

Statement of the Honorable R. James Nicholson
Secretary of Veterans Affairs
Before the
Senate Committee on Veterans' Affairs
And
Committee on Homeland Security and Governmental Affairs

May 25, 2006

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Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear before you today to explain a devastating situation.

A VA employee, a data analyst, took home electronic data files from VA. He was not authorized to do so.

These data contained identifying information including names and dates of birth for up to 26.5 million veterans and some of their spouses. In addition, that information, plus social security numbers, was available for some 19.6 million of those veterans. Also possibly included were some numerical disability ratings and the diagnostic codes which identify the disabilities being compensated.

It is important to note that the data did not include any of VA's electronic health records. Neither did it contain explicit financial information, although knowing of a disability rating could enable one to compute what that implied in terms of compensation payments.

On May 3, the employee's home was broken into in what appears to local law enforcement to have been a routine breaking and entering, and the VA data were stolen. The employee has been placed on administrative leave pending the outcome of an investigation with which I understand he is cooperating.

I am outraged at the loss of this veterans' data and the fact an employee would put it at risk by taking it home in violation of VA policies. However, the employee promptly reported the theft to the local police and to the Department of Veterans Affairs. But it was not until May 16th that I was notified. I am gravely concerned about the timing of the Department's response once the burglary became known. I will not tolerate inaction and poor judgment when it comes to protecting our veterans.

Appropriate law enforcement agencies, including local police, the FBI and the VA Inspector General's office, have launched full-scale investigations into this matter. Authorities believe it is unlikely the perpetrators targeted the items stolen because of any knowledge of the data contents. It is possible that the thieves remain unaware of the information they possess or of how to make use of it. Because of that, we have attempted to describe the equipment stolen, the location from which it was stolen and other information in very general terms. We do not want to provide information to the thieves that might be informative as to the nature of what they have stolen. We still hope that this was a common theft, and that no use will be made of the VA data.

From the moment I was informed, VA began taking all possible steps to protect and inform our veterans.

In our post-disclosure assessment, we have seen the gaps between what we said and the way we are seen.

VA has begun a top to bottom examination of our business, policies, and procedures to find out how we can prevent something like this from happening again. We will stay focused on the problems until they are fixed. In addition, we will take direct and immediate action to address and alleviate veterans' concerns and to regain their confidence.

I have taken the following actions so far:

- I have directed all VA employees to complete the annual "VA Cyber Security Awareness Training Course" and complete the separate "General Employee Privacy Awareness Course" by June 30, 2006.
- This includes:
 - The Privacy Act;
 - Unauthorized disclosing or using, directly or indirectly, information obtained as a result of employment in VA, which is of a confidential nature or which represents a matter of trust, or other information so obtained of such a character that its disclosure or use would be contrary to the best interests of the VA or veterans being served by it; and,
 - Loss of, damage to, or unauthorized use of Government property, through carelessness or negligence, or through maliciousness or intent.

- I have also directed that all VA employees sign annually an Employee Statement of Commitment and Understanding which will also acknowledge consequences for non compliance.

In addition the Department will immediately begin to conduct an inventory and review of all current positions requiring access to sensitive VA data. The inventory will determine whether positions in fact require such access. We will then require all employees who need access to sensitive VA data to do their jobs to undergo an updated National Agency Check and Inquiries (NACI) and/or a Minimum Background Investigation (MBI) depending on the level of access required and the responsibilities associated with their position.

And I have directed the Office of Information & Technology to publish, as a VA Directive, the revisions to the Security Guidelines for Single-User Remote Access developed by the Office of Cyber and Information Security. I have asked that this be done by June 30, 2006. This document will set the standards for access, use, and information security, including physical security, incident reporting and responsibilities.

VA is working with members of Congress, the news media, veterans' service organizations, and numerous government agencies to help ensure that those veterans and their families are aware of the situation and of the steps they may take to protect themselves from misuse of personal information.

VA is coordinating with other agencies to send individual notifications to those individuals whose social security numbers were stolen, instructing them to be vigilant in order to detect any signs of possible identity theft and telling them how to protect themselves. In the meantime, veterans can also go to www.firstgov.gov for more information in this matter. This is a federal government website capable of handling large amounts of web traffic.

Additionally, working with other government agencies, VA has set up a manned call center that veterans may use to get information about this situation and learn more about consumer-identity protections. That toll free number is 1-800-FED INFO (333-4636). The call center is operating from 8:00 am to 9:00 pm (EDT), Monday-Saturday as long as it is needed. The call center is able to handle up to 20,000 calls per hour (260,000 calls per day). Through the end of the day on Tuesday, concerned veterans had made a total of 105,753 calls to this number.

I want to acknowledge the significant efforts of numerous government agencies in assisting VA to prepare for our announcement on May 22nd.

Agencies at all levels of the federal government pitched in to ensure that our veterans had information on actions they could take to protect their credit. Hundreds of people worked around the clock writing materials to inform the veterans and setting up call centers and a website to ensure maximum dissemination of the information. I want to personally thank each of those agencies and those individuals for their selfless efforts on behalf of our veterans.

The three nationwide credit bureaus have established special procedures to handle inquiries and requests for fraud alerts from veterans.

Experian and TransUnion have placed a front-end message on their existing toll-free fraud lines, bypassing the usual phone tree, with instructions for placing a fraud alert. Equifax has set up a new toll-free number for veterans to place fraud alerts. The new Equifax number is 1-877-576-5734. The new procedures became operational on Tuesday. The bureaus report a spike in phone calls (171% of normal) and in requests for free credit reports through the annual free credit report web site (annualcreditreport.com). The Federal Trade Commission also experienced high call volumes about the incident earlier this week.

On Monday, the Office of Comptroller of the Currency notified its examiners of the theft. On Tuesday, OCC posted an advisory on an internal network available to its banks and instructed the examiners to direct their banks to the advisory. It explains what happened and asks the banks to exercise extra diligence in processing veterans' payments. The advisory also reminds the banks of their legal obligations to verify the identities of persons seeking to open new accounts and to safeguard customer information against unauthorized access or use. It also includes a summary of relevant laws and regulations.

I briefed the Attorney General and the Chairman of the Federal Trade Commission, co-chairs of the President's Identity Theft Task Force, shortly after I became aware of this occurrence.

Task Force members have already taken actions to protect the affected veterans, including working with the credit bureaus to help ensure that veterans receive the free credit report they are entitled to under the law. Additionally, the Task Force met on Monday to coordinate the comprehensive Federal response, recommend further ways to protect affected veterans, and increase safeguards to prevent the recurrence of such incidents.

On Monday, following the announcement of this incident, I also issued a memorandum to all VA employees. The purpose was to remind them of the public trust we hold and to set forth the requirement that all employees

complete their annual General Privacy Training and VA Cyber Security Awareness training for the current year by June 30.

As technology has advanced, it has become possible to store vast quantities of data on devices no larger than one's thumb. All of us carry a cell phone, a BlackBerry or a Personal Digital Assistant, and each of these contains vast quantities of data. Someone intent on taking such data and using it inappropriately would have many opportunities to do that.

I can promise you that we will do everything in our power to make clear what is appropriate and inappropriate use of data by our employees. We will train employees in those policies, and we will enforce them. We have already begun discussions regarding the immediate automatic encryption of all sensitive information.

We will also work with the President's Task Force on Identity Theft, of which I am a member, to help structure policies that will be put in place throughout the government to ensure that situations such as this do not occur at other agencies.

VA's mission to serve and honor our nation's veterans is one we take very seriously and the 235,000 VA employees are deeply saddened by any concern or anxiety this incident may cause to those veterans and their families. We honor the service our veterans have given their country and we are working diligently to protect them from any harm as a result of this incident.