

GAO

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The Inspector General Act Amendments of 1987

Statement of
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Before the
Committee on Governmental Affairs
United States Senate



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Mr. Chairman and Members of the Committee:

We appreciate the opportunity to be here today to discuss S. 908, the Inspector General Act Amendments of 1987, and related issues. Specifically, we would like to (1) offer GAO's views on establishing statutory inspectors general (IGs) at four agencies, (2) discuss the results of our work regarding the internal audit and investigative operations of the Office of Personnel Management (OPM), (3) provide GAO's views on other provisions in S. 908, and (4) comment on the report of the President's Council on Integrity and Efficiency (PCIE) regarding the internal audit and investigative capabilities of small agencies.

COMMENTS ON S. 908

GAO strongly supported passage of the Inspector General Act of 1978 and other legislation that created statutory IGS. GAO reviews during the past several years indicate that the establishment of statutory IGs has been a key factor in correcting deficiencies and in strengthening federal internal audit and investigative activities throughout the federal government. Semiannual reports from the statutory IGs and the PCIE have shown that the IGs have had substantial success in helping to bring about improvements in the federal government.

S. 908 would, among other things, amend the Inspector General Act of 1978 by establishing offices of inspector general in the Department of the Treasury, the Federal Emergency Management Agency (FEMA), the Nuclear Regulatory Commission (NRC), and OPM.

Department of The Treasury

As I stated in my testimony before this Committee in February 1987, GAO strongly supports the establishment of a statutory IG at the Treasury Department.¹ In 1986, we issued a report to this Committee recommending that the Congress amend the Inspector General Act of 1978 to establish a statutory IG at the Treasury Department.²

Under S. 908, the new IG office would include the operations of the current nonstatutory IG plus those portions of the four Treasury law enforcement bureaus engaged in internal audit activities. Those portions of the law enforcement bureaus engaged in internal investigative activities would not be merged into the new IG office. We believe this type of organization would work well, provided that S. 908 keeps its current provisions giving the new IG office general oversight

¹Need for Statutory Inspectors General at Certain Federal Agencies (GAO/T-AFMD-87-2, February 19, 1987).

²Treasury Department: An Assessment of the Need for a Statutory Inspector General (GAO/AFMD-86-3, August 21, 1986).

responsibility over those internal investigative activities as well as the authority to conduct investigations in the law enforcement bureaus under certain circumstances.

Federal Emergency Management Agency

GAO also supports the establishment of a statutory IG at FEMA. FEMA has experienced problems in the areas of auditor independence as well as coverage of important FEMA programs and activities. We believe the establishment of a statutory IG in FEMA will help resolve these problems. The Office of Management and Budget (OMB) has also testified that it supports the establishment of a statutory IG at FEMA.

Nuclear Regulatory Commission

In addition, GAO supports the establishment of a statutory IG at NRC. We believe there is a strong need to enhance public trust in the regulation of nuclear power. Incidents such as the Chernobyl accident, and the revelations brought out in your hearings of April 9, 1987, Mr. Chairman, reinforce the need for independent oversight and reporting to the Congress on the regulation of nuclear power and oversight of other NRC activities.

We note that Section 4 of the bill would also prescribe certain authorities and responsibilities for the NRC Office of Investigations. This office would not be included as part of the IG office under the bill. While GAO has reviewed NRC's operations in some detail, including those that would be included in the statutory IG office, we have not performed an analysis of the Office of Investigations. Accordingly, we will refrain from commenting on those provisions in the bill relating to the Office of Investigations until we have had an opportunity to properly review its operations.

Office of Personnel Management

S. 908 would establish a statutory IG at OPM. We believe that this would strengthen the IG's independence and also improve congressional oversight. A statutory IG would be appointed by the President, with the advice and consent of the Senate. That official could be removed from office by the President, but the reasons for the removal would be communicated to the Congress. The IG would be required to report to the OPM Director or the deputy and would not be under the direction of program managers. Also, with a statutory IG, both the OPM Director and the Congress would be assured of, and aware of, independent assessments, through semiannual reporting, of federal programs and operations for which they are accountable or have oversight.

Further, because of the size of the retirement and disability trust fund, which had outlays of \$24 billion in fiscal year 1986, and because of the proliferation in the number of insurance carriers, including approximately 400 in fiscal year 1986, we believe a statutory IG is needed to ensure the highest level of audit and investigative coverage in OPM.

REVIEW OF OFFICE OF
PERSONNEL MANAGEMENT'S
AUDIT AND INVESTIGATIVE FUNCTIONS

Mr. Chairman, you requested in March 1987 that GAO provide assistance to this Committee in reviewing OPM's internal audit and investigative functions. While we have not performed a detailed review of OPM, we have reviewed the organizational makeup and mission of the existing internal audit and investigative operations, principally to determine what changes could be made to strengthen the effectiveness and independence of those functions and improve congressional oversight.

In addition to the current nonstatutory IG, there are several organizations in OPM which perform internal audit or audit-related functions. They include (1) the Insurance Audits Division, located within an OPM program office called the Retirement and Insurance Group, (2) the Program Integrity Section, also located within the Retirement and Insurance Group, and (3) the Analysis and Evaluation Division, located within what

OPM calls the Administration Group. I would like to briefly comment on each of these three groups and provide our opinion as to whether they should be included in a statutory IG office at OPM.

Insurance Audits Division

The Insurance Audits Division is responsible for audits of contractors providing health and life insurance to federal employees. The mission of the division is to determine that all carriers participating in the employee benefits programs are in compliance with contract terms and federal regulations and that they are operating effectively and efficiently.

S. 908 would merge the Insurance Audits Division into the IG office. In fact, the division was within the IG office from 1982 until 1986, when it was moved out of that office and into the Retirement and Insurance Group. The division was moved because the Director of OPM believed that it was critical for management to have the ability to "target audit resources" quickly to those areas and insurance carriers needing what OPM management believed was priority attention.

We support the provision in S. 908 to merge the Insurance Audits Division back into the IG office. We have two reasons for our position.

First, based on our understanding of the mission of the Insurance Audits Division, we believe that its function falls within the scope of internal audit activity. It is important to note that the division was previously a part of the IG office and that OPM's support for its placement outside of the IG office appears to be based primarily on OPM management having better control over "audit resources."

Second, placement of the Insurance Audits Division within the IG office would strengthen the independence of the OPM internal audit function. The IG currently reports to the Director of OPM, whereas the head of the Insurance Audits Division reports to the OPM associate director, who heads the Retirement and Insurance Group. The division is located organizationally under the same associate director who is ultimately responsible for negotiating and monitoring contracts with the insurance carriers who participate in the program. This official also has authority for final disposition of audit findings.

We believe independence is one of the most important determinants of the overall effectiveness of the audit function. Without independence, and the appearance of independence, much of the audit function's credibility can be lost. Generally accepted government auditing standards require that, for an internal audit function to be considered independent, it should report to the

head of the agency or the deputy. This position is consistent with the Inspector General Act of 1978 and its legislative history, which makes it clear that the audit function should report to the highest level within the agency to ensure independence.

Program Integrity Section

Under S. 908, another office in OPM, the Program Integrity Section, would also be merged into the IG office. Some of the work of the Program Integrity Section might be considered internal audit activity, insofar as identifying ineligible recipients of retirement payments might be considered to be within the internal audit realm of detecting fraud, waste, and abuse. However, their work may more appropriately be considered a typical programmatic control function in that it falls within the realm of management's internal control responsibilities. Further, the section carries out a programmatic function in that it is responsible for terminating benefits, calculating the amount of overpayments, and establishing repayment schedules.

Because of its programmatic functions, we believe it may be more appropriate to leave the Program Integrity Section outside of the IG office, provided that the IG has the authority and sufficient resources to evaluate significant fraud problems in

the retirement area and to determine underlying causes and systemic weaknesses in that area.

Analysis and Evaluation Division

The Analysis and Evaluation Division, currently located within what OPM calls its Administration Group, has experience in performing internal audits. This organization was, in fact, part of the IG office until 1982. In 1986, we reported to this Committee that the transfer of this organization resulted in the IG being unable to provide what we felt was adequate coverage of OPM programs.³

OPM officials advised us they are now considering moving this group back into the IG office. We support that move and suggest that S. 908 be revised to incorporate this organization into a statutory IG office at OPM.

OTHER PROVISIONS IN S. 908

I would like to provide GAO's views on some of the other provisions in S. 908. We support the provisions in section 5 strengthening the audit coverage in agencies not covered by the Inspector General Act of 1978. For example, we strongly support

³Internal Audit: Nonstatutory Audit and Investigative Groups Need to be Strengthened (GAO/AFMD-86-11, June 3, 1986).

the provisions strengthening the centralization and independence of the internal audit and investigative units in those agencies.

Section 5 would also provide that heads of federal entities without internal audit units periodically report to GAO and OMB on action being taken to ensure adequate audit coverage. We believe that the appropriate body for receiving such information is OMB rather than GAO. OMB policy guidance provides that all federal agencies have adequate audit coverage of their programs. The reporting provisions in section 5 would help OMB ensure that agencies are following its policy guidance on audits in Circular A-73.

In addition, section 5 contains a provision designed to strengthen the independence of the Chief Postal Inspector of the U.S. Postal Service. We agree with the intent of that provision.⁴

Section 6 includes provisions to promote the uniformity and the reliability of IG reports. We fully agree that the information reported to the Congress by the IGs should be uniform and consistent. To that end, we support the definitions

⁴U.S. Postal Service: Postal Inspection Service's Independence and Reporting Requirements (GAO/AFMD-87-24, April 16, 1987); The Organization and Operations of the Postal Inspection Service: Proposals to Strengthen Independence and Reporting Requirements (GAO/T-AFMD-87-11, April 30, 1987).

contained in section 6, particularly those pertaining to what constitutes "audit determination" and "audit resolution."

We also believe that the required detailed statistical analyses will provide more complete information on the status of audits in the audit resolution process. However, in our opinion, the statistical analyses should also include information on the number of audit report recommendations which were resolved. Audit resolution data would assist in understanding, monitoring, and evaluating the audit resolution process by showing if audit report recommendations are being resolved in a timely manner.

Also under section 6, federal agency heads would be required to report semiannually on those audit reports where recommendations were not resolved within 1 year after the date on which audit determinations were made. We believe this requirement will be useful in drawing needed attention to cases that may be taking too long to resolve.

We do have one major concern, however. Section 6 would result in GAO having to revise its Standards for Internal Controls in the Federal Government to ensure that audit determinations be made within 6 months. We believe that such a requirement should be provided directly by this legislation rather than by changing the standards. Standards, by their nature, are meant to be guiding principles rather than specific requirements of the type contained within the section 6

definitions. The existing standards are at least consistent with the section 6 definition of "audit resolution" and certainly do not preclude use of the section 6 definition of audit determination or a requirement that audit determinations be made within 6 months.

Section 8 would provide that a separate appropriation account be established for each statutory IG mandated by the Inspector General Act of 1978. We support the intent of section 8 to improve congressional oversight as well as strengthen the IGs' independence. We supported this position in a 1984 GAO report which examined the budgeting procedures for statutory IGs.⁵

REPORT OF THE PRESIDENT'S
COUNCIL ON INTEGRITY AND EFFICIENCY

At the request of this Committee, the PCIE has performed a study of the internal audit and investigative capabilities of smaller federal agencies. While we have not performed a thorough review of the PCIE's study, we would like to offer comments on the report.

⁵Impact of Administrative Budget Procedures on Independence of Offices of Inspector General (GAO/AFMD-84-78, September 26, 1984).

The PCIE has identified more than 70 small agencies having either no audit or investigative units or having less than 10 professionals in those units. Of those agencies with internal audit or investigative units, many are not independent and most do not provide adequate audit coverage of their agencies' programs. The PCIE identifies a range of options to strengthen the audit coverage at these small agencies and recommends this Committee adopt two of the options.

First, the PCIE recommends establishing and strengthening internal audit and investigative functions in those agencies which are regulatory in nature and/or have relatively large levels of personnel or budgets. Second, for each of the smaller agencies, the PCIE recommends designating a cognizant IG from among the existing statutory IGs. The cognizant IG would provide reimbursable audit and investigative support on the basis of a formal Memorandum of Understanding.

We believe all federal agencies should have internal audit coverage. Further, we believe that within each agency, audit and investigative functions should be centralized, that they should be independent, and that they should provide adequate audit coverage of their agencies' programs and operations.

We agree, at least in principle, with the PCIE's first recommendation to establish and strengthen internal audit and

investigative functions. This is consistent with our position that all federal agencies should have internal audit coverage.

We believe that the PCIE's second recommendation, regarding designating cognizant IGs, also has merit in that it presents a potentially successful means for providing adequate and effective audit coverage for remaining federal agencies. The recommendation is designed to ensure audit coverage and may go a little further than S. 908 in actually getting the proper audit coverage for the small federal agencies.

Before endorsing the PCIE recommendations, however, we think it is important to fully understand how the PCIE would ensure that its recommendations would be successfully implemented. For example, it is possible that cognizant IGs may not have sufficient incentive or resources to provide adequate coverage of the smaller agencies.

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