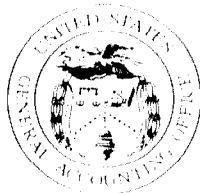


March 1989

# INSPECTORS GENERAL

## Allegations About the Independence of the Former VA Inspector General



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**Accounting and Financial  
Management Division**

B-233770

March 17, 1989

The Honorable Alan Cranston  
Chairman, Committee on  
Veterans' Affairs  
United States Senate

The Honorable Lane Evans  
Chairman, Subcommittee on  
Oversight and Investigations  
Committee on Veterans' Affairs  
House of Representatives

You requested that the General Accounting Office (GAO) evaluate allegations that you received regarding the independence of the Veterans Administration (VA) Office of Inspector General (OIG). These allegations were provided to you in a letter dated April 28, 1988, from anonymous, concerned OIG employees. The major concerns expressed in the allegation letter involved questions about the disposition of eight audits and their impact on the OIG's independence. We briefed Chairman Evans and his staff as well as the staff of the Senate Veterans' Affairs Committee on our findings and conclusions in December 1988. At that time, the Senate committee staff asked us to review a ninth audit for evidence of an independence impairment. This report provides the results of our evaluation of the OIG's independence regarding the nine audits in question.

The OIG employees alleged that the OIG was not independent by citing eight audits conducted between 1981 and 1987 which they contend were altered to meet the desires of program officials or, in some cases, canceled to suppress audit findings because of pressure placed on the Inspector General (IG) by the Administrator. The Senate committee staff referred us to a ninth audit, completed in 1986, and asked us to evaluate whether the former IG had delayed issuing the report for political considerations. These audits were conducted during the tenure of the former IG, the Honorable Frank S. Sato, who served from late July 1981 through early January 1988.

We found no conclusive evidence to indicate that the IG lacked independence in his decisions on these audits. Like most audits of VA programs, these audits addressed a number of sensitive and controversial issues, for which the former IG made management decisions. While a third party may not agree with the former IG's handling of these audits, as in the case of those who made the allegations, this does not, in itself, mean

that the former IG was not independent. What we see is an apparent difference of opinion regarding the decisions made by the former IG on nine audits conducted during his term of office.

## Objective, Scope, and Methodology

The objective of this report is to present our evaluation and views of the former IG's independence regarding the nine audits that we evaluated.

To evaluate the issues raised concerning these nine audits, we interviewed the Administrator of Veterans Affairs who was in office when decisions on the disposition of most of the audits were made; the IG-designate; the Assistant IG for Audit; the Assistant IG for Investigations; and the Assistant IG for Policy, Planning and Resources. We also interviewed former OIG employees including the former IG, the former Assistant IG for Audit, and a number of key audit staff who participated in these audits. We reviewed headquarters files on the nine audits, reviewed headquarters and field office working papers, and visited field offices in Chicago, Los Angeles, and Seattle for discussions with regional managers and audit managers involved in conducting the audits. We also reviewed correspondence files and OIG semiannual reports to the Congress.

In evaluating the nine audits, we looked for any documentary evidence or testimonial evidence that could be supported by documentation that would indicate that the former IG did not make independent decisions or was restricted or impaired in his ability to make his own decisions on the disposition of these audits.

We reviewed data in the OIG management information system to determine if there were other audits with outcomes similar to the audits in question. Based on our judgment about an appropriate universe to review, we identified all audits for fiscal years 1985 through 1988 and determined the audit outcomes. In cases where no reports were issued and the audit work required more than 100 staff days, we looked further to find the reasons why the audits ended without a report. We looked only at audits which expended more than 100 staff days because, in our opinion, that represented a significant investment of resources.

We did not attempt to assess the quality of the audit work performed in each of the nine audits that we evaluated. Our review was not intended to second-guess the decisions made by the former IG, including decisions to issue or not issue reports. We sought to determine the reasons for his decisions and whether he was impaired in making the decisions on these

audits. Our field work was conducted between July 1988 and January 1989. At the request of the committees, we did not obtain agency comments on this report; however, we discussed the findings with OIG officials and have incorporated their comments where appropriate. The audit was conducted in accordance with generally accepted government auditing standards.

## Evaluating Auditor Independence

Auditors need to be as independent from external influences as possible in order to ensure that their audit work is credible and respected. However, independence is usually not an absolute. It is more often a matter of degree. To a large extent, independence is a state of mind of the auditor. The extent to which an auditor's independence has been affected by surrounding influences cannot be easily assessed by a third party. Any effort to assess auditor independence requires considerable subjective judgment, and reasonable people have room for disagreement.

The Inspector General Act of 1978, as amended, provides for the protection of IG independence by authorizing them to conduct independent and objective audits, issue subpoenas, obtain access to any materials in the agency, and appoint OIG employees. The act provides that IGS will be appointed by the President, by and with the consent of the Senate, and that IGS will be independent from program management. IGS are responsible for keeping agency heads and the Congress informed of agency problems and actions taken to correct them. IGS prepare reports on the results of their audits and investigations and prepare semiannual reports to communicate the results of their work to their agency heads and to the Congress. While not a part of agency management, IGS are a valuable resource to management because OIG audits provide useful information on actions management can take to improve agency programs and management systems. IGS maintain close communication with the heads of their agencies as well as providing the results of their audit and investigative work to the Congress.

The effectiveness of legislated protections to IG independence is related to the individual appointed to the office. IGS must be vigorous in protecting and maintaining high standards of independence for their offices and avoid creating the appearance of an independence impairment. They must maintain this independence while reporting to two organizations—their agency and the Congress. This task requires the IGS to maintain a prudent balance between loyalty to the agency and responsibility for conducting objective and independent audits as required by the IG Act.

Generally accepted government auditing standards found in the Comptroller General's Government Auditing Standards, also known as the yellow book, include a standard on independence. This standard states that auditors and audit organizations should be free from personal or external impairments to independence, should be organizationally independent, and should maintain an independent attitude and appearance. The standard places upon auditors and audit organizations the responsibility for maintaining independence so that opinions, conclusions, judgments, and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties.

All of the allegations regarding the nine audits in question imply an external impairment or appearance of impairment to the former IG's independence; that is, he was directed by, or showed partiality to outside parties. Organizationally, the former IG reported to the Administrator, which is the proper reporting relationship recommended by the yellow book and specified in the Inspector General Act of 1978. During the conduct of our audit, nothing came to our attention that indicated any personal impairment to the former IG's independence nor did the allegation letter allude to a personal impairment.

## Allegations Regarding the Audits

The allegation letter contended that eight audits were canceled or draft reports were altered or not issued because of pressure placed on the IG by the Administrator. On a ninth audit, the Senate Veterans' Affairs Committee staff asked us to evaluate whether the former IG delayed issuing a report for political considerations and, if so, whether this represented an impairment to his independence.

These audits generally dealt with the areas of veterans compensation and benefits and VA construction and facilities projects. Like many of the 800 audit reports issued externally during the former IG's tenure, these nine audits were in sensitive areas. The outcome of these audits could affect the amount of benefits and the extent of services which veterans receive. Members of Congress and veterans service organizations had expressed significant interest over time regarding the issues covered by these audits. In some of these cases, the Congress had approved funding and provided direction for the proposed construction and facilities projects being audited.

Five of the nine audits in question resulted in audit reports that were listed in the IG's semiannual reports and available externally to interested parties, including the public. Allegations were made that one of

these reports was "watered down," another was delayed for the benefit of program officials, and that the third did not result in a final report because the former IG canceled the audit project following the Administrator's review of the draft report. The fourth audit was allegedly canceled because program officials would not provide answers to auditors' questions. In the fifth audit, the report was allegedly delayed for political reasons.

With regard to the other four audits, extensive audit work was performed leading to draft reports, but external reports were not issued. Instead, the results were reported internally. In two of these cases, a memorandum was written to the Administrator or a program official describing the audit work and presenting the audit results. In another case, the Administrator was briefed on the outcome of the audit, and, in the fourth case, the former IG sent a copy of the draft report to three successive Administrators to advise them of the issues. Allegations were made that these audit reports were not issued because of external influence on the IG from the Administrator.

We found no conclusive evidence that the former IG's independence was impaired in his reporting decisions on any of these nine audits. The following sections describe the allegations and the circumstances surrounding each audit.

## Audits Reported Externally

1. An audit was performed to assess the economy and efficiency of a satellite outpatient clinic at Crown Point, Indiana. The allegation concerning this audit was that the audit was watered down. In examining the circumstances surrounding this audit, we found that for several years prior to the audit, Members of Congress had urged VA to build a medical facility to serve veterans in northwestern Indiana. The Congress had provided funding for such a clinic. Plans for the facility were reviewed by the OIG to determine whether resources would be efficiently and effectively used and would best achieve the VA's responsibility to provide health care to veterans residing in northwestern Indiana and portions of northeastern Illinois. The resulting audit report, issued in March 1985, questioned the need for the facility, but did not recommend eliminating it. Instead, the report recommended that the Chief Medical Director reassess plans to open a satellite outpatient clinic in Crown Point and consider establishing a smaller clinic until a better patient demand projection could be established.

2. The OIG reviewed a construction project for an ambulatory care and clinical addition at the VA medical center in Birmingham, Alabama. The allegation was that the former IG delayed issuance of the audit report to accommodate VA program officials. It was also alleged that the Congress was short changed in reporting by this delay. In reviewing the circumstances surrounding this audit, we found that the OIG concluded that the project had not been effectively planned or coordinated and provided examples of problems. The audit report recommended actions to improve controls over administration and funding of contract modifications. Before the report was about to be issued in September 1987, the former IG learned from program officials that the construction contractor might pursue litigation against VA over the contract. OIG officials thought that the contractor might use the audit report in a lawsuit. As a result, the former IG decided to delay issuance of the report pending an additional review of the quality of the audit work to be sure that the facts were correct and that the OIG's work met all standards. The report, which was unchanged, was issued about 5 weeks later. No lawsuit had been filed as of the end of our audit work.

3. An audit was performed of a VA outpatient clinic in Santa Barbara to assess whether the workload justified the continuing operation of the outpatient clinic. The allegation was that the former IG canceled the audit following the Administrator's decision to retain the clinic after he had reviewed the draft report. Our review of the circumstances surrounding this audit found that the draft audit report concluded that the clinic was not justified based on actual workload. Instead of issuing a detailed final report, the IG sent a 3-page memorandum to the Administrator in July 1982, saying the workload of the facility should be monitored and, if the projected workload did not materialize after a reasonable time, then the clinic should be closed. The memorandum was given a report number and was listed in the IG's semiannual report.

4. In January 1986, the OIG began a routine audit of the VA medical center in Walla Walla, Washington. The allegation contended that the former IG canceled the audit when auditors were refused answers to basic questions surrounding the proposal to change the facility's mission. In examining the circumstances surrounding this audit, we found that after starting the audit, OIG staff learned that a mission change for the center had been proposed by VA program officials. The staff developed questions to gather information about the mission change, but the questions were not pursued because program officials had not made a final decision about the mission change. In May 1986, the audit was suspended pending the final resolution of the proposed mission change. In



December 1986, the Administrator approved the mission change. Shortly thereafter, the OIG canceled the audit until such time as the mission of the medical center was finally established. However, in July 1987, the Congress prohibited the mission change. In March 1988, the OIG reinstated the audit and, in June 1988, a final audit report was issued.

5. The OIG audited VA outpatient activities in Los Angeles to determine whether a planned outpatient clinic building was adequately justified and would provide economical and efficient outpatient care to area veterans. The Senate committee staff asked that we evaluate whether the IG's delay in issuing the resulting audit report was politically motivated and represented an impairment to the former IG's independence. The audit found that construction of a new clinic was not necessary to provide adequate medical care to veterans. The report recommended canceling construction of the new clinic and making other provisions for veteran outpatient care. VA program officials reviewed a draft of the report and disagreed with the recommendation. The OIG prepared drafts of the report in August and September 1986, but neither was issued. The former IG continued to discuss the report findings with VA program officials. In October 1986, VA program officials sent a task force to Los Angeles to assess the situation. The task force report, issued in November 1986, reiterated program officials' nonconcurrency with the OIG recommendation. The former IG issued his report in December 1986 with the original recommendation to cancel construction of the clinic. The report stated that the OIG deferred issuance of the final report pending the results of the VA program officials' review.

### Audits Reported Internally

6. The OIG assessed VA's plans for constructing a pedestrian bridge from a VA medical facility to an adjoining university in Portland, Oregon. Funding for the bridge had been provided by the Congress. The allegation stated that the former IG canceled the project and withdrew the report following a meeting with the Administrator. In fact, the OIG completed the audit and concluded that the bridge was not needed. A draft report was prepared, but an external report was not issued. Instead, the former IG sent a memorandum to the Administrator in October 1986, highlighting the audit findings and stating that the bridge could not be justified on a cost-effective basis. The Administrator told us that he made the decision that VA should proceed with the bridge after visiting the Portland facility and inspecting the site. He was aware of the IG's concern, but said he thought the bridge was needed.

7. An audit was conducted to assess the need for periodic reporting controls for individuals awarded disability benefits due to service connected mental disorders. The issue was controversial and the audit was objected to by veterans service groups and questioned by a Member of Congress. The allegation stated that the former IG canceled or watered down the audit because of pressure placed on him by the Administrator. Our examination of the details surrounding this audit showed that a detailed draft report was prepared concluding that employment for veterans should be verified periodically, but an external report was not issued. Instead, a memorandum was written to the Chief Benefits Director in February 1987, describing the outcome of the audit. OIG officials said that VA program officials accepted the conclusions of the audit and that their acceptance of the OIG's conclusions satisfied the internal control objective of the audit.

8. An audit was conducted to assess the relationship between VA beneficiaries' statutory entitlements and VA's plans for meeting the future needs of veterans. The allegation was that the former IG canceled or watered down the audit because of pressure placed on him by the Administrator. Our review of the details surrounding this audit showed that a draft report was prepared in July 1986, and the Administrator was briefed on the outcome of the assignment. The former IG said that a final report was not issued because GAO had just issued a report with a recommendation that he believed would accomplish the intent of the OIG audit. In fact, this was the case. In a June 1986 report entitled, Financial Management: An Assessment of the Veterans Administration's Major Processes (GAO/AFMD-86-7), we called for the VA Administrator to systematically collect and use veteran eligibility data in planning to meet veterans' needs.

9. An audit was conducted to determine whether the schedule for rating disabilities reflected the average loss of earnings resulting from disease or injury. The allegation stated that the former IG canceled or watered down the audit because of pressure placed on him by the Administrator. Our examination of the circumstances surrounding this audit found that the issue was sensitive to veterans service groups and Members of Congress because it could impact the level of benefits that veterans receive. Previous efforts to modify the rating schedule in the early 1970s had met firm resistance from both groups. We found that the data the OIG used to calculate the estimated savings was highly controversial because it was based on a 1960s study and was therefore considered to be out of date. Furthermore, there were limitations to the audit's scope. The OIG prepared a draft report on this audit but did not issue a final report.

Instead, in March 1983, the former IG transmitted a copy of the draft to the Administrator to advise him of the issue. A copy was also provided to the Chief Benefits Director. He similarly sent the draft report to subsequent Administrators, including the Administrator who was in office at the time of our review, to alert them to the issue. In addition, the former IG decided thereafter to pursue audits<sup>1</sup> relating to the implementation of specific aspects of the rating schedule, rather than attempt to audit the schedule itself.

## Views of the Former IG

We discussed the allegations regarding these audits with the former IG and with the Administrator who was in office at the time of our review. The former IG took full responsibility for the final decisions made in each case. He stated that he conducted the audits under mandates provided by the IG Act and sought thereby to improve the administration of VA programs. He acknowledged a significant amount of interest by the Congress and veterans service organizations in many of the audits in question and acknowledged that these audits dealt with sensitive and controversial subjects. He said that the decisions on these cases were entirely his own and that he was never asked or directed by anyone else, including the VA Administrator, to cancel or not issue an audit report, or to water down a report. The Administrator confirmed the former IG's statement.

The former IG said that he met weekly with the Administrator and that other key members of the VA staff did the same. The former IG said that he set the agenda for these meetings and that planned and completed audit assignments were sometimes discussed. The IG designate has continued these meetings and said that he sees them as an important vehicle for highlighting problems and recommendations to top management and in getting action on audit recommendations. Likewise, the Administrator told us that he found these meetings to be very informative and useful and that he respected the IG's input. We believe that meetings on a regular basis between IGs and their agency heads are an important part of OIG operations. Most, if not all, IGs hold such meetings. They help the IGs satisfy their responsibility under the IG Act and the yellow book for reporting to agency heads and do not in themselves impede their independence.

<sup>1</sup>These audits resulted in the OIG issuing such reports as Audit of Payments to Employed Veterans Rated Totally Disabled for Mental Disorders (4AB-B01-090) in July 1984, and Audit of Payments to Federal Employees Rated Less Than Totally Disabled for Mental Disorders (5AB-B01-099) in August 1985. These reports addressed concerns about the potential vulnerability for excessive compensation payments to veterans.

The former IG told us that his decisions regarding the final outcome of the audits in question, and any other OIG audits conducted during his tenure, were based on such factors as the technical merits of the product, the extent to which the message or recommendation would be useful in fostering needed changes, and the appropriateness of the report in terms of its receptivity by the Congress, the agency, and the veteran population. He said that generally it was his policy not to issue reports that, in his judgment, would not accomplish a useful purpose. He also said that it was his policy to develop recommendations that would be practical in improving the economy and efficiency of VA programs. He said that in sensitive subject areas, he did not want to create controversy unless it would lead to improvements. To do otherwise, he believed, would tie up OIG resources in responding to endless inquiries about his plans and intentions.

In explaining his policy about issuing reports, the former IG emphasized his concern that final audit reports be able to withstand the scrutiny of the Congress, especially in sensitive areas involving public policy. He also expressed a sense of frustration about recommending that a VA facility not be built, when it was already determined by the agency and the Congress that the facility was needed and would be built to help meet the agency's mission, despite any IG recommendation to the contrary. In cases where he did not issue audit reports, the former IG usually communicated the results of the audits to the Administrator or program officials by a memorandum or briefing. The former IG told us he did not view these kinds of decisions as matters affecting his independence, but considered them practical decisions based on his management philosophy and aimed at making the best use of information and resources available at the time.

## Our Observations About the Independence of the Former IG

Our review found no conclusive evidence that the former IG's independence was impaired by external influences. He made a series of decisions based on his management philosophy. Although he did not always issue a formal report, he did acquaint the Administrator and responsible program officials with the audit findings. While not taking a position as to whether the former IG reached the right decision in each case, we recognize that when dealing with sensitive, controversial issues, reasonable people can, and often do, arrive at different conclusions. As discussed earlier, we believe this is the central issue here.

Our review of OIG audit projects for fiscal years 1985 through 1988 showed that the OIG's management information system listed 82 projects

which expended more than 100 staff days but which did not result in an audit report. Of these, 57 projects were still active or were projects where no audit report was anticipated. For the remaining 25 audits, we found reasonable explanations for not issuing reports. In none of these cases did we find a basis for questioning the former IG's independence.

In discussing the nine audits with OIG personnel, we found no one who could provide any documentation or testimonial evidence that could be supported by documentation that would indicate a lack of independence on the part of the former IG. In fact, while some staff members expressed a view that conflicted with a particular decision regarding an audit, they generally did not consider this to be an independence problem. Only 2 of the almost 50 people we interviewed felt there was an independence problem regarding any one of the audits. But these individuals were expressing their own opinions and did not provide any documentation or other evidence to show the former IG was impaired in his reporting decisions. While to these individuals, as well as those making the allegations, the former IG may have appeared not to be independent, having examined the details surrounding the nine cases, we do not see an independence problem or even a significant appearance that the former IG was impaired in his ability to make independent decisions. Audit reporting decisions involve professional judgments, and judgments by their nature are subject to questioning by third parties.

While we are not questioning the IG's right to make a decision not to issue a given report, we believe that, in the future, reasons for not issuing reports should be documented and placed in the OIG files. We did not find sufficient explanations in OIG files for why some of the audit reports in question were not issued. Related to this, the revised yellow book (1988 revision) now requires that when an audit is terminated prior to completion, the auditor should notify the auditee and other appropriate officials and prepare a memorandum for the record briefly summarizing the results of the audit work and explaining why the audit was terminated. We discussed this matter with the IG designate who agreed to document any such cases in the future.

We also discussed the need for the IG designate to emphasize to his staff his commitment to independence in the conduct of audits. Receiving allegations about the lack of IG independence from some of his staff members could have a detrimental effect on the OIG's effectiveness and on staff morale unless the IG designate gives clear assurance of his commitment to conducting independent audits. The IG designate agreed that

these assurances were appropriate and would be communicated to the staff.

As you requested, we did not obtain agency comments. We did discuss the findings with OIG officials and have incorporated their comments where appropriate. Unless you publicly announce its contents earlier, we will not distribute copies of this report until 15 days after it is issued. At that time we will send copies to the Secretary of Veterans Affairs; the former IG and the IG designate; interested congressional committees; and other interested parties. Copies will also be made available to others upon request.

This report was prepared under the direction of Jeffrey C. Steinhoff, Director, Financial Management Systems Issues. All major contributors are listed in appendix I.

A handwritten signature in black ink that reads "Brian P. Crowley". The signature is written in a cursive style and is underlined.

Brian P. Crowley  
Director of Planning  
and Reporting



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