of developing principles and standards that are designed to help guide all IGs in the performance of their work. During this semiannual period, we reviewed and commented on a draft statement of principles for Inspectors General, as well as quality standards for investigations, inspections and evaluations, and OIGs generally. We suggested revisions in a number of different areas, such as law enforcement authorities, subpoena power, confidentiality of records, the scope of professional care, evidentiary issues, and reporting of OIG findings.

Audit Reports Issued

The OIG issued 115 audit reports during this reporting period. The 115 reports contained financial recommendations totaling $77,713,445, including $67,256,972 in recommendations that funds be put to better use and $10,456,473 in questioned costs. Due to GSA's mission of negotiating contracts for Governmentwide supplies and services, most of the savings from recommendations that funds be put to better use would be applicable to other Federal agencies.

Management Decisions on Audit Reports

Table 1 summarizes the status of the universe of audits requiring management decisions during this period, as well as the status of those audits as of March 31, 2001. Two reports more than 6 months old were awaiting management decisions as of March 31, 2001; both of them were preaward audits, issued before February 10, 1996, which are not subject to the 6-month management decision requirement. Table 1 does not include 4 reports issued to another agency this period. Table 1 also does not include 6 reports excluded from the management decision process because they pertain to ongoing investigations.

Table 1. Management Decisions on OIG Audits

	No. of Reports	Reports with Financial Recommendations	Total Financial Recommendations
For which no management decision had been made as of 10/1/00			
Less than six months old	41	29	$279,881,001
Six or more months old	2	1	203,343
Reports issued this period	111	57	76,985,115
TOTAL	**154**	**87**	**$357,069,459**
For which a management decision was made during the reporting period			
Issued prior periods	41	29	$279,881,001
Issued current period	74	29	16,159,617
TOTAL	**115**	**58**	**$296,040,618**
For which no management decision had been made as of 3/31/01			
Less than six months old	37	28	$ 60,825,498
Six or more months old	2	1	203,343
TOTAL	**39**	**29**	**$ 61,028,841**

Management Decisions on Audit Reports with Financial Recommendations

Tables 2 and 3 present the audits identified in Table 1 as containing financial recommendations by category (funds to be put to better use or questioned costs).

Table 2. Management Decisions on OIG Audits with Recommendations that Funds be Put to Better Use

	No. of Reports	Financial Recommendations
For which no management decision had been made as of 10/1/00		
Less than six months old	26	$277,078,026
Six or more months old	1	203,343
Reports issued this period	42	66,528,642
TOTAL	**69**	**$343,810,011**
For which a management decision was made during the reporting period		
Recommendations agreed to by management based on proposed		
•management action	—	$ 75,122,509
•legislative action	—	—
Recommendations not agreed to by management	—	209,212,740
TOTAL	**44**	**$284,335,249**
For which no management decision had been made as of 3/31/01		
Less than six months old	24	$ 59,271,419
Six or more months old	1	203,343
TOTAL	**25**	**$ 59,474,762**

Table 3. Management Decisions on OIG Audits with Questioned Costs

	No. of Reports	Questioned Costs
For which no management decision had been made as of 10/1/00		
Less than six months old	3	$ 2,802,975
Six or more months old	0	0
Reports issued this period	15	10,456,473
TOTAL	**18**	**$13,259,448**
For which a management decision was made during the reporting period		
Disallowed costs	—	$12,426,613
Costs not disallowed	—	499,555
TOTAL	**14**	**$12,926,168***
For which no management decision had been made as of 3/31/01		
Less than six months old	4	$ 1,554,079
Six or more months old	0	0
TOTAL	**4**	**$ 1,554,079**

*****_Includes $1,220,799 that management decided to seek that exceeded recommended amounts._

Investigative Workload

The OIG opened 100 investigative cases and closed 89 cases during this period. In addition, the OIG received and evaluated 83 complaints and allegations from sources other than the Hotline that involved GSA employees and programs. Based upon our analyses of these complaints and allegations, OIG investigations were not warranted.

Referrals

The OIG makes criminal referrals to the Department of Justice or other authorities for prosecutive consideration and civil referrals to the Civil Division of the Department of Justice or U.S. Attorneys for litigative consideration. The OIG also makes administrative referrals to GSA officials on certain cases disclosing wrongdoing on the part of GSA employees, contractors, or private individuals doing business with the Government.

Table 4. Summary of OIG Referrals

Type of Referral	Cases	Subjects
Criminal	41	75
Civil	13	23
Administrative	86	163
TOTAL	**140**	**261**

In addition, the OIG made 46 referrals to GSA officials for information purposes only.

Actions on OIG Referrals

Based on these and prior referrals, 32 cases (47 subjects) were accepted for criminal prosecution and 13 cases (15 subjects) were accepted for civil litigation. Criminal cases originating from OIG referrals resulted in 28 indictments/informations and 23 successful prosecutions. OIG civil referrals resulted in 13 cases being accepted for civil action and 2 case settlements. Based on OIG administrative referrals, management debarred 6 contractors/individuals, suspended 31 contractors/individuals, and took 15 personnel actions against employees.

Monetary Results

Table 5 presents the amounts of fines, penalties, settlements, judgments, and restitutions payable to the U.S. Government as a result of criminal and civil actions arising from OIG referrals.

In addition, the OIG had administrative recoveries of $1,516,864 during the course of its investigations and recovered property with a fair market value of $164,897.

Table 5. Criminal and Civil Recoveries

	Criminal	Civil
Fines and Penalties	$ 533,434	$ —
Settlements and Judgments	—	$9,057,800
Restitutions	504,432	—
TOTAL	**$1,037,866**	**$9,057,800**

APPENDICES