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Committee on Homeland Security and Government Affairs, U. S. Senate

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INSPECTORS GENERAL

Opportunities to Enhance Independence and Accountability

Statement for the Record by David M. Walker
Comptroller General of the United States

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GAO-07-1089T

INSPECTORS GENERAL

Opportunities to Enhance Independence and Accountability

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Highlights

Highlights of GAO-07-1089T, a statement for the record to the Committee on Homeland Security and Governmental Affairs, U.S. Senate.

Why GAO Did This Study

The federal inspectors general (IG) play a critical role in addressing mismanagement of scarce taxpayer dollars. In the coming years, as we enter a period of escalating deficits and increasingly limited resources, GAO believes that the greatest single source of savings will come from bold, decisive efforts to transform what government does and how it does business, and to hold it accountable for results. Therefore, it is important that an independent, objective, and reliable IG structure be in place to ensure adequate audit and investigative coverage of federal programs and operations.

This statement offers GAO's views on (1) the principles of independence and how they apply to IG offices, (2) leveraging IG work as a part of overall federal oversight, (3) structural streamlining of IG offices for resource efficiencies, and (4) matters discussed in a GAO forum on IG issues.

This statement draws on provisions of the IG Act, professional auditing standards, prior GAO reports and testimony, and information reported by the IGs.

www.gao.gov/cgi-bin/getrpt?GAO-07-1089T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Jeanette Franzel at (202) 512-9471 or franzelj@gao.gov.

What GAO Found

The independence of the IGs is key to the effectiveness of their offices. The IGs, in their statutory role of providing oversight of their agencies' operations, represent a unique hybrid of external and internal reporting responsibilities. The IG Act requires the IGs to report the results of their work both externally to the Congress and internally to the agency head. It also provides certain independence protection to the IGs. This protection includes specifying that agency heads and other officials may not prevent or prohibit the IGs from performing any audit or investigation and that IGs are to have access to all agency documents and records. In addition, IGs are appointed either by the President with the advice and consent of the Senate or by their agency heads with removal only by the President or the agency head.

The work of the IGs is coordinated through the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency, which were created by executive order to enhance the work of the IGs. In prior testimony GAO has recommended establishing a statutory IG Council with a permanent mission to address federal oversight challenges and risks. GAO also believes that effective ongoing coordination of the federal audit and oversight efforts of GAO and the IGs is more critical than ever. In May of this year the Comptroller General hosted a meeting with the IGs for the principal purpose of improving federal oversight coordination. The Comptroller General has also suggested the need for creating a more formal mechanism or council for the coordination of audit activities on a governmentwide basis. The structure of this council could be similar in concept to the Joint Financial Management Improvement Program, whose principals meet to discuss issues of mutual concern to promote governmentwide financial management.

In a prior report GAO presented the possible benefits of streamlining the structure of IG offices to increase the use of limited IG resources through consolidation of their offices. The benefits of consolidating the smallest offices of IGs appointed by their agency heads with the larger offices of IGs appointed by the President include immediate access to a broader range of resources to use in dealing with issues requiring technical expertise or areas of critical need. In addition, consolidation would strengthen the ability of IGs to improve the allocation and use of scarce financial resources.

In May 2006, at the request of this committee, the Comptroller General convened a panel of recognized leaders to discuss the possible benefits of proposed legislative changes to the IG Act. The panel members generally supported advanced notification to the Congress of the reasons for removal of an IG, separate IG budget line items, a funding mechanism for an IG Council, the need for IG pay and bonus issues to be addressed, and specific investigative and law enforcement authorities for the IGs.

Mr. Chairman and Members of the Committee:

I am pleased to submit this statement for the record on issues surrounding the important role of the inspectors general (IG) in providing independent oversight within federal agencies. GAO has performed analysis and has issued several reports over the past few years dealing with various independence and effectiveness issues affecting the IGs. Given comments by GAO and others about the independence of certain IG offices, we plan to conduct additional work in the area of IG independence and the reporting relationships of IGs in designated federal agencies with their respective agency heads.

The IG offices were created to prevent and detect fraud, waste, abuse, and mismanagement in their respective agencies' programs and operations; conduct and supervise audits and investigations; and recommend policies to promote economy, efficiency, and effectiveness. In the past almost three decades since passage of the landmark Inspector General Act of 1978 (IG Act), the IGs have played a key role in enhancing government accountability and protecting the government against fraud, waste, abuse, and mismanagement.

The IGs play a critical role in identifying mismanagement of scarce taxpayer dollars. In the coming years, as we enter a period of escalating deficits and increasingly limited resources, we believe that the greatest single source of savings will come from bold, decisive efforts to transform what government does and how it does business and to hold it accountable for achieving real, positive, and sustainable results.

This statement discusses (1) the key principles of auditor independence and how they apply to IG offices, (2) leveraging IG work as part of overall federal oversight, (3) structural streamlining of IG offices to capitalize on available resource efficiencies, and (4) additional issues concerning the IG function discussed at a GAO forum I hosted in May 2006. This statement draws primarily on our previous reports and testimony in this area and on provisions of the IG Act, professional auditing standards, and information reported by the IGs.

Auditor and IG Independence

Independence is the cornerstone of professional auditing. Without independence, an audit organization cannot do independent audits. Likewise, an IG who lacks independence cannot effectively fulfill the full range of requirements for the office. Lacking this critical attribute, an audit organization's work might be classified as studies, research reports, consulting reports, or reviews, rather than independent audits.

Independence is one of the most important elements of an effective IG function. In fact, much of the IG Act provides specific protections to IG independence that are unprecedented for an audit and investigative function located within the organization being reviewed. These protections are necessary in large part because of the unusual reporting requirements of the IGs, who are both subject to the general supervision and budget processes of the agencies they audit, while at the same time being expected to provide independent reports of their work externally to the Congress.

Government Auditing Standards[1] states, "in all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be free from **personal, external, and organizational** impairments to independence, and must avoid the appearance of such impairments to independence. Auditors and audit organizations must maintain independence so that their opinions, findings, conclusions, judgments, and recommendations will be impartial and viewed as impartial by objective third parties with knowledge of the relevant information." [Emphasis added.]

- **Personal independence** applies to individual auditors at all levels of the audit organization, including the head of the organization. Personal independence refers to the auditor's ability to remain objective and maintain an independent attitude in all matters relating to the audit, as well as the auditor's ability to be recognized by others as independent. The auditor needs an independent and objective state of mind that does not allow personal bias or the undue influence of others to override the auditor's professional judgments. This attitude is also referred to as intellectual honesty. The auditor must also be free from direct financial or managerial involvement with the audited entity or other potential conflicts of interest that might create the perception that the auditor is not independent.

- **External independence** refers to both the auditor's and the audit organization's freedom to make independent and objective judgments free from external influences or pressures. Examples of impairments to external independence include restrictions on access to records, government officials, or other individuals

[1]GAO, *Government Auditing Standards, January 2007 Revision*, GAO-07-162G, Sections 3.02 and 3.03 (Washington, D.C.: January 2007).

needed to conduct the audit; external interference over the assignment, appointment, compensation, or promotion of audit personnel; restrictions on funds or other resources provided to the audit organization that adversely affect the audit organization's ability to carry out its responsibilities; or external authority to overrule or to inappropriately influence the auditors' judgment as to appropriate reporting content.

- **Organizational independence** refers to the audit organization's placement in relation to the activities being audited. Professional auditing standards have different criteria for organizational independence for external and internal audit organizations. The IGs, in their statutory role of providing oversight of their agencies' operations, represent a unique hybrid of external and internal reporting responsibilities.

Under professional auditing standards, external audit organizations are organizationally independent when they are organizationally placed outside of the entity under audit. In government, this is achieved when the audit organization is in a different level of government (for example, federal auditors auditing a state government program) or different branch of government within the same level of government (for example, legislative auditors, such as GAO, auditing an executive branch program). External auditors also report externally, meaning that their audit reports are disseminated to and used by third parties.

Internal audit organizations are defined as being organizationally independent under professional auditing standards if the head of the audit organization (1) is accountable to the head or deputy head of the government entity or to those charged with governance; (2) reports the audit results both to the head or deputy head of the government entity and to those charged with governance; (3) is located organizationally outside the staff or line-management function of the unit under audit; (4) has access to those charged with governance; and (5) is sufficiently removed from political pressures to conduct audits and report findings, opinions, and conclusions objectively without fear of political reprisal. Under internal auditing standards,[2] internal auditors are generally limited to reporting internally to the organization that they audit, except when

[2]The Institute of Internal Auditors, *Professional Practices Framework*, *International Standards for the Professional Practice of Internal Auditing* (Altamonte Springs, Fla: March 2007).

certain conditions are met, such as when mandated by statutory or regulatory requirements.

The IG Act requires IGs to perform audits in compliance with *Government Auditing Standards*. In addition, much of the act provides specific protections to IG independence for all the work of the IGs. Protections to IG independence include a prohibition on the ability of the agency head to prevent or prohibit the IG from initiating, carrying out, or completing any audit or investigation. This prohibition is directed at helping to protect the IG office from external forces that could compromise an IG's independence. The IG's personal independence and the need to appear independent to knowledgeable third parties is also critical when the IG makes decisions related to the nature and scope of audit and investigative work performed by the IG office. The IG must determine how to utilize the IG Act's protection of independence in conducting and pursuing the audit and investigative work. The IG's personal independence is necessary to make the proper decisions in such cases.

The IG Act also provides the IG with protections to external independence by providing access to all agency documents and records, prompt access to the agency head, the ability to select and appoint IG staff, the authority to obtain services of experts, and the authority to enter into contracts. The IG may choose whether to exercise the act's specific authority to obtain access to information that is denied by agency officials. Again, each IG must make decisions regarding the use of the IG Act's provisions for access to information, and the IG's personal independence becomes key in making these decisions.

The IG Act provides protections to the IGs' organizational independence through key provisions that require certain IGs to be appointed by the President with the advice and consent of the Senate. This appointment is required to be without regard to political affiliation and is to be based solely on an assessment of a candidate's integrity and demonstrated ability. These presidentially appointed IGs can only be removed from office by the President, who must communicate the reasons for removal to both houses of Congress. However, this communication is not required to occur prior to removal. *Government Auditing Standards* recognizes the external appointment and removal of the IG as key independence considerations to enable internal IG offices to report their work externally.

In 1988, the original 1978 IG Act was amended to establish additional IG offices in designated federal entities (DFE) named in the legislation. Generally, these IGs have the same authorities and responsibilities as those IGs established by the original 1978 act, but they have a clear distinction in their appointment—they are appointed and removed by their entity heads rather than by the President and are not subject to Senate confirmation. Organizational independence differs between the offices of presidentially appointed IGs and other IGs who are agency appointed.

The DFE IGs, while they are generally covered by many of the same provisions of the IG Act as the IGs appointed by the President with Senate confirmation, are more closely aligned to independence standards for internal auditors than to those for external auditors. At the same time, *Government Auditing Standards* recognizes that additional statutory safeguards exist for DFE IG independence for reporting externally. These safeguards include establishment by statute, communication of the reasons for removal of the head of an audit organization to the cognizant legislative oversight body, statutory protections that prevent the audited entity from interfering with an audit, statutory requirements for the audit organization to report to a legislative body on a recurring basis, and statutory access to records and documents related to agency programs.

We believe that the differences in the appointment and removal processes between presidentially appointed IGs and those appointed by the agency head do result in a clear difference in the organizational independence structures of the IGs. Those offices with IGs appointed by the President are more closely aligned with the independence standards for external audit organizations, while those offices with IGs appointed by the agency head are more closely aligned with the independence standards for internal audit organizations. The implementation of the IGs' reporting relationships with their respective agency heads can also significantly affect the independence of the IGs. Generally, the IGs represent a unique hybrid of external auditing and internal auditing in their oversight roles for federal agencies.

The IG offices, having been created to perform a unique role in overseeing federal agency operations, have characteristics of both external audit organizations and internal audit organizations. For example, the IGs have external reporting requirements consistent with the reporting requirements for external auditors while at the same time being part of their respective agencies. IGs also have a dual reporting responsibility to the Congress and the agency head.

To illustrate, the IGs' external reporting requirements in the IG Act include reporting the results of their work in semiannual reports to the Congress. Under the IG Act, the IGs are to report their findings without alteration by their respective agencies, and these reports are to be made available to the general public. The IG Act also directs the IGs to keep the agency head and the Congress fully and currently informed, which they do through these semiannual reports and otherwise, of any problems, deficiencies, abuses, fraud, or other serious problems relating to the administration of programs and operations of their agencies. Also, the IGs are required to report particularly serious or flagrant problems, abuses, or deficiencies immediately to their agency heads, who are required to transmit the IG's report to the Congress within 7 calendar days.

With the growing complexity of the federal government, the severity of the problems it faces, and the fiscal constraints under which it operates, it is important that an independent, objective, and reliable IG structure be in place at federal agencies to ensure adequate audit and investigative coverage of federal programs and operations. The IG Act provides each IG with the ability to exercise judgment in the use of independence protections specified in the act. The act also provides for IGs who, based on their appointment process, are more closely aligned with internal audit organizations, and other IGs who are more closely aligned with external audit organizations. While the IG Act's provisions for IG independence are vital, the ultimate success or failure of an IG office is largely determined by the individual IG placed in that office and that person's ability to maintain personal, external, and organizational independence both in fact and appearance while reporting the results of the office's work to both the agency head and to the Congress.

Leveraging IG Offices as Part of Overall Federal Oversight

One of the challenges facing the federal performance and accountability community today is the need to meet increasing demands and challenges with our current resources. In this regard, Executive Order No. 12805, issued in 1992, directs the IGs to meet and coordinate as two groups to enhance their work. The IGs appointed by the President and confirmed by the Senate are members of the President's Council on Integrity and Efficiency (PCIE), and the IGs appointed by their agency heads are members of the Executive Council on Integrity and Efficiency (ECIE). The purpose of both PCIE and ECIE is to (1) identify, review, and discuss areas of weakness and vulnerability in federal programs and operations with respect to fraud, waste, and abuse; (2) develop plans for coordinated governmentwide activities that address these problems and promote economy and efficiency in federal programs and operations; and (3) develop policies and professional training to maintain a corps of well-trained and highly skilled IG personnel. Both PCIE and ECIE are chaired by the Office of Management and Budget's (OMB) Deputy Director for Management.

In a prior testimony[3] I recommended establishing an IG Council in statute with a designated funding source. We believe that by providing a statutory basis for the council's roles and responsibilities, the permanence of the council could be established and the ability to take on more sensitive issues could be strengthened. In addition, we believe that effective, ongoing coordination of the federal audit and oversight efforts of GAO and the IGs is more critical than ever as a result of challenges and risks currently facing our nation, including our immediate and long-term fiscal challenges, increasing demands for federal programs, and changing risks.

The IG Act requires that the IGs coordinate with GAO to avoid duplicating efforts. In practice, GAO has largely devoted its efforts to program evaluations and policy analyses that look at programs and functions across government and with a longer-term perspective. At the same time, the IGs have been on the front line of combating fraud, waste, and abuse within their respective agencies, and their work has generally concentrated on specific program--related issues of immediate concern with more of their resources going into uncovering inappropriate activities and expenditures through an emphasis on investigations.

GAO and the IGs are, in many respects, natural partners. We both report our findings, conclusions, and recommendations to the Congress and we share common professional audit standards through *Government Auditing Standards*. Closer strategic planning and ongoing coordination of audit efforts between GAO and the IGs would help to enhance the effectiveness and impact of work performed by federal auditors. Working together and in our respective areas of expertise, GAO and the IGs can better leverage each other's work and provide valuable input on the broad range of high-risk programs and management challenges across government that need significant attention or reform.

Significant and increased coordination is occurring between GAO and the IGs on agency-specific issues and crosscutting issues. In

[3]GAO, *Inspectors General: Enhancing Federal Accountability*, GAO-04-117T (Washington, D.C.: Oct. 8, 2003).

May of this year I hosted a meeting at GAO with the IGs for the principal purpose of improving the coordination of federal oversight. In testifying[4] in October 2003, on the 25th anniversary of the IG Act, I suggested, in light of the increased need for a well-coordinated federal audit community, the creation of a more formal mechanism going forward to include a governmentwide council. The structure of this council could be similar in concept to the Joint Financial Management Improvement Program (JFMIP), whose principals[5] meet at their discretion to discuss issues of mutual concern to promote governmentwide financial management. A similar council focused on accountability could share knowledge and coordinate activities to enhance the overall effectiveness of government oversight and to preclude duplicate actions.

A good example of a strong formalized partnership between GAO and the IGs is in the area of financial auditing. Under the Chief Financial Officers Act of 1990, as amended, the IGs at the 24 agencies covered by the act are responsible for the audits of their agencies' financial statements. In meeting these responsibilities, most IGs have contracted with independent public accountants (IPA) to conduct the audits either entirely or in part. In some cases, GAO conducts the audits. GAO is responsible for the U.S. government's consolidated financial statement audit, which is based largely on the results of the agency-level audits. GAO and the IGs have agreed on a common audit methodology described in the GAO-PCIE *Financial Audit Manual*, which is an audit tool available to all auditors of federal financial statements. In addition, we have established formal ongoing coordination and information sharing throughout the audit process so that both the IGs and GAO can successfully fulfill their respective responsibilities effectively and efficiently.

A practical issue that should also be dealt with is the adequacy of resources to provide for agency financial statement audits. Over the years, a number of IGs have told us that the cost of agency financial audits has taken resources away from their traditional work. In the private sector, the cost of an annual financial audit is a routine business expense borne by

[4] GAO-04-117T.

[5] The principals are the Comptroller General, the Director of OMB, the Secretary of the Treasury, and the Director of the Office of Personnel Management. The JFMIP is authorized by 31 U.S.C. § 3511(d).

the entity being audited, and the cost of the audit represents a very small percentage of total expenditures for the audited entity. We support enacting legislation that would make agencies responsible for paying the cost of their financial statement audits. We also believe that an arrangement in which the agencies pay for their own audits provides them with positive incentives for taking actions, such as streamlining systems and cleaning up their financial records, prior to the audit.

Under the arrangement in which agencies pay the cost of their own audits, we believe the IG should continue in the current role of selecting and overseeing audits in those cases in which the IG does not perform the audit but hires an IPA to conduct the audit. This would leverage the IGs' expertise to help ensure the quality of the audits. We also advocate an approach whereby the IGs would be required to consult with the Comptroller General during the IPA selection process to obtain input from the results of GAO's reviews of the IPAs' previous work and the potential impact on GAO's audit of the consolidated financial statements of the U.S. government. We will continue in our coordination with the IGs to help achieve our mutual goals of providing the oversight needed to help ensure that the federal government operates in a transparent, economical, efficient, effective, ethical, and equitable manner.

Structural Streamlining of IG Offices for Resource Efficiencies

One of the issues facing the IG community as well as others in the performance and accountability community is how to use limited resources most efficiently to achieve the greatest value. In fiscal year 2006, the 64 IG offices operated with total fiscal year budgets of about $1.9 billion and about 12,000 staff. (See encs. I and II for more detail on IG budgets and staff.) Most IG offices for cabinet departments and major agencies have IGs appointed by the President and confirmed by the Senate, and have larger budgets and more staff than those IGs in DFEs who are appointed by their agency heads. While agency-appointed IGs make up about half of all IG offices, the total of their fiscal year 2006 budgets was $267 million compared to $1.66 billion for presidentially appointed IGs. The agency-appointed IGs at the United States Postal Service (USPS), Special IG for Iraq Reconstruction (SIGIR), Amtrak, National Science Foundation (NSF), and Federal Reserve Board (FRB) have budgets that are comparable in size to those of presidentially appointed IGs. When the staffing and budget figures for these IG offices are removed from the DFE totals, the remaining 29 agency-appointed IGs have a total of 239 staff and budgets that make up about 2 percent of all IG budgets. In addition, 19 of those 29 agency-appointed IG offices had 10 or fewer staff.

In a 2002 report,[6] we presented the possible benefits of consolidating the smallest IG offices with the offices of IGs appointed by the President. We also suggested the conversion of agency-appointed IGs to presidential appointment where their budgets were comparable to those of the presidentially appointed IG offices. A benefit of consolidating the offices of agency-appointed IGs with those of presidentially appointed IGs would be to eliminate the differences in organizational independence between their offices. The review of a designated federal entity provided by a consolidated IG office would remove the need for the entity's internal audit organization to report externally, remove the need to apply the independence safeguards in *Government Auditing Standards*, and result in improved independence provided through audits performed by an external audit organization.

In addition, we believe that if properly structured and implemented, the consolidation of IG offices could provide for a more effective and efficient allocation of IG resources across government to address high-risk and priority areas. It would not only achieve potential economies of scale but also provide a critical mass of skills, particularly given advancing technology and the ever-increasing need for technical staff with specialized skills. We believe this point is especially appropriate for the 19 IG offices with 10 or fewer staff. IG staff now in smaller offices would, in large consolidated IG offices, have immediate access to a broader range of resources to use in addressing issues requiring technical expertise or areas of critical need. Consolidation would also strengthen the IGs' ability to improve the allocation of human capital and scarce financial resources within their offices and to attract and retain a more professional workforce with talents, multidisciplinary knowledge, and up-to-date skills. Consolidation can also add flexibility and increase options for IG coverage and help ensure that the IG function is better equipped to achieve its mission. Consolidation would also increase the ability of larger IG offices to provide methods and systems of quality control in the smaller agencies.

We recognize that there are potential risks resulting from consolidation that would have to be mitigated through proactive and targeted actions in order for the benefits of consolidation to be realized without adversely affecting the audit coverage of small agencies. For example, the potential reduction in day-to-day contact between the IG and officials at smaller

[6] GAO, *Inspectors General: Office Consolidation and Related Issues*, GAO-02-575 (Washington, D.C.: Aug. 15, 2002).

agencies as result of consolidation could be mitigated by posting IG staff at the agencies to keep both the IG and the agency head informed and to coordinate necessary meetings. In preparation for consolidation, staff in the smaller IG offices could be consulted in planning oversight procedures and audit coverage for their agencies. There may be fewer audits or even less coverage of those issues currently audited by the IGs at smaller agencies, but coverage by a consolidated IG could address areas of higher risk, value, and priority, resulting in potentially more efficient and effective use of IG resources across the government. Furthermore, consolidation of selected IG offices could be coupled with a decentralized deployment approach that establishes a minimum IG presence or coverage of each DFE entity in order to mitigate risks related to any loss of audit coverage. By providing such coverage from a centralized, external IG organization, independence would also be enhanced.

Also important, consolidation of the IG offices at USPS, NSF, Corporation for Public Broadcasting (CPB), and Legal Services Corporation (LSC) with offices of presidentially appointed IGs may not be necessary to further the independence of these IGs because they are appointed and may be removed by their boards of directors. We believe that by requiring the vote of a majority of board members for such actions regarding their IGs, the potential for the independence of the IG to be impaired through the threat of removal is greatly reduced as compared to appointment and removal by an individual agency head. In addition, we continue to believe that the consolidation of IG offices based on related agency missions could help provide for more efficient use of increasingly scarce IG resources. (See enc. III.) For example, the consolidation of the Amtrak IG with the Department of Transportation IG would be appropriate given the similar transportation--related subjects of their oversight.

Results of the Comptroller General's Forum on IG Issues

In May 2006, at the request of this committee, I convened a panel of recognized leaders of the federal audit and investigative community to discuss proposed amendments to the IG Act. We drew the panel from the current IG leadership, former IGs, knowledgeable former and current federal managers, representatives of academia and research institutions, a former member of the Congress, and congressional staff, including the congressional staff person closely involved in the development of the 1978 IG Act. Among other issues, the panel members discussed terms of office and removal for cause, submission of IG budgets, a proposed IG Council, IG pay and bonuses, and investigative and law enforcement authorities for agency-appointed IGs. In September 2006 we issued the results of the panel discussion.[7] The overall perspectives of the panel are discussed below.

Terms of office and removal for cause

IGs serve at the pleasure of either the President or their agency heads, depending on the nature of their appointments. The IGs appointed by the President with Senate confirmation may be removed only by the President, while the IGs appointed by their agency heads may be removed or transferred from their offices only by their agency heads. However, for both types of IGs the reasons for removal must be communicated to the Congress after the action has taken place.

The panel members discussed the possible effects of having a 7-year term of office for each IG with more than one term possible, and a removal-for-cause provision whereby an IG may be removed from office prior to the expiration of his or her term only on the basis of permanent incapacity, inefficiency, neglect of duty, malfeasance, conviction of a felony, or conduct involving moral turpitude.

The majority of the panel participants did not favor statutorily establishing a fixed term of office for IGs. The reasons included the panelists' belief that the proposal could disrupt agency management and IG relationships, and that agency flexibility is needed to remove a poor-performing IG if necessary. On the other hand, a statutory term of office and removal only for specified causes was viewed positively by some panelists as a means of enhancing independence by relieving some of the immediate pressure surrounding removal without appropriate justification. The panel members also generally supported a statutory requirement to notify the Congress in writing in advance of removing an IG, with an explanation of the reason for removal. The participants cautioned that this procedure should consist only of notification, without building in additional steps or actions in the removal process.

IG budget submission

The IG Act Amendments of 1988 require the President's budget to include a separate appropriation account for each of the IGs appointed by the President or otherwise specified by the act. In this context, IG budget requests are generally reviewed as part of each agency's budget process

[7] GAO, *Highlights of the Comptroller General's Panel on Federal Oversight and the Inspectors General*, GAO-06-931SP (Washington, D.C.: Sept. 11, 2006).

and are submitted as a separate budget line item to OMB and the Congress as a part of each agency's overall budget. In contrast, most IGs appointed by their agency heads do not have separate appropriation accounts.

The panel members discussed the possibility of having IGs justify their funding requests directly to OMB and the Congress in addition to being a part of their agencies' budget processes. In addition, the panel members considered having the budget requests submitted by the IGs compared to the funds requested by the agency heads for their IGs and including the comparison in the *Budget of the United States Government*. Overall, the panel members supported additional transparency for the IG budgets and agreed that the funding and other resource needs of the IGs should be clearly identified as a separate account or line item.

IG Council

The panel members considered a combined statutory IG Council with duties and functions similar to PCIE and ECIE which includes an Integrity Committee charged with receiving, reviewing, and referring for investigation, where appropriate, allegations of wrongdoing against an IG and members of the IG's senior staff operating with the IG's knowledge.

Currently, the Integrity Committee receives its authority under Executive Order 12993, signed in 1996, and is chaired by a representative of the Federal Bureau of Investigation. Other members of the committee are the Special Counsel of the Office of Special Counsel, the Director of the Office of Government Ethics, and three IGs representing PCIE and ECIE. Cases investigated by members of the Integrity Committee may be forwarded to the PCIE and ECIE Chairperson for further action.

As called for in prior testimony,[8] I continue to support formalizing a combined IG council in statute, along with the Integrity Committee. We also strongly support the concept behind the Integrity Committee. We believe it is imperative that the independence of the Integrity Committee be preserved and the basic underpinnings not be changed. In contrast, the participants in our May 2006 panel discussion had mixed views about statutorily establishing a joint IG Council but did favor establishing a funding mechanism for the councils.

[8] GAO-04-117T.

IG pay and bonuses

Issues over IG pay and bonuses have arisen over the past few years as a result of recent requirements[9] that rates of pay for the federal Senior Executive Service be based on performance evaluations as part of a certified performance management system. IGs who are subject to these requirements must therefore receive performance evaluations in order to qualify for increases to their pay. The IGs are provided general supervision by their agency heads in accordance with the IG Act. However, independence issues arise if the agency head is evaluating IG performance when that evaluation is used as a basis for an increase in the IG's pay or for providing a bonus. As a result, some IGs have effectively had their pay capped without the ability to receive pay increases or bonuses.

The majority of panel participants believed that the pay structure for the IGs needs to be addressed. The panelists emphasized the importance of providing comparable compensation for IGs as appropriate, while maintaining the IGs' independence in reporting the results of their work, and providing them with performance evaluations that could be used to justify higher pay. However, the panelists' views on IGs' receiving performance bonuses were mixed, mainly because of uncertainty about the overall framework that would be used to evaluate performance and make decisions about bonuses. I believe that an independent framework could be established through PCIE and ECIE, in cooperation with the Office of Personnel Management, to provide IGs with performance evaluations independent of undue influence by agency heads.

IG investigative and law enforcement authorities

The IG Act has been amended by subsequent legislation[10] to provide IGs appointed by the President with law enforcement powers to make arrests, obtain and execute search warrants, and carry firearms. The IGs appointed by their agency heads were not included under this amendment but may obtain law enforcement authority by applying to the Attorney General for deputation on a case-by-case basis. In addition, the Program Fraud Civil Remedies Act of 1986[11] provides agencies with IGs appointed by the President with the authority to investigate and report false claims and recoup losses resulting from fraud below $150,000. The agencies with IGs

[9]National Defense Authorization Act, Pub. L. No. 108-136, 117 Stat. 1392, 1638 (Nov. 24, 2003).

[10]The Homeland Security Act of 2002, Pub. L. No. 107-296, 116 Stat. 2135 (Nov. 25, 2002).

[11]31 U.S.C. §§ 3801-3812.

appointed by their agency heads do not have this authority. Also, the IG Act provides all IGs with the authority to subpoena any information, documents, reports, answers, records, accounts, papers, and other data and documentary evidence necessary to perform the functions assigned by the IG Act. This subpoena authority does not specifically address many forms of data including electronically stored information.

Panel participants overwhelmingly supported the provisions to (1) allow IGs appointed by their agency heads to apply to the Attorney General for full law enforcement authority instead of having to renew their authority on a case-by-case basis or through a blanket authority, (2) provide designated federal entities with IGs appointed by their agency heads the authority under the Program Fraud Civil Remedies Act to investigate and report false claims and recoup losses resulting from fraud, and (3) define IG subpoena power to include any medium of information and data.

Concluding Observations

The IG offices play a critical role in federal oversight. The independence of the IGs through protections in the IG Act, adherence to standards, and personal independence on the part of individual IGs and their staff are key to ensuring the continued overall independence and effectiveness of federal IG offices. As we enter a period where great transformation will be needed in the way government does business, it will be increasingly important to consider the IGs' role in this process and to take advantage of opportunities to make the IG offices more efficient and effective. It will also be critical to ensure IG coordination across government to identify and build on opportunities to better leverage existing resources for achieving effective federal oversight and accountability.

I would be pleased to meet with you or your staff to answer any questions that you may have or to discuss this statement.

Enclosure I: Inspectors General Appointed by the President: Fiscal Year 2006 Appropriated Budgets and Actual FTEs

	Federal departments and agencies	Budgets	FTEs
1	Department of Health and Human Services	$ 222,000,000	1,445
2	Department of Defense	206,772,130	1,370
3	Treasury IG for Tax Administration	131,953,140	838
4	Department of Housing and Urban Development	104,940,000	646
5	Social Security Administration	91,476,000	608
6	Department of Homeland Security	82,187,000	520
7	Department of Agriculture	80,336,000	598
8	Department of Labor	71,445,000	450
9	Department of Veterans Affairs	70,174,000	464
10	Department of Justice	68,000,000	411
11	Department of Transportation	61,874,000	419
12	Environmental Protection Agency	50,241,000	337
13	Department of Education	48,510,000	288
14	General Services Administration	42,900,000	293
15	Department of Energy	41,580,000	262
16	Department of the Interior	38,541,000	261
17	Agency for International Development	36,640,000	172
18	National Aeronautics and Space Administration	32,400,000	203
19	Department of State	30,945,000	186
20	Federal Deposit Insurance Corporation	30,690,000	125
21	Department of Commerce	22,467,000	122
22	Small Business Administration	20,361,080	95
23	Office of Personnel Management	18,216,000	131
24	Department of the Treasury	16,830,000	116
25	Tennessee Valley Authority	14,700,000	90
26	Nuclear Regulatory Commission	8,308,000	49
27	Railroad Retirement Board	7,124,000	53
28	Corporation for National and Community Service	5,940,000	23
29	Export-Import Bank	1,000,000	0
30	Central Intelligence Agency	na	na
	Totals	**$1,658,550,350**	**10,575**

Sources: PCIE and ECIE.

Legend: FTE = Fill-time equivalent; na = not available.

Enclosure II: Inspectors General Appointed by Agency Heads: Fiscal Year 2006 Appropriated Budgets and Actual FTEs

	Federal departments and agencies	Budgets	FTEs
1	United States Postal Service	$158,000,000	916
2	Special IG for Iraq Reconstruction	34,000,000	115
3	Amtrak	16,984,000	87
4	National Science Foundation	11,500,000	62
5	Federal Reserve Board	5,118,740	33
6	Government Printing Office	4,950,200	23
7	Pension Benefit Guaranty Corporation	4,038,990	21
8	Peace Corps	3,064,000	19
9	Federal Communications Commission	2,597,903	20
10	Securities and Exchange Commission	2,507,300	10
11	Legal Services Corporation	2,507,000	18
12	Library of Congress	2,457,000	17
13	National Archives and Records Administration	2,200,000	16
14	Smithsonian Institution	1,938,932	14
15	Equal Employment Opportunity Commission	1,810,307	11
16	National Credit Union Administration	1,764,926	8
17	Election Assistance Commission	1,600,000	1
18	National Labor Relation Board	1,080,327	7
19	Farm Credit Administration	998,248	5
20	Federal Housing Finance Board	959,271	4
21	Federal Trade Commission	917,500	5
22	Corporation for Public Broadcasting	834,264	9
23	Commodity Futures Trading Commission	795,000	4
24	Federal Election Commission	691,584	5
25	National Endowment for the Humanities	589,600	5
26	U.S. International Trade Commission	521,205	1
27	Appalachian Regional Commission	476,000	3
28	Federal Maritime Commission	469,885	2
29	National Endowment for the Arts	402,000	3
30	Federal Labor Relations Authority	284,487	1
31	Consumer Product Safety Commission	241,270	2
32	U.S. Capitol Police	583,000	4[a]

	Federal departments and agencies	Budgets	FTEs
33	Denali Commission	na[b]	1
34	Office of Director of National Intelligence	na	na
	Totals	266,882,939	1,452

Source: PCIE and ECIE and agency information.

Legend: FTE = Fill-time equivalent; na = not available.

[a]Fiscal year 2007 FTEs.

[b]IG budget is not determined separately from the agency's budget.

Enclosure III: Potential IG Consolidations and Related Agency Missions

Illustrative examples of agencies that could consolidate IG oversight	Primary agency missions
Department of Agriculture	Enhance the quality of life by supporting the production of agriculture.
Farm Credit Administration	Promote a safe and sound competitive Farm Credit System.
Department of Commerce	Promote job creation, economic growth and sustain development and improved living standards.
Federal Communications Commission	Regulation of communications by radio, television, mire satellite, and cable.
Corporation for Public Broadcasting	Provide grants to qualified public television and radio stations to be used primarily for program production or acquisition.
Appalachian Regional Commission	Support economic and social development in the Appalachian region.
U.S. International Trade Commission	Administer U.S. trade laws and provide information on trade matters.
Consumer Product Safety Commission	Reduce the risk of injuries and deaths from consumer products.
Department of Housing and Urban Development	Promote a decent, safe, and sanitary home and living environment for all.
Federal Housing Finance Board	Regulate banks that help finance community development needs.
Department of Justice	Enforcement of laws in the public interest.
Legal Services Corporation	Ensure equal access to justice under law.
Equal Employment Opportunity Commission	Enforce federal statutes prohibiting discrimination.
Federal Trade Commission	Prevent monopolies, restraints and unfair and deceptive practices that affect free enterprise.
Department of the Treasury	Responsible for financial, economic, and tax policy, as well as financial law enforcement and the manufacturing of coins and currency.
Securities and Exchange Commission	Administer federal securities laws that seek to provide protection for investors, to ensure that securities markets are fair and honest, and to provide the means to enforce securities laws through sanctions.
Commodity Futures Trading Commission	Protect market participants against manipulation, abusive trade practices, and fraud.
Federal Deposit Insurance Corporation	Contribute to the stability of and confidence in the nation's financial system.
National Credit Union Administration	Regulate and insure federal credit unions and insure state-chartered credit unions.

General Services Administration	Provide quality services, space, and products at competitive cost to enable federal employees to accomplish their missions.
Smithsonian Institution	Hold artifacts and specimens for the increase and diffusion of knowledge.
National Archives and Records Administration	Preserve the nation's history by overseeing and managing federal records.
National Endowment for the Arts	Nurture human creativity and foster appreciation of artistic accomplishments.
National Endowment for the Humanities	Support research, education, and public programs in the humanities.
Federal Election Commission	Disclose campaign finance information, enforce provisions of the Federal Election Campaign Act, and oversee public funding of presidential elections.
Department of Labor	Foster, promote, and develop the welfare of U.S. wage earners.
Federal Labor Relations Authority	Enforce the laws governing relations between unions and employees.
National Labor Relations Board	Enforce the laws governing relations between unions and employees.
Pension Benefit Guaranty Corporation	Encourage the growth and operations of defined benefit pension plans.
Department of State	Promote U.S. interests and the President's foreign policy in shaping a free, secure, and prosperous world.
Peace Corps	Promote world peace and friendship.
Department of Transportation	Develop policies for the national transportation system with regard for need, the environment, and national defense.
Amtrak	Develop modern rail service in meeting inter-city passenger transportation needs.
Federal Maritime Commission	Regulate shipping in foreign U.S. trade.

Source: The United States Government Manual.

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