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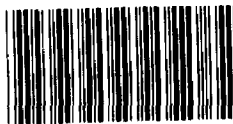
STATEMENT OF  
ALLEN R. VOSS, DIRECTOR  
GENERAL GOVERNMENT DIVISION  
BEFORE THE  
SUBCOMMITTEE ON TREASURY, POSTAL SERVICE  
AND GENERAL GOVERNMENT  
COMMITTEE ON APPROPRIATIONS  
UNITED STATES SENATE  
CONCERNING THE [AUDITING AND INVESTIGATIVE  
ACTIVITIES OF THE DEPARTMENT OF THE TREASURY]

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Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to appear before you today to present our views on centralizing the Treasury Department's internal auditing and investigative activities.

As you know, the Congress has long recognized the useful role of internal audit activities. The Budget and Accounting Act of 1950 required the heads of executive agencies to establish and maintain effective internal control systems over all agency funds, property, and other assets, including appropriate internal audit.



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We consistently find that the internal audit function strengthens the management of Government programs and activities. In an organization as administratively complex as a Federal department, the internal audit function can funnel to management information which is widely dispersed throughout the organization. A management thus informed can better administer its multiplicity of programs and activities.

To upgrade and strengthen internal auditing, we have issued numerous reports recommending, among other things, the centralization of internal auditing activities within departments. Similarly, the House Committee on Government Operations reported that "There must be a central internal audit system in every large department or agency organized independent of department or agency operations."

In 1978, the Congress passed the Inspector General Act centralizing internal audit and investigative activities at 12 major agencies or departments. The centralization was intended to enable these departments to more effectively combat fraud, abuse, waste, and mismanagement in their programs.

We strongly supported this act because we felt that the establishment of a single unit reporting to the department head:

- Provided the advantages of greater independence.
- Fostered a broad viewpoint on the interrelationship of organizations and functions within an agency.

--Placed the internal auditor in a better position to make systematic and independent evaluations of and reports on all agency programs, activities, and operations.

A single unit also helps to attract and retain better managerial and staff capability, use staff more effectively, and better coordinate audit effort and interrelated findings. In addition, under unified direction and supervision, a single unit permits an organization to devote a greater portion of total staff time to audits and provides greater opportunities for tailoring staff assignments to staff members' talents and experience.

The arguments given for centralizing internal audit are also true for centralizing internal investigative activities. Further, we believe that having the audit and investigative functions reporting directly to top department management strengthens the internal controls within Federal departments. We also believe that combining the audit and investigative functions could result in a more concentrated effort to ferret out fraud and abuse.

#### TREASURY'S INTERNAL AUDITING AND INVESTIGATIVE ACTIVITIES

Most of Treasury's internal auditing and investigative activities are conducted by audit staffs located in 10 bureaus and by investigative staffs located in 4 bureaus. Attached to my statement are a series of exhibits that

highlight, by bureau, the resources devoted to internal audit and investigative activities and the results of these activities. In summary, Treasury bureaus have devoted varying degrees of resources to these activities with varying degrees of achievement.

On July 18, 1978, Treasury established the Office of the Inspector General. The Office was conceived as a three-professional staff office chartered to

- report directly to the Deputy Secretary,
- supervise the investigation of allegations concerning high-level Treasury officials,
- coordinate but not duplicate the work of the bureaus' investigative components, and
- provide investigative services to bureaus not having an investigative component.

Also, the Inspector General was authorized to review bureau operations for ascertaining, reporting, and investigating employee misconduct. The Office began operations in September 1978.

To carry out his responsibilities, the Inspector General was authorized to detail investigators from bureaus having internal investigative components. In fiscal year 1979, the Inspector General obtained about 18 investigative staff years from the bureaus. For fiscal year 1980, Treasury increased the Inspector General's staff by two professional positions--one investigator and one management analyst.

Working with limited staff and authority, augmented by detailed staff, the Inspector General has taken several steps to increase Treasury-wide attention to waste, fraud, abuse, and employee integrity matters. However, it was evident to the Inspector General that Treasury's internal audit and investigative program needed immediate strengthening, including additional Department oversight and control.

As a result of an Inspector General study, Treasury's Office of Audit was consolidated into the Office of the Inspector General by Treasury Order dated February 20, 1980, and the Inspector General's authority was substantially expanded by Treasury Order dated February 27, 1980. The Inspector General was assigned the following additional authority to:

- Review and approve bureau internal audit and investigative plans.
- Evaluate bureau internal audit and investigative programs.
- Analyze reports to inform the Secretary or Deputy Secretary of any significant problems, abuses, or deficiencies disclosed in bureau audits and investigations and of corrective actions taken.

In addition, the bureaus are to consult with the Inspector General in recruiting and selecting bureau officials in charge of their internal audit and investigative components.

Much of the Inspector General's increased authority has not yet been implemented. For instance, the Inspector General has not yet become involved in the planning process, and no directives have been sent to the bureaus concerning reporting responsibilities. Concerning program oversight, the Inspector General has not developed an information system to monitor the various bureaus' efforts, problems, or accomplishments.

#### CLOSING OBSERVATION

In closing, several steps have been taken which can result in superimposing Department controls over the internal audit and investigative activities of the various bureaus. These steps present a dual management arrangement which is inherently subject to problems.

First, we do not believe that the internal audit and investigative staffs of the various bureaus can serve two masters.

Second, no Treasury mandate specifies the extent to which the Inspector General is to take the lead in Department-wide efforts to assess the effectiveness, efficiency, and economy of bureau operations or eliminate fraud, abuse, waste, employee integrity problems, and mismanagement in Treasury programs.

Third, the resources to be provided to the Office of the Inspector General are so minimal that it is difficult to visualize such an office being an effective organization.

For many years we have strongly supported the need for centralizing internal audit activities at the highest level in a Federal department. In this regard, the further the internal audit organization is removed from officials directly responsible for programs and operations, the more the internal audit component can be independent and objective.

Accordingly, with the possible exception of the Internal Revenue Service, we support the need to centralize the internal audit and investigative activities of the Treasury Department under an Inspector General who reports directly to the Secretary of the Treasury.

I am prompted to suggest that IRS be excepted from such centralization because of the sensitivity of its internal auditing operations, which require access to tax returns. However, we have not considered the matter in sufficient depth to enable us to support such an exception. We believe that justification for this exception, if desirable, should be provided by the Commissioner of the Internal Revenue Service.

This completes my statement, Mr. Chairman. We will be pleased to answer any questions you may have.

Comparison of Internal Investigative Budgets With  
Total Treasury Operating Budget  
Fiscal Year 1979

<u>Bureau</u>	<u>Investigative unit</u>		<u>Total bureau</u>		<u>Investigative unit as a % of total bureau</u>	
	<u>Staff</u>	<u>Budget (millions)</u>	<u>Staff</u>	<u>Operating budget (millions)</u>	<u>Staff</u>	<u>Budget</u>
Office of the Inspector General (note a)	5	\$ .2	9,412	\$ 1,021.1	.1	-
Internal Revenue Service	547	14.7	72,427	2,155.3	.8	.7
Customs Service	104	4.0	14,470	442.9	.7	.9
Alcohol, Tobacco and Firearms	21	1.1	3,799	137.9	.6	.8
Secret Service	23	1.2	3,561	140.9	.6	.9
Comptroller of the Currency (note c)	-	-	3,123	b/96.6	-	-
Engraving and Printing (note c)	-	-	3,089	b/135.1	-	-
<b>Total</b>	<u>700</u>	<u>\$ 21.2</u>	<u>109,881</u>	<u>\$ 4,129.8</u>	.6	.5

a/Represents the operating budgets of the bureaus that do not have investigative components.

b/Total obligations.

c/Investigative staffs not operational during fiscal year 1979.



Treasury Internal Investigative Staff by Activity  
Fiscal Year 1979

Professional Staff Years by Activity

<u>Bureau</u>	<u>Investigations</u>	<u>Systems vulnerability evaluations</u>	<u>Other (note b)</u>	<u>Total</u>
Office of the Inspector General	a/20	-	1	21
Internal Revenue Service	181	-	209	390
Customs Service	52	-	29	81
Alcohol, Tobacco and Firearms	14	2	1	17
Secret Service	<u>5</u>	<u>-</u>	<u>14</u>	<u>19</u>
Total	<u>272</u>	<u>2</u>	<u>254</u>	<u>528</u>
Percentages	51.5	.4	48.1	100

a/Includes 15 staff years detailed from IRS and an estimated 3 staff years from Secret Service; Customs; and Alcohol, Tobacco and Firearms.

b/Includes staff years spent on employee background investigations, administrative support activities, equal employment opportunity matters, and program inspection activities.

Treasury Internal Investigation Program  
Workload and Accomplishments  
Fiscal Year 1979

	<u>OIG</u>	<u>IRS</u>	<u>Customs</u>	<u>AT&amp;F</u>	<u>Secret Service</u>	<u>Total</u>
<u>Overall workload</u>						
Investigations ongoing (previous fiscal year)	4	1,334	132	56	4	1,530
Investigations initiated	54	2,125	584	113	35	2,911
Investigations ongoing (year end)	(19)	(1,202)	(176)	(71)	(4)	(1,472)
Investigations completed	<u>39</u>	<u>2,257</u>	<u>540</u>	<u>98</u>	<u>35</u>	<u>2,969</u>
<u>Fiscal year investigation results</u>						
Referral to Justice	8	265	36	98	0	407
Referral for administrative action	18	568	314	0	18	918
Allegation not supported	<u>13</u>	<u>1,424</u>	<u>190</u>	<u>0</u>	<u>17</u>	<u>1,644</u>
Total	<u>39</u>	<u>2,257</u>	<u>540</u>	<u>98</u>	<u>35</u>	<u>2,969</u>
<u>Justice referral results</u>						
Not accepted	7	179	25	98	0	309
Convictions obtained	0	72	11	0	0	83
Pending	<u>1</u>	<u>14</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>15</u>
Total	<u>8</u>	<u>265</u>	<u>36</u>	<u>98</u>	<u>0</u>	<u>407</u>

EXHIBIT III  
(Cont)

	<u>OIG</u>	<u>IRS</u>	<u>Customs</u>	<u>AT&amp;F</u>	<u>Secret Service</u>	<u>Total</u>
Administrative <u>referral results</u>						
Employee reprimands or suspensions	2	140	93	0	0	235
Employee resigna- tions or removals	2	77	57	4	0	140
Other employee actions	5	0	4	19	0	28
Program changes	4	0	21	0	0	25
No action taken	10	170	164	10	0	354
Unknown	<u>2</u>	<u>360</u>	<u>0</u>	<u>65</u>	<u>18</u>	<u>445</u>
Total	<u>25</u>	<u>747</u>	<u>339</u>	<u>98</u>	<u>18</u>	<u>1,227</u>

Comparison of Internal Auditing Budgets With  
Total Treasury Operating Budget  
Fiscal Year 1979

<u>Bureau</u>	<u>Internal auditing</u>		<u>Total bureau</u>		<u>Internal auditing</u>	
	<u>Staff</u>	<u>Budget</u> <u>(millions)</u>	<u>Staff</u>	<u>Operating</u> <u>budget</u> <u>(millions)</u>	<u>as a % of</u> <u>total bureau</u>	<u>Staff</u> <u>Budget</u>
Office of Audit (note a)	17	\$ .55	1,627	\$ 60.6	1.0	.9
Internal Revenue Service	452	12.98	72,427	2,155.3	.6	.6
Customs Service	103	3.55	14,470	442.9	.7	.8
Alcohol, Tobacco and Fire- arms	24	.81	3,799	137.9	.6	.6
Secret Service	2	.06	3,561	140.9	.1	--
Comptroller of the Currency	4	.09	3,123	b/ 96.6	.1	.1
Engraving and Printing	22	.63	3,089	b/135.1	.7	.5
Public Debt	26	.62	2,602	171.0	1.0	.4
Government Financial Operations	36	1.17	2,510	728.5	1.4	.2
Mint	21	.53	2,376	46.0	.9	1.2
Federal Law Enforcement Center (note c)	--	--	297	15.0	--	--
Total	<u>707</u>	\$ <u>20.99</u>	<u>109,881</u>	\$ <u>4,129.8</u>	.6	.5

a/Represents the operating budgets of the bureaus in which the Office of Audit has auditing responsibilities.

b/Total obligations.

c/Audit staff not established until February 1980.

Treasury Internal Audit Staffs By Activity And Results  
Fiscal Year 1979

Bureau	Professional Staff Years By Activity						Audit Reports Issued	Staff Years Per Audit Report	Savings from Audit Recommendations (\$000)	
	Financial Compliance	Economy, Efficiency and Effectiveness	Evaluation of Internal Controls For Vulnerability to Fraud	Investigations of Fraud, Abuse, Waste & Error	Other	Total				
Office of Audit	7.0	2.4	0	0	4.6	14.0	15	.93	0	
Internal Revenue Service (IRS)	114.0	149.0	67.0	36.0	37.0	403.0	98	4.11	302,000	
Customs Service	22.0	41.0	10.0	0	17.0	90.0	141	.64	14,197	
Government Financial Operations	17.0	3.0	4.0	1.0	7.0	32.0	73	.44	12	
Public Debt	12.0	11.0	0	0	1.0	24.0	36	.67	0	
Alcohol, Tobacco and Firearms	4.5	5.4	5.9	0	4.2	20.0	10	2.00	164	
Bureau of Engraving and Printing	9.0	4.0	5.0	0	2.0	20.0	54	.37	799	
Bureau of the Mint	9.0	4.0	1.0	0	2.0	16.0	14	1.14	0	
Comptroller of the Currency	1.0	.5	.5	0	1.0	3.0	4	.75	0	
Secret Service	.5	.5	.5	.5	0	2.0	2	1.0	0	
Federal Law Enforcement Center	Audit staff not established until February 1980.									
Total	<u>196.0</u>	<u>220.8</u>	<u>93.9</u>	<u>37.5</u>	<u>75.8</u>	<u>624.0</u>	<u>447</u>	1.40	<u>317,172</u>	