

**ADMINISTRATIVE REVIEW OF
TREASURY'S PROCESS FOR ITS STUDY
OF THE INTERACTION OF
GAMBLING AND BANKRUPTCY**

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Office of Inspector General

United States Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON

INSPECTOR GENERAL

February 15, 2000

MEMORANDUM FOR DEPUTY SECRETARY EIZENSTAT

FROM: Jeffrey Rush, Jr.
Inspector General

SUBJECT: Administrative Review of Treasury's
Process for Its Study of the Interaction of
Gambling and Bankruptcy

This review was conducted at the request of Congressman Frank Wolf. The objectives of the review were to determine: (1) Whether Treasury adequately responded to concerns about its research methodology and conclusions; (2) Whether the Economic Policy (EP) staff had been improperly influenced by outside parties; and (3) Whether the report was produced and distributed in a timely manner.

Our review disclosed the following: (1) Despite some areas of agreement between officials of EP and outside researchers, disagreement on some important aspects of the EP's methods and conclusions remain; (2) There was no evidence of improper influence by outside parties; and (3) The report was not issued by the May 15, 1998 deadline because research data could not be released prior to June 1999.

Congressman Wolf was briefed by the Inspector General and the review team. Congressman Wolf has recommended that Treasury supplement its study to resolve the question regarding EP research methodology and its conclusions. Attached is a copy of our report.

Attachment

cc: David Wilcox
Assistant Secretary for
Economic Policy

Neal Wolin
General Counsel

OVERVIEW

This letter report presents the results of our review of the process used by the Department of the Treasury to prepare and release *A Study of the Interaction of Gambling and Bankruptcy*, dated July 1999. We conducted our review as a result of concerns raised by Congressman Frank R. Wolf.

Congressman Wolf informed the Department and the Inspector General that Treasury's methodology in compiling the report was flawed and as a result the findings might be invalid. His concern was supported by the former Executive Director of the National Gambling Impact Study Commission (the Commission), the Research Vice President for the National Opinion Research Center (NORC), and the President of SMR Research Corporation (SMR). Treasury officials from the Office of Economic Policy (EP) met with these individuals as well as responded in writing to their concerns and questions. However, despite some areas of agreement, it is evident that there is still disagreement on some important aspects of the report's methodology and conclusions. EP believed its work was complete and credible.

We found no evidence that EP staff or any other Department official associated with the conduct of the study and production of the report were inappropriately influenced in their analysis or reporting. We found that Treasury did not meet an initial May 15, 1998, deadline to produce a final report due to a series of delays. The most significant delay occurred when Treasury contracted with the Commission for survey data. The result was that Treasury did not provide the Congressman a copy of the completed report in a timely manner.

Congressman Wolf was provided a draft report of our review and briefed by the Inspector General. Congressman Wolf recommended that Treasury supplement its study to resolve the issues concerning its research methodology.

BACKGROUND

Title I of Public Law 105-61 of the Treasury and General Government Appropriations Act of 1998 provided Treasury with \$200,000 to conduct a comprehensive study of gambling's effects on bankruptcy in the United States. Guidance found in House Report 105-240 stated that the Committee on Appropriations was concerned about the rising number of bankruptcies in the United States, the causes thereof, and its effects on creditors. The guidance required that "The study shall identify, but not be limited to, the number of bankruptcies caused by gambling debts, and the effect on payments to the U.S. Treasury." The Secretary was to report on the findings to the Committee no later than May 15, 1998. It was Congressman Wolf's office that communicated to Treasury officials and received communications from them with regard to this requirement. There was very little formal

communication to or from the Senate or House Appropriations Committees or the respective Treasury, Postal Service, and General Government Subcommittees, other than the formal transmission of the completed report dated July 1999.

Within Treasury the project was assigned to the Office of EP and further delegated to the Deputy Assistant Secretary (DAS) for EP Coordination. Prior to the departure of the DAS for EP Coordination from Treasury in April 1998, he initiated the study and established a contractual relationship with the Commission to provide for survey data through the use of the NORC of the University of Chicago. In July 1998, a new DAS for EP Coordination was selected who took over the responsibility for the study. She established a team composed of members from the Office of EP, with some assistance from the Office of Tax Policy, who undertook the study on the interaction of gambling and bankruptcy. The team reviewed existing literature on gambling and bankruptcy, collected data from various sources, designed research methodologies, and analyzed the information using statistical techniques.

The Office of Legislative Affairs and Public Liaison was responsible for acting as liaison between Congressman Wolf's office and the Office of EP. It was also responsible for determining the distribution of reports to congressional committees and members, and for facilitating the draft and final report's delivery.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our review were to determine whether: (1) Treasury officials adequately responded to concerns of the report including the methodology and conclusions; (2) the EP staff had been improperly influenced by outside parties; and (3) the report was produced timely and distributed appropriately.

With regard to the methodology and conclusions of EP's Gambling and Bankruptcy study, our review was limited to documenting and reporting outside criticisms and the EP response to those criticisms. The scope of our review did not include determining the appropriateness of the methodology or the validity of the report conclusions.

In order to determine the degree EP was responsive to concerns about the content and conclusions in the report, we reviewed all relevant documents; discussed certain aspects of the study and process with the former Executive Director, National Gambling Impact Study Commission; the Research Vice President, NORC; and the President, SMR and interviewed all relevant Treasury staff.

We reviewed available documentation regarding the study and developed a chronology of events that occurred in preparing, reviewing, and releasing the report. We interviewed current and previous Treasury officials and other officials in the Executive Office of the

President, specifically the Office of Management and Budget (OMB), and the Domestic Policy Council (DPC) who had involvement with events affecting the study or the report.

AUDIT RESULTS

Treasury's Responsiveness to Concerns Regarding Methodology and Conclusions

In a letter to Secretary Summers dated September 30, 1999, Congressman Wolf expressed his belief that the conclusions in the Treasury report were invalid. Congressman Wolf's belief was based in part on concerns expressed by the President of SMR Corporation, who had reviewed the report. Congressman Wolf suggested that Treasury retract the report and issue a revised report reflecting SMR's comments.

In an October 22, 1999 letter, the Secretary responded to Congressman Wolf that EP officials had contacted the three principals at SMR, NORC, and the Commission and were arranging a meeting with them to discuss the report.

On November 1, 1999, Congressman Wolf sent the Secretary another letter forwarding the written comments of the Executive Director of the Commission and the Research Vice President for NORC. In his letter, the Congressman stated that these two researchers raised serious concerns about the methodology used to compile the report and that Treasury's findings may be invalid. He also stated his opinion that the Treasury report should be able to withstand "peer review." We noted that although the report draft was reviewed by knowledgeable people and experts within Treasury and in Government agencies external to the Treasury through the normal OMB review process, there was no review of the draft by private external parties.

On November 8, 1999, EP officials met with individuals from the Commission and NORC to discuss their observations and concerns. SMR declined to participate. The representatives from the Commission and NORC told the Office of Inspector General (OIG) that having the meeting was a start, but all of their concerns were not addressed in the time allotted for the meeting. In another set of letters to the Secretary, Deputy Secretary, and Inspector General dated November 10, 1999, Congressman Wolf expressed his concern over the possible lack of validity associated with the Treasury report's conclusions.

On November 24, 1999, the Secretary responded to Congressman Wolf. The Secretary's letter included as attachments, written responses dated November 24, 1999, from the Assistant Secretary for EP to the three principals at SMR, NORC, and the Commission that provided rationale for certain decisions made by the primary researchers and rebuttals to some of the specific comments. Secretary Summers stated his confidence in the Treasury employees who produced this report and his belief that the report was credible, well

reasoned, and an addition to the body of knowledge on the subject of gambling and bankruptcy. He also noted that, following the meetings and correspondence between Treasury and the three external researchers, there were substantial areas of agreement, but the parties may be at a point where they may have to agree to disagree. The Secretary further noted that the report contained the recommendation that further research on the subject should be conducted.

On November 29, 1999, and December 3, 1999, the Research Vice President for NORC and President of SMR, respectively, sent letters to Treasury containing their reactions to the EP's written response. The former Executive Director of the Commission did not respond formally to Treasury's letter of November 24, 1999. However, he did provide the OIG with his observations and reactions to EP's response. (The OIG has provided the former Executive Director's observations and reactions to EP under separate cover.)

Report Methodology

We discussed with representatives from the Commission, NORC, SMR, and EP officials certain definitions used in the report that the three external researchers contend affected outcomes. We also discussed the use of certain words to characterize the results that they believe denote bias. For example, the external researchers argued that Treasury's use of the term "weak" to describe the statistical relationship between frequent high-risk gambling and the probability of declaring bankruptcy gave the perception that Treasury was biased because a more commonly accepted academic characterization could have been chosen. EP officials stated that they believe that the term was correctly used to describe the relationship between high frequency high-risk gamblers and bankruptcy and that their use of the term is consistent with its standard usage in academic literature. Treasury also stated that in the body of its report, the "weak" relationship is further described as involving a significance level of 10 percent - standard usage in academic literature.

The external researchers also criticized Treasury's decision to characterize the survey data using definitions it developed: "low-risk" and "high-risk" gamblers. They suggested that Treasury would not appear to be biased if it had used what they believed to be more clinically and academically acceptable terminology instead. The external researchers suggested that the appearance of bias would have been reduced if Treasury had chosen to run the survey data using "standard" definitions, as well as Treasury's own definitions, in order to reveal any potential differences in the results when using different definitions. EP officials stated that there are no standard definitions for classifying gamblers in the literature, no consensus in the academic community on classification schemes, and that, despite the differences in definitions, EP's results using their own definitions are very similar to the results reached by NORC. According to EP officials, the econometric methods they used are considered standard in the economic community and the same methods also were used by NORC in its study. EP officials claimed that the use of

alternative classifications should not be viewed as proof of bias but rather an attempt to independently analyze the survey data.

EP officials acknowledged, given the benefit of hindsight, that the report would have been more readily understood by the general public if in the Executive Summary they had avoided use of words with specific technical meaning and had changed the presentation or order of certain information in the report. EP officials stated that they raised concerns with NORC during their review of the data and drafting of the report about the small sample size for people who have both declared bankruptcy and extensively gambled. EP officials stated that they believed these limitations were thoroughly addressed in Appendix B of the report, Scope and Limitations of NORC Survey.

Concerns About Possible Inappropriate Influence

Congressman Wolf expressed concern that external parties may have unduly influenced the Treasury officials responsible for the report. The final report was substantially delayed in being prepared and delivered. Congressman Wolf did not get a copy of the draft as promised in June or a final report until late August 1999. These concerns coupled with hearing that "White House" staff were trying to delay the issuance of the report, all seemed to add up to the appearance of improper influence in the study and its release.

Outside Influence

Treasury contracted with the Commission, who in turn contracted with NORC, for the survey data used in the report. Congressman Wolf introduced legislation that became law (Public Law 104-169, August 3, 1996), which established the Commission. The Commission was responsible for administering the process of selecting NORC to design and administer the data collection effort. NORC is a non-profit corporation affiliated with the University of Chicago that conducts survey research in the public interest for Government agencies, educational institutions, private foundations, non-profit organizations, and private corporations. At the time Treasury entered in to the contract with the Commission, a factor that positively influenced Treasury's decision was the fact that NORC would be collecting the data. Individuals with whom we discussed this study were complimentary of the stature that NORC enjoys in the research community.

We discussed with representatives from the Commission, NORC, SMR, and EP officials certain definitions used in the report that the three external researchers contend affected outcomes and the use of certain words to characterize the results that they believe denote bias. External researchers and others also point to the inclusion of observations taken from pro-gambling entities as further indication of bias on the part of the report's authors. In Chapter IV of the report there are two quotations from pro-gambling sources. Comments of the President of the American Gaming Association are used in a section discussing a

study performed by SMR, and from the President of Ameristar Casinos in the section presenting the Iowa State University Study. These citations were taken from available printed sources that presented the studies and not based on conversations between EP staff and pro-gambling lobbyists. Although concerned parties believed it to be unusual to cite opinions when discussing the pros and cons of scientific research, EP officials believed that since so little literature was available on the topic of the connection between gambling and bankruptcy, the citations offered at least some balance to the presentation. Also, in balance, we noted that in the same section, an anti-gambling advocate was cited in the discussion of a study represented as being pro-gambling.

The only evidence we found of communication with persons outside Treasury with regard to the study, sample data, and draft report, were with the Commission, NORC staff, state and local government gambling regulators, some academic departments with expertise on gambling, President of SMR, and other agencies during and after external review of the draft. EP staff communicated with NORC staff fairly extensively after the survey data was provided in order to ensure their understanding of the results. When the draft report cleared Treasury it was forwarded to OMB for external clearance. No significant changes to the draft occurred as a result of external clearance. Conversations with the Domestic Policy Council (DPC) staff, mentioned in the following section, occurred after the report was prepared and awaiting the Secretary's signature.

We found no evidence that staff or executives associated with the conduct of the study and production of the report were inappropriately influenced by the White House or other outside parties.

White House Influence

OIG learned that a draft of the report was sent to the White House. White House and other agency staff that reviewed the report in April and May 1999 provided no consequential feedback, commentary, or concerns with the report draft, and made no attempts to delay it. In fact, the DPC individual that requested the delayed distribution on August 5, 1999, stated that she did not review the report earlier and that she was unaware of the report's existence until late June 1999. She learned of the Treasury report's existence from the DAS during meetings about the potential policy issues that emerged from the Commission's June 1999 report. She told us that when she realized that Treasury's report might be included in a larger Administration policy statement and potential Presidential event, she discussed with the DAS the possibility of delaying the release of the report until after they could develop the event. On July 29, 1999, she sent an email to the DAS requesting that the report not be released.

When the DPC official called EP on August 5, 1999, she was informed that the report had been approved by the Secretary and been sent to several members of Congress. She informed OIG that she was disappointed that it had been released, and requested that any

further distribution be delayed. She told us that DPC hoped to have the policy development effort completed and the presidential event accomplished by late August or September 1999, after which the report could be publicized and more fully distributed. Treasury agreed to delay further distribution.

When directly asked about contact with or influence from White House officials or pro-gambling individuals, EP officials asserted that they conducted their own independent analyses of the NORC survey data and denied that their conclusions were influenced by others in any way. We found no evidence of improper influence.

Report Timeliness and Distribution

The Appropriations Act did not require the Secretary to provide a report by a specific date. However, House Report 105-240 did contain the request that the report be completed by May 15, 1998. Treasury did not meet the May 15, 1998 deadline, but completed the study and produced the report dated July 1999. A number of factors affected the time taken to conduct the study as well as draft and distribute the report. The most significant delay occurred when Treasury contracted with the Commission for survey data. In addition, when the report was completed, miscommunications between Legislative Affairs staff and Congressman Wolf's office contributed to the fact that Treasury did not provide the Congressman a copy of the report in a timely manner. While the circumstances surrounding the delays and the distribution of the report were regrettable, they did not adversely impact the purpose for the study or the findings of the report.

Report Timeliness

The primary factor for missing the initial May 1998 deadline was Treasury's decision to contract with the Commission for the NORC survey data used in the report. The Commission already embarked on a comprehensive study of the impact of gambling on society. The Commission was aware of the mandate for the Treasury study and approached Treasury to discuss collaboration. Treasury officials believed that they could not independently conduct a comprehensive study with only \$200,000.

EP staff first met with the Commission, on January 6, 1998, to discuss the Treasury study and what the Commission could offer Treasury. In June 1998, through an Interagency Agreement between Treasury and the Commission, Treasury agreed to reimburse the Commission for data that would be used in Treasury's study of gambling effects on bankruptcies in the United States. The estimated cost was not to exceed \$150,000. The Commission selected NORC, with Treasury's approval, and contracted with it to conduct a national telephone survey of the household population as part of the Commission's study of the impact of gambling on individuals and communities. The Interagency Agreement stated that the Commission would supply the NORC survey data on or about January 31, 1999.

The Agreement also stated that Treasury was not permitted to release any information prior to the Commission's report being presented to the President, Congress, and the Governors in June 1999 without prior approval by the Commission. There is no record that this provision was shared with the Congressman's staff.

On April 28, 1998, the DAS for EP Coordination, his Special Assistant, and a member of the Legislative Affairs staff met with Congressman Wolf and his staff to discuss the initial May 1998 deadline and the proposed contract between Treasury and the Commission for NORC data. According to Treasury officials, the Congressman was in favor of the idea and stated that he was more interested in the results of a good study than the deadline. At that time, the best estimate for obtaining the survey results was November 1998, according to EP staff and NORC. Unfortunately, prior to the April 28th meeting, Treasury had responded to questions stemming from the FY 1999 Appropriations Hearings, that the study (not the survey) would be complete in November 1998. This sequence of events created an expectation on the part of the Congressman's staff that the report would be available in November 1998.

EP staff relied heavily on data collected by NORC. NORC delivered the first set of survey data in January 1999 and the final required data in February 1999. EP staff received tax data on bankruptcies from the Internal Revenue Service in March and April 1999. After that, time was needed to analyze the data; compose, edit, and review the draft report; prepare the report for signature; and print and distribute the final report.

Legislative Affairs staff and the DAS for EP Coordination met on March 10, 1999, to provide an update and inform him that data analysis was under way and that they expected to be drafting a final report in March and April 1999. After this, there is no documented communication between Treasury staff and Congressman Wolf's staff until June 10, 1999, when a Legislative Affairs official called the Congressman's office to inform them that the draft report was almost ready to be released.

On June 16, 1999, the DAS for EP Coordination, and a DAS and staff representative from Legislative Affairs, held a conference call to discuss the content and overall results of the draft report with Congressman Wolf's senior staff member. The DAS for Legislative Affairs promised to provide him a copy of the draft report. Legislative Affairs staff stated that they sent a copy of the draft report via U.S. mail to Congressman Wolf's staff in July 1999. There was no follow-up to determine whether the Congressman's office had received the draft report. The staff had no record of receiving the draft report. Secretary Summers approved the report on July 21, 1999.

Report Distribution

Ten final reports were delivered to Congressional members on August 5, 1999. Three contained a cover letter from the Secretary to the President Pro Tempore of the Senate, the

Majority Leader of the Senate, and the Speaker of the House. The remaining seven were delivered with a cover letter from the Assistant Secretary for Legislative Affairs and Public Liaison to the Chairs and Ranking Members of the committees of jurisdiction: the House and Senate Appropriations Committees and their respective Treasury Subcommittees, including the House Subcommittee on Treasury, Postal Service, and General Government. According to Legislative Affairs staff, this distribution was consistent with the practice in Legislative Affairs for such reports. However, Legislative Affairs staff also stated that Congressman Wolf should have been included on the report distribution list.

The Legislative Affairs staff called Congressman Wolf's staff on or about August 19, 1999, to inform them that *The Wall Street Journal* had published an article based on the final report. Unable to speak with the Congressional staff member personally, the Legislative Affairs staff left a message. Congressman Wolf's senior staff member returned the call on August 25th to get a copy of the report and was told that distribution of the final report was on hold (due to the DPC request). Legislative Affairs staff hand-delivered a copy of the final report to Congressman Wolf's office on or about August 26, 1999.

On October 27, 1999, EP officials contacted the DPC to obtain clearance to more fully distribute the report, which was agreed to the next day. During our interview with a member from the DPC, we mentioned the August 12, 1999, *Wall Street Journal* article. The DPC member stated that she was not aware of the article. Had she been aware of the article, DPC would not have requested that further distribution of the report be delayed.

In a meeting between the Inspector General and Congressman Wolf on February 1, 2000, the Congressman reiterated his belief that the methodology used and the report's findings may not be correct. Congressman Wolf believed that the only way to address his concern and those expressed by the other outside experts would be for Treasury to have the survey data re-analyzed in the manner these other experts suggest. This additional effort could then be issued as a supplement to the work Treasury has already done.