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STATEMENT OF  
ELMER B. STAATS, COMPTROLLER GENERAL  
U.S. GENERAL ACCOUNTING OFFICE

BEFORE THE

SUBCOMMITTEE ON GOVERNMENTAL EFFICIENCY  
AND THE DISTRICT OF COLUMBIA  
COMMITTEE ON GOVERNMENTAL AFFAIRS  
UNITED STATES SENATE  
CONCERNING H.R. 8588, A BILL TO  
ESTABLISH AN OFFICE OF INSPECTOR GENERAL  
IN VARIOUS FEDERAL DEPARTMENTS AND AGENCIES

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to appear before the Subcommittee to present the views of the General Accounting Office on the possible inclusion of the Departments of Defense and State in H.R. 8588, a bill which would establish an Office of Inspector General within various departments and agencies.

With me today are Mr. Donald L. Scantlebury, Director of our Financial and General Management Studies Division, Mr. George L. Egan, Assistant Director, and Mr. Richard E. Nygaard, Audit Manager in that Division.

My testimony today will address three issues you inquired about subsequent to Mr. Scantlebury's testimony of June 15 before this Subcommittee. I will discuss GAO's review of the extent of fraud in eight major agencies of the Government, the problems encountered by our Office in getting access to military Inspector General reports, and the possible inclusion of the Departments of Defense and State in H.R. 8588. However, before I get into these matters I would like to take this opportunity to reiterate our strong belief that the title of the organizations to be created by H.R. 8588 should be changed.

NEED TO CHANGE TITLE OF  
OFFICE OF INSPECTOR GENERAL

I cannot stress too strongly to you the need to revise the Inspector General's title in this bill. This may seem to be a minor point, but I can assure you that what this Subcommittee does on this matter is going to have far reaching consequences in the years to come. We believe that the name of the organizations established by the bill will set the tone for how they operate. If you call them "Office of Inspector General" you are going to find that future hiring of personnel for those Offices will be concentrated on persons with investigative backgrounds, and future operations will increasingly be centered on investigations for the purpose of detecting fraud.

We recognize that a certain amount of this type of effort is desirable. Our own review of fraud -- which I will discuss in a moment -- cites a need for action in this area. We believe, however, that far more money can be saved if the organizations created by this bill maintain a balance between audit as a means of preventing fraud and investigations as a means of detecting fraud that has already occurred.

We are convinced that fraud detection might draw staff away from audit because much of the fraud which occurs in the Government's economic assistance programs is attributable to the illegal actions of a sizable number of individuals who cheat the Government out of amounts that are relatively small in themselves, but which add up to a sizable sum. If the organizations created by this bill direct most of their efforts toward detecting these instances of fraud, they are going to be overwhelmed by the sheer number of individual cases they must pursue. We believe it would be far better to use the bulk of these organizations' efforts to assist management in implementing strong internal controls which will prevent funds from being misused in the first place.

In other words, Mr. Chairman, what the Federal agencies need are strong internal controls to minimize the opportunities to defraud the Government, as well as sufficient staff to investigate fraud when it occurs. Strong internal audit

goes hand in hand with such internal controls because audit lets management know if these controls are in existence and functioning properly, and what modifications are needed to close any loopholes.

We are not alone in our concern in this matter. Representatives of the State Audit Coordinating Council met with me on July 12 to express their concern that the emphasis of the Federal audit organizations they deal with seems to be shifting away from audit toward fraud detection and punishment. It is my understanding that they have sent you a letter outlining their views on this matter. Also, they expressed their concern that the existing Inspectors General generally do not see themselves as the ones who should attend the meetings of the Intergovernmental Audit Forums, which deal with problems and promote cooperation between Federal, State and local auditors. They instead usually send their chief auditors to such meetings, which lowers the capability of the Forum to get decisions on the problems they are confronted with since these auditors are in subordinate positions.

That is why, Mr. Chairman, I am making requesting that the title be changed to "Office of Auditor and Inspector General" which will show that the organizations have the audit function

as well as the investigative function. We are not aware of any objection that has been made to changing the Inspector General's title, and we believe such a change should not be controversial. I hope you will give this your most serious consideration in your deliberations on this measure, and will also use this legislation to revise the titles "Inspector General" in the Departments of Energy and Health, Education, and Welfare as well.

REPORT ON FRAUD IN  
THE FEDERAL GOVERNMENT

I will move on now to discuss the GAO's review of fraud in eight major Federal agencies. The fraud review was initiated by the GAO to determine what was being done by Federal agencies to identify and combat fraud in their programs. It covered the activities of the Departments of Agriculture, Housing and Urban Development, Justice, Labor and the Department of Transportation's Federal Highway Administration. It also included the Veterans, Small Business, and General Services Administrations.

The GAO review disclosed several problems with the Government's efforts to detect fraud. We found, for example, that the Department of Justice's antifraud assistance to agencies has fallen far short of what is needed. In addition, agency investigators often do not have the background, experience, or training required to effectively investigate fraud. About 70 percent of them have had no prior experience and 80 percent have had no formal training in investigating fraud.

One of the more basic problems we observed was that agencies have not been systematically compiling information on the various incidences of fraud which have occurred in their programs. Without such data, agencies have little basis for establishing the level of resources needed to combat fraud, for mapping out antifraud strategies, or for evaluating the effectiveness of their fraud prevention and detection activities.

Our report on these problems is nearing completion. The final report will address the need for the Justice Department to provide stronger leadership in Federal antifraud efforts. It will also point out the need for agencies to provide their investigators with more training, and in the future to concentrate on recruitment of personnel with backgrounds and skills better suited to the complexities of fraud. The report will stress the need for agencies to give fraud identification a higher priority and make their employees more aware of the potential for fraud in their programs. The report will reinforce what Mr. Scantlebury said in his recent testimony before this Subcommittee, and what I have said today regarding the importance of reviews of management's internal controls by internal auditors as a means of reducing fraud in Federal programs.

ACCESS TO MILITARY  
INSPECTOR GENERAL REPORTS

That brings me to the question of the availability of

military inspection reports. Our access to these reports has been a matter of contention between our Office and the Department of Defense since at least 1958, when it led to hearings before a Subcommittee of the House Government Operations Committee. The historical background of this problem is spelled out in a series of letters and reports which our Office supplied for the record as part of Mr. Scantlebury's June 15 testimony before this Subcommittee.

In essence, the problem is that the Department of Defense contends that Inspector General reports are confidential, and are not releasable to persons or agencies -- not even to officials within the Department of Defense -- without the express approval of the Secretary of the department that produced the report.

When our Office requests access to such reports and supporting documentation, we are given instead "statements of fact." These statements exclude all opinions, conclusions, recommendations, and, of course, support documents. Since this data is withheld from us by the Inspector General's staff, we have no way of knowing if all the facts have been given to us, what the conclusions and recommendations are, and whether corrective action has been taken by management on the Inspector General's recommendations.

This denial of access prevents information contained in Inspector General reports from being used beneficially by top management in the Department of Defense, and by the Congress. It also hampers our ability to carry out our responsibilities to the Congress, and may even force us to waste time and resources by making similar reviews when the information we seek is already available in inspection reports.

For the most part, inspection reports -- at least in the Air Force, where we recently tried to review Inspector General activities -- deal with functional management, system acquisition management, and inspections made to determine the economy, efficiency and effectiveness of programs and activities -- the same things that auditors look for in their reviews. In fact, the inspection function is so similar to the audit function in the Air Force that inspections have frequently been substituted for audits. Moreover, because of the confidential treatment given Inspector General reports, any significant problems discovered by these substituted inspections were not reported to our Office, or the Congress, and may not even have been reported to the Department of Defense.

We advised the Congress of the problem of substituting inspections for audits in a November 1977 report entitled



"The Air Force Audit Agency Can Be Made More Effective."  
Then, in a separate review, we attempted to determine the extent to which inspections made in lieu of audits insured completeness of coverage of economy, efficiency, and effectiveness of Air Force operations. Unfortunately, we were unable to evaluate the Air Force inspection system because we were denied access, once again, to the inspection reports and files.

In a letter to our office dated June 29, 1977, the acting Air Force Under Secretary said, and I quote:

The Inspector General is the confidential agent of his commander, assigned to his immediate staff and responsible directly to him.

The current reports were derived from inquiries conducted under this concept of confidentiality. Not only does this confidentiality encourage inspectors not to soften criticism, it also encourages those being interviewed to speak with candor. Such candor might not exist if those being interviewed knew that there would be broader dissemination of their views. Release of existing reports could be construed as a breach of faith which could weaken the relationship which now exists between the inspectors and those being interviewed.

Mr. Chairman, we are frankly concerned that this issue of confidentiality is being used to prevent us from seeing reports on important management issues, such as evaluations of major

weapons systems, automated information systems, and supply and inventory systems. We do not accept denial of access to these reports on the basis of confidentiality because dealing with classified and other restricted information has been an integral part of GAO's work for a long time. Our office is trusted with a considerable amount of confidential and secret information every day, ranging from classified military data to personal income tax returns. We have, if I may say so, a long and excellent record of preventing disclosure of such information. I can assure you that I will continue my efforts to gain access to these military inspection reports. We would appreciate your support.

CREATION OF DEFENSE INSPECTOR  
GENERAL IN H.R. 8588

It is with this problem of access in mind that I would like to turn now to the question of whether the Department of Defense should be included in H.R. 8588. As you know, the Department of Defense has four types of organizations -- those coming under the control of the three Military Services and some general defense agencies that report directly to the management of the Department of Defense. The three military services have Inspectors General already and we are told they perform a broader function than the type of investigative function normally pursued by Inspectors General in civilian

agencies. For instance, they look into matters like employee morale and compliance with military requirements.

The military Inspectors General are military officers, and we do not believe they meet the independence standards we require of auditors. We have previously reported to the Congress on this matter in three reports -- one on each service -- and Mr. Scantlebury has testified on this point before the Subcommittee on Legislation and National Security, House Committee on Government Operations. Because of the independence problem, we think it would not be wise to combine the Inspector General function with the internal audit function in the three military services.

We are also concerned that inclusion of the military services' audit groups under the control of the Inspectors General in the Army, Navy, and Air Force could result in denial of access to audit reports, which we presently have no problem getting, as well as the inspection reports.

Accordingly, Mr. Chairman, we believe it is in the best interests of our Office and the Congress that the audit organizations and the Offices of Inspector General in the Departments of Army, Navy, and Air Force remain separate from each other. However, we think including a Department of Defense Office of Auditor and Inspector General in H.R. 8588 would be both feasible and desirable. Such an office could have responsibility for reviewing the activities of Defense agencies outside

the Departments of Army, Navy and Air Force, including the Defense Logistics Agency, Defense Nuclear Agency, Defense Investigative Service, Defense Civil Preparedness Agency, Defense Mapping Agency, and several other agencies.

This Office could be similar in responsibility and operation to the Defense Audit Service, which performs internal audits of the Office of the Secretary of Defense, the Joint Chiefs of Staff, and other Department of Defense agencies, as well as having a responsibility for Defense-wide audits.

We believe that a new office of Auditor and Inspector General in the Department of Defense should include the Defense Audit Service, and possibly the existing Offices of Inspector General in the Defense Logistics Agency, Defense Nuclear Agency, and Defense Investigative Service. We have been unable to study the operations of these Inspectors General because of the access to records problem, so we do not know much about what they do or how they operate. However, we believe consideration should be given to putting them into the proposed new Office.

Whether or not the Defense Contract Audit Agency should be included is another question. This is an unusual organization. We are in the midst of reviewing its operations, and have found that a substantial amount of its work involves making reviews of data for contracting officers to

use in negotiations with contractors. This is a "preaudit" function, and is basically done to provide assistance to the procuring office in the contract negotiation process. We have not yet done sufficient work in reviewing its activities to be able to reach a conclusion on whether it would be advisable to include any part or all of it under an Office of Auditor and Inspector General.

We believe that, regardless of the makeup of a new Office of Auditor and Inspector General, it should be headed by a civilian to avoid the problem of lack of independence I mentioned earlier.

A new Office could provide the Department of Defense with an organization capable of reviewing two of the areas which have the greatest potential for fraud and error -- namely procurement and supply. Inspector General investigations of procurement would complement the type of reviews now made by the Defense Contract Audit Agency, and supply would be covered by investigations of the Defense Logistics Agency, which performs a function for the military similar to that performed by the General Services Administration for civilian agencies.

There is one other point that should be considered. As I mentioned a moment ago, there are already Offices of Inspector General in the Defense Logistics Agency, Defense Nuclear Agency, and Defense Investigative Service. They perform inspections, not audits, and we do not have access

to their reports. If they are combined with a new Defense Office of Inspector General, the problem of access to inspection reports would be brought into sharp focus. The Subcommittee should be aware of this potential problem in its deliberations on the possible inclusion of the Department of Defense in H.R. 8588.

INCLUSION OF STATE  
DEPARTMENT IN H.R. 8588

The final portion of my testimony deals with the possible inclusion of the State Department in H.R. 8588. As you know, Mr. Chairman, there already is an Office of Inspector General, Foreign Service in the State Department. It differs considerably, however, from the other agencies already included in H.R. 8588 in that it is primarily involved in reviews of the work of U.S. diplomatic and consular establishments, which are required by law to be reviewed at least once every two years.

The Inspector General, Foreign Service, reviews the economic, commercial, consular, and political affairs of U.S. embassies, consulates, various missions, and other lesser offices in foreign countries. The work is performed by 19 auditors and 33 inspectors. The inspectors are generally high ranking foreign service officers assigned to the Inspector General's Office for 2-year tours.

As of July 1 of this year, the Inspector General, Foreign Service, has been assigned the duties and authorities of the recently abolished Inspector General, Foreign Assistance. We understand that the State Department has no plans for its Inspector General, Foreign Service, to assume the reassigned duties. Essentially these duties will continue to be carried out by the respective foreign affairs agencies' audit organizations.

We have no objection to including the State Department in H.R. 8588, but we do not believe it is necessary to do so. The only benefit we can see from such an arrangement is that there would be a better opportunity for the Congress to receive information on problem areas in the U.S. diplomatic and consular establishments under the reporting requirements of the bill.

There is, Mr. Chairman, an Auditor General in the Agency for International Development. If the State Department is included in the bill, it is perhaps natural to consider whether the operations of the Auditor General of AID should be incorporated into that Office. We would have reservations about making such a consolidation at this time. Such a move would deprive the AID Administrator of an essential management tool which he needs to keep him informed of the economy, efficiency, and effectiveness

of foreign aid programs and administrative activities of his own agency. We believe the retention of a strong and effective internal audit organization at AID is essential to the Administrator in carrying out his responsibilities.

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Mr. Chairman, this concludes my prepared statement. My colleagues and I will be pleased to respond to any questions you or other members of the Subcommittee may have.