

DEPARTMENT OF HEALTH AND HUMAN SERVICES

STATEMENT

OF

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DIRECTOR

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BEFORE THE

SENATE COMMITTEE ON INDIAN AFFAIRS

OF THE

UNITED STATES CONGRESS

ON

INDIAN HEALTH SERVICE MANAGEMENT

FOR THE

INDIAN HEALTH SERVICE

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STATEMENT OF THE INDIAN HEALTH SERVICE

Mr. Chairman and Members of the Committee:

Good Morning. I am Robert McSwain, Director of the Indian Health Service. Today I am accompanied by Randy Grinnell, Deputy Director of Management Operations, and Athena Elliott, Director of the Office of Management Services. We appreciate the opportunity to testify on the Indian Health Service's property management program.

The Indian Health Service provides health services to nearly 1.9 million American Indians and Alaska Natives (AI/ANs). In carrying out this responsibility, the IHS maintains a unique relationship with more than 560 sovereign Tribal governments located in the most remote and harsh environments within the United States as well as in modern metropolitan locations such as Anchorage and Phoenix. This geographic diversity and major health disparities offer extraordinary opportunities and challenges to managing and delivering health services.

The IHS and Tribal programs provide a wide array of individual and public health services, including clinical, preventive, and environmental health services. In addition, medical care services are purchased from outside the IHS system through the Contract Health Services (CHS) program when the care is otherwise not available at IHS and Tribal facilities.

The IHS is committed to its mission to raise the physical, mental, social, and spiritual health of all AI/ANs to the highest level.

IHS appreciates the opportunity to respond to GAO's report on IHS property management. IHS has been and remains committed to proper and accountable property management. To this end, IHS Headquarters and Area Offices have fully cooperated with GAO in the audit and investigation by providing detailed records, performing extensive data reconciliations upon request of the GAO, and participating in multiple and extended staff interviews.

Overview of the IHS inventory system

IHS currently uses the HHS Property Management Information System (PMIS) to inventory personal Federal property. The PMIS was first implemented in FY 2005, and provide tools that enable IHS to continue to improve property accountability.

Indian Tribes are authorized by Public Law 93-638, the Indian Self-Determination and Education Assistance Act, to assume control of programs administered by the IHS, including administrative support functions. The statute also permits IHS to transfer title to both real and personal Federal property associated with the operation of the contracted program to the Tribes.

Also, Public Law 86-121, Indian Sanitation Facilities, authorizes IHS to transfer property to Indian Tribes in order to maintain sanitation facilities. IHS also has additional authority for providing equipment for safe water and sanitary waste disposal facilities to Tribes under the Public Law 94-437, the Indian Health Care Improvement Act, as amended. The Secretary of Health and Human Services (HHS), acting through the Service, also is authorized by P.L. 86-121 to provide financial and technical assistance to Indian Tribes and communities in the equipping of utility organizations to operate and maintain Indian sanitation facilities.

In early FY 2005, HHS made a decision to have all HHS Operating Divisions, including

IHS, utilize the Property Management Information System (PMIS). At implementation, the IHS-wide inventory was comprised of approximately 121,000 items with an original acquisition cost of \$302 million prior to assigning new and higher HHS accountability thresholds and assessing the value of depreciation. After applying the new HHS accountability thresholds under PMIS, the IHS inventory is comprised of approximately 49,000 accountable and sensitive items with a total original acquisition cost of \$205 million.

The implementation of the new HHS consolidated PMIS, including staff training, took an extensive amount of time and resources. Training is still ongoing and is a continuous process. Conducting physical inventories using the new system therefore lagged and many IHS Areas reverted to some legacy systems that had not been decommissioned. The process for conducting wall-to-wall physical inventories became more challenging due to the volume of equipment and property, and the time and effort required to undertake such a process.

The new HHS logistics management policy mandates that all accountable and sensitive property, but not all Government equipment, be tagged with a Government decal. Accountable property is any item with an acquisition cost of \$5,000 or more. Sensitive property is an item identified to be tracked with an acquisition cost between \$500 and \$4,999 that requires stricter inventory control. Property items meeting the new, higher dollar threshold or the sensitive items criteria are affixed with a barcode tag and entered into the PMIS. The PMIS includes a depreciation expense feature which will adjust the book value of the IHS inventory when it has been fully implemented, a feature which was unavailable in the legacy property system. As of 2007, a physical inventory was completed for 100% of accountable/sensitive property in 5 of the 14 accountable areas throughout the IHS, including IHS Head Quarters (HQ). An additional 5 accountable areas completed partial inventories (50-90% of accountable/sensitive property) and the remaining 4 accountable areas examined 15% or less of their accountable/sensitive property. By the end of FY 2008, a physical inventory of 100% of accountable and sensitive property will be conducted in 14 accountable areas throughout the IHS.

Response to GAO Report

IHS worked extensively with the GAO to provide detailed information regarding the agency's property management system. Their review was conducted at a time IHS was fully engaged in a transition from one outdated system to a newer, more efficient PMIS. As such, not all concerns cited by GAO in their report are current or defensible. GAO itself acknowledges various limitations to its audit and investigation, some of which are listed below. These limitations seriously undercut and are not reflected in GAO's conclusions.

- The report asserts that IHS did not consistently document "lost or stolen" property items and concludes that the number of currently unaccounted for items might actually be higher than GAO has identified. In fact, the ongoing process of reconciling the prior property management system to the new PMIS will reduce the number of currently unaccounted for items as the reconciliation progresses.
- The report also overstates the net worth of currently unaccounted for items by not taking into consideration the depreciation value of these items. Some items referenced in the report are 15 to 35 years old, and yet are assigned their original acquisition cost. For example, some of the large, non-IT items of inventory, such as all terrain vehicles (ATVs) are valued at the original acquisition cost despite the fact that the actual equipment was acquired between 1974 and 1999, well past their useful life expectancy of 8 years.

While IHS met with GAO on multiple occasions to discuss specific situations addressed in the report, GAO has persisted in defending some inaccurate situations described below.

Alaska Tribal Self-Determination Award

The ATVs and tractors referred to in the GAO report as “lost or stolen,” were identified on the 2006 Alaska Report of Survey as “transferred” or “abandoned in place”. Some of the large construction equipment in the extremely isolated locations in Alaska has to be flown in, or shipped by barge. The acquisition dates of these 1,197 items span 15-35 years. The useful life and actual “value” of these items were taken into consideration by the Board of Survey and the Determining Authority’s final decision to remove the items from the inventory records for the Alaska Area.

At the time of the transfer of IHS property to the Alaska Tribal compact in 2000, personal property in use in Alaska reflected a *non-depreciated* value of approximately \$13 million, of which approximately \$7 million was transferred to the Alaska Tribal compact under the new agreement/award. IHS – Alaska Tribal health officials jointly researched and reconciled the inventory and wrote off the remaining \$6 million of this original amount representing 1,197 items in a single Report of Survey in 2006. The Report of Survey clearly stated that most of the written off items were disposed of either by (1) transfer to local Tribal communities; (2) transfer to a local Air Force Base; or (3) “abandoned” on an IHS construction site due to the extraordinary expense associated with the removal of the equipment, leaving 68 items valued at a non-depreciated value of \$177,000 unaccounted for.

Tucson Report of Survey and “Jaws of Life”

All of the Jaws of Life extrication equipment which the GAO report characterizes as “lost or stolen” has been accounted for by Tucson Area in early May 2008. The Jaws of Life extrication equipment had been stored in a Rescue Truck and the inventory team missed locating the items on their earlier attempts when conducting the physical inventory. The Tucson Area property staff is in the final stages of completing the 2008 physical inventory which includes reconciling any differences between the physical inventory and the property records. The initial work on the 2008 reconciliation process has resulted in locating and accounting for many of the items listed on the 2006 draft Report of Survey, however, the report does not reflect this.

Allegation of misrepresentations made by IHS property staff

The GAO report continues to categorize IHS HQ inventory items that have been accounted for by the IHS inventory as “lost or stolen.” When the GAO investigation commenced in August 2007, IHS property staff were in the process of reconciling the April 2007 physical inventory of IHS HQ property with additional information, including a follow up on-site inspection by IHS staff and independent verification of returned property by the Federal warehouse. While the initial IHS April 2007 inventory results indicated that 1,180 items were listed but not located on site, and over 500 items were on site but not listed on the HQ inventory, subsequent research of alternate records determined that the property had been properly disposed or accounted for. Independent verification with the Federal warehouse in 2007 confirmed that 498 items had in fact been properly disposed of as turn-ins to the warehouse. Additionally, in a subsequent inspection by IHS staff in late 2007, 222 items were found on site in IHS HQ that had been missed in the initial physical inventory taken in April 2007. The entire reconciliation process was completed in January 2008 and updated information was provided at that time to the GAO, but GAO’s report does not appear to have considered this additional information..

GAO’s Allegation of Fabricated Documents

In January 2008, an IHS property staff member, in an effort to ensure GAO received needed information in an acceptable form, generated blank disposal records and recorded the disposal information that was provided from the HHS Federal warehouse onto “Request for Property Action” forms commonly referred to as HHS 22 forms. An HHS 22 form is used to document property transfers, turn-ins, and disposition instructions. This form is also used to document new receipts when other source documents are not available. When these “HHS 22s” were provided to GAO, they reflected a current date of January 2008 and were clearly presented as having been created for purposes of

establishing the requested audit trail using independent warehouse verification. Although they were not backdated or otherwise falsified, GAO accused the property staff person of “fabricating disposal records.” No one in IHS conveyed to GAO that these documents were anything but newly generated documents. The staff person who generated the HHS-22s after the fact, created them for the purpose of recording otherwise verified information for the review of the GAO, but there was no intent to deceive or mislead the investigators.

Allegation of “wasteful” purchases

In 2007, IHS Headquarters initiated a procurement strategy to increase the cost efficiency of the replacement of computer technology used by all its employees. The useful life of many desktop computers and smaller portable devices is 3-5 years. By buying in bulk to meet needs in advance and making those purchases once a year, IHS can take advantage of significant price discounts, and reduce critical down time of vital IT tools. Only the numbers of desktops exceeding their useful life are replaced in the annual bulk purchase. A very few additional computers must be purchased for emergent needs arising during the year, such as new employees or to replace faulty equipment. IHS also uses those few additional computers, pending deployment to individual staff, for IT training purposes of all staff at both the Albuquerque and Rockville Headquarters locations. The 25 on-hand “spare computers” noted in the report as “excess” and examples of “wasteful” purchases, represents roughly 6% of the total number of desktops deployed at IHS Headquarters, which is an acceptable level of inventory to meet these needs.

GAO alleges that IHS has assigned 10 computers to each employee in IHS Headquarters. This calculation appears to have been made by GAO by taking the total preliminary and unreconciled inventory (3,155 items) in April 2007 (which included items later verified to have been properly disposed) and divided the total by the number of IHS employees at HQ (about 300). If one uses the final reconciled number for the 2007 HQ inventory, approximately 1,500, the ratio is closer to about 5 items per employee.

“Yard Sale”

We are initiating an investigation into the allegation that a yard sale was conducted to dispose of surplus computers and other property. We appreciate the matter being brought to our attention by the GAO. In the meantime, we have verified that these computers were used for educational purposes at the Desert Vision Youth Wellness Center, and were not used in a clinical setting in which the computers would more likely be used to store sensitive data.

HHS Response to GAO Recommendations

IHS concurs with nine of the ten GAO recommendations addressed in the report to strengthen overall control environment for property management and has been, and is now, fully engaged in the ongoing process of updating its personal property management policies, conducting necessary investigations of any unaccounted property and ensuring that employees are held accountable as appropriate throughout the Report of Survey process. IHS is committed to strong enforcement of standing agency policies designed to ensure accurate and timely inventories of accountable personal property throughout the entire agency with official certification by property management staff. This includes enforcement of policies requiring proper use, control, maintenance and protection of federal government property and continued use of barcodes to identify and control all accountable and sensitive government property.

Mr. Chairman, this concludes my statement. Thank you for this opportunity to report on the property management program in the Indian Health Service, serving American Indians and Alaska Natives. We will be happy to answer any questions that you may have.