

GAO

## Testimony

Before the Subcommittee on Government Management,  
Information and Technology, Committee on Government  
Reform and Oversight, House of Representatives

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# FEDERAL INSPECTORS GENERAL

## An Historical Perspective

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Mr. Chairman and Members of the Subcommittee:

We are pleased to discuss the evolution of the work of the inspectors general (IG). This oversight hearing by the Subcommittee provides an excellent opportunity to review the IG concept established by the Congress through the Inspector General Act of 1978 and to focus on the IG community's important efforts.

Two decades ago, the Congress created IGS throughout government as a result of growing reports of serious and widespread internal control breakdowns. They were principally charged with detecting fraud, waste, and mismanagement in agencies' programs and operations; conducting audits and investigations; and recommending policies to promote economy, efficiency, and effectiveness.

In the intervening years, IGS have reported success in carrying out this mission through billions of dollars in savings and cost recoveries and thousands of prosecutions of criminal cases resulting from their work. For example, in fiscal year 1996, IGS reported investigative recoveries totaling about \$1 billion and successful prosecution of over 12,500 criminal cases.

Since passage of the IG Act, the Congress has called for more efficient and effective management of government programs through a range of legislative initiatives that affect the way agencies operate. For example, financial management reform is called for by the Chief Financial Officers (CFO) Act, as expanded by the Government Management Reform Act.

The enactment of statutes such as these has not only established a framework for broad management reforms by agencies, they have also affected the IGS' role. In some cases, the IGS were provided key new responsibilities, and, in other instances, they were given the opportunity to substantially influence the way agencies operate programs.

Because of the changing roles brought about by these legislative mandates, you and the Committee Chairman have asked us to review aspects of IG operations. We began this effort with a survey of the IGS' participation in strategic planning, which I will discuss today. Also, we have worked with the Committee staff to identify other areas that may be studied. This testimony will discuss the IGS' role as it has evolved and some of the forces that have helped to shape the current environment in which IGS function.

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## The IGs' Evolution and Environment

The importance of legislative underpinnings for auditing in the federal government dates back almost half a century—to the Accounting and Auditing Act of 1950, which held federal agency heads responsible for internal controls, including appropriate internal audit. The need to strengthen this requirement became evident when, in 1976, we began to issue a series of reports on reviews at 157 fiscal offices in 11 major federal organizations. These reports indicated widespread and serious internal control weaknesses that resulted in the waste of government money through fraud and mismanagement.

We reported that federal agencies did not use their internal auditors to examine their financial operations and, when they did, no action was taken on the auditors' recommendations. We also found that internal audit groups were not independent, they were underfunded and understaffed, audit efforts were fragmented among several offices, and problems found by the audits were not communicated to the agency heads. With rare exceptions, the executive agencies had not adequately monitored or assessed or reviewed their own operations and programs.

As a result, the Congress passed the IG Act of 1978. The IG Act, as amended, and similar laws centralized the leadership of most major federal agencies' audit and investigative functions under an inspector general responsible only to the agency head or deputy and having the independence needed to detect, investigate, evaluate, and report on government fraud, waste, and mismanagement. Under the act, the IGs were given authority to detect fraud and mismanagement in programs and operations of their agencies; conduct audits and investigations; and recommend policies to promote economy, efficiency, and effectiveness. The IGs are to perform audits in accordance with generally accepted government auditing standards as promulgated by the Comptroller General.

IGs at 27 departments and agencies, which are listed in attachment I, are statutorily required to be appointed by the President and with the advice and consent of the Senate. IGs at 30 other entities, which are listed in attachment II, are appointed by their entity heads and have essentially the same powers and duties as the presidentially-appointed IGs.

Currently, the 57 offices of inspector general (OIG) have nearly 10,000 audit and investigative staff and spend about \$1.1 billion annually. Of the total IG staff, about one-half are auditors, one-quarter are investigators, and the remaining one-quarter are administrative and other staff. OIGs widely differ

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in size from the Department of Defense (DOD) OIG with almost 1,300 staff to the Appalachian Regional Commission OIG with 3 staff.

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## Conducting Law Enforcement Activities

Each presidentially-appointed IG must appoint an assistant inspector general for investigations, who has the responsibility to supervise the investigations conducted. IGS use their statutory investigative authority, and their subpoena power, to inquire into allegations of wrongdoing—both criminal and administrative. The President’s Council on Integrity and Efficiency<sup>1</sup> has developed guidelines for IGS’ investigative efforts.

The types of investigations conducted by the various IGS vary widely and often depend on the mission, programs, and operations of the agency they service. For example, the DOD IG uses the bulk of a cadre of criminal investigators to focus on frauds perpetrated against the department by contractors and health care providers. Similarly, the Department of Health and Human Services (HHS) IG’s investigations focus largely on frauds against Medicare. These and other IGS use their investigators to uncover external criminal activity affecting their departments’ programs. Simultaneously, they must conduct criminal investigations of allegations of job-related crimes perpetrated by agency employees.

Most IGS also conduct, or at least supervise, agency administrative investigations—those cases where allegations of noncriminal misconduct (such as abuse of position and noncriminal conflicts of interest) by agency employees have been made. IGS use either criminal or noncriminal investigators to carry out this mission.

All IGS have the same basic investigative powers. Some IGS also have been granted limited law enforcement powers as well. These powers generally include the authority to make arrests and serve and execute federal search or arrest warrants. IGS using these additional tools have either gained these authorities through statute or through case-by-case deputation authority from the U.S. Marshals Service as approved by the Department of Justice. Several IGS are part of an ongoing pilot program wherein their criminal investigators are under blanket (as opposed to case-by-case) deputation authority.

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<sup>1</sup>The President’s Council on Integrity and Efficiency was established in 1981 to address common IG issues and consists primarily of the presidentially appointed IGS.

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## Reviewing IG Operations

Over the years, in response to specific requests from the Congress, we have reviewed various aspects of the IGS' work. For example, in November 1993, we reported on actions needed to strengthen the OIGs at designated federal entities (GAO/AIMD-94-39). We recommended, for example, that those IGS develop strategic plans that (1) assess their respective entities' risks and problems, (2) describe the strategies for resolving the risks and problems, (3) discuss the OIG resources required and available to implement their strategies, and (4) provide performance measures to evaluate their progress.

Most recently, at your request, we surveyed the 48 IGS at agencies covered by the Results Act to determine whether the IGS prepared strategic plans. The survey results showed that the IGS have completed strategic plans or are developing them. Also, the IGS' responses to our survey indicate that their strategic plans contain many of the elements outlined in the Results Act, such as mission statements and goals and approaches. We have advised your staff on the preliminary results of this work, and we will be reporting to you soon.

In addition, the Vice President's 1993 National Performance Review recommended changing the focus of IGS from compliance auditing to evaluating management control systems and recasting their method of operations to be more collaborative and less adversarial.

In January 1994, the IGS adopted an "Inspectors General Vision Statement" that says "We are agents of positive change striving for continuous improvement in our agencies' management and program operations and in our own offices."

This was an important step in defining the IGS' broader role while reaffirming their statutory mission. The vision statement addresses ways for the IGS to work with agency heads and managers to improve program management, maximize the positive impact of the IGS' reviews, and provide recommendations to prevent problems before they occur.

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## Management Reforms Provide Opportunities for IG Emphasis

We have long supported the IG concept and the legislation that brought the concept into reality. While not diminishing the significance of the IGS' traditional role in fighting fraud, waste, and mismanagement, we also recognize the potential for broadening the IGS' role in concert with legislative initiatives that establish a foundation requiring agencies to implement broad management reforms. Because these legislative

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initiatives have shaped the environment in which IGS operate, they have created new means for the IGS to achieve audit objectives and provided opportunities for the future direction and emphasis of IG efforts.

In this regard, the Chief Financial Officers Act of 1990, as expanded by the Government Management Reform Act of 1994, gives the IGS at the 24 major departments and agencies responsibility for annually auditing their agencies' financial statements. The expanded CFO Act's objective is to identify and correct financial management weaknesses, reliably report the results of financial operations, and provide reliable information for oversight and decision-making.

The larger IG organizations across government have been engaged in conducting or overseeing financial statement audits for the past several years. These efforts have provided audit coverage and identified many control weaknesses and financial management systems breakdowns that greatly contributed to IGS' statutory mission. For example, the HHS OIG's audits of the Health Care Financing Administration's financial statements have identified billions of dollars in improper Medicare payments due to factors such as persistent fraudulent and wasteful claims and abusive billings.

This work is also key to the CFO Act's requirement that we annually audit the federal government's consolidated financial statements. We recently issued our first report to fulfill this requirement and testified on the results before the Subcommittee.<sup>2</sup> We reported, through close cooperation with the IGS, that significant financial systems weaknesses, problems with fundamental recordkeeping, incomplete documentation, and weak internal controls prevented the government from accurately reporting a large portion of its assets, liabilities, and costs.

Separate legislation, the Federal Financial Management Improvement Act (FFMIA) of 1996, requires auditors performing financial statement audits under the expanded CFO Act to report whether agencies' financial management systems comply with federal accounting standards, federal financial management systems requirements, and the U.S. government's standard general ledger. In carrying out this responsibility in conjunction with financial statement audits, IGS have found the continuing poor shape in which agencies find their financial systems. Thus, the act has opened a

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<sup>2</sup>Financial Audit: 1997 Consolidated Financial Statements of the United States Government (GAO/AIMD-98-127, March 31, 1998) and U.S. Government Financial Statements: Results of GAO's Fiscal Year 1997 Audit (GAO/T-AIMD-98-128, April 1, 1998).

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new avenue for the IGS to identify deficiencies in financial systems and recommend ways to strengthen controls.

FFMIA also requires agency heads to establish remediation plans if an agency's financial management systems do not comply with federal accounting standards and financial systems requirements. The IGS are to monitor agency actions to implement these remediation plans and report to the Congress instances and reasons when agencies have not met established target dates.

Further, the Single Audit Act expanded the focus of federal oversight from a grant-by-grant examination to an overall financial audit of the state or local government or agency receiving federal funds with a specific focus on federal programs. A single audit is expected to address the states' or state agencies' overall financial statements and compliance with major federal assistance program requirements. While single audit is an efficient and less burdensome way to use auditing resources in satisfying federal accountability interests, IGS continue to have a role in ensuring that single audits adequately meet the objective of promoting financial accountability over federal financial assistance.

Also, the results of single audits can contribute toward achievement of the CFO Act's financial statement audit objectives. Since many federal funds often flow to their ultimate beneficiaries through multiple state and local entities, and because many of these amounts are subject to single audit, the results of these audits can provide information necessary for the successful completion of the required federal agency and the federal government consolidated financial statements.

Also, the Government Performance and Results Act of 1993 provides a potential new role for the IGS. While the Results Act does not give IGS explicit responsibilities, it emphasizes managing for results and pinpointing opportunities for improved performance and increased accountability. Thus, the Results Act affords IGS new opportunities to have a significant effect on improving the economy and efficiency of government programs at their agencies.

For example, IGS could provide valuable advice to agencies as they prepare and update Results Act strategic plans and performance plans and establish factors to be used for measuring performance. Our recent survey on IGS' participation in strategic planning, done at your request, showed that greater IG involvement in developing agencies' Results Act strategic

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plans is possible. Also, IGS are considering how best to evaluate performance measures that will be used.

The Clinger-Cohen Act of 1996 and the Paperwork Reduction Act of 1995 (1) explicitly focus on the application of information resources in supporting agency missions and improving agency performance and (2) set forth requirements for improving the efficiency and effectiveness of operations and the delivery of services to the public through the effective use of information technology. Agencies are struggling to deal with information technology issues, and we have identified the information systems modernization efforts at several agencies as high-risk areas.<sup>3</sup> Further, widespread computer control weaknesses are placing enormous amounts of federal assets at risk of fraud and misuse. In the midst of implementing long-term information technology improvements and strengthening computer controls, agencies are faced with resolving an immediate situation—the Year 2000 problem.<sup>4</sup> These activities present potentially new roles and challenges for the IGS.

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Mr. Chairman, this concludes my statement. I would be happy to respond to any questions that you or other members of the Subcommittee may have at this time.

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<sup>3</sup>High-Risk Series: An Overview ([GAO/HR-97-1](#), February 1997) and [High-Risk Series: Information Management and Technology](#) ([GAO/HR-97-9](#), February 1997).

<sup>4</sup>For the past several decades, information systems have typically used two digits to represent the year, such as “98” for 1998, in order to conserve electronic data storage and reduce operating costs. In this format, however, 2000 is indistinguishable from 1900 because both are represented as “00.” As a result, if not modified, computer systems or applications that use dates or perform date- or time-sensitive calculations may generate incorrect results beyond 1999.

# Inspectors General Appointed by the President

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## Departments

Agriculture  
Commerce  
Defense  
Education  
Energy  
Health and Human Services  
Housing and Urban Development  
Interior  
Justice  
Labor  
State  
Transportation  
Treasury  
Veterans Affairs

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## Agencies

Agency for International Development  
Central Intelligence Agency  
Corporation for National Service  
Environmental Protection Agency  
Federal Deposit Insurance Corporation  
Federal Emergency Management Agency  
General Services Administration  
National Aeronautics and Space Administration  
Nuclear Regulatory Commission  
Office of Personnel Management  
Railroad Retirement Board  
Small Business Administration  
Social Security Administration

# Inspectors General Appointed by Entity Heads

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Amtrak  
Appalachian Regional Commission  
Commodity Futures Trading Commission  
Consumer Product Safety Commission  
Corporation for Public Broadcasting  
Equal Employment Opportunity Commission  
Farm Credit Administration  
Federal Communications Commission  
Federal Election Commission  
Federal Labor Relations Authority  
Federal Housing Finance Board  
Federal Maritime Commission  
Federal Reserve Board  
Federal Trade Commission  
Government Printing Office  
Legal Services Corporation  
National Archives and Records Administration  
National Credit Union Administration  
National Endowment for the Arts  
National Endowment for the Humanities  
National Labor Relations Board  
National Science Foundation  
Panama Canal Commission  
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