INSPECTOR GENERAL ACT OVERSIGHT

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT HOUSE OF REPRESENTATIVES

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INSPECTOR GENERAL ACT OVERSIGHT

TUESDAY, AUGUST 1, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:04 p.m., in room 2247, Rayburn House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn, Davis, Tate, Bass, and Maloney.

Staff present: J. Russell George, staff director; Mark Uncapher and Anna Gowans Young, professional staff members; Andrew G. Richardson, clerk; and Dave McMillen, minority professional staff.

Mr. HORN. The Subcommittee on Government Management, Information, and Technology will come to order. Today, we hold the first oversight hearing in 7 years on the Inspector General Act of 1978. The executive branch has 61 Inspectors General, or IGs, of whom about half are nominated by the President and the rest by the heads of the smaller agencies.

They do earn their money. Last year, their findings led to over 14,000 successful criminal and civil prosecutions, $1.9 billion in investigative recoveries, and $24 billion in recommendations that their agencies' funds be used more efficiently and effectively.

Presidentially appointed IGs sit on the President's Council on Integrity and Efficiency, or the PCIE as it is known, while smaller agencies' Inspectors General are members of the Executive Council on Integrity and Efficiency, or ECIE. We will hear from both of these groups today.

IGs are unquestionably a valuable tool in making the rest of the Federal Government accountable, but the Inspectors General themselves must also be accountable. Critics argue that too many IGs have a "gotcha" mentality that stifles innovation instead of encouraging improvement.

The IG community, for its part, has pledged greater future cooperation with management. Today, we will look at strengthening the Inspector Generals' effectiveness.

Our witnesses include current Inspectors General from the President's and Executive Councils on Integrity and Efficiency and the Departments of Commerce, Justice, and the Treasury. We will also hear from two former IGs from the Institute of Public Administration's president emeritus, Dr. Dwight Ink, and from Dr. Paul Light, author of "Monitoring Government: Inspectors General and the Search for Accountability."

We thank you all for joining us, and we look forward to your testimony. If panel one would come forward. The tradition of this committee is to swear in the witnesses. As you know, we will put your full statement in the record. We have a pretty full day here today, with 9 witnesses.

If you could summarize it in 5 minutes, please try. If not, we'll creep a little beyond that. And then we'll use the rest of the time for questions. A quorum being present, I will now swear you in. If you would rise and raise your right hand.

[Witnesses sworn.]

Mr. HORN. Both witnesses affirmed. We are delighted to have with us as the first witness the Honorable June Gibbs Brown, who is Vice-Chair of the President's Council on Integrity and Efficiency, and Inspector General of the Department of Health and Human Services.

Ms. Brown.

STATEMENTS OF JUNE GIBBS BROWN, VICE-CHAIR, PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY AND INSPECTOR GENERAL OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES; AND HUBERT SPARKS, VICE-CHAIR, EXECUTIVE COUNCIL ON INTEGRITY AND EFFICIENCY AND INSPECTOR GENERAL, APPALACHIAN REGIONAL COMMISSION

Ms. BROWN. Thank you, Mr. Chairman. In my prepared statement, I've provided you with basic Inspector General background information about our activities as individual IGs and as members of the President's Council on Integrity and Efficiency. And I would like to include that in the record.

Mr. HORN. Without objection, that will be included.

Ms. BROWN. The IG Act was passed by Congress in 1978 in response to concern over the integrity and efficiency of government programs. The primary mission of IGs is to prevent and detect fraud, waste, and abuse in agency programs and operations and to promote economy, effectiveness, and efficiency within the agency.

Based upon my previous experience as an IG at four agencies and now as the Inspector General for both the Department of Health and Human Services and interim IG at Social Security Administration and as the Vice-Chair of the PCIE, my oral statement will focus on two areas—what you should expect from all IGs, and the hot issues facing the IG community.

As reflected on my chart, all IGs must exercise objectivity, independence, and professionalism in the performance of their audits, inspections, and investigations. As pointed out in my prepared statement, in fiscal year 1994, $15.4 billion taxpayer dollars were not spent by agencies as a result of audits and inspections conducted by the 29 PCIE IGs.

In addition, investigations, both criminal and civil, led to over $1.8 billion in investigative recoveries and 4,433 successful prosecutions. We also excluded or debarred 4,148 persons or entities from participating in Federal programs for fraud or beneficiary abuse.

Today, the Congress, the administration, and the American people are examining the nature and structure of government. This is a time of great change, but then it always is. We must take stock

of where we have been and where we need to go. And I believe the IGs are in a unique position to help program managers and the Congress find ways to achieve a more effective and efficient government.

We all know that with diminished resources, fundamental improvements are needed. On my second chart, we present a view of the key issues of the IGs. Program managers and IGs share a common goal of promoting better program performance. And as such, we're collaborating more closely with decisionmakers to ensure that our work products provide good, timely, and factual information to enable them to make appropriate and informed policy decisions. And we are working with management to identify those areas most in need of our help.

I must caution to add, though, that sometimes, relations can be strained, as we are often the bearers of bad news. Reductions in agency resources and changes in service delivery have led to the implementation of larger and more complex information systems. The IGs are working to ensure the integrity of these systems. Good systems lead to good information, which is needed for sound decisionmaking.

Sophisticated systems and enormous growth in the Federal expenditures have led to more sophisticated crime, crime that is harder to detect. We must find new ways to uncover the wrongdoing, as well as devise systems improvements to protect against future losses. While there are other government law enforcement agencies, the IGs specialize in fighting fraud against agency programs. For example, my office is the primary Medicare and Medicaid health care investigations unit in government.

Another issue facing the IGs is the implementation of the Chief Financial Officers Act. Inspector General Lau will discuss this issue during the next panel. Let me say, however, that the IGs recognize how important it is to have an audited financial statement of the Federal Government. Our challenge is to help our agencies in developing the kind of fair and accurate accounting of taxpayers' dollars that the American people deserve.

Finally, the IGs acknowledge the need to protect the integrity of and the public's confidence in their own offices. Integrity is the foundation that our work rests upon. Accordingly, the PCIE established an Integrity Committee to investigate criminal and noncriminal allegations against IGs. Mr. Esposito will discuss this issue in further detail this afternoon.

I hope that during the course of this hearing, we will have the opportunity to further discuss these issues, and I'm available for any questions.

[The prepared statement of Ms. Brown follows:]

STATEMENT OF
JUNE GIBBS BROWN, INSPECTOR GENERAL
DEPARTMENT OF HEALTH & HUMAN SERVICES

Introduction

Good afternoon, I am June Gibbs Brown, Inspector General, Department of Health and Human Services (HHS) and interim Inspector General of the Social Security Administration. I am also Vice Chair of the President's Council on Integrity and Efficiency.

The President's Council on Integrity and Efficiency (PCIE) is an interagency committee charged with promoting integrity and effectiveness in Federal programs. The PCIE is chaired by the Deputy Director for Management of the Office of Management and Budget (OMB) and comprised principally of the 29 Presidentially appointed/Senate confirmed (PAS) Inspectors General (IGs). As a group, the PCIE is focused on two primary objectives: mounting collaborative efforts to address integrity, economy and effectiveness issues that transcend individual Federal agencies; and increasing the professionalism and effectiveness of IG personnel throughout the Government.

The PCIE was established by Executive Order in 1981. The Executive Order was revised and reissued in 1992 to reflect changes that had been made in the Inspector General Act of 1978 (IG Act), as amended. At that time the PCIE membership was expanded to include additional PAS IGs and the President established the Executive Council on Integrity and Efficiency (ECIE). It consists principally of the competitively appointed IGs at designated Federal entities. The PCIE and ECIE share the same overall mission and objectives.

At the Subcommittee's request, I will base my testimony on the IG Vision Statement, as developed by the PCIE and ECIE. In doing so, I will focus on the role and relationship of the Offices of Inspector General (OIGs) with the rest of their organizations, the methods and manner by which the IGs formulate their audit and investigative initiatives, the activities and initiatives of the PCIE, and the way in which the IGs report to their customers -- Agency Heads and the Congress.

Inspector General (IG) Act and IG Mission

The Inspector General Act of 1978, as amended, established independent audit and investigative units called Offices of Inspector General at 61 Federal agencies. These offices were created due to Congressional concern with the integrity and effectiveness of agency programs. The primary mission of IGs is to prevent and detect fraud, waste and abuse in agency programs and operations and to promote economy, effectiveness and efficiency within the agency. Our trademark is independence and objectivity in analyzing agency programs, activities and initiatives.

Statement of June Gibbs Brown
Inspector General, Department of Health and Human Services

IG Vision Statement

The last several years have exhibited an increased focus on customer service within the entire Federal government. In response, agencies are developing comprehensive mission and vision statements, strategic plans and performance indicators. In addition, agencies are surveying their customers to ensure that their needs are being met. In keeping with the government wide initiatives, the PCIE and ECIE unanimously adopted an IG Vision Statement in January 1994. The Vision Statement --

> "We are agents of positive change striving for continuous improvement in our agencies' management and program operations, and in our own offices."

and guiding principles, which I request be submitted for the record, are articulations of the way in which IG offices have consistently operated. As an IG since 1979 at 5 agencies, I have always managed my office with the following primary goal -- provide agency decision makers with the solid factual information which will enable them to make timely and informed policy decisions and which protect their beneficiaries. Let me assure you that my philosophy and that underlying the Vision and guiding principles in no way abandon or dilute the statutory responsibilities of the Inspectors General. Rather, they illustrate how we can best carry out our duties in collaboration with our agency managers and concurrently accomplish our legislatively mandated mission.

Under the original and revised Executive Orders creating the PCIE and ECIE, the Chair of the Councils has an obligation to report to the President on the activities of the PCIE and ECIE. Since 1981, the Chair has met that obligation through issuance of PCIE progress reports. Beginning in fiscal year (FY) 1993, this report was issued jointly by the PCIE and ECIE. The FY 1994 report, which will be published in the next several weeks, focuses on innovative , effective and complex actions in support of the principles in our Vision Statement. The following examples illustrate the efforts taken to develop positive agency relationships leading to positive program improvements:

- The Commerce Department OIG collaborated with the Secretary of Commerce Executive Management Team to develop a set of principles to guide OIG-agency interactions. Those "Principles for Progress," signed by the Secretary, the Inspector General and 17 other top Department officials, describe how they will work together for positive change and continuous improvement through a spirit of cooperation and openness.

- The OIG at Housing and Urban Development (HUD) has been an active participant in the proposed restructuring of their Department. The HUD OIG

provided the Secretary 34 major change options, which were major components of the Secretary's blueprint for change.

• The Environmental Protection Agency (EPA) OIG worked on cooperative projects with Agency managers to improve the integrity of scientific and financial information and Superfund accounting. The OIG also conducted a broad, top level review of the EPA Information Resources Management (IRM) program. Working cooperatively with Agency personnel, the OIG catalogued all significant causes of EPA IRM problems. The OIG also reviewed the EPA financial management program to identify problems and recommend solutions. Further, the OIG worked extensively with the Agency to reengineer its Federal Managers' Financial Integrity Act process.

• The OIG at the Agency for International Development (USAID) is a member of the Quality Council. The Quality Council is a part of the USAID reinvention effort. The USAID has been identified as a reinvention laboratory under the National Performance Review (NPR). The OIG also has a representative on the reengineering referencing group, another activity of the NPR reinvention effort. The group is reviewing the Agency's operating systems that are believed to be overly cumbersome and extremely inefficient.

• The OIG at the Small Business Administration (SBA) has become an active participant in numerous Agency Task forces formed by SBA to support the Agency's Performance Agreement between the Administrator and President Clinton. During fiscal year 1994, the OIG participated in over 30 task forces throughout the Agency. The task forces addressed the general areas of business loans, minority enterprise development, disaster loans, Government contracting, economic development and SBA administration.

Role and Relationship of IGs

In fulfilling our mandated mission, we, as IGs have two distinct roles. The first is to promote efficient and effective program management and deter future problems and the second is to find and report on current problems. Thus our job is not only to recommend positive changes but also to, from time to time, be the "bearer of bad news." Additionally, we are among the very few officials whose direct "customers" include both agency heads and the Congress. Our customer service obligations also extend to those program administration officials who act on IG recommendations, as well as agency employees and the taxpayers who benefit from the IGs' review of Government programs and operations.

Legislation precludes us from performing "program operating functions." We analyze programs and advise our customers, both management and the Congress, of ways in which programs can be improved. Although we perform an oversight role, we are not adversaries of program managers. IGs and program managers share a common goal of improving Government programs.

I must also make the point that a focus on program improvement and customer service does not preclude the need to conduct compliance auditing. For instance, compliance auditing is a means by which we ensure the safety of our national blood supply and the integrity and accuracy of procedures such as mammograms -- both of which are imperative to the health of our nation. Also a GS-14 at the Bureau of Engraving and Printing stole $2.9 million in test currency. Auditing the Bureau's compliance with security regulations can prevent this type of incident from reoccurring. The job of the IGs is to accomplish their mission through a series of program audits, compliance audits, inspections/evaluations, and investigations. Each of these contributes significantly to overall IG effectiveness.

Audit Initiatives

The formulation of high level strategic plans and comprehensive work plans is a key to our success. These plans enable us to adequately focus our scarce resources to high vulnerability and systemic problem areas. In addition, they help us ensure that our plans are consistent with agency and congressional program goals and priorities. These plans cannot, however, be developed in a vacuum. In fact, one of our guiding principles states the fact --

> "*we will consult with our customers so that we may provide the types of OIG analyses and services that best enable them to promote economy, effectiveness and efficiency in government programs*"

IGs have traditionally solicited input from senior agency managers during the work planning process. In addition, IGs, in consultation with their program organizations, are developing strategic plans which reflect agency goals and priorities. Finally, many IG offices have surveyed their agency customers to obtain feedback on how IGs' can improve their review processes and become more effective in assisting program managers. In no way do we allow these collaborative efforts to impinge upon the statutory independence of the IGs. Rather, we find these efforts enable us to be more effective in carrying out our overall mission.

The following examples, extracted from the FY 1994 Joint PCIE/ECIE Progress Report, illustrate the collaborative means by which work planning and strategic planning are conducted.

• The Department of Interior OIG has continued to involve senior level departmental and bureau officials in its audit planning process by requesting written input for the plan and following up on the input through meetings with officials. Also, the OIG drafted a customer survey questionnaire for distribution to auditees, which will assist the OIG in ensuring that its audits are of benefit to departmental and bureau officials and in learning where improvements may be needed in its audit operations.

• The OIG at the Department of Agriculture historically interacts with agency managers to solicit their input for the annual planning process. This collaboration helps ensure that OIG audit, investigative and evaluative efforts address those issues of greatest concern to management and cover those areas where managers indicate that control weaknesses exist. This past fiscal year, the OIG expanded the involvement of agency program management by inviting them to a mid-year planning session to discuss the work completed and work in the planning stages.

• At the HHS OIG, we redesigned our work planning process to more thoroughly involve the Department's operating division in its development. The staff meets periodically with operating division staff (particularly in the early stages of the year's work planning cycle) to discuss the programs and to develop a strategic focus for the work plan. Once the work plan is drafted, it is distributed to operating division senior managers for comment and is changed to incorporate new or refocused areas. Involving the operating divisions up front, enables our work to be more relevant, timely and useful.

• The Department of Commerce OIG was among the first in the PCIE community to commission a survey to solicit opinions on where improvements could be made in its audit and inspection products and services and in its relationships with its "customers." A client survey reached 261 Commerce managers, Office of Management and Budget personnel, and congressional staffers. Although about two-thirds of the respondents gave the OIG average or better ratings, there were recommendations for improving operations. The OIG developed an action plan to implement recommendations.

• The Federal Emergency Management Agency (FEMA) OIG launched a customer service initiative during fiscal year 1994 by conducting focus group interviews with an important customer group -- FEMA program managers. The focus groups provided reflective, balanced and candid views and constructive

suggestions. The agency plans to survey its other customers and will publicize the results and actions taken to implement recommendations.

• The Office of Investigations at the Railroad Retirement Board (RRB) OIG released a customer service survey to all RRB field service personnel. The survey asked the field service staff to provide input on the level of service provided and ways to improve the service. Over 65 survey responses were received to date. A task force of auditors, investigators and support staff has begun analyzing the results.

• The PCIE commissioned a task force to develop "Customer Service Survey Working Principles." This document provides guidelines for the development, implementation and analyses of IG customer surveys. The document was well received by the PCIE community and is considered a valuable resource in assessing customer needs.

As stated previously, audit priorities are driven by agency-specific goals and program priorities as well as those areas identified as having a high-vulnerability for fraud, waste and abuse. The individual IGs work closely with agency management and are cognizant, based upon previous audit and investigative activities, on which areas should garner the most attention during any given period. The following examples highlight individual OIG audit and investigative priorities during fiscal year 1994:

• Using commercially developed computer security software, the Defense OIG audited the controls for several Defense computer systems. Material internal control weaknesses in security were identified at five computer centers supporting the Defense Finance and Accounting Service. As a result of the audit findings, the DoD undertook a number of initiatives to improve computer security, such as the establishment of a task force to detect and prevent financial fraud via computer, know as "Operation Mongoose." The team will target areas for computer matches to identify trends and anomalies that indicate potential integrity breaches of DoD financial systems by employees, retirees, contractors and other unauthorized individuals. Successful matches will be repeated routinely in the future as internal management controls.

• The student financial assistance programs continue to be the number one high-risk area for the Department of Education. With the advent of the new Federal Direct Student Loan (Direct Loan) program, loan capital is provided directly to students and parent borrowers by the Federal Government rather than through

private lenders. Loan volume under the program will grow exponentially. To assist the Department in the development of the Direct Loan program, the OIG chartered an interdisciplinary advisory team of accountants, technology specialists, auditors and program analysts, who will provide planning, implementation and follow-through assistance to help ensure that appropriate controls are designed into the system. The OIG also provided assistance through advisory team participation in negotiated rulemaking sessions for the development of implementing regulations.

• The Department of Housing and Urban Development (HUD) OIG devoted priority resources to the development of a new anti-crime initiative, "Operation Safe Home," the goal of which is to stop major abuses in HUD programs that result in unacceptable living conditions for the millions of needy people who look to the HUD for help. Facilitated by the OIG, "Operation Safe Home" brings the coordinated resources and expertise of the HUD, the Departments of Justice and Treasury, and the National Drug Control Policy Office, as well as state and local law enforcement agencies and public housing agencies, to bear on violent and white collar crime in public and assisted housing.

• The OIG Office of Investigations, at the Department of Veteran's Affairs (VA), detects and investigates means by which employees defraud the program and operations of the VA. In each instance, management was advised of the weakness or complete breakdown in the system that allowed the illegal activities to take place. The OIG then worked with management to enact changes to preclude recurrence. For example, after arrests and convictions for large-scale drug diversion at one medical center, a Management Implications Report was prepared. The Director of the VA Pharmacy Service then convened a 3-day meeting of various chiefs of pharmacy from different medical centers to discuss ways to preclude that type of diversion at other VA medical centers.

• In an effort to curb runaway Medicaid costs we, in the HHS OIG, have formed partnerships with state auditors and evaluators, as well as staff at the Health Care Financing Administration, to undertake joint projects for improvement of the program. The projects are intended to produce mutually beneficial results and savings at the Federal and state levels. The OIG is sharing the methods and results of earlier Medicare and Medicaid projects to provide state auditors with leads for cost savers. In turn, the OIG will use the results of the state audits to estimate the national impact of successful recommendations implemented at the state level. Partnerships between OIG and state auditors/controllers in North Carolina, Louisiana, New York and Massachusetts are already completed and

programs in 27 other states are ongoing. The OIG is using that same approach with other Federal/state programs.

Investigations

In addition to conducting audits and inspections, the IG Act requires IGs to provide policy direction for and to conduct, supervise and coordinate investigations relating to their agencies' programs and operations. Prior to the passage of the IG Act in 1978, audits and investigation activities were not coordinated within agencies -- if an investigation unit existed at all. During the life cycle of an investigation, OIGs work cooperatively not only within their own office but with other Federal, State and Local law enforcement officials as well. Because OIGs often work cases with the FBI, the Assistant Director of the Criminal Investigative Division of the FBI is a member of the PCIE.

The OIG investigations cover a full range of criminal and administrative issues as follows:

A. OIG investigations of contractors, program participants and Government employees can lead to criminal and/or civil prosecutions. These prosecutions result in convictions that carry penalties such as prison terms, fines, settlements and recoveries to the Government. During fiscal year 1994, PCIE OIGs working independently, or with other Federal and non-Federal investigative agencies, obtained 4,433 successful prosecutions, including pretrial diversions.

B. OIG investigations can result in the suspension, debarment or exclusion of individuals or entities doing business with the Federal Government. During FY 1994, a total of 4,148 debarments, exclusions and suspensions were imposed on individuals and entities doing business with the Federal Government.

C. Investigations conducted by OIGs often lead to recovery of money or property. Investigative recoveries come from a variety of sources including: recoveries made during investigations, legally ordered fines and penalties, restitutions and recoveries, out-of-court settlements or penalties imposed through administrative proceedings. Due to PCIE OIG investigations, in FY 1994, over $1.8 billion recovery dollars were returned to the United States Treasury, program, trust or operating funds, or other Federal and non-Federal entities victimized.

D. OIGs are also responsible for investigating Federal employees suspected of wrongdoing. In FY 1994, OIG investigations led to 2,970 personnel actions.

Such actions include terminations, formal reprimands, suspensions and demotions.

In addition to the above, the HHS IG has additional authorities which provide alternatives to criminal or civil prosecution following an investigation. If the DoJ declines a case for criminal or civil prosecution, the OIG may exercise the Department's administrative authorities for imposing sanctions as provided for in the Civil Monetary Penalty Law and the mandatory exclusion provisions in the Social Security Act. Utilizing these authorities, in FY 1994, we at HHS assisted in the collection of more than $440 million in penalties and assessments and imposed 1,265 administrative exclusions.

The following are examples of the types of investigations conducted by the OIGs:

- As a result of a Department of Agriculture investigation, 43 individuals were arrested in New York City for allegedly obtaining food stamp authorizations for "sham" retail stores through which they laundered millions of dollars in illegally obtained food stamps. It was estimated that over $40 million in food stamps were redeemed through the bogus stores.

- A Department of State OIG investigation determined that five Delaware residents had used a fictitious fund allegedly sponsored by the Department of State to defraud two Miami churches of more than $125,000. The defendants were named in a 20-count indictment from a Federal grand jury in Miami on charges of wire fraud, mail fraud, conspiracy, money laundering, and interstate transportation of stolen money acquired by fraud. Warrants Upon Indictment were issued, and three of the five defendants were arrested by OIG agents, who also executed search warrants, resulting in the seizure of additional evidence, two vehicles, and a large quantity of cash.

  The first of the three defendants pleaded guilty to all charges and was subsequently sentenced in Federal District Court at Miami to 9 years' imprisonment, 3 years' probation, $125,450 restitution, and a $1,000 assessment. After a 3-week trial, a jury found the other two defendants guilty on all charges. The second defendant, who played a more minor role in the scheme, was sentenced to 18 months' imprisonment, 2 years' supervised probation, and a $50 assessment. The third individual was sentenced to 78 months' imprisonment, fined $15,000, and ordered to pay $125,000 in restitution.

- A Department of Defense investigation found that Rexon Technology Corporation, a manufacturer of military fuses for artillery shells, mines and other

munitions, attempted to export illegally 300,000 sets of M739A1 artillery fuse components to the Al Fao State Organization under an export license that only authorized it to export to the Jordanian Armed Forces. Al Fao is an Iraqi military procurement ministry. As a result of the investigation, Rexon was placed on 6 months probation and ordered to pay $500,000 fine and a $125 special assessment. In addition, the company was to be dissolved within 180 days.

Reporting

Statute requires the IGs to report to the agency head through individual reports and communicate to the Congress through the agency head via the semi-annual report. Individual report development and issuance procedures are dictated by the auditing standards set by the Comptroller General of the United States. Draft audit reports are sent to the agency program director for review and comment. Comments received from the agency are subsequently published with the final report. The Semi-Annual report summarizes IG initiatives, recommendations for program improvement and accomplishments. The report is sent to the agency head for a thirty day comment period although the agency may not make any substantive changes. The IG subsequently issues the report to the agency head who in turn forwards the report to Congress.

Resources

The ability to participate in agency-wide program improvement teams, conduct adequate planning activities, fulfill customer needs, and ensure the professionalism of our staff is highly dependent upon available resources. IG resources are diminishing at a rapid pace, however. But our efforts continue to result in impressive savings to the taxpayer.

Statistics for all PCIE IG's together show that Agency managers agreed with over $12 billion in audit and inspection recommendations that funds be put to better use; and that $3.4 billion in questioned costs be disallowed. That means, as a result of audits and inspections conducted by the IGs, **$15.4 billion** taxpayer dollars were not spent by the agencies. In addition, FY 1994 PCIE IG investigations led over **$1.8 billion** in investigative recoveries. In FY 1994, my office alone, saved **$8 billion** -- a return on investment of $80 to every $1 spent an average of $6.4 million per OIG employee.

Unfortunately, as IG resources decrease so will our accomplishments. In addition, we are also bound by other statutes, such as the Chief Financial Officers Act, to implement other requirements for which many of us are not funded. These statutes further limit our resource use and are yet another factor to consider when setting our priorities.

PCIE Initiatives

The PCIE is the means by which the IG community support each other through joint projects and initiatives to review government wide programs and improve the overall effectiveness and efficiency of the community at large. We use a committee structure to carry out PCIE initiatives. Recently, we reorganized and streamlined the Council committee structure to promote maximum impact and participation. For example, we eliminated "project-specific" committees and elevated those subcommittees we deemed important to full committee level. There are 6 committees (Audit, Evaluation & Inspections, Investigations, Integrity, Legislation, and Professional Development). Most government wide reviews fall within the three functional areas of audit, inspections and investigations. For those undertakings that do not "cleanly" fall within an established committee, we create a task force to manage the project to completion. Examples of current PCIE initiatives include:

- Review of procurement contracting across Government under OMB Circular A-76;

- Review of Electronic Benefit Transfer programs focusing on program security, integrity and validity measures;

- Development of a draft Executive Order to establish the procedures for investigating "administrative" / non-criminal allegations against IGs;

- Monthly forums sponsored by the Professional Development Committee on various topics of interest to IGs and their executive staffs; and

- A task force on IGnet, the IG internet resource for public access to IG audit, inspection and semi-annual reports.

These activities are important in that they allow IGs to share knowledge, expertise, resources and lessons learned. In addition, they provide consolidated recommendations and actions from which the Congress and Administration can make informed policy decisions.

Conclusion

These are particularly challenging times for OIGs that are engaged in investigating, auditing, and evaluating Federal programs in the midst of dramatic change and reinvention. Nevertheless, it is during these times of program consolidations, agency restructuring, work-force streamlining, and process reengineering that we have a unique opportunity to apply our skill and objectivity to help

the Administration and the Congress find ways to achieve a government that truly works better and costs less.

I am pleased that many members of Congress work with the IGs, review reports which deal with specific programs of interest, and consult agency semi-annual reports for information regarding the activities of the IGs. This concludes my testimony and thank you for this opportunity to testify today.

This Vision Statement and Statement of Reinvention Principles was unanimously adopted by the Inspectors General at meetings of the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency in January 1994.

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Inspectors General Vision Statement

We are agents of positive

change striving

for continuous improvement

in our agencies' management

and program operations,

and in our own offices.

MISSION AND AUTHORITY

The Inspector General Act of 1978, as amended, creates independent audit and investigative units, called Offices of Inspector General (OIGs), at 61 Federal agencies.
The mission of the OIGs, as spelled out in the Act, is to:

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.
- Promote economy, effectiveness and efficiency within the agency.
- Prevent and detect fraud, waste and abuse in agency programs and operations.
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.

To ensure objectivity, the IG Act empowers IGs with:

- Independence to determine what reviews to perform.
- Access to all information necessary for the reviews.
- Authority to publish findings and recommendations based on the reviews.

STATEMENT OF REINVENTION PRINCIPLES

We will:

- Each work with our agency head and the Congress to improve program management.
- Maximize the positive impact and ensure the independence and objectivity of our audits, investigations and other reviews.
- Use our investigations and other reviews to increase Government integrity and recommend improved systems to prevent fraud, waste and abuse.
- Be innovative and question existing procedures and suggest improvements.
- Build relationships with program managers based on a shared commitment to improving program operations and effectiveness.
- Strive to continually improve the quality and usefulness of our products.
- Work together to address Government-wide issues.

STRATEGIES TO APPLY OUR REINVENTION PRINCIPLES

We, as Inspectors General (IGs), have two distinct roles: we work to promote efficient and effective program management and deter future problems; and we find and report on current problems. We, as IGs, have dual reporting responsibilities. We are among the very few officials whose direct "customers" include both agency heads and the Congress. Further, our customers extend beyond these two primary customers to include program managers and Administration officials who act on IG recommendations, agency employees, and the taxpayers who support and benefit from the IGs' review of Government programs and operations.

We are barred by legislation from performing "program operating functions." We analyze programs and advise our customers, both management and the Congress, of ways in which programs can be improved. Although, by virtue of our mission, we perform an oversight role, we are not adversaries of program managers. IGs and program managers, within the differences of their roles, share a common goal of improving Government programs. The strategies to apply our reinvention principles are advisory and each Inspector General will need to interpret and implement them in a manner that best serves the needs of his or her office and agency.

Today, the IG community faces the same challenge as does all the Federal Government: that is to achieve excellence in the quality of service to our customers. This strategy is intended to demonstrate our commitment to serve as a model for improving Federal programs and service to our customers. This Statement of Reinvention Principles as developed is no way an abandonment or dilution of the responsibilities of the Inspectors General as set forth under the law. Instead, these principles demonstrate how the Inspectors General can best carry out their duties in harmony with the intent and spirit of the National Performance Review, and concurrently accomplish their legislatively mandated mission.

I. We Will Work With Our Agency Head and the Congress to Improve Program Management.

The opportunity to facilitate positive change within Government is greatest when IGs assist managers by identifying systems deficiencies and making recommendations designed to assure that programs and activities achieve desired results. To this end, we will:

- Seek to understand the expectations of our agency heads and the Congress as they develop or implement new programs or design changes to those that already exist.
- Emphasize the assessment of program management and service delivery issues and identify improvements.
- Help our agencies streamline operations, reduce unnecessary regulations, improve customer service, and minimize costly, duplicative and inefficient procedures.
- Offer advice and technical assistance as managers implement IG recommendations and make other changes designed to improve program management and service delivery.
- Advise our agency heads, the Congress, Administration officials, and program managers on the economy, efficiency, and integrity implications of pending legislation and regulations.
- Use the audits of financial statements required by the Chief Financial Officers Act as a tool for identifying areas for further analysis, and for helping management improve financial management and program performance.
- Advise our agencies on developing sound management information and financial reporting systems.
- Assist our agencies in developing performance standards and using performance measures.
- Advise our agency task forces examining ways to strengthen agency operations.
- Provide technical advice and recommendations for change to agency reinvention efforts based on insights developed through OIG audits, investigations and other reviews.

II. We Will Maximize the Positive Impact and Ensure the Independence and Objectivity of our Audits, Investigations and Other Reviews.

In order to comply with the intent of the Inspector General Act of 1978, as amended, and assist in achieving our vision, we will:

- Continue to develop strategic plans for our offices that focus on the critical issues within our agencies and that meet the expectations of our Agency Heads and the Congress.
- Be proactive in conducting our work.
- Establish priorities and provide timely products.
- Pursue allegations of fraud, waste and abuse following our strategic plans.
- Increase the use of risk assessments to determine where to spend our audit, inspection and investigation resources.
- Design more audits and other reviews to meet multiple objectives.
- Make fuller use of available data bases before initiating new data collection activities.
- Ensure planning decisions are based on potential positive impact on costs, service delivery or accomplishment of program objectives.

III. We Will Use Our Investigations and Other Reviews to Increase Government Integrity and Recommend Improved Systems to Prevent Fraud, Waste and Abuse.

To ensure that our reviews bring the maximum possible return to the Government, we will:

- Analyze the results of our investigations and other reviews to identify program vulnerabilities and recommend ways to prevent program abuse.
- Focus our investigations and other reviews on compliance with rules that directly impact program integrity.
- Use customer feedback to improve our work products.
- Work with users of our investigative products to enhance the effectiveness of investigations in facilitating positive change.
- Focus investigation resources on the areas of greatest Government vulnerability and the identification of management control deficiencies.
- Examine the underlying causes of fraud, waste, and abuse and recommend ways that program vulnerabilities can be addressed, using inter-disciplinary teams where appropriate.
- Cooperate with agency officials in developing integrity awareness training.

IV. We Will Be Innovative and Question Existing Procedures and Suggest Improvements.

To enhance our role as agents of positive change, we will:

- Analyze how well programs meet their goals and whether existing rules and procedures help or hinder mission fulfillment.
- Identify successful program management practices that can be adapted for use in other agency programs.
- Assess agencies' customer satisfaction and analyze customer concerns about agency programs.
- Recommend changes in program design and management techniques to increase efficiency and improve program results.

To foster innovation within our own offices, we will:

- Experiment with innovative analytical techniques and reporting formats, while ensuring that rigorous professional standards are met.
- Consult with our customers so that we may provide the types of OIG analyses and services that best enable them to promote economy, effectiveness, and efficiency in Government programs.
- Select the types of audits, inspections and other analyses that best evaluate the program being reviewed and that provide the information needed by its managers.
- Work toward a diverse multidisciplinary workforce and assure full use of their talents through recruitment, training and development, and other approaches.

V. We Will Build Relationships With Program Managers Based On A Shared Commitment to Improving Program Operations and Effectiveness.

We recognize that program managers are accountable for their program's success or failure and we believe that our role is to assist managers with such efforts, without sacrificing our independence and objectivity. With this in mind, we will:

- Assure program managers that our goal is to effect positive change in Government programs.
- Solicit the views of program managers to get their input as we make decisions on our audit, inspection, and investigation programs.
- Provide timely, useful, documented analyses focused on issues of concern to program managers.
- Incorporate customer feedback mechanisms into the audit, inspection, and other review processes.

VI. We Will Strive to Continually Improve the Quality and Usefulness of Our Products.

To streamline OIG management and achieve continual improvement in our performance, we will:

- Ensure that our staffs are skilled in audit, investigation or inspection techniques, and that they have sufficient knowledge in the specifics of how our agencies' programs operate to meet the objectives of our work.
- Provide objective, timely, comprehensive, and concise audit, inspection, and investigative products that include findings and recommendations that are useful to our customers.
- Solicit, review and report customer feedback on our work and make any changes to our policies and procedures that are appropriate under the framework of the Inspector General Act of 1978, as amended.
- Assess our progress against performance measures and include an analysis in our semiannual reports to the Congress.
- Work with our customers to identify audit requirements and propose for consideration appropriate changes to regulation or statute.
- Work within our own offices to determine the most cost effective procedures for ensuring the quality of audits of Federal grantees and contractors performed by non-Federal auditors.
- Ensure that the work plans of our audit, investigation and other review activities are complementary and mutually supportive.

VII. Work Together to Address Government-Wide Issues.

We, the Inspectors General, will cooperate to address those integrity, economy and effectiveness issues that transcend individual Federal agencies.

To improve the functioning of the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE), we will:

- Identify substantive issues and participate in candid discussions at our meetings.
- Conduct planning for council activities at the member level.
- Identify projects where strong positive change could result from a Government-wide IG review and monitor those projects at the full council level.
- Personally participate in council projects and in council committees and subcommittees.
- Examine the established committee structures and recommend appropriate changes.
- Enhance and coordinate activities among the PCIE, ECIE, the President's Management Council, the Chief Financial Officers Council, the Small Agency Council and other Administration management officials.

To increase the effectiveness of individual OIGs and support individual members in their implementation of this vision statement, we will work together as the PCIE and ECIE to:

- Sponsor training on innovative types of IG work.
- Assist individual IGs in developing performance measures that gauge the full impact and range of OIG work.
- Work with the management councils to foster an environment of mutual respect that enables the IGs to fully participate in our agencies' reinvention efforts.
- Examine the peer review process to determine if there are opportunities for improvement.

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For further information, contact an Office of Inspector General.

Mr. HORN. Thank you very much.

Before we ask questions, we'll also ask Mr. Hubert Sparks, the Vice-Chair of the Executive Council on Integrity and Efficiency, and who is Inspector General with the Appalachian Regional Commission, to give his testimony. Then, we'll question both of you.

Mr. SPARKS. Thank you. Mr. Chairman, members of the committee, thank you for the invitation to appear today as a representative of the Inspector General of the designated Federal entities. I am 1 of 32 current IGs whose position was created by the 1988 amendments to the Inspector General Act, and I assumed the position of Vice-Chair of the ECIE in May 1992.

My prepared testimony, which I request be entered in the record, and my oral statement present the views of designated IGs, as well as a few personal opinions based on over 32 years in the civilian IG community.

Designated IGs are appointed by the head of the entity. With the exception of the appointing authority, there is virtually no difference between the establishment or Presidentially appointed IGs and the designated Federal entity IGs. The general mission, authorities, and responsibilities are identical.

The designated IGs represent an extremely diverse group of Federal executive agencies, independent regulatory agencies, boards, commissions, government chartered corporations, and one congressional agency, the Government Printing Office. Operational differences include our personnel systems, grade and pay structures, reporting and budget systems.

In most instances, we believe we are well on our way to achieving the overall objectives laid out for us in the 1988 amendments. While the size of our entities and OIG operations vary substantially, and thus, overall quantifications of success are often difficult, it is my belief that the presence of an independent audit and investigative oversight functions—sometimes for the first time—has had a very beneficial impact by providing an in-house deterrent, setting a tone for accountability, and by providing management with objective information on which to effect improved operations.

We also agree with the comments previously made in the prepared statement submitted by June Brown, PCIE Vice-Chair. And I will briefly touch on the issues noted in the hearing agenda.

ECIE was established by Executive order in 1992. Essentially, ECIE functions similarly to the PCIE and shares the same overall mission and objectives. As such, ECIE members serve on PCIE committees and participate in sponsored projects and forums, as well as independently addressing ECIE issues through committees, projects, training, and information exchanges.

A high level of cooperation exists between PCIE and ECIE, as best noted by PCIE resource sharing with designated IGs, particularly in the investigative area.

Within the ECIE, initiatives have included actions to address National Performance Review recommendations and vision statement principles, development of a best practices paper dealing with the role and relationship of IGs and entity heads, establishment of a computer bulletin board to facilitate exchanges of information ideas, and continuing efforts to establish a voluntary, independent

external review process for investigations in line with the review process that is currently mandated for audits.

Designated IGs support the vision statement, as appropriate, to reinforce practices, especially on the audit side, that appeared necessary to address the criticism with respect to the acceptance, relevance, or usefulness of audit work.

The PCIE/ECIE annual report for fiscal year 1994 identifies some designated IG initiatives intended to improve the quality of our work, ensure effective operations consistent with scarce resources, and improve communications with persons responsible for initiating actions without compromising the mandated and essential concept of independence.

On a personal note, I believe the vision statement is but a first step. It needs to be aggressively supplemented with actions to reduce or eliminate the underlying causes of concerns about audit work; namely, management's perceptions about audit quality and relevance.

Also, as currently issued, the vision statement is a unilateral declaration by IGs. The issuance of a management statement supporting the principles noted by IGs would, in my opinion, better ensure mutual acceptance and implementation by both IGs and management.

With respect to IG audit and investigative priorities, the designated IGs' actions and programs are consistent with the missions and responsibilities noted in the IG Act. Risk assessments and strategic planning are important elements for identifying where scarce resources should be used to accomplish IG Act responsibilities and have meaningful impacts on improving government operations and service delivery.

We believe the role and relationship of IGs with the rest of their organizations is very unique and IGs will always be in the position of straddling a barbed wire fence. Extensive balancing actions will always be required to fulfill IG Act requirements and positively contribute to improved government operations. Thus, effective working relationships based on respect and acceptance are necessary, and simply achieving warm and fuzzy relationships is in neither party's best interests.

Designated IGs have frequent contacts with entity heads and senior managers and often are confronted with a wide degree of requests for input, from entity policy to direct IG issues. Thus, our relationships are subject to some interesting and challenging situations; and the establishment of positive relations within the context of our mandated responsibilities is necessary.

With respect to independence and resources, we continue to experience some constraints. As a practical matter, entity heads who directly select designated IGs tend to view the general supervision provision of the IG Act as more controlling, especially with respect to budget execution.

Although few designated IGs have been removed, the absence of removal for cause provisions permits the instantaneous removal or transfer of designated IGs regardless of civil service protections; and such potential action can have a negative impact on IG decisions.

Available resources have always been limited, and no increases are expected. However, the small size of many designated IGs raises question about proportional budget reductions of IG operations in line with potential large reductions at some entities. To reduce a very small IG staff by 20 to 50 percent raises serious questions about the viability of the remaining office.

The semiannual reports for each IG and the PCIE/ECIE annual report are good avenues for reporting to Congress. Also, it has been my experience that Congress is generally alerted on a timely basis about significant IG activities on issues of concern to Congress.

Mr. Chairman, this concludes my formal statement, and the designated IGs look forward to working with you and your staff.

[The prepared statement of Mr. Sparks follows:]

STATEMENT OF HUBERT N. SPARKS
TO THE SUBCOMMITTEE ON
GOVERNMENT MANAGEMENT, INFORMATION AND TECHNOLOGY
OF THE GOVERNMENT REFORM AND OVERSIGHT COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES
AUGUST 1, 1995

Mr. Chairman, Members of the Committee, I welcome the opportunity to appear before you today as a representative of Inspectors General (IGs) of the designated Federal entities. As a member of the civilian IG community since its administrative introduction at the Department of Agriculture in 1962, I would also like to take the opportunity to thank the Congressional Oversight Committees for their strong and continued support of the Inspector General concept through the years, including the substantial expansion provided in the 1988 Amendments to the Inspector General Act.

I am one of 32 current IGs whose position was created by the 1988 Amendments to the Inspector General Act, and I assumed the position as Vice Chair of the Executive Council on Integrity and Efficiency, which essentially represents designated IGs,[1] upon its creation in May of 1992. Thus, my prepared testimony and statement presents views of designated IGs as well as personal opinions based on over 32 years in the civilian IG community, including 5 years as a designated IG.

I have previously heard our group referred to as an "extension of a sound idea." Designated IGs are the new kids on the block in the Inspector General community, and we have been working diligently to institutionalize the civilian OIG concept at designated entities.

As you know, the number of statutory offices of Inspector General is now 61; two new terms of art were introduced by the 1988 Amendments--"designated Federal entities" and "Federal entities." Along with the term "establishments" (created by the Act in 1978), these terms define groups of departments, agencies, affiliated Government corporations, etc. These three groups are covered by the Act in three different ways:

(1) "establishments" have Inspectors General appointed by the President, confirmed by the Senate;

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[1] The 1988 Amendments identified 34 Federal entities, but the Federal Deposit Insurance Corporation and the Corporation for National and Community Service (formerly ACTION) were legislatively changed to establishments in recent years. This group also includes the Inspector General of the Government Printing Office (GPO), whose position was established by the 1988 Amendments. His authorities and responsibilities are virtually identical, although GPO was treated separately in the Act.

(2) "designated Federal entities" have Inspectors General appointed by the head of the entity;

(3) "Federal entities" have minimal reporting requirements on audit and investigative activity only.

I. BACKGROUND

With the exception of the appointing authority, there is virtually no difference between the "establishment" IGs and the "designated Federal entity" IGs. The general mission, authorities, and responsibilities are **identical**.[2] The ways in which we (1) carry out our mission, (2) exercise our authorities, and (3) discharge our responsibilities vary only to the extent that the missions of our respective agencies vary.

The designated IGs represent a diverse group of Federal executive agencies. For example, they include independent regulatory agencies, boards, commissions, Government-chartered corporations, and one Congressional Agency (GPO). The functions performed by these entities include grant-making, manufacturing, regulation of private sector industries, providing services to the pubic, and law enforcement. The names of the entities and the Inspectors General are attached to my testimony as Appendices A and B.

Our group also varies as to whether predecessor Offices of Inspector General or internal oversight functions existed at the time of the 1988 Amendments. A few offices were fully functioning, having been administratively created. Many offices had internal audit units that reported to a level somewhere below top management. Several had no internal audit or investigation function.

Other important ways in which we differ include our personnel systems and grade and pay structures. Some of us are not under the Federal civil service, and grade and pay range from GM-15 to Senior Executive Service or equivalent ratings. We also have a wide variety of budget systems. Some entities do not go through the Office of Management and Budget (OMB) for their budgets; some rely on their own revenues rather than on appropriated funds from Congress. These issues become particularly important when trying to solve problems that various designated IGs have encountered with hiring authorities, pay comparability, and independent budget authority. The designated IG community also varies substantially in staff size; and generally, OIG resources amount to about .5 percent of entity budgets.

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[2] The general mission of all IGs is to prevent and detect fraud, waste, and abuse in Government programs and operations. Authorities include access to Government records, the authority to administer oaths and take affidavits, and subpoena power over non-Federal entities. Responsibilities flow from the general mission and also include submitting semiannual reports.

Although some concerns or issues related to resources, budget discretion, and independence arise periodically, we strongly believe we are well on our way to achieving the overall mission objectives laid out for us in the 1988 Amendments. While the size of many of our entities are small and thus recognized quantifications of success are not always apparent, it is my belief that the on-site presence of an independent audit and investigative oversight function, which communicates directly with our entity heads and Congress, has had a very beneficial impact by providing an on-board deterrent, setting a tone for accountability and deterrence, and providing management with objective information on which to effect improved operations.

As one of my colleagues regularly notes, the presence of Inspectors General at our entities has changed the equation for the better as to how management conducts its business. The value added results of IGs, as a deterrent and identifier of problems needing correction, far exceeds, in my opinion, the costs of designated OIG operations.

Our accomplishments to date are noted in semiannual reports and in the PCIE/ECIE annual report; and thus, I will not dwell on this. However, we have, as a community, implemented the full range of OIG audit, investigation, and inspection and evaluation responsibilities and, as necessary, have utilized a variety of operating strategies such as sharing of other OIG investigative resources to compensate for limited resources. Recently, we have also been encouraged by increased Congressional interest with respect to our work. We look forward to continued good relations with applicable Congressional sources as we address the sensitive and complex issues facing Government.

FY 1995 staffing levels approximated 282 auditors, 65 investigators, and over 2,000 Postal Service designated IG staff. Activities included audits that identified $82.2 million in questioned costs and $71 million in recommendations that funds be put to better use, investigative recoveries of $104.5 million, and 10,633 successful prosecutions. The US Postal Service, a designated OIG, accounted for the bulk of actions, but audit and monetary results and/or recommendations for program improvements were noted by all designated IGs.

THE ACTIVITIES AND INITIATIVES OF THE PCIE AND ECIE

The Executive Council on Integrity and Efficiency (ECIE) is charged with promoting integrity and effectiveness in Federal programs. In accomplishing this goal, the ECIE focuses on two primary objectives: First, promoting integrity and efficiency and detecting and preventing fraud, waste, and abuse in Federal programs; and second, increasing the professionalism and effectiveness of Office of Inspector General (OIG) personnel.

Chaired by the Deputy Director for Management of the Office of Management and Budget (OMB), ECIE is composed of the Inspectors General (IGs) at the 31 designated Federal entities; the IG at the Government Printing Office (hereinafter included as a designated IG); and

- the Vice Chairperson of the President's Council on Integrity and Efficiency (PCIE),
- the Controller of the Office of Federal Financial Management at the OMB,
- the Assistant Director of the Criminal Investigative Division of the Federal Bureau of Investigation,
- the Director of the Office of Government Ethics,
- the Special Counsel of the Office of Special Counsel, and
- the Deputy Director of the Office of Personnel Management.

The ECIE was established by a May 1992 Executive Order that expanded a 1981 Executive Order establishing the PCIE. (The PCIE consists primarily of Presidentially appointed IGs, while the ECIE IGs are appointed by the heads of the entities they serve.) Specifically, the May 1992 Executive Order elevated the status of what was formerly a Coordinating Conference of the PCIE; and the membership of this group now basically comprises the ECIE. The ECIE and the PCIE share the same overall mission and objectives.

The ECIE IGs provide leadership for audits, investigations, legislative and regulatory reviews, and other activities in a variety of large and small Federal entities. The entities at which the ECIE IGs serve have a combined budget of approximately $68 billion and functions ranging from ensuring adequate postal service to regulating financial institutions and overseeing science and research grants, arts endowments, antitrust enforcement, securities regulation, consumer product safety, farm credit, and public broadcasting.

The PCIE Vice Chair has commented on the activities and initiatives of the PCIE. We support and participate, where applicable, in PCIE activities, including membership on PCIE standing and ad-hoc committees and participation on Governmentwide projects. I believe there is an effective and cooperative working relationship with PCIE that far exceeds my involvement as a PCIE member. For example, within available resource constraints, PCIE members have provided

assistance to designated IGs in a wide variety of areas that has enabled designated IGs to more effectively implement our responsibilities. This has been particularly evident with respect to investigative resources where the availability of PCIE member staff on detail has enabled some of us to effectively conduct various inquiries despite the absence of investigative staff. Other coordinated activities include PCIE/ECIE executive and senior staff forums where topics of interest are surfaced for all OIGs.

The ECIE operates essentially similar to PCIE in that we meet monthly, discuss issues affecting the OIG community, utilize committees to address specific areas of OIG responsibilities, coordinate and exchange information, and recommend, initiate or participate on projects intended to improve Government and/or OIG operations.

The ECIE also provides an important avenue for designated IGs to discuss and forward recommendations on concerns or issues that may be particularly relevant to designated IGs and may not be particularly significant to PCIE. With a few exceptions, we believe that the concept of two councils is an efficient and practical way to address interests of the 61 Inspectors General.

A couple of examples of ECIE activity include development of a "Best Practices" paper dealing with relationships between designated IGs and Entity Heads (copy attached as Appendix C) and initiation of an automated information sharing system to exchange information about our operations and activities. We are continuing to explore the development of a voluntary external quality review system for investigative activities that will provide independent assessments of the application of investigative standards.

The "Best Practices" paper, which evolved from a joint PCIE/ECIE effort and is formally identified as OMB Memorandum 93-01, titled Inspectors General in Designated Federal Entities: Key Statutory Provisions and Implementing Guidance, succinctly summarizes the respective roles and responsibilities of IG and management in line with IG Act requirements and interpretations and was intended to foster an independent and constructive IG presence within designated entities. This document is consistent with current emphasis on improved OIG/Management relationships and, while currently directed at designated entities, could be utilized by all IG offices and agencies as an important tool in this process.

Designated IGs have responded positively to the Inspectors General Vision Statement and to some National Performance Review conclusions, and a few examples are noted in the next section of this testimony.

THE INSPECTORS GENERAL "VISION STATEMENT" AND THE APPROPRIATE MISSION FOR INSPECTORS GENERAL

First, let me note that the designated Inspectors General (IGs) unanimously support the principles and strategies noted in the Vision Statement and believe it identifies and/or reemphasizes appropriate missions for IGs and strategies for efficiently and effectively accomplishing our mission and responsibilities. The statement is essentially a return to basics and reinforces actions that many of us have viewed as a longstanding and necessary basis for successful operation. I have a simple view of what is needed--a return to the basic concept and practice that was drilled repeatedly into every employee who worked for the Department of Agriculture IG's Office (OIG) in the 1960s and 1970s; namely, that **OIG** stands for **O**bjectivity, **I**ntegrity, and **G**oodwill. While this phrasing is heard occasionally, there does not currently seem to be the same level of emphasis and repeated discussion of these terms. We need to continuously strive to reduce the tendency of management and program staff to equate **OIG** with terms like **O**bey, **I**nquisition, and **G**otcha.

As the OIG community works toward increasing audit acceptance and relevance, which are basic requisites for increasing impact, I also recall a piece of initial advice given me by my first OIG boss. He essentially said, "Young man, when you say somebody did something wrong, you had better be right." This simple phrase, in my opinion, effectively and succinctly sums up the key elements of effective OIG operations and staff requirements; namely, the need to be skeptical, inquisitive, firm, fair and accurate.

While the Vision Statement is an excellent document and, for the most part, has been well received by management, it is, in my opinion, the first step toward addressing concerns expressed in the National Performance Review (NPR). The NPR concerns and much of the detail in the Vision Statement primarily dealt with audit effectiveness and relevance, a critically important area since audit comprises the largest component of OIG operations. However, management and program staff concerns about audit work have evolved over a period of years as a result of changed audit practices and methodologies, some of which have resulted from mandated work.

Regardless of whether we believe the criticisms resulting from the NPR study are entirely balanced and/or fully constructive, it is necessary for the OIG community to reduce management/OIG tension wherever appropriate so as to increase OIG effectiveness and service. The OIG audit community, as noted in its reports and resulting management actions, performs valuable services and contributes substantially to improved Government operations. However, I strongly believe that we must continue these efforts, including aggressive training and on-the-job performance, to ensure we focus on development of staff with the evaluative, analytical, interpersonal, logic, and common sense attributes necessary to complement technical knowledge. Emphasis should be placed on increased knowledge and understanding by all OIG staff of agency programs and management concepts; avoidance of a cookbook audit approach; and preparation of reports that are timely, relevant, and easily understood by recipients. Such actions should, in my opinion, facilitate and accelerate full achievement of the principles and strategies noted in the Vision Statement.

OIGs have developed new ways of working with management through the establishment of inspection and evaluation units. While the activities of these units vary considerably, it is my understanding that, in most cases, these units were established to fill important gaps in traditional OIG coverage identified by a significant number of IGs, and permit use of additional analytical techniques and reduced timeframes. The principle focus of inspection and evaluation units is the effectiveness of agency organizations and their programs.

The designated IGs, in response to a legislative proposal by Congressman Spratt, noted general support for separate inspection and evaluation units and activities as a means of providing timely and relevant reports and service on priority issues needing immediate attention.

A second point is that I have heard management and program officials describe the Vision Statement as a partnership between IGs and management. This is a positive step, but I would suggest that a partnership requires at least two active players who clearly demonstrate commitment to the partnership. The Vision Statement is a unilateral document signed by 61 IGs, and I do not believe unilateral actions afford the best chance for success. Management has yet to formerly be heard from on how their staff is to deal with OIG staff. Thus, a brief, formal statement by senior management (department and entity heads) endorsing management support for positive relations with IGs that could be distributed to all employees would be more effective in identifying tone and commitment than occasional management comments that do not reach many employees.

While endorsing the Vision Statement and recognizing the underlying issues noted in the NPR, I would be remiss if I did not emphasize that we do not generally agree with comments or conclusions that OIGs are a primary cause of management failure to be innovative or take risks; nor do we believe OIGs instill fear in audit clients. In most instances, the worst cases make the headlines while the many routine positive dealings and actions that occur daily often go unnoticed. Certainly, the presence of any reviewers, be they IG, GAO, Congressional, or internal auditors or investigators, makes people uneasy. However, an oversight function should also provide an effective deterrent; and a healthy tension is to be expected if the oversight function is to be effective. Assuming effective implementation of Vision Statement principles, to continue to translate such staff tension or uneasiness into the IG being a substantive impediment to good management or improved operational practices, would be an unreasonable stretch.

Also, we support the Vision Statement purposes and specifics, particularly since it reinforces actions and strategies that many of us have viewed as a longstanding and necessary basis for successful operation. The following comments highlight overall actions in line with the seven reinvention principles noted in the Vision Statement.

- **Working with Agency Heads and the Congress to Improve Program Management**--Designated IGs are emphasizing more cooperation and collaborative efforts including increased involvement of management in the planning process and timely ongoing communications with respect to improving operations.

- **Maximizing the Positive Impact and Ensuring the Independence and Objectivity of Audits, Investigations, and Other Reviews**--We have emphasized strategic planning including involvement of management in the planning process, increased attention to management concerns and critical needs of the agency, and revised some approaches to ensure more efficient use of resources.

- **Using Investigations and Other Reviews to Increase Government Integrity and Recommending Improved Systems to Prevent Fraud, Waste, and Abuse** --We have emphasized utilizing investigative results to identify systemic problems and recommend corrective actions, presented fraud awareness and integrity briefings to entity employees, and worked on joint committees with management to identify needed legislation and fraud deterrents.

- **Being Innovative, Questioning Existing Procedures, and Suggesting Improvements**--Emphasis has been placed on front-end, rather than after-the-fact, reviews and assistance to identify areas in need of improvement or actions necessary prior to finalization of initiatives. This included reviews of contract proposals, technology acquisition, information systems, etc. and use of non-standard review and reporting techniques to permit timely surfacing of issues with management.

- **Building Relationships with Program Managers Based on a Shared Commitment to Improving Program Operations and Effectiveness**--To further enhance a spirit of cooperation and consultation, without impacting on our required independence, we have increased liaison and communications with management, including serving on entity task forces, providing proactive insights about program risks, obtaining management input about needed reviews, using customer surveys, and publicizing the concepts in the Vision Statement.

- **Striving to Continually Improve the Quality and Usefulness of Our Products**--Actions include customer surveys and meetings with management to obtain candid feedback about timeliness, quality, and usefulness of our work, restructuring, consolidating and streamlining our processes for conducting reviews, and emphasizing use of multidisciplinary staff to address the wide range of programs and issues.

- **Working Together to Address Governmentwide Issues**--Emphasis has been placed on PCIE/ECIE initiatives such as an examination of the Federal Employee's Compensation Act program, joint investigations with other members of the OIG community, and coordination with other OIGs on matters of particular impact on designated IGs such as the Law Enforcement Availability Act and introduction of a computer bulletin board as a means of sharing ideas and experiences.

THE AUDIT AND INVESTIGATIVE PRIORITIES OF THE OFFICES OF INSPECTORS GENERAL

The audit and investigative priorities of designated Inspectors General (IGs) are consistent with the intent of the IG Act, which emphasizes prevention and detection of fraud and abuse and promotion of economy, efficiency, and effectiveness of programs and operations, and in line with good management practices of utilizing scarce resources to achieve maximum results. Thus, risk assessments and strategic planning become critical elements for identifying where scarce resources can be used to accomplish our overall responsibilities identified in the Act and have an impact by having meaningful implemented recommendations that are consistent with Executive and Legislative initiatives for improving Government operations and service delivery.

One area of concern, especially to designated IGs with limited resources, is the increasing number of mandated OIG reviews that result from the inclusion of required OIG work and reports in various pieces of legislation. While each such requirement may have overall significance, the all inclusive nature of reports by all IGs, regardless of whether the particular issue, regulation, or program is significant to that entity, can have adverse impacts on effective use of resources. Thus, we would recommend either a reduction/elimination of using individual legislation to mandate OIG work or a more flexible approach that allows IGs the option of performing work in the subject area if it is significant or sensitive at their agency. These recommendations recognize that there always will be occasions where special requests are necessary and appropriate but are directed at a proliferation of special requirements at a time when resources are declining.

THE ROLE AND RELATIONSHIP OF OIGs WITH THE REST OF THEIR ORGANIZATIONS AND THE CURRENT STATE OF THE RESOURCES AND INDEPENDENCE OF OIGs

We have previously commented on our support for the Vision Statement that substantially deals with the OIG role and relationship with the rest of the organization. Also, we have alluded to the fact that the role of oversight always creates some inherent tension since audits and investigations and resulting recommendations, no matter how necessary or constructive, are not always viewed positively by those subject to the criticism. With this understanding, we believe the IG role, as noted in the IG Act, effectively and prudently addresses these sensitive issues and provides for an organizational and reporting structure that provides for sufficient independence to allow IGs to fulfill their mission.

As previously noted, we support the need to have an effective working relationship with our organizations. Regardless of any protestations to the contrary, we need to accept constructive criticism about our role and relationships, not because of any statutory requirements but simply to afford increased opportunities to have positive impacts on Government operations. However, such roles and relationships should not create conflicts of interest that dilute or detract IGs from mandated responsibilities simply to achieve warm and fuzzy relationships with management. The common expression that IGs walk a barbed wire fence remains a constant.

On the overall issue of roles and relationships, designated IGs have contact with entity heads and senior staff on a frequent basis and are often used as a sounding board for a wide range of issues from policy to compliance questions. Therefore, we have opportunity to foster a nonadversarial relationship and provide assistance while scrupulously avoiding any reduction of independence or performance of IG responsibilities. In sum, the size of our entity often requires us to establish effective relationships if we are to make positive contributions over the long haul.

The designated IGs also operate within what might be termed some constraints related to operating methodologies, independence, resources, and removal. Although the IG Act affords all IGs a similar degree of statutory independence, there is, in my opinion, a practical and operational distinction when IGs are selected by the head of the entity as is the case for designated IGs. While there have been few instances of designated IG removal or transfer and every designated IG would proclaim we truly act independently, it is human nature that IG decisions can be impacted, even if subtly or subliminally, when IG removal or transfer can be accomplished instantaneously by the head of the entity. While we do not believe that change of appointment methods are currently practical, we do believe that **removal for cause** provisions would provide an added and reasonable element of independence. Although we have not achieved a consensus on appropriate removal causes, we overwhelmingly believe removal should be tied to misconduct problems; whereas, at present and notwithstanding civil service protections under which most designated IGs fall, there are no real constraints, especially with respect to IG transfer to another unit in the entity.

The clause in the IG Act noting that IGs are under the general supervision of the head of the establishment also impacts designated IGs. Heads of establishments that personally selected the designated IG tend to interpret general supervision as being more inclusive; and, as such, we have and may continue to have instances where entity heads believe general supervision involves direct review and approval of routine IG and OIG staff actions relative to budget execution. The Best Practices paper, which I previously noted, is an excellent product for providing useful guidance on avoiding independence related problems. Also, as a general proposition, I believe acceptable understandings between designated IG and entity heads can be achieved without additional legislation; but we should not close the door to legislative recommendations to address issues of concern that can constrain us from accomplishing our mission.

Resources is a moot issue at most designated IGs, and we have concentrated our recent efforts on effective utilization of scarce resources since there is little potential for additional resources. However, we are concerned that proportionate reductions of OIG resources similar to reductions the entity must incur can have disproportionately adverse impacts on the ability of some designated IGs to continue as viable entities. For example, where entities are subject to large budgetary reductions, e.g., 20–50 percent, a similar reduction of IG staffs that are currently operating with what many in the community consider to be a minimum staffing level to provide effective deterrence against fraud, waste, and abuse, e.g., 3–6 persons, could render the OIG incapable of meeting its basic responsibilities. Consequently, while we fully support efforts to reduce spending, we encourage the Executive and Legislative Branches to use prudence when identifying across–the–board budgetary reductions.

HOW CAN IGs MOST EFFECTIVELY REPORT THEIR ACTIVITIES TO CONGRESS

Currently, OIG and management reporting requirements that provide for semiannual reports to Congress and an annual report summarizing PCIE and ECIE activities, combined with the availability of all OIG reports and IG initiatives to keep the Executive and Legislative Branches informed of particularly important and/or sensitive initiatives or developments, provides, in our opinion, a balanced approach to keeping Congress informed about OIG activities. In this regard, it has also been my experience that Congress has become effective in requesting information from IGs on matters of Congressional concern; and this provides another reporting approach.

In most instances, IGs have established good working relations with Committees responsible for their entities' programs which provides Congress current information on overall IG activities and initiatives. This, in my opinion, also offsets, for example, the need to forward all OIG reports routinely to Congress, which could create a substantial paper increase without assurance of need or use.

The IG Act also provides for what is known as a "7-day letter," which requires the IG to report immediately to the head of the establishment involved whenever the IG becomes aware of particularly serious or flagrant problems, abuses, or deficiencies relating to the administration of programs and operations of the establishment. Further, the head of the establishment shall transmit any such report to the appropriate committees or subcommittees of Congress within 7 calendar days, together with a report by the head of the establishment containing any comments such head deems appropriate. The last statistics I saw with respect to the use of the 7-day letter indicated limited use of this tool by IGs. Nevertheless, this reporting approach is viewed as an important tool, if prudently used, by designated IGs; and if this last ditch notification is to be effective, Congressional response needs to be appropriate.

Mr. Chairman, Members of the Committee, the designated IGs look forward to working with you and your staff regarding the activities of the IGs. This concludes my testimony and thank you for this opportunity to testify today.

APPENDIX A

Names and Acronyms of the
Thirty-two Designated Federal Entities

1. Amtrak
2. Appalachian Regional Commission (ARC)
3. Board for International Broadcasting (BIB)
4. Commodity Futures Trading Commission (CFTC)
5. Consumer Product Safety Commission (CPSC)
6. Corporation for Public Broadcasting (CPB)
7. Equal Employment Opportunity Commission (EEOC)
8. Farm Credit Administration (FCA)
9. Federal Communications Commission (FCC)
10. Federal Election Commission (FEC)
11. Federal Housing Finance Board (FHFB)
12. Federal Labor Relations Authority (FLRA)
13. Federal Maritime Commission (FMC)
14. Federal Reserve Board (FRB)
15. Federal Trade Commission (FTC)
16. Government Printing Office (GPO)
17. Interstate Commerce Commission (ICC)
18. Legal Services Corporation (LSC)
19. National Archives and Records Administration (NARA)
20. National Credit Union Administration (NCUA)
21. National Endowment for the Arts (NEA)
22. National Endowment for the Humanities (NEH)
23. National Labor Relations Board (NLRB)
24. National Science Foundation (NSF)
25. Panama Canal Commission (PCC)
26. Peace Corps (PC)
27. Pension Benefit Guaranty Corporation (PBGC)
28. Securities and Exchange Commission (SEC)
29. Smithsonian Institution (SI)
30. Tennessee Valley Authority (TVA)
31. US International Trade Commission (USITC)
32. US Postal Service (USPS)

APPENDIX B

The Current Designated Inspectors General

Amtrak	-	Fred E. Weiderhold, Jr.
ARC	-	Hubert N. Sparks
BIB	-	Brian T. Conniff
CFTC	-	A. Roy Lavik
CPSC	-	Thomas F. Stein
CPB	-	Lester J. Latney
EEOC	-	Aletha L. Brown, Acting
FCA	-	Eldon W. Stoehr
FCC	-	H. Walker Feaster, III, Acting
FEC	-	Lynne A. McFarland
FHFB	-	Edward Kelley
FLRA	-	Robert Andary
FMC	-	Tony P. Kominoth
FRB	-	Brent L. Bowen
FTC	-	Frederick J. Zirkel
GPO	-	Lewis L. Small
ICC	-	James J. McKay
LSC	-	Edouard R. Quatrevaux
NARA	-	Robert Taylor, Acting
NCUA	-	H. Frank Thomas
NEA	-	Leon B. Lilly
NEH	-	Sheldon L. Bernstein
NLRB	-	John E. Higgins, Jr., Acting
NSF	-	Linda G. Sundro
PCC	-	Peter A. Liehr
PC	-	Charles C. Maddox, Acting
PBGC	-	Wayne Robert Poll
SEC	-	Walter J. Stachnik
SI	-	Thomas D. Blair
TVA	-	George T. Prosser
USITC	-	Jane E. Altenhofen
USPS	-	Kenneth Hunter

APPENDIX C

BEST PRACTICE PAPER

INSPECTORS GENERAL IN DESIGNATED FEDERAL ENTITIES: KEY STATUTORY PROVISIONS AND IMPLEMENTING GUIDANCE

INTRODUCTION

The Inspector General concept was broadly introduced to the civilian side of the Federal Government by the Inspector General Act of 1978 (IG Act). In 1988, the IG Act was amended to establish IGs in 33 designated Federal entities (DFEs). Separate legislation established an equivalent IG at the Government Printing Office. These IGs have the same authorities and responsibilities as the "establishment" IGs, but they are appointed by the entity heads (rather than by the President, subject to Senate confirmation).

Within the Federal structure, statutory IGs are unique: they are part of their agencies/entities, but they are operationally independent; and, while subject to the general supervision of the agency/entity heads, they have a unique reporting relationship with the Congress. Understanding and implementing the IG role in a manner that benefits the agency/entity can be a difficult process.

This document explores key provisions of the IG Act, and provides guidance for all designated Federal entity heads and IGs in implementing those provisions. The paper addresses the following areas: selection, appointment, removal, or transfer of DFE IGs; relationship between the entity head and the IG; administration of Offices of Inspector General; IG operations; and IG access to records.

I. SELECTION/APPOINTMENT/REMOVAL/TRANSFER OF DFE IGS

A. SELECTION AND APPOINTMENT

Legal Authority/Requirement: The agency head shall select the IG in accordance with applicable laws and regulations governing appointments within the designated Federal entity. (5 U.S.C. App. 3, s. 8E(c))

The IG Act does not specify the grade level or occupational series of DFE IGs.

Implementing Guidance: Given the very significant authorities and responsibilities of IGs, it is essential that agency heads select eminently qualified persons for these positions. As a starting point, this entails establishing (i) a comprehensive position description, and (ii) a corresponding set of minimum qualification requirements based on the IG authorities and responsibilities detailed in the IG Act.

The selection process, whether it involves transferring existing personnel or competition, must ensure the selection of persons who meet the minimum qualification requirements. The House Conference Report on the 1988 amendments to the IG Act (Report No. 100-1020, page 26) indicates the following Congressional intent: That the head of the designated Federal entity appoint the Inspector General without regard to political affiliation and solely on the basis of integrity and demonstrated ability in accounting, auditing, financial analysis, law, management analysis, public administration, or investigations.

Entity heads are encouraged to use full and open competition, both within and outside the agency, as a means of obtaining the best possible pool of candidates for DFE IG positions. In addition, to the extent that agency personnel policies allow, agency heads are encouraged to strengthen the selection process by including personnel from other DFE IG offices in the panel that identifies the highly qualified candidates. Agency head requests for such DFE IG representation should be directed to the Vice-Chairperson of the Executive Council on Integrity and Efficiency. (The Executive Council on Integrity and Efficiency, established by Executive Order 12805, is comprised of the DFE IGs and representatives of the Federal Bureau of Investigation, the Office of Government Ethics, the Office of Special Counsel, the Office of Personnel Management, and the Office of Management and Budget (OMB). OMB's Deputy Director for Management chairs the Council; one of the DFE IGs serves as Vice-Chairperson.)

In determining the occupational series and grade level of the DFE IG position, entity heads need to consider (i) the nature, scope, and complexity of the audit and investigative workload; (ii) the mission and operations of the agency; (iii) the IG's independent operational stature; (iv) the fact that the IG must report directly to the agency head; and (v) comparable positions. The positions of General Counsel or Executive Director might, for instance, be considered comparable to the IG position.

B. REMOVAL OR TRANSFER

Legal Authority/Requirement: If an IG is removed from office or is transferred to another position or location within a designated Federal entity, the head of the

designated Federal entity shall promptly communicate in writing the reasons for any such removal or transfer to both Houses of the Congress. (5 U.S.C. App. 3, s. 8E(e))

Implementing Guidance: Actions to remove or transfer an IG should be taken strictly in accordance with applicable personnel laws and regulations. The Congressional notification -- in the form of letters to the chairpersons and Ranking Minority members of the House Committee on Government Operations, the Senate Committee on Governmental Affairs, and the House and Senate authorizing and appropriations committees or other oversight committees as applicable -- must present the reasons for removal or transfer.

Entity heads are requested to provide copies of the Congressional notifications to the Chairperson of the Executive Council on Integrity and Efficiency.

II. RELATIONSHIP BETWEEN THE ENTITY HEAD AND THE DFE IG

A. GENERAL SUPERVISION BY THE ENTITY HEAD

Legal Authority/Requirement: Each IG shall report to and be under the general supervision of the head of the designated Federal entity, but shall not report to, or be subject to supervision by, any other officer or employee of such designated Federal entity. The head of the designated Federal entity shall not prevent or prohibit the IG from initiating, carrying out, or completing any audit or investigation, or from issuing any subpoena during the course of any audit or investigation, except as otherwise provided by law. (5 U.S.C. App. 3, s. 8E(d))

Annually, the Director of OMB, after consultation with the Comptroller General, shall publish in the Federal Register a list of the designated Federal entities and the head of each such entity in accordance with definitions stipulated in the IG Act. (5 U.S.C. App. 3, s. 8E(h)(1))

Implementing Guidance: The key points in these citations from the IG Act are that (i) only the official(s) designated in the Federal Register listing as entity head may exercise general supervision of the IG; but (ii) general supervision of an IG may not extend to operational matters pertaining to audits, investigations, or issuance of subpoenas. Since referrals to the Justice Department are an integral part of the investigative process, it follows that agency heads should not prevent, prohibit, or otherwise inhibit such referrals.

The latest Federal Register listing of designated Federal entity heads is presented in the Attachment to this paper.

The general supervision responsibility of the designated entity head entails, for example: (i) developing a performance plan (including critical performance elements and performance standards) for the IG, in consultation with the IG; (ii) conducting the annual performance evaluation of the IG; and (iii) making decisions on IG budget proposals. Entity heads may not delegate such responsibilities. However, in cases where Boards of Directors or other bodies have been designated by OMB as agency heads, the membership may commission their chairperson to act on their behalf in these matters.

The general supervision responsibilities of the designated entity head also indicate that the IG should keep the entity head generally informed as to the OIG's plans, activities, and accomplishments. Entity heads and IGs need to ensure that this result is obtained without infringing on the operational independence of the IG. (See Section IV.A of this document for the IG's responsibility for keeping the entity head fully and currently informed about specific audit/investigative findings and results.)

B. IG ACCESS TO ENTITY HEAD

Legal Authority/Requirement: The Inspector General shall have direct and prompt access to the agency head when necessary for any purpose pertaining to the performance of functions and responsibilities under the Act. (5 U.S.C. App. 3, s. 6(a)(6))

Implementing Guidance: Regular meetings between the entity head and the IG are a good means of (i) establishing the IG's access to and direct reporting relationship with the entity head, and (ii) keeping the entity head generally apprised of the IG's plans, activities, and accomplishments.

C. ENTITY HEAD AND IG SEMIANNUAL REPORTS TO THE CONGRESS

Legal Authority/Requirement: IGs shall prepare semiannual reports to the Congress, summarizing the activities of their offices as of March 31 and September 30 of each year. These reports shall be provided to the entity head no later than April 30 and October 31 of each year. Within 30 days after receipt of such a report, the entity head shall transmit it to the appropriate committees or

subcommittees of the Congress, along with a report containing (i) any comments the entity head deems appropriate; and (ii) specified data on management actions with respect to audit recommendations. (5 U.S.C. App. 3, s. 5(a)(b))

Implementing Guidance: Key aspects of these semiannual reporting requirements include the following:

-- The IG is not required to clear his/her semiannual report with the entity head. (However, the IG may choose to circulate the semiannual report in draft format to the entity head and other appropriate entity officials for technical comments.)

-- The entity head may not change the IG's report.

-- Preparation of the entity head report is wholly a management responsibility.

-- The entity head must submit the IG's report and the entity head report to the Congress as a package.

The statutory intention is clearly that the IG and entity head reports be prepared independently. However, it is important to note that both reports must contain specified statistical data on audit followup. Since these data relate to the same universe of audit reports, management and the IG should routinely be reconciling their audit followup data; and the semiannual reports should explain any differences in the audit followup data being reported by the two parties.

It is recommended that the entity head provide copies of the IG and entity head reports to the chairpersons and ranking minority members of the following Congressional committees: House Committee on Government Operations; Senate Committee on Governmental Affairs; and House and Senate authorizing and appropriations committees/subcommittees or other oversight committees as applicable. Entity heads are also asked to provide one copy of each report to the Chairperson of the Executive Council on Integrity and Efficiency, and 10 copies of each report to OMB's Management Integrity Branch.

III. ADMINISTRATION OF OFFICES OF INSPECTOR GENERAL

A. PERSONNEL, PROCUREMENT, AND LOGISTICAL SUPPORT

Legal Authority/Requirement: The IG is authorized to select, appoint, and employ such officers and employees as may be necessary for carrying out the functions,

powers, and duties of the Office of Inspector General and to obtain the temporary or intermittent services of experts or consultants or an organization thereof, subject to the applicable laws and regulations that govern such selections, appointments, and employment, and the obtaining of such services, within the designated Federal entity. (5 U.S.C. App. 3, s. 8E(g)(2))

The IG is authorized to enter into contracts and other arrangements for audits, studies, analysis, and other services with public agencies and private persons, and make such payments as may be necessary to carry out the provisions of the Act. (5 U.S.C. App. 3, s. 6(a)(9))

The entity head shall provide the Office of Inspector General with appropriate and adequate office space, together with such equipment, office supplies, and communications facilities and services as may be necessary. (5 U.S.C. App. 3, s. 6(c))

Implementing Guidance: In exercising their personnel and procurement authorities, DFE IGs need the assistance of support staff skilled in these functions. When it is not cost effective for an IG to have such support staff within his/her office, the IG will need to rely upon support from entity personnel and procurement functions. Entity heads should ensure that these functions understand the distinct personnel and procurement authorities of the IG, and the need expeditiously to support the IG in the exercise of those authorities.

B. BUDGET FORMULATION AND EXECUTION

Legal Authority/Requirement: Each IG shall report to and be under the general supervision of the head of the designated Federal entity, but shall not report to, or be subject to supervision by, any other officer or employee of such designated Federal entity. (5 U.S.C., App. 3, s. 8E(d))

The head of each agency shall prepare and submit to the President each appropriation request for the agency. (31 U.S.C. s. 1108 (b)(1))

The President shall include in the supporting detail accompanying each Budget submitted on or after January 1, 1983, a separate statement, with respect to each department and establishment, of the amounts of appropriations requested by the President for the Office of Inspector General, if any, of each such establishment or department. (31 U.S.C. s. 1105(a)(25))

Implementing Guidance: Because of the IG reporting relationship established by the IG Act, entity heads must make entity budget formulation and budget execution decisions affecting the IG. Such decisions cannot be delegated to an

officer or employee subordinate to the entity head. It is expected that entity heads will apply agency budget reductions, redistributions, sequestrations, or pay raise absorptions to the Office of the IG with due consideration of the effect that such application would have on the Office's ability to carry out its statutory responsibilities.

With respect to designated Federal entities subject to Executive Branch budget review:

- The entity head is wholly responsible for the entity budget request that is submitted to OMB. The request for the Office of the IG is an integral part of the entity submission.

- OMB Circular A-11, Preparation and Submission of Budget Estimates, requires that each designated Federal entity include the following information in its budget submission: budget authority and FTE levels for PY through BY for the Office of Inspector General, as well as a concise narrative justifying the funding levels for the Office of Inspector General. These data provide the basis for the statutorily-required statement on the IG in the President's Budget.

- While the entity head is responsible for budget formulation and execution decisions affecting the IG, the IG should, as a matter of standard practice, have an on-going dialogue with the OMB budget examiner about Office of Inspector General operational plans, activities, and accomplishments.

IV. IG OPERATIONS

A. AUDITS AND INVESTIGATIONS

Legal Authority/Requirement: The Inspector General shall provide policy direction for and conduct, supervise, and coordinate audits and investigations relating to the programs and operations of the entity. (5 U.S.C. App. 3, s. 4(a))

The Inspector General shall make such investigations and reports relating to the administration of the programs and operations of the entity as are, in the judgment of the IG, necessary or desirable. (5 U.S.C. App. 3, s. 6(a)(2))

The Inspector General shall keep the entity head and the Congress fully and currently informed concerning fraud and other serious problems, abuses, and deficiencies relating to the administration of programs and operations administered or financed by the agency. (5 U.S.C. App. 3, s. 4(a)(5))

The head of the designated Federal entity shall not prevent or prohibit the Inspector General from initiating, carrying out, or completing any audit or investigation, or from issuing any subpoena during the course of any audit or investigation. (5 U.S.C. App. 3, s. 8E(d))

The Inspector General shall comply with standards established by the Comptroller General of the United States for audits of Federal establishments, organizations, programs, activities, and functions. (5 U.S.C. App. 3, s. 4(b)(1))

Reviews to determine IG compliance with established audit standards, policies, and procedures shall be performed exclusively by an audit entity in the Federal Government. (5 U.S.C. App. 3, s. 4(b)(2))

Each Inspector General shall report expeditiously to the Attorney General whenever the Inspector General has reasonable grounds to believe there has been a violation of Federal criminal law. (5 U.S.C. App. 3, s. 4(c))

There shall not be transferred to any Office of Inspector General any program operating responsibilities. (5 U.S.C. App. 3, s. 8E(b))

Implementing Guidance: As a general rule, entity audit and investigative functions should be carried out by the Office of Inspector General. Exceptions to this rule include audits and investigations that are part of operating programs (e.g., investigations conducted in support of a regulatory function).

Designated Federal entities, unless exempted by law, are subject to OMB circulars. With respect to audits, the following OMB Circulars apply: A-50, Audit Followup; A-73, Audit of Federal Operations and Programs; A-128, Audits of State and Local Governments; and A-133, Audits of Institutions of Higher Education and Other Nonprofit Institutions.

The statutory requirement for operational independence with respect to IG audits does not preclude communication and cooperation between the IG and entity management. In addition to keeping the entity head fully and currently informed of significant audit/investigative findings and results, the IG should solicit management's views in developing the annual audit plan; conduct entrance and exit conferences as standard parts of every audit; communicate findings as they are developed during the course of the audit; solicit management's views on draft audit reports; and acknowledge management's views in final audit reports.

The Comptroller General's "Government Auditing Standards" provide that organizations conducting government audits should have an external quality control review at least once every 3 years by an organization not affiliated with the organization being reviewed. The IG Act requires that such reviews be conducted by an audit entity in the Federal Government. To meet these requirements, the Executive Council on Integrity and Efficiency facilitates a peer review approach by which designated Federal entity IGs can utilize other designated IGs to conduct external quality control reviews.

With respect to investigations, the statutory requirement is that the IG report expeditiously to the Attorney General whenever the Inspector General has reasonable grounds to believe there has been a violation of Federal criminal law. This requirement leaves the IG no latitude in determining whether to report to the Attorney General. Further, the requirement is clearly for the IG to report directly to the Attorney General at the earliest possible date, which in almost all cases will be prior to completion of the investigation. Early referral ensures that the Department of Justice is provided the opportunity to direct subsequent investigative work.

In carrying out audits and investigations, IGs periodically need legal advice and assistance. This may be accomplished by employing counsel within the OIG, which minimizes conflicts of interest for the attorney serving the OIG. However, for some IGs, it is not cost effective to have attorneys on-staff; and the IGs therefore need to rely on the entity General Counsel, contractor resources, or memoranda of understanding with other Offices of Inspector General. In order to preserve the operational independence of the IG, IGs and entity General Counsels are urged to enter into written memoranda of understanding delineating the role of the General Counsel when providing legal advice and assistance to the IG.

The statutory prohibition on the IG's having program operating responsibilities does not preclude the IG from assisting the entity and its committees and project teams, if the IG determines that such assistance will help the entity reduce fraud and waste and such assistance by the Office of Inspector General would not compromise its independence in subsequent reviews of the subject matter.

B. LEGISLATION AND REGULATORY REVIEW

Legal Authority/Requirement: The Inspector General shall review existing and proposed legislation and regulations relating to the program and operations of the agency and make recommendations in the semiannual reports to the Congress concerning the impact of such legislation or regulation on the economy and efficiency in the administration of programs and operations administered or

financed by the agency, or the prevention of fraud and abuse in such programs and operations. (5 U.S.C. App. 3, s. 4(a)(2))

Implementing Guidance: The Agency head should ensure that agency procedures for reviewing legislation and regulations include provisions that allow the Inspector General to fulfill the statutory requirement.

C. IG ACCESS TO AGENCY RECORDS

Legal Authority/Requirement: The Inspector General shall have access to all records, reports, audits, reviews, documents, papers, recommendations, or other material available to the entity which relate to the programs and operations of the entity. (5 U.S.C. App. 3, s. 6(a)(1))

Whenever such information or assistance is, in the judgment of the Inspector General, unreasonably refused or not provided, the Inspector General shall report the circumstances to the head of the entity without delay. (5 U.S.C. App. 3, s. 6(b)(2))

The IG's semiannual report to the Congress shall include a summary of each such report made to the entity head during the reporting period. (5 U.S.C. App. 3, s. 5(a)(5))

Implementing Guidance: Entity operating guidelines should clearly state (i) the IG's right to access documents, (ii) the responsibility of each entity officer and employee for cooperating fully in audits or investigations conducted by the IG; and (iii) the responsibility of cognizant entity officials for communicating to entity contractors, grantees, and regulated entities their responsibility for cooperating fully in audits of investigations conducted by the IG.

Mr. HORN. Thank you very much.

I would now ask the gentleman from New Hampshire, Mr. Bass, to begin the questioning.

Mr. BASS. Thank you very much, Mr. Chairman. I appreciate your hearing here today. I was sorry to be a little late. However, I have had a chance to review your statements and accompanying memos from the subcommittee.

As both of you probably know, both Vice President Al Gore and former Congressman Leon Panetta voted against the original 1978 IG Act. And they were two, I think, of six or eight Members of Congress to do so. And I'm not aware of, obviously, the reason for that. I wasn't around at the time. But it might be said that some of the skepticism may have continued.

And if I can quote from the National Performance Review, that Vice President Gore heads, it says, "At virtually every agency he visited, the Vice President heard Federal employees complain that the IG's basic approach inhibits innovation and risk-taking. Heavy-handed enforcement with the IG watchfulness compelling employees to follow every rule, document every decision, and fill out every form has had a negative effect in some agencies." In your opinion, is this fair criticism?

Ms. BROWN. In my opinion, that is not fair criticism, because very little of our resources are really directed internally to people filling out forms or doing that last i-dotting, that the emphasis of most of the work done by the IGs is on those who are cheating in government programs.

We do, of course, also look at accusations against government employees. And we have had several people while I've been IG of Social Security Administration where they were selling Social Security cards, something along that line. But these are actual offenses that I think anybody would want to see prosecuted and stopped.

Mr. BASS. Mr. Sparks.

Mr. SPARKS. I probably have a little bit different viewpoint. I agree that the criticism was overstated. I do not think we strike fear, particularly to management folks. We have an awful lot of unimplemented recommendations, which probably wouldn't occur if we struck fear into everybody.

But at the same time, I think it's a legitimate criticism that there was a perception that, based on fact or reality, that employees felt we had become somewhat structured, losing some of our initiative as far as logic and common sense and emphasizing compliance findings, which may or may not have been particularly relevant to their operation.

I think that has evolved over a period of years. I don't think the NPR or anecdotal stories of a couple of employees at each agency was a fair basis to reach that conclusion.

I think, though, the vision statement addresses what we need to do, and that's get back to objectivity, integrity, and good will so that all the folks we audit, review, and investigate understand that we're there to make positive change. So I think there was a seed of perceived criticism that we have to overcome, or else the criticism will continue.

Mr. BASS. A quick question. I note in our committee staff memo here that last year's IG findings led to over 14,000 successful crimi-

nal and civil prosecutions, $1.9 billion in investigative recoveries, and $24 billion in recommendations that agencies' funds be better used.

Can you give me an example since 1978, in your opinion, the best accomplishment of an IG in, for example, HUD? What, is it from your perspective? I didn't want to put any words in your mouth.

Ms. BROWN. Well, I think there has been a lot of very far-reaching reviews. And I'm not familiar with all of them. I can mention a couple that I am familiar with. When I was IG of Department of Defense, we had the Ill Wind investigation, which was throughout the country, where there was a conspiracy among people in bidding government contracts and seeking information that was not to be obtained by the bidders.

We certainly have an extremely troublesome problem with fraud in the Medicare and Medicaid program. And my office alone brought back $8 billion last year to be put to better use or to reimburse the trust funds or go into the U.S. Treasury. And I think that those are very significant deterrents, as well, to those who want to defraud these programs.

Mr. BASS. Mr. Sparks, any ideas?

Mr. SPARKS. My experience is primarily with the larger agencies, with the larger investigative staff. It's just a large array of significant investigations, particularly when I was with Agriculture and the investigators in the food stamp and crop subsidy programs. Agriculture has a diverse set of programs, the welfare queens, so to speak, with the huge expenditures of ineligible food stamps, which was basically addressed through a combination of audit and investigations with computer matches, in one of the innovating tall soldiers where you pick out high risk recipients and vendors to look at.

I think each IG office has pretty significant investigative results in relation to the size of their agency.

Mr. BASS. Thank you very much, Mr. Chairman.

Mr. HORN. Thank you.

And I now yield to the ranking minority member, Mrs. Maloney of New York. Did you have an opening statement?

Mrs. MALONEY. I certainly do. And may I put it into the record?

Mr. HORN. Certainly. It will be put right after my opening statement at the beginning of the transcript.

[The prepared statement of Hon. Carolyn B. Maloney follows:]

STATEMENT OF HON. CAROLYN MALONEY ON THE REVIEW OF THE INSPECTOR GENERAL ACT

August 1, 1995

Thank you, Mr. Chairman. I am pleased that we are examining the Inspector General Act today. The Inspectors General play an important role in reducing waste at government agencies and fraud in government programs. Much of the rhetoric about cutting the size of government assumes waste and fraud, but few have turned to the experts to ask what should be done.

2

We have placed a heavy burden on the Inspectors General. We ask them to take the lead in ferreting out fraud and waste in their agency. And at the same time, we ask them to recommend improved management practices that would prevent fraud and waste before it happens, rather than investigate after the fact. We ask them to stand independent from their colleagues, and at the same time to work with them as colleagues.

3

This administration has emphasized the role of IGs as management consultants rather than investigators. Expending more effort on good management should lessen our need for investigation.

4

This is especially important when we are reducing the number of managers in the government. As we increase the number of persons a manager supervises, it is increasingly important that the manager have the necessary tools to do her job well. If not, downsizing will have the unintended consequence of increasing waste.

5

I am particularly interested in the role IGs have to play in debt collection. As you may know, I asked each agency to provide me with an estimate of their uncollected debt. For 1994 it totaled over $50 billion, and that doesn't include what is owed for taxes. Frankly, I was astounded.

The NPR has come forward with a proposal to improve debt collection by consolidating it at the Department of Treasury. They came in and briefed me on their plan last week. I must say I was somewhat disappointed when I learned the effort would only increase collections by $1 billion. That is only 2 percent of the non-tax debt, and less than 1 percent of the total.

I look forward to our discussions today, and I am interested in what can be done to improve the Inspector General Act. But I hope that in the discussions today we will address what the IGs can do to improve debt collection. There seems to be a serious failure in the government's ability to collect these funds. The expertise in the IG offices should be brought to bear on this problem.

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Thank you again, Mr. Chairman for holding this hearing. I look forward to hearing the testimony, and I look forward to finding some solutions to the problem of debt collection.

Mrs. MALONEY. As you know, Mr. Chairman, the days aren't long enough. We're running from 15 meetings. I thank you for having this hearing here today. I think it's critically important. A very important part of government is an independent and effective IG system.

And I would like to follow up on some of the questions of Charlie Bass on the independence of the IGs. There has been a great deal of talk in Congress about term limits. And I would like your comments on maybe should there be term limits for IGs in particular agencies. Do you become too friendly with the agency and not keeping as much of a critical eye?

Second, as we all know, when President Reagan came to office, he fired all of the IGs. And what does that do to independence? Would it be better for IGs not to be appointed by a President, a Democrat or Republican, but to be appointed by, say, some professional IG body?

Not to mention any particular city, but there was at one point a series of scandals with IGs in a particular city. And these IGs were appointed by a mayor. And if he didn't like their information, he would then cover up their information.

So then, a very important piece of legislation passed that created an independent body for IGs. And the IGs, of course, informed to administrators and to commissioners and to mayors, but they really responded to the IG's office. And the information they put forward, the integrity of it was always upheld.

So I would just like your comments on the integrity of the office. Do you think being a Presidential employee or a Presidential appointee gives you enough independence? The term limits argument that we're hearing in Congress about Congress, that maybe Congress Members become too much a part of a system, would that apply, those particular arguments, to becoming too familiar with a particular agency?

And I would like your comments on the independence of the office and whether you think the present system is working well, if the independence of the reports are really held sacred and if you think it would be a better system, the one that I described that some cities have implemented, that of a totally independent IG's office that not only appoints the representatives in the positions.

Ms. BROWN. Thank you. I do feel that there is enough independence in the office as far as our reporting relationships. And I don't feel we have the same situation that you might have in a city. The President and, of course, his aides select people from whom they choose IGs. And we have a unique authority in the Federal Government where we also have direct access to Congress. And that's a good check and balance, where we can maintain our independence.

Because if any agency had tried to cover up findings or ignore them, why, we certainly have regular reporting procedures that we go through with our semiannual reports. We have a 7-day report for something of a more critical nature, where we would send something forward to the agency head, and they in turn would have to provide it to Congress within 7 days. And this has proven to be a very effective means of maintaining our independence.

Mrs. MALONEY. Do you think the position should be a Presidential appointee?

Ms. BROWN. Yes, I do feel that the Presidential appointee gives the kind of independence and the visibility that it takes to do the work.

Now, regarding your question on term limits, I was fortunate enough to be one of those that was fired by President Reagan when he came in and have been appointed three times since to other agencies.

So I think I can speak with authority there, that every time there is a change, whether within the same party or a different party, there is a certain uneasiness, and we don't know whether there would be a change in the IGs as there are in other political appointees. And the fact that we do not come from a political background or play politics in any way in our position doesn't change that.

So I personally feel that a term limit would be appropriate, so that you know upon going in that unless it were for cause, that you were going to be there for a certain length of time and that an election wouldn't change that. I think it has the possibility of influencing when someone would release a controversial report or something of that nature.

Mrs. MALONEY. In your opening statement, you mentioned that you had brought $8 billion in uncollected fees into the agency. I would like more information on that, exactly how it happened and how you did it. And I would like to know, how does your agency in the collections area or the audit area have the cuts—what have they meant to your agency?

Will you be able to continue as aggressively going after people who are misusing the Medicaid/Medicare—abusing the Medicaid and Medicare system with the cutbacks? Do the cutbacks hurt you in any way in your effectiveness?

Ms. BROWN. Yes, there have been cutbacks that have. And the House mark so far is cutting us another 7½ percent. We basically were straight-lined. However, there have been increases in the availability pay for investigators that will cost us over $1 million in addition, plus rents and things have gone up.

So, in effect, that was a cut. And then, the House mark was another 7½ percent. So it would make a substantial difference. For each person on our staff, we average a recovery of $6.4 million. And it would take away——

Mrs. MALONEY. Each person on your staff averages a $6.4——

Ms. BROWN. Million in implemented recommendations, actual dollar recoveries, fines, penalties, and restitution.

Mrs. MALONEY. And if you had more people, do you think you could bring more in?

Ms. BROWN. Yes, I do. We may not maintain that average, because obviously, we're picking the biggest and the most productive cases.

Mrs. MALONEY. The chairman and I are working on a collections bill that would actually reward agencies that are effective at implementing collections and letting them keep a portion of that which they collect, so that they can become more effective. I'm interested in how you brought in the $8 billion, if you could get that to me.

Ms. BROWN. I would be glad to give you the detail on that.

Mrs. MALONEY. And also how the cuts hurt your ability to continue doing that type of job.

Mr. Chairman, I am missing right now a briefing by the Treasury Department on the BIF safe bill that is before the committee tomorrow for another important hearing. I am going to leave for one-half hour for the end of that briefing, and I will be back, if you will excuse me.

Mr. HORN. Thank you for coming. I'm glad you could participate in this panel.

Let me ask you, Inspector General Brown, of the cases you've had—and you've had phenomenal success in HHS, with the Medicaid and Medicare fraud and abuse—how does that process work? When the Inspectors General find particular violations, do you go to the local U.S. attorney?

Is that the route for criminal prosecution? And how much of that $8 billion was really through the criminal process or the civil process? I wonder if you could describe which is which and are they effective.

Ms. BROWN. I'll get you the exact detail, but it was about a half a billion through the criminal prosecution process. And the rest was all other types of recoveries. But we do have a very strict agenda. And those aren't proposals. Those are things that actually were implemented and changed.

When we get allegations, various types of allegations, we get them to the regional office that would have the responsibility. And they have a close working relationship with the local U.S. attorneys and bring cases to them at an early stage, and we work together with the U.S. attorneys to obtain prosecution.

Mr. HORN. Have you ever had any difficulty in getting the U.S. attorney to prosecute cases that you or your staff thought ought to be prosecuted?

Ms. BROWN. Well, many times in my past, I have had. But I must say that in this job and since the Attorney General, Janet Reno, has made this the second highest priority after violent crime for the Justice Department, why, they have been very anxious and proactive in looking for cases to prosecute. So we haven't had a problem there.

We also have a regular meeting where the FBI, high-level people at Justice, as well as the criminal and civil division, and my office meet in order to keep everything moving and make sure that we're expediting all the work in that area. And that has worked very successfully.

Mr. HORN. In your past roles as an Inspector General, do you feel the lack of prosecution by some U.S. attorneys was a matter of whimsy, were they truly short of resources or they just didn't give this particular endeavor a high priority?

Ms. BROWN. It was two things, I must say. One was lack of resources on their part. They were all usually very overbooked. The other was, many of the cases are very complex. And so you—some U.S. attorneys didn't feel that the time that would have to be devoted and the ability to convince a jury when they had to use accounting data and so on was sometimes very difficult.

And we worked with those issues and sometimes found that we could present things by charts, superimposing one over the other

to show why a cause and an effect occurred, some things like that that were very successful in gaining successful prosecutions in the procurement area, for instance. And they increased substantially the number of cases they prosecuted then.

Mr. HORN. You were an Inspector General in the Department of Defense. They would have rather complex procurement cases. They would be dealing with rather large corporations. Did the fact that some of them might be large corporations scare off the U.S. attorney, in terms of the counsel resources that he or she might face in a Federal court?

Ms. BROWN. No, I don't think I could ever say that. Usually, when it was a large corporation, it was a very small part of that operation. And so I don't really think I ever experienced a U.S. attorney backing off because they didn't want to face high-paid attorneys that might challenge them.

However, they were complex cases. And we worked closely and sometimes even provided training in certain areas so that some of the assistant U.S. attorneys became quite familiar with what we were working with.

Mr. HORN. Anyhow, it's your conclusion, then, given Attorney General Reno's policy in placing this as No. 2 of the priorities to be addressed by her staff, that throughout the country, there has been cooperation with the efforts of HHS Inspectors General?

Ms. BROWN. Yes, sir.

Mr. HORN. And we haven't had any cases where they haven't been cooperative?

Ms. BROWN. No. I don't think there has been any that without some reason that would become obvious to us that they have ever refused to work on our cases.

Mr. HORN. This committee held a hearing in the last Congress about the allocation of U.S. attorney resources. And it was very clear that historically, there hasn't been much sense in terms of how some of these resources are allocated, and it's who was there when, partly in a political situation, that made sure the resources flowed in one direction rather than another.

And we certainly urge the Department of Justice to get a little more rational system based on caseload, based on need, and changing circumstances. So these questions are designed to see if you feel there's much change in the field, or is this just a matter of the Attorney General saying, "I care, and let's do something about it." A boss can often get a few results that way.

Ms. BROWN. Well, I think it's more than saying she cares, because we do have this—there's a high-level official, Gerald Stern, that she appointed just for health care. And, as I say, we meet regularly between HCFA, the IG's Office, the FBI. We have exchanged personnel. We have FBI people working in our office and ours in theirs to keep these cases moving.

We meet at least once a month and go over the larger cases or anything that stalls in the process. We have streamlined procedures, so that they have direct access to some of our data bases and we have access to some of their materials.

They have given us blanket deputization to save time in getting people deputized in order to make arrests or issue subpoenas and things where they need to have a weapon with them. And so we

have streamlined a lot of things as an effect of this decision that she made.

Mr. HORN. So the Federal agencies you need to secure cooperation from, you feel, have been cooperative, be it the FBI or others?

Ms. BROWN. Yes, I do.

Mr. HORN. Mr. Bass, do you have any further questions?

Mr. BASS. No further questions.

Mr. HORN. Mr. Tate, the gentleman from Washington.

Mr. TATE. Thank you, Mr. Chairman.

Thank you for coming. A couple of questions. I've had a series of town hall meetings in my district and more specifically on the issue of Medicare and what we're working on back here in Washington, DC, in respect to preserving and protecting Medicare.

One of the things that I had suggested to the people when I mailed to them and when I came, they all gave me their stories of waste, fraud, and abuse that they had seen. And I can give you a nice, big stack of suggestions, details, long letters, documenting through the process of what they would consider waste or fraud or just many times flat-out abuse.

And I've also seen a number bantered around of $40 billion by the General Accounting Office of waste, fraud, and abuse between Medicare and Medicaid. Where does that number come from?

Ms. BROWN. That was a number that the General Accounting Office came up with, which was approximately 10 percent of the amount spent in those two programs. And based on a lot of work that has been done, they came up with that estimate. We have tried to prove it. A lot of people have inquired as to whether there was a sound basis.

Mr. TATE. Is it sound?

Ms. BROWN. It was loosely determined, but I think it's in the ballpark, certainly.

Mr. TATE. Because that doesn't obviously include the ones that came to my town hall meeting, because they probably hadn't turned them in. What would you suggest to these individuals that do come up with these? Where do they send them? I've got a stack, and my staff is wading through them. Do we send them to you?

Ms. BROWN. Yes, absolutely. And we have a number.

Mr. TATE. Is that a 1–800 number?

Ms. BROWN. HHS–TIPS, 1–800–HHS–TIPS. We have a team of people that are waiting for those calls and taking action on them.

Mr. TATE. And we kind of laugh about it, but it's very serious to them, when we're talking about Medicare. And just in the 9th District of Washington State, they're coming up with that.

I've looked through some of your audit initiatives. And you're talking about partnerships between the State and the Federal Government. One of the ideas bantered around right now is giving the senior citizens, for example, on Medicare, a percentage of the waste, fraud, and abuse that they uncover, and it would be 10 percent—they find $100, they get $10. Would that be something that would assist in your process of determining waste, fraud, and abuse that may be out in the system?

Ms. BROWN. Well, let me put it this way. There is a qui tam legislation which gives people from 10 to 25 percent of anything. And we have—a lot of people have collected millions of dollars through

that. We currently have 74 qui tam cases. And we have had others settled, $110 million and other amounts. So it has been a very useful thing.

I know that senior citizens are very concerned, and rightfully so. And I think we could set up an almost unmanageable system. And 10 percent is a pretty high amount.

But judging from those I've talked to, I think if they turned in information and found a false billing or something like that, even an amount like $25 would be something where they felt they were doing their civic duty and they had something to show their friends that would make everybody much more alert to those copies of bills they get, make sure that they did get the service and that it was a necessary service. Because we have—those Gray Panthers are our greatest asset out there.

Mr. TATE. Well, absolutely. You had suggested earlier that the percentage of what your staff is able to find—I don't remember the number, but that each staff pays for themselves several hundred times. I can imagine what 39 million Americans as auditors on Medicare would be able to bring into the Federal Government in the amount of savings.

And so I would hope that, as we work through these in dealing with the whole issue of Medicare and trying to preserve and protect it, that we could work with your office, and come up with ways—and I definitely will be calling you afterwards to give you my list.

Ms. BROWN. I would be happy to have those. We will process them.

Mr. TATE. And they are very detailed. Thank you very much.

Ms. BROWN. Thank you.

Mr. HORN. I'm sending out my newsletter to 250,000 homes next week, and I do have your 1–800 number in it. So I'm curious if anything happens. Originally, I had put in my answers, "If you see any waste, fraud, or abuse, please send me the correspondence, and I'll send it to the inspector general."

Mr. TATE. It would be nice to have them send it to them.

Mr. HORN. That's right, at which point the staff went crazy and said, "Can't we cut out you as the middleman and go directly to the inspector general?" And that's what we're trying to do. So have you found that 800 number is generating quite a bit of interest and claims?

Ms. BROWN. Yes. And it is growing. But we have room for some more. When HHS was combined with Social Security, we were getting as many as 100,000 calls a year. And it is cut down somewhat, with Social Security being separated. And, of course, some of these are just billing errors or other kinds of concerns.

We're getting fewer than that now, but we're finding that there is about 25 percent of them that need follow-up because there actually is some—either a mistake or some kind of fraudulent activity that is occurring. So we are getting a lot of good tips.

Mr. HORN. One of the questions that has come up when we were talking about Chief Financial Officers—and I suspect it might be true of the Inspectors General, as well—is the training that is needed, one; with entry-level people in this area, and two; with the people that are already in the area. How would you assess the

training in the agencies where you have served as an Inspector General?

And then I would like to ask your colleague to what extent he feels there's sufficient training in the agencies with which he has been involved. But why don't you start?

Ms. BROWN. Well, we of course hire auditors that have a college degree in accounting. Of our 478 auditors, 188 of them, or about 39 percent, are CPAs. We use the—we have an investigator Inspector General training center at Fort Belvoir. We provide people training there. There also is the U.S. Department of Agriculture Graduate School. They provide training in specific areas.

And I have sent a lot of my people down to the investigator training school in Glynco, GA, the Federal law enforcement training center, to learn more about handling fraud cases. Because we do use them to determine the amount of fraud and so on, so that we can successfully fight these cases in court. And so we have extensive training for our auditors.

Cuts, of course, in budget are going to affect that, because we'll have to—all we have is really the pay, travel, and their training.

Mr. HORN. Would you like to add to that, Mr. Sparks?

Mr. SPARKS. Well, I agree. Basically, I think we put—in the designated IGs, also, and only a few are subject to the Chief Financial Officers Act—but generally on training, that's one of the priorities of PCIE and ECIE internally. We put an awful lot of emphasis on the training. The assessment of training is the tricky part, coming up with a performance measure as to whether the training has paid off in better performance or reduction of the "gotcha" attitude.

And I think since the CFO or just financial accounting, which was done before the CFO Act, financial auditing, we have to combine the skills of common sense, logic, and prioritization with the outcomes of our financial statement audits, so that we can prioritize what's important on the statements, as opposed to recommending another 3,000 controls.

I think this is an area that we have got to integrate somewhat better. We have got to have better reports that the layperson understands. And I think training and report writing and communication should be tied together.

As Ms. Brown said, many of us are now having auditors go to investigative basic training and investigators go to audit basic training so that these two staffs can mesh their disciplines in a more effective way. Because investigations can provide good management findings and recommendations.

In the past, it was pretty much investigators going to the U.S. attorney for indictments and convictions. I think their ideas as to what's wrong with programs can be used effectively. So we're trying to mesh our own disciplines first as we proceed in the process.

Mr. HORN. I wonder, Mr. Sparks, if you would like to go back to the question of cooperation of U.S. attorneys. Have you had any problems or have the smaller agencies in getting their attention?

Mr. SPARKS. In the past years, I think it has improved. My experience goes way back to where you had smaller dollar impacts. Obviously, the priorities of U.S. attorneys were generally on larger impact items, which we could understand.

In talking with my fellow colleagues who are into areas like banking regulation and employee fraud, the U.S. attorneys seem to be putting more emphasis on these types of cases. The FBI, for example, is on the ECIE and PCIE, which gives us an entree to the Department of Justice.

In the grantmaking agencies, such as mine, we get a lot of cooperation from State and local authorities. For a U.S. attorney, it may be too small for a small grantee problem; but State and local authorities are very cooperative. But I've seen an overall improvement. I think the fact that the IGs are now known—we were kind of secret in 1978.

I think the Congress, the public, the media, and the U.S. attorneys all know more about us now. And I think this has helped improve the climate for cooperation and action.

Mr. HORN. On the training, Glynco has been mentioned, the Department of Agriculture Graduate School. The Office of Personnel Management has not been mentioned. Do they conduct courses in this area? Should they conduct courses in this area? How much initiative do they seem to be taking in relation to the education and training and professionalism of IGs?

Ms. BROWN. I think they do have some executive level training. They have managerial training, things like that. I thought the earlier question was about accounting and auditing techniques specifically, and usually, that's so specialized that most of it isn't done through OPM.

Mr. HORN. I'm even willing to throw in assertiveness training, should anybody be too shy, or politeness if they're too aggressive. Civility should not be a lost cause, even in enforcement agencies.

Ms. BROWN. Well, there is a lot of the tangential training that we do through OPM. And we have found them very effective.

Mr. HORN. Any suggestions in the training area that you would like to make that you haven't made? What else should we be looking to here?

Ms. BROWN. I don't think so, except for the budget allowing enough money that we can continue giving people the training they need.

Mr. HORN. In some professions, dentistry, medicine, law, there's a time requirement that you put in every so often, every 3 years, to be relicensed. Should we think in those terms with investigators, inspectors, reviewers, and all the rest? Is there any need of that, plus a dose of ethics?

Ms. BROWN. There is a requirement that they have the ethics training every year. They also have, I believe, it's 40 hours of training for auditors every year. And in the investigative side, we also have compulsory training. And, of course, their weapon training has to be renewed on a regular basis. So we do have a lot of those standards that we are living by.

Mr. HORN. Mr. Sparks, do you want to add anything?

Mr. SPARKS. I agree with that. I think—well, auditors are required under our continuing professional education requirements to have 80 hours training every 2 years. And I think investigators, in their quality standards, have some basic training requirements. Maybe inspectors do, too.

I just repeat that we need to integrate the technical training with the interpersonal training, so that we mesh the two effectively. The mission statement is a good example, I think, of reinforcing what most of us think we have been doing for a long time; but maybe folks didn't see it quite as well as we did or didn't think we were doing as well.

But I think combining the technical subjects, which we're very strong on, with some of the other interpersonal skills that I think need reinforcing is where we should go.

Mr. HORN. I take it OPM has not had much of a role in development of training modules or anything.

Mr. Bass, do you have any further questions?

Mr. BASS. No further questions, Mr. Chairman.

Mr. HORN. Are there any further questions we ought to worry about here?

[No response.]

Mr. HORN. We'll do some for the record. You might get a letter or two from us. If you would be good enough to respond, that would be helpful. Well, we thank you both for coming and representing your peers in this important assignment. And it is a very important assignment, not just on money and return to the Treasury, which is obviously wonderful, but just basic integrity of governmental systems and citizen response. So thank you very much.

Panel two, we have the Honorable Valerie Lau, the Honorable Frank DeGeorge, and Mr. William Esposito. If you would come forward, stand and raise your right hand.

[Witnesses sworn.]

Mr. HORN. All three witnesses affirmed. We will begin with the Honorable Valerie Lau, Chairman of the PCIE Audit Committee and Inspector General of the Department of the Treasury. Welcome.

STATEMENTS OF VALERIE LAU, CHAIRMAN, PCIE AUDIT COMMITTEE AND INSPECTOR GENERAL, DEPARTMENT OF THE TREASURY; FRANK DeGEORGE, INSPECTOR GENERAL, DEPARTMENT OF COMMERCE; AND WILLIAM ESPOSITO, CHAIRMAN, PCIE INTEGRITY COMMITTEE AND ACTING DEPUTY DIRECTOR, CRIMINAL INVESTIGATIVE DIVISION, FEDERAL BUREAU OF INVESTIGATION

Ms. LAU. Thank you. Mr. Chairman and members of the subcommittee. Thank you for the opportunity to discuss with you several issues of importance to the IG community. As you mentioned, I appear here today as the Audit Committee Chair of the President's Council on Integrity and Efficiency. And also as you know, since my confirmation in October 1994, I am also the Inspector General for the Department of the Treasury.

The PCIE's Audit Committee takes the lead on audit issues affecting the IG community. The subcommittee expressed an interest in several of those issues. These are addressed in full in my written statement, which I would like to submit for the record.

Mr. HORN. Thank you. As we said previously, automatically, all statements are submitted. And then we would like you to summarize in 5 minutes.

Ms. LAU. This afternoon, I would like to focus in particular on IG responsibilities and concerns under the CFO Act. As time permits, I will also comment on the other issues detailed in my written statement.

The CFO Act, together with the Government Management Reform Act, imposes substantial new audit requirements on the IG community. The CFO Act requires that certain activities of government agencies have annual audits of their financial statements.

These audits range in size and complexity from small trust funds with less than $500,000 in assets to huge service organizations like the IRS, which collects over $1.2 trillion in revenues per year, the Social Security Administration, which disburses over $300 billion in benefits annually, and manufacturing entities, such as the U.S. Mint, with assets in excess of $10 billion.

These audits in themselves will be difficult. Compounding that difficulty is the fact that many of these organizations have never undergone financial statement audits. Experience shows that early financial audits present unique challenges to the agency and auditor alike. As you know, the requirements of the CFO Act have been expanded.

Each executive agency must have audited department-wide financial statements for fiscal year 1996. And the first audit governmentwide consolidated financial statement is required for fiscal year 1997, just 2 years from now.

The Federal audit community must work together if these audits are to be accomplished. GAO, as principal auditor for the governmentwide statements, will need to rely on the audit work that the IGs perform on their respective department-wide statements.

Mr. Chairman, I am particularly concerned that the audit plans for performing this work and building toward it are not being linked with the budget decisions of the Congressional Appropriation Committees. Most IGs and the GAO will face budget cuts through and beyond fiscal year 1996. To successfully complete the first governmentwide audit, we must bring together in a unified plan the budget decisions for the IG offices and GAO over the next several fiscal years.

The audit of the governmentwide financial statement will be the largest financial statement audit ever performed. We cannot make budget decisions for individual agencies in a vacuum and expect somehow to be successful in our goal. These multiple decisions are interrelated. They need to be planned now over several years, and these commitments must be kept, or the mandates of the act cannot be achieved.

For example, 18 months ago, my own audit office was almost totally devoted to compliance and performance audit work. In contrast, today, half of our audit resources have been diverted to financial statement audits, primarily those of the U.S. Customs Service and the Bureau of Alcohol, Tobacco, and Firearms. Together, these two bureaus generate over $36 billion in revenues, more than double the annual sales of Disney and ABC combined.

In closing, Mr. Chairman, legislation such as the IG Act and the CFO Act recognize that Congress and Federal managers must have reliable information to help them make the hard fiscal decisions facing the Nation today and in the years ahead.

The IG community appreciates the interest and support of congressional oversight committees such as yours. However, if we are to achieve the goals laid out in these laws, we also face tough decisions. We have a choice. We must either find, with your help, the additional resources needed to accomplish the many IG mandates, or we must acknowledge that some services expected of the IGs may no longer be possible under current budget and staff limitations. Thank you.

[The prepared statement of Ms. Lau follows:]

VALERIE LAU

INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY

CHAIR, PCIE AUDIT COMMITTEE

OPENING STATEMENT

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

Thank you for the opportunity to discuss with you several issues of importance to the inspector general (IG) community. I appear here today as the Audit Committee Chair of the President's Council on Integrity and Efficiency (PCIE). As you know, I am also the Inspector General for the Department of the Treasury. In both of these roles, I am committed to working with the Federal audit and financial management community and my Department to further the progress made in strengthening government management controls and fiscal accountability. To this end, I am involved in many emerging issues in our community. For example, I am a member of the Government-wide Audited Financial Statement Task Force, the Treasury Financial Statement Advisory Committee, the American Institute of Certified Public Accountants, the Association of Government Accountants, the Intergovernmental Audit Forum, and the Institute of Internal Auditors. Each of these organizations provide leadership in developing and implementing government accounting, auditing and financial management policy.

PCIE's AUDIT COMMITTEE

The PCIE's Audit Committee contributes to improvements in government financial management. Our mission is to provide leadership in improving audit quality in the IG community, coordinate interagency audits and other projects assigned by the PCIE, and enhance the professionalism of PCIE member organizations by keeping the IG community current on auditing standards and techniques, and emerging issues in Government financial management. To accomplish this, our committee is involved in several activities on a routine basis, such as:

(a) developing and representing the opinion of the PCIE with regard to new or revised professional accounting and auditing standards and other authoritative pronouncements dealing with auditing and accounting matters which impact on the IG community;

(b) developing and representing the opinion of the PCIE on single audit and other non-federal audit issues including formulating answers to questions and interpretations of requirements effecting the role of the IGs;

(c) serving as a focal point for the PCIE regarding the Chief Financial Officers (CFO) Act;

(d) providing technical guidance for peer review of PCIE members;

(e) coordinating audits and other projects dealing with significant multi-agency oversight and policy issues;

(f) leading and participating in non-federal audit quality initiatives; and

(g) serving as the Board of Directors for the Inspectors General Auditor Training Institute.

THE ISSUES

Today I would like to talk to you about: (1) IG responsibilities and concerns under the CFO Act; (2) the IG role under the Government Performance and Results Act (GPRA); (3) the PCIE's progress in revising its peer review process; (4) the PCIE's opinion on recent revisions to the Single Audit Act; and (5) the PCIE's position on recent pronouncements by the Federal Accounting Standards Advisory Board (FASAB).

IG RESPONSIBILITIES AND CONCERNS UNDER THE CFO ACT

The CFO Act requires that certain activities of government agencies have annual audits of their financial statements. The Act provides that agencies with IGs are to have the financial audits performed by the IG or an independent external auditor as determined by the IG. These audits range in size and complexity from small trust funds with less than $500,000 in assets to huge service organizations like the Internal Revenue Service (IRS) which collects over $1.2 trillion in revenue per year, the Social Security Administration which disburses over $300 billion in benefits annually, and manufacturing entities such as the U.S. Mint with assets in excess of $10 billion. These audits in themselves will be difficult. Compounding the difficulty is the fact that many of these organizations have never undergone financial statement audits. Experience shows that early financial audits present unique challenges to the agency and auditor alike. For example, in its financial audit for FY 1994

the Air Force identified almost $28 billion of previously undisclosed contingent liabilities for items such as contract appeals and civil law and litigation claims.

As you know, the Government Management Reform Act of 1994 (GMRA) expanded on the CFO Act. The GMRA requires each executive agency identified in the CFO Act to prepare and have audited department-wide financial statements for FY 1996. This Act also requires preparation and audit of a government-wide consolidated financial statement for FY 1997. In order to accomplish these mandates, the General Accounting Office (GAO), the Office of Management and Budget (OMB), and the Department of the Treasury jointly organized the Government-wide Audited Financial Statement Task Force. The task force comprises representatives from the CFO and IG communities, GAO, and OMB who seek to unite leaders in the financial community to achieve the goal of an audited government-wide financial statement for FY 1997.

In his comments before you last week, Comptroller General Bowsher described the progress made and challenges ahead for CFOs and IGs in achieving the goals of the CFO Act. Here are some key concerns from the viewpoint of the IG community.

RESOURCE CHALLENGES

As a member of the Government-wide Task Force and Chair of the PCIE Audit Committee, I am particularly concerned that the audit plans for performing this work and building towards it are not being linked with the budget decisions of the congressional appropriations committees. Most IGs and the GAO will face budget cuts through and beyond FY 1996. To successfully complete the first government-wide audit, we must bring together, in a unified plan, the budget decisions for the IG offices and the GAO over several fiscal years. The audit of the government-wide financial statement will be the largest financial statement audit ever performed. We cannot make budget decisions for individual agencies in a vacuum and expect somehow to be successful in our goal. These multiple decisions are interrelated and need to be planned now over several years and these commitments must be kept or the objectives of GMRA cannot be reached.

For example, 18 months ago my own audit office was almost totally devoted to compliance and performance audit work. In contrast, today half of our audit resources have been diverted to financial statement audits, primarily those of the U.S. Customs Service ($23 billion in annual revenue) and the Bureau of Alcohol, Tobacco, and Firearms ($13.5 billion in annual revenue). The House Appropriations Committee's mark for FY 1996 puts our office's budget at the FY 1995 level. As budgets are reduced, meeting GMRA requirements will result in an even larger share of audit staff resources assigned to financial statement work. To

illustrate, we at Treasury have independent public accountants (IPAs) performing CFO work under contract at one of our large Bureaus and several smaller Department entities and trust funds. This year we will obligate over $3.3 million for CFO-related IPA work. As budgets tighten, our inability to pay for this contract work may cause us to further direct our own in-house staff to financial statement work.

Adding to this problem is the difficulty of converting non-financial auditors into financial statement auditors. Our non-financial auditors are typically not CPAs. Financial statement audits of this scope and magnitude require CPAs to direct and supervise the work. Our office needs to grow to most effectively meet this new mission. Budget cuts intensify this difficulty and make the goals of GMRA problematic for an organization in transition.

PARTNERSHIP WITH CFOs

Another important aspect of the CFO Act/GMRA objective is how the IG community works with the CFOs within their Departments. To be successful in generating audited government-wide financial statements, the IGs must be accepted as partners in the CFO process and looked upon as reliable expert resources in improving financial management.

At Treasury, we have established sound working relationships with CFOs both at the Department and Bureau level. At the Department level, we sit on the Department's Financial Statement Advisory Committee to assist in developing a model for Treasury's financial statements in accordance with the GMRA. This type of pro-active, up-front involvement with the Department has a mutually beneficial impact on the CFO process. Also, the Department has regularly sought our technical advice on financial issues of importance. Recently, we were asked to review and provide advice to the Department on certain audit procedures to be performed by other auditors on internal controls over Mexican oil revenues pledged against Exchange Stabilization Fund guarantees of Mexican borrowings.

Also, at the Treasury Bureau level, we have been working with the CFOs of several of our major Bureaus. For instance, at the Bureau of Alcohol, Tobacco and Firearms, we have been advising the CFO on a wide range of financial issues including those relating to the Bureau's preparation for its first financial statement audit. In this capacity we believe the Bureau views us as a valued financial management advisor. In providing such advice, we are careful to maintain our independence. We do not become involved in their management decisions.

We also have developed a productive relationship with the U.S. Customs Service. Customs has received disclaimers of opinion on its financial statement for the last few years because internal control weaknesses have prevented them from producing timely, auditable financial information. To assist them in addressing these problems, we sit on their ADP Steering Committee in an advisory capacity as they develop and implement improved procedures. We also provide advice on improving controls over goods entering into the commerce of the United States, or being exported, and in the proper assessment of duties, taxes and fees.

FINANCIAL AUDITS ARE BUT ONE MANAGEMENT TOOL

While audited financial statements are important, a "clean opinion" is not the sole indicator of sound financial management within an agency. All information reported in the financial statements is a tool that must be properly used to assess and evaluate the organization's financial and performance status. Far too often readers overlook serious financial management conditions disclosed in the accompanying reports on internal control and compliance with laws and regulations simply because the audited entity received an unqualified ("clean") opinion on its statements. Unqualified opinions are a positive step in improving financial management but they do not tell the whole story.

For example, we have a Bureau in the Treasury Department that received it's first unqualified opinion in its third year of audit. However, the internal control report described several ongoing material weaknesses. An uninformed reader might look at the opinion alone and assume that all is well when, in fact, major financial management and system problems still exist.

Audited financial statements provide agency managers and oversight entities such as the IGs and GAO, information which can be used in measuring organizational performance and evaluating fiscal responsibility. As we move into an era where the Government will have to "do more with less," information provided in audited financial statements will be critical in making the difficult spending decisions ahead.

GOVERNMENT PERFORMANCE AND RESULTS ACT

The GPRA requires Federal agencies to develop five year strategic plans, and annual performance plans that are consistent with the strategic plan. A key element to the planning is identification of a set of performance measures that measure results in terms of outcomes and that can be tracked over time. These performance measures will become the driving force for agency management and budget decisions. The Chief Financial Officers Council,

established by the CFO Act, stated the purpose of GPRA quite well. The Council said:

> "GPRA places new management expectations and requirements on federal agencies by creating a framework for more effective planning, budgeting, program evaluations and fiscal accountability for federal programs. The intent of the GPRA is to improve public confidence in federal agency performance, by holding agencies accountable for achieving program results and to improve congressional decision making by clarifying and stating program performance goals, measures and costs 'up front'."

IG ROLE IN GPRA PROCESS

In this early period of GPRA implementation, the IG role is evolving in varied ways with different approaches being tested among the IGs. In some cases such as the Department of Labor, the IG has audited performance measures in the early stages of GPRA implementation and advised programs on their measures. At the Department of Health and Human Services, the IG intends to work on the development of performance measures when invited to do so by the programs. At Treasury we are working with the department on the GPRA processes. We are looking at the steps necessary for GPRA implementation including strategic planning, coordination between planners and budgeters, and systems for collecting data to measure performance. Initially, this is taking the form of some self-assessment tools that Bureaus and offices can use to review their own processes. Later these tools will serve as a framework for our assessments and reviews. I hope that this approach will result in our working in new ways with the Department to address issues early.

In the early implementation of GPRA, agencies will have to ensure that the methods and systems used to collect performance data can withstand rigorous validity testing by the IGs, GAO or other outside analysts. They can do this through continuous self-assessment and improvement. Invariably, we will use performance indicators developed under GPRA as well as those financial benchmarks established by the CFO Act and the GPRA as part of our overall evaluation of agency performance. While we must be careful to maintain a level of objectivity and independence, I believe we can work with Treasury management to assist the GPRA processes and reach a mutual understanding with the Department and Bureaus on how to achieve improved performance.

In this early stage of GPRA implementation, the IG role must be reflective of the specific programs and operations of the IG's individual departments, and therefore, the approach to GPRA will differ from OIG to OIG. The challenge we face is working with our respective departments to achieve improved programs and

services whether through direct involvement with the GPRA process or by carrying out more traditional IG activities to address fraud and inefficiencies in operations.

IG REPORTING REQUIREMENTS

The GMRA provides no audit requirement, per se, related to performance measurement information. However, the Act allows agencies to include all program performance information required to be included in its annual program performance report in annual financial statements prepared in accordance with the CFO Act. It is anticipated that many agencies will meet the annual reporting requirements of GPRA by including their performance measurement information in the Overview section of their annual CFO Act report. Therefore, the performance measurement information will be subjected to limited audit procedures as outlined in OMB guidance entitled Audit Requirements for Federal Financial Statements. Those procedures require the auditor to understand how the agency makes sure the data is correct, and that reported performance measures are properly recorded and summarized.

PEER REVIEW PROCESS

Over the last few years, the PCIE has been concerned that their internal peer review process has not provided useful insight into the total quality of audit products being produced. Also peer reviews were not providing opinions on other important aspects of IG activities such as investigations, thereby failing to provide member IGs with a complete picture of their organizational performance.

The PCIE Peer Review process began in 1988 when the PCIE, in order to conform with revisions to Government Auditing Standards, developed a peer review process and guide. The peer review's objectives are to assure that the OIGs' internal quality control systems are in place and operating effectively and the established policies, procedures, and applicable standards are being followed in their audit work. Originally, the PCIE was not involved in determining which IG would review which. Each IG determined who would perform their peer reviews. As this process evolved many questions were raised as to the depth and usefulness of the peer reviews and discussion ensued as to how the process could be improved. The Federal Audit Executive Committee (FAEC), comprised primarily of the heads of each PCIE member's audit operations, has initiated an evaluation of the PCIE Peer Review process. They intend to issue a report to the PCIE through the Audit Committee by early fall.

OBJECTIVES OF THE FAEC'S PEER REVIEW REPORT

The FAEC's report will address five concerns of the PCIE: (1) whether the objectives of the peer reviews should be expanded to include a review and determination of the effectiveness of OIGs; (2) whether the scope of the reviews should be expanded to include other OIG activities including investigations and inspections; (3) whether the PCIE should take steps to amend the IG Act to allow external reviews to be contracted out, i.e., to IPAs; (4) whether the PCIE guidance should specify that reviewers be people currently working in some capacity in the audit process as opposed to working in an internal quality assurance process; and (5) the make-up of the team structures and how decisions should be made as to who reviews whom.

INDEPENDENT PUBLIC ACCOUNTANTS PERFORMING PEER REVIEWS OF FEDERAL AUDIT ENTITIES

One issue of controversy being addressed by the FAEC Peer Review study is whether IPAs should be allowed to perform peer reviews of Federal audit organizations. The IG Act as amended in 1988 requires that external reviews of IG audit operations be conducted by Federal audit organizations only. Some IGs have expressed interest in seeking to remove this statutory limitation so they might contract with IPAs to conduct the reviews. Among their reasons for wanting this flexibility are: (a) it may be less costly, (b) it would be easier to identify an organization who could do the review, and (c) it would eliminate the appearance of a lack of impartiality caused by a relatively small IG community reviewing itself.

On the other hand, while IPAs for the most part are highly qualified to perform financial audit related peer reviews, not many IPAs have the experience needed to adequately evaluate performance audit standards and results -- a very significant portion of an OIG's audit work. In addition, having external audit organizations performing reviews of working papers containing Privacy Act protected and/or security sensitive information requires additional considerations which would need to be addressed.

When the results of the FAEC study have been issued to and accepted by the PCIE, I would be happy to share them with the committee.

PROPOSED SINGLE AUDIT ACT REVISIONS

The Audit Committee is very supportive of the effort underway to revise the Single Audit Act of 1984 and the related OMB audit circulars. Both GAO and OMB have been very collaborative in the

development of the proposed revisions. The PCIE, through the Audit Committee, has been heavily involved in this effort. Staff that support the Audit Committee on single audit issues have been working closely with OMB and GAO throughout the development of the proposed revisions.

In 1993, the PCIE issued a report, Study on Improving the Single Audit Process. The study found that the Single Audit Act has been fairly successful in meeting its objectives, but that changes are needed to improve the effectiveness of the single audit process. The report contains over 75 recommendations for improving the single audit process, including many that require revising the Act. I am happy to report that the proposed revisions to the Act and the circulars incorporate most of the recommendations in our report.

Among the proposed changes to the Act that we support are the following two key provisions:

- Raising the Thresholds. The current threshold of $25,000 for requiring an audit is far too low and needs to be raised. We recommended that the threshold be raised in our study. We also support the provision allowing the Director of OMB to adjust the threshold levels in the future. This will allow future adjustments to the thresholds to achieve or maintain the optimum level of audit coverage, without waiting for legislative changes.

- Risk-Based Selection of Programs. The proposed revision provides for selecting programs to be audited based on risk, rather than dollar value alone. We recommended this approach in our study and we continue to believe it is a necessary change. Currently, programs are selected to be audited based on dollar value alone. This has resulted in the same programs being audited year after year, even if they had no history of problems. There is no flexibility to allow replacing these "clean" programs with other more risky programs. The proposed revisions would allow this flexibility to concentrate the audit in the areas of the highest risk.

In conclusion, we agree that the Single Audit Act needs to be revised and we are in general agreement with the latest draft of the revised Act.

FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Audit Committee believes the work of FASAB is critical to improving the financial management of the Federal Government and that it has done a credible job in establishing accounting standards. Soon after FASAB became operational, the Audit Committee changed the procedures for assuring that the Inspectors General have input to the standards-setting process. As a result, the PCIE as an organization has not commented on the more recent standards recommended by FASAB. Instead, it has been left up to the individual Inspectors General to provide comments to the FASAB. However, we believe that the standards recommended to date have not caused any unreasonably onerous audit burden, or other adverse effect, on the role of the Inspectors General.

CLOSING

In closing Mr. Chairman, I would like to say that the CFO Act, GMRA, GPRA and other legislative initiatives such as the IG Act are instrumental in assuring that Congress and Federal managers have the information necessary to make the hard fiscal decisions facing the nation in the years ahead.

The IG community appreciates the interest and support of congressional oversight committees such as yours. However, if we are to achieve the goals laid out in these laws, we also face hard decisions. We have a choice. We must either find, with your help, the additional resources needed to accomplish the many IG mandated missions or acknowledge that some services expected of the IGs may no longer be possible under current budget and staff limitations.

Mr. Chairman, thank you. I would be happy to answer any questions.

Mr. HORN. Well, we thank you.

Mr. DeGeorge.

Mr. DEGEORGE. Mr. Chairman, I'll try to paraphrase briefly from my statement. Although information systems hold the promise of helping agencies to perform their missions more effectively, all too often, this promise is not fulfilled.

Cost overruns, schedule delays, and technical performance failures are a familiar litany on too many projects. Aggressive, early, and effective oversight on the part of the IG can help agencies to avoid pitfalls and achieve greater success in planning, developing, acquiring, and operating information systems.

However, oversight is not enough. As I will point out, the problems in systems acquisition and management are deep and systemic and must be dealt with through policy and management changes.

The Department of Commerce spends more than $600 million annually on information technology. We are in the midst of four costly, complex, and critical modernization programs: the National Weather Service, the Patent and Trademark Office, the department's accounting and administrative systems, and the systems for conducting the 2000 census. Commerce also purchases many millions of dollars worth of smaller systems, generally, but not always, commercially off the shelf.

Despite the importance of information technology and its enormous costs, Commerce, like most other civilian agencies, often does a poor job of planning, acquiring, and managing its systems. It lacks personnel and leadership in management positions with experience, expertise, and understanding of systems acquisitions.

It lacks meaningful processes, criteria, and methodologies for program managers to adapt to their own systems and circumstances. As a result, systems acquisitions are often disorganized and ad hoc. The results speak for themselves.

There are serious problems with most of Commerce's major systems modernization programs. Because of the importance of the information systems to the department and its many critical missions and its poor track record, we have made systems evaluation and oversight in our office one of the highest priorities.

To do this job, we formed the Office of Systems Evaluation. This office reports directly to me and is managed by an Assistant Inspector General for systems evaluation, a senior executive position we created to focus specifically and exclusively on information systems and technology issues. We conduct our reviews as early as possible in order to obtain timely improvements and avoid costly mistakes.

Our office brings a set of capabilities to systems evaluation and oversight that I believe is unique in government, combining highly experienced computer scientists with extensive hands-on experience in developing large, complex systems in industry and government. Our multidisciplinary approach and in-depth technical knowledge allow us to attain a comprehensive, integrated understanding of complex management, technical contracts, and operational issues.

I have submitted attached to my statement, Mr. Chairman, a long list of projects and evaluations that we have conducted.

What I would like to leave you with is an understanding of the kind of pervasive problems and issues that we find: inadequate up-front planning; unnecessary, excessive, and poorly stated systems requirements; acquisition strategies that will generally lead to higher costs and dubious performance; specifications that do not describe the systems; work statements that are incomplete, inconsistent, and ambiguous; government program offices that lack sufficient organizational stature, credibility, and skills to do their job; unrealistic schedules; low-ball estimates from contractors; et cetera.

Unfortunately, we also find disappointed users, frustrated managers, litigious contractors, a dissatisfied Congress, and citizens who do not receive value for their taxes. I had intended to talk more, Mr. Chairman, but we'll leave it at that.

[The prepared statement of Mr. DeGeorge follows:]

STATEMENT BY

FRANK DEGEORGE
INSPECTOR GENERAL
U.S. DEPARTMENT OF COMMERCE

BEFORE THE
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, INFORMATION AND TECHNOLOGY
HOUSE COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

AUGUST 1, 1995

Mr. Chairman and members of the Subcommittee, I am pleased to be here today to present my views on the role of Inspectors General in the oversight of information systems acquisition and management and to discuss how our office approaches this area. You also asked for information on how IGs are monitoring information technology activities in their agencies and how the increased use of information technology is affecting the OIG's role. Before doing so, however, I would like to provide a brief overview of the system management and acquisition issues agencies face.

Although information systems hold the promise of helping agencies to perform their missions more efficiently and effectively, all too often this promise is not fulfilled. Cost overruns, schedule delays, and technical performance failures are the familiar litany on too many projects. Aggressive, early, and effective OIG oversight can help agencies to avoid pitfalls and achieve greater success in planning, developing, acquiring, and operating information systems. However, oversight alone is not enough, and as I will point out in my statement, the problems in systems

acquisition and management are deep and systemic and must be dealt with through policy and management changes.

Information Technology Systems at Commerce

The Department of Commerce spends more than $600 million each year on information technology. We are in the midst of four costly, complex, and critical modernization programs—modernization of the National Weather Service, of the Patent and Trademark Office, of the Department's accounting and administrative systems, and of the systems for conducting the 2000 Decennial Census. Commerce also purchases many millions of dollars worth of smaller systems, generally, but not always, commercial off the shelf.

Despite the importance of information technology and its enormous cost, Commerce, like most other civilian agencies, often does a poor job of planning, acquiring and managing its systems. It lacks personnel in leadership and management positions with adequate experience, expertise, and understanding of system acquisition principles and discipline, and it lacks meaningful processes, criteria, and methodologies for program managers to adapt to their own systems and circumstances. As a result, system acquisitions are disorganized and *ad hoc*. The results speak for themselves. There are serious problems in most of Commerce's major systems modernization programs, and pervasive inefficiency and mismanagement in planning and purchasing commercial systems and equipment.

OIG Office of Systems Evaluation

Because of the importance of information systems to the Department's many critical missions and its poor track record in this area, we have made systems evaluation and oversight one of the highest priorities of our office. My 20 years in the private sector and my 20 years in government, both managing and overseeing systems, have made it clear to me that providing effective oversight of complex systems programs is an extraordinarily important, but also extraordinarily difficult job.

To do this job, we formed the Office of Systems Evaluation. This office reports directly to me and is managed by an assistant inspector general for systems evaluation, a senior executive position created to focus specifically and exclusively on information systems and technology issues. We conduct our reviews as early as possible in order to obtain timely improvements and avoid costly mistakes. Our office brings a set of capabilities to evaluation and oversight that I believe is unique in government—combining highly experienced computer scientists who have extensive hands-on experience in developing large, complex systems in industry and government with experts in systems acquisition management, government contracting, program evaluation, consulting, and computer system operations. Our multi-disciplinary approach and in-depth technical expertise allow us to attain a comprehensive, integrated understanding of the complex management, technical, contractual, and operational issues.

What We Look At and Why

We perform our systems evaluations as part of our inspections program. This program allows us to do our work quickly so that we can provide our analysis and recommendations at times when they can be most influential and helpful. We evaluate large, complex systems requiring extensive custom software development, as well as commercial-off-the-shelf systems. At a high level, the key issues are generally common—ineffective planning, inadequate management, and vague specifications and contracts, but the scale and complexity of major systems make the problems very complicated, expensive, and difficult to solve.

We concern ourselves with all project phases and aspects, including planning, business process reengineering, system definition, system development, test and acceptance, deployment, operations and maintenance, training, logistics support, and major enhancements. We evaluate the need for the system, validity of the requirements, alternatives considered, acquisition strategies, technical specifications, solicitations, and source selection plans. We invest considerable time and resources to ensure that we understand an agency's mission, culture, and business processes; the system's operational environment; and the project's technical objectives. We evaluate the capabilities of the program office and its placement, status, and visibility within an agency. As projects progress, we evaluate government and contractor performance and results.

What We Find

We find pervasive problems and issues, including:

- inadequate up-front planning
- unnecessary, excessive, and poorly stated systems requirements
- predetermined systems without consideration of real alternatives
- acquisition strategies that will lead to high costs and dubious performance
- technical specifications that do not describe coherent systems
- work statements that are incomplete, inconsistent, and ambiguous
- government program offices that lack sufficient organizational stature, credibility, and skills to do their job
- unrealistic schedules and low-ball cost estimates
- contract requirements and contract negotiations that invite contractor buy-in, followed by poor contractor performance
- projects undergoing continual rounds of revision, replanning, and delays, as schedules expand, costs grow, and system capabilities and performance decline

Ultimately, we find disappointed users, frustrated managers, litigious contractors, a dissatisfied Congress, and citizens who do not receive value for their taxes.

Recent OIG Efforts

To give some concreteness to these problems, I would like to describe some of our efforts, including some successes and some frustrations.

One success story is our ongoing involvement in NEXRAD, the Next Generation Weather Radar program, which has led to substantial cost savings and numerous improvements in the program's management, technical approach, and contracting. At the invitation of the Department and NOAA, we provided advice and counsel during the renegotiation of the NEXRAD prime contract. Our independent advice was solicited on systems and software engineering, as well as program management, contract, and legal issues and was used in making substantial revisions to the contract. In subsequent work, we found that NOAA was being substantially overcharged for certain NEXRAD spare parts and have worked collaboratively with the agency to improve spare parts procurement. This effort thus far has resulted in savings of $39 million, a figure we expect to increase. Our inspections have also led to improvements in the government's management of the NEXRAD contract and the prime contractor's management of its software development process. The new radars are working exceptionally well, with NOAA recently accepting the 100th unit.

While NEXRAD has been a success story since contract renegotiation, another system of the weather service modernization, AWIPS (Advanced Weather Interactive Processing System), has been a continuing source of problems and frustration. Over the past several years, we have identified and analyzed the serious management, engineering, and contractual problems on AWIPS, providing NOAA management with early warnings of system development and acquisition risks and recommending corrective actions. In 1992, we reported that NOAA's approach to AWIPS development (1) would not form the basis for an enforceable contract, (2)

would lead to contract disputes that would be difficult to resolve, and (3) would not provide for a coherent engineering process.

We recommended that the solicitation be thoroughly reviewed and revised prior to contract negotiations. The agency did not implement our recommendations, stating that the schedule would permit no further delays. AWIPS is now undergoing its second round of replanning since 1992, with NOAA currently renegotiating the Development Phase contract, as the problems we predicted have developed. Since 1992, the AWIPS schedule has slipped 2-1/2 years. We believe that NOAA's ineffective management and schedule-driven approach will continue to cause problems.

On the positive side, our review of CAMS, the Commerce Administrative Management System, and in particular, the new accounting system, has been productive. We have increased the agencies' appreciation for having strong financial management teams, sound financial management practices, and reliable data before implementing a new accounting system. After we analyzed and explained why Census was a poor choice to be a test agency for the new accounting system, the Department dropped it as a pilot bureau. We contributed to an improved solicitation for the new accounting system, including more accurate cost estimates, and we have continually highlighted the importance of strategic thinking and planning when dealing with a family of systems like CAMS. At this time, the Department has selected what appears to be a capable contracting team and a good software package for the accounting system. As we recommended, it is focusing resources at a single bureau, NIST, and it has put financial managers in place at Census. The

Department is also making progress in correcting financial management deficiencies at several other bureaus.

One area that is getting more attention throughout the government, as it should, is business process reengineering. In many instances, substantially altering business processes to make them more appropriate and efficient before they are automated can be a high-leverage undertaking. But we have found that it can also be much more difficult to do this effectively than all the excitement would suggest. A very important reengineering project that we are currently evaluating is the Census Bureau's efforts to fundamentally change the way it will conduct the 2000 Decennial Census. Because of the changing population and current budget environment, Census has no choice but to make radical changes. But designing and implementing these changes are a monumental effort. The results will be the basis for the design of the automated systems for census data collection and processing. More importantly, they will determine the cost of the census and the quality and public acceptability of the statistical data.

Our previous systems evaluation work at Census has also led to savings in commercial equipment purchases and improved planning of its computing resources. We identified excessive requirements for disk storage and automated tape handling equipment, resulting in savings of nearly $40 million. At the Patent and Trademark Office, we are reviewing its new approach for continuing the systems modernization, and have provided recommendations and assistance to PTO that we feel will reduce risk as it plans and implements its new systems approach.

Our work in computer systems operations has led to cost reductions at the Department's Springfield Computer Center, to better management of computers and data at various data centers, to improvements in computer-assisted survey information collection at the Census Bureau, and to better controls over microcomputer software. We have also helped the Department achieve more efficient and effective organization and staffing of some of its systems and telecommunications functions.

Our work has shown that IGs can make substantial contributions to improving the planning, acquisition, and management of information technology. With the combination of our systems technical and management experts; a proactive approach; and a willingness and ability to provide advice, assistance, and consultation, we have been able to identify the high-leverage systems design, acquisition, and management issues and to offer and help implement practical, timely, and effective solutions to problems. On some programs we have correctly predicted problems and identified solutions years before the issues were even recognized by program and agency managers. On others, our work has helped to bring about improvements in systems acquisition management and operations in various Commerce agencies, including NOAA, Census, and PTO. However, our efforts at oversight are thwarted when agency and program managers lack the experience and education needed to fully understand our analysis and effectively implement our recommendations. While improving oversight is extremely important, improvements in information technology planning, acquisition, and management cannot be obtained without improvements in the skills of the workforce. No amount of oversight can compensate for the

inability of personnel at the front line to do their jobs. A highly skilled systems management workforce is vital as we reinvent government and empower the federal worker.

What Other OIGs Do

In response to your question concerning what other OIGs do, we have sent out a questionnaire and are still receiving responses. Our initial reaction is that OIG activities in this area appear to be mixed, not only in the emphasis that is placed on information technology oversight, but also in the types of staff used and the types of issues addressed. Specifically, most appear to use auditors. Some supplement their auditors with computer specialists. Some conduct audits specifically of information technology issues, while others address these issues as an adjunct to other audits. And finally, some have indicated a willingness to do more, but because of budget limitations have had to curtail their efforts. We will get back to the Committee after we have finished compiling the questionnaire responses.

This completes my statement. I have attached a list of our systems evaluation reports that might be helpful to the Committee and will be glad to provide copies.

I will be pleased to answer any questions, Mr. Chairman.

Mr. HORN. Well, you're doing rather well.

Mr. Esposito.

Mr. ESPOSITO. Mr. Chairman, thank you for letting myself and the FBI appear today at this worthwhile hearing.

I am the chairman of the Integrity Committee of the President's Commission on Integrity and Efficiency and have a prepared statement which I would like to submit for the record.

In my brief remarks, let me just mention the process of the Integrity Committee. The Integrity Committee has a certain mandate which covers only the Inspectors General or certain senior staff.

We receive, review, and refer allegations of wrongdoing against Inspectors General or certain senior staff. And those certain senior staff would be in those instances where the objective, internal review is not feasible based on a referral from either the Inspector General or the agency head.

The Integrity Committee is made up of the FBI, which Chairs the committee, the Office of Special Counsel, the director of the Office of Government Ethics, three Inspectors General who represent the PCIE and also the ECIE, and we also have a representative from the public integrity section of the Department of Justice who acts as a consultant or advisor.

We meet at least quarterly, and sometimes more than that, to review the allegations and to make those referrals. Basically, we take referrals or receive referrals from just about any public source. We receive them from private citizens, we receive them from Inspectors General, we receive them from agency heads, we receive them from people in the IG community or employees of the Federal Government.

Once we receive these referrals, we then make a copy of the referral and send it to the public integrity section of the Department of Justice, who reviews it to determine whether or not there is criminality of Federal law or any other law. Once this determination is made, if there is, in fact, a perceived violation of law, especially Federal law, it is referred back to the FBI, and we conduct a criminal investigation and we go forward with that.

Many of the referrals we receive have more than one allegation in it. And if there is an allegation that is considered criminal and another allegation that is considered administrative, we put the administrative on hold until we finish the criminal investigation.

If the public integrity section comes back and says that there is no criminal allegation, we then review the referral from the complainant to determine whether or not it fits our criteria, our criteria being that it is an allegation against specifically an Inspector General. If it does not and it falls into another category, we make a referral to another agency. For example, if it's an EEO complaint, then we will refer it to the Office of EEOC.

At all times, we send letters to the complainant advising them where the status of this complaint is in the process. Once we find out that it is in our purview, for example, it is an allegation regarding an Inspector General, then we look at the complaint to find out if it is credible or not.

If it is not credible, then we close it. We send a letter to the complainant telling them that, and also, we send it to the head or the

Chair of the PCIE. If it is credible, then we send a letter to the agency head and ask them to conduct an investigation.

And basically, that sums up the process. There's more to it, but I would be glad to answer any questions along that line.

[The prepared statement of Mr. Esposito follows:]

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, MY NAME IS BILL ESPOSITO AND I AM CURRENTLY THE ACTING DEPUTY DIRECTOR OF THE FBI. I APPEAR BEFORE YOU TODAY, HOWEVER, IN MY CAPACITY AS CHAIRMAN OF THE INTEGRITY COMMITTEE OF THE PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY (PCIE) AND THE EXECUTIVE COUNCIL ON INTEGRITY AND EFFICIENCY (ECIE). MY TESTIMONY WILL COVER THE FUNCTIONING AND ACTIVITIES OF THE INTEGRITY COMMITTEE AND HOPEFULLY PROVIDE INSIGHT INTO THE PROCESS BY WHICH ALLEGATIONS AGAINST INSPECTOR GENERALS (IGS) ARE REFERRED, REVIEWED AND INVESTIGATED.

AT THE OUTSET I WISH TO EMPHASIZE THAT THE MANDATE OF THE INTEGRITY COMMITTEE COVERS ONLY THE IGS AND THEIR SENIOR STAFF IN INSTANCES WHERE THE IG HAS MADE THE DETERMINATION THAT IT WOULD BE INAPPROPRIATE OR MIGHT APPEAR TO BE LESS THAN OBJECTIVE IF THEY CONDUCTED THE INVESTIGATION THEMSELVES. THE INTEGRITY COMMITTEE DOES NOT DEAL WITH THE BROADER QUESTION OF "WHO INSPECTS THE IGS." THE INTEGRITY COMMITTEE DOES NOT

FUNCTION AS AN INTERNAL AFFAIRS UNIT FOR THE INSPECTOR GENERAL COMMUNITY.

I BELIEVE IT WILL BE HELPFUL TO PROVIDE YOU WITH AN OVERVIEW OF HOW THE COMMITTEE OPERATES PRESENTLY. ALLEGATIONS ARE RECEIVED AT FBI HEADQUARTERS FROM SEVERAL SOURCES INCLUDING REFERRALS FROM IGS AND HEADS OF AGENCIES, AND DIRECTLY FROM PRIVATE CITIZENS. IN THE FIVE YEARS THE FBI HAS BEEN CHAIRING THE INTEGRITY COMMITTEE OR IT'S PREDECESSOR THE ALLEGATIONS REVIEW SUBCOMMITTEE, WE HAVE HANDLED 121 CASES, 88 OF THESE HAVE BEEN BROUGHT TO CLOSURE AND THE REMAINING 33 ARE PENDING.

UPON RECEIPT, THE ALLEGATIONS ARE NUMBERED FOR TRACKING PURPOSES AND A LETTER IS SENT TO THE COMPLAINANT ACKNOWLEDGING THEIR RECEIPT. THEY ARE THEN COPIED IN THEIR ENTIRETY AND REFERRED TO THE PUBLIC INTEGRITY SECTION AT THE DEPARTMENT OF JUSTICE FOR A DETERMINATION AS TO WHETHER THE ALLEGATIONS, IF PROVEN, WOULD CONSTITUTE A PROSECUTABLE VIOLATION OF FEDERAL CRIMINAL LAW.

IF THE PUBLIC INTEGRITY SECTION DETERMINES THAT THE ALLEGATIONS WOULD CONSTITUTE A PROSECUTABLE VIOLATION OF FEDERAL CRIMINAL LAW, THE ALLEGATIONS ARE REFERRED TO THE FEDERAL BUREAU OF INVESTIGATION FOR A CRIMINAL INVESTIGATION. UPON THE COMPLETION OF THE CRIMINAL INVESTIGATION, THE INTEGRITY COMMITTEE MAY PURSUE ANY ADMINISTRATIVE ALLEGATIONS RELATED TO THE CASE.

IF THE PUBLIC INTEGRITY SECTION DETERMINES THAT THE ALLEGATIONS WOULD NOT CONSTITUTE A VIOLATION OF FEDERAL CRIMINAL LAW, THE ALLEGATIONS ARE PRESENTED AT THE NEXT QUARTERLY INTEGRITY COMMITTEE MEETING FOR AN ADMINISTRATIVE REVIEW.

THE INTEGRITY COMMITTEE IS MADE UP OF THE SPECIAL COUNSEL OF THE OFFICE OF SPECIAL COUNSEL, THE DIRECTOR OF THE OFFICE OF GOVERNMENT ETHICS, AND THREE IGS FROM THE IG COMMUNITY ON A ROTATING BASIS. A REPRESENTATIVE FROM THE PUBLIC INTEGRITY SECTION ATTENDS THE MEETINGS IN A CONSULTATIVE CAPACITY, BUT IS NOT A SITTING MEMBER OF THE COMMITTEE. I CHAIR THE

MEETINGS AND MINUTES ARE MADE OF THE PROCEEDINGS. THE FBI PROVIDES ALL MEMBERS OF THE INTEGRITY COMMITTEE FULL COPIES OF EACH ALLEGATION TO BE CONSIDERED IN ADVANCE OF THE MEETING TO GIVE THEM TIME TO READ AND CONSIDER THEM.

THE INTEGRITY COMMITTEE MEETS AT LEAST QUARTERLY AND REVIEWS THE ALLEGATIONS. IN REVIEWING AN ALLEGATION THE FIRST ISSUE THE COMMITTEE CONSIDERS IS IF THE ALLEGATION FALLS WITHIN THE COMMITTEE'S PURVIEW. IF THE COMMITTEE DECIDES THAT THE ALLEGATIONS SHOULD BE REFERRED ELSEWHERE, IT VOTES TO REFER THE ALLEGATIONS TO THAT AGENCY MOST COMPETENT TO DEAL WITH IT. FOR INSTANCE, IF THE ALLEGATIONS ARE AGAINST INDIVIDUALS BELOW THE IG LEVEL, THEY ARE REFERRED TO THE IG. IF THE ALLEGATIONS INVOLVE PROTECTED PERSONNEL PRACTICES, PRIMARILY VIOLATIONS OF THE PROVISIONS OF THE WHISTLE BLOWER PROTECTION ACT, THEY ARE REFERRED TO THE OFFICE OF SPECIAL COUNSEL. ALSO, THE INTEGRITY COMMITTEE CAN REFER THE ALLEGATIONS TO ANY OTHER AGENCY OF ITS CHOICE. UPON REFERRAL, THE MATTER IS CLOSED WITH A

LETTER TO THE COMPLAINANT AND A COPY FOR THE PCIE CHAIRMAN.

IF THE ALLEGATIONS FALL UNDER THE COMMITTEE'S PURVIEW, THE COMMITTEE DETERMINES IF THE ALLEGATIONS ARE CREDIBLE. IF NOT, THE ALLEGATIONS ARE REFERRED TO THE AGENCY HEAD AND THE MATTER IS CLOSED WITH A LETTER TO THE COMPLAINANT AND COPY FOR THE PCIE CHAIRMAN. IF THEY ARE CREDIBLE, THE ALLEGATIONS ARE REFERRED TO THE AGENCY HEAD, AND UPON COMPLETION OF THE INVESTIGATION, THE AGENCY HEAD NOTIFIES THE INTEGRITY COMMITTEE OF THE RESULTS OF THE INVESTIGATION. IF THE COMMITTEE CONCURS WITH THE AGENCY HEAD'S FINDINGS, THE MATTER IS CLOSED WITH A LETTER TO THE COMPLAINANT AND A COPY FOR THE PCIE CHAIRMAN. IF THE INTEGRITY COMMITTEE DETERMINES THE INVESTIGATION IS FLAWED OR INCOMPLETE THE MATTER IS REFERRED BACK TO THE AGENCY HEAD FOR ADDITIONAL INVESTIGATION. THE MATTER IS NOT CLOSED UNTIL THE COMMITTEE CONCURS WITH THE INVESTIGATIVE FINDINGS OF THE AGENCY HEAD. THEN, THE MATTER IS CLOSED WITH A LETTER TO COMPLAINANT AND A COPY FOR THE PCIE CHAIRMAN.

THE EXISTING PROCESS DEALS EFFECTIVELY WITH THE BULK OF THE INCOMING COMPLAINTS AGAINST IGS, HOWEVER, QUESTIONS ARISE IN THE EXISTING SYSTEM WHEN A NON-CRIMINAL ALLEGATION IS RECEIVED AGAINST AN IG WHERE THE ALLEGATION IS DETERMINED TO BE BOTH CREDIBLE AND WITHIN THE MANDATE OF THE INTEGRITY COMMITTEE. UNDER THE CURRENT PROCESS THE COMPLAINT IS REFERRED TO THE AGENCY HEAD FOR INVESTIGATION. TYPICALLY, THE AGENCY HEAD DOES NOT HAVE ACCESS TO INVESTIGATIVE RESOURCES TO CONDUCT AN INQUIRY. IN SOME INSTANCES THESE MATTERS HAVE BEEN REFERRED TO AGENCY CHIEF COUNSEL, IN OTHER INSTANCES IG INVESTIGATORS FROM ANOTHER AGENCY HAVE BEEN USED TO CONDUCT THE INVESTIGATION. IN ANY EVENT THE PROCESS IS BEST DESCRIBED AS AD HOC, THE RESULTS VARY SIGNIFICANTLY, THE STATUTORY AUTHORITY TO CONDUCT THE INVESTIGATION IS UNCLEAR, THE REIMBURSEMENT OF COSTS ASSOCIATED WITH THE INVESTIGATION IS PROBLEMATIC, AND THE ULTIMATE RESOLUTION IS PROTRACTED.

IN AN EFFORT TO RESOLVE THESE ISSUES I ESTABLISHED A WORKING GROUP TO EXPLORE ALTERNATIVES

AND PRESENT SUGGESTIONS TO THE FULL COMMITTEE. WE EXAMINED SEVERAL ALTERNATIVE SOLUTIONS FOR RESOLVING THIS ISSUE. THESE SUGGESTIONS INVOLVED THE EXPANSION OF MANDATE OF THE OFFICE OF SPECIAL COUNSEL TO INCLUDE NON-CRIMINAL INVESTIGATIONS OF IGS; THE CREATION OF AN INVESTIGATIVE MISSION FOR THE OFFICE OF GOVERNMENT ETHICS; AND THE EMPOWERMENT OF THE FEDERAL BUREAU OF INVESTIGATION OR THE OFFICES OF INSPECTOR GENERAL OR BOTH TO CONDUCT NON-CRIMINAL INVESTIGATIONS OF ALLEGATIONS AGAINST IGS.

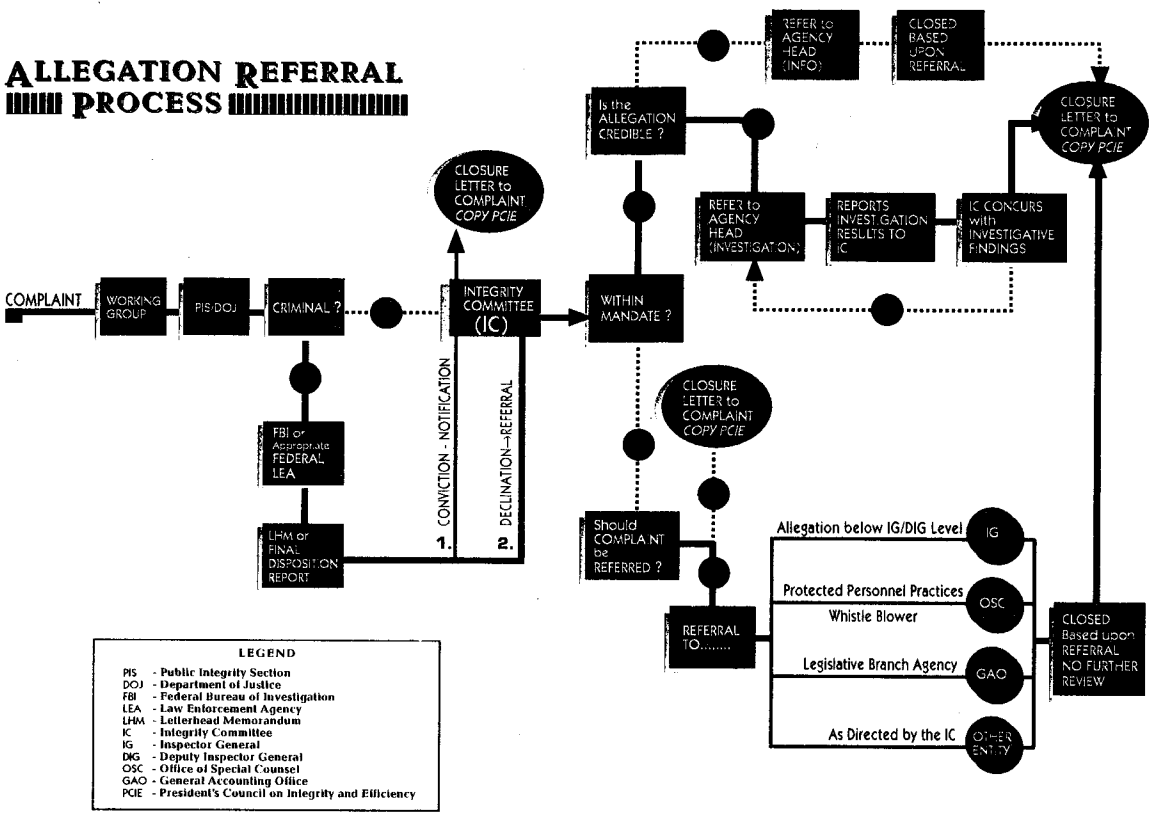
THESE ISSUES HAVE BEEN CONSIDERED BY A WORKING GROUP WITHIN THE INTEGRITY COMMITTEE WHICH COORDINATED WITH THE PCIE AND ECIE MEMBERS TO GIVE ALL THEIR MEMBERS ADEQUATE OPPORTUNITY TO PROVIDE THEIR COMMENTS AND SUGGESTIONS. EACH OF THE PROPOSED SOLUTIONS HAS POSITIVE AND NEGATIVE FEATURES AND EACH PROPOSAL INVOLVES A DIFFERENT SET OF LEGAL CONSIDERATIONS AND POLICY IMPLICATIONS.

LET ME CLOSE BY SAYING THAT THE FBI IS COMMITTED TO SUPPORTING THE IG COMMUNITY IN THE RESOLUTION OF

ALLEGATIONS AGAINST THOSE IN THEIR HIGHEST RANK. WE REMAIN COMMITTED, HOWEVER, TO THE BELIEF THAT IT IS THE INSPECTOR GENERALS' ULTIMATE RESPONSIBILITY TO "POLICE HIS OR HER OWN SHOP" AND MAINTAIN THE OVERALL QUALITY AND INTEGRITY OF INVESTIGATIVE AND AUDIT STANDARDS WITHIN THEIR OWN OFFICES.

IT HAS BEEN A PRIVILEGE TO HAVE HAD THE OPPORTUNITY TO ADDRESS THIS COMMITTEE TODAY AND I WOULD BE PLEASED TO ANSWER ANY QUESTIONS AT THIS TIME. THANK YOU VERY MUCH.

ALLEGATION REFERRAL PROCESS



Mr. HORN. Well, we thank you very much, Mr. Esposito.

I now yield to the ranking minority member, Mrs. Maloney of New York.

Mrs. MALONEY. I will defer to you, Mr. Chairman.

Mr. HORN. Let's go through a number of things, some of which we went through with the previous panel. I want your perspectives on it. Picking up on really your last comment, I guess I would ask the question, should the PCIE and the ECIE, the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency, should they be merged?

Should one be abolished? Is it just a matter of size, where there would be too many people in the room? What is it? What are we getting out of two separate operations?

Mr. DEGEORGE. Any time you get 10 or 15 IGs in a room, it's difficult to make a decision. [Laughter.]

When you get 60 IGs, I would say it's impossible. I really think there is a common interest and we have a focal point. It is the Deputy Director of OMB who is responsible and relates to each committee. And I think there are a pretty sizable number of IGs. And I don't think there would be any advantage to combining them.

Mr. HORN. There would be no advantage to combine?

Mr. DEGEORGE. No, I don't think so.

Mr. HORN. And there would be no advantage to get rid of one of them?

Mr. DEGEORGE. No, I don't think so. That would be combining them, wouldn't it?

Mr. HORN. OK.

Ms. LAU. Mr. Horn, I'm new to the IG committee, but in my experience in this less than 1 year, both on the Audit Committee and the PCIE, we have Mr. Sparks as our representative of the ECIE, and he provides a valuable linkage and connection with the smaller IG organizations.

Also, in my community, I meet monthly with the financial institution IGs, so that means some PCIE members, such as the FDIC and the RTC, and some of our smaller members from the NCUA and the SEC and some of the other similar functional IGs.

And we get together informally on a regular basis to talk about common issues. In one instance, we're trying to share our audit plans with one another so we can schedule work in a certain timeframe and perhaps combine the results of our reviews across organizations, so we can get a bigger picture of certain situations as they face the financial institutions. So we have found a way to work together that's outside of the separate organizational entities.

Mr. HORN. A lot of your activity which is related to auditing is obviously dependent upon a sensible, decent set of numbers coming up through the financial system, whatever it is. And as you know, we expect a balance sheet that will stand the test of any outside auditor in 1997.

Now, one of the things that concerns me is that in some cases, the Chief Financial Officer of the agency is not able to devote full time to being Chief Financial Officer. In some agencies, that job is part of the portfolio of the Assistant Secretary for Management. Do you think there should be a separate Chief Financial Officer and

not have that tucked in under the Assistant Secretary for Management? What's your feeling, Mrs. Lau?

Ms. LAU. I can't speak for all the IGs on this issue. I can only speak from my personal experience at Treasury, where we are very fortunate at the present moment to have a Chief Financial Officer who is both a CPA and an attorney. And the way his organization is set up, I feel that he is totally on top of the financial management issues. He also happens to be the Vice-Chair of the CFO Council.

And it is our experience, our happy experience at Treasury, that precisely because he is also the Assistant Secretary for Management, that the implications of the budgetary resources needed to fund new systems, to have integrated financial management systems, to provide educational resources in order to train financial management staff, that these are all forthcoming because of his particular emphasis.

Mr. HORN. Well, that's very noble, but the facts are that you can't devote full time to being Chief Financial Officer. Now, it may be easier to talk to yourself to get budgetary resources, which is the implication of your answer. But the question comes, who is giving focus and who is concentrating on meeting that 1997 deadline?

IRS is a part of Treasury. When the then Government Operations Committee investigated their balance sheets last year, one of my colleagues was heard to tell them that if they were a private firm submitting such a balance sheet to the IRS, they would probably have been indicted. Well, nobody has indicted IRS, but they have among the worst financial records in the whole government. So it seems that somewhere, we haven't had focus to deal with some of these situations.

Mr. DEGEORGE. Mr. Chairman, could I add a point?

Mr. HORN. Yes.

Mr. DEGEORGE. My personal preference would be that the CFO be basically separated from the Assistant Secretary for Administration for a number of reasons. We're trying to implement new accounting systems, balance sheets, get statements changed, even do as elementary things as create double-entry bookkeeping in some cases in our department.

But more importantly than that, I think you want to look at a level below. We have had a problem in even getting agencies within the department to pick and be directed to pick Chief Financial Officers. So the issue goes within the department. You can concentrate on it, but we really need assistance and push and drive to get agencies within principal departments to get CFOs, as well.

Mr. HORN. Mr. Esposito, what's your view on some of these questions? I realize you're representing the FBI and not the IGs. But have you had any problems in terms of getting the full attention of Chief Financial Officers if they aren't full-time Chief Financial Officers?

Mr. ESPOSITO. No, we have not experienced that problem. In the FBI, the Chief Financial Officer is also the person who looks after our budget and to hold the vision we have. I don't see that there's a problem. As far as us dealing with Chief Financial Officers in other agencies, we have not had a problem.

Going back to your first question about the ECIE and the PCIE, I'm not an Inspector General, and we do not have an Inspector General in the FBI. But I am amazed how well they do, the Chair of the PCIE and ECIE, and the Vice-Chair, how they coordinate. They do meet on a regular basis once a month, and I've seen, since I've only been in Washington a short time, how they do seem to be focused and are addressing issues.

Mr. HORN. You raise a very interesting question, that there's no Inspector General in the FBI. [Laughter.]

Mr. ESPOSITO. There is an Inspector General in the Department of Justice.

Mr. HORN. And that intrigues me, because if lesser agencies in the Department of the Treasury and other large conglomerations have Inspectors General, one wonders why an agency as complex, as extensive, as powerful as the Federal Bureau of Investigation doesn't have one. Is there any history on that? J. Edgar Hoover wasn't alive when that act was passed. So what other excuse is there?

Mr. ESPOSITO. We do have an Inspector General in the Department of Justice. And also, there is an Office of Professional Responsibility in the Department of Justice. We have our own inspection division, where they go out and conduct inspections of all our field office and headquarters entities on a regular basis.

They also conduct audits on a regular basis. We have an audit shop that's in the inspection division. And we also have an Office of Planning and Evaluation. So basically, they do the same functions as the Inspectors General.

Mr. HORN. I understand that the budget constraints are often cited as a barrier to complying with the CFO Act. And, indeed, Ms. Lau, you mentioned that. Has the PCIE collected cost estimates for the financial audits that are required by the CFO Act either in terms of full-time equivalents or in-house staff or for contracting with outside accounting firms?

Ms. LAU. We would be happy to provide that information for the record, Mr. Chairman.

[The information referred to follows:]

ESTIMATED AUDIT COSTS: COMPLIANCE WITH THE CHIEF FINANCIAL OFFICERS ACT
BY AGENCIES SPECIFIED IN THE CFO ACT -- FISCAL YEARS 1990-1995

	FTE's	OIG COST	CONTRACT COST	TOTAL COST
Dept. of Agriculture	488	$38,855,000	$2,511,000	$41,366,000
Dept. of Commerce	44	$4,049,431	$4,257,851	$8,307,282
Dept. of Defense	1,928	$142,059,000	$0	$142,059,000
Dept. of Education	48	$2,945,000	$1,962,000	$4,907,000
Dept. of Energy	33	$3,000,000	$12,000,000	$15,000,000
Dept. of Health & Human Services	164	$6,170,919	$3,929,081	$10,100,000
Dept. of Housing & Urban Dev.	20	$1,389,209	$6,820,663	$8,209,872
Dept. of Interior	116	$9,237,397	$0	$9,237,397
Dept. of Justice	64	$6,852,000	$6,212,000	$13,064,000
Dept. of Labor	93	$10,290,205	$17,370,627	$27,660,832
Dept. of State	27	$1,381,814	$794,931	$2,176,745
Dept. of Transportation	84	$5,457,471	$130,000	$5,587,471
Dept. of the Treasury	111	$7,234,705	$8,060,194	$15,294,899
Dept. of Veterans Affairs	188	$12,132,000	$1,757,000	$13,889,000
Agency for Int'l Development	13	$1,936,000	$1,972,500	$3,908,500
Environmental Protection Agency	59	$2,700,000	$3,100,000	$5,800,000
Fed. Emerg.Management Agency	17	$870,000	$1,072,000	$1,942,000
General Services Administration	12	$680,949	$3,835,007	$4,515,956
Nat'l Aeronautics & Space Admin.	43	$2,785,758	$0	$2,785,758
National Science Foundation	11	$676,000	$0	$676,000
Nuclear Regulatory Commission	11	$929,000	$781,300	$1,710,300
Office of Personnel Management	42	$2,304,000	$867,000	$3,171,000
Small Business Administration	2	$87,100	$1,877,870	$1,964,970
Social Security Administration	9	$567,000	$0	$567,000
Totals	3,626	$264,589,958	$79,311,024	$343,900,982

ESTIMATED AUDIT COSTS: COMPLIANCE WITH THE CHIEF FINANCIAL OFFIERS ACT/GMRA
BY AGENCIES SPECIFIED IN THE CFO ACT -- FISCAL YEARS 1996-1997

	FTEs	OIG COST	CONTRACT COST	TOTAL COST
Dept. of Agriculture	142	$14,271,000	$680,000	$14,951,000
Dept. of Commerce	40	$4,400,000	$3,816,000	$8,216,000
Dept. of Defense	1,390	$109,128,000	$0	$109,128,000
Dept. of Education	18	$1,316,000	$1,470,000	$2,786,000
Dept. of Energy	102	$8,000,000	$5,000,000	$13,000,000
Dept.of Health & Human Services	320	$22,080,000	$18,600,000	$40,680,000
Dept.of Housing & Urban Dev.	31	$2,739,000	$1,760,000	$4,499,000
Dept. of Interior	60	$4,774,380	$0	$4,774,380
Dept. of Justice	47	$15,658,000	$13,522,000	$29,180,000
Dept. of Labor	45	$5,764,000	$6,255,000	$12,019,000
Dept. of State	23	$1,396,852	$735,000	$2,131,852
Dept. of the Treasury	183	$13,520,769	$4,048,447	$17,569,216
Dept. of Transportation	97	$6,993,616	$70,000	$7,063,616
Dept. of Veterans Affairs	92	$6,528,000	$156,000	$6,684,000
Agency for Int'l Development	35	$3,200,000	$800,000	$4,000,000
Environmental Protection Agency	90	$6,200,000	$0	$6,200,000
Fed. Emerg. Management Agency	8	$520,000	$601,000	$1,121,000
General Services Administration	6	$385,884	$1,495,972	$1,881,856
Nat'l Aeronautics & Space Admin.	0	$0	$1,600,000	$1,600,000
National Science Foundation	8	$600,000	$850,000	$1,450,000
Nuclear Regulatory Commission	8	$710,000	$550,000	$1,260,000
Office of Personnel Management	35	$2,297,000	$200,000	$2,497,000
Small Business Administration	1	$80,000	$800,000	$880,000
Social Security Administration	4	$276,000	$3,000,000	$3,276,000
	2,784	$230,838,501	$66,009,419	$296,847,920

Mr. HORN. Do you know if that has been done?

Ms. LAU. I know that some preliminary figures were gathered, but not as comprehensive as you just laid out.

Mr. HORN. In other words, you have gathered figures. Are those just simply based on in-house staff, or did you contact possible outside accounting firms?

Ms. LAU. Well, for example, Mr. Chairman, at Treasury, we conduct our financial audits in a number of ways. We do contract with independent public accountants for some of the work. We do some of the work ourselves. And the IRS, which you already mentioned, is audited by GAO with the assistance of the IRS Chief Inspector's Office.

So having looked at the figures for Treasury on the preliminary information that I have, I know it is not comprehensive to include all of those items. And so I would prefer to give you a very complete record.

Mr. HORN. So you would give us that, then, in terms of the full-time equivalents, in-house staff, or contracting with outside accounting firms?

Ms. LAU. Yes. Because I think when you're looking at the audit requirements and the budget requirements for each department, that you have to look in the totality. And there still is a hybrid of certain audits that are conducted in a department by GAO and others which are conducted by the IG or CPAs contracted for by the IGs.

Mr. HORN. Since you're Chair of the Audit Committee, then, has that been done for each of the agencies that have an IG?

Ms. LAU. No, we have not done that comprehensively yet.

Mr. HORN. How many IGs have been examined with the cost possibility of their own staff or outside auditors, and are they gathering the data, or is the Audit Committee gathering the data?

Ms. LAU. The Audit Committee will compile this information and provide it to you.

Mr. HORN. When might that be done?

Ms. LAU. As soon as possible, sir.

Mr. HORN. Is that within 1 year, 6 months, or 3 months? I wondered if we're on some form of government time, that's all. I need to know what time.

Ms. LAU. As soon as possible within the next 2 weeks, sir.

Mr. HORN. OK. Fine. Well, we'll give you all of the month of August, since hopefully we won't be here.

Ms. LAU. Thank you.

Mr. HORN. The staff will be here, but they would like to get a rest, too. So we'll have the cost projections and also our cost estimates available for the Government Management Reform Act requirements?

Ms. LAU. Yes.

Mr. HORN. And that leads us to the question of what are we now inspecting in some processes? The emphasis of the government historically has been on inputs and outputs. In other words, we have a process. It takes so many people, it takes so many cars, it takes so much support staff.

And we look at it, and we say, "Well, what are you doing?" "Well, we're driving cars, we're meeting with people, we're passing paper,

so forth." "Well, are you achieving the goals of the agency?" So the results of that, we're trying to move toward what are the goals of the agency, what are the outputs, can we measure them in any effective way?

And to what degree is the fact that we haven't converted to such a system a hindrance in Inspector's General judging a particular agency and its efficiency and effectiveness? Is that a problem?

Ms. LAU. Well, Chairman Horn, I believe you're referring to the Government Performance and Results Act in particular?

Mr. HORN. That's correct.

Ms. LAU. We did some survey work of the IGs and found that various IGs are approaching their responsibilities under the GPRA in different ways. As you mentioned, a traditional function of IGs has been to look at economy, efficiency, and effectiveness even before the GPRA Act was passed.

Since GPRA was passed and the requirement for strategic plans, for performance measures, and, as you mentioned, definitions of what will be our measure of success, we have a variety of departments doing work in that area. At Labor, the IG there has been auditing performance measures in the early stages of that department's implementation and has been advising the programs on their measures.

At HHS, Mrs. Brown intends to work on the development of performance measures when invited to do so by the programs. At Treasury, we're trying to take it up front and work with members from the Assistant Secretary of Management's staff.

We're working at the front end of the process, and we're designing with them some self-assessments which the bureaus can use to measure where do they need to be at this stage of the process, how are they doing, this is what is expected of them, this is what the IG in assessing their progress in implementing GPRA will be looking at.

And so we're trying at Treasury to take an up-front approach in working with managers so that they can both accomplish the objectives of GPRA for themselves and that we will have something to measure when we get there.

Mr. HORN. Would you like to add anything to that, Mr. DeGeorge?

Mr. DEGEORGE. We have a particular emphasis on financial statements with performance measures as necessary ingredients. That is pretty much an overwhelming task for us. We feel that if we can get the agencies to identify and to measure performance as a standard of output at this point in time, it will be enough to keep us going for the next year or so.

Mr. HORN. You mentioned Labor. Is the Inspector General of Labor in the room at all?

[No response.]

Mr. HORN. I just wanted to congratulate him, because I got my shoes shined yesterday in the Rayburn barber shop. And instead of merely old magazines, they had the Inspector General's report of the Department of Labor. [Laughter.]

And I found that intriguing. I thought either this was a great outreach program that the IG and Labor has—and since I had to wait through somebody else shining their shoes, I did read a num-

ber of pages in it. And then, I thought it might be my staff who got bored with it and just left it there.

So I'm willing to give him the benefit of the doubt as an IG program. But if you want to get something read, leave it in the barber shop around here.

Ms. LAU. Point well taken.

Mr. HORN. The ranking member, Mrs. Maloney.

Mrs. MALONEY. Yes. Mr. DeGeorge, in your testimony, you talked about the acquisition of information technology systems as being "disorganized and ad hoc" and really not well thought out. And I'm asking you—and being huge amounts of money, $600 million a year in your department alone.

And I'm sure it's the same, if not more, throughout the other departments. How do you account for the inattention to information technology among the IG community, and how could we improve that? We just had a series of hearings on FTS–2000, the new telephone communications network for government.

But if your computer system—and, in fact, we just had an audit of the legislature that said that our computer technology was not modern and up-to-date. How could we improve that?

Mr. DEGEORGE. Well, I think there are people who are charged with that responsibility, including the General Accounting Office, GSA in its procurement policy delegation roles, and the Offices of Information Resources Management in the various agencies. But I think they see their jobs within the agencies as being supportive of the agencies' requirements and how do we get a delegation of authority, how do we get the contract funds.

They don't really see their jobs within the Assistant Secretary's office, in my judgment, as asking the tough questions or whether it's needed and the requirements of a job well-defined. It has been a deficiency I've felt within our department and others for a long time.

The Department of Commerce has made some movement in that direction. I think we'll improve. But across the IG sector, I would say that most of the emphasis up till now has been looking internally within the IG community about looking at transactional analyses within systems that exist or maybe the payment systems at the Social Security Administration or the VA.

They have not normally put the resources that I feel are necessary to address the requirements, whether you need the system at all.

Mrs. MALONEY. So how do we correct that? You pointed out it is a problem. How do we correct it?

Mr. DEGEORGE. Well, I think you ask the IGs to do that type of work directly from this committee, or you ask the IGs perhaps to report on that type of work, or you ask the General Accounting Office their views. I think you have to give strong charisma to building that kind of a technical staff, as my testimony talks to.

This is not a job just for auditors. This is a job that involves detailed, technical staffs that should be critics and not just supporters of the agency's procurements.

Mrs. MALONEY. And, in fact, we have a procurement bill that is moving through committee that actually takes away all oversight of procurement on any "commercial product," including computer

systems, communications systems, et cetera. Do you think that's a good idea?

Mr. DEGEORGE. No, I don't. I think that the issue is not buying off-the-shelf hardware, computers, CPUs, any type of computers. The issue is the design of the systems, the engineering of the systems, the programming, making judgments on the sizing, making judgments as to how you defend what you're going to do and to stop the continuous reengineering of the process once it's in place.

Program staff seem unaccustomed to letting the procurement people just buy a system. They never stop engineering. I've worked at Social Security, the Department of Energy, and the Veterans Administration, and I've never seen it differ in any of those agencies. Basically, you try, if you're in charge of an agency, to go for the new version, the next largest CPU, et cetera.

You really do not have as your particular emphasis—as long as there's money in the budget—the requirement that you look——

Mrs. MALONEY. Maybe we should have an IG task force on this to work on recommendations of how we should manage this area better.

Mr. DEGEORGE. I think what you're doing right now in an oversight capacity should add to the questions. I think each Inspector General should basically address the issues that are within his agency. Twenty years ago, Social Security had to reform its total system and wound up spending many billions of dollars and stumbled through it pretty badly, FTS–2000.

The FAA's present system, the IRS, they all have difficult problems. And if you don't have anyone whose job it is to watch the store, and I think that's what the IG's job is, then in effect, you won't get the type of appraisals and analytical work that you require. I think you have to ask. I think you have to expect. And the IGs have to feel that that's part of their role.

Mrs. MALONEY. How long have you been at Commerce?

Mr. DEGEORGE. Eight years.

Mrs. MALONEY. I just can't resist this question. Do you believe the Department of Commerce should be abolished?

Mr. DEGEORGE. No, I do not.

Mrs. MALONEY. I don't think it should, either.

I would like to ask, Ms. Lau, in Treasury, I recently issued a report that showed you that you owe the Federal Government $377 million in delinquent nontax receivables which need to be collected in everything from financial management service loans to custom duties and other areas. How do you think you could improve your collections to bring these dollars in? We could buy a whole new computer system for Commerce with that $377 million.

Mr. DEGEORGE. You could buy the whole department.

Mrs. MALONEY. Half a computer system.

Ms. LAU. Talking about computer systems, and we have been talking also about CFO financial statements, as you know, those financial audits are not only for the sole purpose of generating opinions about the accuracy of the financial statements themselves, they are to look at the underlying systems and processes that the department and the bureaus have for collecting Customs duties, for collecting past due payments.

And so that's part and parcel of this CFO work that we're talking about. And I think in support of your debt collection bill and your focus on bringing back money to the government, which is sorely needed, that this is probably the best way to identify what's out there overdue and ways to identify it.

Mrs. MALONEY. Is there a department in Treasury that collects? Whose responsibility is it to collect in Treasury what's owed it?

Ms. LAU. I will have to provide that answer for the record, Mrs. Maloney.

Mrs. MALONEY. And Treasury is the information center for many items in government.

Ms. LAU. That's right.

Mrs. MALONEY. Do you think it would be a good idea to centralize collections, say, in Treasury, every 180 days, report what's owed the government? When we did our study, there's some items that have been owed for 10 years. Why haven't they acted? They should have a timeframe in which you act or you write it off.

I'm just curious what you thought of that. I know you're the central melting pot of information a lot of times. Why not centralize collections in Treasury?

Ms. LAU. That's right. The Federal Management Services provides a bookkeeping and accounting function for the government as a whole. In terms of Treasury's role in the debt collection process, I know that the Assistant Secretary for Management has been very much involved in those initiatives. And so I would like to defer and research that question and provide the answer to you for the record.

Mrs. MALONEY. Thank you very much.

Mr. HORN. If I could follow up on that. Where in Treasury does the responsibility rest for the collection of debts? In what office?

Ms. LAU. I don't believe that you would have a single office that would be responsible for all debt. Because, for example, the IRS collects revenues due from taxpayers. I know they have their own collections function. Similarly, any other bureau that has as its primary function taxation and revenue collection would also need to have a collections function.

So I don't believe that there is a particular centralized function within Treasury, but to be sure, I would like to give you a complete answer.

Mr. HORN. Do either you or Inspector General DeGeorge know of reports that have been made by Inspectors General about the debt collection problem in their particular agencies? Has that been done?

Mr. DEGEORGE. Actually, most of our debt is within the Economic Development Administration, within the Department of Commerce. And they produce monthly statements pretty much detailing the recoveries and the outstanding indebtedness. We're not very successful at getting it back, but that's another issue. But we do have monthly reports.

We also have a process which is relatively small compared to that of recoveries for various audit resolutions, which is policed rather vigorously between the department and ourselves. So from the Commerce viewpoint, these are the two big areas.

Within the operational sense, PTO, Patent and Trademark Office, has a fairly extensive accounting system problem but they do a good job of collection. And most of the information is readily available. I think throughout government, my best guess would be that most agencies within departments have the responsibility, and it's not normally at the Assistant Secretary or Secretary level.

Mr. HORN. So I am very clear in my own mind, in Commerce during your 8 years as Inspector General, has there ever been a study done of the debt collection efficiency and effectiveness within the Department of Commerce?

Mr. DEGEORGE. Not within the total Department. No, sir. We have done it within EDA, which is the biggest grantmaking portion of the operation. The Department is essentially an operating agency, sir.

Mr. HORN. Right.

Yes?

Ms. LAU. Hot off the press, Chairman Horn, I'm reminded that there are two PCIE projects that would be of interest to both you and Mrs. Maloney. The first is a March 1995 report entitled "Coordinated Follow-up Review of Guaranteed Loans."

And that report updates for guaranteed loans the status of agencies' implementation of debt collection and management tools prescribed by OMB Circular A–129, which is entitled "Policies for Federal Credit Programs and Nontaxreceiveables" and the corrective action taken in response to a 1988 PCIE report on the same topic.

There is a second report entitled "A Coordinated Review of Federal Credit Management and Nontax Debt Collection Issues," which was issued just last week, so it really is hot off the press. And that report captures in one roll-up document the status of credit management and debt collection activities throughout government in order to assist you in making your decisions regarding debt collection. And we would be happy to provide that to you.

Mr. HORN. Thank you. Earlier in the hearing, we have heard the discussion on the changing focus of the Inspectors General away from compliance audits to a more collaborative relationship with agency management. Professor Paul Light, who will be on the next panel, aptly calls this "trying to be both a junk yard dog and man's best friend."

What is your assessment of these changes? Do you believe that the Inspector General staffs have the expertise to fulfill this change in direction? In other words, the collaborative management approach.

What do you think, Mr. DeGeorge?

Mr. DEGEORGE. I don't think our role has changed a bit, even with the vision statement. We have operated fairly aggressively in dealing with management and their problems and issues. It has never been from a "gotcha" viewpoint. It has always been in the sense of, "This is the business problem or issue we think you ought to address, and please tell us how you're going to address it." And I think that's about the speed and the balance we should have.

Within our department, we did a survey to basically see how we were perceived, and it disappointed me. One-third of the people we talked to thought we were great; one-third thought we were lousy;

and another third in the middle was sort of, "Well, I guess we can put up with you."

Mr. HORN. That sounds like the American attitude during the revolution, but go ahead. [Laughter.]

Mr. DEGEORGE. I think the issue really comes down to does the individual IG see his role as aggressively looking at the operational side of the agency and not at specific grants. If you look at process, how you make awards, if you look at how you are managing the program rather than trying to go after a specific loan or loan guarantee, if you can improve the process. For instance, Commerce has had vast new investment grant programs over the last 3 years, maybe a billion dollars that wasn't there to spend before.

We have seen our job as to look at the way the agencies were issuing their grants, were they competitive, were they even perceived correctly or incorrectly, did, in effect, they make the judgments fairly, did they have an audit trial, could they explain the winners and losers? I think that's much more productive than us at this point going after individual grants. We have been fairly successful at that.

So I don't really see it as an immense change. I think the Vice President's change in his initial hearings was one of listening to the employees, and the employees said they thought there was too much "gotcha." I think that was an unbalanced statement, and I think it's more back to reality now.

Mr. HORN. Do you know of any situations where the Inspector General is part of the internal departmental Cabinet that reports and works with the Deputy Secretary or the Undersecretary, whoever is in charge of departmental operations?

Mr. DEGEORGE. Remember, our responsibility is to report to the Secretary or Deputy Secretary. "Report" is probably not the right word. We live in his house, and we spend his resources, but we don't take orders from the Secretary, and we don't respond to something he does or does not want in the way of audits and investigations.

In my case, I report technically to the Deputy Secretary, and I meet with him periodically. I also meet with the Secretary periodically. But it's not to—it's normally on my call to tell them about something that's wrong that I think ought to be fixed.

There is always this concern of who we work for. The Secretary thinks I work for you. And all too often, the agencies think I work for the Secretary. So as long as I have you both on a happy, I guess it's all right.

Mr. HORN. That's a very good question. Let me ask you, do you think it would be inappropriate if an Inspector General sat in the weekly meetings?

Mr. DEGEORGE. Not at all.

Mr. HORN. So it seems to me, if I were the chief executive, I would want the Inspector General at the meeting.

Mr. DEGEORGE. I would want him there, too. Yes, sir.

Mr. HORN. Because you can tell when we're setting up some crazy process, "Look, you've done that, and it's a stupid way to go about it. And here's why."

Mr. DEGEORGE. I have been there through several Secretaries, and each Secretary does it its own way. Sometimes, I am invited to the Management Council; sometimes, I'm not.

As long as I get a hearing, as long as I have someone who will be responsive when I think there's a problem, I don't necessarily have to be at the management meetings where they may have discussed how to deal with a number of issues that may be peripheral to my requirements. I feel completely at ease by telling you that I have access, they listen, and they'll make changes that I insist on.

Mr. HORN. Well, we thank this panel. There might be some follow-up questions. If you would be good enough to answer them in writing, we would appreciate it. Thank you very much for coming and sharing your experience with us.

We are now on panel three. If panel three will come forward. Gentlemen, if you would raise your right hand.

[Witnesses sworn.]

Mr. HORN. All three witnesses affirmed. Let me just warn you in advance, we have a little problem here. We have an expected vote at 4 o'clock. But we also have an important committee meeting that I must attend at 4:30. So we're going to have to squeeze the testimony. And, as you know, we have got a 5-minute rule. We will strictly enforce it on summarizing your testimony.

We're delighted to have all you experts with us. And obviously, as you know from your many appearances, we file your remarks in the record. We would like you to give us the flavor in the first 5 minutes. We'll start with Mr. Dempsey.

Mr. Charles Dempsey is the former Chair of the PCIE, the President's Council on Integrity and Efficiency, and a former Inspector General of the Department of Housing and Urban Development.

Mr. Dempsey.

STATEMENTS OF CHARLES DEMPSEY, FORMER VICE-CHAIR, PCIE AND FORMER INSPECTOR GENERAL, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT; SHERMAN FUNK, FORMER INSPECTOR GENERAL, DEPARTMENTS OF STATE AND COMMERCE; DWIGHT INK, PRESIDENT EMERITUS, INSTITUTE OF PUBLIC ADMINISTRATION; AND PAUL C. LIGHT, DIRECTOR, PUBLIC POLICY PROGRAM, THE PEW CHARITABLE TRUSTS AND AUTHOR

Mr. DEMPSEY. Thank you, Mr. Chairman, for inviting me to appear today. I have submitted a statement for the record. And I addressed the specific items you asked me to comment on.

There are several other points I would like to make. In October, it will be 17 years since the Inspector General Act was passed. I personally believe it was the best piece of public administration legislation in the last 20 years. It also is a controversial piece of legislation. It took the audit and investigative activities of a department and agency from the Assistant Secretary from Administration and Management or certain others and transferred them to an independent, Presidentially appointed, nonpolitical person.

It was needed, it was necessary, and time and performance have proven this so. And the hearings in 1978 by the House Committee on Government Operations, which produced an 856-page report on

those hearings, were really an indictment of Federal management. So we have an IG Act.

Now we have had IGs for 17 years. Are things perfect? No. There have been errors and mistakes. Perhaps some haven't operated as they should have at times. Scandals have been found. Most times, it was the IGs who found them. But overall, the IG concept and the IG Act have proven to be successful.

Today, it is tough to be an Inspector General. It seems that the IG concept, the act, and the IGs themselves are not held in high regard by the NPR and its leaders. The NPR has attempted to change the focus of IGs, reorient them, they say. I look at it as a possible attempt to muzzle the Inspectors General.

I consider the vote in the House that was discussed here earlier today, 388 to 6 in 1978. Only six in the entire Congress voted against it: Mr. Jeffords—and the only two left are now in the executive branch, Mr. Gore and Mr. Panetta. I have to wonder just how objective the NPR is. And I try not to be too cynical, but I must say, I'm really looking at this through a long tunnel.

I agree with the NPR when they recommend criteria be established for grading IG performance, because I firmly believe that proper accountability helps performance. The NPR stresses empowerment and innovation, and I've worked for some very fine managers who were empowered and innovative long before NPR and who did much to make government work better.

But I must confess, I've known my share of charlatans and thieves, and every one of those were empowered and very innovative. The key word is "accountability." I don't see much of this in the NPR. This is why I commend these hearings. And I hope that there are additional hearings on the focus of the Inspectors General. Because unless the IGs continue to keep a close watch on government honesty, we can expect many more scandals in the months ahead.

Now, in an article in the Congressional Quarterly, October 23, 1993, titled "Taming the Watchdog: A New Role for the Inspector General," which was written after the NPR, it speaks of the NPR. And in the article, Senator Glenn is quoted as saying, "The IGs are a force for good." And Congressman Dingle said that "The change recommended by Mr. Gore and the NPR should not come at the cost of compliance enforcement."

And then, he said to Mr. Gore, "I anticipate the need for vigorous behavior by the Inspectors General will not end in your lifetime or mine." I agree with that quote. I thank you for having these hearings. This concludes my statement.

[The prepared statement of Mr. Dempsey follows:]

My name is Charles L. Dempsey. I am pleased to appear this afternoon before the subcommittee on Government Management addressing Inspector General Oversight. I have had private and public sector careers and my views on Inspector Generals and the Inspector General Concept has been influenced by these experiences.

I am a consultant to government and business on management control, integrity and ethics and fraud, waste and management issues. I was Inspector General at the Department of Housing and Urban Developing (HUD) from 1977 to January 1985, nominated and reaffirmed by both President Carter and President Reagan. In 1983 President Reagan appointed me Acting Inspector General of the Environmental Protection Agency while that agency was the subject of considerable scrutiny by Congress and the media.

Altogether I spent 28 years in HUD and its predecessor agency, HHFA in investigation, audit and management. During this period I was also:

- Named the first vice chairman of the President's Council on integrity and efficiency (1983 and 1984)
- Member of the Board of Directors of the Federal Law Enforcement Training Center (1977 to 1984)

- President of the Association of Federal Investigators (1977 and 1978)
- Elected to the National Academy of Public Administration

I retired in January 1985 and opened a consulting firm. In 1985 I co-authored and co-produced *Responsibility Systems*, a management control and effectiveness technique which has been successfully taught to and implemented by more than 2,500 managers at Federal agencies (e.g., Interior, State, Commerce, HUD, DOD, Education, IRS, and the Trade and Development Program) as well as the states of Tennessee and Rhode Island. This program was designed to successfully meet the requirements of the Federal Manager's Financial Integrity Act (FMFIA) passed in 1982.

Several of my consulting assignments include advising in the implementation of the Office of Inspector General for the Tennessee Valley Authority and chairing the Task Force and advising on implementation of the Office of Investigation at GAO. Other Federal clients include the EEOC and Departments of HUD, State, United States Postal Service, Commerce, Interior, Treasury HRC and NASA.

In addition, I have performed reviews, studies and analyses and other assignments for the Offices of Inspector General at TVA, Agriculture, AID, Farm Credit Administration, NASA, U.S. Postal Service, Treasury and Interior Departments.

Finally, I have worked with and for several legal firms advising them on Inspector General Audits and Investigations. Thus I have seen the Office of Inspector General and the Inspector General Concept from several different perspectives. My comments today reflect these experiences.

Our panel today was asked to address specific areas for comment and/or consideration and I will address these, however, because I have been closely associated with the Inspector General community and the Audit-Investigation and Management activities for over 30 years, there are some other areas I'd like to address as well.

Question 1: How are the OIG's currently performing?

Mr. Chairman - Considering the lack of support, the seemingly lack of respect for the Inspector General Concept, and the efforts of this NPR to change the direction and focus of the Inspector Generals - I believe the 60 some odd Inspector Generals are doing about as well as can be expected. Some are outstanding, some are doing fairly well, and there are some I suspect who need some help. I believe the tone of the National Performance Review and the downsizing activities of the Administration and the Congress have not made the Inspector Generals' jobs easier. Quite the contrary. However, I believe the Congress can assist the IG's

and help focus them on the Inspector General Act as to mission and direction by a continuing series of oversight hearings covering the IG activities. The Congress may have to assist those IG's who may be timid or not be eager to talk in detail and depth of the state of their departments and agencies. Only through properly planned hearings will we be able to gauge or see how the IG's are faring and doing.

Question 2: Does the institutional independence of OIG's undermine their usefulness?

I say, absolutely not. The success of the IG Act depends on this independence. It also depends on the way the IGs understand this independence and whether or not the IG's have educated their departments and agencies on the IG Act, its authority and the reasons for independence. Independence is essential. I've had to brief Five Cabinet Secretaries or Agency Administrators on the IG Act and when you tell them:

(1) Public Law 95-452 Under Purpose - Sec. 2. "Create Independent and Objective Units"

(2) Sec. 2 - (2) to prevent and detect fraud and abuse.

(3) Sec. 3 - Provide a means to keep the head of the establishment and the Congress fully and currently informed about problems and deficiencies.

(4) Under Appointment and Removal - Section 3. The IG is appointed by the President - with advice and consent of the Senate without regard to political affiliation and from specific background.

(5) That the IG reports to the head of the department and no other in that department and that the head of the establishment nor others can prevent or prohibit the IG from initiating, carrying out, or completing any audit or investigation or from issuing any subpoena necessary.

At this point that Cabinet Secretary or Agency Administrator starts to look at you in a different way. You're not totally one of theirs by LAW and you must be independent by LAW and you both have sworn under oath to carry out these LAWS. However, having said this, the IG must also realize the importance of the statement in the law - regarding "Prevent and Detect" - For in Prevention efforts the IG must work with Department management and cannot use the "independence" issue as a "cop-out" or reason to say I can't work with you on prevention effort as I must remain independent so I can review you later - It's a tightrope situation but it can and must be done. But it must be understood by all -

Question 3: What are the skills and qualities necessary for effective IG's?

By law (the IG Act) the nominees must have specific background experience and understand they are not political appointees. I must assume they will have the required intelligence. Beyond this I'd say they must have intestinal fortitude or plain guts. They should have common sense and judgment and the ability to work with others, and I believe they must understand and have an appreciation of how this government works. The "political ways" of government and political with a small "p."

Question 4: How should they be selected?

The Inspector General nominees should be very carefully selected by a White House with in-depth knowledge of the requirements of the IG Act as to backgrounds and experience required by IG nominees, and with the understanding these appointees will be the focal point of integrity in their departments and agencies. The White House should select the best non-political people for these jobs and only after securing the best should the issue of diversity, and affirmative action be considered. Finally, there should be a carefully prepared orientation for IG nominees prior to their names going forward to the Senate for confirmation. All should know what they are getting into and the responsibilities they are taking on.

Question 5: How can they be strengthened?

Today the Congress is the only one who can strengthen the Inspector Generals. In past years OMB and the PCIE did this, but, the NPR statement on changing the focus and directions of IG's speaks for itself and may result in a "muzzle" on the IG's. OMB could help but they do not appear interested in strengthening the IG's. Some believe they look upon IG's as internal cops.

This is a time of doing more with less. However, I hear more and more IG offices are being cut as to resources, both Positions - Training and Travel money. Travel money is the blood of an IG organization. Only through careful oversight and insistence by the Congress, will the IG's get the resources they need to operate. The Office of Management and Budget will react accordingly when they know the desires of the Congress. Slowly perhaps but they will pay attention.

Question 6: How should the IG's report on their activities?

The IG Act requirement as to semi-annual reports is adequate and I don't believe new reports or changes are necessary. The requirement of semi annual report in the IG Act has been a tough requirement for Department or agency heads and top

political and career staffs to swallow - but its the law and must be done. The IG's must educate ALL within their departments or agencies on this requirement, and what will be reported. The semi annual reports should be well written, clearly stated and carry out the IG Act requirements to the letter. The Congress should annually hold hearings on the contents of the IG semi annual reports.

Special 7-day reports (PL 95-452 - Reports - Sect. 5 (d)).

These should be used when needed and when necessary. The head of the department or agency should be informed of the 7-day report requirement especially that portion that states the report must be transmitted by the head of the agency to the Congress within 7 days. However, I served in an agency which received little or no oversight or review by the Congress and the record of scandals and problems of HUD speak for themselves. However, our semi annual reports and my successor during the latest HUD scandal (1989), when studied by the press and others, revealed the problems were reported but no one on the hill paid attention nor read the reports. At a Congressional hearing on the IG Act after ten years, August 4, 1988, one year before the congressional hearings on the HUD scandal I said the following - page 108 of the Hearing Book, quote "I hope the appropriation and oversight committees of both the Senate and the House take time now to read and absorb the semi annual reports of the inspectors general.

They are overall excellent and I think they tell what's going on. I sometimes feel, as an outsider, the newspaper reporters do a better job reading the IG reports than perhaps some staffers on the committees. - I would hope this has changed.

It must be said however, that proper attention to the IG semi annual reports will not be done by either Congressional staffers nor Department or Agency officials unless and until Congress holds oversight hearings on these reports each year - If this is done, perhaps the word "accountability" will mean something.

There are several other areas I'd like to comment upon.

(1) The CFO Act and the Inspector Generals

Under the CFO Act the IGs are required to perform financial statement audits. I personally believe these should be done by GAO. This requirement has resulted in the IG's taking some of their best, skilled CPA Auditors for assignment to financial reviews. Combine the loss of these auditors from program reviews - with the thrust of the NPR for more cost effective or results oriented audits and you have an overall loss of IG audit coverage. This combined with reductions in resources really cuts the IG audit activities at the knees. The IG's need additional

resources to do this work. If not all should understand there will be a loss of audit coverage.

(2) Counsels to the Inspector Generals

It is absolutely necessary that the Inspector Generals have their own counsels reporting to and working for the IG. Most Departments and Agencies have gone to this. But a recent Treasury Department situation regarding the release of a draft investigation report by the General Counsel office for possible political purposes is proof positive of the need for IG's to have their own Counsels. Only through Congressional oversight hearings aimed toward correcting this problem will this be accomplished.

(3) Bonus for Inspector General

This is one area that I agree with the NPR statement on Inspector Generals: No Inspector General should be in a position to receive a bonus from the person he may be investigating and/or auditing: The image and perception issue alone should have been enough for IG's to have taken themselves out of consideration for a bonus - However, OMB or the PCIE should set up some procedure or apparatus for Inspectors General to receive consideration from the President, the

person who appoints and fires them and one the IG's don't investigate. A Presidential bonus for outstanding work would be appropriate. All would aim toward and work for this.

(4) Grading and Rating Performance of Inspector Generals

I believe its time to rate and grade IG performance. Perhaps annually. GAO, Department of Justice, FBI, National Association of U.S. Attorneys or District Attorneys, and/or other pertinent associations, and the heads and top staff of OMB, OPM and the IG's own Departments and Agencies should be asked to comment and/or rate the performance of Inspector Generals - Perhaps we can get an answer to the oft stated question, "Who checks the Inspector Generals?"

(5) Use of Audit Staff by Department Officials other than IG

There is nothing in the IG Act that precludes other Department officials from having auditors or evaluators on their staffs. If I were a CFO or Assistant Secretary for Management, I would want my own small audit or evaluation staff however, it must be understood that all reports and data gathered by forwarded to the office of Inspector General. This would prevent duplication and also result in "sunshine" of review activities.

(6) Sixty Inspector Generals

There are now over 60 Inspector Generals - 26 are appointed by the President and 34 designated by their agency head. When these additional 34 were created by the 88 Amendments to the IG Act, some of us recommended at the time that one presidentially appointed IG be named for all those smaller agencies with the exception of the U.S. Postal Service and the Tennessee Valley Authority. And all auditors and the very few investigators of the remaining agencies be assigned to this one IG office. It was cost effective and would in my opinion add to a more efficient way to manage their agencies. It is hoped that the Congress will address this recommendation in its oversight hearings.

Finally --

The Inspector General's job is a tough job - He or she is under the general supervision of the head of the Department or Agency yet can only be fired by the President. He or she reports to both the Department or Agency head and the Congress. The IG walks a tightrope in doing this and remaining independent. In testifying before the Congress on August 4, 1988 at a hearing before the

Subcommittee of the Committee on Government Operations on a 10-year review of the Inspector Generals, I said:

"First, I believe very much in IG briefings of all interested parties on the IG Act. And it should be a continuing, on-going process every year, over and over and over again.

"There have been over 50 inspectors general appointed by Presidents Carter and Reagan. And to me, those most successful were the ones to took the act and its contents and kept constantly educating the people they worked with. You educate your department and you stress the independence issue and what the law requires you do. You tell them you will be fair, objective, professional, and aggressive. You brief your IG employees at every opportunity; the auditors and investigators; and you stress professionalism and training.

"The IG Act requires - indeed, it demands - a more professional auditor and investigator. The inspector general's staff must be professional, responsible, and mature. We are the snoops. We review and we survey, we audit, we investigate, we report, and at times we criticize. But this must be done with efficiency and professionalism. There's no room for hotshots, or hot-dogs, or wheeler dealers, or tough guys.

"We must never throw our weight around or threaten. We are diggers and doubters, but we must dig and doubt without rough edges, and without abrasiveness.

"Then, finally, you brief those doing new business with your department, and this takes a great deal of your time. They must know your role, both in prevention as well as detection. They must know the powers of the act and how quickly you will move to enforce this act.

"When those doing business with the Government have high standards and do quality work, work with integrity and efficiency, the IG's should work with them and help them to do a better job with professionalism and mutual cooperation.

"But on the other hand, when the opposite is true and when there's wrongdoing, corner cutting, or at worse, criminal acts, the IG must move quickly and aggressively. And those persons doing business with the Government must know that the IG carries a big stick and will use it appropriately; and knows how and where to use it. And believe me, Mr. Chairman, that's a comfort level. It is what an IG is all about. It's letting them know what they can do and what they can't do." And calling it like it is.

"An IG wears a hat with four sides: one side auditor, one side investigator, one side ombudsman, and one side management tool for the prevention of fraud, waste, and mismanagement. His or her success depends on how well and how professionally he or she wears this hat; and which side you use to approach a given problem. The IG should take the IG Act very seriously; yet, they should never take themselves seriously."

This concludes my statement and I'll be happy to answer any questions --

Mr. HORN. Thank you, Mr. Dempsey.

Mr. Sherman Funk is former Inspector General of the Department of State and the Department of Commerce. Welcome.

Mr. FUNK. Thank you, sir. I, too, have my statement for the record. And I am tempted simply to scrap everything and comment on some of the discussions we have had earlier today. I hope that will come up in the question period.

Mr. HORN. Well, I hope you do. That's excellent.

Mr. FUNK. I am a little disturbed by the fact that in all the discussions today going on in Washington about downsizing of government, about reinventing government, if you will, which is a horrible term, and ostensibly reducing the size and the cost of government, there appears to be very little reliance upon the work of the IGs.

If the IGs were doing what we were all expected to do—and, of course, I'm addressing the question asked by the committee, "How are the IGs performing?" If, in fact, the IGs were producing the kind of reports that would be suitable for these needs, I would think there would be greater reference to them. As it turns out, in some cases, yes; but unfortunately, more and more cases, no.

What you do have—and this is a mark of at least some recognition of the IGs—whenever a significant scandal breaks, almost immediately, you see the agency head referring the matter to the IG, usually with attendant publicity.

The point here, though, the IG Act was not created 17 years ago by this committee—the forerunner of this committee—simply to provide a convenient escape valve for officials under fire. If that's all that the IGs are doing, then we're not performing correctly. I keep saying "we." I have to realize I am no longer an incumbent IG.

But in any case, what comes after referral is far more important than what comes before. And the fact is, when matters are referred to IGs, we have a record of some very thorough, hard-hitting reports that have been issued, clearing the air on that. The two most recent ones, I think, that come to mind are those of the CIA IG.

I'm concerned more in the long run, and I think that we should all be concerned, more with helping to make the government run better, not simply with honesty. The fact is—and most IGs don't want to hear this—but the fact is that most people—the overwhelming majority of people in government are honest. We're not dealing with a fraudulent work group.

Is there fraud? Of course. But overwhelmingly, people are honest in government. So, therefore, it seems to me one of the jobs of the IGs that should be paramount is making the government work better, not just more honestly. And here is something where—I'm sorry Paul Light is not here today.

Mr. LIGHT. I am here. [Laughter.]

Mr. HORN. He likes dramatic entrances. So you provided the shilling to do that. Welcome. Mr. Light, let's swear you in now, if you would stand up.

[Witness sworn.]

Mr. HORN. The witness has affirmed. Please be seated. Glad you had a safe trip from Philadelphia. It's always a risk.

Mr. FUNK. Perfect timing, as usual, Paul.

The thrust of what Paul wrote in his book was that the IGs too often were not concerned with performance of the activities they were responsible for but rather of looking at sometimes peripheral issues. I'm not saying financial audits or efficiency audits are peripheral, but they don't come to the guts of how government programs are run. That requires performance audits.

And performance audits admittedly are very difficult. They rely upon measures that would be tough to quantify. And very often, they place the auditors in very sharp conflict with program officials.

Another problem here is that if you're going to do a good, hard-digging performance audit, you're going to touch on matters of policy. And virtually all program and management officials in the Federal Government look on that as taboo for IGs. It's simply strictly off limits.

I ran into this in State, because I was required by separate legislation to look at foreign policy—how effectively it was being managed at headquarters and in the field and the embassies. And whenever we came up with administrative deficiencies, no problem. Everybody either agreed with us, or mild disagreement.

But when we came to matters of policy, whether the policy was being carried out effectively, the blood was all over the floor. And what's going to happen with the IGs, as they more and more focus on performance audits, there's going to be more blood on the floor.

The question is asked, "Does the institutional independence of IGs undermine their usefulness?" I have been working for a good part of this past year with the Control Department of the Office of the President of the Russian Federation and also with the Government of Brazil, generally in the area of fraud and corruption in government and ways to combat both more effectively.

They bitterly envy us our resources, that the FBI has, that the IGs have, the GAO has. They bitterly envy that. They envy even more the fact that we have access to documents and records and people. But most of all, they envy our independence. In fact, they envy it to the point where they regard it with awe. And that's something I do not want to ever go away.

Are we undermining our usefulness with independence? Absolutely not. It reminds me of the question—I think Hubert Sparks referred to it earlier, of straddling the barbed wire fence, the fact that IGs report to you on the Hill as well as to our agency heads.

The fact is that this is a very difficult process. Everybody on the Hill thinks that the IGs are being co-opted by their agencies, just as everybody in their agency thinks that we're finking to the Hill all the time.

The fact is, a middle line must be walked with difficulty, and the same thing applies to independence. This independence was won dearly. It was won painfully. And it's going to be maintained equally painfully and dearly. What are the skills necessary for effective IGs?

Mr. HORN. I'm going to have to ask you to wind it up.

Mr. FUNK. I would just as soon as soon go right to the question period, Mr. Chairman.

[The prepared statement of Mr. Funk follows:]

SHERMAN M. FUNK

Mr. Chairman, and Members of the Subcommittee:

This is the first time I have testified before the Congress since I resigned in February 1994, after serving for six and a half years as IG of Commerce and another six and a half years as IG of State and ACDA. During that period, I testified on the Hill with great frequency.

I will not speak more frankly today, however, then I did then, because I always have been candid. Indeed, if a test of candor is the willingness to disagree in public with senior officials of my department, I passed that test repeatedly. Some of you may recall my appearance alongside appointees who were running major programs. Typically, they would assert that their programs were being managed efficiently, economically, and effectively, after which, too often, I would be compelled to state, with documented examples, that their programs were rarely efficient, more rarely economical, and more rarely still, effective.

But if my candor can be no greater now that it was as a incumbent IG, the past year and a half as a private citizen has given me the time and distance to think about the IG business with greater objectivity than was possible while I served in the trenches.

The first question this panel has been asked to address is: How are the IGs currently performing?

One answer I would give essentially parallels a criticism made some years ago by Paul Light. I agreed with it then and feel even more strongly about it today. Too much of the work by IGs tends to be unfocused, to be spread so widely among various programs and operations of these agencies that it fails to reach a critical mass. Why is it that the current search by the Congress, Administration, think tanks, and assorted pundits for ways of sensibly reducing the size and costs of major government programs relies so little on the products of OIGs? Admittedly, whenever significant scandals break, the agencies make a big point of immediately referring them, with attendant publicity, to their IGs. But the IG Act was not created by the forerunner of this committee 17 years ago to provide a convenient escape valve for officials under fire. The Act was designed to help make the government run better, not just more honestly.

It is no accident that the single largest component of each OIG is its audit staff. However, unless these auditors are trained, equipped, motivated, and directed to assess how well programs are performing, the OIGs will not be in a position to make any meaningful contribution to the dialogue of how to downsize, to realign, to sharpen the cutting edge of, programs and operations in their agencies.

To be sure, performance audits are difficult to conduct. Unlike financial audits, which offer few targets for criticism, performance audits require evaluations which often hinge on performance measures tough to quantify, and may place the auditors in sharp conflict with program officials. An ancillary problem here is that the findings of performance audits almost inevitably touch on matters of policy, a subject which agency

managers regard as off limits to IGs. At State, I was required by separate legislation to assess how well the bureaus in Washington and our embassies oversees were carrying out U.S. foreign policy. Very few officials went to the mat with us when we reported administrative deficiencies. When w cited policy shortfalls, however, the blood spilled freely. This is a price IGs will have to pay if they are to become more deeply engaged in substantive program evaluations.

The second question we were asked is: Does the institutional independence of OIGs undermine their usefulness ?

For much of the past year, i have been assisting officials in the Control Department of the Office of the President of the Russian Federation as they establish a national inspection program. Their goal is to set up a system to track the flow of program monies out of Moscow, and to determine the integrity and effectiveness with which these funds are spent and services are delivered. Last week, in three states of Brazil, i met with judges, prosecutors, police, auditors, and financial managers, to discuss ways of combating fraud and corruption in government. Both in Russia and in Brazil, they envy the resources we put into the IGs and into the GAO, the FBI, and other law enforcement and oversight authorities. But they envy even more the total access IGs have to all documents, books, records, computer data, and employees in their agencies...and, most of all, they envy the independence guaranteed to the IGs by the 1978 Act. They regard this almost with awe.

Does it "undermine" the usefulness of the OIGs? No, it ensure their usefulness. To be sure, it poses continual problems, in much the same way the requirement that IGs must report not only to their agency head but also to the Congress generates difficulties. The Hill, deep down, is always suspicious that the IGs are being co-opted by their agencies, and the latter, deep down, always suspect that their IGs are finking to the Hill. But this independence, so dearly and painfully maintained, is beyond price. I cannot conceive of any arrangement that will replace it without sacrificing the ability of the IGs to develop an honest picture of what is really happening in their agencies, and to truly identify, without fear or favor, those people and systems responsible for fraud, waste, and abuse.

The third question is: What are the skills and qualities necessary for effective IGs?

Paramount here is the ability of IGs to live effectively within their grant of independence. What this does not mean is for the IGs to constantly bleat about their independence and rub it into the faces of the rest of their agency. This may please the OIG staff and indeed may win a few battles with program officials, but almost certainly will lose the war. Ultimately, such a tactic will so alienate every one outside the OIG that they will become increasingly reluctant to work closely with that office. The OIG mission is to effect positive change. Such a change results primarily from the agency agreeing with, and carrying out, OIG recommendations. But if the program side of an agency digs its heels in and fights every recommendation, little or no change will result. Thus, IGs must know how to succeed by persuasion, by jawboning, by emphasizing the benefits

of what they recommend, rather than by arrogantly emphasizing their independent authority.

Nevertheless, that authority is there to be called upon when really needed, and this too the IGs must know how to handle. In effect, the IGs should be adept in following TR's dictum: speak softly but carry a big stick. (They should also follow President Reagan's advice: trust everyone, but cut the cards.)

In addition to these qualities, it would be very helpful -- indeed, it is now required -- if the IGs were knowledgeable in at least one of the OIG disciplines, i.e., auditing, program evaluation, investigation, inspection, or the law. It would be helpful too if IGs were conversant with, or better yet, fully at home with, computers and other aspects of modern office technology.

It is often overlooked that we one inescapable requirement of IGs is that they be quick and absorbent readers. OIGs turn out a prodigious volume of reports and other papers. OIGs are also faced with the need to know what is going on elsewhere in their agencies and, hence, to read an astonishing amount of information generated outside their own office. IGs who are unable to keep up with this paper load must be dependent upon their own people who screen it for them. This dependency is fraught with peril.

Finally, at risk of laboring the obvious, I would stress the importance of IGs possessing the capacity for leadership. It is not enough for IGs to manage well. If necessary, tight and efficient management can be demanded of the deputy IG and assistant IGs. But no other person in an OIG can supplant the leadership role by the IG. The several components of an OIG often ride to their own trumpets; unless they can be motivated -- led -- to ride in tandem, much of the benefits of consolidating these separate disciplines will be dissipated or lost, and the OIG mission badly degraded. Also, the IG will often require extraordinary efforts by the OIG staff. These possibly can be demanded on occasion, but it is far better to inspire them. The OIG staff will accept a manager, but they will follow a leader.

The fourth question is: How should IGs be selected?

It would be a rare and lucky throw of Presidential Personnel dice if the qualities and skills noted above were to arise from the usual methods of selecting Executive level IV appointees. The odds are heavily against it, short of a recruitment and screening effort comparable to that which marked IG selection in the first years of the Reagan Administration... an effort marked by the labor-intensive use of senior personnel almost exclusively to finding the right IGs for specific agencies. Assuming that such a process is unlikely in future administrations, other methodologies warrant consideration.

One possibility is the screening of IG candidates by a special committee of incumbent IGs. For nearly five years, i served on such a committee, composed of three IGs. It was an ad hoc process, with absolutely no formal status or powers. Whenever Presidential Personnel coughed up an IG candidate, he or she was referred, quite informally, to the PCIE Chairman who, quite informally, referred the candidate to our committee, whereupon we, quite informally, would interview her or him. We had no Yea or Nay authority; after each interview, our informal chairman, Jim Richards, would communicate the results of our interview to the PCIE chair who in turn would pass this on to Presidential Personnel. Informal or not, the system appeared to work; only once, in the entire life of the committee, were negative comments ignored.

But there were major weaknesses in this process. Apart from its lack of any legitimacy, the committee did very little recruitment outside of the OIG community. We rarely solicited candidates from the private sector nor, indeed, from federal, state, or local agencies beyond our ken. (We of course had no authority to solicit anyone.) This meant that the committee's work, over time, became increasingly inbred.. and triggered a kind of incestuous politicking within the OIG community.

It would seem more appropriate if the White house, if it seriously wishes to surface outstanding IG candidates, would establish a formal mechanism for recruiting and screening potential IGs. This would be rather similar to the manner in which bar associations and an ABA committee screen potential federal judges who, like IGs, must be non-partisan and professionally capable. As with our internal IG committee, such a group would have no approval or veto power, but could only suggest. Possible membership of the group could include, perhaps on a rotating basis, an incumbent IG and senior representatives of such organizations as the AICPA, Justice Department, a major management consulting firm, NAPA, academia, and the program side of a major federal agency.

The White House may well object to this process as a possible infringement upon executive power. It may well feel that such a group, despite its lack of decision authority, would tie the White House down by possible leaks. It may well regard it as a dangerous precedent. If not this, however, then what? Certainly the present situation is not viable. I told Secretary Christopher on December 15, 1993 that I intended to resign two months later, hoping that this would give the White House enough time to come up with a good candidate to succeed me not too long after that. In fact, my successor did not come on board until last month... 17 months after I gave notice. It has taken much longer to fill other IG vacancies. Because of the unique authorities given to IGs, this lengthy an interregnum creates severe difficulties for the OIGs concerned.

The fifth question is: How can the IGs be strengthened?

The IG Act omitted any reference to OIG Counsel (because, I've been told, the Committee thought it was so obvious it did not require inclusion). One result is that a number of IGs who thought it imperative that they have their own attorneys, independent of the agency's general counsel, experienced extraordinary difficulties in obtaining such authority. This should be corrected. It need not require legislation.

Nowhere does the IG Act, as amended, specifically authorize the use of inspections as an IG tool. For many valid reasons, inspections have become an increasingly useful vehicle for IGs, and most OIGs now rely on them heavily. Their use should be legitimized.

I do not favor expanding IG subpoena power.

Authority for OIG special agents to carry firearms has long been a contentious issue within the IG community. If the current "class" deputizations by DOJ prove to be workable, and this remains to be seen, I have no problem with this approach. In any case, provision must be made to ensure that agents who go in harm's way are adequately protected. Experience has amply shown that they cannot rely upon calling in other law enforcement officers; that is simply not the way to deal with sudden, life-threatening emergencies. To be sure, the great preponderance of OIG investigative work is aimed at white collar crime or misconduct, which rarely involves violent behavior. But agents of mine have also been involved in such activity as undercover work relating to the illegal sale of passports and visas. Not infrequently, it turns out that the bad guys here are part of drug gangs, armed to the teeth. The blunt truth is that we live in a dangerous world, where criminals have ready access to arms. When OIG agents move in that world, they must be armed themselves and have arrest authority.

The 1988 amendments to the IG Act created IGs in more than 30 new agencies. Some of the latter (e.g., USPS, TVA) are more than large enough to warrant OIGs. Many of them, however, are quite small, and their OIGs may number only a handful of employees. Nevertheless, all of them -- except for the fact that their IGs are appointed by the agency heads rather than by the President -- have the same exact responsibilities and authorities as the PAS IGs. This is simply unrealistic and unworkable.

In 1986, I chaired a PCIE effort to created a mechanism that would provide audit and investigative resources to such relatively small agencies. We recommended, after extensive study, that each major OIG be "allied" with one or more smaller agencies, and be tasked to furnish the requisite coverage.

This was rejected by the Senate government Affairs Committee which, instead, developed the small agency procedures spelled out in the 1988 amendments. A major

argument presented against our recommendation was that the big IGs would neither understand nor adequately address the problems in the small agencies.

In 1987, I moved to State where, shortly after, the Congress designated me also as IG of the Arms Control and Disarmament Agency. I thus had to live with precisely the same arrangement for ACDA as we had recommended the previous year for all of the smaller agencies. It worked fine. There was no extra cost for creating a new IG front office for ACDA. We simply billed ACDA for the actual hours expended for audits, inspections, and investigations. And, in short order, we had a crew of auditors and inspectors who were sufficiently knowledgeable about ACDA to provide that agency with informed and savvy coverage.

I think that a similar set-up would work well across-the-board for most of the smaller agencies which now have their own OIGs. It would significantly enhance the quality and scope of independent oversight of these agencies and, by no means least, would save a lot of money.

The sixth and last question is: How should the OIGs report on their activities?

If by reporting, this refers to the continuing body of internal reports produced by each OIG, I think little change is required. I do think, however, that the utility of audit reports could be improved if they were turned out more quickly. Too often, by the time an audit report is issued, its contents are so stale as to be of marginal interest, except possibly to historians.

And I do not think, I know, that audit reports would be vastly more effective if they were written plainly, with no recourse to jargon or;other gobbledygook. To this day, I am convinced that several big scandals could have been averted if the auditors who reported on their genesis would have written more clearly and bluntly, taking into consideration the fact that most people who read them lacked an appreciation of "auditese." For example, when an auditor writes that "internal controls are weak," this is very meaningful to other auditors and perhaps financial managers, but it means little to the average layman -- whose eyes glaze over at the very mention of internal controls. I take particular, if immodest, pride in the readability of the audit reports we turned out at State. They may not have been of Hemingway stature but by God most were interesting and some even exciting.

If, by reporting, the question refers to the semiannual IG reports to the Congress, I think that very substantial change is required.

For one thing, I believe that annual reports are sufficient, inasmuch as IGs have statutory sanction for submitting, at any time, "seven day letters" to address especially egregious situations which warrant early attention by the Hill.

More important, however, is simplification of what goes into the IG semiannuals. They have become, all too often, monstrosities of arcane information which few people require and fewer people read. This has resulted in part from an unhealthy competition among IGs to produce reports ever more glossy and attention-getting, in part from an equally unhealthy competition within the OIG to see which office gets more coverage, and in part by the 1988 amendments which, in trying to correct the 1978 Act's deficiencies in data requirements, levied mind-boggling additional requirements.

Even before the 1988 amendments complicated the picture, I know only a couple of hardy staffers on the Hill who dutifully plowed through all of the IG semiannuals. Now, with expanded reporting and some sixty different IG semiannual reports turning up every half year, I very much doubt whether anybody reads them all in their entirety. That truly would be cruel and inhuman punishment.

My suggestions:

-- First, require each IG to prepare each report -- annual or semiannual -- with a list of those problem areas in his or her agency which, in the IG's opinion, warrant the attention of the Congress. Each of these should be described very briefly. There may be none, and there should be an absolute maximum of ten.

-- Second, individual narrative coverage should be provided only to those reports which the IGs have reasonable grounds for believing will be of interest to the Congress and/or their own agencies. Such coverage should be no longer than needed to impart the gist of major findings or other important data. If anyone wishes to request a copy of any particular report, that is easily enough arranged; there is no excuse for lengthy narratives in the report. There will, of course, as required now, be a complete list of all issued reports in the appendix.

-- Third, maximum use throughout should be made or computer graphics.

-- Fourth, data requirements should be thoroughly scrubbed by a joint congressional staff/PCIE task group.

-- Fifth, glossy covers and elaborate pictorials (illustrating narratives) should be flatly banned.

This concludes my presentation. I of course will be happy to answer any questions you may have.

Mr. HORN. Well, it's very perceptive testimony.

Let's ask Dr. Dwight Ink, president emeritus of the Institute of Public Administration, to summarize his statement.

Mr. INK. Mr. Chairman, I appreciate the opportunity to appear today. Most of your witnesses represent the perspective of investigators. My comments represent a very different perspective—namely, that of those who are held accountable for agency performance, the managers. They reflect my experience as an agency head and in other managerial roles.

In summary, I believe that the IGs perform a very necessary function and have made important contributions. The capability to ferret out wrongdoing without fear of agency cover-up is essential and must not be weakened. At the same time, I believe there are serious problems with the IG activities.

Despite the growth of the IG movement, there is a perception that waste and corruption in the government have increased, not decreased. Some of this perception is wrong, but most agree that the general level of professional management has declined significantly, thereby increasing our vulnerability to mismanagement and scandals.

One reason for this decline, I believe, has been confusion over oversight roles. We tend to forget that the basic responsibility for oversight lies with the program and administrative managers, not the IGs or the GAO. Oversight is a fundamental element of supervision for which every manager is held responsible. It is the managers who are our first line of defense against waste and abuse, and they should be equipped to provide that defense.

Clearly, there must also be the independent oversight provided by the IG. But that oversight should never be permitted to substitute for or weaken the task of the manager to oversee his or her organization.

The basic statute prescribes too broad a charter for the IG. It says "to provide leadership and coordination and recommend policies for activities designed A: to promote economy, efficiency, and effectiveness; and B: to prevent and detect fraud and abuse in such programs." I think combining the words "leadership and coordination" with the phrase "economy, efficiency, and effectiveness" in the administration of an agency, constitutes an inappropriate role for the IG.

First, a literal reading of the law would draw an IG into a managerial role in which the office would have a conflict of interest, as the IG provided this leadership and coordination and then later reviewed these same activities or policies in the role of an auditor/investigator.

Second, as a practical matter, the broad statutory charter places a greater potential workload on IG offices than they can carry out. Further, bringing IGs into noninvestigative activities for which they are not well-equipped can waste an enormous amount of time and weaken the ability of good managers to manage.

Finally, I believe a particularly dangerous consequence of this unrealistic scope of the IG charter is the extent to which it reduces the attention that a number of IGs are able to focus on the most serious failures in financial management, some of which are quite shocking.

In part, this weakness is caused by congressional offices which keep drawing upon limited IG resources for investigations affecting an individual constituent, sharply reducing the attention IGs have available to devote to broader issues.

On paper, IG offices are a part of their agencies and report to the agency head. As a practical matter, many IGs regard the Congress as their true boss, and others believe they report to both the agency head and the Congress. But managers think they report to no one, and we often hear the complaint that no one oversees the overseers.

The two boss problem creates confusion over IG priorities and sometimes weakens the capacity of agency heads to call upon the IG for quick investigation of problems before they grow more serious and become public scandals. Such delays also postpone the ability of managers to take corrective actions.

I regard as unacceptable any situation in which a program manager is held accountable for that program and yet may be restricted in his or her ability to utilize existing resources needed to ensure the integrity of the program.

Still another reason I urge a narrower focus for the IGs is that there will be, I think, an enormous impact on their workload from the NPR and GPRA, plus the financial statement work that has already been mentioned. First, any governmentwide series of restructuring involves a period of confusion, mistakes, and potential abuse, adding to important oversight workload.

Second, most of the desirable aspects of the NPR—and there are many—such as more delegations and flexibility nonetheless increase the vulnerability to mismanagement when lacking the guidelines and program oversight required for successful decentralization.

Third, I wish to stress that the low priority given by NPR to departmental management, combined with the emasculation of the Office of Personnel Management and the unfortunate reorganization of OMB, is, in my view, steadily increasing the vulnerability of our government to mismanagement and corruption.

I would urge that the Congress clarify the role of the IGs and provide a narrower focus, and step up its oversight role in reviewing the failure of the NPR to address the need for competent professional management.

[The prepared statement of Mr. Ink follows:]

Testimony of Dwight Ink
Before the
House Subcommittee on
Government Management, Information and Technology

INSPECTORS GENERAL

Mr. Chairman, I am pleased to appear before this Committee as it continues its remarkably ambitious series of hearings on federal management. Most of your witnesses today represent the perspective of the Inspectors General (IGs). My comments represent a different perspective, namely that of those who are held accountable for agency performance. They reflect my experience with IGs in a number of agencies, both as an agency head and a bureau head, as well as experience with similar functions before IGs existed. I would hope the Committee would hear the views of additional managers, since they and their organizations are heavily impacted by the actions of IGs. These views are my own, and not those of any organization with which I am affiliated.

In summary, I believe that IGs perform an important function and have made important contributions. At the same time, I also believe the basic statute is flawed. Even more important, because of serious failures on the part of program and administrative managers, the decline of an OMB management leadership capability and a misplaced focus of much of the Congressional oversight, I believe we have (a) looked far too much to IGs to perform non-investigative roles for which they are not equipped, diluting their capacity to do the things for which they are best equipped, and (b) not looked enough at the need for revitalizing the management leadership in the agencies necessary to reduce waste and minimize abuse.

I have found most IGs to be highly-motivated allies in pressing hard for honest, corruption-free, agency management. I particularly recall cases in which abuse or corruption came to light through IG persistence in pursuing investigations that others thought were witch-hunts. This capability to ferret out wrong doing without fear of agency cover-up is essential, and must not be weakened. Perhaps it needs to be strengthened. Once one moves away from

the field of investigating fraud and abuse, however, I regard our experience with IG performance as very mixed. I should like to list several important issues for consideration of this Committee, most of which were not addressed by the National Performance Review.

Confusion Over Oversight Role.

Despite the growth of the IG movement over the past several decades, there is a perception that waste and corruption in government has increased, not decreased. Some of this perception of government is wrong, but most knowledgeable observers believe the general level of professional management in government has declined significantly. It is my own view that the erosion in management capability is much more serious than people realize. Although the IGs are not responsible for this problem, I suggest that the question of why this deterioration has continued despite increased IG activity is very relevant to this hearing.

Some of the major scandals in recent years would have been either avoided or stopped in the early stages had we retained more of the capacity we once had to prevent serious management deficiencies and to mount quick corrective action in those instances we failed to correct. There were instances, however, in which an agency never had this capability or in which political intervention swept aside these managerial safeguards, making it necessary to establish some independent mechanism such as the IGs.

In the beginning, many concerned members of Congress believed that the IGs would not only be important tools to ferret out abuse, but would also help departments strengthen their management effectiveness. For the most part, this second result has not materialized. One of the reasons, but only one of several, is that too many in both Congress and the Executive Branch have tended to relax attention to departmental management, in the mistaken belief that the new IG offices would ensure quality management in the departments. This was a totally unrealistic understanding of the role of an independent oversight organization, and created unfair expectations of the IGs.

One manifestation of this confusion has been the strengthening of the IG offices (which was generally desirable) at the expense of department managers who are responsible for good management. The unfortunate transfer of all auditing activities from the assistant secretary for administration to the IG in a number of departments, for example, made it more difficult for

program and administrative managers to use auditors in the prevention of waste and abuse. Both the IGs and the assistant secretaries had need for auditors, though for different purposes. Chief Financial Officers also now have auditors and an important piece of management, thereby increasing management fragmentation within departments. We also now have chiefs of staff, and today no one has clear-cut management leadership responsibility short of the Secretary or Deputy Secretary, neither of whom devote much attention to such matters.

HUD is a good example of a department which had an excellent Inspector General, but increasingly saw little need for management leadership anywhere else in the department. So while the IG was sounding the alarm about growing mismanagement and worse, the departmental capacity to prevent or correct such problems was permitted to virtually vanish, making scandal and mismanagement inevitable. Leadership for encouraging new approaches to departmental management and maintaining a high level of managerial competence throughout the department also largely disappeared.

We need to remind ourselves that most of the oversight required for effective program management is the responsibility of the managers themselves, not the IGs or GAO. It is a basic supervisory element of any manager's job. They are our first line of defense against mismanagement and corruption, and should be trained and equipped to provide that defense.

Unrealistic Charter.

In addition to the basic IG role of audits and investigations, the organic statute, PL 95-452, adds an enormously wide scope to their charter. Specifically, it describes their purpose as:

> (2) to provide leadership and coordination and recommend policies for activities designed (A) to promote economy, efficiency, and effectiveness in the administration of, and (B) to prevent and detect fraud and abuse in, such programs and operations;..."

The combination of the words "leadership" and "coordination" with the phrase "economy, efficiency, and effectiveness in the administration" of an agency suggests a highly inappropriate role for the IG if one reads them literally.

First, a strict construction reading of the law would propel the IG into a managerial role in which the office would have a conflict of interest if IGs provided active "leadership and coordination and recommend policies for activities", and then later reviewed these same activities or policies as auditor and investigator.

Most, but not all, IGs have interpreted this language with restraint. Some argue that Section 4 of the Act, and the legislative history indicate a somewhat more modest IG role, and I agree. But, regardless of how well an IG may have handled this issue, their statutory charter has at times led department heads and the OMB to rely too heavily on IGs for good management at the expense of a strong assistant secretary or under secretary for management which is the appropriate place in which to lodge this lead responsibility.

Looking to an IG, rather than an assistant secretary or manager in a leadership role as the principal advisor for whether to automate an activity, for example, places the IG in a highly questionable position to later evaluate the wisdom of that decision. Under such circumstances, who is to be held accountable for success or failure?

Second, as a practical matter, even if there were no conflict of interest, this broad IG statutory charter places a greater burden on the IG offices than they could possibly carry out effectively.

The sheer workload would be daunting. The staffing requirements would be far beyond any reasonable expectations. I am not aware of any instance in which an IG has felt compelled to go to the extreme of attempting to cover every avenue that a literal reading of Section 2 might suggest, but there certainly have been cases in which IGs have moved into non-investigative activities for which they were not equipped, often because of Congressional pressure. These excursions into uncertain territory waste time, and the resulting unwarranted criticism weakens the ability of good managers to manage. In addition, IG program and project evaluation comments of questionable validity, when interspersed with valid investigative findings regarding abuse, tend to dilute the effectiveness of the investigation, weaken the credibility of the investigation, and draw the IG into unnecessary controversy.

It is my view that a particularly dangerous consequence of the unrealistic expansion of the IG charter is the extent to which it reduces the attention that is focused by a number of IGs on the most serious failures in financial management, some of which are quite shocking. It has been my lot to enter four independent agencies which turned out to have the most fundamental deficiencies in their financial management. In one case, I discovered that no career program manager was permitted to know what his or her unobligated balance was. In another, there were a series of large illegal payments over a period of time with serious international implications, payments which basic financial controls would have caught at once. In one agency which had a huge training program, those managing the training program had virtually no cost data from the accountants because the system was not capable of producing the information.

In each of these cases, upon my joining the agency in a leadership role, the IG provided me with useful information about certain deficiencies in the financial management system, but **in no instance did the IG reports or briefings come close to revealing the far more basic failures that existed.**

Part of the reason for these IG inadequacies, in my view, was the fact that they were drawn into program management and evaluation areas for which they were ill-equipped, and therefore, very time consuming. As a result, they were unable to give financial management the attention it deserved, an area for which IGs could more readily secure and train the necessary expertise. Another problem was that Congressional offices kept drawing upon limited IG resources for investigation of allegations of problems pertaining to individual transactions, often involving only one of their constituents. These were important to the constituent, but they either (a) gave surprisingly few clues to the more fundamental systemic failures or (b) the IG offices felt they had insufficient resources left to pursue the broader issues.

Objectivity.

Program managers believe there is a widespread view on the Hill that IG findings and conclusions are totally accurate and impeccable as to judgment. When there is disagreement on an issue, agency managers complain that Congress regards an IG criticism as uncontestable evidence that the criticism is valid no matter what the program manager says. I have found the

batting average of some IGs to be high with respect to accurate reporting of hard facts, although at times the reporting has been incomplete in my view and, therefore, somewhat misleading.

In the area of qualitative judgments, such as assessing the wisdom of program and administrative decisions, or evaluating the economic risks in a proposed action, I have not relied on IGs. In part, this is because IGs have great difficulty staffing such areas with the experience and specialized expertise that would be needed for quality work. It should be remembered that the training and experience of IG staffs are geared far more toward investigative skills than managerial or program assessments and recommendations.

As this Committee reviews the IG function, it would be useful to learn what percentage of IG findings are upheld by administrative law judges and the courts, and, further, what types of findings are most often supported, and what types are most often rejected.

If Congress presses IGs into areas which are highly judgmental, a course which concerns me, it should not accept the IG version as gospel, but should also weigh the views of the program people before arriving at conclusions or sharing IG information with the media.

Lack of Accountability.

On paper, IG offices are a part of their agencies and report to the agency head. But, as a practical matter, many IGs regard the Congress as their true boss. One IG boasted that he was more independent of his agency than was the GAO. Others believe that, as a practical matter, they report to both the agency head and the Congress. This reporting to two bosses contributes to a lack of accountability to anyone. There is little meaningful oversight of IG activities except in cases of alleged misconduct. We often hear the complaint that "no one oversees the overseers". To what extent does anyone review the claims of savings as a result of IG recommendations? And who looks at the extent to which those claims take into account the added cost of installing and administering the additional procedures often contained in their recommendations?

I believe this lack of accountability contributes to an unacceptably wide range in quality of work from outstanding to terrible. Basic to ensuring quality work, of course, is the appointment of highly qualified IGs who leave politics and personal vendettas totally out of their

work. A poorly qualified IG, or one with a political agenda, can do enormous damage. Also important is the need to select men and women whose primary interest is professional performance rather than garnering media attention. What quality control measures exist with respect to the appointment of IGs and their staffs?

The two-boss problem also creates confusion with respect to IG priorities, and often weakens the capacity of agency heads to call upon the IG for quick investigation of problems before they grow more serious and become public issues.

The Congressional role has strengthened the hand of IGs in standing up to executive branch pressures to water down investigations and recommendations. This is good. But it has also created certain difficulties for many IGs in their efforts to meet Congressional needs. When, for example, a program manager first learns of damaging IG allegations from a Congressionally inspired press inquiry asking for immediate comment before the paper or TV station releases its negative story, agency personnel become defensive rather than concentrating on first ascertaining the facts and determining whether corrective action may be warranted.

Further, the story as told on the evening TV news may be much more damaging than the actual IG statements, especially if the source was simply an informal heads-up conversation between an IG and Congressional staff concerning preliminary findings. In such cases, additional fact finding prior to the final report may reduce the seriousness of the allegations appreciably, but by then the negative Congressional and public judgments have been made concerning the agency and its leadership. Most IGs deplore premature releases of this type, but nonetheless feel compelled under the statute to keep the Congress "fully and currently informed about problems" through a continuing dialogue with Congressional members and staff who are at times more interested in press stories than waiting until all the facts are in.

Far more serious, in my experience, have been occasions in which, as an agency or bureau head, I have been unable to mount an audit or investigation as quickly as I needed because the resources were under the control of an IG who had competing demands, often from the Congress. These situations handicapped me, as an accountable official, in quickly establishing the extent to which serious problems might be unfolding and my ability to take quick corrective action before the situation worsened. This type of situation is wrong and the system which permits such circumstances should not be tolerated by the Congress.

I regard as unacceptable any situation in which a program manager is held accountable for that program, and yet may be restricted in his or her ability to utilize existing resources needed to ensure the integrity of the program.

I recommend that the Congress clarify the accountability of IGs. If the Congress intended the statute placing them in the Executive Branch to be taken seriously, as I assume it did, then it should make that clear in report language.

Perhaps there also should be a provision that some entity, possibly GAO, provide technical oversight. In doing so, it would be important to make clear that the ability of IGs to report their independent findings not be infringed upon. In this connection, I believe it is not too difficult for IGs to respond promptly to urgent needs of management for investigations and yet retain the independence of the resultant findings. Several outstanding IGs have done exactly that for years, and taken pride in doing so.

IG Incentives.

External recognition for IGs and their staffs come chiefly from revealing what is wrong, not from producing balanced reports on agency actions. This may be appropriate when investigating allegations of fraud and abuse, but it is not an environment which is geared to producing objectivity in evaluating the wisdom of decisions or the quality of program or administrative management. How many IGs have been commended for finding something positive? In fact, some IGs have been criticized as being "soft" or engaging in a whitewash when they have tried to provide balance. It is my impression that the IGs who have gained the most stature are those who have risen above these circumstances, and taken pride in presenting objective reports, but it is not an easy task.

Again, the difficulty increases as the IG task moves along the continuum from skilled investigations of hard facts to assessing the wisdom of discretionary program actions. To the extent that these discretionary actions involve specialized fields for which IGs do not have staffs or adequate resources needed to contract for such expertise, the value of IG conclusions and recommendations decreases. This is another reason I have deep concerns about the unrealistic breadth of the IG charter.

I suggest that IGs and former IGs such as Mr. Dempsey be asked to recommend measures which might increase their incentive toward objectivity, rather than continue to provide recognition only for criticizing people and their actions. However, I agree with Mr. Dempsey that the practice of departmental management giving bonuses to IGs, creates the image of management trying to "buy" favorable reports and should be stopped.

Workload Impact of NPR.

I do not know the extent to which the IGs have assessed the impact of the National Performance Review on their future workload, but I suspect it may be much greater than most people realize, perhaps well beyond their current staff capacity. This another reason I suggest a sharper focus for the IGs.

First, any government-wide series of significant changes in the management philosophy, structure, and systems of operation will increase for a time the opportunity for mistakes, confusion, and violation of laws and regulations. The NPR is moving forward with such an agenda on an unprecedented scale, substantially increasing the likely workload for IGs.

In addition to the NPR, the Government Performance and Results Act (GPRA), whatever its positive factors for better management, is likely to also greatly increase the terrain in which IGs examine agency processes whereby the components of GPRA are developed and administered, especially benchmarks and outcomes.

A word of caution. Agencies need time after structural and systems reform for implementation. IGs will need to be careful not to label the new policies, directives, and emerging practices as "mismanagement" for lack of final form while they are still in the stage of a reasonable transition and undergoing a shake-down period.

Second, the increased management flexibility and the extent of delegations of authority contained in the NPR, when lacking the guidelines and oversight normally required for decentralization, increases vulnerability to mismanagement and abuse to a very high level, further increasing the demand for future IG investigations.

Third, the low priority given by the NPR to departmental management, combined with the emasculation of the Office of Personnel Management, and the unfortunate reorganization of OMB, is steadily increasing the vulnerability of our government to mismanagement and corruption, in my view.

In summary, I believe that, despite some very positive features, the NPR is increasing the vulnerability of many agencies to mismanagement and scandal. The IGs are not equipped to handle this increased workload coming down the pike, and even if their staffs were beefed up to better meet this new challenge, it would likely have little or no effect on stemming the continued weakening of departmental management for which no amount of IG activity can substitute.

Recommendations:

Finally, I suggest:

- **IG Accountability.** Congress should clarify through report language that it is the intent of the Inspector General Act that the Inspectors General are a part of the Executive Branch as the law seems to sav.

- **Realistic IG Charter.** Congress should provide a narrower focus for the work of the IGs, either through legislation or report language, so that they are not drawn into areas for which they can rarely, if ever, develop the capability to perform at a high level of competence. This action should strengthen the ability of IGs to conduct investigations in the core areas of their competence.

- **IG Role.** OMB and departmental leadership should come to a better understanding that an effective IG, no matter how essential, is not a substitute for effective management leadership within a department.

- **Early Warning and Rapid Action.** OMB should provide leadership in better ensuring that departmental leadership has the capacity to (a) quickly detect emerging problems of mismanagement or corruption and (b) take immediate corrective action, without having

to wait on an independent IG who many have competing Congressional demands on his/her resources.

Professional Non-Political Career Service. The Congress should immediately step up its oversight role in addressing the critical failure of the NPR to address the need for competent professional management, protected from politicizing pressures and actions, to lead the massive restructuring now underway.

Large corporations undergoing major restructuring, and other countries doing the same, place great emphasis on the need for experienced managers trained to handle new and different challenges. NPR is doing the opposite. It should also be noted that these other countries, such as the UK, Canada, and Australia, assiduously avoid building the costly political layering that exists in the national government of the United States.

No amount of IG or other oversight activity can compensate for this serious NPR failure to give priority to developing and retaining highly competent managers, protected from political intervention in their work.

Mr. HORN. Thank you, Dr. Ink, for that very helpful statement.

We now have Dr. Paul C. Light, the director of the policy program at the Pew Charitable Trust in Philadelphia. He's author of the book "Monitoring Government: Inspectors General and the Search for Accountability."

Dr. Light.

Mr. LIGHT. It's a pleasure to be here. I would have been here a little bit earlier, and I should have sat between Dwight and Sherman. I sort of am a buffer between the two sides of this issue. It's a pleasure to be before the committee.

Mr. HORN. Remember, you're under oath when you make statements like that. [Laughter.]

Mr. LIGHT. It's a pleasure to offer some tepid insights on the IGs. As a congressional historian yourself, it is an interesting story that brings us to this particular hearing, dating all the way back to the Continental Congress which created the first IG over 200 years ago.

As I point out in my testimony, which I will just briefly summarize, the modern IG really was a product of the reorganizations that stripped the General Accounting Office of its responsibilities in actually auditing agency financial records. And Congress responded in part to that by creating a greater presence in the executive branch to provide information on basic operations of agencies.

The first modern IG, as near as I could tell, was created at the Department of State in the late 1950's and reflects what I call the "lone wolf" model of IG oversight. This IG really did not report to the Secretary, per se, and had extraordinary authority to suspend programs that the IG thought were failing to achieve program goals.

I do not detect in any of the history that this IG ever used that authority, but it was a profound authority which today's IG does not have. The notion that an IG would be able to immediately stop a program that was failing is really a remarkable expression of authority, one which I would feel quite comfortable giving to a Sherman Funk or a Chuck Dempsey, but which I think would raise some questions in terms of the proper recruitment and retention of talent in the IG pool today, perhaps.

Orville Freeman, the distinguished Secretary of Agriculture from the State of Minnesota, my home State, invented the second model of the IG, which was the strong right arm model, following the Billy Sol Estes investigation, which I refer to in the testimony as being conducted, I believe, by the great, great grandparent of your current committee here. So you are, in a sense, the descendants of that noble subcommittee that created the first IG.

Mr. HORN. Almost as old as the Colonial Army.

Mr. LIGHT. That's correct. That's right. This strong right arm of the Secretary really reported only to the Secretary. This was an assembling of audit investigation at a senior level and was designed to consolidate authority.

And it was these two models that emerged from the 1960's. As we started to consider IG reform in the mid-1970's, then guess what? Congress in its infinite wisdom decided to take both models and combine them into today's IG.

The IG has a mandate which is profound and aggressive, to both be an agent of investigation at the highest levels of fraud, waste, and abuse, but simultaneously to be of help to the department. Hence, the blend of the IG as both junk yard dog and man's best friend. And that is what we have today. And we have a sense of that in this panel itself.

As I argue in my testimony, I have come to an accommodation with the IGs. They're here. They have been created. They're going to stay with us. What do we do with them? That's really the question.

Mr. HORN. The question is, have they come into accommodation with you?

Mr. LIGHT. That's right. You know, I feel like Monica Seles here with my back to the audience.

Mr. INK. What do you think I feel like?

Mr. LIGHT. That's right. Only the fact that Dwight is here makes me feel comfortable.

I think the IGs have made some important efforts over the last few years to respond to the legitimate pressure to do more work on prevention.

But, as I argue in my testimony, we're still left with three basic questions. No. 1, do we know that what they're doing is helpful? And the answer is, not very well. They don't have good measures of the value added to government. They do not have an effective approach underway yet that really tries to estimate not whether they have captured more crooks last year but whether they have actually improved what government does. They don't measure their performance as well as they should.

Second, what might they do differently in the future? My testimony argues as the book "Monitoring Government" does that they need to focus much more aggressively on prevention. They hide behind the yellow book too frequently when it comes time to giving meaningful advice to their departments and agencies on how they might prevent mistakes before they happen.

Too many of the OIG staffs lay in waiting, seeing mistakes on the path and not alerting their departments as to how to prevent them.

Finally, I ask the question as to whether the IGs are well-equipped to take on a more significant role in improving government. And I think the jury is out on that. There are some serious questions about the staffing capacity of the OIGs today, the strength of their auditing and investigating teams. And I think those are worth taking a look at as this subcommittee proceeds.

That's a brief summary of my testimony for the committee.

[The prepared statement of Mr. Light follows:]

PAUL C. LIGHT
DIRECTOR, PUBLIC POLICY PROGRAM
THE PEW CHARITABLE TRUSTS

I am pleased to appear before the House Government Reform and Oversight Subcommittee today to discuss the federal Inspectors General. My comments today flow from my book *Monitoring Government: Federal Inspectors General and the Search for Accountability*, which was published jointly by the Brookings Institution and the Governance Institute in 1993. The following testimony does not represent the views of either my publisher or The Pew Charitable Trusts.

As you may know, the Inspector General concept has been part of American government ever since the Continental Congress created an Inspector Generalship to monitor alleged abuses in George Washington's colonial army. However, it was not until the late 1950s that the concept was resurrected as a formal device for giving departments and agencies a high-level mechanism for monitoring government. The first modern IG was created under the 1959 amendments to the Mutual Security Act, and was tasked to monitor foreign aid expenditures. Under further amendments in 1961, the IGA, as it was abbreviated, was also given the authority to suspend all or part of any project or operation "with respect to which he has conducted or is conducting an inspection." In other words, the IGA had the power to immediately stop a program that was failing.

This first statutory IG falls under what might be called the "lone wolf" model of government oversight. The IGA had rather impressive powers to demand information from within the Department and had full authority to compel documents from any other agency of government concerned with foreign assistance. Under the 1961 amendments, the IG was also given authority to assess whether foreign assistance programs were aiding in the attainment of their objectives, a precursor to the modern performance management approach represented by the Government Performance and Results Act. Finally, the IGA was given authority to determine the "efficiency and economy" with which foreign assistance was being discharged. All in all, it was a very strong model of independence. When coupled with the authority to suspend operations, the IGA was no small potential force for reform.

It is not quite clear what happened to the IGA. We know that it never used its authority, never suspended a program, and faded away in the late 1960s. We also know that it was not discussed in any of the hearings leading up to creation of the current generation of IGs in the mid 1970s. Although the IGA model was never used again, imagine, for a moment, what a Charles Dempsey, Richard Kusserow, June Gibbs Brown, Tom Morris, or Sherman Funk might do with such authority. Would the HUD scandal have gone so deep? Would welfare fraud continue so long? Would poorly designed programs endure forever? As the IG community struggles with the essentially minor issues of search and warrant authority or firearms, we can only muse about the bigger issues implied in giving the IGs greater authority to act once they spot a serious program weakness. For now, they only have the power to identify the problem.

Such speculation notwithstanding, a second approach to IG oversight was created by Agriculture Department Secretary Orville Freeman in the wake of the 1962 Billie Sol Estes Scandal. If I trace the committee lineage correctly, Freeman's decision was actually sparked an investigation by the precursor to this subommittee. However, in contrast to the IGA, when Congress moved first, Freeman elected to create a non-statutory IG under secretarial order. It was an IGship that existed until the early 1970s, when an obscure assistant secretary for administration named Joe Wright abolished it in an effort to regain control of the audit function. In one of the great examples of Miles' law (where you stand depends on where you sit), Wright later became one of the greatest supporters of the IG concept. What made no sense

to an assistant secretary who wanted information on his department made all the sense in the world to a deputy director of OMB in need of statistical accomplishments in a battle against red ink.

Two features made the Agriculture concept different from the IGA at State: (1) the IG served entirely at the pleasure of the secretary and (2) the IG reported only to the secretary. As Lester Condon, the first Agriculture IG, explained, "we brought auditors and investigators together so they did indeed become subordinates of the secretary of the department. They were responsible to the agency, rather than running around the Hill and making alliances with politicians, and too often not working for the department as a whole. That authority we had was a powerful and effective one." Yet, unlike the IGA, the Agriculture IG had virtually no authority but persuasion in doing his or her job. "He is a mere adviser," administrative law scholar Walter Gellhorn argued, "but his position adds weight to his advice....Though separate from others, he remains quite properly a member of the Secretary's team." As such, the Agriculture IG represents the purest form of what be called the "strong right arm" model of the office. The IG was to be simultaneously helpful to the department, but aggressive in investigating and auditing fraud, waste, and abuse all the way to the top.

Like so questions in legislative drafting, Congress eventually resolved the tension between these two models by artful combination. Today's IG is a blend of junk yard dog and man's best friend. Some, such as my colleague Dwight Ink, view the IGs as unacceptably independent of secretarial control. After all, the IGs do report nearly simultaneously to Congress and are difficult, though not impossible to remove. Others, such as my colleagues Charles Dempsey and Sherman Funk, view the IGs as a key sources of advice and counsel on how to improve government. In a sense, they might say, the IGs work first for the American public and must constantly straddle a "barbed wire fence" in their secondary relationships with Congress and their departments and agencies. Personally, the debate over whether the IGs should exist is moot. They do exist and will continue to exist. The far more important question is what they should do -- that is, how can they be a help, not a hindrance, to efforts to improve government.

Those of us who believe the IGs can be a help must address three basic questions about their future: (1) how do we know whether what they are currently doing is helpful, (2) what might they do differently in the future, and (3) how well are they equipped to take on a more significant role in improving government? The IGs would be quite right, of course, to say they are doing quite well as is, thank you. After all, they all follow the letter of the law in launching their audits and investigations, in writing their detailed semi-annual reports, and in complying with the overall effort to reduce fraud, waste, and abuse. They might also suggest that they have made some improvements in how they write their reports so that presidents, members of Congress, and other interested parties can make sense of the auditese that once dominated their language. And they might finally argue that they continue to roll up impressive gains in the war on waste, saving the federal government far more than they cost. I cannot dispute any of these conclusions, and, indeed, am pleased to suggest that the IGs have made significant headway in the "reorientation" that the National Performance Review recommended in 1993.

At the same time, there is much more to be done. Many, though certainly not all of the Offices of Inspector General retain the old "gotcha" culture, interpreting the Inspector General Act in the most narrow terms possible. Many remain unwilling or unable to address the fundamental issues of prevention that have so plagued reform efforts in the past, and are instead satisfied with piling up yearly statistical accomplishments as a substitute for the kind of lasting improvements that will not show well in a semi-annual report. Let me turn, therefore, to each of my three questions in brief order.

First, how do we know whether what the IGs are currently doing is helpful? The answer is, I am afraid, is that we simply do not know. The OIGs, while skilled at collecting volumes of information on cases opened, audits closed, dollars put to better use, staff deployed, and a host of other activity oriented measures, have not been very good at developing strong performance measures for themselves. How well has the IG concept worked, for example, in restoring public confidence that government does not waste taxpayer money? In theory, the yearly records in stopping fraud, waste, and abuse should somehow add up to a growing public sense that government is, indeed, doing better. In fact, public confidence is plummeting. I do not suggest that the IGs, and the IGs alone, can reduce this deep public disaffection. At the same time, I do believe the IGs should step up to the issue of broad performance measurement.

It is not enough merely to total up the activity measures. The IGs need to develop meaningful outcome measures directly tied to the overall performance of their departments and agencies. If their organizations are not getting better as a result of OIG audits and investigations, perhaps we should put the dollars and FTE elsewhere. Rare, indeed, is the IG ready to stand up before Congress or the president to declare that next year will show a decline in the statistical accomplishments that so many of us have used to measure their success in the past.

Second, what might the IGs do differently in the future? At the risk of repeating my conclusions from *Monitoring Government*, I do not believe the IGs are doing their job poorly, but may be doing the wrong job in the first place. As should be clear from my comments above, there is far too little focus on prevention in the current OIG mission. Congress, the presidency, the media, and the public are all partially to blame, for we have an unsatiable appetite for the kind of horror stories that IG investigations and audits so often produce. We also want to root the waste out of government, and cannot abide the thought of a welfare cheat or contractor getting away with "it." Yet, in devoting so much of their energy to catching the past abuse, the IGs are making a decision of sorts to underemphasize prevention. In the past, IGs have been far too reluctant to engage their departments and agencies in meaningful conversation about how to design programs for greater workability, how to reorganize hierarchies for maximum efficiency, or how to build incentives for higher performance.

I know that the traditionalists in public administration will argue that this is precisely <u>not</u> the IGs' job. It belongs to OMB (or an Office of Federal Management), or the Government Operations Committee, or the National Academy of Public Administration, or to just about anyone but the IGs. This may be one area where the traditionalists and the IGs actually agree, for most of the IGs are absolutely opposed to designing programs. It would compromise their audit independence, the IGs often argue, weaken their authority in testifying before Congress, and absorb precious resources from the audit and investigation units. Some also argue that an emphasis on prevention would violate their statutory mandate. I will not dwell long on the issue of audit independence, for the IGs are more talented at building firewalls within their units than they might like to acknowledge. I would note, however, that prevention is very much in the IG mandate. Indeed, the organic statute clearly provides that the IGs are to assess legislation and regulations for their potential impact on the economy and efficiency of their departmental or agency operations. It is a gaping mandate that the IGs could easily use to claim a place at the table in designing more effective policy.

Such a role is not without serious political risk, of course. Imagine the HHS IG appearing before Congress to explain why the Clinton health care plan might not work? Imagine the Labor IG appearing before Congress to explain why a prized jobs bill will fail? It is not the kind of testimony one readily imagines giving, unless, of course, one has a job waiting on the outside. This is all part of the problem in blending the lone wolf model with the strong right arm. IGs cannot be a secretary's strong right arm

if they resort to such blatant truth-telling, and most certainly will not last on Capitol Hill if they became chronic naysayers.

There are, of course, ways to protect the IGs in this role, whether by giving them a formal term of office, thereby insulating them somewhat from political pressure, or by defining a new appointment mechanism modelled on the appointment of the Comptroller General (a commission is composed to give the president three names from which to choose). I believe such projections are warranted even without pressing the IGs to emphasize prevention, but the projections would most certainly create a better climate for speaking truth to power. The projections would also go some distance toward assuring timely appointment (a problem in this and past administrations) and the highest quality of incumbents (a problem mostly under a series of political litmus tests established in the Bush administration).

A much more aggressive step toward prevention resides in giving the IGs an undeniable statutory mandate toward that end. Just as statute currently requires all OIGs to have an assistant IG for audit and an assistant IG for investigations, so, too, could the statute create an assistant IG for inspections and management analysis. Such a unit could be explicitly tasked to review audit and investigation reports in search of systemic causes of fraud, waste, and abuse. It could be given the authority to assess all pending rules and bills for economy and efficiency. It could be asked to issue special bulletins or reports to Congress on all major legislation -- indeed, Congress could even amend its rules to require that an IG certification of workability be included in all legislative reports, just as we currently require a CBO cost estimate, etc.

This imagined agenda leads inevitably, of course, to my third question: do the OIGs have the capacity to conduct anything deeper than the standard audit and investigation? Unfortunately, I am not sanguine about the answer. My cursory inspection in 1991-1992 suggests that government is not the employee of first choice for many OIG employees. The private sector outpays and outrecruits auditors, and the lack of the formal tools of authority (e.g., firearms, search and arrest) makes some of the OIGs less than attractive homes for investigators. It was my understanding that the General Accounting Office had prepared a draft report on this question several years ago. It was a report, I am told, that reached troubling conclusions about OIG staff recruitment and training. I was unable to get a copy of the draft report in my research, and can only urge the chairman to use his considerable persuasive powers to seek the workpapers that surely exist somewhere in GAO. .

Ultimately, I believe the IGs are currently being underutilized in the management improvement effort. Weighing in at well over 10,000 employees across government, they constitute a substantial resource. But too many of their reports remain unread, and too many of their audits and investigations are little more than catching the small offender no one else in government will bother to catch. Lacking a durable commitment to prevention, I am not sure the IGs can lay claim to scarce resources that might be better utilized on the front-lines.

Mr. HORN. Let me mention, your testimony mentions that the General Accounting Office had prepared a draft report on the question of the auditors and their career interests and their leaving the IG's role. Has that still not been released? You apparently could not get your hands on it.

Mr. LIGHT. I was not as persuasive, perhaps, as a Chair of a House subcommittee might be.

Mr. HORN. Let's see if he's right on that and send a letter to Comptroller General Bowsher.

Mr. LIGHT. As I dug about, they had apparently prepared or had the work underway doing an assessment of the quality of the OIG staff, how well were they doing in recruiting auditors and investigators from the upper quartile of graduating classes, how well were they doing in pay and personnel.

This is what I picked up in my conversations in the research for this project. I could not get access to the work papers or a draft report if such a report existed.

Mr. HORN. Let me yield to Mrs. Maloney, the ranking minority member.

Mrs. MALONEY. I would like to follow up on Dr. Light's testimony of the "junk yard dog or man's best friend." And I would like to ask all of the panelists, which of these roles has the higher payoff in the long run, investigations or IGs who work with managers to improve management techniques? And just your comment, really, on his assessment, "junk yard dog or man's best friend." Which is more important, and can we have both roles? What do you see is the best way for the IGs to go forward?

Mr. FUNK. "A little of both, Gov'nor." Really, it's hard to be all one or all the other. One of the difficulties of being an IG is that you come to realize after a while that your clout you carry around is not enough by itself. You have to be able to jawbone and persuade people to change courses, change actions.

Frank DeGeorge talked about the mish-mash of information systems and all of their difficulties. That has been talked about by IGs since I've been in government, since they had IGs. And apparently, little has been done about it. Every agency is still reinventing the same problems they had before. So where are the IGs when these things come up, and why are they perpetuating?

I would suggest that man's best friend is a real need. When you're talking to distraught parents, the distraught realties, say of people caught up in the Pan Am disaster, you have to have one approach. When you're talking to somebody whom you know is guilty or you have reason to suspect is guilty of severe mismanagement, you have another approach. Like everybody else, as with any attorney, you have to gear your reaction to the people you're talking with.

Mrs. MALONEY. Would anyone else like to comment?

Mr. DEMPSEY. I always felt as an IG that you wore four hats: an audit hat, an investigation hat, management tool hat, and ombudsman hat. Depending on the issue of the day is which hat I put on. There were some days I wore all four. A lot depends upon the relationship with your Secretary. A lot depends on your relationship with the department higher staff.

I was in a department which was—well, every 7 years—it was like a locust—you had a scandal. And it was because of the programs. The programs were made to order for scandal. And some Secretaries would say to me, "Keep me clean. Protect me. Make sure we don't have any problems." And others, you knew they didn't want to have you around. It all depends on the time. But you can walk that tightrope, and it can be done. But you have to select the right person to do it.

Mr. INK. As an agency head, I found that something similar to, though not quite fitting, the description of "mean as a junk yard dog" was very important and essential in dealing with fraud and abuse. When the work extended, however, into judgmental areas in programs, I did not feel that they were my best friend, because I didn't think they were qualified to deal with those areas.

And their objectivity, I think, is little—the credibility of their objectivity is handicapped to the extent to which the incentives for an Inspector General are largely negative, because the only reward system for Inspectors General is what is wrong, not what is good. And that works against accepting the judgment of an IG in evaluating programs.

Mrs. MALONEY. Thank you. And going back to Mr. Dempsey's comment, you have to get the right person for the right job, President Clinton went outside of the IG community in some of his appointments. I would like your statements on that. And most recently, we created Presidentially appointed IGs at the Corporation for Community and National Service and at the Department for the Community Investment Development Board. And do you think that that's a good trend?

Also, in this time, we have heard some comments about the downsizing of government. And Steve Katz, a former Senate Governmental Affairs staff member, recently referred to the IGs as "the safety net for management." And as agencies are reducing the number of middle managers, do you think that IG offices should face the same downsizing, or should they be exempt? Just your comments on those three questions.

Mr. DEMPSEY. Well, when you take a big pie and the pie is split and you try to do maybe 50 percent internal audits and 50 percent external, and then they came along with this Chief Financial Officers Act, and they say, "Just a minute; you now have to do financial statements"—so you take most times your best auditors, CPAs, and you pull them out of the regular line. And you've got to train them to do these.

Then, along comes Mr. Gore. And he says, "Wait a minute, now. I want you to stop doing compliance, and I want you to do this," all with those vision statements. You pull that one out, and you put it on—then, what have you got left? When OMB comes along and says, "You're going to lose X number of FTEs, you're not going to have the travel money," which is the blood of any organization, "you can't have this," you're expecting too much of these people, when they can't do it all. They need—absolutely need—the resources to do the job.

Mr. INK. I agree. I think that the expectations are totally unrealistic, particularly as we look ahead for the increased workload and some of the deficiencies that some of us see in the NPR, which are

rather striking in a number of respects. First, I think that we have too broad a charter for the IGs, which is going to make it difficult for them to be effective in any of the areas. And I think that's a disservice to the IGs.

Second, I am deeply distressed at the lack of interest or attention to the quality of managers in government. Mr. Dempsey talks about the quality of IGs, and I couldn't agree with him more. It's absolutely essential. But we don't pay much attention to the quality of the managers. The Assistant Secretaries for Administration are political now.

There's very little attention given to their quality. So how in the world are they going to provide that kind of professional leadership?

Mrs. MALONEY. Do you think the IGs are political?

Mr. INK. I said the Assistant Secretaries for Administration.

Mrs. MALONEY. Are political. But the IGs are not?

Mr. INK. Not very many of them. Some of them I found are, but I don't think most of them.

Mr. LIGHT. May I address the question generally? I should start by saying that the seed of the research that led to my more recent book on the thickening of government was the examination of the organizational structure of the IGs. There has been a fair amount of bulking up in the IGs over the last 15 years, and I see no reason why they should be exempt from cuts in personnel and de-layering that affect the rest of government. I just see no excuse for it.

If they are to be effective in persuading departments about the merits of their findings, especially when it comes time to recommending change in how departments operate, they need to be a leader in showing departments in part how it can be done. I just do not agree that they should be exempt.

I would say that at the core of this conversation is the overall quality of the OIG staffs and the quality of the appointees. One way to remedy this issue is to start with some hard questions about how competent the OIGs are to do their mission. Is this a function of too much mission for the IGs, or not the proper quality of staff?

And second, to confront the issue of asking for an appointment mechanism that would emphasize the highest quality and independence possible. I'm not sure you get the right mix of IG talent through the Presidential appointments process as it's currently configured.

And I argue in "Monitoring Government" for a different appointments mechanism that would be modeled on the mechanism we use currently for the appointment of the Comptroller General of the United States.

Mrs. MALONEY. I would like to request that maybe you could let the committee members and staff read your two books, if we don't have them.

Mr. LIGHT. Well, they're on remainder tables all over America. [Laughter.]

Mrs. MALONEY. We'll go and buy them. Good point. We'll go and buy them. Free enterprise system. I want to ask you a question I asked earlier. And that was, a famous city just decided to take the IGs and keep them separate, create professional qualifications.

They report to not the mayor or the President or the commissioner, but to the IG office on their work. And they are exempt from political pressures and any other type of pressure and totally a professional operation. And what are your comments on that?

Mr. FUNK. Mrs. Maloney, the difficulty is, the Federal Government in Washington is not a city. Presidential appointment carries an enormous clout in the Federal Government. And the ability of an IG to succeed rests largely upon the ability of the IG to persuade his or her peers that a certain course of action they may not like is the best thing for the government to do or that agency to do or that manager to do.

And that means that the IG must be listened to. And you can't do this through force alone. It requires some kind of consensus. And the difficulty about pulling the IG out of the appointee situation would remove the IG from this peer relationship with the other Assistant Secretaries.

Mrs. MALONEY. From clout, really. They have more clout with a Presidential appointee.

Mr. FUNK. They really do.

Mrs. MALONEY. It's the exact opposite of your point of view.

Mr. LIGHT. Well, look. The issue of what the IGs are doing right now is this blended objective. Can they be simultaneously the strong right arm of the Secretary and also an aggressive and assertive presence in investigating fraud, waste, and abuse, leading all the way to the Secretary's office?

There have been calls over the years for a central IG, for example, to support governmentwide investigations. We have a version of that in the Special Counsel legislation, the statute that we see exercised from time to time.

Mrs. MALONEY. But it's not continuing.

Mr. LIGHT. Right.

Mrs. MALONEY. It's not continuing.

Mr. LIGHT. One source of clout is to imagine a return to the kind of ability to suspend programs that existed in the early model of the IG at the State Department. It's an extreme action which some IGs could handle and others couldn't.

My sense is that the clout of the IGs is in the quality of their work and in the ability of audiences here on Capitol Hill and elsewhere to pay attention to it, not necessarily through the Presidential appointee process. As we have layered up the executive suite of departments, being an Assistant Secretary rank appointee is not necessarily the great clout that it once was.

Mr. INK. Well, I'm totally opposed to giving them the authority to suspend programs. I don't think that's their proper role. I think that puts them in an operational role rather than an oversight role. I don't think they have the capability and the staff capability to make those judgments, anyway.

Mr. DEMPSEY. The key word that was mentioned here is the word "oversight." The IG isn't really going to be successful unless there's accountability. And there has got to be better oversight by the Congress on the IGs.

Now, I can pick out certain departments—HHS for one. They've had three excellent IGs—Tom Morris, Dick Russerrow, June Brown—three top professionals. And all of them testify a great deal

in front of this Congress. Dick Russerrow told me 1 day, 1 year, he testified more than 50 times. That means that somebody's looking at you. Your staffs know it. Those inside the departments know it.

From 1978 until 1983, I didn't testify one time before the House Banking Committee. And you had the scandal 5 years later. I'm not surprised. Not once. I couldn't get them.

Mrs. MALONEY. You were where, Commerce? Where were you?

Mr. DEMPSEY. I was at HUD. I left HUD in late 1984. And nobody wanted to hear about it. We kept sending up report after report after report.

Mrs. MALONEY. The reports documented the problems?

Mr. DEMPSEY. Yes. And the reporters when they looked at it in 1989—and I've got the clips—said, "The Congress ignored it. The Congress didn't do its homework. The oversight wasn't there."

But if you have that oversight, if you have oversight on IGs—I begged the House Government Operations staff in 1984 to please hold hearings and just let me send up the departmental people who were not carrying out or agreeing to an audit recommendation and then not doing it. Just let me send them up and hold one hearing. One hearing would do it. They never did it.

Mr. INK. Mr. Dempsey's absolutely right. In addition to that, there's a lack of congressional oversight on the internal management of the departments.

Mr. HORN. There's no question since 1789 and the first Congress, the major function of Congress, which has been slighted by Congress, is the oversight function. And you've given some nice recent examples of that.

Mr. FUNK. Let me just give a tiny bit of history to straighten something out here. The State Department, as was correctly said by Dr. Light, has the oldest civilian IG, starting back in 1956. But earlier—and this is a startling bit of history—when TR asked the Secretary of State, John Hay, to create an Inspection Corps back shortly after the turn of the century, they did.

And the inspectors went around the world, and they had the power to suspend any person on the spot, any consul or any embassy employee on the spot and send them back to Washington—there were no hers then; they were all men—back to Washington.

Then, they take an inspector and put that inspector in the same slot until they were replaced. In those days, consuls received no salary. They only received $1 for every visa that was issued. So you can understand the conflict of interest that was there, because it was entirely possible for somebody to be appointed to a consulate in which the visas could make them, in effect, a very wealthy person. That stopped dead in the 1920's.

The IG did have the power to suspend programs. It was very rarely used, if ever. But what we did—and I commend this for consideration—we wrote personnel evaluations of every single Ambassador and every Deputy Chief and every Assistant Secretary and Deputy Assistant Secretary when we did an inspection, political or nonpolitical. And I don't think anybody else ever did something as difficult as that.

Because what it did, it certainly grabbed people's attention. When you had a personnel rating—in the case of the Assistant Sec-

retary, it would go to the top of the agency for review. The Secretary of State would actually review these things. I found that was a very effective way of getting people's attention.

Mr. HORN. That's a very helpful idea. I had not known that, about TR and Hay and the inspectors. It sounds like the Las Vegas justices of the peace system, where they get several hundred thousand a year on marriage licenses.

But let me ask you, Mr. Funk, you had noted you would like to comment on some of the testimony earlier that has been given. And I would appreciate hearing your reaction.

Mr. FUNK. I was horrified to hear from IG Lau that the Treasury Department is spending 50 percent of its IG time now on CFO compliance. Shortly before I left my job, I had a very grim session with Members of the Hill—not this committee, another committee—and with OMB. Because I told them flatly that I was on the verge of saying, "I'm not going to comply with the CFO Act."

One of the incredibly valuable things about the IG Act is that it says, "The IG and only the IG will determine what he or she is going to audit or investigate"—or inspect, by extension. But now, the CFO has come along, and the CFO Act says, "The IGs have to audit every financial statement every year."

And we have an increasing share of IG resources now going into reviewing financial statements, which means that there's correspondingly less to do on the Inspector's General decision about what is worth looking at in the department. I think that can be a tragic mistake. I think that compliance with that is going to get worse and worse as time goes on, because there are more and more statements.

I'm a little alarmed, also, at the possibility under the new government reform measure relating to performance measures. There's a tendency now in the case of some departments to want their IG to audit all performance measures, whether or not it's related to a specific audit, because they want to have some kind of holy water thrown on performance measures.

And then that coming on top of the CFO Act fills me with considerable horror at taking away good talent from performance audits to get at the guts of how well agencies are doing their business to something which may be of peripheral importance, no matter how critical it may be in another aspect. That was one of the things I wanted to say.

Mr. HORN. How about a second thing? Have you shot your 16-inch cannon with that one?

Mr. FUNK. The question is disturbing about why IGs continually uncover similar problems in similar agencies, in counterpart agencies, and nothing's ever done about the basic problem itself. I met with one of the permanent UnderSecretaries in London when I was there on business some years ago, and she was describing to me a unique British institution called a "scrutiny." It's a wonderful British term, too, a "scrutiny."

What they do there, is pick a department, say the Home Ministry, the Foreign Affairs, Defense, whatever it may be, and they get together a team that's always headed by somebody in the private sector. In the case of the one I was looking at, it was the president of the Marks and Spencer Department Stores. That person

heads up a team which looks at the entire operations of the department and in some depth, with assistance from maybe 100 other people.

When the scrutiny is finished, the Prime Minister is personally briefed by the people who conducted that scrutiny. And after that, the Prime Minister calls in the minister and has a session with that minister. When Margaret Thatcher was the Prime Minister, I understand those sessions were an exercise in pure terror. And it worked.

Believe me that every recommendation in that scrutiny was almost inevitably complied with afterward. Whether it works now with Mr. Major, I don't know.

But there's a need for oversight programs which cut across agency lines. And right now, the only recourse is to OMB. And the Congress, because of its division of committee structure, has a hard time getting a hold of that, as well, here. OMB should be the natural for it. But OMB really can't deal with that, either.

Mr. HORN. Why is that?

Mr. FUNK. It goes into a kind of no man's land.

Mr. HORN. Well, is it because they haven't put enough resources into the management function of OMB, or are the budget examiners simply overwhelmed with budgetary problems?

Mr. FUNK. The budget people are not the ones to do it. It's the management side that must do it. And the management side is very, very thinly staffed within OMB.

Mr. HORN. So they don't have enough resources. If you could wave a wand, how would the management side of OMB look? What kind of things would they be doing? How many professionals would they need to do it?

Mr. FUNK. In an ideal world, there would be at least as many on the management side as on the budget side.

Mr. HORN. You're talking about several hundred, aren't you?

Mr. FUNK. It would mean about that. The size of the U.S. Government, no matter how downsized, is extreme.

Mr. HORN. And what would they do? What would the ideal function of that management professional staff be, as opposed to the IG role?

Mr. FUNK. To picking up on the work done not just by the IGs but by the GAO, by all investigative reporters from the media across the board, and above all, by the reports that come out of the program managers themselves. I agree wholly with Dwight Ink that one of the overlooked resources are the program managers. And they should be looking at that, as well as the IG stuff.

Mr. INK. And the OMB used to have that function and had the staff. It's a role—he's not talking about something theoretical. This actually existed, and it has eroded over the years. And now, what was left a couple of years ago has virtually vanished in OMB. And I would say you don't really need as many in the management staff as on the budget side.

Mr. FUNK. I would agree.

Mr. INK. I had about 50 people, and we did most of what he's talking about, plus writing the President's Executive orders, plus issuing circulars, and a lot of testifying. It does require leadership. It requires qualifications.

And the effectiveness of that management staff, to a large extent, is the extent to which it can help energize and provide leadership to departmental management, which is the key. There's no such impetus given now by anyone anywhere in the government by either the executive or legislative branches.

Mr. DEMPSEY. I—go ahead.

Mr. HORN. I'm going to get Mr. Dempsey into this. Don't worry. I've got my eye on you, Mr. Dempsey.

Mr. FUNK. The thing about this is there's a movement on by many people, including a lot of groups that look to the Federal Government to create a separate Bureau of Management, as opposed to a combination. And that's kind of a will-o'-the-wisp. It's a chimera.

Because the power of OMB ultimately comes with the dollar. And if the dollar is separated from the management side totally, if there's an iron bar between them, the management side will lose much of its clout.

Mr. HORN. I've long had your feelings on that, Mr. Funk, but I've had so many of the National Academy of Public Administration management types work on me, I'm beginning to think I got the Chinese water treatment beating me down on that subject. I'm about to concede to them.

Mr. FUNK. That's just what I wanted to say. I want the record to show that this is the one thing I agree with Dwight Ink on. I really do, on what he said. There should be an Office of Federal Management. And you've got to raise it up to that highest level.

Right now, it could do so much across the board for so many things, including how to downsize, including how to handle this whole—so much is needed. But nobody's paying attention to it. And I would love to see the IG's report there.

Mr. HORN. If we took the Presidential White House staff that has been added since President Eisenhower and put them in an Office of Management, we could do all that, and it would cost the Nation no money. And it would improve the effectiveness of the White House office.

Mr. LIGHT. May I just add just a quick forgiveness to congressional staff and White House and OMB people who read IG reports and don't respond? And we have to give them a gentle nudging from time to time to write the reports so they are readable.

I was assigned when I joined John Glenn's Governmental Affairs Committee staff, the honor of reading all IG reports. And you can see what it did to me. [Laughter.]

Mr. HORN. You had glasses at age 19.

Mr. LIGHT. That's right. Some are getting better at their writing, but they have got a long way to go. So communicating clearly to Congress and making clear the signal when there is something wrong that needs fixing is an essential lesson for the IGs to learn. They have made some improvements. But if you've looked at their recent reports, you know that there's still a long way to go.

Mr. INK. I never had any trouble understanding Mr. Dempsey's red flags, I must say.

Mr. DEMPSEY. There's one thing that you have to remember when you do this. Auditors and investigators are different. You train them—they talk all they want about dense and dull audit re-

ports. They are. They should be. Investigation reports are just the facts. But you don't want auditors and investigators writing headlines, and you have to remember that.

Mr. HORN. I completely agree with you. I've known a few that all they liked doing, was writing headlines. And it was absolutely counterproductive. They were usually dead wrong in the facts of it.

Let me ask one last question, then I'm going to have to adjourn the hearing. We mentioned the power of a Presidentially appointed Inspector General. Is that a pleasure appointment, or a term appointment? And what should it be?

Mr. FUNK. It's a pleasure appointment.

Mr. HORN. It's pleasure. That's why President Reagan was able to remove all of the Carter Inspectors General. Should it be a term appointment?

Mr. FUNK. Yes, sir.

Mr. HORN. Four years?

Mr. FUNK. I prefer 7. My colleague prefers 5. I think 7 is more realistic for some of the larger agencies.

Mr. DEMPSEY. Five or seven. It should be.

Mr. FUNK. But I can live with 5.

Mr. INK. I agree it should be term.

Mr. HORN. What years would you put on it?

Mr. INK. I would put 6.

Mr. HORN. You have the final word, Professor Light.

Mr. LIGHT. I think a term would create a presumption in favor of continuing the appointment over a Presidential transition, but it should only be the presumption; 6 years, 7 years, it doesn't matter.

Mr. HORN. If you have a bad one, that's just a square peg trying to drive themselves in a small pinhole, you've got 7 years of that?

Mr. LIGHT. No. A term, you cannot fix a term. They must be removable. But a term, a simple term, an expectation that they serve for a period of 5, 6, 7 years would be very helpful, I think.

Mr. HORN. Well, I thank you all for coming. You've as usual rendered some excellent testimony.

Let me thank those that prepared this hearing: J. Russell George, the staff director; Mark Uncapher, professional staff member and counsel; Anna Gowans Young, professional staff member; Tony Polzak, our LEGIS fellow; Andrew Richardson, our clerk; and on the minority staff, professional staff members Dave McMillen, Matt Pinkus, and Mark Stephenson, and the official reporter, Beth Shields.

Thank you very much. And we are now adjourned at 4:32.

[Whereupon, at 4:32 p.m., the subcommittee was adjourned, subject to the call of the Chair.]

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