



December 16, 2021

**MEMORANDUM FOR:** Wynn W. Coggins  
Acting Chief Financial Officer and Assistant Secretary  
for Administration  
U.S. Department of Commerce

A handwritten signature in black ink, appearing to read "Richard Bachman".

**FROM:** Richard Bachman  
Assistant Inspector General for Audit and Evaluation

**SUBJECT:** *The Department Must Improve Processes for Addressing and Managing  
H Referrals*  
Final Report No. OIG-22-014-I

This final report provides the results of our evaluation of the U.S. Department of Commerce's (the Department's) processes for handling hotline complaints referred by the Office of Inspector General (OIG). The objective of our evaluation was to review the Department's processes for responding to hotline complaint referrals where OIG requests that the Department conduct an inquiry and provide a response detailing its results (also known as *H* referrals).

Overall, we found that the Department lacked an effective process and internal controls over its hotline referrals. This report includes recommendations for the Department to implement internal controls for addressing *H* referrals efficiently and effectively. See appendix A for specific details on our objective, scope, and methodology.

## Introduction

OIG regularly receives allegations of fraud, waste, abuse, and other improprieties through its hotline complaint in-take process. Where information received in a complaint concerns administrative, programmatic, managerial, personnel, or other issues that do not require the specialized skills of the OIG, OIG may refer the matter to an appropriate bureau. For more serious matters referred to bureaus, OIG requests that bureaus (1) conduct an independent inquiry into the allegations presented in the complaint and (2) provide a response to OIG detailing the inquiry results. In its final report to OIG, the bureau must include a statement describing the results of its inquiry and, if applicable, any administrative or disciplinary action taken as a result of the inquiry.

## Findings and Recommendations

The objective of our evaluation was to review the Department's processes for responding to hotline complaint referrals where OIG requests that the Department conduct an inquiry and provide a response detailing its results (also known as *H* referrals).

We found that the Department did not establish effective policies and procedures to ensure that *H* referrals received from OIG were promptly and consistently processed. Specifically we found the following:

- I. The Department's processes were decentralized and bureaus were inconsistent in their approaches in addressing *H* referrals; and
- II. Departmental bureaus—including the Office of the Secretary (OS)—did not generally respond promptly to *H* referrals and there was not monitoring of timeliness at the Department level.

The hotline process plays an important role in safeguarding the federal government against fraud, waste, and abuse, and can contribute to improvements in government operations. Furthermore, the hotline process provides individuals with a means to report allegations of wrongdoing, without fear of reprisal. Without effective internal control activities for addressing hotline complaint referrals from OIG, the Department is vulnerable to increased risk that complaints of fraud, waste, abuse, or mismanagement may not be handled effectively. Timely, objective, and thorough action by the Department to address these referrals is critical to maintaining a culture of ethical conduct and accountability.

### The Department Has Not Addressed *H* Referrals Consistently and in a Timely Manner

Prompt and diligent responses to *H* referrals by the Department are key to maintaining a positive workplace environment, ensuring compliance with agency policies and procedures, and enforcing accountability. However, we found the following:

- The Department's bureaus have significantly differing processes for addressing *H* referrals, which could result in completed inquiries with inconsistent levels of quality.
- Approximately 29 percent of *H* referrals to the Department have been outstanding for more than 1 year even though the Department is generally required to conduct an inquiry and report its results to OIG within 60 days. Furthermore, OS has not initiated inquiries for 89 percent of its outstanding *H* referrals, including some that are older than 1 year.

Complaints that are not handled in a timely manner combined with the lack of internal controls diminishes the Department's effectiveness and efficiency and increases the risk that wrongdoing associated with complaints may not be fully addressed. Therefore, it is important for the Department to have a clear and consistent approach to process hotline

complaint referrals. A robust, Department-wide framework should improve the quality and consistency of the work done on allegations received.

*A. The Department's processes were decentralized and bureaus were inconsistent in their approaches in addressing H referrals*

The Department has a responsibility to provide reasonable assurance that their own operations are as effective as possible. However, we found no Department-wide procedures for addressing *H* referrals.<sup>1</sup> In lieu of Department-wide procedures, bureaus we spoke to—with the exception of OS—had established their own documented procedures. Based on our review, we identified significantly varying bureau processes for addressing *H* referrals. For example:

- those conducting inquiries vary in professional background and experience—i.e., some bureaus use personnel from various occupations (including investigators), one bureau has a dedicated team of attorneys and human resource specialists, and there is a wide-range of employee levels from non-supervisory through senior executive service employees performing the inquiries;
- one bureau uses a contractor to conduct some of its inquiries for *H* referrals; however, all other bureaus use federal employees;
- the number of internal reviews and approvals of a completed *H* referral inquiry differ from two levels of review and approval to five levels;
- one bureau's process requires review and approval of all completed inquiries from both its general counsel and its bureau head, whereas only two other bureaus may involve general counsel (depending on the nature of allegations or at their discretion) and other bureaus require review and approval from various levels of management;
- bureau-specific policies substantially differ in areas of identifying and assigning qualified, independent inquiry officials, providing tools to help facilitate inquiries (such as checklists and templates), and tracking and monitoring the status of *H* referrals and requests for extensions; and
- bureaus did not consistently address allegations, interview complaint subjects and witnesses, and document inquiry results.

Differing processes may lead to completed inquiries with varying degrees of quality and hinder the Department's ability to effectively address *H* referrals.

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<sup>1</sup> U.S. Government Accountability Office, September 2014. *Standards for Internal Control in the Federal Government*, GAO-14-704G. Washington, DC: GAO. Principle 2 of GAO-14-704G states that “[t]he oversight body should oversee the entity’s internal control system.”

*B. Departmental bureaus did not generally respond promptly to H referrals and there was not monitoring of timeliness at the Department level*

Addressing *H* referrals in a timely manner leads to more effective inquiries and faster resolution of presented allegations. The Department is required to comply with Department Administrative Order (DAO)<sup>2</sup> 207-10 which states that bureaus shall (1) report its findings and inquiry results to OIG within 60 days of the referral or (2) if the inquiry is not concluded, report its progress to and request an extension from OIG within 60 days of the referral and every 60 days thereafter until the inquiry is completed.<sup>3</sup> We reviewed the number of outstanding *H* referral cases with the Department and found that 99 of the 139 referrals<sup>4</sup> were older than 6 months including 35 referrals that are older than 1 year but less than 2 years and 5 referrals that are older than 2 years. This age distribution is further illustrated in figure 1.

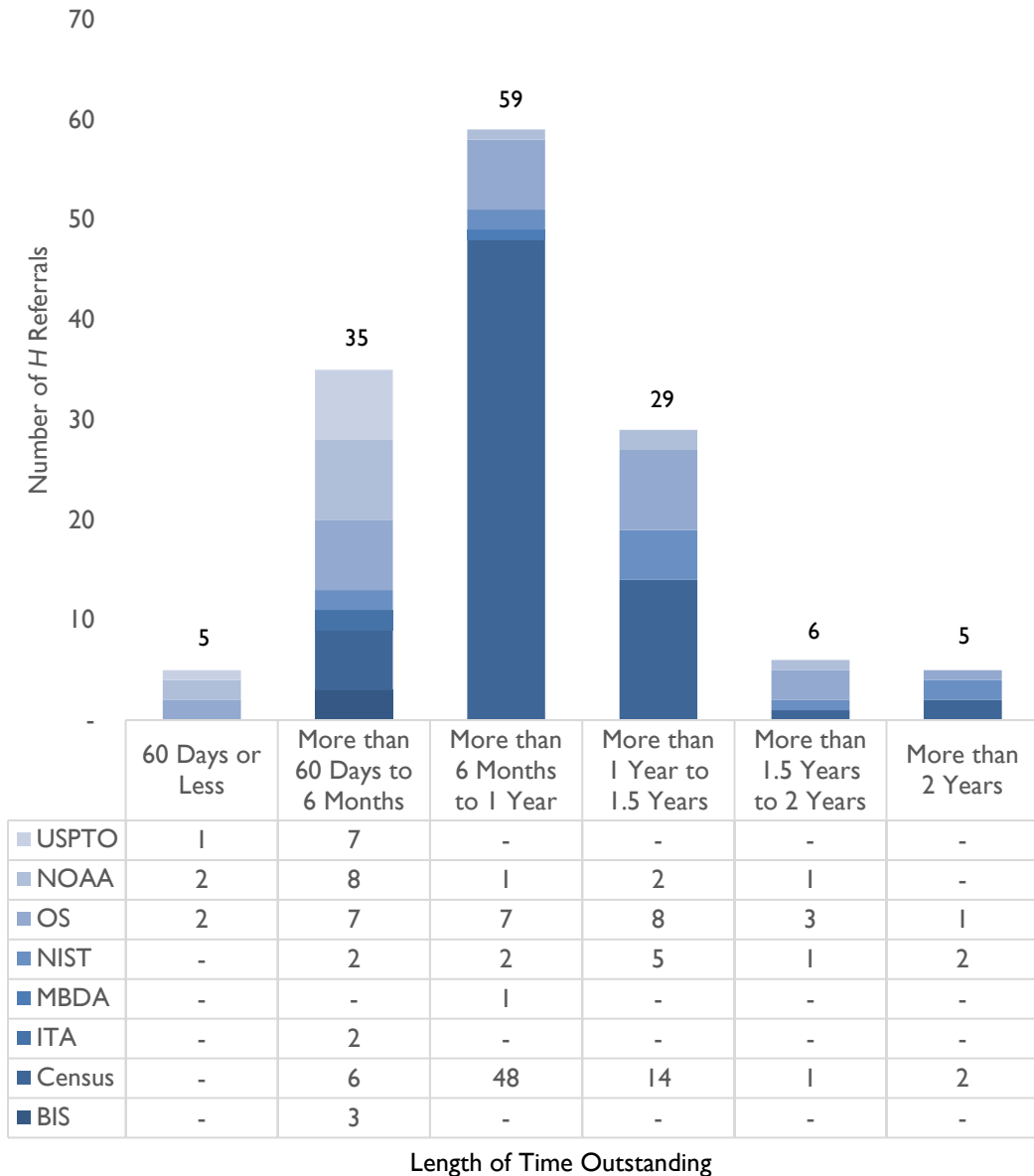
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<sup>2</sup> DAOs are used to document and mandate continuing policies, standards, requirements, and procedures prescribed by OS for Department-wide application or for application to two or more major program areas of the Department.

<sup>3</sup> U.S. Department of Commerce, March 9, 2020. *Inspector General Investigations and Related Activity*, DAO 207-10. Washington, DC: DOC, Section 5.01.c. The prior version of DAO 207-10, dated December 12, 2013, included the same requirement in Section 5.01.d.

<sup>4</sup> As of July 31, 2021.

**Figure I. Department H Referrals Outstanding as of July 31, 2021**

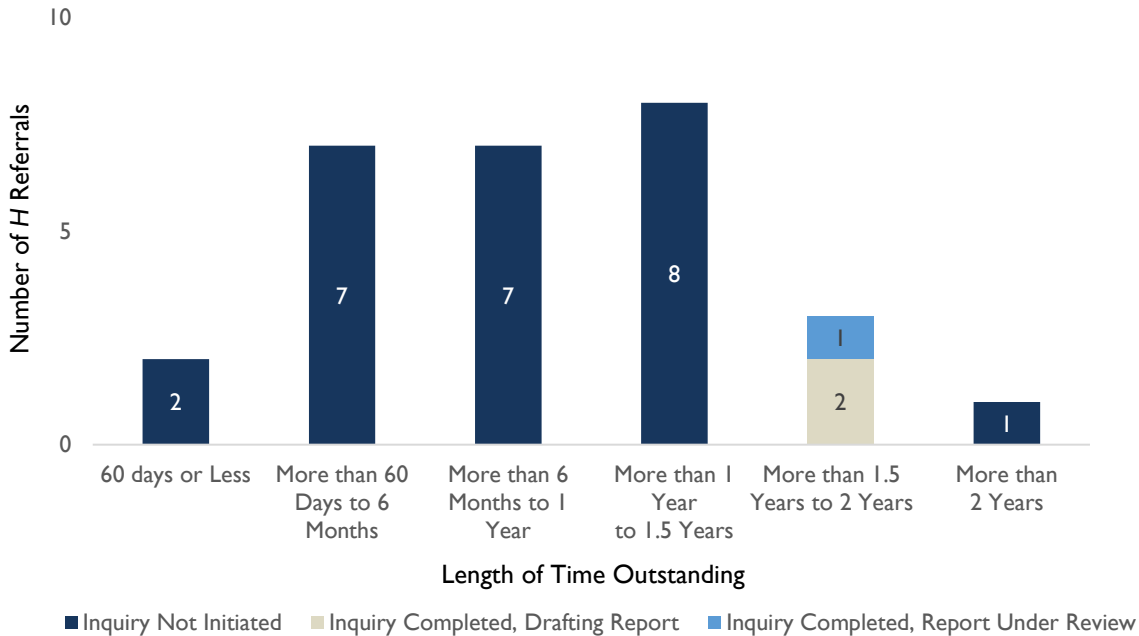


Source: OIG review of outstanding H referrals to the Department

We further evaluated the outstanding OS referrals. Like the Department’s other bureaus, OS is required to comply with DAO 207-10. However, as of July 31, 2021, we observed that 26 of 28 referrals to OS were outstanding for more than 60 days and OS had neither reported its progress nor requested an extension for those referrals. Additionally, OS did not open inquiries for 25 of the 28 referrals—including for all 24 referrals over the last 1.5 years and 1 referral older than 2 years. As a result, OS did not comply with DAO 207-10 and further impaired its ability to consider and take appropriate action on allegations of wrong doing and illegality. Figure 2 of this report

details the age distribution and inquiry status of OS-specific referrals that are outstanding as of July 31, 2021.

**Figure 2. OS-specific H Referrals Outstanding as of July 31, 2021**



Source: OIG review of outstanding H referrals to OS

The lack of action to initiate inquiries and overall untimeliness has demonstrated that the Department did not take addressing H referrals seriously. Furthermore, given that OS is the general management arm of the Department which supervises the bureaus, it should lead by example and address referrals in a timely manner. As time passes, thorough inquiries are less likely, as documentary evidence may become more difficult to collect and people associated with the complaint may forget details related to the matter or become unavailable resulting in limited testimonial evidence. Thus, delays in initiating and completing inquiries increases the risk that complaints will not be addressed effectively and can result in severe consequences including a negative impact on employee morale and organizational culture, workplace liability, and an increased likelihood that inappropriate behavior will continue.

Prior to our review, there were no Department-wide processes for monitoring the timeliness of referrals. OS personnel further explained a lack of documented procedures and Departmental resource constraints have contributed to the delays in initiating and completing OS-specific H referral inquiries. However, OS stated it recently implemented procedures for assigning referrals within OS and tracking all referrals—including those assigned Department-wide. OS also stated that it plans to hire additional personnel to address OS-specific referrals in fiscal year 2022.

## Recommendations

We recommend that the Chief Financial Officer and Assistant Secretary for Administration do the following:

1. Establish a Department-wide framework that includes written procedures and a quality assurance process to ensure prompt processing, independent and objective reviewing, thorough reporting, and tracking the status of *H* referrals from OIG.
2. Enforce the reporting requirement on providing to OIG the *H* referral response as required in DAO 207-10. If the suspense date cannot be met, report its progress to and request an extension from OIG before the suspense date.

## Summary of Agency Response and OIG Comments

On November 18, 2021, we received the Department's response to our draft report. In response to our draft report, the Department concurred with our recommendations and described actions it has taken to address them. The Department's response is included within this final report as appendix B.

Pursuant to DAO 213-5, please submit to us an action plan that addresses the recommendations in this report within 60 calendar days. This final report will be posted on OIG's website pursuant to sections 4 and 8M of the Inspector General Act of 1978, as amended (5 U.S.C. App., §§ 4 & 8M).

We appreciate the cooperation and courtesies extended to us by your staff during our evaluation. If you have any questions or concerns about this report, please contact me at (202) 482-2877 or Patricia McBarnette, Audit Director, at (202) 482-3391.

cc: Lisle Hannah, Acting Deputy Assistant Secretary for Administration  
MaryAnn Mausser, Audit Liaison, Office of the Secretary  
Rehana Mwalimu, Risk Management Officer and Primary Alternate Department  
GAO/OIG Liaison, Office of the Secretary

## Appendix A. Objective, Scope, and Methodology

The objective of our evaluation was to review the Department's processes for responding to hotline complaint referrals where OIG requests that the Department conduct an inquiry and provide a response detailing its results (also known as *H* referrals).

To accomplish our objective, we performed the following:

- Reviewed relevant policies and standards, including
  - DAO 207-10, *Inspector General Investigations*, dated December 12, 2013
  - DAO 207-10, *Inspector General Investigations and Related Activity*, dated March 9, 2020
  - GAO's *Standards for Internal Control in the Federal Government*, dated September 2014
  - Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Investigations*, dated November 15, 2011
- Interviewed Department officials from OS and several bureaus responsible for managing their respective processes for responding to *H* referrals and inquired about the status of referrals selected on a judgmental basis.
- Reviewed several bureau policies and procedures for responding to *H* referrals including, but not limited to, assigning inquiry officials, reviewing and approving completed inquiries, and maintaining inquiry records and analyzed differences in bureau processes.
- Reviewed internal OIG records including, but not limited to, the number of outstanding *H* referrals Department-wide, complaint summaries, and complaint activity logs.

We obtained an understanding of internal controls significant within the context of our objective by interviewing Department officials, reviewing relevant policies and procedures, and analyzing outstanding *H* referrals. We reported the internal control weaknesses in the "Findings and Recommendations" section of this report.

In satisfying our evaluation objective, we did not obtain computer-generated data from the Department; therefore, we did not test the reliability of the Department's information systems. Instead, we relied on internal OIG records to identify the number of outstanding *H* referrals Department-wide and the length of time these referrals have been outstanding.

We conducted our evaluation from July 2021 through September 2021 under the authority of the Inspector General Act of 1978, as amended (5 U.S.C. App.), and Department Organization Order 10-13. We performed our fieldwork in Seattle and Washington, DC.

We conducted this evaluation in accordance with *Quality Standards for Inspection and Evaluation* (January 2012) issued by the Council of the Inspectors General on Integrity and Efficiency. Those standards require that the evidence supporting the evaluation's findings, conclusions, and recommendations should be sufficient, competent, and relevant and should lead a reasonable person to sustain the findings, conclusions, and recommendations. We believe that the evidence



obtained provides a reasonable basis for our findings, conclusions, and recommendations based on our evaluation objective.

## Appendix B. Agency Response



UNITED STATES DEPARTMENT OF COMMERCE  
Chief Financial Officer  
Assistant Secretary for Administration  
Washington, D.C. 20230

November 18, 2021

MEMORANDUM FOR: Richard Bachman  
Assistant Inspector General for Audit and Evaluation

FROM: *for* Wynn W. Coggins  
Acting Chief Financial Officer and Assistant Secretary  
for Administration

**John K. Guenther** Digitally signed by John K. Guenther  
Date: 2021.11.18 15:04:28 -05'00'

SUBJECT: Comments on draft report: *The Department Must Improve Processes for Addressing and Managing H Referrals*

This memorandum responds to your October 19, 2021 draft report, *The Department Must Improve Processes for Addressing and Managing H Referrals*. Thank you for the opportunity to review the audit report in draft and to provide these comments.

The Department takes seriously its responsibility to provide timely and complete responses to Office of Inspector General (OIG) “H” referrals, both to ensure our compliance with the Inspector General Act and relevant Department Organization Orders and to use the information gleaned through the investigation of such referrals to improve processes and efficiency and to take corrective action when necessary. We are also aware—as your audit revealed—that the Department has not addressed H referrals consistently or in a timely matter. In fact, even before the July 1, 2021 initiation of this audit, we had begun to take steps to address these same concerns. In their budget request for fiscal year 2022 (FY22), the Office the General Counsel requested and received funds to re-establish career oversight positions with a particular focus on improving both the timeliness and quality of responses to OIG referral. Likewise, in May I convened a group of leaders within the Office of the Secretary to put in place standard operating procedures (SOPs) for the receipt, tracking, and response to referrals from your office.

During the course of the audit, we shared our draft SOPs with the auditors, who provided comments, particularly around ways that we could better track not only referrals to the Office of the Secretary but also to the bureaus, enabling us to monitor timeliness and status in a way we have not done in the past. As result, we finalized those SOPs and in September rolled them out to OIG liaisons across the Department. I have attached a copy of those SOPs to this response.

With respect to the two specific recommendations included in the draft report:

1. Establish a Department-wide framework that includes written procedures and a quality assurance process to ensure prompt processing, independent and objective reviewing, thorough reporting, and tracking the status of *H* referrals from OIG.

2. Enforce the reporting requirement on providing to OIG the *H* referral response as required in DAO 207-10. If the suspense date cannot be met, report its progress to and request an extension from OIG before the suspense date.

We agree with these recommendations and believe that our newly-enacted SOPs position us to be able to satisfy each. We are also exploring training to improve the quality and consistency of investigations conducted pursuant to H referrals, and we anticipate being able to offer such training no later than the third-quarter of FY22.

The audit findings are, of course, disappointing to the Department, but as I believe you can see from my response, they are not surprising. Indeed, they confirm a deficiency of performance that we had already identified ourselves, and your recommendations strengthen my belief that we are on the right track to remedy the problem. Thank you again for the opportunity to comment. Please do not hesitate to reach out to me should you have any additional questions or concerns.

cc: J. Guenther  
I. Hannah  
S. Kunze

Attachment

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