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25th ANNIVERSARY OF THE INSPECTOR GENERAL ACT—WHERE DO WE GO FROM HERE?

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT EFFICIENCY AND FINANCIAL MANAGEMENT

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

OCOTBER 8, 2003

Serial No. 108–110

Printed for the use of the Committee on Government Reform

Available via the World Wide Web: http://www.gpo.gov/congress/house
http://www.house.gov/reform

U.S. GOVERNMENT PRINTING OFFICE

92–126 PDF WASHINGTON : 2004

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25th ANNIVERSARY OF THE INSPECTOR GENERAL ACT—WHERE DO WE GO FROM HERE?

WEDNESDAY, OCTOBER 8, 2003

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT EFFICIENCY AND FINANCIAL MANAGEMENT,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 2 p.m., in room 2247 Rayburn House Office Building, Hon. Todd Russell Platts (chairman of the subcommittee) presiding.

Present: Representatives Platts, Blackburn, and Towns.

Also present: Representative Cooper.

Staff present: Mike Hettinger, staff director; Dan Daly, counsel; Larry Brady, Kara Galles, and Tabetha Mueller, professional staff members; Amy Laudeman, clerk; Mark Stephenson, minority professional staff member; and Jean Gosa, minority assistant clerk.

Mr. PLATTS. With the belief that a quorum will very presently be established, we are going to begin this hearing of the Subcommittee on Government Efficiency and Financial Management, and the hearing will officially come to order.

Twenty-five years ago this month, Congress created Inspectors General throughout the Federal Government in response to serious and widespread internal control breakdowns that resulted in significant monetary losses and reduced effectiveness and efficiency in Federal activities. Since their creation, IGs have been largely successful in carrying out their mission, reporting billions of dollars in savings and cost recoveries, as well as thousands of successful criminal prosecutions.

There are currently 57 Inspector General offices with 11,000 employees and a total budget of nearly $1.5 billion. Twenty-nine IGs are appointed by the President and confirmed by the Senate, and 28 are appointed by agency heads in Designated Federal Entities [DFEs]. Inspector General offices are responsible for conducting and supervising audits and investigations, promoting economy, efficiency and effectiveness and preventing and detecting fraud and abuse in their agencies' programs and operations. IGs serve an important function in our system of separation of powers. Their autonomy and independence provide a crucial balance between the executive branch and the Congress.

In August 2002, the General Accounting Office issued a report that explored the options consolidating some IG offices and changing the status of others. GAO surveyed the IG community to determine how consolidation would affect independence, quality of work

and the best use of resources. Today, we will look at the progress that has been made in the past 25 years since the IG Act was passed and what, if any, legislative changes are needed to help the IG community ensure efficiency, accountability and effectiveness within the Federal Government.

We are greatly honored here today to have before the subcommittee the Honorable David Walker, Comptroller General of the U.S. General Accounting Office, and the Honorable Clay Johnson III, Deputy Director for Management at the Office of Management and Budget; and they will be part of our first panel.

On our second panel we will have the Honorable Gaston Gianni, vice chair of the President's Council on Integrity and Efficiency and the Inspector General of the Federal Deposit Insurance Corp.; and Mr. Barry Snyder, vice chair of the Executive Council on Integrity and Efficiency and Inspector General at the Federal Reserve Board. We appreciate all the witnesses being with us, and we all appreciate your fine service to our Nation, day in and day out.

I am now pleased to yield to the ranking member of the subcommittee, the gentleman from New York, Mr. Towns.

[The prepared statement of Hon. Todd Russell Platts follows:]

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Opening Statement of
Representative Todd R. Platts
October 8, 2003
25th Anniversary of the Inspector General Act – Where Do We Go From Here?

Twenty-five years ago this month, Congress created Inspectors General (IGs) throughout the Federal government in response to serious and widespread internal control breakdowns that resulted in significant monetary losses and reduced effectiveness and efficiency in Federal activities. Since their creation, IGs have been largely successful in carrying out their mission, reporting billions of dollars in savings and cost recoveries, as well as thousands of successful criminal prosecutions.

There are currently 57 Inspector General offices throughout the Federal government with 11,000 employees and a total budget of nearly $1.5 billion. Twenty-nine IGs are appointed by the President and confirmed by the Senate, and 28 are appointed by agency heads in Designated Federal Entities (DFEs). IGs are responsible for conducting and supervising audits and investigations, promoting economy, efficiency and effectiveness, and preventing and detecting fraud and abuse in their agencies' programs and operations. IGs serve an important function in our system of separation of powers. Their autonomy and independence provide a crucial balance between the Executive Branch and the Congress.

In August 2002, the General Accounting Office (GAO) issued a report that explored the option of consolidating some IG offices and changing the status of others. GAO surveyed the IG community to determine how consolidation would affect independence, quality of work, and use of resources. Specifically, the report discusses raising the U.S. Postal Service, the National Science Foundation and the Federal Reserve Board IGs to Presidential appointment status and consolidating the smaller DFE IG offices by transferring them into larger Presidential IG offices with related missions. The report also looked at creating a statutory alternative to the two advisory councils that serve the IG community – the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE). Currently, these entities are established by Executive Order.

Today we will look at the progress that has been made in the twenty-five years since the IG Act was passed and what, if any, legislative changes are needed to help the IG community ensure efficiency, accountability and effectiveness within the Federal government. We are honored to have

before the Subcommittee today, **The Honorable David M. Walker,** Comptroller General of the U.S. General Accounting Office; **The Honorable Clay Johnson III**, Deputy Director for Management, at the Office of Management and Budget; **The Honorable Gaston Gianni**, Vice Chair, of the President's Council on Integrity and Efficiency and Inspector General at the Federal Deposit Insurance Corporation; and **Mr. Barry Snyder,** Vice Chair of the Executive Council on Integrity and Efficiency and Inspector General at the Federal Reserve Board. I thank each of our witnesses for their service to our Nation and their participation in today's hearing.

Mr. TOWNS. Thank you, Mr. Chairman.

Last week, the Government Reform Committee reported out a resolution commending the work of the Inspectors General on the occasion of the 25th anniversary of the act. I strongly supported that resolution and am proud to be an original cosponsor.

The Government Reform Committee has a long history of working with the Inspectors General to eliminate waste, fraud and abuse in Federal programs. Indeed, the Government Operations Committee drafted the original statute establishing the Inspectors General in the executive branch 25 years ago.

The close working relationship between the Inspectors General and our committee is entirely appropriate. The Inspector General community is one of the Congress' principal watchdogs in the executive branch. There is much we can learn from each other as we work to ensure that our government operates in the most effective and efficient manner possible.

The IGs have a very difficult job. They are appointed by the President, but report to the Congress as well as the head of the agency. As independent investigators within the Federal agencies, they are often the last person a manager wants to hear from. Yet, in many instances, the toughest jobs are the ones that need to be done the most.

During fiscal year 2002, IGs returned over $4.5 billion to the Federal Government in restitution and recoveries, and their audits identified another $72 billion in funds that could be used more effectively. They also had more than 10,000 successful criminal prosecutions. Similar accomplishments are made year after year. The IGs have more than proven their usefulness to Congress and the American public.

The 25th anniversary of the Inspector General Act is also a logical point in time to examine whether any improvement could be made to the act. Several suggestions have been made to help enhance the independence of the IGs, adjust certain reporting requirements, and codify in statute the existing IG Council.

I am pleased to hear that my good friend Representative Jim Cooper is drafting legislation on these and other issues. And I am ready to work with him and the chairman and anybody else that is concerned about this to try and see what we can do to strengthen the act in every way.

On that note, Mr. Chairman, I yield back.

Mr. PLATTS. Thank you, Mr. Towns.

[The prepared statement of Hon. Edolphus Towns follows:]

Statement of Rep. Towns

Hearing on "25th Anniversary of the Inspectors General Act – Where Do We Go From Here?"

October 8, 2003

Thank you Mr. Chairman. Last week the Government Reform Committee reported out a resolution commending the work of the Inspectors General on the occasion of the 25th anniversary of the act. I strongly supported that resolution and am proud to be an original cosponsor.

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IGs have a very difficult job. They are appointed by the President, but report to Congress, as well as the head of their agency. As independent investigators within the federal agencies, they are often the last person a manager wants to hear from. Yet in many instances the toughest jobs are the ones that need doing the most. During fiscal year 2002, IGs returned over $4.5 billion to the federal government in restitutions and recoveries, and their audits identified another $72 billion in funds that could be used more effectively. They also had more than 10,000 successful criminal prosecutions. Similar accomplishments are made year after year. The IGs have more than proven their usefulness to Congress and the American public.

The 25th anniversary of the Inspector General Act is also a logical point in time to examine whether any improvements could be made to the Act. Several suggestions have been made to help enhance the independence of the IGs, adjust certain reporting requirements, and codify in statute the existing IG councils. I am pleased to hear that Representative Jim Cooper is drafting legislation on these and other issues, and I ready to work with him and the Chairman to help address these concerns.

Thank you Mr. Chairman.

Mr. PLATTS. I now would like to recognize Jim Cooper from Tennessee. Representative Cooper is a member of the full Government Reform Committee, and while he is not a member of this subcommittee, he certainly has a strong interest in improving government accountability and has drafted legislation that proposes a number of changes to the IG Act.

I am now pleased to recognize Mr. Cooper for the purpose of making an opening statement.

Mr. COOPER. Thank you, Mr. Chairman, and thank you to my friend Ed Towns. I appreciate your kind words and appreciate your letting me sit in on this hearing.

My purpose is to try to draft consensus legislation with the help of the IGs themselves, with the help of experts in this area, and with the help of both parties in Congress, so we can do what we can to strengthen what is already a great government institution.

The draft bill, as proposed, is called the Improving Government Accountability Act, and it would do several things. One, it would try to increase the independence of each IG by creating a fixed term of office and eliminating any possibility of arbitrary or politically motivated dismissals. Right now, IGs currently serve at the pleasure of the appointing authority, whether it is the agency they serve or the President of the United States. And while it is indeed rare, IGs have occasionally been dismissed for less than cause.

My bill would set a 7-year term for every IG and have dismissal procedures for cause as is common in the private sector. That standard for removal would be the same one that applies currently under the statute for the Comptroller General for permanent disability, malfeasance, inefficiency, neglect of duty, conviction of a felony, or conduct involving moral turpitude. That was our best thought for really ensuring IG independence.

Second, the bill would ensure that IG offices have access to sufficient resources from Congress. And here what we are thinking of is, although IG funding is ultimately determined by Congress through the appropriations process, IG budget requests are often submitted as part of an agency's overall budget request.

We have heard several anecdotal reports of agencies punishing IG offices by dramatically shrinking or by reducing the IG budget; and we were thinking that it would be good for Congress to have copies of their funding requests sent directly to Congress, so we could know how much the IGs were cut back, and also require the President's budget to provide a comparison of budget requests submitted by IGs and the budget requests submitted by the agency involved. This provision would partially free the IGs from being captured by the agency appropriations process. And it would, I think, provide more transparency.

Next, we would like to codify the current governing councils for the IGs, which seem to work in an excellent fashion, but now they are a creature of Executive order. This would allow dissemination of best practices on an even better basis and, I think, a unified institutional voice for the IGs, both the Presidentially and agency-appointed ones. It would combine both of the current councils into a single council, codify the council and also authorize about $750,000 a year in operating funds through the year 2009 to ensure their organization and efficiency.

And finally my bill would improve direct access of IGs to Congress. Under current law, IGs submit semiannual reports to their agency heads, who then have 30 days to transmit the report to Congress. Many IGs have argued that this process diminishes their access to Congress and undermines their ability to draw attention to an agency concern. This is particularly true due to the filing dates for these reports which oftentimes, in fact, almost invariably fall during a congressional recess, which limits their impact.

So what we would like to do is allow IGs to report directly to Congress and to bypass agency intercession. I think that would enable Congress to exercise its oversight responsibilities more effectively. And we would change the IG reporting dates to January 31 and July 31, when we are more likely to be in session.

So, in sum, Mr. Chairman—and I appreciate your indulgence—we would like to applaud the IGs for their terrific work for the American taxpayer these last 25 years. It is incredible the efficiency and effectiveness of this group of internal monitors in these agencies. So I would like to do what we can, Mr. Chairman, to further enhance their ability to serve the American taxpayer.

[The prepared statement of Hon. Jim Cooper follows:]

Opening Statement of

The Honorable Jim Cooper

Before the

Subcommittee on Government Efficiency
and Financial Management
Committee on Government Reform
United States House of Representatives
October 8, 2003

Good afternoon Chairman Platts, Ranking Member Towns and members of the Subcommittee. I want to thank the Chairman for calling this hearing, and I thank my colleagues for allowing me to join this hearing to address this important issue.

Twenty-five years ago, President Jimmy Carter signed into law the Inspector General Act, which for the first time created independent audit and investigative offices in 12 federal agencies. The concept of the Inspector General was borrowed from the military, which also had a custom of appointing "inspectors general" to provide an independent review of the combat readiness of the Continental Army's troops.

The Inspectors General created in 1978 were charged with two basic missions: (1) to conduct independent investigations and

audits into agency performance and report on the problems they discover and (2) to generally foster integrity, accountability and excellence in government programs.

Since their creation, the Inspectors General have earned a solid reputation for carrying out these two missions effectively. They now serve an indispensable and increasingly visible role as the principal watchdogs of the nation's major federal agencies. In 2002 alone, audits by IG offices resulted in total savings to the federal government of nearly $72 billion. In addition, IG-led investigations resulted in more than 5,700 criminal indictments and nearly 2,200 civil or personnel actions.

I believe that Congress has a responsibility to support the IGs in their mission and to provide them with the tools they need to work effectively. This is why I plan to introduce legislation that would help the Inspectors General in their continuing efforts to improve government performance and efficiency.

My bill, the Improving Government Accountability Act (IGAA), seeks to strengthen the institutional stature of the Inspectors General, enhance their independence and provide them with additional resources to carry out their mission.

First, my bill would increase the independence of each IG by creating a fixed term of office and eliminating the possibility of arbitrary or politically motivated dismissals. Currently, IGs now serve at the pleasure of the appointing authority; whether it be the agency they serve or the President. While it does not happen often, IGs have occasionally been dismissed because of their views or because of an embarrassing audit or report. The fear of arbitrary dismissal could also inhibit some IGs from speaking freely. My bill would set a seven-year term for every IG and allow their removal only for "cause." The standard for removal would be the same as the one that applies currently under statute to the Comptroller General: permanent disability, malfeasance, inefficiency, neglect of duty, conviction of a felony or conduct involving moral turpitude

Second, my bill will help ensure that IG offices have access to sufficient resources from Congress. Although funding for IG offices is ultimately determined by Congress through the appropriations process, IG budget requests are submitted as part of an agency's overall budget request. Anecdotally, there have been several reports of agencies "punishing" their IG offices by

submitting a budget request significantly lower than what the IG office originally asked for.

My bill would allow IGs to submit copies of their funding requests directly to Congress. It would also require the President's budget to provide a comparison of the budget requests submitted by IGs and the budget requests submitted by the agency involved. This provision would partially free the IGs from being captured by the agency appropriations process. At the very least, it would also provide some more transparency.

Third, the bill contains several provisions to help ensure that IG offices maintain high professional standards.

To enable IG offices to attract and retain top-notch employees, the IGAA includes provisions which revamp hiring procedures and bring them in line with current personnel practices at the GAO. This will enable IG offices to have greater flexibility in hiring and pay.

The bill would also codify the current governing councils for the IGs, which work to disseminate "best practices" and to provide a unified institutional voice for the IGs. These councils,

the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency. However, now exist only by executive order and receive no independent funding. My bill would combine both councils into a single council, the Council of the Inspectors General on Integrity and Efficiency, codify the council to ensure its continuity and authorize $750,000 in operating funds each year through 2009.

Finally, my bill would improve the direct access of IGs to Congress. Under current law, IGs submit semi-annual reports to their agency heads, who then have 30 days to transmit the report to Congress. Many IGs have argued that this process diminishes their access to Congress and undermines their ability to draw attention to agency concern. The IGAA would allow IGs to submit reports directly to Congress and bypass agency intercession in the reporting process.

My bill would also shift the date of the semi-annual reporting periods, when IGs submit their reports to Congress. Currently, the reporting periods end in March and September, which means that IG reports often arrive in Congress when it's not in session—either right before August recess or after

adjournment. My bill will make the reports more timely by shifting the due dates for IG reports to January 31 and July 31.

By strengthening the Inspectors General Act, Congress can take an easy step toward increasing government accountability, while also reducing waste, fraud and abuse. I applaud the IGs for their successes in the past 25 years, and I hope that the Improving Government Accountability Act will help them do their jobs even more effectively.

In drafting this legislation, my office worked with a number of IG offices, including some of the witnesses testifying here today. Although my bill does not yet carry an official endorsement by the PCIE and ECIE, I think it fairly reflects many of the priorities of the IG community. It is my hope that this legislation will be enacted in the 108th Congress, and I will work with my colleagues to ensure its passage. Again I appreciate the Subcommittee taking a look into this issue today and look forward to working with you.

Mr. PLATTS. Thank you, Mr. Cooper. We appreciate your participation here today. I would like also to recognize that we have the vice chairwoman of our subcommittee, the gentlelady from Tennessee, Mrs. Blackburn.

Would you like to make an opening remark?

Mrs. BLACKBURN. Mr. Chairman, I have no opening remarks, but as always, I have plenty of questions and will just take advantage of the time at that point.

Mr. PLATTS. We will proceed with our first panel and ask our witnesses for the first panel to stand and raise their right hands and prepare to take the oath together.

[Witnesses sworn.]

Mr. PLATTS. The clerk will note that both witnesses have affirmed the oath, and we will proceed now directly to testimony from our first panel.

Mr. Walker, we will begin with you, followed by Mr. Johnson; and after the conclusion of your testimonies and Q and A with our first panel of witnesses, then we will proceed to Mr. Gianni and Mr. Snyder.

We do have your written testimonies and appreciate the time and effort that went into preparing those for both members and staff and would ask that you somewhat limit your oral statements here today to about 5 minutes. We are not going to be a real stickler on that, because we appreciate your time and the wisdom you will share with us.

STATEMENTS OF DAVID M. WALKER, COMPTROLLER GENERAL, U.S. GENERAL ACCOUNTING OFFICE; AND CLAY JOHNSON III, DEPUTY DIRECTOR FOR MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET

Mr. WALKER. Mr. Chairman, Mr. Towns, other Members, I appreciate the opportunity to be here to be able to review the 25-year experience of the IG Act. I would ask, Mr. Chairman, that a copy of the full statement be entered into the record so I can, just now, summarize.

Mr. PLATTS. It will be done.

Mr. WALKER. Thank you, Mr. Chairman.

There's no question that the Inspector General community has made a significant difference in Federal performance and accountability during the past 25 years. As indicated by their many reports, they have saved billions of dollars for the public. They have made thousands of recommendations and thousands of criminal and civil referrals.

Notwithstanding the accomplishments of the past, however, the Federal Government as a whole, and including the performance and accountability community of which GAO and the IGs are a part, face continuing challenges to be able to meet increasing demand with available resources.

One of the challenges that face us in the performance and accountability community today is how we can do more with less and how we can improve our own economy, efficiency, effectiveness, transparency and accountability, because I am a strong believer that we should lead by example, since we are the ones holding oth-

ers accountable. It's not just GAO, but also the Inspectors General, whether part of the PCIE or the ECIE.

Although both GAO and IGs have efforts in place to identify major risk and challenges within the Federal Government, there really is no current formalized mechanism in place for us as a community to carry out a strategic and integrated planning and coordination process, which I think is necessary in order to maximize the return on the collective investment in the performance and accountability community. There is a provision in current law that requires some coordination by the IGs with the GAO, but that has really been more ad hoc in the past, and it is one of the areas that I think we need to figure out how we can work together more in a complementary fashion for the benefit of not only the Congress but the American people.

With regard to the consolidated financial audit, as you know, IGs have a number of different roles and responsibilities. One of the areas that the GAO works on with the IGs, among others, is in the conduct of the audit of the consolidated financial statements of the U.S. Government. And most of that is going well.

As you know, 21 of 24 CFO Act agencies have clean opinions on their financial statements, while a number have internal control challenges and various compliance issues. But as we look ahead to the day where, hopefully, GAO will be able to initially express a qualified opinion on the consolidated financial statements of the U.S. Government and, hopefully, leading to a full opinion—I hope before the end of my 15-year term—the fact of the matter is, we are going to have to do things differently.

There have been some issues with regard to the agency financial statement audits. We're going to have to have access to records and other information a lot earlier in the process, and certain steps are going to need to be taken in order to assure the quality and consistency of audits throughout government. I am happy to answer questions in that regard or any other areas.

With regard to this—one of the things I would point out is, through working with OMB in a constructive fashion, the Secretary of the Treasury, the Director of OMB and myself as Comptroller General have agreed to accelerate financial reporting, accelerate auditing on those financial reports and to really try to raise the bar on what acceptable performance is in the financial management area. I think that is a major step in the right direction, but it will place additional challenges on all of us as we try to meet these new requirements.

One of the other issues that I think is important is to keep in mind is that, in the private sector, when an entity is audited, the audited entity typically bears the cost of that audit. I think that's something that needs to be considered for public-sector entities as well, that the entity that is being audited bear the cost of that audit, at least as it relates to departments and agencies.

We also believe that it's appropriate for consideration to be given for selective implementation of financial management advisory committees or audit committees, at selected Federal agencies, based upon value and risk. This is a private-sector best practice, and we think it's something that needs to be considered for the public sector as well, as well as certain other aspects of the Sar-

banes-Oxley Act such as certifications by agency heads and CFOs with regard to financial reporting.

As you mentioned, Mr. Chairman, GAO issued a report last year dealing with a number of IG offices. There are 57 IG offices. About half of the IG's are Presidential appointees and about half of the IG's are appointed by their agency head. We recommended that the Congress consider consolidating the number of IG offices. We did this for a variety of reasons: economy, efficiency, effectiveness, flexibility, accountability and independence.

The fact of the matter is, there are real independence questions when the agency head selects the IG. Furthermore, there are real issues as to economy of scale and whether or not there is adequate critical mass with regard to some of the smaller IG offices.

We believe it is possible to accomplish consolidation of IG offices in a manner that would not dilute the coverage for some of the agencies that currently have their own IG if it's properly designed and properly implemented. Obviously we will be happy to answer any questions on this matter.

As you might imagine, when we solicited the opinions of ECIE members, which are the agency-appointed IGs and the PCIE members, their opinions tend to diverge based upon where they sat. All the parties have a vested interest in the outcome. Candidly, we don't have a dog in this fight, and we're just trying to make recommendations to Congress. Reasonable people can differ, and will differ, but we think it's an area you need to consider.

On page 16 of my testimony, I outline several other areas where we think consideration should be given for possible legislation dealing with the need for a coordinating mechanism, the possibility of elevating certain current IGs to Presidential appointee, Senate confirmation status, and the possibility of consolidating certain IG offices.

And by the way, what we put in our report was an illustrative example; it wasn't a formal recommendation. It was illustrative of how you might be able to consolidate offices, not necessarily the way to do it.

And last, also, as Mr. Cooper mentioned, my written testimony supports the idea of formalizing, through the statutory process, coordinating councils within the IG community, and among the Federal performance and accountability community as well.

Thank you, Mr. Chairman.

Mr. PLATTS. Thank you, Mr. Walker.

[The prepared statement of Mr. Walker follows:]

United States General Accounting Office

GAO

Testimony

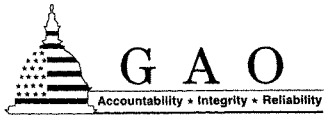
Before the Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform, House of Representatives

For Release on Delivery
Expected at 2:00 p.m. EDT
Wednesday, October 8, 2003

INSPECTORS GENERAL

Enhancing Federal Accountability

Statement of David M. Walker
Comptroller General of the United States



GAO-04-117T

October 8, 2003

GAO
Accountability • Integrity • Reliability

Highlights

Highlights of GAO-04-117T, a testimony before the Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform, House of Representatives

INSPECTORS GENERAL

Enhancing Federal Accountability

Why GAO Did This Study

On the 25th anniversary of passage of the Inspector General (IG) Act, the Subcommittee sought GAO's views on the role of the IGs in providing independent oversight within federal agencies and to discuss the new and continuing challenges faced by government performance and accountability professionals.

What GAO Recommends

In order to enhance the effectiveness of federal accountability professionals, Congress may wish to consider establishing, through statute, a small group of designated federal accountability officials, such as representatives from GAO and IG councils, to develop and implement a periodic strategic planning and ongoing coordination process for the manner in which GAO and IG work will be focused to provide oversight to high-risk areas and significant management challenges across government, while leveraging each other's work and minimizing duplication.

Congress may also want to consider enacting legislation making agencies responsible for paying the cost of their financial statement audits.

Congress may also wish to consider restructuring the IGs, which would include elevating certain IGs to presidential appointment and consolidating specific IG offices where benefits can be shown.

www.gao.gov/cgi-bin/getrpt?GAO-04-117T. To view the full product, click on the link above. For more information, contact Jeanette Franzel at (202) 512-9406 or franzelj@gao.gov.

What GAO Found

The IGs have made a significant difference in federal performance and accountability during the past 25 years as indicated by their reports of billions of dollars in savings to the public and numerous civil and criminal referrals. They have earned a solid reputation for preventing and detecting fraud and abuse; promoting improvements in government operations; and providing helpful analyses on a host of governmentwide initiatives.

Notwithstanding the accomplishments of the past, our nation now faces new challenges that demand even more from government performance and accountability professionals. For example, we are fighting international terrorism while facing a large and growing structural deficit. In addition, recent corporate failures have shaken public confidence in financial reporting and accountability in the private sector. Federal auditors can learn important lessons from the accountability breakdowns in the private sector and the resulting legislation passed by Congress.

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 in long-term challenges and agency-specific issues, GAO and the IGs can provide useful insights and constructive recommendations on a broad range of high-risk programs and significant management challenges across government.

A practical issue that has arisen is who pays the cost of agency financial statement audits. Many 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 financial audits is a routine business expense borne by the entity being audited and represents a small percentage of total expenditures for the audited entity.

In a prior study, we considered the benefits of consolidating the smallest IG offices with those of presidentially appointed IGs and converting agency-appointed IGs to presidential appointment where their budgets were comparable. We believe that, if properly implemented, conversion or consolidation of IG offices could increase the overall independence, economy, efficiency, and effectiveness of IGs.

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to share my thoughts with you on the important role of the Inspectors General (IG), established in statute 25 years ago this month to provide independent oversight within federal agencies. More significant for this discussion than the anniversary of landmark legislation, however, are the new and continuing challenges we face in assuring open, honest, effective, and accountable government and the critical role of the IGs, in partnership with GAO and other performance and accountability organizations, in addressing these challenges.

A quarter of a century ago, Congress established statutory IGs in response to serious and widespread internal control breakdowns in major government departments and agencies, questions about integrity and accountability in government as a whole, and failures of oversight in the federal government. The IGs established by the Inspector General Act of 1978 (IG Act) were charged with preventing and detecting fraud and abuse in their agencies' programs and operations; conducting audits and investigations; and recommending policies to promote economy, efficiency, and effectiveness. The IG Act fortified the position of IG with provisions protecting independence, provided powers of investigation, and mandated reporting not just to the agency head but to Congress as well. (See app. I for a more detailed history of the IG Act.)

In the years since passage of the IG Act, Congress has also enacted a series of laws to establish a foundation for efficient, effective, and accountable government. This body of legislation has given IGs new responsibilities and greater opportunities to play an increasing role in government oversight. Clearly, the IGs have made a significant difference in federal performance and accountability during the past 25 years as indicated by their reports of billions of dollars in savings to the public and thousands of recommendations and civil and criminal referrals. They have earned a solid reputation for preventing and detecting fraud, waste, and abuse; promoting improvements in government operations; and providing helpful analyses on a host of governmentwide initiatives. It is safe to say that the federal government is a lot better off today because of the IGs' efforts.

Notwithstanding the accomplishments of the past, we now face continuing challenges that demand even more from government performance and accountability professionals. For example, our nation is fighting international terrorism while much of the critical government infrastructure that we are trying to protect dates back to the 1950s. At the

same time, this nation is facing a large and growing structural deficit due primarily to known demographic trends and rising health care costs. Recent corporate failures have shaken public confidence in financial reporting and accountability in the private sector. In response, Congress passed the Sarbanes-Oxley Act of 2002, which has significant new requirements for publicly traded companies and their auditors. Federal auditors can learn important lessons from the accountability breakdowns in the private sector and the resulting legislation passed by Congress.

We have achieved many important successes in working across organizational lines with the IGs and state and local government auditors. An important recent effort in building closer ties in the government accountability community has been the domestic working group, which I established in 2001 to bring together key staff from GAO, the IGs, and state and local audit organizations to explore issues of mutual interest and concern. The annual roundtable discussions and interim activities of the domestic working group help to focus attention on key issues and shared challenges facing the government audit community and allow participants to compare notes on methods, tools, benchmarking results, and best practices. In the early 1970s, GAO organized the intergovernmental audit forums in cooperation with federal, state, and local audit organizations. These forums provided the means through which new intergovernmental audit relationships were developed and improved the usefulness of auditing at each level of government. Some IGs have become active participants with GAO at the forums to provide a means for exchanging views, solving common problems, and promoting the acceptance and implementation of government auditing standards. Other IGs, however, have not been very involved in these forums and, in my view, this needs to change.

In addition, we have had the active participation of many IGs and state and local government auditors on the Comptroller General's Advisory Council on Government Auditing Standards. The Council provides advice and guidance on revisions to the Comptroller General's *Government Auditing Standards*, commonly known as the "Yellow Book," which is used by government auditors at the federal, state, and local levels, as well as contracted independent public accountants (IPA), in the audits of government programs and activities. It is time, however, for IGs and other members of the federal accountability community to build on past successes by putting additional focus and efforts on reaching across institutional lines and forming new alliances to address the complex challenges facing our government and our nation.

My statement today will focus on five main points:

- opportunities for increasing the effectiveness of the federal performance and accountability community through an enhanced strategic partnership between the IGs and GAO,
- coordination of the IG and GAO roles in agency financial statement audits and the audit of the U.S. government's consolidated financial statements,
- the IG role in federal financial management advisory committees,
- structural streamlining within the IG community to increase resource efficiencies, and
- matters for congressional consideration to enhance federal performance and accountability.

The Need for an Enhanced Strategic Partnership between the IGs and GAO

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. Key to this challenge is determining how GAO and the IGs can best complement each other and coordinate their efforts. 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 each agency, and their work has generally concentrated on 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 Congress. As I mentioned earlier, we share common professional audit standards through the Yellow Book, and I am proud to say that several current IGs and many of their staff are GAO alumni, including the Honorable Gaston Gianni, the IG of the Federal Deposit Insurance Corporation and Vice-Chair of the President's Council on Integrity and Efficiency, who is on a panel following me today.

While GAO and the IGs make up the federal performance and accountability community, the division of responsibilities between them

has not generally included, nor does the IG Act include, strategic planning and allocation of work across government programs based on risk and the relative competitive advantages of each organization. Traditionally, GAO and IG coordination has been applied on an ad-hoc, job-by-job or issue-by-issue basis. We now have both the need and the opportunity to enhance the effectiveness of federal oversight through more strategic and ongoing coordination of efforts between GAO and the IGs in the following areas:

- addressing major management challenges and program risks,
- monitoring the top challenges the government faces, such as implementation of the President's Management Agenda, and
- conducting the audit of the government's consolidated financial statements.

Later in this testimony, I am suggesting that Congress consider establishing, through statute, assignment of responsibility to a select grou of designated federal accountability and performance professionals to engage in a formal, periodic strategic planning and ongoing engagement coordination process to focus federal audit efforts across the federal government. This process would be in addition to, and would not replace, the current coordination of information sharing and technical cooperation being implemented by the domestic working group, the audit forums, and the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE).[1]

Major Management Challenges and Program Risks

GAO's latest high-risk report,[2] released in January 2003, highlights areas across government that are at risk either due to their high vulnerability to waste, fraud, abuse, and mismanagement, or as major challenges associated with the economy, efficiency, and effectiveness of federal programs, policies, processes, functions, or activities. Many of the high-risk areas we identified involve essential government services, such as Medicare and mail delivery, that directly affect the well-being of the

[1]These councils were established by Executive Order and are described later in this testimony.

[2]U.S. General Accounting Office, *High Risk Series: An Update*, GAO-03-119 (Washington, D.C.: January 2003).

American people. Although some agencies have made strong efforts to address the deficiencies cited in the high-risk reports—and some of the programs included on GAO's initial high-risk list in 1990 have improved enough to warrant removal—we continue to identify many other areas of high risk. Greater strategic coordination between GAO and the IGs on a plan for monitoring and evaluating high-risk issues and keeping the pressure high to reduce the risk of these programs is not only desirable, it is essential if we are to reduce the risk of key government programs.

At the request of Congress, the IGs annually report issues similar to those in GAO's high-risk report identifying the "Top Management Challenges" facing their agencies. In fiscal year 2002, the IGs ranked information technology, financial management, and human capital management among the most important challenges confronting their agencies governmentwide; other priorities included performance management, public health and safety, and grants management. Each of these areas closely corresponds to an area on GAO's high-risk list.

Although both GAO and the IGs have efforts in place to identify major risks and challenges within government, there is no mechanism in place to carry out an integrated, strategic planning process as a means through which these issues will be monitored and evaluated in the future through combined and coordinated GAO and IG oversight.

President's Management Agenda

The administration has signaled its commitment to government transformation with the President's Management Agenda (PMA), which targets 14 of the most glaring problem areas in government for immediate action. Five areas—strategic human capital, budget and performance integration, improved financial performance, expanded electronic government, and competitive sourcing—are governmentwide in scope, while 9 are agency specific. Each area has the potential for dramatic improvement and concrete results. The areas also reflect many of the concerns raised by both GAO's high-risk report and the IGs' top management challenge lists. So far, however, progress on PMA has been uneven. To achieve consistent progress, sustained attention from Congress, the administration, and the agencies is needed. I believe that GAO and the IGs can make important contributions, using our combined experience, to help monitor the implementation of this important initiative.

Key policymakers increasingly need to think beyond quick fixes and carefully consider what the proper role of the federal government should

be in the 21st century. Members of Congress and agency heads can start by undertaking a top-to-bottom review of federal programs and policies to determine which should remain priorities, which should be overhauled, and which have outlived their usefulness or are just no longer affordable given more pressing demands. Everything that forms the government's base must be on the table, including tax, spending, and regulatory policies. Policymakers will need to distinguish "wants," which are optional, from "needs," which can be urgent. They need to make hard choices that take into account what the American people will support and what the federal government can afford and sustain over time. To make informed decisions, Congress and agency heads will require hard facts and professional analyses that are objective, fact based, timely, accurate, nonpartisan, fair, and balanced. GAO and the IGs are important sources of such objective information and analyses.

With our respective areas of expertise in long-term challenges and agency-specific issues, GAO and the IGs can provide useful insights and constructive recommendations on programs that may warrant additional resources, consolidation, revision, or even elimination. Closer periodic strategic planning and ongoing engagement coordination between GAO and the IGs would help to ensure continued effective oversight of these key issues facing government.

Audit of the U.S. Government's Consolidated Financial Statements

GAO and the IGs are already partners in one of the most far-reaching financial management initiatives in government—the yearly audits of the federal government's consolidated financial statements. Under the Chief Financial Officers (CFO) Act of 1990 as expanded by the Government Management Reform Act of 1994, the IGs at the 24 agencies[3] named in the CFO Act are responsible for the audits of their agencies' financial statements. In meeting these responsibilities, most IGs have contracted with IPAs to conduct the audits either entirely or in part. GAO is responsible for the U.S. government's consolidated financial statements audit, which by necessity is based largely on the results of the IGs' agency-level audits.

[3]The Federal Emergency Management Agency (FEMA), one of 24 agencies named in the CFO Act, was transferred to the new Department of Homeland Security (DHS), effective March 1, 2003. With the transfer, FEMA will no longer be required to prepare audited stand-alone financial statements under the CFO Act. Consideration is now being given to making DHS a CFO Act agency, which would bring the number of CFO Act agencies back up to 24

Since 1997, GAO has been unable to give an opinion on the consolidated financial statements, in large part because of continuing financial management problems at several agencies that also have resulted in disclaimers of opinion by some IGs on their agency financial statements—most notably the Department of Defense (DOD). In recent years, we have seen progress in the results of the audits of the CFO Act agency financial statements with more and more IGs and their contracted IPAs moving from issuing a disclaimer of opinion to issuing an unqualified ("clean") opinion on their respective agency financial statements. In fact, 21 of the 24 CFO Act agencies received an unqualified opinion on their fiscal year 2002 financial statements, up from only 6 agencies for fiscal year 1996. We anticipate that if sufficient progress continues to be made, there is a chance that we may be able to render a qualified opinion on the consolidated balance sheet in a few years as a first step toward rendering an opinion on the full set of financial statements.

Our reviews of the work done by other IGs and IPAs on agency-level financial statement audits during the last 2 years identified opportunities for improvement in sampling, audit documentation, audit testing, analytical procedures, and auditing liabilities. The varying quality of the audit work has been of concern to us because of our need to use the work of the agency auditors to support expressing an opinion on the U.S. government's consolidated financial statements—an opinion for which, in the final analysis, GAO is solely responsible and accountable.

Earlier involvement and access by GAO in the agency-level financial statement audits would help to strengthen the IG and IPA audit process and bolster our ability to use their work in rendering an opinion. At a minimum, GAO needs to (1) be involved up front in the planning phase of each agency-level audit, (2) have unrestricted access to IG and IPA audit documentation and personnel throughout the performance of the audit, (3) receive assurances that each agency-level audit is planned, performed, and reported in conformity with the Financial Audit Manual (FAM) developed jointly and adopted by GAO and the PCIE, and (4) be notified in advance of any planned deviation from the FAM's requirements that could affect GAO's ability to use the agency auditors' work.

At one agency (Department of Energy), for the selected areas we reviewed, we found that the audit work was performed in conformity with the FAM and that we would have been able to use the work without having to perform additional audit procedures. The IG has an oversight team composed of senior-level staff who perform moderate-level quality control

reviews of the contracted IPA's work throughout the audit process. The oversight team evaluates its IPA in areas such as audit planning and execution, audit documentation, and staff qualifications. These types of practices could be shared and expanded upon across the IG community. As an initial step to make the IG and IPA audit process stronger and enhance GAO's ability to use their work in rendering an opinion, we are considering holding a forum with the IGs and the IPAs to share information—based on GAO's review of the IG and IPA work—regarding best practices and areas to focus on that need additional audit work, and to establish a framework for enhanced coordination of the financial statement audit work.

Changes to enhance the agency financial statement audit process are especially important given the planned acceleration of reporting deadlines for agency audits. Although some agencies accelerated their reports for fiscal year 2002, starting with fiscal year 2004, the Office of Management and Budget (OMB) has required that agencies issue their audited financial statements no later than 45 days after the end of the fiscal year, with the consolidated financial statements to be issued 30 days later. In past years, when the reporting deadlines were 4 and 5 months after the end of the fiscal year, agencies made extraordinary efforts in which they spent considerable resources on extensive ad hoc procedures and made adjustments of billions of dollars to produce financial statements months after the fiscal year had ended. Given the accelerated reporting dates, such extraordinary approaches will no longer be an option. Over the next few years, as the government addresses the impediments to receiving an opinion on its consolidated financial statements, and we move closer to being able to render an opinion on the consolidated financial statements, GAO will need to invest more resources in assuring that the work of the IGs and IPAs on the agency-level financial statement audits can be used by GAO to support the audit of the consolidated financial statements. This resource investment is necessary if GAO is to be able to render an opinion on the consolidated financial statements.

Another matter of concern regarding the audit of the U.S. government's consolidated financial statements involves the approaches used by the IGs and IPAs for reporting on internal control at the agency level. Our position is that an opinion on internal control is important in the government environment and that the public should be able to expect audit assurance on the adequacy of internal control over financial reporting. We believe that auditor opinions on internal control are a critical component of monitoring the effectiveness of an entity's risk management and accountability systems. We also believe that auditor opinions on internal control are

appropriate and necessary for major public entities such as the CFO Act agencies currently included in the U.S. government's consolidated financial statements.

As does GAO in connection with our own audits, several agency auditors are voluntarily providing opinions on the agencies' internal control; but most do not. When an auditor renders an opinion on internal control, the auditor is providing reasonable assurance that the entity has maintained effective internal control over financial reporting (including safeguarding of assets) and compliance such that material misstatements, losses, or noncompliance that are material to the financial statements would be detected in a timely fashion. For fiscal year 2002, however, only 3 of the 24 CFO Act agencies received opinions on internal control from their auditors.[4] The remaining 21 reported on internal control, but provided no opinion on the effectiveness of the agency's internal control. As we move closer to being able to issue an opinion on the consolidated financial statements, a disparity in reporting on internal control would hinder our ability to provide an opinion on internal control for the consolidated audit. Current agency-level reporting on internal control would fall short of what the public should be able to expect from an audit and, moreover, what is now legally required from the auditors of publicly traded companies.

Congress has prescribed auditor opinions on internal controls for publicly traded corporations under the Sarbanes-Oxley Act of 2002.[5] A final rule issued by the Securities and Exchange Commission in June 2003 and effective August 2003 provides guidance for implementation of section 404 of the act, which contains requirements for management and auditor reporting on internal controls. The final rule requires companies to obtain a report in which a registered public accounting firm expresses an opinion, or states that an opinion cannot be expressed, concerning management's assessment of the effectiveness of internal controls over financial reporting.

As you know, Mr. Chairman, we provided testimony before this Subcommittee several weeks ago on the challenges of establishing sound financial management within DHS.[6] In that testimony, we supported

[4]The three agencies receiving opinions on internal control for fiscal year 2002 are the Social Security Administration, General Services Administration, and Nuclear Regulatory Commission.

[5]Pub. L. No. 107-204, 116 Stat. 745 (2002).

provisions of H.R. 2886 that would require DHS to obtain an audit opinion on its internal controls. During the testimony, we also supported provisions of H.R. 2886 that would require the Chief Financial Officers Council and the PCIE to jointly study the potential costs and benefits of requiring CFO Act agencies to obtain audit opinions of their internal controls over financial reporting. In addition, the current version of H.R. 2886 would require GAO to perform an analysis of the information provided in the report and report the findings to the House Committee on Government Reform and the Senate Committee on Governmental Affairs. We believe that the study and related analysis are important first steps in resolving the issues associated with the current reporting on internal control.

Ultimately, we are hopeful that federal performance and accountability professionals will not settle for anything less than opinion-level work on internal control at the CFO Act agency level and on the governmentwide audit. Increased planning and coordination will be needed among GAO, IGs, and IPAs to determine the appropriate timing for requiring an opinion on controls at the agency level. The specific timing will depend on the current state of the agency's control efforts so that an audit opinion on internal control would add value and mitigate risk in a cost beneficial manner.

A practical issue that should also be dealt with is the adequacy of resources to provide for the 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 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—in order to reduce the costs of the audit and avoid the "heroic" audit efforts that we have seen in the past at some agencies.

[5]U.S. General Accounting Office, *Department of Homeland Security: Challenges and Steps in Establishing Sound Financial Management*, GAO-03-1134T (Washington, D.C.: Sept. 10, 2003).

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 assure 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 the consolidated audit.

The IG Role in Federal Financial Management Advisory Committees

We envision an important role for the IGs in audit or financial management advisory committees established at the federal agency level for the purpose of overseeing an agency's financial management, audits, and performance.

In the government arena, some state and local governments and federal government corporations, as well as several federal agencies, have adopted an audit committee, or "financial management advisory committee," approach to governance. In the federal government, such audit committees or advisory committees are intended to protect the public interest by promoting and facilitating effective accountability and financial management by providing independent, objective, and experienced advice and counsel, including oversight of audit and internal control issues. Responsibilities of the committees would likely include communicating with the auditors about the audit and any related issues. The work of the IGs logically provides much of the basis for financial management advisory committees in overseeing agencies' financial management, audits, and internal control. The work of the IGs would also be critical for the financial management advisory committees in their general governance roles. Specific roles and responsibilities of the committees will most likely vary by agency. A recently published guide, *Financial Management Advisory Committees for Federal Agencies*,[7] provides a helpful road map of suggested practices for federal agency financial management advisory committees.

The concept of financial management advisory committees is very similar to the audit committee structure being used in the private sector. To help facilitate the audit process and promote disclosure and transparency, the

[7]*Financial Management Advisory Committees for Federal Agencies: Suggested Practices*, March 2003, prepared by KPMG, LLP.

governing boards of publicly traded companies use audit committees. Audit committees generally oversee the independent audit of the organization's financial statements and address financial management, reporting, and internal control issues. The Sarbanes-Oxley Act has requirements for the audit committees of publicly traded companies and their auditors regarding communications and resolution of significant audit matters.

We strongly support the implementation of financial management advisory committees for selected federal agencies, based on risk and value added. Some agencies,[8] including GAO, which has had such a committee in place since 1995, have already implemented such an approach, even though the committees have not been mandated or established by statute. As these committees are implemented or required in government, we would advocate amending the IG Act to emphasize the IGs' unique role in reporting the results of their work to the advisory committees while maintaining their independence and dual reporting authority to Congress.

Structural Streamlining to Increase 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 to the best effect. In fiscal year 2002, the 57 IG offices operated with total fiscal year budgets of about $1.6 billion and about 11,000 staff. (See app. II for more detail on IG budgets and staffs.) Most IGs for cabinet departments and major agencies are appointed by the President and confirmed by the Senate; however, IGs for some agencies are appointed by the agency head, and these IGs generally have smaller budgets and fewer staff than IGs appointed by the President. While agency-appointed IGs make up about half of all IG offices, the total of their fiscal year 2002 budgets was $162.2 million, a little more than 10 percent of all IG budgets. Of these IGs, the offices at the U.S. Postal Service (USPS), Amtrak, National Science Foundation (NSF), and Federal Reserve Board (FRB) are exceptions and have budgets that are comparable in size to those of presidentially appointed IGs. The remaining 24 agency-appointed IGs have a total of 191 staff and have budgets that make up about 2 percent of all IG budgets. Importantly, 16 of the 28 agency-appointed IGs have fewer than 10 staff.

[8]Agencies that currently have audit committees or financial management advisory committees include the National Science Foundation, Federal Deposit Insurance Corporation, and the Architect of the Capitol.

Potential IG Office Consolidations

Last year we reported the views of the IGs, as well as our own, on the possible benefits of consolidating the smallest IG offices with the offices of IGs appointed by the President.[9] We also considered the conversion of agency-appointed IGs to presidential appointment where their budgets were comparable to the presidentially appointed IG offices. The August 2002 report contains several matters for congressional consideration to address issues of IG conversion and consolidation. We are reaffirming these views, which are included at the end of my statement.

We believe that if properly structured and implemented, the conversion or consolidation of IG offices could increase the overall independence, efficiency, and effectiveness of the IG community. Consolidation 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. This point is especially appropriate to the 12 IG offices with five or fewer staff. IG staff now in smaller offices would, in a large, consolidated IG office, have immediate access to a broader range of resources to use in dealing with issues requiring technical expertise or areas of critical need.

Consolidation would also strengthen the ability of IGs to improve the allocation of human capital and scarce financial resources within their offices and to attract and retain a workforce with talents, multidisciplinary knowledge, and up-to-date skills to ensure that each IG office is 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 also 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 lack of day-to-day contact between the IG and officials at smaller agencies as a result of consolidation could be mitigated by posting IG staff at the agency to keep both the IG and the agency head

[9]U.S. General Accounting Office, *Inspectors General: Office Consolidation and Related Issues*, GAO-02-575 (Washington, D.C.: August 2002).

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.

Results of the survey conducted for our August 2002 report indicate a clear delineation between the responses of the presidentially appointed IGs and the responses of the agency-appointed IGs. The presidentially appointed IGs generally indicated that agency-appointed IG independence, quality, and use of resources could be strengthened by conversion and consolidation. The agency-appointed IGs indicated that there would either be no impact or that these elements could be weakened. The difference in views is not surprising given the difference in the potential impact of consolidation on the interests of the two groups of IGs. We believe that this difference in perspective, more than any other factor, helps to explain the significant divergence in the responses to the survey.

There are already some examples where consolidation of IG offices and oversight is working. The Department of State IG provides, through statute, oversight of the Broadcasting Board of Governors and the International Broadcasting Bureau. The IG at the Agency for International Development is authorized by specific statutes to provide oversight of the Overseas Private Investment Corporation, the Inter-American Foundation, and the African Development Foundation.

In terms of budget size, the agency-appointed IGs at USPS, Amtrak, NSF, and FRB are comparable to the offices of IGs appointed by the President. Moreover, in the case of the Postal IG, the office is the fourth largest of all the IGs. (See app. II.) On that basis, these IGs could be considered for conversion to appointment by the President with Senate confirmation. While the Amtrak IG could be converted because of comparable budget size, oversight of Amtrak is closely related to the work of the Department of Transportation IG. Moreover, the Transportation IG currently provides some oversight of Amtrak programs. Therefore, the consolidation of the Amtrak IG with the Transportation IG could be considered, rather than conversion.

Consideration has been given in the *Fiscal Year 2004 Budget of the U.S. Government* to the consolidation of the two IG offices at the Department c

the Treasury, unique in the federal government. The original statutory IG for the Department of the Treasury was established by the IG Act amendments of 1988. The Treasury IG for Tax Administration was established in 1998 as part of an Internal Revenue Service (IRS) reorganization because the former IRS Inspection Service was not perceived as being sufficiently independent from management. Consequently, the IRS Office of the Chief Inspector, along with most of the Inspection Service staff, was transferred to the new IG office to ensure independent reviews.

The separate office of Treasury IG for Tax Administration was created because IRS officials were concerned that if the resources of the IRS Inspection Service were transferred to the original Treasury IG office, they would be used to investigate or audit other Treasury bureaus to the detriment of critical IRS oversight. With the passage of the Homeland Security Act of 2002, and the transfer of Treasury's United States Customs Service and United States Secret Service to the new Department of Homeland Security, the original concerns about competition for resources within the department should no longer be as compelling.

IG Councils

The PCIE is an interagency council comprising principally the presidentially appointed and Senate-confirmed IGs. It was established by Executive Order No.12301 in 1981 to coordinate and enhance the work of the IGs. In 1992, Executive Order No.12805 created the ECIE, which comprises primarily statutory IGs appointed by the heads of designated federal entities as defined in the IG Act. The Deputy Director for Management in OMB serves as the chair of both organizations. These IG councils have been effective in coordinating the activities of the IGs in their efforts to prevent and detect fraud, waste, and abuse throughout the federal government and in reporting these results to both the President and Congress.

The IG councils have provided a valuable forum for auditor coordination. However, we believe that the current environment demands a more formal, action-oriented, and strategic approach for coordination among federal audit organizations and that the IG councils could be strengthened in a number of ways. First, by providing a statutory basis for their roles and responsibilities, the permanence of the councils could be established and their ability to take on more sensitive issues strengthened. In addition, the strategic focus of the councils could be clearly established. As such, the

councils would also be key in the overall strategic planning process for federal audit oversight that I described earlier in this statement.

Matters for Congressional Consideration

As I stated at the beginning of my testimony, IGs have made a significant difference in federal performance and accountability during the last quarter century. The 25th anniversary of the landmark legislation establishing the IGs is an opportune time to reflect on the IGs' success while also considering ways to enhance coordination and utilization of resources across the federal performance and accountability community.

In order to enhance the effectiveness and impact of the federal accountability community, Congress may want to consider establishing, through statute, assignment of responsibility to a selected group of designated federal accountability officials, such as representatives from GAO, the PCIE, and the ECIE, to develop and implement a periodic, formal strategic planning and ongoing engagement coordination process for focusing GAO and IG work to provide oversight to high-risk areas and significant management challenges across government, while leveraging each other's work and minimizing duplication.

In order to resolve resource issues and provide positive incentives to agencies to take prudent actions to reduce overall audit costs, Congress may want to consider enacting legislation that makes agencies responsible for paying the cost of their financial statement audits.

In order to achieve potential efficiencies and increased effectiveness across the federal IG community, Congress may also want to consider whether to proceed with a restructuring of the IG community, which could include the following:

- amending the IG Act to elevate the IGs at USPS, NSF, and FRB to presidential status,
- amending the IG Act to consolidate agency-appointed IGs with presidentially appointed IGs based on related agency missions or where potential benefits to IG effectiveness can be shown, and
- establishing an IG council by statute that includes stated roles and responsibilities and designated funding sources.

Mr. Chairman, that concludes my prepared statement. I would be happy to respond to any questions you or Members of the Subcommittee might have.

Appendix I

The Inspector General Act

The Inspector General Act of 1978 was enacted following a series of events that emphasized the need for more-independent and coordinated audits and investigations in federal departments and agencies. First, in 1974, the Secretary of Agriculture abolished the department's administratively established IG office, demonstrating the impermanent nature of a nonstatutory IG. Later, in 1974 and 1975, a study by the Intergovernmental Relations and Human Resources Subcommittee of the House Government Operations Committee disclosed inadequacies in the internal audit and investigative procedures in the Department of Health, Education, and Welfare, now the Department of Health and Human Services. The need to deal more effectively with the danger of loss from fraud and abuse in the department's programs led to the establishment of the first statutory IG in 1976. The Congress also established an IG in the Department of Energy when that department was created in 1977.

In 1977, the House Intergovernmental Relations and Human Resources Subcommittee began a comprehensive inquiry to determine whether other federal departments and agencies had a similar need for statutory IGs. Th Subcommittee's study revealed serious deficiencies in a number of department and agency audit and investigative efforts, including the following:

- No central leadership of auditors and investigators existed.
- Auditors and investigators exhibited a lack of independence by reporting to officials who had responsibility for programs that were being audited.
- No procedures had been established to ensure that the Congress was informed of serious problems.
- No program existed to look for possible fraud or abuse.

As an initial effort to correct these deficiencies, the IG Act of 1978 established 12 additional statutory OIGs to be patterned after the one at the Department of Health, Education, and Welfare. The act consolidated the audit and investigative responsibilities of each department and agency under the direction of one senior official—the Inspector General—who reports to the head of the agency or, if delegated, the official next in rank below the agency head. The President appoints the IGs, by and with the consent of the Senate, without regard to political affiliation and solely on the basis of integrity and demonstrated ability in accounting, financial

analysis, law, management analysis, public administration, or investigations.

The IGs are responsible for (1) conducting and supervising audits and investigations, (2) providing leadership and coordination and recommending policies to promote economy, efficiency, and effectiveness, and (3) detecting fraud and abuse in their agencies' programs and operations. In addition, the IG Act requires IGs to prepare semiannual reports which summarize the activities of the IG during the preceding 6-month period. The reports are forwarded to the department or agency head, who is responsible for transmitting them to the appropriate congressional committees.

The act states that neither the agency head nor the official next in rank shall 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. This enhances the independence of auditors and investigators by ensuring that they are free to carry out their work unobstructed by agency officials. The act further enhances independence by requiring IGs to comply with the Comptroller General's *Government Auditing Standards*. One of these standards requires auditors and audit organizations to be personally and organizationally independent and to maintain the appearance of independence so that opinions, conclusions, judgments, and recommendations will be impartial and will be viewed as such by knowledgeable third parties.

Between the enactment of the IG Act in 1978 and 1988, the Congress passed legislation to establish statutory IGs, who are appointed by the President with Senate confirmation, in 8 additional departments and agencies. In 1988, the Congress enacted the Inspector General Act Amendments of 1988 and the Government Printing Office (GPO) Inspector General Act of 1988 (Titles I and II, Public Law 100-504) to establish additional presidentially appointed IGs in 5 departments and agencies and 34 IGs appointed by their agency heads (33 in designated federal entities and 1 in GPO) in order to strengthen the capability of the existing internal audit offices and improve audit oversight. Both GAO and the President's Council on Integrity and Efficiency (PCIE) had previously reported that the existing internal audit offices lacked independence, adequate coverage of important programs, and permanent investigative staff.

Appendix II

Inspector General Budgets and Staffing

Table 1: Inspectors General Appointed by the President, Fiscal Year 2002 Budgets and Full-Time Equivalents (FTEs)

	Federal departments/agencies	Budgets	FTEs
1	Department of Health and Human Services[a]	$227,000,000	1,569
2	Department of Defense	151,000,000	1,215
3	Treasury IG for Tax Administration	130,000,000	943
4	Department of Housing and Urban Development	95,000,000	648
5	Social Security Administration	75,000,000	564
6	Department of Agriculture	75,000,000	642
7	Department of Labor	67,000,000	426
8	Department of Justice	65,000,000	329
9	Department of Veterans Affairs	57,000,000	393
10	Department of Transportation	50,000,000	454
11	Department of Homeland Security	47,000,000	336
12	Environmental Protection Agency	46,000,000	44[illegible]
13	Department of Education	39,000,000	27[illegible]
14	Department of the Interior	37,000,000	251
15	General Services Administration	36,000,000	273
16	Department of Energy	32,000,000	250
17	Agency for International Development	32,000,000	166
18	Federal Deposit Insurance Corporation	32,000,000	201
19	Department of State	29,000,000	234
20	National Aeronautics and Space Administration	24,000,000	200
21	Department of Commerce	21,000,000	136
22	Small Business Administration	12,000,000	108
23	Department of the Treasury	12,000,000	87
24	Office of Personnel Management	11,000,000	89
25	Tennessee Valley Authority	7,000,000	87
26	Nuclear Regulatory Commission	6,000,000	41
27	Railroad Retirement Board	6,000,000	51
28	Corporation for National and Community Service	5,000,000	16
29	Central Intelligence Agency[b]	na	na
Total		**$1,426,000,000**	**10,429**

Source: Budget authority and FTEs from *Fiscal Year 2004 Budget of the U.S. Government.*

[a]Includes budget authority to combat health care fraud.

[b]Budget and FTE information not available.

Table 2: Inspectors General Appointed by Agency Heads, Fiscal Year 2002 Budgets and Full-Time Equivalents (FTEs)

	Federal agencies	Budgets	FTEs
1	U.S. Postal Service	$117,324,000	713
2	Amtrak	8,706,539	64
3	National Science Foundation	6,760,000	50
4	Federal Reserve Board	3,878,000	29
5	Government Printing Office	3,400,000	24
6	Legal Services Corporation	2,500,000	15
7	Peace Corps	2,006,000	16
8	Smithsonian Institution	1,800,000	17
9	Federal Communications Commission	1,569,000	10
10	National Archives and Records Administration	1,375,000	13
11	Securities and Exchange Commission	1,372,559	8
12	National Credit Union Administration	1,338,135	7
13	Pension Benefit Guaranty Corporation	1,300,000	11
14	Equal Employment Opportunity Commission	1,106,119	10
15	Federal Housing Finance Board	858,237	3
16	Farm Credit Administration	829,621	5
17	Commodity Futures Trading Commission	735,800	4
18	Corporation for Public Broadcasting	735,000	9
19	National Labor Relations Board	711,900	6
20	Federal Trade Commission	710,000	5
21	National Endowment for the Humanities	497,000	5
22	Appalachian Regional Commission	466,000	3
23	Federal Maritime Commission	441,034	3
24	Consumer Product Safety Commission	407,000	3
25	Federal Election Commission	392,600	4
26	National Endowment for the Arts	392,577	4
27	International Trade Commission	389,500	4
28	Federal Labor Relations Authority	222,500	2
Total		**$162,224,121**	**1,047**

Source: As reported by the ECIE.

Table 3: Inspectors General Appointed by the President with Four Comparable Agency-Appointed IGs Fiscal Year 2002 Budgets

	Department/agency IG	Fiscal year 2002 budgets
1	Department of Health and Human Services[a]	$227,000,000
2	Department of Defense	151,000,000
3	Treasury's IG for Tax Administration	130,000,000
4	**U.S. Postal Service**[b]	117,324,000
5	Department of Housing and Urban Development	95,000,000
6	Department of Agriculture	75,000,000
7	Social Security Administration	75,000,000
8	Department of Labor	67,000,000
9	Department of Justice	65,000,000
10	Department of Veterans Affairs	57,000,000
11	Department of Transportation	50,000,000
12	Department of Homeland Security	47,000,0[illegible]
13	Environmental Protection Agency	46,000,000
14	Department of Education	39,000,000
15	Department of the Interior	37,000,000
16	General Services Administration	36,000,000
17	Department of Energy	32,000,000
18	Agency for International Development	32,000,000
19	Federal Deposit Insurance Corporation	32,000,000
20	Department of State	29,000,000
21	National Aeronautics and Space Administration	24,000,000
22	Department of Commerce	21,000,000
23	Department of the Treasury	12,000,000
24	Small Business Administration	12,000,000
25	Office of Personnel Management	11,000,000
26	**Amtrak**[b]	8,706,539
27	Tennessee Valley Authority	7,000,000
28	**National Science Foundation**[b]	6,760,000
29	Nuclear Regulatory Commission	6,000,000
30	Railroad Retirement Board	6,000,000
31	Corporation for National and Community Service	5,000,000
32	**Federal Reserve Board**[b]	3,878,000
33	Central Intelligence Agency[c]	[illegible]
Total		**$1,562,668,5[illegible]**

Source: Budget authority from Fiscal Year 2004 Budget of the U.S. Government.

Note: The four comparable agency appointed IGs are in bold.

[a]Includes budget authority to combat health care fraud.

[b]Information supplied by the ECIE.

[c]Budget information not available.

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Mr. PLATTS. Mr. Johnson.

Mr. JOHNSON. Thank you. As the Deputy Director for Management at OMB it is my privilege to be the Chair of the PCIE and the ECIE. What that calls for me to do is to work with the leadership of these two groups to make sure that, in addition to being a tough watchdog and in addition to being the last person management wants to hear from, these groups of the IG community are also—as their charter or as their mission statement calls for them to be, that they are agents of positive change, that they are finding ever more effective ways to work with Department leadership to help better accomplish each agency's mission, and that they are working as effectively as possible to prevent waste, fraud and abuse in addition to discovering it and eliminating it.

Also, it is my responsibility as the Deputy Director of OMB to be the senior person in this administration that drives the President's Management Agenda. So I work closely with the IGs to look for additional ways for them to be involved in that as their—as the IGs' mission and the stated goal of the President's Management Agenda, those goals are the same and that is to create—to cause the Federal Government to become even more focused on results, to become even more effective and to allow us to spend and account for the people's money ever more wisely.

It's my privilege to work with Gaston and Barry and their groups, and I find that the primary value that I bring to that group is, I can help them work even more effectively with agency leadership and administration leadership to accomplish their goals and the administration's goals.

Thank you.

Mr. PLATTS. Thank you, Mr. Johnson.

[The prepared statement of Mr. Johnson follows:]

Statement of the Honorable Clay Johnson III
Deputy Director for Management
Office of Management and Budget

before

The Subcommittee on Government Efficiency
and Financial Management
Committee on Government Reform
U.S. House of Representatives

October 8, 2003

Thank you for inviting me to testify on the occasion of the 25th anniversary of the Inspector General Act. Twenty-five years is certainly a good time to take stock of where we are and what we've achieved for the investment the American people have made in the government's Inspectors General.

When in 1978 Congress and the President enacted the Inspector General Act, they were introducing a new and important level of oversight to the Executive Branch. Congress wisely installed IGs within the Executive Branch, while also requiring them to report the results of their activities to Congress. Congress and the American people can expect accurate, objective assessments of agency programs and thorough investigation into alleged wrongdoing. The result of their work: billions in taxpayer dollars saved.

There are a number of areas where IGs, through the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE), are working with this Administration to prevent waste, fraud, and abuse and improve the management of the Executive Branch. IGs, for instance, have key roles in implementing the President's Management Agenda, Administration initiatives to improve the management of the Executive Branch. IGs are helping us assess the extent to which:

- Valuable human resources – our employees – are managed strategically;
- Sourcing decisions allow services to be provided most effectively and efficiently on behalf of the taxpayers;
- We have timely and accurate financial information available to us;
- Investments are wisely and prudently made in technologies that help us accomplish our goals; and

- Programs are working and, if not, what we can do about it.

Another important area where the IGs are making important contributions is in reducing erroneous payments. The IGs are working with the Chief Financial Officers Council to help measure the level of erroneous payments, their causes, and the best methods to prevent them.

I also understand that the IGs are studying a proposal put forth by this Subcommittee that would require the IGs to provide an opinion on the adequacy of agency internal controls. The IGs are in a perfect position, with expertise in each agency's operations, to assess the benefit, relative to the cost, of opining on agency internal controls. I trust that you will have confidence in the final advice that the IGs give you.

One of the principles that allows you to have such confidence in the work of the IGs is their ability to render opinions independent of outside influence.
We in the Executive Branch have as much at stake in their objectivity as you do. I want to know that an IG's opinion and advice are reliable and true. But that does not mean IGs can not work constructively with agency management to identify potential problems and possible solutions. More and more, IGs are working with agency management to prevent waste, fraud, and abuse.

The future of the IGs is bright. I predict that IGs will continue to be a strong force for positive change within the government. We should continually study ways to improve IG efficiency *and* effectiveness. With regard to recommendations that certain IGs be Presidentially-appointed and Senate-confirmed, I do not believe such a change would affect the performance of IGs that are not Presidentially-appointed and Senate-confirmed. However, were Congress to take up such proposals, we would seriously consider them.

The General Accounting Office has recommended that Congress and the Administration consider the consolidation of smaller IG offices into larger IG offices. Such consolidations should be considered only when circumstances warrant it. I am unaware of IGs that feel consolidation is necessary to improve their performance. In fact, as ECIE Vice Chair Barry Snyder wrote in response to GAO recommendations to consolidate the majority of DFE IGs with PAS IGs, "[T]he DFE IGs disagree with GAO that . . . [such consolidation] would serve to further enhance the overall independence, efficiency, and effectiveness of the IG community."

As you know, the Administration last year proposed the consolidation of the IG for Tax Administration with the Department of the Treasury IG. One of the reasons for this consolidation was that with the transition of so many of its components to the new Department of Homeland Security, the Department of the Treasury no longer warranted two IGs. Such a consolidation might allow the Department's IG to target resources where they are needed most.

We should continue to find ways to improve the efficiency and effectiveness of the IGs. The American people invest a great deal in the IGs and we should get as much value from them as we can. I look forward to working with the members of this Subcommittee and the IG community to enhance the IGs' ability to improve the management and performance of the United States government.

Mr. PLATTS. We'll proceed right to questions and again shoot for about a 5-minute question period for each of our panel or each of the members and then have subsequent rounds as time allows and members have interest.

Mr. Walker, if you could start, and you touched the recommendation you have made about consolidation of the department-appointed IGs with the Presidential appointees and you identified a number of areas—the independence, efficiency, effectiveness.

In your opinion, what's GAO's position, the most important reason for that? Is it because they're not as effective as they could be or is it more about saving dollars? Is there one of those issues that really jumps out?

Mr. WALKER. This is in no way intended to say that the individual IGs aren't doing a good job. That's not the case at all. The question is, what is the best way to go about ensuring the independence of the IGs? Independence is really an issue with regard to the agency-head-appointed IGs. There's a fundamental, at a minimum, appearance of a conflict of interest when the agency head appoints the IG and can remove the IG.

It's obvious. It's recognized in independent standards with regard to generally accepted auditing standards.

Second, the fact of the matter is there's also an issue if you've got an IG shop that has less than 5 or 10 people. Do you really have enough of a critical mass in order to get the job done? Do you have access to things that otherwise you might be able to achieve if you were part of a larger organization?

There's also an issue of flexibility in reallocating in the areas of highest risk and highest value.

My personal view, Mr. Chairman, is, I believe that the government as a whole—not just the IG community and the performance and accountability community—needs to review and reassess the number of silos that it has. I think government has too many silos and too many stovepipes. The more silos that you have, the more potential duplication and inefficiency you have; furthermore, the more you have to rely on coordination of activities rather than integration of efforts. I might note that we basically did this at GAO where we went from 35 individual units down to 13, and it along with other actions, has enhanced our capability quite a bit over the last several years.

Mr. PLATTS. It's fair to say—kind of summarizing your approach, what is the mission here and is there a problem with how—what is the best way to fulfill the mission?

Mr. WALKER. That's correct. This is not an indictment or a complaint in any way, shape or form with regard to any particular IG.

The question is—as you know, Mr. Chairman, we face large and growing budget deficits. We face serious challenges. The question is, how can we get as much done with the resources we have? How can we improve economy, efficiency, effectiveness, flexibility, and how can we assure independence. That's really where we're coming from.

Mr. PLATTS. In your survey and making recommendations, you talked to the Presidentially appointed IGs, the department-head-appointed and the consensus and kind of a turf battle, in a sense, that drove the general positions.

Were there any independent voices with Presidentially appointed IGs or the department-head-appointed IGs that stood out from their colleagues that—maybe start with the Department appointees—that said, actually, I do think this will be a good idea, that jump out as more the exception?

Mr. WALKER. There were some exceptions and without talking about specific individuals, I guess what I would say is that we did the survey as a supplement to our work. Obviously, we're not in the business of just doing polls and making recommendations based on poll results. This is not referendum government.

So the fact of the matter is, we wanted to be able to get a sense from where the IG community was coming from, first from the Presidentially appointed, the PCIE and then the ECIE, the agency-head-appointed, because that's important input not only for us but for the Congress to consider.

Not surprisingly, as you can imagine, reasonable people can and do differ on the issue of consolidation, and not surprisingly the Presidentially appointed IGs who might end up gaining additional resources and authorities and scope generally supported it by a wide margin. Not surprisingly, the ECIE members many of which, not all of which, would be merged into a PCIE, expressed concerns, some of which were very legitimate concerns, as to what the impact might be on them, their offices or the agencies that they have responsibility for. However, we believe those issues can be effectively addressed.

Mr. PLATTS. Was there followup, though, with the ones in the Presidential-appointed IGs, the ones that didn't recommend or favor consolidation? Was there followup with them? Because they were not—I mean, it's human nature, kind of, to protect turf; but because they were not doing that to expand their area, did you followup with them—and same with the other side—to give a little more weight to their opinions because they did stand out from their peers?

Mr. WALKER. We did have formal and informal dialog to try to help understand why people felt the way that they did.

I also might say that one of the things that happened this past year, which I am very appreciative of, is, I was given the opportunity to attend the Inspector General's Planning Conference for the PCIE and ECIE to be able to talk about areas for coordination and cooperation and also to talk about this consolidation report.

I also had an opportunity to speak one on one with a number of Inspectors General from both the PCIE and EICE about their views. And you know and as I said, reasonable people can differ. We gave one example of how you could consolidate. We still stand behind our recommendation and we believe the pluses outweigh the minuses with regard to consolidation and, also, elevation of some of the current ECIE members to Presidential-appointee status.

Mr. PLATTS. Mr. Johnson, from the administration's perspective, what is seen as the most important priority of IGs auditing financial statements, guarding against waste and fraud? It's kind of that priority mission, in the opinion of the administration; and based on that, what do you look for as you are looking to fill IG positions?

What are you looking for as most important, whether financial accountability, investigative background?

Mr. JOHNSON. IGs themselves say that they are agents of positive change; and that is a big umbrella, but I think the right umbrella. It talks about prevention versus "gotcha," talks about partnering—with being independent of agency management, but also partnering with agency management in helping agencies accomplish their missions. And I think that collaborative, but yet independent relationship is what I consider to be my highest priority in terms of working with the IG community.

In terms of what we look for, it depends. We ask the same questions of IGs that we ask of Assistant Secretaries or Deputy Secretaries or Secretaries: What do we want the person to accomplish in the next 2 to 3 years?

There are large investigations that need to take place, or large financial management matters or audit matters. The nature of the primary task in the 2, 3, 4, 5 years that a person is likely to hold a position would determine what kind of person we look for. If it is investigative, we would look for investigative background. If it is financial management and audit management, that's the kind of background we look for also. So it depends on what we deem—what the financial community, what the comptroller at OMB use to be the primary challenge in that agency; and also we partner with the Secretary in terms of determining whether the person—what kind of person we are looking for in that position.

And also the same thing is true, is the person in that position doing a good job? This administration has been involved in the removal of, I think—in the point of terms, I think it's three or four or five, I think, IGs. And the feeling was, they were too oriented to prevention and not enough to investigation or vice versa, or they didn't have the financial background. Whatever the feeling was, they were not the best fit for what the job called for at that agency at that time, and so we went through the process of making those changes.

So again it is very specific and targeted to what the nature of the past, what the nature of the objective is.

Mr. PLATTS. I want to yield to the ranking member, Mr. Towns. But I do appreciate the kind of umbrella message, or approach, trying to promote independence, but in a cooperative way. Because that is something, as a subcommittee Chair with oversight responsibilities, that we're independent as we look at executive departments and agencies. We are not here to play "gotcha," but it is to be supportive and a partner in serving the public well.

So independent but cooperative. And that approach you are trying to espouse throughout the IG community is, I think, very appropriate.

Mr. Towns.

Mr. TOWNS. Thank you, Mr. Chairman.

Mr. Walker, I listened to your comments and, you know, Mr. Snyder makes the point in his written testimony that this would likely sacrifice some of the local preventive presence which having an IG onsite ensures.

How would you respond to this point?

Mr. WALKER. It would be very easy to make sure that you deployed certain resources decentrally. In other words, if certain ECIE-IG shops were consolidated into a PCIE IG shop, that does not preclude the responsibility of their still having certain IG members at that individual agency.

We have people at GAO in more than just our headquarters in Washington, DC. We have people in 11 cities around the country. We have certain audit sites in various major departments and agencies where we have people there on a full-time or part-time basis.

So I believe it's possible to deal with that issue even if these functions are consolidated.

Mr. TOWNS. They could place somebody there?

Mr. WALKER. Sure.

For example, if there's enough work or enough concern about agency X, then I would argue that the Inspector General, whoever he or she might be, consider whether or not there ought to be people physically at agency X on the front line engaging in activities with regard to that on a day-to-day basis. That's part of the IG's leadership and management responsibilities. If the Congress was particularly concerned to make sure that there was a full presence at agency X; then Congress has the ability to deal with that in a variety of different ways.

So I think that's a legitimate point, though I think it can be dealt with very easily.

Mr. TOWNS. Would you please elaborate a bit more on your proposal for a Federal Accountability and Performance Council to improve coordination between the IG and GAO.

Mr. WALKER. Thank you, Mr. Towns. This is a concept we would like to be able to work or with the IG community, as well as the Congress, because we haven't formally formulated it yet. The concept I would give you is this: Clay Johnson does a very good job chairing the PCIE and ECIE. There is a mechanism within the executive branch for there to be coordination within the executive branch among the performance and accountability community. However, I would respectfully suggest that the IGs really have dual reporting responsibilities.

They report to the agency head; they also report to the Congress. A dimension that is not adequately addressed, I believe, is the need for there to be some type of ongoing coordination within the performance and accountability community. That means members of the PCIE and members of the ECIE and with the GAO.

I think there is a lot that we can and should do and, in fact, are doing to try to work in a constructive and cooperative fashion to leverage our resources, to minimize duplication of effort, and to work in a complementary rather than competing fashion. And yet, right now, the way it works is, that it is based upon the individual good-faith efforts of myself and other IGs and our respective staff, rather than there being a requirement to do something.

So I think we need to explore what would make sense for the Congress, for the IG community and for GAO.

Mr. TOWNS. You're not suggesting that the GAO exert control over IGs?

Mr. WALKER. No, I'm not. I am not talking about that at all.

What I'm talking about is that we have a mechanism whereby, from a strategic planning standpoint and from an engagement execution standpoint, that we have more of a formalized, ongoing process, to coordinate our efforts.

No, I do not believe that the IGs should report to the Comptroller General or the GAO. Absolutely not. I do, however, believe, as one example, that the IGs can play an important role, for example, in determining who the external auditor for agency financial statement audits is going to be. And the IGs are going to end up coordinating the effort with GAO with regard to who that external auditor is going to be.

I do believe that it is imperative that the Comptroller General be consulted with regard to those decisions because in the final analysis, we are the party who has to end up signing the opinion on the consolidated financial statements, and we have to be comfortable with regard to whether or not the work that's being done is adequate.

Mr. TOWNS. You suggested that the agencies pay for the audit. How would that work?

Mr. WALKER. Most do that now. And let me clarify what I mean by that.

A significant majority of the audits of departments and agencies right now are performed by independent certified public accounting firms—PriceWaterhouseCoopers, KPMG, Ernst & Young, Deloitte & Touche, for example. Those are the big four that are still left after consolidation in the accounting profession.

There are other firms that do audits. To the extent that those firms do the audits, they are obviously not doing it for free, so they have to be paid. And I think it's important that the entity that is being audited be charged with the cost of that audit.

And so the issue is, it's not a matter of whether or not somebody is going to pay, but who should pay and how should the cost be allocated for that.

By the way, I am not proposing that for the consolidated financial statement audit. We have the responsibility for the consolidated financial statement audit, and I would respectfully suggest that Congress appropriates money for us to do that audit. And so I'm not asking—I am not going to send OMB a bill for the consolidated financial statement audit. I do, however, think that consideration ought to be given as to whether for instance, the IRS should have to bear some costs for its audit, just as the FDIC does and just as the SEC does, who are two other audit clients that we have.

Mr. TOWNS. I see the light is on—we'll get another round.

Mr. PLATTS. Now recognize vice chairwoman of the subcommittee, the gentlelady from Tennessee, Mrs. Blackburn.

Mrs. BLACKBURN. Thank you, Mr. Chairman. And I want to begin by apologizing to all of you. I have been up and down twice as you were giving your comments, and I do apologize for that. It just seems like this is the day constituents have decided to all come and all come at the same time, and not when we have expected them. So I have been spending my time in the hallway, up and down.

Mr. PLATTS. Mrs. Blackburn, how would you like to be 96 miles from the Capitol?

Mrs. BLACKBURN. When I was in the State senate in Tennessee, I was 12 miles from the Capitol. And we love to have them come and visit and appreciate their interest so much, but I do feel as if the up and down is very inconsiderate of the fact that you all take the time to prepare your testimonies and come over here to us and talk with us.

I did want to provide that explanation.

Mr. Walker, I think I will begin with you. And, first of all, I enjoyed the article that was in Wall Street Journal or somewhere, your comments from the Press Club; it was excellent. And I—it was one of those that I made a lot of notes as I read it, and I appreciate that.

In your testimony, you had mentioned going through—having a top-to-bottom review of Federal policies and programs that would be conducted to make the Federal Government more sustainable, and I think also to make it effective for the 21st century.

My question to you is, do you think this should be handled by an independent commission that would go in and look at resources and programs and reallocations and such, or is that something that could be handled through activity by the Inspectors General?

Mr. WALKER. Well, I think it needs to be handled through a cooperative effort and the combined efforts of a variety of parties.

First, I don't think the issue is ripe yet for an independent commission. Let me try to elaborate on what I intended by that.

GAO is the third Federal agency I have headed. I have headed two in the executive branch and one in the legislative branch, and I have had the good fortune to have leadership responsibilities in both the public and private sector. And I hae found that government, especially at the Federal level, is an amalgamation and accumulation of various policies, programs, activities and functions over decades. We have this amalgamation and accumulation that occurs over all these decades, and there's a tremendous amount of time focused on whether we are going to end up getting a little bit more or a little bit less, or tweak this here or tweak this there. However, there's not enough of a fundamental review and reassessment of whether or not this policy, program, function and activity makes sense today and whether or not it will make sense tomorrow.

I think it is critically important that we engage in that process because the world is fundamentally different today. It's changing very rapidly and we have very serious budget deficits, a structural deficit that we are going to have to deal with. And to do that, it takes combined efforts.

For example, one of a number of positive things——

Mr. JOHNSON. One of a number of very important things.

Mr. WALKER [continuing]. One of the number of positive things that Clay is doing is, through the President's Management Agenda, this issue of linking resources to results. That is part of the concept. What are we trying to accomplish? What's the mission? How do you measure success? How can you demonstrate you're making a difference?

That's something that I think that OMB and the agencies have a responsibility to do. The IGs can play a constructive role; GAO can play a constructive role and Congress, I think, must play a constructive role not only through the oversight process, but the au-

thorization process and, frankly, the appropriations process. Because if there aren't consequences for not doing a good job, then why should people pay any attention? If people who do a good job aren't somehow rewarded, then what kind of incentives are we providing?

I think there is a lot that can and should be done in the context of the current system. At some point in time, there might be the need for a commission, but I don't think we're there yet.

Mrs. BLACKBURN. Looking at going forward with that thought pattern, if we had an independent commission or a council, would we have members of the GAO, the PCIE and ECIE on the commission; or should a comprehensive review by a completely independent council?

Mr. WALKER. First, I think you have to have qualified people that have the time and the ability to get the job done. Without knowing what it would be, it's difficult for me to respond. Let me just say, I have seen different models work.

For example, one model could be—is that you would have the GAO and the IGs provide support, testify and provide some type of support to that commission.

Another model which has worked, but in a very different context, is that the Congress decided about a year and a half ago that there were problems in the area of competitive sourcing; and they decided that they wanted to create an advisory council, and actually had the Comptroller General head that council to make recommendations to the Congress that involved OMB, OPM, various unions and other parties.

There are different models that can work, and I think we would have to discuss what you are trying to accomplish and therefore what alternatives might make sense.

Mrs. BLACKBURN. Thank you, Mr. Chairman.

Mr. PLATTS. We'll come back around again.

Mr. Cooper.

Mr. COOPER. Thank you again, Mr. Chairman and madam vice chairwoman and Mr. Towns for allowing me to participate.

Strikes me as a good news/bad news situation. I think most Americans would be delighted that IGs have saved us nearly $72 billion and prosecuted some 10,700 bad guys. But the bad news is there is that much waste out there and that many bad guys. So I don't think we will ever know how much more there is to be done, but I am thankful that they're working, as you all are, to police that fraud and abuse.

Mr. Johnson, first question I had on the councils that you already are the head of, what's your opinion of an idea to codify those councils, to put them together into one group and give them a minimal $750,000 annual operating budget? Would that help in the sharing of best practices?

Mr. JOHNSON. I think they take it upon themselves now to improve their standards and look at what their recommended codes of conduct are and so forth. I think they do a good job.

If they were codified, they could perform that function more readily. I think it depends on what you codify. I think some of the CIO council and the CFO council are both codified by statute. We have a Federal Acquisition Council that exists by neither statute or Ex-

ecutive order. We just created it. I think it can work either way. I am not opposed to codification, but that alone will not ensure its effectiveness.

I think it's very important that the IG community be codified by statute or by Executive order—do tie into OMB. I think the Deputy Director for Management can be a tie to management, and a tie to the budgets can be a most effective tool for getting agencies to listen to what the IGs are recommending for that agency.

I think we represent—we work with agencies all the time on budget matters and general management issues, and to work on matters that are brought to light by the IG community is just an extension of that. So we are already set up to do that, to work with the agencies, to drive them to better performance for the American taxpayer; and to do that with the IG community is consistent with what we already do.

Mr. COOPER. I appreciate your views on that, and I look forward to working with you to make sure we do that.

Mr. JOHNSON. We will work with you on the language.

Mr. COOPER. Mr. Walker, on the point of IG independence, it seems like there are a couple of ways to enhance their independence. Consolidation may be one way so that an agency head is not directly responsible for picking their own IG. The way that we were looking at it in our draft legislation—and it is just a draft form—is to have a 7-year term and then dismissal for cause.

I am open-minded about consolidation. Can you be open-minded about a term and dismissal for cause?

Mr. WALKER. Absolutely. I think they're not mutually exclusive.

My personal view is, I think it would be desirable to have statutory criteria for Inspectors General. I think it would be a good idea to consider term appointments.

I do think that you need to have some criteria for removal. Who am I to argue with the criteria for the Comptroller General? I think that the term needs to be reasonably long enough for them to be able to make a difference. And as I understood, what you are proposing is 7 years. I think that's a reasonable term.

I do think the President has to play a role, but if you had fewer PASs with a term appointment and specified grounds for removal and statutory qualification requirements, I think that would be a major plus for the independence of the IGs.

Mr. COOPER. I welcome your views on that.

Mr. JOHNSON. Mr. Cooper, may I add a comment to that?

I am not sure that anybody has indicated that there's not already sufficient independence. My understanding is that the independence level that exists now in the IG community is more than adequate. I can understand there's potential—that we are addressing potential here, but I think the way it's set up now creates a significant amount of independence.

I personally would be opposed to a term. There were four, five IG changes that we made at the beginning of this administration that had nothing to do with malfeasance. We thought the person had the wrong set of skills for what the nature of the job was at that point in time. And having terms would have prevented us from getting somebody better suited for the job at that time.

The reasons you gave for just cause don't include matters such as that. Wonderful people, they have all the right statutory and education and experience requirements; they are just investigative rather than financial, or vice versa; and I think the administration's ability to deal with that is limited if you put a term on it.

Mr. COOPER. Mr. Johnson, it strikes me that your concern is not with the term, but the definition of "dismissal for cause." And if we define that to include a wrong fit for the agency, that might alleviate your concerns.

Mr. JOHNSON. But that is so broad. We could do that, but in effect, I think you have no term.

Mr. COOPER. My concern now, having talked to a wide number of IGs, is that they feel considerable pressure as individuals when they support sensitive areas and a more regular, private-sector-like situation might be helpful. Most people in the private sector kind of know what "for cause" is, and maybe we can adjust that slightly for government contacts because we do want the right fit and we need an appropriate balance between prevention and "gotcha."

Mr. JOHNSON. Of course, maybe the pressure they feel is the pressure to get it right, which is a good pressure to have.

Mr. COOPER. Well, we live in a political world, and there are a lot of folks who know that there are certain things that they will be in trouble if they investigate. And wouldn't it be wonderful if we lived in world when they could investigate wherever waste, fraud or abuse occurred?

So let's work on a way and see if we can't do that.

Mr. WALKER. I think both of you made good points. Mr. Johnson is talking about the fact that maybe you could end up doing something on the basis for removal, but it would have to not be so general that it really didn't have much significance. If you look at the criteria and the reporting requirements, they could be another check and balance.

Mr. COOPER. I look forward to working with you gentlemen on that.

Mr. PLATTS. Thank you, Mr. Cooper. Our ranking member has to leave shortly, so we will go to Mr. Towns next.

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

I just want to ask Mr. Walker, you mentioned that IGs must abide by the GAO government auditing standards, the so-called "yellow book" that, among other things, governs government auditors' professional qualifications, the quality of the audit effort and the characteristics of professional and meaningful audit reports.

I understand that every IG must undergo a peer review every 3 years by another IG to determine compliance with these standards. Can you please tell us what GAO's own experience has been with peer review? Has there ever been an independent review of a GAO compliance with its own audit standards?

Mr. WALKER. Good point, and let me tell you what we have done and what we are doing.

No. 1, we are subject to an external audit and have been for a number of years—a financial statement audit. We have gotten a clean opinion, no material control weaknesses, no compliance problems for several years.

Second, we have a peer review conducted every 3 years by a major accounting firm, one of the big four firms of our work in conjunction with our financial statement audits: the audit of the consolidated financial statement of the U.S. Government, the IRS, the Bureau of Public Debt, the FDIC.

However, when I became Comptroller General, it became evident—and we do have our own Inspector General, but it did became evident that the scope of that peer review did not cover program evaluations, policy analyses and other types of work. So, therefore, I have worked with my colleagues from around the world. We have now formed a consortium of auditors general from around the world, and GAO will have a peer review done, led by the Auditor General of Canada, next year for the rest of our work.

So we've always had a peer review for part of our work, but I want to make sure that we have a peer review for all of our work.

Mr. TOWNS. Mr. Johnson, last year the IG community achieved one of its main legislative priorities in the Homeland Security bill, gaining statutory law enforcement authority. Would you elaborate on how this authority has been implemented. Have there been any significant problems that we should know about? Has there been any resistance to the implementation?

Mr. JOHNSON. I'm sorry. I'm not familiar with the situation, but I'll be glad to find out the answer to that question and get back to you, yes, sir.

Mr. TOWNS. I'd like to make that——

Mr. JOHNSON. I apologize.

Mr. TOWNS. Thank you very much. I'd be delighted if you'd do that.

I yield back, Mr. Chairman.

Mr. WALKER. Mr. Chairman, if I can, we also have a very extensive and elaborate internal quality assurance process as well. I'd be happy to brief you on it at some point in time. We have our own office of quality and continuous improvement, but I appreciate your question about the peer review. It's a very good one.

Mr. TOWNS. Thank you very much. And Mr. Johnson—for the record I'd like for Mr. Johnson to respond to my question in writing.

Mr. PLATTS. Sure. We'll be keeping the record open for that followup.

What we're going to try to do, because we do have votes on the floor, and it's going to be a series of five, so a lengthy period of time, is try to push through as many questions here for our first panel, and then we break, then that will conclude with our first panel, followup with my questions that we don't get included in writing to include in the record your responses, and then start with the second panel when we come back so we're not keeping two of you here while we're over for—and for our second panel witnesses, we apologize. You'll have to wait until we come back over.

Let me jump into the issue of the consolidation, and, Mr. Johnson, the administration's position on the GAO recommendation in a broad sense about consolidating the ECIE positions into the Presidentially appointed positions. Are there certain ones that the administration is especially concerned about or has a position that you don't think it would be a good idea?

Mr. JOHNSON. No. We have not looked at it by a specific agency. Our focus has been on if we're going to change something, let's understand specifically what it is we're trying to accomplish. Are we trying to accomplish—create an independence that doesn't exist? Are we trying to save X amount of money? What do we think the opportunity is and at what cost, what interaction or communication cost is that, but just be real clear about what the goals are, be real clear about what we think the risks and opportunities are before we actually decide to proceed.

Mr. PLATTS. And making that type of risk assessment, cost benefit assessment, is there a position today on the recommendation of the broad consolidation?

Mr. JOHNSON. Well, I support what Barry Snyder said, which—I think what they have now is working fine, but I think we'd be perfectly open to studying that and understanding what the opportunity for savings are. I don't believe there is a need for additional independence. I think there's about as much independence as there can be, but perhaps the savings, the efficiency thing, is an opportunity that exists.

Mr. PLATTS. One specific consolidation that the administration has supported or recommended, and it seems to deal more with efficiency, not independence but cost benefit, is with Treasury and the tax administration IG. Do you want to expand on that?

Mr. JOHNSON. Seventy percent of the Treasury's duties and responsibilities were transferred to Homeland Security, and so they have the leadership there to oversee a much larger operation than they have to oversee, and it seemed like there was an opportunity to combine those two for almost exclusively efficiency reasons. There are large operations, like the FBI does not have a separate IG from Justice Department, and the FAA does not have a separate IG from Transportation. So there's plenty of precedent for large seemingly independent operations not having separate IGs, and I think the same case might apply here.

Mr. PLATTS. In this year's April semiannual report to Congress from the Treasury IG, the last sentence in that transmittal letter said that, "We no longer have the resources necessary to provide timely audit and investigation services to the Department."

Were you aware of that statement and have you looked into the accuracy and how has that been addressed that they do have the resources?

Mr. JOHNSON. Well, the way we addressed it was Linda Springer, who is the Comptroller, talked to Homeland Security and identified additional resources that had been moved—OIG resources that had been moved to Homeland Security that—new audit issues at Treasury that could be detailed back to Treasury to deal with audit matters. So they addressed very specifically the concerns that the Treasury Inspector General identified, and that's one of Linda's responsibilities, is to make sure that if there's some temporary adjustments to be made to deal with these kinds of things that it's taken care of.

Mr. PLATTS. Thank you. I want to allow Ms. Blackburn, did you want to get another question or two in?

Ms. BLACKBURN. You know, we're going to submit all of ours. I do have several, and I know we do need to go vote.

Mr. PLATTS. And I apologize for the timing. Mr. Cooper, did you want to——

Mr. COOPER. As I understand it, Fannie Mae and Freddie Mac don't have IGs today. Would that be an appropriate use of the surplus Treasury IG talent to look into some of their activities?

Mr. JOHNSON. Of the surplus—I don't think there is surplus IG talent at Treasury.

Mr. COOPER. I thought you said a great deal of the Treasury activities had been transferred to the Department of Homeland Security.

Mr. JOHNSON. Right, along with the IG personnel.

Mr. COOPER. So that went with them too. OK. Well, what about the general topic of Fannie or Freddie having IGs, because they're viewed as government-sponsored entities that——

Mr. JOHNSON. I did not know until you just said that they don't have IGs. Should have, but don't.

Mr. WALKER. OHFEO is the body right now that has the responsibility. There is a proposal, I understand, to transfer responsibility for oversight of Freddie Mac and Fannie Mae to Treasury, but I don't believe it deals with this issue.

Mr. COOPER. A final question. Your idea about getting each agency to pay for its own audit is part of the reasoning behind that, to encourage an agency to be more auditable once they're having to bear the costs? Because the DOD may take a generation to be fully auditable unless we find another incentive for them to bear down.

Mr. WALKER. I clearly think it is an incentive. I mean, it's an incentive for people to be able to make sure they have the right type of controls and systems in place. I also would respectfully suggest that you wouldn't even want to try to audit DOD until you believe that they're in a situation where in fact they are auditable, because otherwise it would be a waste of taxpayer resources.

Mr. COOPER. Thank you, Mr. Chairman.

Mr. PLATTS. Thank you, Mr. Cooper. I'm going to try to squeeze in two more specific areas before we break and run across. One is on—a kind of followup on the consolidation, Mr. Johnson, and a specific position is when we look at the Postal Service and the size of the IG at USPS, and I think the fifth largest from a budget standpoint of all the IGs; yet, it's a department head, agency head appointee versus Presidential. Does the administration support that one being elevated to a Presidential because of the size and responsibility of it?

Mr. JOHNSON. Well, they think an IG being Presidentially appointed or not ensures independence. The IG at the Postal Service I understand is primarily focused on internal auditing of contracts as opposed to the general responsibility of an IG, and when there are general audit issues, other groups get involved.

So I think the issue is what is the role of the IG, what is the responsibility, is it expanded in scope. I don't think the issue at the Postal Service is the lack of or presence of independence of the IG, given what their current responsibilities—the current responsibilities are.

Mr. PLATTS. Is it fair then to say that really the administration, whether—when it comes to adding more—consolidating or having more Presidential appointed IGs really is not in the administra-

tion's position kind of relevant. It's more the independence of those IGs, the resources given them, not whether Presidential appointed or not.

Mr. JOHNSON. Well, I think we would like—the administration likes to be able to reserve the right to change IGs if they think they are not appropriate for the task at hand. Now, whether they are Senate-confirmed or not is another matter.

Mr. PLATTS. Mr. Walker, do you want to answer?

Mr. WALKER. Mr. Chairman, just because somebody is a PAS doesn't mean they're going to be independent. I think the issue is to what extent does the appointment mechanism involve a party independent of who they're supposed to be auditing, investigating, evaluating and reporting on; and the fact is, that if you look at the Postal Service, there is a degree of independence, because the Inspector General is appointed by the Board of Governors. The Inspector General is not appointed by the Postmaster General, and so there is a degree of independence. But if you look at most of the other ECIE members, I'm not saying they're not acting in an independent manner, but what I'm saying is there's absolutely no question that at a minimum there's a major appearance of an independence problem. There's just no question about it. And, if the person you're supposed to be auditing, and investigating and evaluating is the one that appoints you and has the authority to remove you, it's hard to say there's not an issue there.

Now, whether or not in fact it manifested itself is a different issue versus whether or not it could manifest itself and whether or not as a matter of integrity and public confidence you wanted to try to deal with a problem before it's a problem. We've seen some things that have happened in the private sector. I would respectfully suggest we want to be ahead of the curve, not behind the curve.

Mr. PLATTS. Final question and then we will recess till approximately 3:45, based on how quickly the votes go. To both of you, seeing the number of the 2002 fiscal year—savings of—or projected savings in the area of $72 billion, how would you quantify that savings in the sense of what does that mean to the taxpayer when we talk that amount of money that is identified as projected savings, money recovered, not spent, how would you best quantify that?

Mr. WALKER. I'll address GAO. I would respectfully suggest that Mr. Johnson or the IG should address what they do. For us, we have financial benefits. What financial benefits are, part of them are savings, absolute cost avoidance and additional recoveries. Some of it is where people adopt our recommendations and it frees up additional resources for redeployment to better use, and either the agency or the Congress may decide to do that.

In our view our job is to look for economy, efficiency, effectiveness, and accountability. If somebody adopts our recommendation and it results in savings or somehow recovering resources or freeing up resources that can be redeployed to higher use, that's what we call a financial benefit. Our number for fiscal 2003, because we've closed the books, it could go up, it won't go down, is about $35 billion, which is a $78 return for every dollar invested in GAO.

Mr. PLATTS. Mr. Johnson.

Mr. JOHNSON. I know that the IG community has looked at trying to remove all duplication of this benefit reporting, which is good, and we can always find—look for better ways of reporting the benefits of this activity. There's—in addition to the different categories of benefits that David talked about, there's real money saved versus potential money saved. Was that money really, really saved, implemented, did it really happen, or was it the possibility of savings? And so, again, that would call for post-activation audits and so forth. Then you get into the question of do you want to spend the money on the audits—you know, it's those kinds of issues, but we ought to be looking for real savings. And every new program we develop and every old program we audit, we cannot spend enough time on what real results are being accomplished with all the——

Mr. PLATTS. That defectiveness—you know, the efficiency aspect of the IG responsibility, is what is the mission, how are we doing it and is it the best way.

I do apologize. We need to run, but I thank both of you for your participation today and we'll followup with some other specific questions. Thank you.

We stand at recess till approximately 3:45.

[Recess.]

Mr. PLATTS. We're going to reconvene our hearing, and I want to first thank our witnesses and all who have been very patient while we took care of our votes and kind of get started here again. We need to start with swearing in our witnesses. If you'll raise your right hands, and if there are any staff who will be part of it.

[Witnesses sworn.]

Mr. PLATTS. And the clerk will reflect that both witnesses answered in the affirmative. And we're going to jump right into your testimony, Mr. Gianni.

STATEMENTS OF GASTON GIANNI, VICE CHAIR, PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY AND INSPECTOR GENERAL, FEDERAL DEPOSIT INSURANCE CORP.; AND BARRY SNYDER, VICE CHAIR, EXECUTIVE COUNCIL ON INTEGRITY AND EFFICIENCY AND INSPECTOR GENERAL, FEDERAL RESERVE BOARD

Mr. GIANNI. Thanks, Mr. Chairman. I'm pleased to be here today to recognize the 25th anniversary of the Inspector General Act. On behalf of the IG community, we sincerely thank you for calling this hearing and your support of the IGs over the years. In the last Congress the entire House Committee on Government Reform was instrumental in helping the IG community achieve our No. 1 legislative priority, providing most Inspector Generals with statutory law enforcement authority. We appreciate your efforts in getting this important tool enacted into law.

Over the next few minutes I would like to highlight important events leading up to the enactment of the IG Act and the impact that the act has had on our government and possible legislation refinements to the act.

I addressed the GAO consolidation report in my written statement. I would ask that my entire statement to be included in the

record, and will defer to my colleague Barry Snyder to address those issues.

For the last 25 years IGs have served as independent voices to their agencies and to the Congress. Early in the 1960's this subcommittee of the House Government Operations Committee began to highlight the need for independent statutory IGs. In 1974 further work by this same committee revealed that the Department of Health, Education and Welfare lacked effective processes for investigating program fraud and abuse. In 1976 this resulted in a statutory IG at HEW. Then on October 12, 1978, the IG act was created. Twelve IGs were bestowed with powers and responsibilities modeled after HEW IG. The House passed the act with strong bipartisan support, while the Senate passed it without opposition. The IG Act was signed into law by President Jimmy Carter.

Mr. Chairman, nearly 40 years ago the Congress was clearly looking to shine the light on the Federal programs and operations and to provide a mechanism for independently reporting the results. This desire produced the IG Act, a unique piece of legislation that has stayed the test of time. The act gives the IGs authority and responsibility to be an independent voice for economy, efficiency, effectiveness within the Federal Government. These basic tenets of the act remain constant and strong today.

In response to changes in our government, the act has been amended several times. The most extensive amendment occurred in 1988, when reporting requirements were clarified and IGs from designated Federal entities were added, more than doubling the size of the community. Today there are 57 of us.

I believe the act has had a profound impact on our government, which can be seen in improved Federal operations, sharper focus on governmentwide initiatives, and increased attention from our colleagues abroad. Impact is also evident in the fact that the IGs are being repeatedly asked by their agencies and the Congress to conduct audits, evaluations and investigations. Congress has seen fit to expand the duties of the IG by assigning new responsibilities through general management laws like the CFO Act, Reports Consolidation Act and FISMA, the Financial Information Security Management Act.

It has been talked about today what our accomplishments were last year—$72 billion in potential savings from agency actions on current and prior investigations and through our investigative efforts. We had nearly 10,700 successful prosecutions and suspensions or debarments of over 7,600 individuals or businesses. We had 2,200 civil or personnel actions. The IG community in total had over 234,000 complaints which we processed. More than 4,600 reports were issued, and we testified before Congress 90 times collectively as a community.

In addition to focusing on unique issues in our individual agencies, IGs have been attentive to matters that transcend agency lines and impact the government as a whole, such as accelerated reporting on our audited financial statements, annual independent IT—i.e., information technology—security evaluations, critical infrastructure protection programs, erroneous payments, purchase card fraud and abuse and controls over Social Security numbers.

In addition, we are continuing to host foreign delegates who are hoping to replicate the basic IG principles in their government.

Mr. Chairman, one of the many issues that the House subcommittee wrestled with many years ago was the lack of effective coordination and communication between departments and agencies. The IG Act and the Executive order creating the PCIE in 1981 sought to resolve these issues. The PCIE and the Executive Council on Integrity and Efficiency subsequently created several years later once the DFE IGs were established serve this community. We currently have an executive committee. We have six standing committees that deal with coordinating and processing our work. We have five roundtables and working groups that delve down into topical issues that help various IGs working in these areas do their work.

We actively coordinate with other Federal management councils such as the CFO, CIO, as well as maintaining ongoing dialog with the GAO.

We maintain two professional training facilities and promulgate standards for our community to ensure that our work is of the highest quality and integrity. We oversee a peer review process to ensure that our audits and investigative work is done in accordance with professional standards. We maintain an IG community Web site, and we publish semiannually a professional journal.

It is important to note that the two councils do not receive any funding to support these items and rely on individual IGs to absorb the costs. Codification and funding support of the two councils, which is one of our legislative proposals, would help to eliminate these funding issues and provide opportunities to enhance our initiatives.

As I mentioned before, we believe that the act's provisions have worked quite well; however, in anticipation that the Congress might revisit the act for our 25th anniversary, we developed four proposals which are summarized in my written statement. These proposals, which are still under review by the IG community, include codification of the PCIE and ECIE, creation of statutory terms of office and removal for cause protection, personnel flexibility for inspectors general, and changing the reporting periods of our semiannual reports.

As I mentioned, these proposals are still under review within the IG community and will need to be thoroughly discussed with our oversight committees as well as with OMB before we can endorse them.

We understand, as Congressman Cooper has discussed, that he is planning to introduce legislation on improving government accountability. We look forward to working with him and your subcommittee to refine these proposals.

As far as the future direction of the community, I agree with Clay Johnson's written statement that the future of the IG community is bright, but speaking as a former auditor, in order to keep that future bright we need to be constantly looking for ways to improve our operations and to ensure that our nearly 11,000 employees are adequately trained and well-equipped. We must also remain ever mindful that our integrity and credibility is of the utmost importance to remain effective in our unique position as IGs and as agents of positive change in our agencies.

IGs have been operating in a changing environment for many years. We remain flexible and ready to mobilize as new issues emerge, such as accelerated financial statements, erroneous payments, and IT security. Twenty-five years ago IGs were given the authority to be independent voices for assuring economy, efficiency and effectiveness and promoting integrity, accountability and transparency in the Federal Government. We take this authority and responsibility very seriously.

Mr. Chairman, in closing, I would like to again thank you and members of your subcommittee for having this hearing. We would also like to express our sincere appreciation to you, Mr. Chairman, and to Mr. Towns, Congressman Cooper and to House Government Reform Committee chairman, Tom Davis, and the committee's ranking member, Henry Waxman, for your involvement and your support of H.J. Res. 70, a joint resolution in recognition of our 25th anniversary.

Mr. Chairman, that concludes my remarks, and I will be happy to take questions when you're ready.

[The prepared statement of Mr. Gianni follows:]

President's Council on Integrity and Efficiency

For Release on Delivery Expected at 2 p.m. EST, October 8, 2003

Testimony of

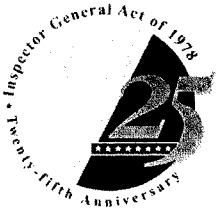
Honorable Gaston L. Gianni, Jr.
Vice Chair, President's Council on Integrity and Efficiency

Before the

Subcommittee on Government Efficiency and Financial Management
Committee on Government Reform
United States House of Representatives

Regarding

The 25th Anniversary of the Inspector General Act of 1978



Mr. Chairman, Ranking Member Towns, and Members of the Subcommittee:

I am pleased to be here today to recognize the 25th anniversary of the Inspector General (IG) Act and acknowledge the importance of this law in improving the efficiency and effectiveness of Federal operations and weeding out fraud, waste, and abuse in Federal programs. On behalf of the IG community, we sincerely thank you for calling this hearing and supporting the IGs over the years.

In the last Congress, the entire House Committee on Government Reform was instrumental in helping the IG community achieve our number one legislative priority—providing most Offices of Inspectors General (OIGs) with statutory law enforcement authority. We appreciate your efforts in getting this important tool enacted into law as well your continuing interest in the IG community and our role in improving the efficiency and effectiveness of government operations.

Over the next few minutes, I would like to share a bit of IG history, highlight our community and its accomplishments, and identify possible legislative changes that could refine the Act. Before I begin, I would like to take this opportunity to briefly introduce myself and the community I represent.

I am the IG for the Federal Deposit Insurance Corporation and have served in this capacity since April 1996. I am also 1 of 29 presidentially appointed, Senate confirmed IGs, who are members of the President's Council on Integrity and Efficiency (PCIE). Created by Executive Order in 1981, the PCIE provides a forum for IGs, the Office of Management and Budget (OMB), and other Federal officials to work together and coordinate their professional activities. Since May 1999, I have served as the Vice Chair of this Council, and it is in this capacity that I appear before this Subcommittee today.

The IG Act: Where We Have Been and Where We Are

For 25 years, IGs have served as independent voices to their agency heads and to the Congress by identifying opportunities and promoting solutions for improved performance of government programs. Unfortunately, departmental scandals had to occur before this concept of independent voice became a reality. In essence, we owe this reality to the work of your predecessor Committee.

As history will show, moving from IG concept into IG law was neither quick nor without opposition. In the early 1960's, a subcommittee of the House Government Operations Committee, chaired by Congressman L.H. Fountain, began to highlight the need for independent statutory IGs. While individual audit and investigative units may have existed, they were fragmented and typically reported to the officials directly responsible for the programs being reviewed. These units were understaffed, and the opportunity to coordinate within and between agencies did not exist.

Further work by this same subcommittee in 1974 revealed that the former Department of Health, Education and Welfare (HEW) lacked effective processes for investigating program fraud and abuse. In response, legislation establishing a statutory IG at HEW was enacted 2 years later. During congressional hearings debating the Act itself, several witnesses sounded warnings of serious adverse consequences that would result if the Act became law, and other witnesses questioned the constitutionality of some of the 1978 Act's provisions. However, testimony of the HEW Secretary and IG tempered these concerns.

The Act, creating 12 IGs with powers and responsibilities modeled after the HEW IG, passed the House of Representatives with strong bipartisan support. The Act subsequently passed the Senate without opposition and was signed into law by then President Jimmy Carter on October 12, 1978.

Mr. Chairman, nearly 40 years ago, the Congress was clearly looking to shine a light on Federal programs and operations and provide a mechanism for independently reporting the results. This desire produced a unique piece of legislation.

The IG Act created an inherent tension between the executive and legislative branches of government. The IG must keep both the agency head and the Congress "fully and currently" informed about program or operational deficiencies. This dual reporting requirement creates a fine line and one that involves balancing the needs and requests of "two masters." But that is the beauty of the Act and why it has served the Congress, the Administration, and the public so well for so long.

The IG Act is a good law and has stayed the test of time. Since 1978, the basic tenets of the Act have remained constant and strong. The Act gave IGs the authority and responsibility to be independent voices for economy, efficiency, and effectiveness within the Federal government.

To respond to changes in our government, the Act has been amended several times since its enactment. The most extensive amendment occurred in 1988, when reporting requirements were clarified and IGs from designated federal entities (DFE) were added, more than doubling the size of the community. Over the years, other IGs have either been added or changed, as the FDIC IG was in 1993, to a presidentially appointed position.

IG Impact on Efficiency and Integrity of Federal Government Operations

Speaking on behalf of my colleagues in the IG community, I believe that the IG Act has had a profound impact on our government. This impact can be seen in improved operations in Federal agencies, added attention on governmentwide initiatives, and increased collaboration from our colleagues abroad.

Today, 57 OIGs protect the integrity of the government; improve program efficiency and effectiveness; and prevent and detect fraud, waste, and abuse in Federal agencies. By virtue of our independent and nonpartisan status, we provide a measure of continuity and offer a wealth of institutional knowledge and expertise.

Each year, OIG audits, inspections, and evaluations identify billions of dollars in potential savings that could be put to better use or questioned costs representing expenditures that may violate a provision of law, regulation, or contract. OIG investigations lead to thousands of prosecutions or other actions as well as billions of dollars in potential recoveries for violations of Federal criminal laws.

In fiscal year 2002 alone, IG community efforts accounted for nearly $72 billion in potential savings from agency action on current and prior recommendations and through investigative recoveries. Further, the community was instrumental in nearly 10,700 successful prosecutions, suspensions or debarments of over 7,600 individuals or businesses, and almost 2,200 civil or personnel actions. The community as a whole processed over 234,000 complaints, received primarily through OIG fraud hotlines, issued more than 4,600 reports, and testified more than 90 times before the Congress.

In addition to focusing on issues unique to their individual agencies, OIGs are also attentive to matters that transcend agency lines and impact the government as a whole. Our contributions toward the smooth Year 2000 (Y2K) transition are well known. OIGs provided their agency management with independent and objective assessments of their agencies' readiness and remedial efforts.

More recently, the IG community has played a significant role in the Administration's emphasis on accelerating the reporting of audited financial statements from agencies covered by the Chief Financial Officer (CFO) Act. We are working these issues individually at the agency level as well as collaboratively with the CFO Council to focus on steps necessary to achieve these acceleration goals.

Over the past 3 years, OIGs have also been extensively involved in information technology (IT) security with the responsibility for conducting annual independent evaluations of their agencies' IT security programs and practices. The requirement for these evaluations expired in November 2002 but was reintroduced in legislation passed that same month, ensuring that these evaluations would continue. We view this as yet another example of the impact that the IG Act has had over the years.

The IG community has also been actively involved in several other governmentwide initiatives, such as erroneous payments, purchase card fraud and abuse, critical infrastructure protection, Federal non-tax delinquent debt, controls over social security number use, and agency implementation of the Government Performance and Results Act (GPRA).

The desire for good governance and accountability embodied in the IG Act reaches beyond the United States. In recent years, we have hosted delegations from foreign

governments on five different continents who were seeking our knowledge, expertise, and advice. Each delegation had the goal of replicating the basic IG principles in their governments.

Mr. Chairman, success and impact can be measured in several different ways. The IG community publishes impressive statistics, issues reports to agency management, works cooperatively with U.S. Attorneys, and testifies before the Congress. This type of success is tangible and easy to quantify. However, another way to measure how successful the IG Act has been and will continue to be lies in the fact that IGs are being repeatedly asked by their agency and the Congress to make recommendations to promote the agency's economy, efficiency, and effectiveness and uncover fraud, waste, and abuse.

Over the years, the Congress has seen fit to expand the duties of an OIG beyond the sole mission contained in the IG Act by assigning new responsibilities through general management laws, such as the CFO Act, the Reports Consolidation Act, and more recently, the Federal Information Security Management Act. The Administration has encouraged our involvement in assisting agencies in their implementation of the President's Management Agenda. We interpret this to mean that our work "adds value" to improving the efficiency, effectiveness, and integrity of our government.

PCIE Facilitates the Community's Impact

One of the many issues that the Fountain subcommittee wrestled with many years ago was the lack of effective coordination and communication within and between departments and agencies. The IG Act and the Executive Order creating the PCIE in 1981 sought to resolve these issues.

The PCIE was established to promote collaboration on integrity, economy, and efficiency issues that transcend individual Federal agencies and enhance the professionalism and effectiveness of OIG personnel throughout the government. OMB's Deputy Director for Management chairs the PCIE and reports to the President on its activities. An IG, recommended by the PCIE members and approved by OMB, serves as the Vice Chair and manages the PCIE's day-to-day activities.

As a community, OIGs have collaborated on good government issues for many years. In May 2001, the PCIE, along with the Executive Council on Integrity and Efficiency (ECIE), which serves a parallel mission as the PCIE for the 28 Designated Federal Entity IGs, adopted *A Strategic Framework* to memorialize this responsibility. *A Strategic Framework* focuses our efforts on (1) improving programs and operations, (2) communicating reliable and timely information, (3) implementing human resource development programs, and (4) advancing the professionalism and effectiveness of the community.

To guide the Councils' strategic direction and stay apprised of governmentwide issues, the Councils have an Executive Council, six standing committees, and five roundtables and working groups. The Executive Council provides leadership, centralizes external communications on behalf of the community, and provides long-term planning. The standing committees include the Audit, Human Resources, Inspections and Evaluations, Investigation, Integrity, and Legislation Committees. These committees examine important issues and assist the community in promoting integrity, accountability, and excellence in government.

The GPRA, Inspections and Evaluations, and Information Technology Roundtables and the Misconduct in Research Working Group provide opportunities for the IG community to stay abreast of pertinent issues and share best practices on these initiatives. Earlier this summer, the community formed the Competitive Sourcing Roundtable to develop a governmentwide perspective on this issue. We also actively coordinate with other Federal management councils, including the CFO, Chief Information Officers, and Federal Acquisition Councils.

In addition, the IG community maintains an on-going dialogue with the General Accounting Office (GAO) when addressing both agency-specific as well as governmentwide issues. In particular, several IGs are participating in the Comptroller General's Domestic Working Group, comprised of officials from Federal, state, and local governments who focus their attention on such issues as education, transportation, and the environment. The IG community as a whole is also very engaged in the Intergovernmental Audit Forum to help foster communications between and among audit officials in all levels of government.

Given our unique position and responsibilities within the Federal government, we believe that maintaining a well-trained core of professionals, effective processes for ensuring accountability and transparency, and timely communications are critical for the IG community to remain successful. Toward that end, we are proud to say that we do the following:

- Maintain two professional training facilities. The Inspector General Auditor Training Institute offers OIG audit, evaluation, and inspection training, and the Inspector General Criminal Investigator Academy provides OIG investigative training. A related project to develop core competencies for the OIG audit, evaluation and inspection, and investigative professionals will provide information to better develop our training programs.

- Promulgate standards for our community to ensure that our work is of the highest quality and integrity. Next week, we will be issuing the updated *Quality Standards for Federal Offices of Inspector General* to the community. In honor of the 25th anniversary, we have given the publication a silver cover and it will be known as the "Silver Book."

- Oversee a peer process to ensure that our audit and investigative work is done in accordance with professional standards.

- Maintain an IG community Web site (www.ignet.gov) that acts as a clearinghouse for key reports, statistics, publications, and other general information and serves as a springboard to individual OIG Web sites.

- Publish semiannually a professional journal to share best practices and perspectives of interest to our community. In 2000, we produced two special issues of the *Journal of Public Inquiry* to focus attention on the issues and challenges facing the new Administration.

It is important to note that the two Councils do not receive funding to support the various items I have just described and rely on individual OIGs to absorb the costs or contribute funding by other methods. Codification of the two Councils, which I will discuss later in my statement, would help to eliminate these funding issues and provide opportunities to enhance these initiatives.

GAO's Consolidation Report

In your invitation letter, you asked that we discuss the GAO's 2002 report on IG consolidation and related issues. As requested by GAO, the presidentially appointed IGs participated in the survey portion of the review and provided comments on the draft report. As reported, the presidentially appointed IGs generally believe that independence, quality, and use of resources could be strengthened by conversion or consolidation.

While this general opinion did not change during the comment period of the draft, several IGs expressed concern that significant issues surrounding consolidation were not more thoroughly explored and addressed in the report. These issues included funding and staffing resources, organizational supervision, areas of expertise, and criteria for consolidation. Several of the IGs noted that any benefits that consolidation could provide would be lost if these issues were not appropriately addressed.

One of the related issues referenced in the GAO report that the IG community continues to support involved establishing a statutory IG council with defined roles and designated funding sources that could strengthen the effectiveness of the Councils. In July 2000, I testified, in my capacity as the PCIE Vice Chair, in support of codifying the two Councils, and in light of the items I just described, believe this to be an important legislative change.

Possible Legislative Changes to the IG Act

As the community approached the 25th anniversary, we felt it would be prudent to consider whether any statutory changes to the IG Act would be in order. Our Legislation

Committee, chaired by Ken Mead, IG at the Department of Transportation, has been assessing what changes, if any, are needed.

Our consensus view is that the Act's provisions have worked quite well. However, in anticipation that the Congress might revisit the Act in light of the 25th anniversary, we developed four proposals that we would like to share this afternoon. These proposals are still under review within the IG community and will need to be thoroughly discussed with our oversight committees and OMB before we endorse them. We understand that Congressman Jim Cooper is planning to introduce legislation on improving government accountability and has included some of these proposals. We look forward to working with him and this Subcommittee on these issues.

1. Codification of the PCIE & ECIE

As I previously mentioned, the idea of statutorily establishing a single IG Council for all federal IGs has been of continuing interest to a large majority of the IG community. This proposal would institutionalize our existing Councils and necessitate modest annual appropriations. Many members of the IG community believe codification would enhance the way OIGs function across the entire government, and enable us to provide better service and assistance to our agencies and the Congress.

The codification proposal, as currently envisioned, would do the following:

- Create a single, unified IG Council, comprised of the current membership of the existing Councils.

- The IG Council would assume the duty for maintaining governmentwide training for OIG staff conducted by the Inspector General Criminal Investigator Academy, the IG Forensic Laboratory, and the IG Auditor Training Institute. An IG Council would help promote and coordinate a multi-disciplinary approach to address increasingly complex and technical programs.

- The IG Council could strengthen our relationship with the Congress, which could task the Council with statutory responsibilities and conduct periodic oversight hearings. Under the current two-Council structure, IGs have a dual reporting responsibility to both our parent agencies and the Congress, but the two councils are creations of Presidential Executive Orders.

- The IG Council could significantly improve coordination and effectiveness among IGs on governmentwide projects and initiatives of interest to the Congress and Administration and could enhance sharing of law enforcement and audit-related information.

2. Creation of a Statutory Term of Office and Removal for Cause Protection

Another issue of long-standing interest in the IG community is the question of whether statutory terms of office and tenure protection for IGs would enhance the independence of our offices. It is clear that the Congress, in passing the IG Act, sought to provide IGs with a certain measure of independence and insulate them from political influence.

Currently, IGs nominated by the President and confirmed by the Senate have no statutory terms of office, and the only statutory condition for their removal is that the President must notify the Congress in writing of the reasons for removal. By contrast, removal for cause means providing, in statute, that an officer of the government can only be removed under certain criteria, such as misconduct or malfeasance, lack of integrity, inadequate performance, etc.

We note that a number of positions within the Executive branch -- many of whom are PCIE members -- with analogous functions and responsibilities similar to IGs already have fixed terms of office, removal for cause protection, or both. The Director of the Federal Bureau of Investigation, Director of the Office of Government Ethics, Special Counsel, and Director of the Office of Personnel Management (OPM) each have term limits of varying length. The Special Counsel has removal for cause protection. In the Legislative Branch, the Comptroller General has both a fixed term of office and removal for cause protection.

Our Legislation Committee has been engaged in lengthy discussions about the merits of a proposal that would stipulate a fixed statutory term of office for IGs (i.e., a range of anywhere from 5-9 years) and establish removal from office for cause.

3. Personnel Flexibility for Inspectors General

Just as the idea of enhanced and more flexible personnel management authorities has attracted the interest of many Executive Branch officials and this Committee, it has significant interest in the IG community. The IG Act currently authorizes IGs to "select, appoint, and employ such officers and employees" as necessary to carry out their duties. We note that the GAO and the Department of Homeland Security have been provided with additional personnel authorities designed to improve human capital management at those entities.

The IG community is considering a proposal that would authorize OIGs to apply to OPM, on a discretionary basis, for personnel management authorities in the following areas: Pay banding and Merit-based pay systems; new Performance Management measures; Senior Executive Service allocations; Extended Probationary Periods; Nominations for Presidential Rank Awards; and Voluntary Early Retirement and Separation Authority.

Again, this proposal would require approval by OPM for any new personnel authorities granted to individual OIGs in these areas. The benefit is that the authorities could be provided on a pilot basis to gain experience in offices with similar missions, across a

wide variety of government agencies. We recognize that the Congress is considering human capital management issues in a comprehensive manner and may prefer to address this type of proposal as part of a governmentwide initiative.

4. Changing the Reporting Periods of Our Semiannual Reports

Currently, each IG must prepare semiannual reports (SAR) summarizing the activities of his or her office and provide them to the agency head no later than April 30th and October 31st of each year. The agency head then transmits the SAR to the appropriate committees of the Congress within 30 days.

The proposal under review within the IG community would change our reporting from a fiscal year to a calendar year basis. Thus, IGs would be required to prepare reports by January 31st and July 31st of each year, followed by a similar transmission to the Congressional committees 30 days later. This change would ensure that the Congress would receive our SARs by March 1 each year, coinciding with the delivery of the President's budget request and agency Performance Accountability Reports. The change could also provide helpful input to the Congress for use in oversight hearings on agency budgets and in earlier stages of authorization and appropriations bills.

Given that many IGs currently keep their oversight and appropriations committees regularly updated with electronically mailed OIG reports and products, we welcome the input of this Subcommittee on the value of this proposed change. Our goal is to make sure that our SARs provide true "value added" to your oversight and legislative activities at a time when it really matters.

Future Direction for the IG Community

Having just highlighted some of our many accomplishments and noted some of the legislative proposals we are exploring, I along with my colleagues within the community recognize that we cannot sit back and rest. We are constantly looking for ways to improve our operations and processes and ensure that the community's nearly 11,000 employees are adequately trained and have the necessary tools to do their job. We are also forever mindful that our integrity and credibility is of the utmost importance to remain effective in our unique position as IGs and as "agents of positive change" in our agencies.

As always, we welcome opportunities to provide perspective on our work and offer assistance in the Congress' oversight function. For example, over the summer, several IGs testified before the House Budget Committee on fraud, waste, and abuse in Federal mandatory programs. Many more IGs provided statements for the record. This body of work was useful and timely for the Members needing this information.

As previously noted, OIGs have been operating in a changing environment. In addition to our core mission and matters directly related to our agencies, we remain ready to mobilize

as new issues emerge. OIGs are continuing to play a pivotal role in the acceleration of audited financial statements, assessments of information security, identification of significant management challenges, and effective implementation of the President's Management Agenda.

We remain flexible and able to respond to future issues that directly affect our government. Investigative activities in the aftermath of the tragic events of September 11 illustrate how the IG community banded together to assist with the immediate crisis. Today, members of our community are continuing to conduct independent reviews and make recommendations to the agencies responsible for protecting the Nation and our citizens from future attacks.

Closing

Mr. Chairman, this concludes my prepared statement. I would like to again thank you and the Members of your Subcommittee for having this hearing and allowing us to focus attention on where we've been and where we are going. As always, we appreciate your support of the IG mission and community and look forward to continuing this dialogue.

We would also like to express our sincere appreciation to you, Mr. Chairman; and you, Mr. Towns; Congressman Cooper; the House Government Reform Committee Chairman, Tom Davis; and the Committee's Ranking Member Henry Waxman for your involvement with H.J. Res. 70, a joint resolution in recognition of our 25th anniversary. This resolution acknowledged our many accomplishments, commended our employees, and reaffirmed our role. We look forward to its passage.

In closing, IGs were given authority to be independent voices for economy, efficiency, and effectiveness within the Federal government. We take this authority and responsibility very seriously as we are committed to promoting integrity, accountability, and transparency within our respective agencies. At this time, we would be happy to respond to any questions that you, Mr. Towns, or the other Members of the Subcommittee may have.

Mr. PLATTS. Thank you, Mr. Gianni.

Mr. Snyder.

Mr. SNYDER. Thank you, Mr. Chairman. Let me also express my appreciation on the opportunity to meet with you today to discuss the 25th anniversary of the IG Act. I'm here today as the vice chair of the ECIE. A lot has been talked about the ECIE already, so I'm sure we'll have a lot of questions on that.

Let me just say that the 28 members of the ECIE represent agencies that are a bit different, in that they are regulatory entities, Federal commissions, independent corporations, and boards and foundations. They also have different types of funding, administrative authority, and practices. They have different congressional oversight and funding processes and separate governances and oversight structures. They perform regulatory and other missions and have significant impact on the private sector and the public.

I'm going to paraphrase from my written statement today, but just wanted to give you a feel for what the agencies are that make up the ECIE—and I ask that my written statement be put into the record.

Mr. PLATTS. Without objection, it will be.

Mr. SNYDER. Gaston has talked a little bit about the history of the Inspector General Act leading up to the passage of the act in 1978 and some of the things that have happened since that time. I think the one thing to look at is the success of the act that led Congress to expand the provisions to other major departments and agencies and eventually to smaller Federal entities. During the 10-year period following the passage of the act, the legislative history reflects that Congress gave careful consideration on how best to address audit and investigative coverage in these smaller agencies. Studies and analyses were conducted, bills were introduced and hearings were held, and stakeholder reviews were collected and considered.

In 1984 and again in 1986, GAO issued reports which uncovered many of the same problems in these smaller agencies that prompted Congress to establish the IGs in the original 12. Specifically, GAO found a lack of audit independence because auditors were supervised by officials who were directly responsible for the programs and activities under review, inadequate audit coverage of important and vulnerable agency operations, lack of evaluation of significant fraud problems by internal audit or investigative staffs, and audit resolution and followup systems that did not meet government requirements.

I think Gaston as well as other presenters here today have also given you an overview of the accomplishments that have been attributed. I won't go into those. Let me just add that as full-time and onsite, the DFE IGs have contributed significantly and tangibly to enhancing programs and activities within their agencies. Over the years, DFE audits and inspections have addressed their agency's various program activities as well as wide-ranging administrative and management issues and concerns such as human capital management, procurement, financial management, budgetary processes and electronic government.

Also, our investigations have uncovered program fraud and addressed travel card abuses, conflict of interest, procurement irreg-

ularities and other essential organizational and employee integrity issues.

I would also today say that the DFE IGs are continuing to have a substantial impact on many of the critical and topical challenges facing our government, including financial management, information technology, and emergency preparedness. For example, the Accountability of Tax Dollars Act of 2002 brings the CFO Act concepts of annual audited financial statements to a number of smaller agencies. Some of these agencies are for the first time now preparing financial statements that will be subject to year-end audit. The DFE IGs are playing a key role to meet the act's requirements of conducting or overseeing these financial statement audits in a timely manner.

Similarly, the IT area has been the focus of IGs not only from an operational point of view but also from a security perspective. Like our Presidentially appointed counterparts, DFE IGs are performing and reporting independent security evaluation and agency compliance with the Federal Information Security Management Act. Emergency management and continuity of operations have also continued to be a focal point of DFEs as they address how their agencies can enhance security after September 11th.

Gaston has also talked about the IGs and the councils and committees. I will just add that the ECIE are members on the PCIE committees so that we don't duplicate effort, and the various roundtables and working groups that we have look at a wide range of issues such as government performance, information technology and misconduct in research.

One of the key reasons I think I'm here today is to talk about the GAO consolidation report. Let me say that while each DFE IG probably has a unique perspective on the report, the formal comments in the report that were incorporated reflect the general comments from 26 of 28 DFEs regarding GAO's conclusions in matters for consideration in the report.

First and foremost, the DFE IGs emphasize that consolidation would likely sacrifice providing a local preventive presence and oversight and focus at individual entities in favor of potentially fragmenting the attention of larger IGs across a broader, more diverse spectrum of programs and operations.

From the history, it's clear that Congress took a very measured and careful approach in deciding to provide an onsite, accountable IG presence specifically dedicated to carrying out the IG Act mandate at those agencies selected as designated Federal entities. Therefore, DFE IGs indicated that care should be taken to avoid making a change as significant as consolidation without compelling evidence that a consolidation approach in fact would foster better government.

We believe that the simple organization and operation structure that comes with being a smaller DFE is well suited to the organizations covered by the 1988 amendments, and that congressional wisdom in taking this approach was well placed. By virtue of being onsite and knowledgeable of an entity's legislative backgrounds, operating environments, cultures and policies and procedures, DFE IGs are able to act quickly to bring about positive change in entity operations.

Increasingly DFEs are leveraging their limited resources and contract dollars to respond to legislative requirements for specific audit and evaluation work, such as FISMA, and reporting on their agency's progress in a number of areas of interest governmentwide, such as the President's management agenda.

We note that alternatives to consolidation, such as the use of consultants and memorandums of understanding with other IGs that have developed specialized expertise, have been used successfully in the past to augment scarce resources and may offer a way to further strengthen the resources across all IGs.

As a result of this analysis, the DFE IGs expressed concern that GAO proposed significant and far-reaching changes to the IG Act and to IG organizations largely based on subjective responses to one survey without providing sufficient supporting evidence that indicates changes in the current IG structure are truly warranted and without views of the entity management, customers and key stakeholders.

Absent more detailed information regarding the existence and magnitude of problems with the current structure, the DFE IGs question whether conversion or consolidation would bring about more cost-effective value-added IG operations and results.

Almost all of the DFE IGs commented that GAO's proposed consolidation scenarios were a bit overly simplistic given the diversity of the unique agencies that comprise the designated Federal entities. In fact, the end result of consolidation could bring an unprecedented level of complexity to the long-standing IG concept and framework and may serve to only distance the Congress, the public and agency management from the central, dedicated IG at key entities.

As far as the future, I think Gaston has highlighted four legislative proposals where we are getting a consensus from the IG community. I would discuss a couple of those in a little bit more detail, particularly the concept of removal for cause and establishing the term limit. Under GAO's recently updated government auditing standards, DFE IGs are in fact organizationally independent to report externally. The original IG Act provided a number of safeguards to allow that.

However, there continues to be a perception that DFE IGs' independence is hampered because the IG is appointed by the agency head. If this is indeed the concern, then I think the two provisions that are here, removal for cause and term limits, could go a long way to help remove that perception.

I also would want to add one other item that has not been discussed, and that would be to extend the Program Fraud and Civil Remedies Act authority to DFE IGs. That act, when it was passed in 1986, enabled agencies to recover losses resulting from false claims and statements when claims were less than $150,000.

Executive departments, the military establishments and agencies defined by the original IG Act, and the U.S. Postal Service have this authority. It's our understanding that Congress intended to provide all IGs with the authority under the Civil Remedies Act when it was enacted, but the DFE IGs obviously came along 2 years later.

The legislative committee that we have in the PCIE notes that this proposal has received virtually unanimous support from the entire IG community and could be achieved with a very simple adjustment to that act.

Mr. Chairman, this concludes my prepared statement and in closing I would like to again thank you and members of your subcommittee for having this hearing and allowing us to focus on the 25th anniversary of the IG Act and to reflect upon our past accomplishments and future direction. We appreciate your interest in and support of the IG mission and the community and welcome an ongoing dialog going forward.

I join Gaston in expressing our appreciation to you, Congressman Towns, Congressman Cooper and committee Chairman Davis and Ranking Member Waxman for sponsoring the joint resolution in recognition of the 25th anniversary.

I agree with Gaston that the IG community takes its mission and authority very seriously and remains committed to promote integrity, accountability and efficiency and effectiveness in operations within the individual departments and agencies and across government. At this time, I would be happy to respond to questions.

[The prepared statement of Mr. Snyder follows:]

Testimony before the
Subcommittee on Government Efficiency
and Financial Management
Committee on Government Reform
U.S. House of Representatives

For Release on Delivery
Expected at 2:00 p.m. EST
Wednesday, October 8, 2003

The 25th Anniversary of the Inspector General Act of 1978

Statement of

Barry R. Snyder

Vice Chair, Executive Council on
Integrity and Efficiency

October 8, 2003

Mr. Chairman, Ranking Member Towns, and Members of the Subcommittee on Government Efficiency and Financial Management, House Committee on Government Reform:

INTRODUCTION

I appreciate the opportunity to meet with you today in connection with the Subcommittee's hearing on the 25th anniversary of the Inspector General Act of 1978 (IG Act). This act was landmark legislation, creating independent Inspectors General responsible for conducting and supervising audits and investigations; promoting economy, efficiency, and effectiveness; and preventing and detecting fraud, waste, and abuse in their agencies' programs and operations. The IG Act and its subsequent amendments centralized and elevated the audit and investigative functions under an Inspector General (IG), ensuring an independent voice to the agency head, the Congress, and the public. Today, 57 IGs provide audit and investigative oversight across government.

As you are aware, the IGs work together and coordinate their professional activities through two Councils: the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE). The Deputy Director for Management of the Office of Management and Budget chairs both Councils. The PCIE membership currently includes 29 IGs who are appointed by the President, with advice and consent of the Senate. These IGs are located in every Cabinet department and in the larger independent agencies. The ECIE membership currently includes 28 statutory IGs who are appointed by their agency heads in certain designated federal entities (DFEs). These agencies

- are typically regulatory entities, federal commissions, independent corporations or boards, and foundations;

- have different types of funding, administrative, and personnel authorities and practices; different congressional oversight and funding processes; and separate governance and oversight structures; and

- perform regulatory and other missions that have significant impact on the private sector and the public.

By way of background, I am the Inspector General of the Board of Governors of the Federal Reserve System and have served in this position since 1998. I have also served as the Vice Chair of the ECIE for the past four years and I will be speaking to you today in that capacity. Consistent with your request, my testimony will provide

- a brief historical perspective of the DFE IGs;

- an overview of the IGs' contributions to government economy, efficiency, and effectiveness and preventing and detecting fraud, waste, and abuse;

- the ECIE position on the key findings in the August 2002, General Accounting Office (GAO) report entitled, *INSPECTORS GENERAL: Office Consolidation and Related Issues* (GAO-02-575); and

- views on the future of the IGs and opportunities for change.

HISTORICAL BACKGROUND: DFE IGs

Anniversaries provide an excellent opportunity to reflect on the past and look to the future. The IG Act, which became law on October 12, 1978, established independent IG offices in 12 departments and agencies. Although initially opposed by every department and agency affected, the IGs' unique and unbiased approach in addressing longstanding issues and management challenges has earned them wide acceptance and recognition as an effective and credible force in promoting good government and as a "first line of defense" in the fight against fraud, waste, and abuse.

The success of the IG Act led Congress to expand its provisions to other major departments and agencies and, eventually, to smaller federal entities. During the ten-year period

following passage of the act, the legislative history reflects that Congress gave careful consideration on how best to address audit and investigative coverage in these smaller agencies. Studies and analyses were conducted, bills were introduced and hearings were held, and stakeholder's views were collected and considered.

As a result of this extensive analysis, the need to expand the concepts embodied in the IG Act to the smaller agencies was thoroughly documented. In May 1984, for example, GAO issued a report entitled, *Status of Internal Audit Capabilities of Federal Agencies Without Statutory Inspectors General* (AFMD-84-45). Based on 99 responses received to questionnaire surveys sent to 105 federal organizations and the subsequent follow-up, GAO uncovered in these agencies many of the same problems that prompted Congress to establish the 12 original IGs. Specifically, GAO found

- a lack of audit independence because auditors were supervised by officials who were directly responsible for the programs and activities under review;
- inadequate audit coverage of important and vulnerable agency operations;
- lack of evaluation of significant fraud problems by internal audit/investigative staffs; and
- audit resolution and follow-up systems that did not meet government requirements.

In its June 1986, follow-on report entitled, *INTERNAL AUDIT: Nonstatutory Audit and Investigative Groups Need To Be Strengthened* (AFMD-86-11), GAO reviewed 41 agencies without statutory IGs and found that problems continued to exist. The PCIE also conducted a study at the request of Senator William V. Roth, Committee on Governmental Affairs, and found similar results. In related hearings during this period, both OMB Director James C. Miller and Comptroller General Charles A. Bowsher supported extending the IG concept. Congress, too, believed that a strong audit presence was especially needed at smaller agencies because their operations usually are not as closely watched by the Congress, the press, or the public. Without statutory IGs in these agencies, the Congress, the public, and agency officials had little

independent assessment of how agency funds were being spent or the effectiveness of agency programs and operations.

Ultimately, the 1988 amendments created statutory IGs in an additional 33 regulatory agencies and agencies with budgets over $100 million. While the number of IGs at designated federal entities has decreased over the years (some entities—such as the Panama Canal Commission and ACTION—either ceased operations or were merged into other federal agencies), the DFE IG concept has remained constant. The 1988 amendments are particularly noteworthy in that they provided a consistent audit and investigative framework for smaller agencies that are best characterized by their diversity. In passing the IG Act amendments, Congress recognized the value of an on-site IG as a visible deterrent to potential fraud, waste, and abuse and as an objective evaluator of the economy, efficiency, and effectiveness of programs and operations in these agencies.

ACCOMPLISHMENTS

Twenty-five years later, the IG Act has unquestionably contributed to more efficient and effective government. The IG community has had a significant and positive impact on improving federal programs and operations; strengthening government accountability and transparency; and preventing and detecting fraud, waste, abuse, and mismanagement. The PCIE and ECIE annual report, *A Progress Report to the President, Fiscal Year 2002*, highlights the following impressive results of IG efforts:

- Potential savings of nearly $72 billion,
- More than 10,700 successful criminal prosecutions,
- Suspensions or debarments of over 7,600 individuals or businesses,
- Almost 2,200 civil or personnel actions,
- More than 5,700 indictments and criminal informations,
- Over 234,000 complaints processed, and

- More than 90 testimonies before the Congress.

Full-time and on-site, the DFE IGs have contributed significantly and tangibly to enhancing programs and activities. Over the years, DFE IG audits and inspections have addressed their agencies' various mission-critical activities such as human capital management, procurement, financial management, the budgetary process, and electronic Government, as well as wide-ranging administrative management issues and concerns. Our investigations have uncovered and addressed travel abuse, conflicts of interest, procurement irregularities, and other areas essential to organizational and employee integrity.

Today, the DFE IGs continue to have a substantial impact on many of the critical and topical challenges facing our government, including financial management accountability, information technology (IT) management, and emergency preparedness. For example, the Accountability of Tax Dollars Act of 2002 brings the Chief Financial Officer Act concept of annual, audited financial statements to a number of smaller agencies. Some of these agencies are, for the first time, now preparing financial statements that will be subject to year-end audit. The DFE IGs are playing a key role to meet the act requirements of conducting or overseeing these financial statement audits, in a timely manner. Similarly, the IT area has been the focus of IG reviews, not only from an operational standpoint but also from a security perspective as required by the Federal Information Security Management Act (FISMA). Like our Presidentially-appointed counterparts, DFE IGs are performing and reporting independent security evaluations and agency compliance with FISMA provisions. Emergency management and continuity of operations also continue to be a focal point as the DFE IGs assess how their agencies have enhanced security, post-September 11.

Collectively, the IGs continue to address cross-cutting issues and challenges. Through the PCIE and ECIE, the IGs join together in roundtables and working groups throughout the year to address a wide range of issues, such as government performance, information technology, and misconduct in research.

POSITION ON GAO'S REPORT ON CONSOLIDATION

In August 2002, GAO issued a report, *INSPECTORS GENERAL: Office Consolidation and Related Issues* (GAO-02-575) that summarizes the results of a survey regarding the impact of consolidating ECIE offices by moving smaller ECIE offices into larger PCIE offices, and making other changes to federal IGs (such as converting certain DFE IGs to a Presidential versus an agency head appointment). GAO concluded that certain elements of ECIE IG independence and effectiveness could be strengthened through consolidation and conversion. While each DFE IG has a unique perspective on the report, our formal comments to the report incorporated the general comments and feedback from 26 of the 28 DFE IGs regarding the conclusions and matters for consideration in the GAO report.

First and foremost, the DFE IGs emphasized that consolidation would likely sacrifice providing a local preventive presence, oversight, and focus at individual entities in favor of potentially fragmenting the attention of a larger IG office across a broader, more diverse spectrum of programs and operations. Congress took a very measured and careful approach in deciding to provide an on-site, accountable IG presence specifically dedicated to carrying out the IG Act mandate at those agencies selected as designated federal entities. Therefore, care should be taken to avoid making a change as significant as consolidation without compelling evidence that a consolidated approach would, in fact, foster better government.

We believe that the simple organization and operating structure that comes with being a smaller DFE IG is well-suited to the organizations covered in the 1988 amendments and that the Congressional wisdom and intent in taking this approach was well-placed. By virtue of being "on-site" and knowledgeable of their entity's legislative backgrounds, operating environments, cultures, and policies and procedures, DFE IGs are able to act quickly to bring about positive change in entity operations. Increasingly, DFE IGs are leveraging limited resources and contract dollars to respond to new legislative requirements for specific audit and evaluation work (such as FISMA) and reporting on their agencies' progress in a number of areas of interest governmentwide (such as the *President's Management Agenda*). We note that alternatives to consolidation — such as use of consultants and memoranda of understanding with other IGs that

have developed specialized expertise — have been used successfully in the past to augment scarce resources and may offer a way to further strengthen use of resources across all IGs.

As a result, the DFE IGs expressed concern that GAO proposes significant and far-reaching changes to the IG Act and to IG organizations based largely on subjective responses to one survey, without providing sufficient supporting evidence that indicates changes to the current IG structure are truly warranted, and without the views of entity management, customers, and key stakeholders. Absent more detailed information regarding the existence and magnitude of problems with the current structure, the DFE IGs question whether conversion or consolidation would bring more cost-effective, value-added IG operations and results. Almost all of the DFE IGs commented that GAO's proposed consolidation scenarios are overly simplistic given the diversity of the unique agencies that comprise the "designated federal entities." In fact, the end result of consolidation could bring an unprecedented level of complexity to the longstanding IG concept and framework and may serve only to distance the Congress, the public, and agency management from a central and dedicated IG at key entities.

FUTURE OPPORTUNITIES

As IGs, we continually strive to find ways to enhance the economy, efficiency, and effectiveness in our own operations and to serve as a role model for others. On the occasion of the 25th anniversary of the IG Act, the PCIE Legislation Committee has been assessing what statutory changes, if any, should be considered to fine-tune certain aspects of the IG Act. These proposals are still under review within the IG community and will need to be thoroughly discussed with our oversight committees and OMB before endorsing them. We understand that Congressman Jim Cooper is planning to introduce a bill that would seek to strengthen the institutional stature of the IGs. Although the legislation is still being drafted, we are encouraged that IG issues are being actively discussed and considered.

I would like to share some views on opportunities to strengthen the effectiveness of the DFE IGs, as well as the IG community as a whole.

DFE IG Independence and Position.

Under GAO's recently updated, *Government Auditing Standards*, DFE IGs are, in fact, organizationally independent to report externally. However, there continues to be a perception that DFE IG independence is hampered because the IG is appointed by the agency head. If this is, indeed, a concern, then Congress could potentially strengthen the appearance of independence by

- providing a statutory provision that removal of an IG is only for cause (to be defined as providing, in statute, that an officer of the government can only be removed due to certain criteria, such as misconduct or malfeasance, lack of integrity, or inadequate performance), and

- establishing term limits for IG positions (within a range of five to nine years).

Congress may also want to consider changes that would increase the stature of DFE IGs by bringing their position and compensation in line with other officials who report to the agency head, such as the General Counsel, Chief Information Officer, or the Chief Financial Officer. The IG Act as amended sets the position level for the PCIE IGs at the executive level, but is silent on the level for the DFE IGs.

Extension of the Program Fraud Civil Remedies Act (PFCRA) Authority to DFE IGs

In 1986, Congress enacted the Program Fraud Civil Remedies Act (PFCRA), which enables agencies to recover losses resulting from false claims and statements where the claims are less than $150,000. Executive departments, the military, establishments defined in the original IG Act, and the United States Postal Service have PFCRA authority.

It is our understanding that Congress intended to provide all IGs with this authority when PFCRA was enacted in 1986. However, since the DFE IGs were created two years later by the1988 amendments to the IG Act, they were not covered by PFCRA. Many DFE IGs would

clearly benefit from utilizing the PFCRA to recoup taxpayer dollars because they are often confronted with recovery amounts less than $150,000. The PCIE Legislation Committee notes that this proposal has virtual unanimous support among the entire IG community and could be achieved by a very simple adjustment to PFCRA.

Changing the Reporting Periods of Our Semiannual Reports

The IG Act as amended currently requires each IG to prepare semiannual reports (SAR) summarizing the activities of his or her office and provide them to the agency head "no later than April 30th and October 31st of each year." The agency head then transmits the "SAR" to the appropriate committees of Congress within 30 days.

Our goal is to make sure that our SARs add value to your oversight and legislative activities at a stage when it really matters. The proposal being considered by the PCIE Legislation Committee would change the semiannual reporting periods, requiring IGs to provide reports to the agency head by January 31st and July 31st of each year, followed by a similar transmission to the Congressional committees 30 days later. As a result, Congress would receive the SAR by March 1st each year to coincide with the delivery of the President's budget request and agency Performance Accountability Reports. It would potentially provide helpful input to Congress in a more timely manner, for your use in oversight hearings on agency budgets and in earlier stages of authorization and appropriations bills.

PCIE and ECIE Codification

Created by Presidential Executive Orders, the mission of the PCIE and the ECIE is to promote collaboration on integrity and efficiency issues that transcend individual governmental agencies and to increase the professionalism and effectiveness of IG personnel throughout government. To that end, many members of the IG community believe that statutorily establishing a single "Inspectors General Council" would strengthen coordination and effectiveness among IGs on governmentwide projects and initiatives of interest to Congress and the Administration, as well as provide for enhanced sharing of law enforcement and audit-related

information. An IG Council would also help promote and coordinate a multidisciplinary approach to address increasingly complex and technical programs.

The PCIE Legislation Committee is considering one proposal that would, in brief, create a single, unified IG Council comprised of the current membership of the PCIE and ECIE. Under this proposal, the Council would assume the duty for maintaining government-wide training for OIG staff conducted by the Inspector General Criminal Investigator Academy, the IG Forensic Laboratory, and the IG Auditor Training Institute. Since this codification proposal would institutionalize our existing Councils, it would necessitate annual appropriations. We recognize that this and other proposals would need to be thoroughly discussed with our oversight committees and OMB.

Closing

Mr. Chairman, this concludes my prepared statement. In closing, I would like to again thank you and the Members of your Subcommittee for having this hearing and allowing us to focus attention on the 25th anniversary of the IG Act and to reflect on our past accomplishments and future direction. We appreciate your interest in and support of the IG mission and community and welcome an on-going dialogue going forward.

I join Gaston Gianni in expressing our appreciation to you, Mr. Chairman, and you, Mr. Towns, Congressman Cooper, the House Government Reform Committee Chairman Tom Davis, and the Committee's Ranking Member Henry Waxman, for your involvement with H.J. Res. 70, a joint resolution in recognition of our 25th anniversary. This resolution acknowledged our many accomplishments, commended our employees, and reaffirmed our role, and we look forward to its passage.

The IG community takes its mission and authority very seriously and remains committed to promote integrity, accountability, and transparency within individual departments and agencies, and across government. At this time, I would be happy to respond to any questions that you, Mr. Towns, or other Members of the Subcommittee may have.

Mr. PLATTS. Thank you, Mr. Snyder, and my thanks again to both of you for not just being here today but for your service day in and day out in your respective agencies.

Let me begin maybe with a broad approach with the—we talked a lot today with both panels about communication between Congress and the administration, between the IGs and their respective agency heads or the administration. Between the two councils, if I understand the written testimony here today, the training program is shared by both councils and operated together for the benefit of all IGs.

Mr. GIANNI. That is correct, sir.

Mr. PLATTS. What type of interaction occurs between the councils and the IG members on the council on a monthly basis, you know, as far as kind of sharing ideas or what's, you know, working, what's not working and your respective duties?

Mr. GIANNI. We have multiple forms of coordination. I sit on the Executive Council on Integrity and Efficiency. Barry sits on the President's council. So we have both opportunity to be knowledgeable of what each council's concerns are. As Barry indicated in his time, our various committee structure is comprised of both PCIE and ECIE members. So those people who are addressing audit issues, for example, represent the entire IG community. Those people who are dealing with investigative issues, we have an investigative committee, represent the whole IG community. So we go at length to ensure that there is collaboration and communication.

In addition, we meet jointly twice a year. And then in addition to that, we have a number of our working groups that have both PCIE and ECIE members, who are addressing a focused issue, such as erroneous payments or accelerated reporting.

In addition to that, we have meetings from time to time to discuss mission-related issues. For example, Barry and I are IGs of regulatory agencies. There are seven IGs that have regulatory responsibility. We get together on a monthly basis to talk about financial regulatory issues.

Mr. PLATTS. And regardless whether PCIE, ECIE?

Mr. GIANNI. Right. We have a common mission where our missions come together. So we coordinate, we look for opportunities where we can do work together on common issues and have done that in the past. We look at how we're communicating with the Congress and how we're working with our agency. Also when we have, let's say, an issue that we're faced with within our respective office or agency, we have our peers who act as a sounding board to exchange ideas and seek advice on some common answers.

Now, this happens elsewhere within the IG community.

Mr. SNYDER. I would only add that we also have an annual planning conference that we go to where all of us get together as well, in addition to all the ones that Gaston mentioned.

Mr. PLATTS. Given these extensive interactions with IGs in both type of departments, agencies, is it safe to assume that pretty unanimously the IG community would support a consolidation of the two councils into one council, and the second part then, and making it statutory as opposed to Executive order?

Mr. GIANNI. I do believe there would be support for that within both councils.

Mr. SNYDER. I agree.

Mr. PLATTS. Because it seems that you're doing that, you know, in every instance you can while also maintaining the official separation.

Mr. GIANNI. The councils are administrative bodies created by Executive order. I think that the idea of codifying the council would be to also recognize that we do have a reporting relationship with the Congress and that it gives us some credibility as a council to the Congress. And as David Walker was talking about, it also would give us an opportunity to build on the working relationships that we have with GAO right now to deal with some of the issues that the Comptroller General was talking about.

Mr. PLATTS. The other aspect, codifying a single council, that would also be the funding of that council directly, you know, from an appropriations as opposed through—because currently your efforts—if I understood you correctly, the cost of your efforts come out of your IG offices, your individual agency budgets, that somehow you take a part of your individual office and put it toward that joint effort. Is that——

Mr. GIANNI. That is correct, sir.

Mr. PLATTS. There's no funding for the council per se?

Mr. GIANNI. There is no funding at all. We're very appreciative of Congressman Cooper's thinking of a funding allocation.

A couple of things when it comes to funding. We have two training academies. These training academies are training our investigators. They're training our auditors. We spend over $6 million as a community to operate these training academies. Funding comes from our operating budgets.

There is a certain amount of opportunity costs, if you will, that are constant, and to the extent that Congress was willing and saw fit that they would be able to help support those academies in some way, I think that would be certainly beneficial and helpful.

When the Congress created the TVA as a Presidential IG office, they also created the authority for us to have an investigative academy and a forensic academy, and for funds to be appropriated accordingly. We have never received any appropriations for those. We have operated our investigative academies from our own budgets by—in the investigative matter, it's an allocation based on the number of investigators that we have within the community. On the audit side it's a cost per training activity. So if you use it, you pay; if you don't, you don't have to pay.

But because of those different funding mechanisms, it kind of stifles our opportunities to improve our academies to where they need to be.

Mr. PLATTS. Walk me through from a funding standpoint typical nonPresidential appointed office, as far as how you come up with your annual budget request, and by what you determine how many personnel you think you need to do your job and that translates to salaries and benefits and all related expenses. How does that happen on an annual basis in your respective agencies, you know, with your agency head, and what type of give and take in it, you know? And if you can give me a general idea of what you ask for, what you typically get in response.

Mr. GIANNI. I'll take a crack at it. I've been in my position for over 7 years. So if the Congressman's bill were to pass, I'd have to leave.

Mr. PLATTS. Now, he may grandfather in——

Mr. GIANNI. No. I'm just bringing in a little levity here.

The point on budget, when I—my budget has been reduced over the past 8 cycles. I've done this——

Mr. PLATTS. Every cycle for——

Mr. GIANNI. Every cycle for the past 8 years. I had an office that consolidated two IG offices. We had to do some downsizing. We did that accordingly. We entered into——

Mr. PLATTS. That downsizing was dictated to you by agency head or internal; you said we have the opportunity to do this?

Mr. GIANNI. It was dictated by the circumstances in our corporation. As the corporation was downsizing we also felt that we had to be a part of that downsizing. We were the destined—so we created plans for our downsizing. And the corporation bought into it, certainly supported it. I present my budget to my chairman. The chairman basically agrees on two things, my staff size and the total dollars. He says, I agree with that. We send it to OMB. OMB forwards it to the Congress, and the Congress reviews it as part of its normal appropriation process.

Mr. PLATTS. When you say the chairman agrees, you know, there's a give and take every year, or is it basically he tells—says here's what we'll accept, and that's the way it is?

Mr. GIANNI. He has accepted what I've put forward every year.

Mr. PLATTS. Mr. Snyder.

Mr. SNYDER. It's different at the Federal Reserve, in that we are a nonappropriated agency, so we don't go through the congressional budget process. However, we do have a separate budget within the board related to IG activities. When the IG's office was established in 1987, the Board felt that something less than 10 positions would be enough to do the job. So we started with nine people. That's less than 10.

Over the years we—well, it wasn't long after we were there that it was clear that number was not going to be sufficient to get the job done, and we made a request to the board to have our resources increased. There was a good bit of give and take at that meeting. Unfortunately, at the time I was the Assistant Inspector General for Audit. The IG was in the hospital. I got to go and defend the budget. So we had a significant large discussion about the duties and responsibilities of IG, particularly me and one Governor. But ultimately, our budget was increased to 32 positions.

In 1997, we cut back 10 percent, or 3 positions, recognizing that the Board as a whole was also trying to hold its budgets down, and we complied with their direction to all divisions that were there.

We've felt free, though, to ask for something additional if need be. We've kind of held our budget at that level since that time.

Mr. PLATTS. A lot of our focus today is independence and——

Mr. SNYDER. I will say I'm a bit unique in having my own budget I think as far as the DFE community goes. A lot of their budgets, I believe, are incorporated in their agency's budgets. They do have to—they are probably in competition with other programs within the agency in terms of funding, and there's probably not another

level of review that particularly takes place to any great degree at OMB or here at the appropriations process, unless somebody requests what that level is going to be.

Mr. PLATTS. With the absolute, you know, agreement that independence is critical for IGs being able to do their job well, both in reality and in perception, that perceived independence, the fact that the norm is that IG budgets go through and are really decided by those that you're supposed to be kind of watching over seems one of the most problematic aspects of the existing structure, and if we were to statutorily create the council for all IGs as one, that maybe then presents an avenue where Congress in appropriating the funds works directly with the IGs through that entity as opposed to the individual departments and agencies.

A related question, then, is in the amount of money you get, your auditing of your respective departments, agencies comes from those funds that you're—you talked about you approved, how many positions and total dollars. Of that total dollar, your auditing expenses come from that, correct?

Mr. GIANNI. Yes, sir, audit and investigative expenses.

Mr. PLATTS. So the amount you devote to the audit—and this kind of—I think, Mr. Snyder, in your comments you talk about the new requirement pursuant to 2002 with more agencies having to do that——

Mr. SNYDER. Correct.

Mr. PLATTS [continuing]. As those agencies—were they given more money?

Mr. SNYDER. I think it varies from agency to agency that's out there. I——

Mr. PLATTS. Because if not, to fulfill the audit requirement they've obviously got less to do in the other investigative, whatever it may be, aspects of your mission?

Mr. SNYDER. That's true. I believe most of them have taken the route that we have, though, and that is to contract with an independent public accounting firm to do the audits and leave the IG's operations to oversee and to judge the quality of those audits.

Mr. PLATTS. But the cost of those contracts still comes out of the IG's budget?

Mr. SNYDER. It would come out of the IG's budget and I think many of them had their contract dollars increased to do this.

Mr. GIANNI. Mr. Chairman, one point of clarification on my part. I misinterpreted your question. The financial auditing for my agency is paid for by the corporation, and it's paid to the General Accounting Office, who is the auditor of record for the financial audits.

Mr. PLATTS. Separate from the budget for IG's budget?

Mr. GIANNI. Separate from my budget.

Mr. PLATTS. That's probably the exception, though, for the——

Mr. GIANNI. That is the exception. That is the exception. There may be one or two other IG offices where the department is paying for the audit out of their revenues as opposed to the IG budget, but I think for the most part it's coming out of the IG budget.

Mr. PLATTS. Because the—and my staff will correct me if I'm wrong in this. When we did a hearing regarding Homeland Security this year for their auditing, there really was no funds for their

financial auditing, and the IG office I think came up with 4.5 million, which obviously takes from their ability, and that department, because of, you know, the consolidation of 22 different agencies, we really want that IG to be as active and effective as possible, and that is an example where their ability to fulfill some important parts of the mission probably has been diminished because they weren't given money, but yet they had to come up with money for that financial audit aspect.

Mr. GIANNI. When the CFO Act was passed over 10 years ago, many of the IGs had to take the cost of conducting the audits out of their budgets, and during that time, I mean, you factor a lot of things in. We've gone through cycles where many of the IGs were in a period where they were competing for resources within their agency, and it had an impact. My personal opinion is the more that we can create a system that allows for openness of what is being transpired and that then the Congress can say we either agree or we don't agree with what's going on, the more we can create that type of transparency to the process. Because of our unique nature I think it would go a long way in helping us be successful.

Mr. PLATTS. What would be—if you—in looking as part of that 25th anniversary, what, if any, statutory changes should be addressed? If you had to focus—you know, I'm always asked this, and I hate being asked this, but one specific change, what would be the most important thing we could do, whether it be for the PCIE member IGs or ECIE IGs, the one thing that Congress could do to allow you to be more effective, more, you know, efficient in your mission assignment?

Mr. GIANNI. My personal opinion would be the codification of the PCIE and ECIE with some funding. I think that would be the primary one from my perspective, and I can prioritize the others accordingly. I think that's what the community would suggest also, but, you know, I leave that open for future discussion.

Mr. PLATTS. OK.

Mr. SNYDER. I would agree on the codification. I think the Program Fraud Civil Remedies Act is an easy one to do for the DFE IGs. Related to the question of independence, though, as I stated in my testimony, it could be that the removal for cause and the term limit would be right up there.

Mr. PLATTS. On the GAO report and the recommendations of consolidation—and, Mr. Snyder, with your IG members being maybe most dramatically impacted, and you've given us some good reasons why it's not just about turf, it is about the effectiveness of the IG operations in your members' offices—are there any of those now, you know, DFE IG offices that you would maybe collectively—ECIE members collectively say would make sense? Like, I'm going to say Amtrak with DOT. Are there any, you know, that specifically because of the circumstances make greater sense than collectively consolidation?

Mr. SNYDER. I think my answer would be none of them, but let me clarify as we go along here. I think the big concern is if the Congress wants oversight at a particular agency, then the staff needs to be onsite and working at that agency, and that's truly, I think the question.

We've talked a lot about size and efficiencies and independence and what have you, but it really comes down to do you want a presence that understands programs and activities of that agency and can provide oversight of that agency? Because absent forcing that—in which case I would ask then why are we consolidating—but absent forcing the level of resources at that agency, then there is the probability and likelihood that the agency—that the DFE resources that would be transferred or somehow moved to the consolidated entity, thus creating some savings I guess would not necessarily be sent back. A number of the scenarios that were there, the DFE agencies and operations that would be consolidated wouldn't even come close to some of the major programs and activities of the departmental agencies that are there. The size is just too different.

I don't think it's unreasonable to think that the size of the DFE IGs are small because of some actions to keep them that way. I think what we're looking at is the size of the agencies are small. If you compare DOD and it's 1,000 staff in the IG versus another agency that only has 100 people and there's only 3 or 4 people in the IG office, you could understand why this size is there.

Personally, I'm not sure if there isn't a need for a critical mass as we've talked about to be effective as an IG and to carry out all the mandates that are there, particularly with respect to the new programs and activities that have come to these agencies, but I think——

Mr. PLATTS. So there would be some that maybe are so small, that their ability to fulfill all the requirements is more challenge——

Mr. SNYDER. I'm sure it's more difficult and a challenge today. But I would ask the question if we're looking at efficiencies and we're looking at the level of oversight, then maybe we need to look at whether or not an agency needs the level of oversight that was contemplated when that particular agency was designated as a Federal entity for this purpose.

If that's still there, then I think it only makes sense to have the IG onsite there so they can respond.

There are a number of implementation considerations that also would make this fairly complex to do. You could have situations—or you would have situations where the consolidated IG would be under the, "general supervision of more than one agency head." Having two bosses is somewhat difficult today from an IG perspective of the agency head and the Congress. Giving them three or four bosses—I think in the one scenario the Department of Commerce got a lot of the DFEs. They might have 8 or 10 people that the IG would be under the general supervision of.

Next, I think there's some complexity about the oversight committees here on Congress. The IG would be subject to multiple oversight and potentially to multiple appropriation committee oversight as it relates to the different activities that it might be dealing with.

So there's some practical implementation considerations that I think that are out there.

From my perspective, if you want oversight, they should be onsite.

Mr. PLATTS. I want to give Mr. Cooper a chance to have some questions. Just one followup. Conversely with the GAO's recommendations being that the PCIE membership was more supportive of consolidation, are there any ones that you would specifically think should not be consolidated versus opposite that, you know, should be?

Mr. GIANNI. I think my colleagues and I approach this as a purely theoretical issue, that because we have—we are larger and tend to have an infrastructure to support both administrative, statistical perhaps, or technical infrastructure, that we would be better able to support these other functions.

Whether we consolidate or not is really a congressional decision. The issue of whether we can consolidate has been answered. We did it at Homeland Security. We had four different IG offices folded into Homeland Security. So it's not an issue of that it can't be done. It's an issue of do we want to do it. And if we want to do it for the reasons that the Comptroller General put forward or for other reasons, such as we're beginning to streamline our government agencies and refocusing the mission of our government, I believe that, those are very large, complex issues. We're not going to solve them by just merging a couple IG offices.

Mr. PLATTS. On a specific——

Mr. SNYDER. If I could add to that, I think the DFE community would concur that if the agencies are being consolidated, then it only makes sense for the IG's offices to be consolidated. Same would hold true for Treasury and Tax Administration.

But I think in many of the instances, the agencies were separated out. For example, NARA was taken out of GSA. Federal Maritime was taken out of Transportation. And now you're going to have the IG go back and really supposedly undo what that separation was all about, and that's where to them it didn't make a lot of sense.

Mr. PLATTS. Mr. Gianni, on that theoretical approach of having the infrastructure, would one of the agencies that you propose for elevation, is the Postal Service, and their independence, and Mr. Walker talked about how they really have independence—to answer to the governing board, not the postmaster and the type of work and given their size, they have the significant infrastructure ability out there for their mission. Would that be one that the PCIE members would maybe agree should be consolidated, or should it need to be changed from its existing format in any sense?

Mr. GIANNI. Clearly the postal IG is an anomaly as being a DFE when you look at the rest of the DFE organization. As I understand it, there was debate at the time that the Postal Service Inspector General office was created as to where and how that IG would be appointed.

It was subsequently agreed that the IG would be appointed by the board of Governors. Whether making that IG a Presidentially appointed IG would make them more efficient, more effective, I don't think that's the issue there. There would be other issues, other considerations that would go into making that judgment.

Clearly, if one were to say are there agencies as large as the Postal Service IG that are Presidentially appointed and we want to have some degree of consistency about which ones are Presidential

and which ones aren't Presidential, then they would fall in the Presidential category, assuming that both the board of Governors and the Congress could agree that that's what they want to occur.

Mr. PLATTS. I want to give Mr. Cooper a chance for additional questions.

Mr. COOPER. Thank you, Mr. Chairman. You have been very kind. I appreciate that.

Consolidation as a way of achieving independence is not the only way of achieving independence. Of course, I, in my earlier remarks, was pushing the idea of terms and dismissal for cause; and I could understand and I wasn't surprised by the administration's reaction. They wouldn't mind if everyone could be reappointed on their watch, all Federal judges, too, I would imagine. But terms, to me, ensure an insulation and accountability and also expectation on the part of the professional employee, as long as he or she does their job, they are going to have a 7-year term of office. So to me it's an essential part of professionalism, not the status of being an at-will employee where you just blow with the wind.

There are so many issues to discuss, I understand from my staffer, when asked to prioritize the elements of the bill that I am putting together, that codification of the professional councils would be the No. 1 priority. Is there a No. 2 priority in the list of things?

Mr. GIANNI. I would think, from my constituency in the PCIE, that codification and removal for cause would be a high priority. As was discussed earlier with David Walker and Clay Johnson, the issue is how do you define what the removal criteria would be remains.

Again, I don't want to minimize the importance of compatibility in this position. If personalities aren't compatible, then what could happen is that you have a dysfunctional IG office or a dysfunctional relationship that causes the IG to be less effective than he or she could. So compatibility is very important to getting the job done. It's not the only thing, but it is important to making sure that the job gets done effectively.

Mr. COOPER. I look forward to working with you to sort of craft the right language there.

Efficiency is the goal of everyone, I believe. What's the best way to evaluate the quality of an IG's performance? You have 57 of them out there, some large, some small. How do you spot a great IG versus someone who may be headed toward retirement and not as active as perhaps he could be, and he might have a marvelous personality, but perhaps the job isn't being done. As I understand, when you are trying to catch fraud, you never know when it's good news or bad news, but you catch because it could be an indication there's a lot more to be found. So what's the best way for really evaluating IG performance among IGs?

Mr. GIANNI. I think that's a very good question that hasn't been answered.

Now I can attempt to give you some ways of looking at the performance of an IG. Clearly, I believe that many of my colleagues, if not all, are trying to operate in accordance with the spirit and intent of the Results Act, developing strategic plans, sharing those strategic plans as they develop them with both the Congress and their agency, coming up with annual performance plans as to what

they expect to accomplish with their budgets, showing how their funds are being allocated among the various functions that they are performing and then reporting on an annual basis back to both their agency and the Congress about how well they have done. That gives at least some transparency of what an IG is accomplishing.

The accomplishments between and among IGs vary greatly depending on their mission, depending on the mission of their agency. If you have an agency that has a lot of contract money, you have an opportunity for having high dollar savings or findings of fraud. On the other hand, if you are a regulatory agency, you might not have as much of an opportunity.

In my particular institution, when banks fail, oftentimes, fraud is associated with the banks that fail. My investigators will work with the Justice Department to pursue the people who committed the frauds. From a criminal standpoint, we get judgments, we get restitution orders from the courts. Those are financial measures that show we are doing something.

Now will all that money return to the government? Probably not. Some of it has been spent, some of it has been hidden, and it is very difficult to trace back. But these are the types of measures.

On the other hand, much of our audit work deals with improving systems, making recommendations for strengthening internal controls. It's very difficult to put costs on that. Even GAO has that as one of their measures, number of recommendations that an agency acted on; and there may not be any dollars associated with it or it's difficult to quantify. So we use that as a measurement for our performance. So there's a variety of measures out there, and we hope we're doing a good job.

Mr. COOPER. Perhaps if we are able to codify the professional council of the IGs themselves maybe they will get together and vote on those individuals who are considered to be truly outstanding, and maybe there's an IG hall of fame. I am sure there's a spot for you in heaven somewhere. But maybe that's a way of evaluating true quality performance.

Mr. GIANNI. We as a community this year have—we have our annual awards ceremony. This year we developed three new awards: one, service to the Congress; one was a good governments award; and the other was service to the administration. As for the award for service to the administration, after the nominations were vetted within the IG community, they were presented to Clay Johnson and the President's Management Council to review those actions by the Offices of Inspector General to decide which one, in their judgment, was the most significant accomplishment. So we're trying to get other input into our assessments of how well we're doing.

Mr. COOPER. That sounds very helpful.

Mr. Johnson mentioned that Federal acquisition officers have no codified council, and he implied at least that might be something we could look at or a step we could take. I'm not even sure this committee has jurisdiction over those folks—we do. Are you familiar with their professional group?

Mr. GIANNI. They were just recently reorganized, and I haven't—I think they were reorganized for a reason, and their effectiveness goes in peaks and valleys. The CFO, I believe, is codified. The CIO

may not be codified as far as the three councils, and I know that the President's Management Council is not a codified council. But I think—and I said this previously—the reason why we are seeking codification is because of our dual role both with the administration and with the Congress, and we want to bring that congressional element as a part of our council activities.

Mr. COOPER. To me it's an essential part of preserving your independence not as individuals but as a professional group so that you are not subject to the whim of an administration who may find fault with one of your members or may have a political vendetta. I think this administration has been very fair. It's good to have things set.

Mr. GIANNI. I agree with you, and I would like to take this opportunity to again thank you for your interest in the community and your interest in fostering some legislation to help us as a community. We certainly look forward to working with you, sir.

Mr. COOPER. I am honored by your hard work. To find $72 billion in a year for taxpayers in potential savings is amazing; and to catch over 10,000 bad guys, I wish some of our other agencies could be as effective.

Thank you, Mr. Chairman.

Mr. PLATTS. Thank you, Mr. Cooper.

I think your earlier point, that it's kind of a good news, bad news story, it's good we are catching them but bad that there are many out there that have to be caught.

I want to maybe just touch on two more areas before we wrap things up here. One is, I didn't get to ask the Comptroller General about a recommendation that was made 5 years ago. Given I have been here 3 years and it was prior to my time on this subcommittee, but GAO recommended that the IGs be more thorough in developing their strategic plans for each of their individual offices. I wonder if you could tell us your respective offices, where you are with strategic plans and what your mission is and how you are pursuing that mission and your evaluation of the effectiveness of your efforts.

Mr. SNYDER. It's one that we do. We have a 4-year horizon. We update it every year. We even use it to report in our semi-annual report our goals and objectives so both the board and the Congress can see what our plan is, where our objectives are, and what we are doing under each one.

Mr. PLATTS. Do you share that with GAO as you are developing it to get their comments?

Mr. SNYDER. We seek their input in various forms in terms of where their priorities are going to be, what things you may be asking them to do. The IG Act requires us to coordinate with them, so it's part of that coordination that we do. It is somewhat informal.

As part of the working group that Gaston alluded to earlier, the IGs or the regulatory agencies get together I think every quarter or so. We invite the gentleman from GAO who has responsibility for this area to meet with us, and we talk about what's going on and the future direction and what the congressional interest is, and we share what we're doing.

So I think there's a dialog that goes on. It's not that formal, but I think there is a dialog that's there.

Mr. GIANNI. Mr. Chairman, I would like to take perhaps a different approach on this. Clearly, we are mandated to coordinate with GAO; and many of my colleagues do that. I would classify our coordination as passive coordination, that we make our decisions and we share our decisions with GAO for informational purposes.

What the Comptroller General was talking about in his testimony was having some more active participation and dialog before decisions are made so when GAO and the IG, as accountability officials, decide what needs to be addressed from an auditing standpoint that we have, at least from our decisional basis, the same knowledge and understanding of the issues. The idea being that the dialog occurs before decisions are made. Then after you have that common understanding and that discussion of what the issues are, what the risks are within the respective areas, then GAO will make their decisions and the IGs will make their decisions as to what they're going to do, and certainly those decisions should be complementary.

I agree that coordination is occurring. I would be the first to say that we, as a community and GAO working together, can improve the level of communication; and I think the community will respond to the CG's request that we work together to try to decide how best to accomplish this. We might not get 100 percent buy-in, but we're going to move in that direction because I think it makes good sense.

Mr. PLATTS. I didn't think at the time to ask the Comptroller General, but I would be interested, has he come before your respective councils and kind of made that direct request or, you know, plea to have more communication; and, if not, would you be interested in extending invitations to him?

Mr. GIANNI. Barry and I both have served and a number of our colleagues have served with GAO in a number of capacities. We have served on the Comptroller General's advisory board for the audit standards, and a number of our colleagues serve on that panel. The intergovernmental audit form that was initiated by GAO has many of our members from our respective IG community participating in it.

Now it might not be the Inspector General. It might be the head of their audit organization that participates in that organization. But there is that dialog within the audit community.

As far as this strategic area that the Comptroller General put forward before, he has come before us and talked about conceptually the need for us to work better together. Because we—GAO and the IG community—have limited resources and the challenges are great, we need to work together and work smarter so our resources are better used. He has put that forward. We need together, GAO and the IG community, to begin to work that through.

One of the observations that I made was that GAO has a protocol for working with the agencies and they have a protocol for working with the Congress. I believe that we need a protocol for the IGs and GAO for working together. So that's going to be one of the things that we're going to be working on in the coming year, to develop with GAO to get that formalized and as a best practice.

Mr. PLATTS. Glad to hear that. As in so many of the hearings we have had, having those more regular and open communications occurring I think benefits all parties and ultimately the public at large.

The last question I have relates to—from proposed statutory changes is whether there should be additional specific qualification requirements for IGs put in statute as far as minimum qualifications. Your thoughts on such a proposal.

Mr. GIANNI. Right now, the law says that it is based on someone of integrity that has a legal background or an auditing background or an investigative background or a management background; and that's pretty much it.

Mr. PLATTS. Should there be more specifics to those?

Mr. GIANNI. Let me address this another way. I am an auditor by training, by education and by career before I got my position. I spent 33 years in GAO. When I assumed the position of Inspector General for the FDIC, I also had to have investigative responsibilities. The fact that I'm not an investigator doesn't mean that I can't have oversight over an investigative function. What you do is you hire people on your team that know what the responsibilities are, and then you allow them to do their job.

So an Inspector General doesn't have to be all those things. I have lawyers on my team who can assist me where I might not have the legal background. Clearly, I have CPAs on my team that can amplify my expertise. One person is not going to have all of the expertise most likely, most likely will not have all of the expertise that's needed to be an Inspector General. What is necessary, in my opinion, is a person who is a good manager and a good leader and a person that has integrity.

Mr. COOPER. Mr. Chairman, may I ask a question?

Mr. PLATTS. That concludes mine, so if you have any followups that you would like to ask.

Mr. COOPER. When you say they have to have legal, accounting, investigative or management background, does that mean graduate degrees in any of these fields?

Mr. GIANNI. There are no professional certification requirements. It's educational background. It is not degree oriented. So it could be undergraduate, graduate or doctorate. There are no specific requirements.

Mr. COOPER. Would I have a legal background having taken one course in Constitutional law as an undergraduate?

Mr. GIANNI. I don't believe that would qualify from a legal standpoint.

Mr. COOPER. Does it take a JD?

Mr. GIANNI. That would be an actual practicing lawyer.

Mr. PLATTS. It's not spelled out and subject to interpretation.

Mr. GIANNI. That's correct. Generally, the community—at least the Presidentially appointed IGs—is generally made up of lawyers, accountants, auditors and investigators and some management-type IGs.

Mr. COOPER. I have no more questions, Mr. Chairman. Thank you.

Mr. GIANNI. One point on that is healthy. The community has the different disciplines in the leadership roles. Collectively, when

we get together, it does provide a synergy that you wouldn't get if just one discipline was being represented at the table.

Mr. PLATTS. Well, to our witnesses, I again want to thank you for your preparation for today and the written statements you submitted as well as your testimony here today, your patience while we had our votes. I know that Mr. Cooper and myself, Ms. Blackburn, Mr. Towns, all of us who are here today look forward to working with you and both councils and the administration as we try to move forward, what, if any, statutory changes we are going to change, move not just through this subcommittee but through Chairman Davis' full committee and ultimately to the House floor. So look forward to continuing to work with you.

I also want to thank majority and minority staff for their work regarding today's hearing.

We'll keep the record open, I guess, 2 weeks as any material to be submitted from our witnesses and followup questions to our first panel that we have to ask them to followup in writing to us.

This hearing stands adjourned.

[Whereupon, at 5 p.m., the subcommittee was adjourned.]

[Additional information submitted for the hearing record follows:]

Question from Vice Chair Marsha Blackburn
Subcommittee on Government Efficiency & Financial Management
House Committee on Government Reform

If agency appointed IGs had fixed terms and could only be removed for cause, do you think the positions would still need to be converted to president appointed?

I believe that a challenge some of the agency appointed IGs face rests with their status within their agency. By virtue of their mission and responsibility, IGs must have credible status within their agency to ensure a productive working relationship with the agency head. While converting agency appointed IGs to president appointed IGs would address this issue, I do not believe that such a solution would be necessary. Instead, elevating DFE IGs, who are currently GS-15s, to a level comparable to the agency's General Counsel would go a long way toward ensuring this status. Fixed terms and removal for cause protection could also help in this regard. The IG community stands ready to provide assistance and advice on this issue, as needed.

Submitted by The Honorable Gaston L. Gianni, Jr.
Inspector General, Federal Deposit Insurance Corporation
Vice Chair, President's Council on Integrity and Efficiency

Barry R. Snyder's Response to Questions from Vice Chair Marsha Blackburn
Subcommittee on Government Efficiency and Financial Management
House Committee on Government Reform

1. **Has any agency appointed IG ever undergone serious conflict with agency management? If so, how was it resolved?**

With its duel reporting relationship and independence within an agency, the IG concept inherently creates a natural tension between agency management, the IG, and the Congress. So it should be expected that there will be times when the IGs and their agency management will disagree on issues, approaches, resources, and results. Fortunately, through proper communication and a mutual respect and understanding of their different roles, IGs and agency heads in many agencies have achieved an effective working relationship.

Historically, however, some agency-appointed IGs have had serious conflicts with agency management that involve issues such as unreasonable restrictions on IG access to records and scope of work, delay and disregard for certain IG findings and recommendations, interference with IG independence, and unjustified budget cuts and staff reductions. In a few cases over the last fifteen years, the conflicts have escalated to agency heads inappropriately using the performance appraisal system to rate the IG's performance as less than acceptable and, in some instances, agency heads taking action to place the IG in a lower pay level than other senior officials or terminating the IG's employment all together.

Depending on the nature of the conflict, successful resolution can take on many forms. For example, in some cases, the IG and agency management have been able to work through their disagreement. In other cases, one or both parties have requested assistance from an external party, such as the Congress, the Office of Management and Budget (OMB), or the Integrity Committee of the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE). Congressional intervention can include a request for a General Accounting Office (GAO) assessment of the allegations or appropriate action by Congressional staff, such as impressing upon agency management the need to work cooperatively with the IG. In still other cases, the IG has pursued legal action against the agency through the courts or decided to voluntarily step down to pursue other endeavors. Eventually, the process worked and the issues were resolved. Today, the IG concept is more fully understood and conflicts tend to be more focused at a particular agency.

To further prevent or mitigate conflicts in the future, Congress may want to consider the following:

- Pursuing changes that would increase the stature of some agency-appointed IGs by bringing their position and compensation in line with other officials who report to the agency head, such as the General Counsel, Chief Information Officer, or the Chief

Financial Officer. As I noted in my testimony, the IG Act as amended sets the position level for the Presidentially-appointed IGs at the executive level, but is silent on the level for the agency-appointed IGs.

- Implementing a "removal for cause" provision, such as the one proposed by the Honorable Jim Cooper, to help prevent arbitrary dismissals of an IG. In his testimony, Congressman Cooper proposed that the IG standard for removal would be the same as the one that applies currently under statute to the Comptroller General which includes reasons such as permanent disability, malfeasance, inefficiency, and neglect of duty.

- Allowing IGs to submit copies of their funding requests directly to Congress, as proposed by Congressman Cooper, may also provide more transparency regarding IG budget and staffing requests relative to agency budget requests.

2. In your testimony, you criticized GAO's report on IG reforms. Are you saying that GAO did not conduct a thorough study and that it was structurally flawed?

The ECIE's concerns with GAO's report, *INSPECTORS GENERAL: Office Consolidation and Related Issues* (GAO-02-575), issued in August 2002, are two-fold:

- First, GAO proposes significant and far-reaching changes to the IG Act and to IG organizations based largely on subjective opinions provided in response to a survey, without providing the supporting evidence or analyses that shows such changes are truly warranted. In addition, the GAO assessment did not include the views of agency management, customers, and other stakeholders, nor did it provide any supporting analysis of the results of IG operations over the past fifteen years.

- Secondly, GAO's presentation of survey results focuses more on contrasting the IG responses based on the type of appointment (Presidential versus agency head) than it does on how the majority of IGs—regardless of the type of appointment—responded to the question. For example, GAO's conclusion that, ". . . the conversion and consolidation of selected DFE [designated federal entity] IG offices would serve to further enhance the overall independence, efficiency, and effectiveness of the IG community," is not supported by the majority of IG survey responses, regardless of type of IG appointment. In our comments (which are included in the report), we "re-worked" the tables to more clearly determine the majority view, with some interesting results. For example, we found that the majority of IGs responded that consolidation would weaken or have no impact on IG effectiveness in twenty-two of the twenty-eight of GAO's survey elements, particularly those elements in the categories of IG quality of work and IG use of resources.

Further, in his testimony, Comptroller General Walker seemed to recognize a "significant divergence in the responses to the survey," but attributed the divergence to whether the responding IG would be gaining or losing resources. A variety of factors could have

contributed to this divergence in the response, and we are concerned that GAO did not independently verify the survey results or assess specific reasons for differences between the Presidentially-appointed and the agency-appointed, DFE IGs. In our view, GAO could have given more credence to the DFE IGs who are dealing with the topics being addressed on a day-to-day basis. As a result, the DFE IGs commented that the design and validity of the survey instrument used on this review and the overall study construct was inappropriate to support the type of cause and effect relationships and conclusions presented.

Nevertheless, we were pleased to hear Comptroller General Walker note during the hearing that nothing came to light regarding specific problems with the independence or the operations of the DFE IGs. Under GAO's recently updated, *Government Auditing Standards*, DFE IGs are, in fact, organizationally independent to report externally. In addition, in many cases, the DFE IG independence is further strengthened by having the IG appointed not by a single agency head, but through a collaboration of members of a Board or the Board itself, thus negating the perception of an independence problem that could be associated with an agency head appointment. In addition, many DFE IGs are successfully working in agencies where they were appointed by the predecessor of the current agency head, and have worked through the terms of political appointees from both parties.

3. Are GAO's proposed consolidation scenarios overly simplistic?

Almost all of the DFE IGs commented that GAO's proposed consolidation scenarios are overly simplistic given the diverse missions of the agencies involved; the various types of funding, administrative, and personnel authorities and practices; the differences in congressional oversight and appropriations processes; and the separate governance and oversight structures of the regulatory entities, state and/or federal commissions, independent corporations and boards, and unique agencies that comprise the DFE IG agencies. In our formal response to the GAO report, the DFE IGs also emphasized that consolidation sacrifices providing a local preventive presence, oversight, and focus at individual agencies or entities in favor of potentially fragmenting the attention of a larger IG office across a broad and diverse spectrum of programs and operations. Furthermore, GAO's proposed mitigation strategies to overcome the deficiencies created by consolidation would, in the opinion of the DFE IGs that commented, make the resulting IG operations less efficient and economical (maintaining a few staff at separate, multiple locations) and would likely prove to be ineffective over time (DFE staff would lose their detailed knowledge base if they do not perform ongoing work in the DFE).

As I noted in my testimony, we believe that the simple organization and operating structure that comes with being a smaller DFE IG is well-suited to the organizations covered in the 1988 amendments to the IG Act and that the Congressional wisdom and intent in taking this approach was well-placed. In considering the 1988 IG Act amendments, Congress studied issues such as independence, audit and investigative

coverage, and the presence of an IG as a prevention measure, and ultimately decided to create the DFE IGs to address the need for independent and objective audits, investigations, and other reviews at certain designated agencies. Prior to the 1988 amendments, these agencies historically had received limited oversight by the Congress, the media, or the public. Congress recognized the value of an on-site IG as a visible deterrent to potential fraud, waste, and abuse and as an objective evaluator of the economy, efficiency, and effectiveness of programs and operations in these agencies.

By virtue of being "on-site" and knowledgeable of their entity's legislative backgrounds, operating environments, cultures, and policies and procedures, DFE IGs are able to act quickly to bring about positive change in entity operation. Most DFE IGs do not have separate information technology and human resources shops and the associated overhead, and instead effectively follow agency processes through memoranda of understanding or other means. As a result, the potential "economies of scale" from consolidating administrative overhead may not be as significant as GAO anticipated. In addition, consolidation could lead to a reallocation of staff years to higher risk programs outside the designated federal entity, providing little or no coverage to DFE operations.

The DFE IGs believe that consolidation may be warranted in some cases. For example, if the agencies are consolidated then it makes sense that the IG offices should also be consolidated. The Department of Homeland Security is a good case in point. On the other hand, some of the potential IG consolidations proposed by GAO in appendix II of its report appear inconsistent with the agency mission. For example, the Farm Credit Administration shares a more common mission with financial services agencies than it does with the Department of Agriculture, which was the consolidation scenario proposed by GAO.

In conclusion, the key question to be addressed is whether or not Congress wants to ensure an IG presence in the designated federal entity. If not, then perhaps we do not need to have a statutory IG at that particular entity. If so, then we should look at the resources associated with the existing IG office and modify them as appropriate.

<Insert>

FINALLY, THE LEGISLATION WOULD REQUIRE THAT THE IG MAINTAIN A PHYSICAL PRESENCE, e.g., AUDIT OFFICES, AT SELECTED DFE AGENCIES

Questions from Vice Chair Marsha Blackburn

Question: Do you think the benefits from an audit of internal controls of agencies will outweigh the costs and manpower to perform them?

Answer:
We believe that auditor reporting on the effectiveness of controls is appropriate and necessary for major public entities such as the CFO Act agencies currently included in the U.S. government's consolidated financial statements. An auditor's opinion on internal control can add significant value in a cost beneficial manner in the right circumstances. The circumstances can differ across organizations of different size, complexity, and most importantly, the current state of the organization's control efforts.

We support the provisions of H.R. 2886 that would require the Chief Financial Officer's Council and the PCIE to jointly study the potential costs and benefits of requiring the CFO Act agencies to obtain audit opinions of their internal controls over financial reporting. In addition, H.R. 2886 would require GAO to perform an analysis of the joint study and report the findings to the House Committee on Government Reform and the Senate Committee on Governmental Affairs. We believe that the study and related analysis are important first steps in resolving the issues of cost and benefit of providing auditors' opinions on internal control in federal agencies.

What should be put in specific legislation in order to minimize risks of consolidation?
Answer:
We believe that if properly structured and implemented, the consolidation of IG offices would enhance the overall independence, economy, efficiency, and effectiveness of the IG community. We recognize, however, that consolidation presents potential risks 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 the designated federal entities (DFE). Potential risks generally include reduced attention, communication, and audit coverage provided by a consolidated IG to the DFE agencies.

AND PHYSICAL PRESENCE

In order to minimize potential risks associated with consolidation of IG offices, the legislation could require audit coverage of the DFE agencies from which the IGs were consolidated. The legislative history, if not the legislation could specifically require that the audit coverage be risk-based, as a result of regular, periodic strategic audit planning and risk assessments. All of the agencies with IGs that were consolidated should be included in the audit risk assessments and resulting audit planning process of the consolidated IG offices. The legislation could also specifically require the consolidated IGs to prepare strategic plans to help ensure effective audit coverage of the DFE entities' programs and operations. This would require the consolidated IG to assess and describe the risks and problems each DFE agency faces in fulfilling its mission by identifying those programs and operations which are not efficient, effective, or economical; whose desired results or benefits are not being achieved; and which are vulnerable to waste, fraud, abuse, and mismanagement. Finally, the legislation could require that the IG maintain a physical presence (e.g., audit offices) at selected DFE agencies.