



September 2014

INSPECTORS GENERAL

Improvements Needed in the Office of Inspector General's Oversight of the Denali Commission

GAO Highlights

Highlights of [GAO-14-320](#), a report to congressional requesters

Why GAO Did This Study

The Commission was established to promote sustainable infrastructure improvement, job training, and other economic development services in Alaska. The Commission is a designated federal entity under the IG Act and is required to have an IG. IG oversight includes assessing the effectiveness and efficiency of agency programs and operations; providing leadership and coordination to detect fraud and abuse; and making recommendations to management to promote the economy, efficiency, and effectiveness of program and agency operations. GAO was asked to review the management and operations of the Commission's OIG. GAO's objectives were to (1) identify the resources appropriated to and expensed by the OIG and the OIG's work products reported for fiscal years 2011 through 2013, (2) assess the extent to which the OIG provided oversight of the Commission's programs and operations, (3) determine the extent to which the design and implementation of the OIG's policies and procedures and its work products were consistent with professional standards, and (4) identify alternatives for OIG oversight of the Commission.

What GAO Recommends

GAO is making nine recommendations to the OIG to improve the operating effectiveness and efficiency of the OIG, including steps that the OIG should take to develop and implement policies and procedures consistent with professional standards to provide oversight of Commission programs and operations.

The Commission concurred with the report's conclusions and recommendations.

View [GAO-14-320](#). For more information, contact Beryl H. Davis at (202) 512-2623 or davisbh@gao.gov.

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What GAO Found

The Denali Commission (Commission) Office of Inspector General (OIG) received budgetary resources of approximately \$1 million from fiscal years 2011 through 2013. OIG budgetary resources increased approximately 7 percent from fiscal years 2011 through 2013, from approximately \$310,000 to \$331,000. During this period, the OIG consisted of one full-time employee, the Inspector General (IG), who obtained additional support through contracts with auditors and others. The OIG issued six semiannual reports to the Congress and conducted 12 inspections during fiscal years 2011 through 2013.

The OIG provided limited oversight of the Commission's major programs (energy, transportation, health facilities, and training) and operations. GAO's analysis of the 12 inspections completed by the OIG found that the OIG provided oversight for \$150,000 of the \$167 million in grant funds disbursed during fiscal years 2011 through 2013. The \$150,000 of grant funds inspected by the OIG represented less than 1 percent of total grants awarded by the Commission during this period. The \$167 million in disbursed grant funds are subject to the Single Audit Act, as applicable. While the OIG oversaw the Commission's annual financial statement audit, it did not conduct any performance audits or investigations related to the Commission's major programs and operations.

The OIG did not have documented policies and procedures for its office operations and management that adhered to the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Federal Offices of Inspector General*. The OIG did not implement the following four quality standards that are critical for the management and operations of the OIG: planning and coordinating; maintaining quality assurance; ensuring internal control; and receiving and reviewing allegations of potential fraud, waste, and abuse. For example, the OIG did not conduct any investigations for potential criminal prosecution. Also, the OIG did not prepare an annual work or strategic plan to document the office's planned activities. Additionally, the OIG's work products were not fully consistent with applicable professional standards, its own policies and procedures for inspections, or section 5 of the Inspector General Act of 1978, as amended (IG Act). For example, there was insufficient evidence in the OIG's inspection case files to support the conclusions and recommendations reported, and the semiannual reports prepared by the OIG did not provide information on the status of OIG recommendations as required by the act.

If corrective actions are taken to mitigate the challenges faced by a one-person office, the current structure of the Commission OIG is one option for OIG oversight. GAO has also identified three alternative OIG oversight structures that could be applied to the Commission: (1) consolidation into a larger OIG; (2) consolidation into a regional commission OIG; and (3) division of OIG oversight responsibilities between two separate federal OIGs, such as a regional commission OIG or a larger OIG.

The Commission IG resigned on December 28, 2013. On May 28, 2014, the Commission entered into an agreement with the Department of Commerce's OIG to provide oversight services pursuant to the IG Act. The agreement expires on September 30, 2014, but may be extended or amended by mutual written consent of the parties.

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Abbreviations

APR	Annual Performance Report
ARC	Appalachian Regional Commission
BBG	Broadcasting Board of Governors
CIGIE	Council of the Inspectors General on Integrity and Efficiency
COTR	Contracting Officer Technical Representative
DFE	designated federal entity
DOT	Department of Transportation
GAGAS	generally accepted government auditing standards
IG	Inspector General
IG Act	Inspector General Act of 1978, as amended
IPA	independent public accountant
MOU	memorandum of understanding
NTSB	National Transportation Safety Board
OIG	Office of Inspector General
OMB	Office of Management and Budget
USAID	U.S. Agency for International Development

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September 18, 2014

The Honorable Lisa Murkowski
Ranking Member
Committee on Energy and Natural Resources
United States Senate

The Honorable Mark Begich
United States Senate

The Honorable Don Young
House of Representatives

The Denali Commission (Commission) was established by the Denali Commission Act of 1998¹ to promote and provide sustainable infrastructure improvement, job training, and other economic development services that improve health and safety and economic self-sufficiency within rural communities in Alaska. For fiscal years 2011, 2012, and 2013, the Commission awarded grants totaling approximately \$24 million, \$19 million, and \$14 million, respectively, and disbursed approximately \$73 million, \$55 million, and \$39 million, respectively, under new and previously awarded grants.

The Inspector General Act of 1978, as amended (IG Act),² lists the Commission as a designated federal entity (DFE)³ and requires such entities to have an Office of Inspector General (OIG).

Under the provisions of the IG Act, OIGs are responsible for, among other things, coordinating audits and investigations and are expected to provide a significant layer of oversight and accountability. Prior to 2005, the Appalachian Regional Commission (ARC) OIG provided oversight of the Denali Commission. In 2005, the Denali Commission Federal

¹Pub. L. No. 102-277, div. C, tit. III (Oct. 21, 1998), *codified as amended at* 42 U.S.C. § 3121 note.

²Pub. L. No. 95-452 (Oct. 12, 1978), *codified as amended at* 5 U.S.C. App.

³DFEs are federal government entities specifically designated by section 8G of the IG Act, many of which are structured as commissions, boards, government corporations, endowments, or institutions.

Cochairperson (Federal Cochair)⁴ appointed a Denali Commission Inspector General (IG),⁵ who served in that capacity until his resignation on December 28, 2013.

The Commission entered into a memorandum of understanding (MOU) with the Office of Inspector General for the Department of Commerce on May 28, 2014. The MOU established the terms and conditions for the provision of oversight services to the Commission pursuant to the IG Act and the Economy Act, as amended.⁶ This agreement terminates on September 30, 2014, but may be amended or extended at any time by mutual written consent of the parties.

This report responds to your request that we review the management and operations of the Commission's OIG. Our objectives were to (1) identify the resources appropriated to and expensed by the OIG and the IG's work products reported for fiscal years 2011 through 2013, (2) assess the extent to which the OIG provided oversight of the Commission's major programs and operations, (3) determine the extent to which the design and implementation of the OIG's policies and procedures and its work products were consistent with applicable professional standards, and (4) identify alternatives for OIG oversight that exist in other federal agencies that could be applied to the Commission. To address our objectives, we did the following:

- Reviewed the OIG-related budget justification documents, travel expense invoices, contractor expense invoices, and actual expenditure reports to determine the resources provided to the OIG and how those resources were used.⁷

⁴The Federal Cochair for the Commission is appointed by the Secretary of Commerce and is considered an employee of the Department of Commerce. The Federal Cochair serves for a term of 4 years; may be reappointed; and prior to January 4, 2014, served as the Commission's agency head for purposes of the IG Act.

⁵The IG initially served the Commission as a detailed employee from the Alaska state legislature beginning in November 2005 and was officially hired as a federal employee of the Commission effective February 4, 2008.

⁶The Economy Act, 31 U.S.C. § 1535, authorizes federal agencies to enter into agreements for the interagency provision of goods or services.

⁷The Commission's Chief Financial Officer provided detailed information for fiscal years 2011 through 2013 on OIG-related expenditures.

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- Compared the OIG's work products with the Commission's major programs and operations to determine the extent to which the OIG provided oversight of major Commission programs and operations.⁸
 - Compared the OIG's policies and procedures to the *Quality Standards for Inspection and Evaluation* and the *Quality Standards for Federal Offices of Inspector General* both published by the Council of the Inspectors General on Integrity and Efficiency (CIGIE)⁹ and the IG Act. We also compared the OIG's work products to its policies and procedures, the CIGIE standards, and the IG Act.
 - Reviewed previous GAO work to identify federal OIGs that provide (or have provided) OIG oversight for smaller federal agencies, identified regional commissions with missions similar to that of the Commission, and consulted with Department of Commerce officials who were involved with appointing the Federal Cochair of the Commission. We also consulted with six OIGs at other federal agencies to identify existing oversight structures.

Appendix I includes further details on our scope and methodology.

We conducted this performance audit from May 2013 to September 2014 in accordance with generally accepted government auditing standards.¹⁰ Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁸A work product includes OIG accomplishments defined as a final audit, inspection, or investigation reports issued by the Commission OIG within the period covered by our review. Work products also include the OIG's semiannual reports to the Congress and the inspections reported in the *Inspector General's Perspective on Management & Performance Challenges Facing the Denali Commission*, which is included in the Commission's annual agency financial report.

⁹Section 7 of the Inspector General Reform Act of 2008 (IG Reform Act), Pub. L. No. 110-409 (Oct. 14, 2008), created CIGIE, eliminating two previous councils of executive branch IGs and establishing one united federal IG council. Members of CIGIE have formulated and adopted these quality standards, which are for OIG use to guide the conduct of official duties in a professional manner. In addition, CIGIE investigates and reports on issues brought to the attention of CIGIE's Integrity Committee.

¹⁰GAO, *Government Auditing Standards: 2011 Revision*, [GAO-12-331G](#) (Washington, D.C.: December 2011).

Background

The Commission acts as a regional partner with state and local governments focusing on basic infrastructure needs and promoting economic growth for rural Alaska. Since the Commission's inception in 1998, programs focused on developing transportation, energy, health facilities, economic development, training, and community facilities have received funding for infrastructure projects and to promote economic growth. Although congressional priorities have changed recently, as have funding levels, four major programs—energy, transportation, health facilities, and training—continued to receive grant funds. The Commission has historically received federal funding from several sources, including an annual appropriation, and is a party to allocation transfers with other federal agencies, such as transfers from the Federal Highway Administration under the Department of Transportation (DOT). The Commission also receives funds from the Trans-Alaska Pipeline Liability Fund.

Commission's Programs and Funding

The Commission implements its major programs and operations by awarding grants for implementing specific projects in rural Alaska.

- In fiscal year 2013, the Commission's energy program—which is focused on bulk fuel storage tank upgrades; community power generation and rural power systems upgrades; energy cost reduction projects; renewable, alternative, and emerging energy technologies; and power line interties—received approximately \$14 million in federal funding, or 78 percent of the Commission's budgetary authority.¹¹ The purpose of the program is to provide code-compliant bulk fuel storage and electrification with a goal of improving energy efficiency and decreasing energy costs. In fiscal year 2013, the energy program funded the completion of three bulk fuel facilities, two rural power system upgrades, energy efficiency upgrades in 13 communities, and one emerging energy technology project.
- The transportation program divides funds between the roads and waterfront components of the program. One major objective of the roads component is to improve roads between rural communities. The waterfront component addresses port and harbor needs, such as regional port reconstruction and boat launch ramp construction. Since

¹¹Budgetary authority figures were not compiled for fiscal year 2013 because the Commission did not publish an Annual Performance Report (APR) because of the vacancy in the Federal Cochair position.

its establishment in fiscal year 2005, the transportation program has completed 86 road projects and 97 waterfront development projects. In addition, the Commission reported that as of March 2014, 24 road and waterfront development projects were in the planning, design, or construction phase. The transportation program was not included in the fiscal year 2013 Commission budget; however, approximately \$15 million in previously awarded program grants were disbursed in fiscal year 2013.

- The health facilities program provides technical assistance as well as business planning for the facilities. This program was initially established to improve Alaska's health infrastructure through investments in renovations, repairs, and replacement of health facilities. Since the program's inception in fiscal year 1999, the Commission reported that in conjunction with the Department of Health and Human Services, it has contributed to 140 primary care clinics, 20 elder supportive housing facilities, 49 primary care projects, and 20 behavioral health facilities. The health facilities program was not included in the fiscal year 2013 Commission budget; however, approximately \$7 million in previously awarded program grants were disbursed in fiscal year 2013.
- The training program was established to provide training and employment opportunities to rural residents employed in the construction, maintenance, and operation of Commission projects. Program funds paid for courses, books, tools, tuition, lodging, and transportation. In fiscal year 2013, the Commission reported that 137 people completed training courses or received certificates in construction, maintenance, and operation of Commission projects; 53 obtained certificates in construction education; and 17 were placed in construction apprenticeships. In addition, the Commission partnered with the University of Alaska to assist 402 students in completing course work in community health aide, dental assistance, medical office/health care reimbursement, and medical lab-related skills. The training program was not included in the fiscal year 2013 Commission budget; however, approximately \$1 million in previously awarded program grants were disbursed in fiscal year 2013.

Inspector General's Role and Responsibilities

The IG Act establishes that one of the primary responsibilities of a federal agency's OIG is to keep the agency head and the Congress informed about problems and deficiencies related to the administration of the agency's programs and operations, corrective actions needed, and the progress of those corrective actions. The IG Act created independent IG offices at major departments and agencies with IGs who are appointed by the President, are confirmed by the Senate, and may be removed only by

the President with advance notice to the Congress stating the reasons. In 1988, the IG Act was amended to establish IG offices in DFEs. OIGs of DFEs have many of the same authorities and responsibilities as the OIGs originally established by the IG Act, but with the distinction that IGs are appointed by and may be removed by their agency heads rather than by the President and that their appointment is not subject to Senate confirmation.

The IG Act addresses the qualifications and expertise of the IGs, specifying that each IG appointment is to be made without regard to political affiliation and solely on the basis of integrity and demonstrated ability in accounting, auditing, financial analysis, law, management analysis, public administration, or investigation. The fields in which an IG can have experience are intended to be sufficiently diverse so that many qualified people could be considered but are also limited to areas relevant to the tasks considered necessary.

The Inspector General Reform Act of 2008 (Reform Act) amended the IG Act by adding requirements related to OIG independence and effectiveness.¹² The Reform Act includes a provision intended to provide additional OIG independence through the transparent reporting of OIG budget requests. This provision requires an agency's submission for the President's budget to separate the OIG's budget request from the agency's and include any comments provided by the OIG with respect to the proposal.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) further amended the IG Act,¹³ specifying that for DFEs with a board or commission, the board or commission is the head of the DFE for purposes of IG appointment, general supervision, and reporting under the IG Act.¹⁴ Furthermore, if the DFE has a board or

¹²Pub. L. No. 110-409 (Oct. 14, 2008).

¹³Pub. L. No. 111-203, §§ 989B-989D (July 21, 2010).

¹⁴The IG Act requires the Office of Management and Budget (OMB) to publish on an annual basis a list of DFEs that specifies what person or body is the head of each DFE. On January 10, 2014, OMB published its most recent update of the DFE list, which reflected the passage of the Dodd-Frank Act by indicating that the seven Denali Commissioners (including the Federal Cochair) are the "head of the designated entity" for the purposes of the IG Act. Prior to the Dodd-Frank Act, OMB had specified the Federal Cochair alone as the head of the Commission for IG Act purposes.

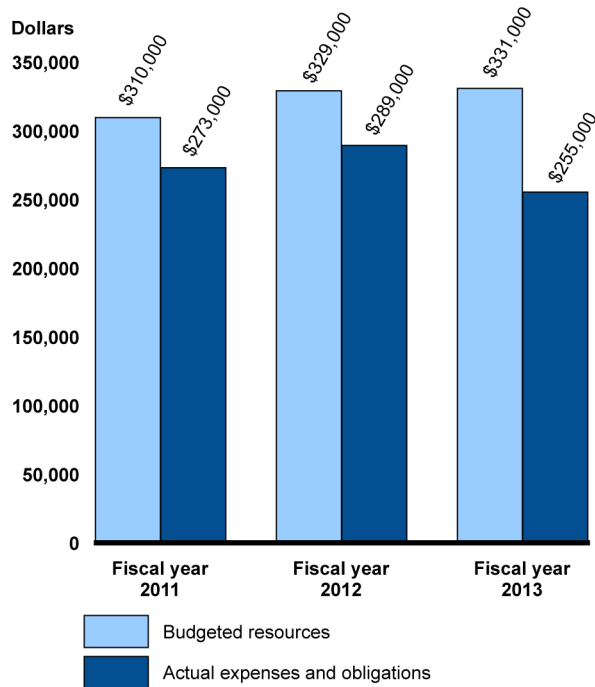
commission, the IG Act requires the OIG to report organizationally to the entire board or commission as the head of the DFE. In addition, the Dodd-Frank Act requires the written concurrence of a two-thirds majority of the board or commission to remove an IG. Prior to this provision, most OIGs at commission or board led DFEs reported to, and were subject to removal by, the individual serving as head of the commission or board.

OIG Budgeted Resources, Expenditures, and Work Products

OIG Budgeted Resources and Actual Expenses

Our analysis of the budget information provided by the Commission's Chief Financial Officer (CFO) showed that the Commission allocated budgetary funds for the OIG of approximately \$1 million over the 3-year period from fiscal years 2011 through 2013. The total budgetary resources of the Commission OIG increased from fiscal years 2011 through 2013, from \$310,000 to \$331,000, for an increase of about 7 percent (see fig. 1). During this 3-year period, the OIG consisted of one full-time employee, the IG, who obtained additional support through contracts with both auditors and others to assist with his oversight responsibilities, such as interviews related to ongoing inspections, and to mediate disputes between Commission officials and grant recipients regarding grant payments. Based on the budget and expenditure information we received from the Commission, we found that during fiscal years 2011 through 2013, the OIG spent an average of 84 percent per fiscal year of the budgetary resources provided to his office. The Commission reported that the budgeted amounts not used by the OIG within the fiscal year to which they were allocated were returned to the Commission and were available for the Commission's use. The OIG did not carry over unused funding into the next fiscal year.

Figure 1: Denali Commission Office of Inspector General Fiscal Years 2011 through 2013 Budgeted Resources and Expenditures

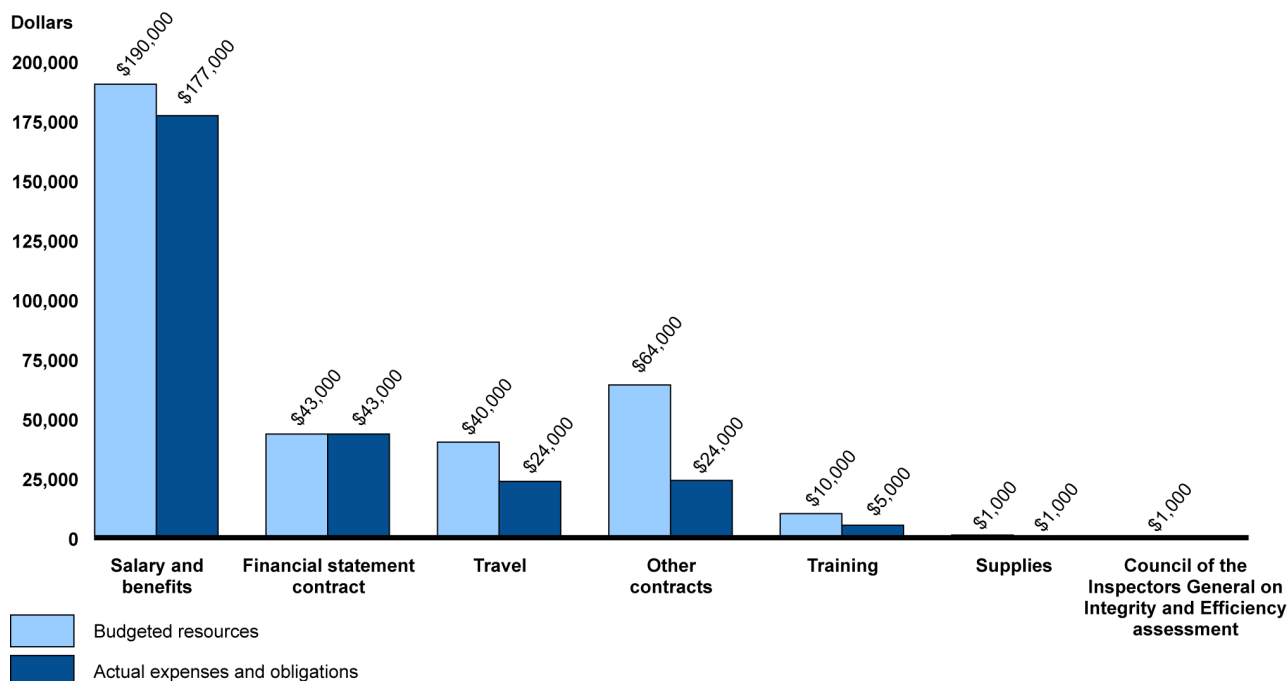


Source: Denali Commission (rounded to the nearest thousand). | GAO-14-320

Our review of the OIG's use of the resources provided in fiscal years 2011 through 2013 showed that about 59 percent of the OIG's annual budget was for salary and benefits for the IG. The rest of the annual budget was for the Commission's annual financial statement audit (13.4 percent), travel (12.4 percent), other contract services (11.7 percent), training (3.1 percent), supplies (0.3 percent), and the CIGIE assessment (0.2 percent).¹⁵ (See fig. 2.)

¹⁵Pursuant to section 11 of the IG Act, CIGIE is funded via interagency transfers from the entities whose IGs are members. The amount for each OIG member is prorated based on the member's appropriation or funding level and is used to cover the anticipated annual costs of the council.

Figure 2: Denali Commission Office of Inspector General Fiscal Years 2011 through 2013 Budgeted Resources and Expenditure Categories



Source: Denali Commission (rounded to the nearest thousand). | GAO-14-320

Commission OIG's Reported Work Products




During fiscal years 2011 through 2013, the Commission OIG issued six semiannual reports to the Congress, as required by the IG Act, and conducted 12 inspections.¹⁶ The 12 inspections conducted by the Commission OIG reviewed various issues, such as management policies and practices and compliance with applicable laws. The OIG did not perform any audits or investigations. The IG told us that for the 12 inspections he conducted, he used the following methods to communicate the results of completed inspections:

- written inspection reports available on the OIG's website,

¹⁶The term inspection includes evaluations, inquiries, and similar types of reviews that do not constitute an audit or investigation.

- inspection results included in the semiannual reports to the Congress, and
- inspection results included in the Commission’s annual agency financial reports (see fig. 3).¹⁷

Figure 3: Number of Denali Commission (Commission) Office of Inspector General (OIG) Inspections Reported for Fiscal Years 2011 through 2013

	Fiscal year 2011	Fiscal year 2012	Fiscal year 2013	Total
Inspections posted on the OIG’s website	0	3 	2 	5 
Inspections reported in the OIG’s semiannual reports to the Congress	1 	4 	0	5 
Inspections reported in the agency financial reports	0	2 	0	2 
Total inspections	1 	9 	2 	12 

Source: GAO prepared based upon an analysis of Commission OIG data. | GAO-14-320

Note: According to the Commission Chief Financial Officer, because there was no Commission Federal Cochair from January 4, 2014, to April 20, 2014, and the Office of Management and Budget’s deadline for submitting the fiscal year 2013 agency financial report had passed, the Commission will not issue a fiscal year 2013 agency financial report.

OIG Provided Limited Oversight of the Commission’s Major Programs and Operations

During fiscal years 2011 through 2013, the OIG provided limited oversight of the Commission’s major programs and operations. Per the IG Act, OIG oversight includes assessing the effectiveness and efficiency of agency programs and operations; providing leadership and coordination to detect fraud and abuse; and making recommendations to management to promote the economy, efficiency, and effectiveness in the administration of these programs. It also includes providing a means for keeping the head of the agency and the Congress informed about problems and

¹⁷Agency financial reports are prepared in accordance with guidance from section II of OMB Circular No. A-136, *Financial Reporting Requirements*, and generally contain a brief message from the agency head, Management’s Discussion and Analysis, a financial section, and other information as appropriate.

deficiencies relating to program administration and agency operations and the necessity for, and progress of, corrective action. The 12 OIG inspections provided oversight of less than 1 percent of the total grant dollars the Commission awarded during fiscal years 2011 through 2013. The OIG contracted with an independent public accountant (IPA) to conduct the Commission's annual financial statement audit but did not follow up on the IPA's concerns related to grant monitoring.

Furthermore, the OIG did not have a risk-based annual work plan or policies and procedures to identify the Commission's major programs and operations that needed OIG oversight. Without adequate OIG oversight of the Commission's programs and operations, including grants, the OIG is unable to reasonably ensure accountability over federal funds. The OIG is also limited in its ability to minimize the Commission's risk of fraud, waste, and abuse occurring in its major programs and operations.

OIG Conducted Limited Inspections of the Commission's Programs

The Commission's OIG oversight covered a small percentage of the Commission's programs. During fiscal years 2011 through 2013, the Commission's major programs were energy, transportation, health facilities, and training. These programs represent approximately 84 percent of funds granted by all Commission programs. According to the Commission's CFO, during fiscal years 2011 through 2013, the agency awarded grants totaling \$56 million and disbursed \$167 million on both new and previously awarded grants.¹⁸

Our analysis of the 12 inspections completed by the OIG over that period found that 5 of these inspections focused on the Commission's grant administration and 7 focused on the agency's operations. Of the 5 grant-related inspections, only 2 of these inspections clearly identified specific grant amounts disbursed by the Commission that were examined by the OIG. In these 2 inspections, the OIG provided oversight for \$150,000 of grant funds disbursed for training programs, all of which were reported in fiscal year 2012. The \$150,000 of grant funds inspected by the OIG represented less than 1 percent of the total grants awarded by the

¹⁸Federal grants are subject to the Single Audit Act, 31 U.S.C. §§ 7501-7507, and its implementing guidance promulgated by OMB, 2. C.F.R. part 200, subpart F. Under this law, the recipient of federal financial assistance must undergo either an audit specific to the program through which it receives federal assistance or a "single audit" covering the entire entity and all of its federal assistance.

Commission during fiscal years 2011 through 2013. We found that 3 of the OIG's inspection reports examined various complaints and issues related to the grants process, such as assessing whether a grant applicant was improperly denied a subaward (grant preaward stage), assessing whether certain agency policy resulted in the unfair treatment of a grantee (grant implementation stage), and determining whether a grantee was treated unfairly because of a specific Commission policy and legal requirements that were attached to a grant (grant implementation stage). However, the OIG did not conduct any inspections that assessed the effectiveness and efficiency of the agency's other major programs—energy, transportation, and health facilities—or make recommendations to management promoting the economy, efficiency, and effectiveness in the administration of these programs, which is one of the major OIG goals established in the IG Act.

The other 7 inspections completed by the OIG over that period focused on (1) whether agency operations complied with applicable laws and regulations, (2) the Commission's authority for accepting funds from nonfederal sources, and (3) potential agency restructuring.

According to the IG, his workload was driven by requests from four sources: the Federal Cochair, aided by the CFO; Office of Management and Budget (OMB) officials; the House Committee on Oversight and Government Reform; and three Senate Oversight Committees (Finance, Budget, and Homeland Security and Governmental Affairs). The training grants he inspected were based on referrals from the Federal Cochair.

Under the IG Act, OIGs are responsible for coordinating audits and investigations. Further, OIGs are required by the IG Act to adhere to professional standards developed by CIGIE, to the extent permitted by law and not inconsistent with applicable auditing standards. The Commission OIG's primary vehicle for oversight was the inspection. CIGIE's *Quality Standards for Inspection and Evaluation* defines an inspection as a systematic and independent assessment of the design, implementation, or results of an agency's operations, programs, or policies. The inspection function at each agency is tailored to its unique mission; is not overly prescriptive; and may be used by the agency to provide factual and analytical information, measure performance, identify savings and funds put to better use, or assess allegations of fraud, waste, abuse and mismanagement. The Commission OIG's policies and procedures for inspections specifically stated that the Commission OIG "will conduct its interviews of agency issues through an 'inspection' methodology that conforms to the CIGIE quality standards for that

procedure.”¹⁹ The OIG was assisted by a contractor in conducting these 12 inspections.

OIG Oversaw the Commission’s Annual Financial Statement Audit but Did Not Conduct Audits or Investigations of Commission Programs

As part of its oversight duties, the OIG is responsible for selecting and overseeing the IPA responsible for performing the Commission’s annual financial statement audit.²⁰ These responsibilities include providing technical advice, serving as the agency liaison to the IPA, and ensuring that the audit was completed timely and in accordance with generally accepted government auditing standards. As the agency’s Contracting Officer’s Technical Representative (COTR) for the Commission’s annual financial statement audit,²¹ the IG developed detailed policies and procedures and completed a detailed audit monitoring plan documenting the OIG’s oversight activities. The IG also reviewed the IPA’s workpapers at key phases during the audit process to determine whether the fieldwork completed supported the IPA’s conclusions.²² We found that the OIG had practices in place to effectively monitor the annual financial statement audit conducted by the IPA.

In fiscal years 2011 through 2013, the IPA reported several concerns to the Commission about the agency’s grants monitoring activities. A sample of grant-funded projects reviewed by the IPA found that the Commission did not (1) have a follow-up process to determine whether grants were used as intended; (2) include the review of the grantee’s single audit

¹⁹*Denali Commission Office of Inspector General, Policies and Procedures For Inspections*, Chapter 1, OIG Policy 1.1 (Anchorage: revised July 2013).

²⁰The Chief Financial Officers Act of 1990, Pub. L. No. 101-576 (Nov. 15, 1990), as amended by the Government Management and Reform Act of 1994, Pub. L. No. 103-356 (Oct. 13, 1994) and the Accountability of Tax Dollars Act of 2002, and codified as amended in sections 3515 and 3521 of Title 31, United States Code, requires that executive agencies prepare financial statements covering all accounts and associated activities of each office, bureau, and activity of the agency. The financial statements should conform to OMB guidance and be audited by the agency IG or by an independent external auditor, as determined by the IG.

²¹The Federal Acquisition Regulation, 48 C.F.R. § 2.101, defines the COTR as an individual designated and authorized in writing by the contracting officer to perform specific technical or administrative functions.

²²To accomplish this, the OIG conducted a review using applicable standards for reviewing the work of others, as stated in Planning and General, 650 – Using the Work of Others in GAO and President’s Council on Integrity and Efficiency, *GAO/PCIE Financial Audit Manual*, volume 2, [GAO-08-586G](#) (Washington, D.C.: July 2008).

reports as part of its grants monitoring practices; (3) review past performance (and current status of previous projects) to ensure that the grant was used as intended, prior to approval of new grants; and (4) assess the extent to which it could recapture grant amounts from grantees as a result of substantial changes in the use of these grants. Although the OIG effectively monitored the IPA performing the Commission's annual financial statement audit, we found that the OIG did not focus its oversight efforts after the audit had been completed to ensure that the Commission addressed the IPA's concerns with the agency's grants monitoring practices.

We found that the OIG issued inspections related to some of the Commission's major programs and operations; however, the OIG did not conduct any performance audits related to these same programs and operations.²³ There are fundamental differences between inspections and audits. Inspections are narrower and more focused in scope than audits and they are also significantly less rigorous than an audit conducted in accordance with *Government Auditing Standards*.²⁴ Audits provide essential accountability and transparency over government programs.

According to the IG, he leveraged his resources (one full-time employee) to do the most good. The IG stated that his office was not staffed at a level that would support audits; he decided inspections were an effective method for leveraging what he had and responding to very specific issues that were often complaint driven. However, because the OIG did not conduct audits of the agency's programs and operations, the Commission

²³Audits include financial audits, attestation engagements, and performance audits conducted in accordance with generally accepted government auditing standards (GAGAS) and begin with objectives which determine the type of audit to be performed and the applicable standards to be followed. Financial statement audits provide an opinion about whether an entity's financial statements are presented fairly in all material respects in conformity with an applicable financial reporting framework. Attestation engagements cover a broad range of financial or nonfinancial objectives about a specific subject matter or assertion depending on the users' needs. Performance audits provide objective analysis to assist management in using the information to improve program performance and operations, reduce costs, facilitate decision making by those responsible for oversight, and contribute to public accountability.

²⁴[GAO-12-331G](#). These standards provide a framework for conducting high-quality audits with competence, integrity, objectivity, and independence. Audits conducted in accordance with GAGAS can lead to improved government management, better decision making and oversight, effective and efficient operations and accountability, and transparency for resources and results.

did not have the benefit of the broader scope and more rigorous standards of audits to help ensure effective grant oversight, accountability for grant funds, and the proper use of taxpayer dollars.

We also found that the OIG did not conduct investigations. OIG investigations help federal agency managers strengthen program integrity and use funds more effectively and efficiently. Investigations vary in purpose and scope and may involve alleged violations of criminal or civil laws as well as administrative requirements. The focus of an investigation can include the integrity of programs, operations, and personnel in agencies at federal, state, and local levels of government. According to CIGIE's *Quality Standards for Investigations*,²⁵ areas investigated by the OIG may also focus on issues related to procurement and grant fraud schemes; environment, safety, and health violations; benefits fraud; the background and suitability of individuals for employment or a security clearance designation; whistle-blower retaliation; and other matters involving alleged violations of law, rules, regulations, and policies. Some investigations address allegations of both civil and criminal violations, ranging in significance from a misdemeanor to a felony, while others could involve administrative misconduct issues. CIGIE's *Quality Standards for Investigations* also state that investigations can lead to criminal prosecutions and program exclusions; recovery of damages and penalties through criminal, civil, and administrative proceedings; and corrective management actions. Without conducting investigations, the Commission OIG was limited in its ability to identify criminal, civil, and administrative activities of fraud or misconduct related to Commission programs and operations.

²⁵Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Investigations* (Washington, D.C.: Nov. 15, 2011).

OIG Did Not Have Documented Policies and Procedures for Office Operations and Management, and Its Work Products Did Not Fully Adhere to Professional Standards

Our review of the OIG's policies and procedures in place during fiscal years 2011 through 2013 found that the OIG did not document its policies and procedures for its management and operations as an OIG. CIGIE's *Quality Standards for Federal Offices of Inspector General* sets forth the overall quality framework to which OIGs must adhere, to the extent permitted under law. Although the OIG did not document its policies and procedures for managing and operating its office, we identified some quality standards that were implemented, while others were not.

Our review of the OIG's inspections issued during fiscal years 2011 through 2013 found that the inspections did not fully adhere to CIGIE's *Quality Standards for Inspection and Evaluation*. While the OIG had documented policies and procedures for inspections, we found that the design and implementation of the inspection policies and procedures did not fully adhere to professional standards. Our review also found that the semiannual reports submitted to the Congress by the IG did not include required information in accordance with the reporting requirements of the IG Act.

Policies and Procedures for OIG Office Operations and Management Were Not Documented and Did Not Fully Adhere to Professional Standards

The Commission OIG did not have documented policies and procedures for conducting office operations that adhered to CIGIE's *Quality Standards for Federal Offices of Inspector General*. These quality standards are used as guidance by OIGs in the operation of federal OIGs and consist of (1) ethics, independence, and confidentiality; (2) professional standards; (3) ensuring internal control; (4) maintaining quality assurance; (5) planning and coordinating; (6) communicating the results of OIG activities; (7) managing human capital; (8) reviewing legislation and regulations; and (9) receiving and reviewing allegations.

Although the Commission OIG did not document its policies and procedures for its operations and management, we found that the OIG did implement, to some extent, certain standards in CIGIE's *Quality Standards for Federal Offices of Inspector General*. Specifically, the Commission OIG implemented, to some extent, the following five quality standards: ethics, independence, and confidentiality; professional standards; communicating results of OIG activities; managing human capital; and reviewing legislation and regulations. However, the Commission OIG did not implement the following four quality standards that are critical for the management and operations of the OIG: planning and coordinating, maintaining quality assurance, ensuring internal control, and receiving and reviewing allegations. The extent to which the IG implemented these quality standards is discussed below.

Ethics, independence, and confidentiality. The CIGIE quality standard for ethics, independence, and confidentiality states that the IG and OIG staff shall adhere to the highest ethical principles by conducting their work with integrity. Objectivity, independence, professional judgment, and confidentiality are all elements of integrity.

We found no evidence to indicate that the IG did not adhere to CIGIE's quality standard to ethically conduct his work and no evidence to indicate the IG did not adhere to CIGIE's quality standards for independently performing his duties. We also found no evidence to indicate that the IG did not safeguard the identity of confidential sources and protect privileged, confidential, and national security or classified information in compliance with applicable laws, regulations, and professional standards.

Professional standards. The CIGIE quality standard for professional standards states that each OIG shall conduct, supervise, and coordinate its audits, investigations, and inspections in compliance with applicable professional standards. We found that the Commission OIG provided some evidence for adhering to professional standards. Although the Commission OIG's inspection reports did not always adhere to CIGIE's *Quality Standards for Inspection and Evaluation*, we found that the IG did complete inspections. Also, the OIG's monitoring of the contract with the IPA hired to conduct the Commission's annual financial statement audit documented the OIG's detailed oversight and coordination of this agency requirement, providing evidence of adherence to *Government Auditing Standards*.

Ensuring internal control. The CIGIE standard for ensuring internal control states that each IG and OIG staff shall direct and control OIG operations consistent with *Standards for Internal Control in the Federal Government*.²⁶ These standards require that internal control be part of the OIG's management infrastructure, serve as a continuous built-in component of operations effected by people, and provide reasonable assurance that the OIG's objectives are met. The internal control structure includes the control environment, risk assessment, control activities, information and communication, and monitoring. Control

²⁶GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

activities are policies, procedures, techniques, and mechanisms that help ensure that the OIG's directives are carried out.

Effective internal control also assists the OIG in managing change to cope with shifting environments and evolving demands. An internal control structure is continually assessed and evaluated to ensure that it is well designed and operated, is appropriately updated to meet changing conditions, and provides reasonable assurance that objectives are being achieved. The OIG should design internal control activities to contribute to its mission, goals, and objectives. Specifically, control activities include a wide range of diverse activities, such as approvals, authorizations, verifications, reconciliations, performance reviews, security activities, and the production of records and documentation.

We found that the Commission OIG lacked critical elements of an effective internal control structure. For example, the OIG did not conduct a risk assessment to determine which agency programs or operations to evaluate. Instead, the OIG relied on the input from Commission officials and congressional staff to determine which programs and operations to evaluate. The OIG also lacked policies and procedures for managing and operating its office, which would have provided the needed guidance to ensure that the OIG's directives were carried out efficiently and effectively. While we acknowledge that the OIG is an office of one, independently determining which programs or agency operations to evaluate as well as developing policies and procedures for the OIG's management and operations are elements of internal control that are still achievable by a small office. Without an effective internal control structure, it is difficult for an OIG to ensure its own effective and efficient management and operations and safeguard its assets.

Maintaining quality assurance. The CIGIE standard for maintaining quality assurance states that each OIG shall establish and maintain a quality assurance program to ensure that work performed adheres to established OIG policies and procedures; meets applicable professional standards; and is carried out economically, efficiently, and effectively. Because OIGs evaluate how well agency programs and operations are functioning, they have a special responsibility to ensure that their own operations are as effective as possible. The OIG quality assurance program is an evaluative effort conducted by reviewers external to the units or personnel being reviewed to ensure that the overall work of the

OIG meets appropriate standards. The quality assurance program has an internal and an external component. Furthermore, organizations that perform audits are subject to a peer review at least once every 3 years.²⁷ Audits performed in accordance with *Government Auditing Standards* must provide reasonable assurance that the audit organization and its personnel are consistent with professional standards and applicable legal and regulatory requirements.

Internal quality assurance reviews can include reviews of all aspects of the OIG's operations and are distinct from regular management and supervisory activities, comparisons, and other activities by OIG staff performing their duties. External quality assurance reviews provide OIGs with added assurance regarding their adherence to prescribed standards, regulations, and legislation through a formal objective assessment of OIG operations. OIGs are strongly encouraged to have external quality assurance reviews of audits, investigations, inspections, evaluations, and other OIG activities. While the nature and extent of an OIG's quality assurance program depends on a number of factors—such as the OIG size, the degree of operating autonomy allowed its personnel and its offices, the nature of its work, its organization structure, and appropriate cost-benefit considerations—CIGIE standards state that each OIG shall establish and maintain a quality assurance program.

The Commission OIG did not have a quality assurance program and had not developed policies and procedures to help ensure quality assurance. The Commission IG told us that peer reviews were only required if an OIG had conducted audits, and because his office did not perform audits, it was not subject to this quality assurance requirement. Conversely, the Commission OIG inspection and semiannual reports could have been subjected to an internal quality assurance review, an external quality assurance review, or both. The Commission OIG provided draft inspection and semiannual reports to the Federal Cochair and the other commissioners, providing management an opportunity to comment on the drafts prior to final issuance. However, the Federal Cochair and commissioners do not qualify as external quality assurance reviewers

²⁷As part of its quality control and assurance framework, each audit organization performing audits in accordance with government auditing standards must maintain a system of quality control and is also required to have an external peer review. The external peer review is performed by reviewers independent of the audit organization being reviewed and is conducted at least once every 3 years.

because they are directly involved in the activities or programs being reviewed. In addition, they may not be familiar with applicable professional standards that govern OIG-issued work products.

Without documented policies and procedures for maintaining a quality assurance program, the OIG could not ensure that its management and operations adhered to the CIGIE standards or complied with the IG Act. In addition, the risk is significantly increased that issued work will not meet established standards of performance, including applicable professional standards, or be carried out economically, efficiently, and effectively.²⁸ While we acknowledge that the Commission OIG is an office of one and maintaining quality assurance under these circumstances presents challenges, adherence to this quality standard is required.

Planning and coordinating. The CIGIE standard for planning and coordinating states that each OIG shall maintain a planning system assessing the nature, scope, and inherent risks of agency programs and operations.²⁹ It is this assessment that forms the basis for establishing strategic and performance plans, including goals, objectives, and performance measures to be accomplished by the OIG within a specific time period. Some of the elements of the planning process include (1) using a strategic planning process that carefully considers current and emerging agency programs, operations, risks, and management challenges; (2) developing a methodology and process for identifying and prioritizing agency programs and operations as potential subjects for audit, investigation, inspection, or evaluation; and (3) using an annual performance planning process that identifies the activities to audit, investigate, inspect, or evaluate and translates these priorities into outcome-related goals, objectives, and performance measures. Strategic and annual work plans are useful tools in documenting the IG's strategic vision for providing leadership for activities designed to promote economy, efficiency, and effectiveness for an entity's programs and operations.

²⁸ *Quality Standards for Federal Offices of Inspector General* is issued by CIGIE and is based on GAO's *Standards for Internal Control in the Federal Government* and the quality control and assurance standard in *Government Auditing Standards* (sec. 3.49).

²⁹ Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Federal Offices of Inspector General* (Washington, D.C.: August 2012).

We found that the OIG did not prepare an annual work plan or strategic plan. Instead, an informal and undocumented planning process was used by the IG and Federal Cochair that involved routine meetings, e-mails, and conversations. Without an annual work plan or strategic plan, the Commission OIG is limited in its ability to ensure that the oversight it provided was relevant, timely, and responsive to the priorities to the Commission. Further, without a risk-based approach for oversight that includes identifying and prioritizing agency programs and operations as potential subjects for audit, investigation, inspection, or evaluation, the OIG did not have a road map to help guide the general direction and focus of its work to ensure appropriate oversight of the Commission's major programs.

Communicating results of OIG activities. The CIGIE quality standard related to communicating the results of OIG activities states that the OIG shall keep agency management, program managers, and the Congress fully and currently informed about appropriate aspects of OIG operations and findings. The OIG should also assess and report to the Congress, as appropriate, the OIG's strategic and annual performance, as well as the performance of the agency it oversees. Furthermore, the OIG is responsible for reporting promptly to the Attorney General whenever the IG has reasonable grounds to believe there has been a violation of federal criminal law. The IG and Federal Cochair told us that they did discuss the areas the IG planned to inspect. The OIG communicated the results of its activities by submitting semiannual reports to the Congress, ensuring that inspection reports were available on the OIG's website, and meeting with congressional staff to discuss various issues.

Managing human capital. The CIGIE quality standard for managing human capital states that the OIG should have a process to ensure that OIG staff possess the core competencies needed to accomplish the OIG's mission. Because the Commission OIG consisted of the IG and no staff, standards for managing human capital are applicable only to the Commission IG. The IG provided documentation verifying that as a certified public accountant and attorney in the state of Alaska, he had met the continuing education requirements for these designations and possessed the core competencies needed to accomplish the OIG's mission.

Because the Commission OIG was an office of one, the IG used the services of others to assist with his oversight duties. As discussed earlier, he contracted with an IPA for the agency's annual financial statement audit and contracted with a retired investigator to assist with inspections.

We found that the OIG had a process to ensure that these contractors possessed the needed skills for the services they provided.

Reviewing legislation and regulations. The CIGIE quality standard for reviewing legislation and regulations states that the OIG shall establish and maintain a system for reviewing and commenting on existing and proposed legislation, regulations, and directives that affect both the program and operations of the OIG's agency or the mission and functions of the OIG. While the OIG had not established a documented system for the steps it followed for reviewing legislation and regulations, we found an assessment of relevant Commission-related legislation and regulations in the OIG's semiannual reports to the Congress.

Receiving and reviewing allegations. The CIGIE quality standard for receiving and reviewing allegations states that the OIG shall establish and follow policies and procedures for receiving and reviewing allegations. This process should ensure that appropriate disposition, including appropriate notification, is made for each allegation. Furthermore, the IG Act requires each OIG to establish a direct link on the OIG website for individuals to anonymously report fraud, waste, and abuse.

The Commission OIG did not have an OIG hotline link on its website to serve as a mechanism for receiving and reviewing allegations, as appropriate. The IG provided his e-mail address and telephone number on the Commission's OIG website. He reported that there was no OIG hotline link on the website because the Commission only had about 15 employees and a tip through an OIG hotline was not necessarily how employees made contact with the OIG. According to the IG, contact with the Commission's small workforce was primarily through e-mails, phone calls, and group teleconferences.

OIG hotlines exist to elicit information from federal employees, contractors, and the general public that furthers an OIG's mission to (1) promote effectiveness, efficiency, and economy in its organization's programs and operations and (2) prevent and detect fraud, waste, and abuse in such programs and operations. Accordingly, hotlines play a critical role in the work of OIGs, because an OIG can only investigate, refer, or otherwise handle matters of which it is aware. Agency employees, contractors, and members of the public who make reports to an OIG via its hotline are an important resource because they can provide

the OIG with notification of or insider information about potential problems.³⁰

Hotlines have been used in organizations as a means for individuals fearing retaliation to seek remedies for problems anonymously within the organization. In recent years, there has been increased interest in the use of OIG hotlines as the principal mechanism for reporting and detecting fraud, waste, and abuse. Entities both within and outside the IG community have studied OIG hotlines and their important impact on the effectiveness of the IG community. In addition to detecting fraud, waste, and abuse, hotlines are used by some OIGs to identify agency programs or operations as potential subjects for audit or investigation. However, the Commission OIG did not conduct any investigations for criminal prosecution, and there was no supporting evidence of the disposition of referrals or tips received.

Without an established OIG hotline, with its protection of anonymity, it may be difficult for agency employees, contractors, and the general public to report insider information about potential problems at the Commission.

OIG Inspection and Semiannual Reports Generally Did Not Fully Adhere to Professional Standards

We reviewed the OIG's work products, which consisted of inspection reports and semiannual reports issued during fiscal years 2011 through 2013, and their associated policies and procedures. Our evaluation of the OIG's written policies and procedures for inspections found that they did not include guidance for all of the 14 CIGIE inspection standards and that there were deficiencies in the guidance that was included. In addition, we found that the inspection reports the OIG issued during fiscal years 2011 through 2013 did not fully adhere to applicable CIGIE inspection standards. Finally, we found that the semiannual reports issued by the OIG during fiscal years 2011 through 2013 did not fully comply with the reporting requirements per the IG Act.

³⁰Department of Homeland Security, Office of Inspector General, *Recommended Practices for Office of Inspector General Hotlines* (Washington, D.C.: October 2010).

OIG Inspection Policies and Procedures and Inspection Reports Did Not Generally Adhere to CIGIE Standards

CIGIE's *Quality Standards for Inspection and Evaluation* promulgates 14 sets of criteria for performing inspections: (1) competency; (2) independence; (3) professional judgment; (4) quality control; (5) planning; (6) data collection and analysis; (7) evidence; (8) records maintenance; (9) timeliness; (10) fraud, other illegal acts, and abuse; (11) reporting; (12) follow-up; (13) performance management; and (14) working relationships and communication. CIGIE inspection standards state that it is the responsibility of each OIG that conducts inspections to develop internal written policies and procedures to ensure that all work adheres to the standards and is in compliance with the IG Act. The IG Act requires OIGs to adhere to these standards to the extent permitted under law and not inconsistent with applicable auditing standards. The Commission OIG had established written policies and procedures that provide guidance for 7 of the 14 CIGIE standards; however, our review of the guidance found deficiencies.

Regarding implementation of the CIGIE inspection standards, we reviewed the OIG's 12 inspections reported from fiscal years 2011 through 2013 and found documentary evidence that some CIGIE standards, including some that were not included in the OIG's policies and procedures, were implemented. However, inspections were not conducted in full accordance with the standards.

Standards Not Included in the OIG's Policies and Procedures for Inspections

The following standards were not included in the OIG's policies and procedures but were implemented to some extent in the conduct of inspections.

Data collection and analysis. CIGIE inspection standards state that the collection of information and data focuses on the function being inspected, consistent with inspection objectives and sufficient to provide a reasonable basis for reaching conclusions.

The Commission OIG did not have policies and procedures for data collection and analysis that adhered to CIGIE's standards for inspections. However, the supporting documentation for the inspections we reviewed did have information to support data collection for the inspections. Specifically, we found that 9 of the 12 inspections completed had supporting documentation sufficient in detail for reaching the identified findings in the inspection reports. We also found that the methods used to collect supporting documentation for the inspections were reliable and valid. The supporting documentation collected consisted of source documents such as interview write-ups by the contracted investigator, relevant excerpts from the laws and regulations referenced in the

inspection reports, and other information. Supporting documentation for 5 of the 12 inspections showed evidence that the information had been reviewed for accuracy and reliability, and another 4 of 12 inspections showed evidence of partial review by the Commission IG. The remaining 3 inspection reports did not show evidence of supporting documentation being reviewed for accuracy and reliability.

Evidence. CIGIE's standards for inspections state that evidence to support findings, conclusions, and recommendations should be sufficient, competent, and relevant and should provide a basis for bringing a reasonable person to the reported conclusions and findings. Furthermore, evidence may take many forms, such as physical, testimonial, documentary, and analytical, which includes computations, comparisons, and rational arguments.

The Commission OIG did not have policies and procedures for evidence that adhered to CIGIE's standards for inspections. Although the OIG's policy and procedure stated that "the Denali IG's basic documentation will include the inspection plan, a cross-referenced copy to work papers, and detailed footnotes," the policy and procedure did not adhere to the CIGIE inspection standard. Additionally, we found no documented evidence in the OIG's workpapers to support the inspection conclusions and recommendations for its reports. For example, we did not find any workpapers containing the Commission IG's analysis of the supporting documentation or that linked the Commission IG's processes or methods used to the reported findings, conclusions, or recommendations for all 12 of the inspection reports we reviewed.

Records maintenance. CIGIE inspection standards state that all relevant documentation generated, obtained, and used in supporting inspection findings, conclusions, and recommendations should be retained for an appropriate amount of time.

The Commission OIG did not have policies and procedure for records maintenance that adhered to CIGIE's standards for inspections. Although the Commission OIG's policies and procedures did not address records maintenance, the OIG did maintain supporting documentation in its workpaper files. We found that the OIG retained documentation for 9 of the 12 inspection reports completed. However, for the 2 inspection reports included in the Commission's agency financial report, the OIG did not have any workpapers. For the remaining inspection report, the supporting documentation that was maintained was incomplete.

Timeliness. CIGIE inspection standards state that inspections should strive to deliver significant information to appropriate management officials and customers in a timely manner.

The Commission OIG did not have policies and procedures for timeliness that adhered to CIGIE's standards for inspections. Although the Commission OIG's policies and procedures did not address timeliness, we found no evidence to suggest that the inspection reports were not in accordance with the timeliness standard. This is based on the time the inspections began and the inspection report dates, which ranged from 1 month to about 2 years.

Fraud, other illegal acts, and abuse. CIGIE standards for inspections state that inspectors should be alert to any indicator of fraud, other illegal acts, or abuse. They also state that inspectors should be aware of vulnerabilities to fraud and abuse associated with the area under review to facilitate identifying potential or actual illegal acts or abuse that may have occurred.

The Commission OIG did not have policies and procedures for considering fraud, other illegal acts, and abuse that adhered to CIGIE's standards for inspections. We also found that the OIG did not conduct a fraud assessment for any of the 12 inspections the OIG conducted.

Follow-up. CIGIE standards for inspections state that appropriate follow-up will be performed to ensure that any inspection recommendations made to department or agency officials are adequately considered and appropriately addressed.

The Commission OIG did not have policies and procedures related to following up on report recommendations to determine whether corrective actions had been taken. We found that the OIG did not perform follow-up for any of the 12 inspection reports. Of the 5 published inspection reports, the OIG did not follow up on the three recommendations made in those reports. In addition, of the 5 inspections mentioned in the OIG's semiannual reports to the Congress, the OIG did not follow up on the 13 recommendations made as a result of those inspections. The remaining 2 inspections published in the agency financial report did not contain any recommendations.

Performance measurement. CIGIE standards for inspections state that mechanisms should be in place to measure the effectiveness of inspection work. CIGIE standards describe the importance of being able

Standards Included in the
OIG's Policies and Procedures
for Inspections

to demonstrate the positive results that inspections contribute to the more effective management and operation of federal programs. Performance measures for OIG inspections, for example, could focus on the number of implemented recommendations and outcomes or changes in policy.

The Commission OIG did not have policies and procedures related to performance measurement that adhered to CIGIE's standards for inspections. We also found that the OIG did not establish performance measures to determine the effectiveness of inspections completed.

The following standards were included in the OIG's policies and procedures and were implemented to some extent in the conduct of inspections.

Competency. CIGIE's competency standard states that inspection organizations need to ensure that the personnel conducting an inspection collectively have the knowledge, skills, abilities, and experience necessary for the assignment.

The Commission OIG's policies and procedures for competency adhered to CIGIE's standards for inspections. They state that the Commission IG will, as a condition of employment, maintain his or her competency to multitask as a one-person OIG.³¹ In addition, the OIG's policies and procedures state that the IG will take a minimum of 40 hours of training per fiscal year, which is in accordance with CIGIE standards.

The Commission IG was a licensed attorney and certified public accountant, and he provided us documents of his current continuing professional education credits. Thus, we considered the Commission IG's qualifications to be consistent with CIGIE inspection standards.

Independence. The CIGIE inspection standard for independence states that in all matters relating to inspection work, the inspection organization and each individual inspector should be free both in fact and appearance from personal, external, and organizational impairments to independence.

³¹Denali Commission Office of Inspector General, *Policies and Procedures For Inspections*.

The Commission OIG's policies and procedures adhered to CIGIE inspection standards for independence. They state the Commission IG will maintain strict political neutrality and an appropriate level of social detachment from the Commission's management and beneficiaries as a critical element of OIG independence. We did not find any impairment, in fact or appearance, with the independence of the Commission OIG.

Professional judgment. The CIGIE inspection standard for professional judgment states that due professional judgment should be used in planning and performing inspections and in reporting the results.

The Commission OIG's policies and procedures addressed professional judgment but did not address the broader intent of the CIGIE inspection standard for professional judgment. The OIG's policy states that it will conduct interviews of agency officials through an inspection methodology that conforms to the CIGIE quality standards for that inspection procedure, which is in accordance with the CIGIE inspection standard for professional judgment. The OIG's policy only addresses the intent to interview agency officials in accordance with these standards instead of the OIG's intent to use professional judgment when performing all aspects of inspection procedures. This would include the intent to use professional judgment in selecting the type of inspections to perform, defining the scope and methodology, and determining the type and amount of evidence to gather. In addition, the problems with the OIG's inspection plans and lack of evidence and analysis in the workpapers, as discussed in this report, are indications that the OIG's professional judgment did not adhere to CIGIE standards.

Quality control. CIGIE standard for quality control states that each OIG organization that conducts inspections should have internal quality controls for its processes and work.

The Commission OIG's policies and procedures addressed quality control but did not fully adhere to CIGIE's inspection standards. The Commission OIG's policy for quality control states that the OIG will arrange for feedback from an external expert for at least 50 percent of its published reports. However, the Commission OIG did not have procedures established to provide for an independent assessment of its inspection processes or inspection reports. Consequently, none of the 12 inspection reports we reviewed had an independent assessment for quality control completed. While the Commission OIG is an office of one full-time employee, which created challenges in instituting extensive quality control, the IG did not take the necessary steps to mitigate this challenge

by implementing control procedures that provide an independent assessment of inspection processes and work.

Planning. The CIGIE standard states that inspection planning is intended to ensure that appropriate care is given to selecting inspection topics and should be developed to clearly define the inspection objective, scope, and methodology. It may also include time frames and work assignments. Additionally, the CIGIE inspection standard for planning states that research, work planning, and coordination should be thorough enough to ensure that the inspection objectives are met.

The Commission OIG's policies and procedures addressed planning but did not fully adhere to CIGIE's inspection standards. We found that the Commission OIG's policy for planning inspections did not adhere to the CIGIE standards for inspections related to planning. The Commission OIG's policy for planning states that the basic documentation for an inspection will include (1) an inspection plan, (2) a copy of the report with cross-references to the evidence workpapers, and (3) detailed footnotes in the report itself. This policy does not address the purpose or contents of the plan as described in the CIGIE inspection standard.

Regarding implementation, we found that the OIG's inspection plans were not adequately developed. Specifically, we found that none of the 12 inspections included clearly defined descriptions of the objective, scope, and methodology. In addition, 9 of the 12 inspection plans were not planned sufficiently to reach reasonable conclusions about the topic inspected because of a lack of detailed procedures in the inspection plan to perform the inspection. The remaining 3 inspections plans, despite not having documented the objective, scope, and methodology, did have sufficient planned steps to reach reasonable conclusions as reported in the inspection report.

Reporting. The CIGIE standard states that inspection reporting shall present factual data accurately, fairly, and objectively, and present findings, conclusions, and recommendations in a persuasive manner. Additionally, the standard states that inspection reports must include the objective, scope, and methodology of the inspection and a statement that the inspection was conducted in accordance with CIGIE standards for inspection.

The Commission OIG's policies and procedures addressed reporting but did not fully adhere to CIGIE's inspection standards. The Commission OIG's policy for reporting states that published inspection reports will

emphasize plain language, readability to a nationwide audience, and usefulness to decision makers. However, the OIG's policies and procedures do not require that reports include the objective, scope, and methodology of the inspection or a statement that the inspection was conducted in accordance with CIGIE standards for inspections. Despite these omissions in the Commission OIG's policies and procedures, we found that 1 of the 12 inspections clearly listed the objective, scope, and methodology, and 4 of 12 reports stated that the inspection was conducted in accordance with CIGIE standards for inspections.

Working relationships and communication. The CIGIE standard for inspections related to working relationships and communication states that each inspection organization should seek to facilitate positive working relationships and effective communication with those entities inspected and other interested parties.

The Commission OIG's policies and procedures adhered to CIGIE's inspection standards for working relationships and communication. The Commission OIG policy states that its key inspection procedure is management's feedback regarding the draft report, which the Commission OIG seeks at several levels: (1) oral conversation, (2) e-mailed comments, and (3) a formal response letter for publication with the OIG's final report. We found evidence of OIG communication with the Commission through e-mail correspondence for all published inspection reports. In addition, the OIG reported and communicated the results of OIG activities related to issued work products to agency management officials and the Congress.

OIG Did Not Include Some Required Information in Its Semiannual Reports to the Congress

Section 5 of the IG Act requires that each IG shall, not later than April 30 and October 31 of each year, prepare and submit to the Congress semiannual reports summarizing the activities of the office during the immediately preceding 6-month periods ending March 31 and September 30. These reports are intended to keep the Congress informed by highlighting, among other things, the OIG's review of existing and proposed legislation and regulations affecting an agency's programs and operations to foster economy and efficiency and detect fraud, waste, and abuse. These reports are also intended to keep the Congress informed about significant problems, abuses, and deficiencies in an agency's programs and operations and the status of recommendations for corrective actions. While the IG Act requires that semiannual reports include a summary of matters referred to prosecutive authorities and resulting convictions, the Commission IG told us that he is not aware of

anyone who has been charged in a criminal court case as a result of his work. Section 5 of the IG Act also establishes a uniform set of statistical categories under which OIGs must report the quantitative results of their audit, investigation, inspection, and evaluation activities. The statistical information reported in an OIG's semiannual report must show the total dollar value of questioned costs³² and the dollar value of recommendations that funds be put to better use.³³

The Commission OIG submitted semiannual reports as required by the IG Act; however, we found that the reports did not fully comply with the reporting requirements of the IG Act. Specifically, we found that for the six semiannual reports we reviewed, the OIG did not provide statistical information showing the dollar value of recommendations that funds be put to better use or the total value of questioned costs (including a separate category for the dollar value of unsupported costs). We understand that that there may not have been any amounts identified by the OIG of funds that could be put to better use or questioned costs for the reporting period. However, if the OIG does not state this in the semiannual reports to the Congress, both management and the Congress do not have the necessary information to take appropriate actions to enhance management practices and procedures, which would result in more efficient and effective use of Commission funds. Furthermore, this statistical information is required by the IG Act and should be included in the OIG's semiannual reports to the Congress.

We also found that for five of the semiannual reports we reviewed, the OIG did not identify the significant recommendations described in previous semiannual reports for which corrective action had not been completed by agency management. While the OIG provided this information in its May 2011 semiannual report, the OIG did not provide the status of the 48 open recommendations identified in this report in subsequent semiannual reports. The IG Act requires the OIG to identify each significant recommendation described in previous semiannual

³²These are costs that the OIG questioned because of an alleged violation of a provision of a law, regulation, contract, or other agreement or document governing the expenditure of funds; because they are not supported by adequate documentation; or because the expenditure of funds for the intended purpose is unnecessary or unreasonable.

³³A recommendation that funds be put to better use refers to a finding by the OIG that funds could be used more efficiently if management took actions to implement and complete the OIG's recommendations.

reports on which corrective action has not been completed by management. Not knowing the current status of the recommendations for which corrective actions are needed limits both the agency's and the Congress's awareness of outstanding actions that may still need to be taken.

We found that the OIG did not have written policies and procedures to guide the preparation of its semiannual reports to the Congress. We did find that for one of the semiannual reports we tested (the report for the first half of fiscal year 2011) at the request of the Federal Cochair, the OIG included an appendix that identified and provided the status of recommendations from all the semiannual reports issued by the OIG in fiscal year 2006 through the first half of fiscal year 2011. The information in the appendix identified 159 recommendations made by the OIG during fiscal years 2006 through 2010 and the first half of fiscal year 2011.

While the IG provided the status of recommendations in fiscal year 2011, he did not provide updated information on the status of these recommendations in the semiannual reports issued going forward, in compliance with the IG Act. According to the IG, he received a request at least annually from the House Committee on Oversight and Government Reform requesting an update on the status of open recommendations. The IG also told us that a common focus of his meetings with OMB and congressional committee staff was to discuss the status of open recommendations.

Alternate IG Oversight Structures at Other Federal Agencies

As we recently testified, GAO has long supported the creation of independent IG offices in appropriate federal departments, agencies, and entities, and we continue to believe that significant federal programs and entities should be subject to oversight by independent IGs.³⁴ At the same time, we have reported some concerns about creating and maintaining small IG offices with limited resources, where an IG might not have the ability to obtain the technical skills and expertise needed to provide adequate and cost-effective oversight. Although the limitations of a single-person office can create challenges to developing and implementing policies and procedures to ensure effective oversight, if corrective actions

³⁴GAO, *Inspectors General: Oversight of Small Federal Agencies and the Role of the Inspectors General*, [GAO-14-503T](#) (Washington, D.C.: Apr. 10, 2014).

are taken to address the issues identified in this report, the current DFE
OIG structure can provide a viable option for oversight of the
Commission. Nevertheless, there are alternative structures that may also
facilitate effective OIG oversight of the Commission.

We identified examples of alternative approaches that exist in other
federal agencies that may also provide effective OIG oversight for the
Commission. Three alternative IG oversight structures and their
respective advantages and disadvantages are summarized in figure 4
and more fully described in the paragraphs that follow.

Figure 4: Summary of Alternate Office of Inspector General (OIG) Oversight Structures’ Potential Advantages and Disadvantages

Potential advantages			Alternative OIG structures	Potential disadvantages		
Greater resources	Strategic and risk-based planning	Best-practices work environment	Consolidation within larger OIG	Competition for oversight	Competition for resources	Decreased contact between inspector general and DFE management
Greater resources	Achieving economies of scale	Increased institutional knowledge	Consolidation within another regional commission OIG	Limited effectiveness of OIG oversight		
	Greater expertise in area of responsibility	Reduced strain on designated federal entity (DFE) OIG resources and expertise	Divided OIG oversight responsibilities	Coordination difficulties between agencies	Communication difficulties between IGs	

Source: GAO analysis. | GAO-14-320

Note: We understand that there are certain mitigating actions related to potential disadvantages that can be implemented at federal oversight agencies, however, we have only identified disadvantages for the purposes of this report.

Consolidation into a
Larger IG Office

The Commission OIG could be consolidated into a larger IG office. Specifically, OIGs with presidentially appointed IGs would assume the operational responsibilities of the Commission OIG as established under the IG Act. This includes reporting to the Congress semiannually; performing audits, investigations, inspections, and evaluations of program areas; as well as conducting and overseeing the agency’s annual financial statement audit. This alternative could strengthen the quality of work and use of resources through the implementation of best practices

usually employed at larger, presidentially appointed and Senate-confirmed IGs and their related offices.

This oversight structure exists at the Department of State OIG. For example, the Department of State OIG has oversight authority over the Broadcasting Board of Governors (BBG), which had a budget of \$712 million for fiscal year 2013. The Department of State OIG had an average annual budget of \$61 million for fiscal years 2011 through 2013 and employed approximately 270 full-time and 16 part-time employees. The Department of State OIG conducts independent performance and financial statement audits, inspections, and investigations that advance the missions of the Department of State and BBG. The Department of State OIG prepares an annual performance plan (including audits, inspections, and evaluations) and a 5-year strategic plan for oversight of the Department of State and BBG using Department of State management challenges as a baseline, along with input collected from the Department of State, BBG management, and other sources of information. The Department of State OIG also uses a risk-based approach to determine which posts and bureaus should be inspected based on the most recent inspection and other data collected during the course of its oversight work. In addition, when possible, the Department of State OIG performs a review of BBG foreign offices during Department of State site visits, allowing it to leverage efficiencies and resources when performing other oversight work.

In another example, the U.S. Agency for International Development Office of Inspector General (USAID OIG) provides oversight to several small entities, including the Millennium Challenge Corporation, U.S. African Development Foundation, Inter-American Foundation, and Overseas Private Investment Corporation, with budgets of \$898 million, \$30 million, \$22 million, and approximately \$75 million to 100 million, respectively, for fiscal year 2013. USAID OIG has approximately 230 employees and had an average budget of approximately \$45.6 million for fiscal years 2011 through 2013. USAID OIG prepares annual performance (i.e., audit) plans for oversight of these entities that are aligned with its 5-year strategic plan following consultations with stakeholders and OIG personnel. In addition to these consultations, annual performance plans are developed based on a risk assessment of the portfolios they monitor. USAID OIG audits activities relating to the worldwide foreign assistance programs and agency operations of these entities and considers several factors when assessing agency program risk, such as inherent risk, fraud and corruption risk, and control risk. Audit activities include performance audits and reviews of programs and management systems, financial

statement audits, and audits related to financial accountability of grantees and contractors. The USAID OIG also investigates allegations of fraud, waste, and abuse relating to the foreign assistance programs and operations.

The quality of an OIG's work is a critical element of IG effectiveness. Consolidation with a larger OIG could improve the quality of work at the Commission OIG. This could be accomplished by using a strategic, risk-based approach for auditing and increasing staffing resources with the requisite technical auditing and accounting expertise necessary to improve program efficiency and effectiveness. As we noted earlier, audits performed in accordance with generally accepted government auditing standards (GAGAS) provide information used for oversight, accountability, transparency, and improvements of government programs and operations. When auditors comply with GAGAS in reporting the results, their work can lead to improved management, better decision making and oversight, effective and efficient operations, accountability, and transparency for resources. In addition, consolidation with a larger OIG could increase the OIG's ability to effectively plan for work, including implementing a strategic and risk-based approach to auditing agency programs and operations of high risk. Routine access to staff resources with the requisite subject matter expertise, such as information technology personnel, payroll services personnel, and a highly trained financial management workforce, could also be an advantage of consolidating with a larger OIG.

However, consolidation with larger OIGs could also result in disadvantages, such as limited contact with agency program management officials who have the institutional knowledge pertaining to agency missions and priorities. There may also be management challenges in determining the appropriate amount of resources to dedicate toward performing sufficient oversight of the Commission's programs. For example, the Commission may not be a material entity when compared to the larger agency; therefore, when using a risk-based approach, the Commission may not get the necessary OIG oversight with respect to its critical programs and operations from the larger OIG.

Consolidation with a Regional Commission OIG

Consolidation with a single regional commission OIG could serve as another alternative structure. This option would consolidate the Commission OIG with a regional commission OIG. As under the consolidation with a larger IG office alternative, the regional commission OIG would assume the oversight responsibilities of the Commission OIG.

There are currently seven regional commissions; however, only the Appalachian Regional Commission (ARC) and the Denali Commission have their own OIGs. Legislation enacted in 2008 directed that a single IG be appointed by the President, in accordance with the IG Act, for three of the other regional commissions, but it has not been implemented.³⁵ The regional commissions are as follows: (1) Northern Border Regional Commission, (2) Southwest Border Regional Commission, (3) Southeast Crescent Regional Commission, (4) Delta Regional Authority,³⁶ (5) Appalachian Regional Commission, (6) Northern Great Plains Regional Authority,³⁷ and (7) Denali Commission.

Regional commissions are regional development agencies that focus on developing infrastructure and targeting new resources to promote wealth generation and economic growth to distressed portions of specific geographical areas within their regions. For example, the ARC is a regional economic development agency that represents a partnership of federal, state, and local governments. Established by the Congress in the Appalachian Regional Development Act of 1965,³⁸ the ARC was established to assist the region in promoting economic development and establishing a framework for joint federal and state efforts to provide the basic facilities essential to its growth on a coordinated and concerted regional basis. The ARC is composed of the governors of the 13 Appalachian states and a Federal Cochair, who is appointed by the President. Local participation is provided through multicounty local development districts.

³⁵See 40 U.S.C. § 15704. Section 14217 of the Food, Conservation, and Energy Act of 2008, Pub. L. No. 110-246 (June 18, 2008), authorized the Northern Border Regional Commission, Southwest Border Regional Commission, and Southeast Crescent Regional Commission and provided for the appointment of a single IG to oversee them.

³⁶The Delta Regional Authority Act of 2000, Pub. L. No. 106-554, app. D. div. B. title V (Dec. 21, 2000), established the Delta Regional Authority and tasked the Department of Agriculture (USDA) IG with the responsibility to audit it annually. However, the USDA IG no longer oversees this regional commission.

³⁷The Farm Security and Rural Investment Act of 2002, Pub. L. No. 107-171. § 6028 (May 12, 2002), established the Northern Great Plains Regional Authority and tasked the USDA IG with the responsibility to audit it annually. However, the USDA IG no longer oversees this regional commission.

³⁸Pub. L. No. 89-4 (Mar. 9, 1965), *codified as amended at*, 40 U.S.C. §§ 14101-14704.

The ARC OIG reported that it has three full-time employees, has an annual budget of approximately \$634,000, and has performed 81 audits and inspections during fiscal years 2011 to 2013.³⁹ According to the ARC OIG website, the ARC OIG provides independent and objective audits, inspections, and evaluations relating to agency programs and operations. The ARC prepares a 5-year strategic plan and annual work plans to identify grant audits that represent the most significant aspect of the ARC's programs. The ARC OIG's grant audits are based on factors such as the value of the grant, location, type of grant, and prior history. The ARC OIG also provides a means for keeping the ARC Federal Cochair, the other commissioners, and the Congress fully informed about problems and deficiencies at the ARC.

Consolidation of the Commission OIG with another regional commission OIG could serve to (1) strengthen institutional knowledge regarding agency programs and operations and (2) achieve economies of scale. Since regional commissions are focused on building the infrastructure and targeting economic growth to distressed areas in specific rural geographic locations, consolidation of the Commission OIG with another regional OIG could improve institutional knowledge at the Commission OIG. Given the similarities in their scope and mission, efficiencies may be achieved by leveraging resources between the two regional commissions. In addition, consolidation could serve to increase the availability of investigative resources to detect fraud, waste, and abuse while achieving other efficiencies. A disadvantage to this approach could be that resources become strained, limiting the effectiveness of the OIG to perform its duties for both agencies.

Divide OIG Oversight Responsibilities

The Commission IG stated that he spent approximately 25 percent of his time overseeing the contracted auditor for the Commission annual financial statement audit and therefore used inspections to leverage the time he had to perform oversight. Another alternative is to divide OIG oversight responsibilities for the agency performance audits, investigations, and inspections and the agency financial statement audits between two separate federal OIGs, such as a regional commission OIG or a larger OIG. The regional commission OIG would perform the audits, investigations, and inspections of agency programs and operations based

³⁹See <http://www.arc.gov/about/OfficeofInspectorGeneralAuditandInspectionReports.asp>.

on its similar mission and scope. The larger OIG would conduct and oversee the agency's annual financial statement audit. A current example of this structure exists at the Department of Transportation (DOT) OIG. The DOT OIG has the authority to review the financial statement audit, property management, and business operations of the National Transportation Safety Board (NTSB), including internal accounting and administrative control systems, to determine whether they comply with applicable laws, rules, and regulations. GAO conducts broad management reviews on behalf of the NTSB. In addition, Amtrak is a DFE under the IG Act and has an OIG, but Amtrak itself, rather than the OIG, is required to engage an IPA to audit its annual financial statements.⁴⁰ In fiscal year 2011, the Amtrak OIG began monitoring the IPA that performed the financial statement audit for Amtrak. Further, the DOT OIG is required by statute to conduct certain oversight of Amtrak operations, including an annual review of Amtrak's budget and 5-year financial plan.⁴¹

This divided approach could reduce the strain of oversight responsibilities on one OIG by providing a shared responsibility between two OIGs while potentially providing sufficient agency oversight. In addition, dividing responsibilities between two OIGs would serve to leverage the OIGs' expertise (i.e., similar mission, subject matter experts, etc.) in conducting performance audits, investigations, inspections, and evaluations for one OIG assuming oversight responsibilities. The other OIG's expertise could also be leveraged for conducting the annual financial statement audit.

However, disadvantages in this approach could be a lack of effective communication and coordination between the two OIGs. For example, internal control deficiencies and recommendations resulting from the financial statement audit may not be communicated in a timely manner to the OIG with program and operational oversight responsibilities of the agency. This could delay the implementation and preparation of corrective action plans to address and correct deficiencies found during the financial statement audit in a timely manner, which could also have a programmatic or operational impact. In addition, this approach could require the agencies to coordinate activities such as requests for financial

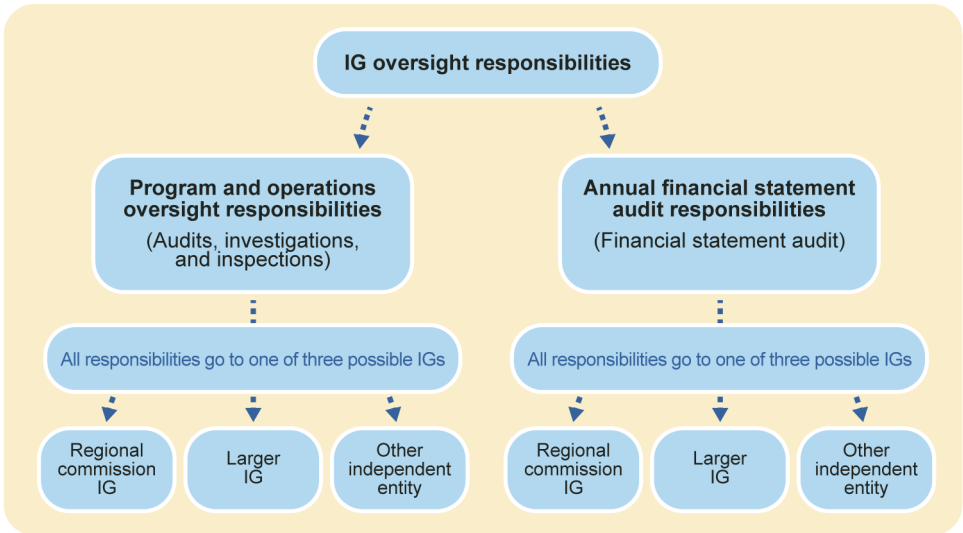
⁴⁰49 U.S.C. § 24315(d).

⁴¹See Amtrak Reform and Accountability Act of 1997, Pub. L. No. 105-134, § 409(c) (Dec. 2, 1997); Passenger Rail Investment and Improvement Act of 2008, Pub. L. No. 110-432, div. B, §§ 204, 221 (Oct. 16, 2008).

statement audit documents and requests for documentation for performance audits and investigations. This could put additional stress on the smaller OIG to fulfill requests for documentation and meetings while still performing daily duties required at the agency.

Figure 5 demonstrates how various responsibilities could be divided among various IG offices.

Figure 5: Alternative Structures for Dividing Inspector General (IG) Responsibilities



Source: GAO analysis. | GAO-14-320

While there is no clear-cut option with respect to the alternative OIG structures presented above, any specific decision concerning consolidations of IG offices should result from dialogue among the affected agencies, CIGIE, and the Congress.

Conclusions

OIG’s are responsible for coordinating audits, inspections, and investigations. While the Commission OIG conducted limited oversight through inspections, it did not conduct performance audits or investigations and many of the critical standards in CIGIE’s *Quality Standards for Federal Offices of Inspector General*, such as planning and coordination, ensuring internal control, maintaining quality assurance, and receiving and reviewing allegations, were not addressed in the policies and procedures or the operations of the Commission OIG. For example,

planning and coordination would include a risk-based approach to assessing the nature, scope, and inherent risk of Commission programs and operations. A risk-based approach for oversight would guide the general direction and focus of OIG work to ensure effective oversight of the Commission's major programs and operations. Furthermore, it is important that OIG work products provide reliable information and adhere to CIGIE professional standards and the IG Act. However, we found no documented evidence in the OIG's workpapers to support the inspection conclusions and recommendations for its reports. These OIG work products are used by the Congress and others to assess whether the Commission's major programs and operations are achieving their desired results.

Recommendations for Executive Action

We are making the following nine recommendations to the Commission IG, or to the individual or entity that ultimately assumes IG oversight responsibilities for the Commission under an alternate structure, in order to ensure that the Commission receives effective oversight of its major programs and operations.

- Develop and implement a risk-based approach that adheres to professional standards to help ensure effective oversight of the major Commission programs and operations in the form of audits and investigations.
- Develop policies and procedures for OIG office operations and management activities in accordance with CIGIE's *Quality Standards for Federal Offices of Inspector General*.
- Implement the OIG's policies and procedures developed in accordance with CIGIE's *Quality Standards for Federal Offices of Inspector General* to ensure that the OIG's management and operation of its office includes the following:
 - annual work and strategic plans that identify goals, objectives, and performance measures to be accomplished by the OIG within a specific period;
 - a quality assurance framework that includes both internal and external quality assurance reviews;
 - an internal control structure that includes all elements of internal control, such as the control environment, risk assessment, control activities, information and communication, and monitoring; and
 - an OIG hotline to receive and review anonymous tips, referrals, and allegations to help prevent and detect potential fraud, waste, and abuse.

-
- Update the OIG's policies and procedures for inspections to ensure that they are fully in accordance with CIGIE's *Quality Standards for Inspection and Evaluation*.
 - Conduct inspections that are fully in accordance with CIGIE's *Quality Standards for Inspection and Evaluation* and the OIG's policies and procedures.
 - Prepare semiannual reports to the Congress that fully comply with the reporting requirements of the IG Act.

Agency Comments

We provided a draft of this report to the Denali Commission for review and comment. The Commission concurred with the report's conclusions and recommendations, and provided its perspective of the IG's performance as well as the challenges for a one-person DFE OIG. The Commission's letter is reprinted in appendix II.

We are sending copies of this report to the appropriate congressional committees, the Federal Cochair and Commissioners of the Denali Commission, the Office of the Inspector General for the Department of Commerce, the Assistant Secretary for Economic Development for the Department of Commerce, and other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-2623 or davisbh@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.



Beryl H. Davis
Director
Financial Management and Assurance

Appendix I: Objectives, Scope, and Methodology

To determine the resources appropriated to and expensed by the Denali Commission's (Commission) Office of Inspector General (OIG) for fiscal years 2011 through 2013, we reviewed OIG-related budget justification documents and expenditure reports for the OIG's salary and benefits, contracts, training, and travel. We reviewed the cost elements used to develop the OIG's annual budget estimate, as well as the contract types and contract payments made to assist with OIG-related activities. We interviewed the commissioners and agency management to determine whether the OIG obtained their input for program or operation areas of concern for which they wanted assistance. We also interviewed Commission staff to gain an understanding of the resources provided to the OIG from the Commission and from other federal agencies.

To determine the number of work products issued by the OIG, we reviewed the Inspector General's (IG) activity log and the OIG's website to identify which publications were within our scope and provided the list to the IG for confirmation that the list was complete. We requested copies of the OIG's annual work plan and strategic plan and interviewed commissioners and Commission staff to determine the extent to which they provided input to the OIG's annual work and strategic plans. However, the IG did not prepare written annual work and strategic plans. Therefore, we had to rely on the interviews we conducted with the commissioners and Commission staff to determine the extent to which they provided input to the IG on areas the IG evaluated.

To determine the extent to which the IG provided oversight of the Commission's major programs and operations, we compared the grant funds awarded and disbursed by the Commission for fiscal years 2011 through 2013 to the work products issued by the OIG. We obtained the grant funds awarded and disbursed information from the Commission (including the program descriptions for these grants) and performed procedures that allowed us to determine that the grant information provided by the Commission was sufficient for our purposes. We did compare these grant amounts to the total grant funds reviewed by the OIG in its work products. We analyzed all of the OIG's work products issued in fiscal years 2011 through 2013, noting the objectives, scope, and methodology of the reports to determine the extent to which these work products reviewed Commission programs or operations. We reviewed the Commission's fiscal year 2015 budget justification to identify accomplishments by program, and we also reviewed the Commission's annual financial report to identify the budgetary authority amounts by program. We compared the fiscal year budgeted amounts reported in the Commission's audited annual financial statements with the amounts

reported in the President's budget, which allowed us to determine that the budget amounts provided by the Commission were sufficient for our purposes.

To determine whether the design of the OIG's policies and procedures adhered to applicable professional standards, we reviewed the Inspector General Act of 1978, as amended (IG Act), and the Council of the Inspectors General on Integrity and Efficiency's (CIGIE) *Quality Standards for Federal Offices of Inspector General* and *Quality Standards for Inspection and Evaluation*, and compared the OIG's inspection policies and procedures to these professional standards. To determine the extent to which the OIG implemented the CIGIE standards and its inspection policies and procedures, we prepared a data collection instrument using the CIGIE inspection standards and the OIG's policies and procedures. We tested all of the OIG's work products issued during fiscal years 2011 through 2013 to determine whether the OIG's work products adhered to the CIGIE standards and were consistent with the OIG's inspection policies and procedures. We reviewed the OIG's inspection reports and supporting case files and compared them to the OIG's policies and procedures and applicable CIGIE standards, including those related to quality control, planning, evidence, and reporting.

We reviewed all of the semiannual reports issued by the OIG during fiscal years 2011 through 2013 to determine whether these reports were prepared in accordance with the reporting requirements of the IG Act. We reviewed the OIG's semiannual reports and supporting case files and compared them to the IG Act reporting standards.

To determine alternatives for OIG oversight structures that exist in federal agencies that could be applied at the Commission, we used previous GAO work to identify federal OIGs that provide (or have provided) OIG oversight for smaller agencies, and also identified other regional commissions with similar missions to that of the Commission. In addition, because the Denali Commission Federal Cochair is appointed by the Secretary of Commerce, we consulted with officials from the Department of Commerce to gain an understanding of their relationship and roles and responsibilities to the Commission. We conducted structured interviews with officials from these other OIGs with structures we considered to be potential alternative OIG oversight structures to gain an understanding of how they are organized and operate. We analyzed prior GAO reports to review recommendations made regarding alternatives for providing OIG oversight and Congressional Research Service reports and other relevant reports to identify applicable criteria for OIG oversight.

We conducted this performance audit from May 2013 to September 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Comments from the Denali Commission



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September 2, 2014

Ms. Beryl Davis
Director, Financial Management and Assurance
US Government Accountability Office
441 G St, NW
Washington, DC 20548

Dear Ms. Davis:

RE: Commissioner Response to GAO Report (14-320) – “Improvements Needed in the Office of Inspector General’s Oversight of the Denali Commission”

This letter is written to provide a response from the seven Commissioners for the Denali Commission to the above referenced Report (14-320). It is signed by the State Co-Chair and the Federal Co-Chair on behalf of all seven Commissioners. We concur with the referenced Report (14-320) conclusions and nine recommendations.

While certainly we agree that the former Inspector General’s “professional judgment did not adhere to CIGIE standards” and there are challenges for a one-person Office of an Inspector General, we believe that the subject report does not tell the full story of the Denali Commission’s experience with the Inspector General Act of 1978, as amended (IG Act).

Our recent experience with the former Inspector General has led us to conclude that there are vulnerabilities with the IG Act for small agencies that are designated Federal entities (DFE). We recognize that the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank) amended the IG Act so that DFE boards or commissions shall provide general supervision of the agency’s Inspector General. Prior to Dodd-Frank, the Inspector General was subject to removal solely by the agency head. This amendment to the IG Act ostensibly protects the Inspector General from an agency head who may be a bad actor. What happens though when the Inspector General is a bad actor – whether intentional or without recognition that his/her performance and conduct are outside of generally accepted professional standards?

As the referenced Report (14-320) acknowledges, the former Inspector General was free from external review since he elected not to carry out audits and investigations, but only conducted inspections. He elected not to seek external review of his inspections, and with no one in his one-person office to consult with (other than his contractors) he had no peers to review his work, his investigations, and report conclusions. We are not aware of a single instance in which he consulted with his peers in the Inspector General community about his performance or conduct. Somewhere along his eight year career as the Inspector General we believe that he lost his objectivity. The conclusions in his reports to Congress, as noted in the referenced Report (14-320), are not supported with documented evidence. His opinions about the agency grew more

Commissioner Response to GAO Report (14-320)
September 2, 2014

Page 2

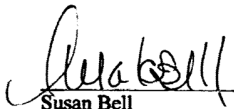
extreme with resultant undisciplined report writing (mixing facts and opinions) so that, in our viewpoint, the public and Congress were misled about agency operations.

As the Commissioners twice (in writing) reached out to the former Inspector General in the summer of 2013, he refused to meet. He largely shut down communications with agency staff, including general counsel, short of limited contact with the agency Chief Financial Officer. We note that he only communicated with your agency on the referenced Report (14-320) via e-mail and refused to meet. This is not the professional conduct that is expected of an individual who has been assigned significant responsibilities in ensuring the public's funds are used efficiently and effectively.

We are pleased that the referenced Report (14-320) found that the former Inspector General's independence was not compromised with the seven Commissioners serving as the agency head for general supervision. We also note that the Office of Management and Budget (OMB) in consultation with your agency and the Council of Inspectors General on Integrity and Efficiency (CIGIE) had informed the former Inspector General (via e-mail on August 23, 2013) of this same conclusion. Subsequently, in a letter dated December 2, 2013 to Senator Claire McCaskill and Congressman Darrel Issa, OMB again stated that the former Inspector General's independence was not compromised. Yet the former Inspector General held the opinion that his independence was compromised until his final days as a Federal employee, and he left Federal service perhaps as the only person believing this. This is one example of why we question his objectivity and his conclusions that have been so damaging to the reputation and the work of the Denali Commission.

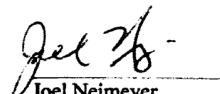
It is our opinion that the conduct and performance of the former Inspector General is an example of a vulnerability of the IG Act for small Inspector General offices that serve DFE agencies. The agency was largely helpless in addressing his conduct and we found the present resources available to us to be insufficient. Granted the Denali Commission did hire the former Inspector General, so the agency holds much of the responsibility of what transpired, but at some point help from Congress, GAO, OMB, and CIGIE is necessary when an agency believes that it's Inspector General is exercising poor professional judgment and is no longer objective. We encourage Congress to explore this question because we expect that in the future another DFE agency will find itself in a similar position.

Lastly, we wish to acknowledge the hard work and professionalism exhibited by you and your staff in the course of researching and drafting the referenced Report (14-320). It has been our pleasure to work with you and your agency on this matter.



Susan Bell
State Co-Chair
Commissioner, Alaska Department of
Commerce, Community and
Economic Development

Sincerely,



Joel Neimeyer
Federal Co-Chair
Denali Commission

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Beryl H. Davis, (202) 512-2623 or davisbh@gao.gov

Staff Acknowledgments

In addition to the contact named above, Chanetta Reed (Assistant Director), Matthew Frideres, Maxine Hattery, Jason Kirwan, Carroll M. Warfield Jr., and Doris Yanger made key contributions to this report.

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E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Katherine Siggerud, Managing Director, siggerudk@gao.gov, (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800, U.S. Government Accountability Office, 441 G Street NW, Room 7149, Washington, DC 20548

