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EXAMINATION OF THE EFFECTIVENESS OF STATUTORY OFFICES OF INSPEC--ETC(U)
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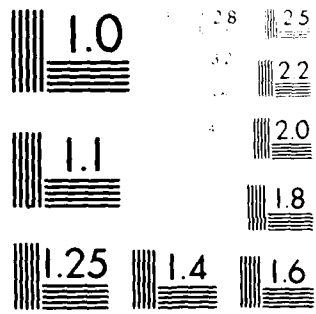
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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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AUGUST 21, 1981

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The Honorable Harry F. Byrd, Jr.
United States Senate

Dear Senator Byrd:

Subject: Examination of the Effectiveness of Statutory
Offices of Inspector General, (AFMD-81-94)

This report is in response to your July 14, 1980, request for a review of the 15 statutory offices of inspector general. ~~(See encl. I.)~~ It is a followup on the briefing we gave you on May 21. Based on an agreement made during our initial meeting with your staff, we did preliminary auditing at several offices, identified potential review areas, and developed a review methodology for each area. We subsequently discussed the areas with your staff and together selected the following five:

- (1) → Funding and staffing restrictions,
- (2) → Resource and coordination problems due to agency audit and investigative activities that operate outside the inspector general organizations,
- (3) → Weak vulnerability assessment programs,
- (4) → Problems with agency followup systems for handling GAO "hot-line" allegations referred for inspector general action, and
- (5) → Questionable usefulness of inspector general reports to the Congress.

On January 20, President Reagan fired the statutory inspectors general and deputy inspectors general. This action did not affect our review since assistant inspectors general for audit and investigation and other key officials remained. They were completely familiar with inspector general operations and were able to fully address the issues examined during the review.

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INSPECTOR GENERAL RESPONSIBILITIES

Fraud, abuse, waste, and mismanagement in Federal agencies have been concerns of the administration and the Congress for several years. The situation was so serious that a Department of Justice official stated that "as a general matter, whenever there has been a focused audit or investigation activity, significant fraud, abuse, waste and mismanagement have been detected."

The Inspector General Act of 1978 and other legislation have created offices of inspector general in 16 Federal agencies to address these and other problems. (See encl. II.) Inspectors general are responsible for

- conducting and supervising audits and investigations of agency programs and operations;
- leading and coordinating efforts to (1) promote economy and efficiency in administering agency programs and operations and (2) prevent and detect fraud and abuse in agency programs and operations;
- recommending policies to promote economy and efficiency and prevent and detect fraud and abuse in agency programs and operations; and
- keeping the agency head and the Congress fully informed of (1) problems and deficiencies in administering programs and operations and (2) the necessity for and progress of corrective actions.

OBJECTIVES, SCOPE, AND METHODOLOGY

Inspector general effectiveness is directly related to the types and severity of an agency's operational and managerial problems. These problems may significantly affect the operations of the office as a whole or may affect only the timing of a specific assignment. The objective of this survey was to identify those operational and managerial problems that had an adverse impact on inspector general activities and that reduced the ability of inspectors general to achieve their legislated mandates. We emphasized identifying problem areas that, because they were common to many inspectors general, affected the inspector general concept as a Government-wide approach to detecting fraud, abuse, waste, and mismanagement. This audit was not intended to be an indepth analysis of each office.

We conducted our survey at the 15 statutory civilian offices of inspectors general in existence at the time of your request. The Office of Inspector General at the Department of State was therefore not included. The scope of the detailed audit work was based on an agreement with your staff that this report would

contain no conclusions or recommendations, and that identification of any significant problem areas would be incorporated into our ongoing work at the appropriate agencies.

We obtained documentation by interviewing officials in each inspector general office and congressional staff members. We also reviewed agency and inspector general files and records and examined (1) various inspector general submissions to satisfy congressional requests and (2) inspector general semiannual or annual reports. We prepared and used a standardized audit program in collecting data, and used a standardized data collection form to ensure comparability and consistency of the statistical data obtained. All figures presented are fiscal 1980 cumulative totals or yearend balances.

PROBLEMS WERE IDENTIFIED
IN INSPECTOR GENERAL OPERATIONS

We found that all inspectors general had some problems and that several of these problems were common to many offices. The problems found at several offices clearly constitute areas needing improvement if the inspector general concept--as a Government-wide approach to fighting fraud, abuse, waste, and mismanagement--is to succeed.

Funding and staffing problems

The inspectors general have a massive assignment. Existing legislation requires audits of programs and activities within specific time frames or cycles. Additional audit, investigation, or other special project requirements are frequently imposed by the President, the Congress, the Office of Management and Budget (OMB), and agency management. The inspectors general must meet these specific requirements while addressing their general mandate of preventing and detecting fraud and abuse and promoting economy and efficiency in all agency programs. Meeting these responsibilities would be a difficult task under optimum staffing and funding conditions and with total support from agency heads and program officials.

Assessment of management performance is usually based on such things as the amount of funds disbursed, size of program enrollment, and number of claims processed. Consequently, management has historically been interested primarily in meeting these objectives and has given little support to audit organization needs. In this review, nine offices of inspector general reported staff shortages. Budget cuts by their agencies, OMB, and the Congress resulted in substantially lower staffing levels than those requested by most inspectors general for fiscal 1980. In addition, most actual staffing levels at the end of fiscal 1980 were lower than those congressionally authorized.

At several offices we found that the hiring freezes imposed by Presidents Carter and Reagan affected the ability of inspector general offices to reach authorized staffing levels. For example, as of September 30, 1980, the Environmental Protection Agency was authorized 107 auditors and had 87, the Small Business Administration was authorized 62 auditors and had 53, and the Department of Commerce was authorized 89 auditors and had 81. These offices were responsible for auditing a total of over \$9 billion in federally funded programs.

Audit and investigation generally involve considerable travel. Officials in most offices of inspector general stated that the travel fund reductions ordered by the previous and current administrations adversely affected their operations. Although they stated that no assignments were canceled because of the reductions, they did say that the scope of many jobs was reduced and that many new assignments were postponed in favor of local ones.

Non-inspector general audit and
investigative organizations
cause resource and coordination problems

The inspector general legislation was intended to consolidate agency audit and investigative functions into an independent and objective unit. Most agencies, however, still had audit or investigative activities operating outside their office of inspector general at the end of fiscal 1980.

We identified 30 audit and investigative organizations that were outside the inspector general structure, employing over 4,800 people. These organizations often did compliance reviews, regulatory audits, and functions related to program operations. In general, their duties and responsibilities were significantly different from those of an inspector general. There were some, however, that inspectors general thought did the same or similar activities as their organizations.

Several inspector general officials felt that their efforts to obtain additional resources were hampered by some of these external organizations, and two believed that these groups should be brought under inspector general jurisdiction. The Department of Energy had about 125 field auditors and the Department of the Interior had or was establishing external organizations with approximately 155 auditors or investigators located in the Bureau of Land Management, the U.S. Geological Survey, and the Office of Territorial Affairs. We are currently reviewing the independence of the audit function in the Office of Territorial Affairs.

Officials in all inspector general offices did not feel that these other audit and investigative units harmed their operations. For example, the offices of inspector general at the Departments of Agriculture and Transportation, each of which had external audit or investigative groups, were not in favor of incorporating these

units into their organizations. The Department of Agriculture had at least seven external organizations with a total of about 770 staff, and the Department of Transportation had four external investigative organizations.

Inspector general concerns about these external audit and investigative groups were not limited to their effect on resource levels. The inspector general legislation created offices of inspector general as independent and objective units responsible for providing leadership and for coordinating and recommending policies for activities to promote economy and efficiency and prevent and detect fraud and abuse. In order to meet these objectives, inspectors general must keep informed of the activities of non-inspector general audit and investigative organizations. Several inspectors general stated that little coordination existed between their group and these external organizations.

Vulnerability assessment efforts
need improvement

Federal department and agency managers are required by Section 113 of the Accounting and Auditing Act of 1950 (31 U.S.C. 66(a)) to establish and maintain adequate internal control systems for all programs and activities for which they are responsible. Internal controls are checks and balances over agency activities, and are designed to prevent and detect the misuse or abuse of agency assets.

In addition, control system reviews are required on every audit conducted under Generally Accepted Government Auditing Standards. The reviews form the basis for setting the scope of tests of transactions in the various areas examined. These reviews, however, generally center around specific agency programs and activities, or segments of them.

Another type of internal control review is also needed. This effort, a vulnerability assessment, is a general systematic review of all agency programs and activities and is aimed at assessing the susceptibility of each to fraud, abuse, waste, and mismanagement. The results obtained should be used in developing an agency-wide evaluation of each program's vulnerability in relation to the vulnerability of all other agency programs. The vulnerability assessments would not only identify potential problem areas for agency heads and the Congress, but also would serve as a valuable audit and investigation planning and ranking tool for the inspectors general.

During our survey, officials in 10 of the 15 inspector general offices stated that they performed vulnerability assessments. The type and scope of the work most often cited, however, either did not fit GAO's vulnerability assessment definition or was not conducted independently. The major weaknesses we identified were:

- Several inspector general offices used program personnel extensively in conducting the assessments. This raises a question about the validity of the findings due to possible independence and conflict of interest issues.
- Several inspector general officials considered all control system review work as vulnerability assessments. While these efforts are essential, they often produce findings and recommendations germane only to specific program operations, grantees, or other units. Generalization of these results to entire agency programs for comparison with the results of assessments of other programs would produce questionable results.
- Several of the inspector general officials who stated that they conducted vulnerability assessments did not have plans outlining the scopes of and timetables for future assessments.
- Several inspector general offices conducted no followup to determine agency actions on the findings and recommendations made during the vulnerability assessments.

Weaknesses exist in agency handling
of GAO hotline referrals

In January 1979, our office began a nationwide toll-free telephone hotline which could be used by anyone in the country to report fraud, abuse, waste, and mismanagement in Federal programs. At the time of our review, we had referred about 2,400 of the allegations received to the 15 statutory civilian offices of inspector general. Audit or investigative findings verified 9 percent of these allegations and often led to dollar savings and improved program management practices.

Much of the credit for the success of the hotline goes to the inspectors general. They assumed responsibility for processing, investigating, and following up on GAO hotline referrals, and generally treated them with priority equal to that of their own agency hotline allegations. However, our review of individual case files identified several problems. We found that

- cases were lost;
- recommended corrective action was not taken or monitored;
- broad application of individual cases was not identified;
- evidence in case files or reports was insufficient to support conclusions;
- all parts of allegations were not answered; and
- responses to referrals were late.

An example of the seriousness of these problems is the situation where an inspector general--based on an investigation that consisted of only one interview--closed a case on alleged improprieties involving contracts of about \$500,000. That interview was with the agency's procurement head and did not adequately resolve the allegation.

These problems were the result of hotline management system weaknesses. The weaknesses included

- low hotline priority due largely to inadequate staff sizes;
- ineffective organization of the hotline function;
- overreliance on program officials to resolve allegations, coupled with little, if any, reliance on audit;
- poor tracking of hotline cases as they moved through the agency for resolution; and
- poor review and followup on program personnel responses to allegations.

Inspector general reports to Congress have questionable usefulness

The legislation creating the offices of inspector general requires that semiannual reports (annual for the Departments of Energy and Health and Human Services) summarizing the activities of each office be furnished to the agency heads and the chairmen of appropriate congressional committees or subcommittees. These reports should be a major source of information for keeping agency heads and the Congress fully aware of the problems and deficiencies identified in agency programs and activities. Also, the reports should provide data on agency progress in improving program effectiveness and efficiency, and in reducing fraud, abuse, waste, and mismanagement.

Report preparation is time consuming and generally takes 6 to 10 weeks' work by professional and managerial staffs. In light of the efforts expended and costs incurred, we believe that the reports should present information that is needed by the congressional recipients in their policy and decisionmaking roles.

We found, in discussions with key staff members from nine congressional committees or subcommittees, that the reports were used very little. We also found that inspector general reports varied widely in content and format. With the exception of several general topics, there was little similarity in the reports.

Many congressional staff members stated that they would like to see more statistics in the reports. They felt that such data would be helpful in analyzing individual agencies and in developing

an overall picture of the Federal Government's progress against fraud, abuse, waste, and mismanagement. For example, it was suggested that cumulative tables covering an extended period would be useful. This cumulative information on items such as criminal convictions, dollar losses, dollar recoveries, and dollar savings would help identify trends and aid in evaluating the effectiveness of both agency programs and the offices of inspector general. The tables also could be consolidated and used for developing conclusions on the overall status of the Government's efforts against fraud, abuse, waste, and mismanagement.

The presentation of uniform statistical information in all inspector general reports to the Congress raises another issue. The definition of terms currently used and the terms themselves are not common to all reports. For example, most semiannual reports identified "questioned," "questionable," or "unsupported" costs detected by audits. These costs amounted to millions of dollars, but the figures were not comparable between agencies, and the probability that such amounts may be returned to the Government is unknown. Consolidation of incomparable data for Government-wide analyses was not practical. For the period ending September 30, 1980, the Department of Housing and Urban Development (HUD) reported questionable costs of \$79.8 million. This amount primarily represented audit findings that were not reported until the Office of Inspector General was advised in writing by the appropriate HUD program official that he or she had concurred in the audit findings and had requested that the fund recipient make restitution or take other corrective action.

The Inspector General of the Department of the Interior reported questioned or unsupported costs of \$40 million as a lump-sum figure but it is unclear how much of this amount would be concurred in or eventually collected by agency officials. Interior's report defined these terms as follows:

- "Questioned costs are synonymous with recommended cost adjustments because the particular cost charged may not be proper under the terms and conditions of the contract or grant or applicable rules and regulations."
- "Unsupported costs are costs for which supporting documentation is lacking at the time of the audit."

The Environmental Protection Agency reported its Federal share of questioned costs at \$34.7 million, but did not define the term.

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Since, as agreed with your staff, this report contains no conclusions or recommendations, we did not obtain agency comments.

B-200598

Also, as arranged with your office, unless you publicly announce the report's contents earlier, no further distribution will be made until 30 days from its issue date. At that time, we will send copies to interested parties and make copies available to others on request.

Sincerely yours,



W. D. Campbell
Acting Director

Enclosures - 2

United States Senate

WASHINGTON, D.C. 20510

July 14, 1980 c

My dear Mr. Staats:

I have become increasingly concerned about waste, fraud, and abuse in the Federal Government, particularly regarding financial mismanagement of public funds. As the bureaucracy expands, the potential for abuse becomes greater.

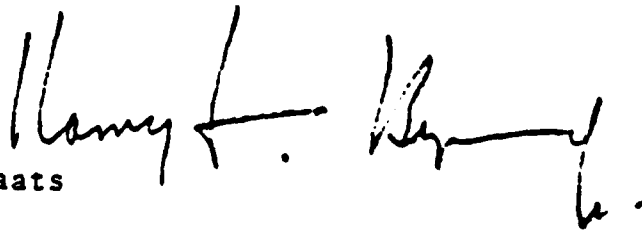
As you know, pursuant to the Inspector General Act of 1978 (P.L. 95-452) and other legislation, Offices of Inspector General have been established in fifteen agencies throughout the Federal Government. The purpose of this legislation is to provide for more effective audits and investigations relating to programs and operations within Federal departments and agencies.

To insure that the Congressional intent of these acts is being fulfilled, I am requesting that the General Accounting Office investigate the operations of the Offices of Inspector General to determine the effectiveness of such offices.

In addition, I would appreciate any recommendations which, in GAO's judgement, would require legislative action to amend legislation governing the operation of the Offices of Inspector General or other relevant statutes.

With best wishes, I am

Sincerely,



The Honorable Elmer B. Staats
Comptroller General
General Accounting Office
441 G Street
Washington, D. C. 20548

FEDERAL AGENCIES WITH STATUTORY
OFFICES OF INSPECTOR GENERAL

Department of Agriculture
Department of Commerce
Community Services Administration
Department of Education
Department of Energy
Environmental Protection Agency
General Services Administration
Department of Health and Human Services
Department of Housing and Urban Development
Department of the Interior
Department of Labor
National Aeronautics and Space Administration
Small Business Administration
Department of State
Department of Transportation
Veterans Administration

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