

GAO

Testimony

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**STATE DEPARTMENT
INSPECTOR GENERAL**

**Actions to Address
Independence and
Effectiveness Concerns Are
Under Way**

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G A O

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Highlights of [GAO-11-382T](#), a testimony before the Committee on Foreign Affairs, House of Representatives.

Why GAO Did This Study

In 2007 GAO reported on concerns with the independence and effectiveness of the Department of State Inspector General (State OIG). GAO was asked to provide testimony on the issues we raised and the status of recommendations made to the State OIG in that report. This testimony focuses on the importance of auditor and IG independence, GAO's prior concerns with the State OIG's independence and effectiveness, and the status of OIG actions to address GAO's recommendations. The testimony is primarily based on GAO's 2007 report conducted in accordance with generally accepted government auditing standards, as well as the activities conducted to follow up on the status of our previous recommendations.

What GAO Recommended

In the 2007 report, GAO recommended that the IG work with the Secretary of State to address two recommendations regarding concerns about the State OIG's independence, and to reassess the mix of audits and inspections to help provide effective audit coverage of the department. In addition, GAO recommended that the IG include inspections performed by the OIG's Office of Information Technology in its internal quality review process and that it work with the department's Bureau of Diplomatic Security (DS) on an agreement to coordinate their investigative efforts.

View [GAO-11-382T](#) or key components. For more information, contact Susan Ragland, (202) 512-8486, raglands@gao.gov

April 5, 2011

STATE DEPARTMENT INSPECTOR GENERAL

Actions to Address Independence and Effectiveness Concerns Are Under Way

What GAO Found

The State Department Office of Inspector General (State OIG) has a critical responsibility in preventing and detecting fraud, waste, abuse, and mismanagement; and in providing independent audits and investigations of the department's programs and operations. In addition, the Foreign Service Act of 1980 requires the State OIG to perform inspections of the department's bureaus and posts, which is a unique requirement for an IG office. Independence is a critical element to the quality and credibility of an IG's work under the IG Act and is fundamental to professional auditing standards as well as an essential element of IG effectiveness. An IG must be independent and free from personal, external, and organizational impairments to independence in order to effectively fulfill the full range of requirements for the office.

GAO's 2007 report identified areas of concern regarding the State OIG's independence and effectiveness. Specifically, the appointment of management and Foreign Service officials to head the State OIG in an acting capacity for extended periods of time is not consistent with professional standards for independence. In addition, GAO reported that the use of Foreign Service officers at the ambassador level to lead OIG inspections resulted in, at a minimum, the appearance of independence impairment. GAO also reported that inspections, by design, are conducted under less in-depth requirements and do not provide the same level of assurance as audits. However, the OIG relied on inspections rather than audits to provide oversight coverage, resulting in gaps to the audit oversight of the department. GAO also reported that inspections performed by the OIG's Office of Information Technology (IT) were not part of an internal quality review process, and that the State OIG and the department's Bureau of Diplomatic Security (DS) lacked an agreement to coordinate their investigative activities.

The State OIG implemented two of GAO's five recommendations and has actions under way related to the remaining three. Specifically, the OIG now includes IT-related inspections in its internal quality-review process and has completed an agreement to coordinate investigations with DS. Also, the OIG is implementing a change to the succession planning for acting IG positions to exclude Foreign Service officers and is in the process of increasing the level of audit coverage through the distribution of staff and audit planning. In addition, the State OIG continues to assign Foreign Service officers at the ambassador level as team leaders for inspections, however, four of the six officers are rehired annuitants unlikely to rotate to State Department Foreign Service positions. GAO remains concerned, however, about the OIG's use of Foreign Service officers and the State Department's need to rely on acting IGs for extended periods of time. GAO continues to reaffirm its recommendations, and encourages the State OIG, with the assistance of the Secretary, to fully address these recommendations to enhance the effectiveness of the OIG's oversight of the State Department's programs and operations.

Madam Chairman Ros-Lehtinen, Ranking Member Berman, and Members of the Committee:

I am pleased to be here today to discuss the Department of State Office of Inspector General (State OIG), which is responsible for providing oversight of the State Department including the Foreign Affairs community in more than 270 embassies, consulates, and other posts worldwide as well as the Broadcasting Board of Governors. The State Inspector General (IG) has a critical responsibility to provide effective and objective oversight of the department to support managers in their efforts to improve performance and prevent or detect losses from fraud, waste, or abuse and to the Congress in its responsibility for oversight of the executive branch.

The statutory IGs, including the State IG, play a critical role in federal agency oversight and in identifying mismanagement of scarce taxpayer dollars. In light of this important role, the IG Act provides specific protections to IG independence that are unprecedented for an audit and investigative function located within an organization being reviewed. These protections are necessary due in large part to the unusual reporting requirements of the IGs who are both part of their federal agencies and also expected to provide independent reports of their work externally to the Congress.

My statement today is based primarily on our March 2007¹ report on the activities of the State OIG, our October 2007 testimony² that followed on the same subject, and updated information we received from State OIG officials to follow up on the status of our recommendations. In our 2007 report and testimony, we raised a number of concerns with the State OIG's independence, the lack of audit oversight in high-risk areas, and the lack of assurance that the department is receiving independent investigations. I will discuss in more detail (1) the importance of auditor and IG independence, (2) prior reporting on our concerns with the State OIG's independence and effectiveness, and (3) information about the current status of the State OIG's actions to address our recommendations. This testimony is based on our prior work and follow-up activities which were

¹GAO, *Inspectors General: Activities of the Department of State Office of Inspector General*, [GAO-07-138](#) (Washington, D.C.: Mar. 23, 2007).

²GAO, *Inspectors General: Limitations of IG Oversight at the Department of State*, [GAO-08-135T](#) (Washington, D.C.: Oct. 31, 2007).

performed in accordance with generally accepted government auditing standards.

Background

The State OIG, as currently constituted, was established by the Omnibus Diplomatic Security and Antiterrorism Act of 1986,³ which expanded on the 1985 amendments⁴ to the Inspector General Act of 1978 (IG Act),⁵ as an independent office to prevent and detect fraud, waste, abuse, and mismanagement in the department's programs and operations; conduct and supervise audits and investigations; and recommend policies to promote economy, efficiency, and effectiveness.

The State OIG is unique among federal inspectors general in its history and responsibilities due to a statutory requirement for the OIG to provide inspections of the department's bureaus and posts worldwide. From 1906 until 1957, inspections were to be carried out at least once every 2 years and were viewed as a management function, and not a function of an independent inspector general. In 1957, the State Department administratively established an Inspector General of Foreign Service, which was the first inspector general office within the State Department to conduct inspections. Congress enacted legislation in 1961 and in 1980 creating statutory inspectors general who were tasked with performing inspections on certain State Department activities. In 1978, GAO reviewed the IG's inspection reports and questioned the independence of Foreign Service officers who were temporarily detailed to the IG's office and recommended the elimination of this requirement.⁶ The 1980 legislation, section 209(a) of the Foreign Service Act, required the State IG to inspect every foreign service post, bureau, or other operating unit in the State Department at least once every 5 years.

In 1982, we reviewed the IG's operations and noted that the 5-year inspection cycle led to problems with the IG's effectiveness by limiting the

³Pub. L. No. 99-399, 100 Stat. 853 (Aug. 27, 1986).

⁴Pub. L. No. 99-93, 99 Stat. 427 (Aug. 16, 1985).

⁵Pub. L. No. 95-452, 92 Stat. 1101 (Oct. 12, 1978), *codified as amended at* 5 U.S.C. App.

⁶GAO, *State Department's Office of Inspector General, Foreign Service, Needs to Improve Its Internal Evaluation Process*, [ID-78-19](#) (Washington, D.C.: Dec. 6, 1978).

ability to do other work.⁷ In addition, we continued to question the use of Foreign Service officers and other persons from operational units within the department to staff the IG office. In 1986, reacting to concerns similar to those expressed in our 1982 report, Congress made the State IG a presidentially appointed inspector general subject to the Inspector General Act and prohibited a career member of the Foreign Service from being appointed as the State IG. Starting in 1996 and continuing until today, Congress, in the Department of State appropriations acts, annually waives the 5-year statutory requirement for inspections. However, while the inspection requirement is waived annually by Congress, the State IG continues to conduct inspections as part of its plan for oversight of the department.

The State OIG's inspection responsibilities encompass a wide range of objectives, which include reviewing whether department policy goals are achieved and whether the interests of the United States are represented and advanced effectively. In addition, the State OIG is assigned responsibility for specialized security inspections in support of the department's mission to provide effective protection to its personnel, facilities, and sensitive intelligence information. Inspections are defined by the Council of the Inspectors General on Integrity and Efficiency (CIGIE)⁸ as a process that evaluates reviews, studies, and analyzes the programs and activities of an agency for the purposes of providing information to managers for decision making; making recommendations for improvements to programs, policies, or procedures; and identifying where administrative action may be necessary.

There are fundamental differences between *inspections* and *audits*. Inspections and audits are typically conducted under separate standards with different basic requirements. That is, IGs are required by the IG Act to conduct audits in accordance with *Government Auditing Standards* (also known as generally accepted government auditing standards).⁹ In contrast,

⁷GAO, *State Department's Office of Inspector General Should Be More Independent and Effective*, AFMD-83-56 (Washington, D.C.: June 2, 1982).

⁸The Council of the Inspectors General on Integrity and Efficiency was established by the Inspector General Reform Act of 2008 (Pub. L. 110-409, 122 Stat. 4302 (Oct. 14, 2008) and consists mainly of IGs, to address integrity, economy, and effectiveness issues that transcend individual government agencies, and to increase the professionalism and effectiveness of personnel in the IG offices.

⁹GAO, *Government Auditing Standards, January 2007 Revision*, GAO-07-162G (Washington, D.C.: January 2007).

the IGs follow CIGIE's *Quality Standards for Inspection and Evaluation*¹⁰ when conducting inspections as required by law.¹¹ By design, audits performed under *Government Auditing Standards* are subject to more in-depth requirements for levels of evidence and documentation supporting the findings than are inspections performed under CIGIE's inspection standards. Also, auditing standards require external quality reviews of audit organizations (peer reviews) on a 3-year cycle, while inspection standards do not require such external reviews. According to CIGIE, inspections provide the benefits of a flexible mechanism for optimizing resources, expanding agency coverage, and using alternative review methods and techniques. However, as reported by a recent peer review performed by the National Aeronautics and Space Administration (NASA) IG, the State OIG's Middle East Regional Office did not always provide audits consistent with generally accepted government auditing standards (GAGAS). Consequently, because these audits were not performed in accordance with GAGAS, they were reclassified by the OIG as inspections.

Importance of Auditor and IG Independence

Independence is a fundamental principle to the auditing profession and the most critical element for IG effectiveness. Without independence, an audit organization cannot conduct independent audits in compliance with generally accepted government auditing standards. Likewise, an IG who lacks independence cannot effectively fulfill the full range of requirements of the office. Lacking this critical attribute, an audit organization's work might be classified as studies, research reports, consulting reports, or reviews, rather than independent audits.

Quality Standards for Federal Offices of Inspector General adopted by CIGIE includes requirements for IG independence.¹² Specifically, IGs and their staff must be free both in fact and appearance from personal, external, and organizational impairments to their independence. The IGs

¹⁰Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation* (Washington, D.C.: January 2011).

¹¹The Inspector General Reform Act of 2008 requires IGs who are members of CIGIE to adhere to professional standards developed by CIGIE for inspections and other work.

Pub. L. 110-409, 122 Stat. 4302, 4308 (Oct. 14, 2008).

¹²Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Federal Offices of Inspector General* (Washington, D.C.: Oct. 2003).

and their staff have a responsibility to maintain independence so that opinions, conclusions, judgments, and recommendations will be impartial and viewed as impartial by knowledgeable third parties. Likewise, Government Auditing Standards states: “in all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be free from personal, external, and organizational impairments to independence and must avoid the appearance of such impairments to independence. Auditors and audit organizations must maintain independence so that their opinions, findings, conclusions, judgments, and recommendations will be impartial and viewed as impartial by objective third parties with knowledge of the relevant information.”

Personal independence applies to individual auditors at all levels of the audit organization, including the head of the organization. *Personal independence* refers to the auditor’s ability to remain objective and maintain an independent attitude in all matters relating to the audit, as well as the auditor’s ability to be recognized by others as independent. The auditor is to have an independent and objective state of mind that does not allow personal bias or the undue influence of others to override the auditor’s professional judgments. This attitude is also referred to as intellectual honesty. The auditor must also be free from direct financial or managerial involvement with the audited entity or other potential conflicts of interest that might create the perception that the auditor is not independent.

The IG’s personal independence and appearance of independence to knowledgeable third parties is critical to IG decision making related to the nature and scope of audit and investigative work to be performed by the IG office. The IG’s personal independence must be maintained when conducting any audit and investigative work and when making decisions to determine the type of work to pursue and the nature and scope of the individual audits themselves.

External independence refers to both the auditor’s and the audit organization’s freedom to make independent and objective judgments free from external influences or pressures. Examples of impairments to external independence include restrictions on access to records, government officials, or other individuals needed to conduct the audit; external interference over the assignment, appointment, compensation, or promotion of audit personnel; restrictions on funds or other resources provided to the audit organization that adversely affect the audit organization’s ability to carry out its responsibilities; or external authority

to overrule or to inappropriately influence the auditors' judgment as to appropriate reporting content.

The IG Act provides the IGs with protections against impairments to external independence by providing that IGs have access to all agency documents and records, prompt access to the agency head, and the authority to independently (1) select and appoint IG staff, (2) obtain services of experts, and (3) enter into contracts. The IGs may choose whether to exercise the act's specific authority to obtain access to information that is denied by agency officials.

In addition, the IG Act granted the IGs additional insulation from impairment of external independence by requiring that IGs report the results of their work in semiannual reports to Congress without alteration by their respective agencies, and that these reports generally are to be made available to the general public. The IG Act also directed the IGs to keep their agency heads and Congress fully and currently informed of any deficiencies, abuses, fraud, or other serious problems relating to the administration of programs and operations of their agencies. Also, the IGs are required to report particularly serious or flagrant problems, abuses, or deficiencies immediately to their agency heads, who are required to transmit the IG's report to Congress within 7 calendar days.

Organizational independence refers to the audit organization's placement in relation to the activities being audited. Professional auditing standards have different criteria for organizational independence for external and internal audit organizations. The IGs, in their statutory role of providing oversight of their agencies' operations, represent a unique hybrid including some characteristics of both external and internal reporting responsibilities. For example, the IGs have external-reporting requirements outside their agencies, such as to the Congress, which are consistent with the reporting requirements for external auditors. At the same time the IGs are part of their respective agencies and must also keep their agency heads, as well as the Congress, concurrently informed.

The IG Act provides specific protections to the IGs' organizational independence including the requirement that IGs report only to their agency heads and not to lower-level management. The head of the agency may delegate supervision of the IG only to the officer next below in rank, and is prohibited from preventing the IG from initiating, carrying out, or completing any audit or investigation. In addition, IGs in large federal departments and agencies, such as the State Department, are appointed by the President and confirmed by the Senate. Only the President has the

authority to remove these IGs and can do so only after explaining the reasons to the Congress 30 days before taking action.

The Inspector General Reform Act of 2008 provided additional enhancements to overall IG independence that included establishing CIGIE by statute to continually address areas of weakness and vulnerability to fraud, waste, and abuse in federal programs and operations; requiring that IGs have their own legal counsel or use other specified counsel; and requiring that the budget amounts requested by the IGs for their operations be included in the overall agency-budget requests to the President and the Congress.

Independence and Effectiveness Concerns We Reported in 2007

Concerns Regarding the State OIG's Independence

In March 2007, we reported on two areas of continuing concern regarding the independence of the State OIG. These concerns involved the appointment of management officials to head the State OIG in an acting capacity for extended periods of time and the use of Foreign Service staff to lead State OIG inspections. These concerns were similar to independence issues we reported in 1978 and 1982 regarding Foreign Service officers temporarily detailed from program offices to the IG's office and inspection staff reassigned to and from management offices within the department. In response to concerns about personal impairments to the State IG's independence, the act that created the current IG office prohibits a career Foreign Service official from becoming an IG of the State Department.¹³

Nevertheless, our 2007 review found that during a period of approximately 27 months, from January 2003 through April 2005, four management officials from the State Department served as an acting State IG. All four of these officials had served in the Foreign Service in prior management positions, including political appointments as U.S. ambassadors to foreign countries. In addition, we also found that three of the officials returned to

¹³22 U.S.C. § 4861(d).

significant management positions in the State Department after serving as acting IGs. We found that acting IG positions continue to be used and are filled by officials with prior management positions at the department. Independence concerns surrounding such acting appointments are additionally troublesome when the acting IG position is held for such prolonged periods. (See table 1.)

Table 1: Length of Service of the State Department IG and Management Officials Who Served as Acting IGs January 24, 2003, to the present

Position prior to serving as IG	Starting dates and length of service	Position after serving as IG
Ambassador to Kyrgyzstan	1/24/2003 – 8 months	Retired from government service
Ambassador to Columbia	9/28/2003 – 10 months	Permanent Representative at the U.S. Mission to the United Nations
Deputy Global AIDs Coordinator	8/3/2004 – 1 month	Special Representative on Avian and Pandemic Influenza
Ambassador to South Africa	8/23/2004 – 8 months	Charge d’Affaires, Kharton, Sudan
State Department Inspector General served 32 months	5/2/2005 – 1/15/2008	
Executive Director/Controller, Bureau of International Narcotics and Law Enforcement Affairs	1/16/2008 – 6 months	Ambassador to Brunei
25 years in senior State Department positions	6/2/2008 – 33 months	Currently Deputy IG

Source: GAO’s March 2007 report and current information from the State Department.

Another independence concern discussed in our March 2007 report is the use of Foreign Service officers to lead inspections of the department’s bureaus and posts. We found it was State OIG policy for inspections to be led by ambassador-level Foreign Service officers. These Foreign Service officers frequently move through the OIG on rotational assignments. As Foreign Service officers, they are expected to help formulate, implement, and defend government policy which now, as team leaders for the IG’s inspections, they are expected to review. These officers may return to Foreign Service positions in the department after their rotation through the OIG which could be viewed as compromising the OIG’s independence. Specifically, the appearance of objectivity is severely limited by this potential impairment to independence resulting in a detrimental effect to the quality of the inspection results.

Reliance on Inspections Limited Effectiveness due to Gaps in Oversight

In our 2007 audit, we found that the State OIG’s emphasis on inspections limited its effectiveness because it resulted in gaps in the audit coverage of the State Department’s high-risk areas and management challenges. These critical areas were covered almost exclusively through OIG inspections

that were not subject to the same level of scrutiny that would have been the case if covered by audits. Specifically, we found gaps of OIG audit coverage in key State Department programs and operations such as (1) information security, (2) human resources, (3) counterterrorism and border security, and (4) public diplomacy. In these areas the State OIG was relying on inspections rather than audits for oversight. In the 10 inspections that we examined, we found that the State OIG inspectors relied heavily on invalidated agency responses to questionnaires completed by the department staff at each inspected bureau or post. We did not find any additional testing of evidence or sampling of agency responses to determine the relevance, validity, and reliability of the evidence as would be required under auditing standards. In addition, we found that for 43 of the 183 recommendations contained in the 10 inspections we reviewed, the related inspection files did not contain any documented support beyond written report summaries of the findings and recommendations.

Inspections by the OIG's Office of Information Technology Were Not Included in Quality Reviews

In our 2007 report we also found that inspections by the OIG's Office of Information Technology were not included in the internal quality reviews that the OIG conducts of its own work. Information security is a high-risk area and management challenge for the State Department, and the OIG relied almost exclusively on inspections for oversight of this area. Therefore, the quality of these inspections is key to the OIG's oversight effectiveness. In addition, CIGIE's standards for inspections require that IG inspections be part of a quality-control mechanism that provides an assessment of the inspection work.

Lack of Coordination of Investigations between the State OIG and the Bureau of Diplomatic Security

We found in 2007 that there was inadequate assurance that the investigative efforts of the State Department were coordinated to avoid duplication or to ensure that independent OIG investigations of the department would be performed. Specifically, while part of its worldwide responsibilities for law enforcement and security operations, the department's Bureau of Diplomatic Security(DS) performed investigations that included passport and visa fraud, both externally and within the department; these investigations were not coordinated with the OIG investigators. The IG Act, as amended, authorizes the State IG to conduct and supervise independent investigations and prevent and detect fraud, waste, abuse, and mismanagement throughout the State Department.

DS performs its investigations as a function of management, reporting to the State Department Undersecretary for Management. In contrast, the

State OIG is required by the IG Act to be independent of the offices and functions it investigates. We reported in 2007 that without a formal agreement to outline the responsibilities of both DS and the State OIG regarding these investigations, there was inadequate assurance that this work would be coordinated to avoid duplication or that independent OIG investigations of the department would be performed.

The State Department's OIG Has Actions Under Way or Completed to Address Most of Our Recommendations

Recommendations from Our 2007 Report

To address the concerns we raised in our March 2007 report we made five recommendations.

To help ensure the independence of the IG Office, which also impacts the effectiveness of the office, we recommended that the IG work with the Secretary of State to

- (1) develop a succession-planning policy for the appointment of individuals to head the State IG office in an acting capacity that provides for independent coverage between IG appointments and also to prohibit career Foreign Service officers and other department managers from heading the State OIG in an acting capacity, and
- (2) develop options to ensure that State OIG inspections are not led by career Foreign Service officials or other staff who rotate to assignments within State Department management.

We also made the following three recommendations to the State IG to address the effectiveness of the OIG:

- (1) help ensure that the State IG provides the appropriate breath and depth of oversight of the State Department's high-risk areas and management challenges, reassess the proper mix of audit and inspection coverage for these areas;

-
- (2) provide for more complete internal quality reviews of inspections, include inspections performed by the State IG's Office of Information Technology in the OIG's internal quality review process; and
 - (3) develop a formal written agreement with the Bureau of Diplomatic Security to coordinate departmental investigations in order to provide for more independent investigations of State Department management and to prevent duplicative investigations.

Progress Has Been Made in Addressing Our Prior Recommendations

In response to a draft of our 2007 report, the State OIG has implemented two recommendations and has taken actions related to the remaining three recommendations. Although the State OIG has not fully addressed a recommendation that has been the subject of GAO recommendations regarding the independence of the State OIG's inspections since our 1978 report, there has also been some progress in this area.

The OIG implemented our recommendation to include inspections performed by the Office of Information Technology in its internal quality review process in June 2008, by abolishing the State OIG's Office of Information Technology and transferring staff into either the Office of Audits or into the Office of Inspections. As a result, the OIG's information technology inspections are now included in the Office of Inspections' internal quality-review process.

The OIG has implemented our recommendation that the office work with the Secretary of State and the Bureau of Diplomatic Security (DS) to develop a formal written agreement that delineates the areas of responsibility for State Department investigations. In December 2010, the State IG's investigative office completed an agreement with the bureau's Assistant Director of Domestic Operations to address the coordination of investigative activities. This agreement, when fully implemented, should help to ensure proper coordination of these offices in their investigations.

Regarding a succession plan for filling acting IGs positions, the State Deputy IG stated that he issued a memo to abolish the deputy IG for Foreign Service position to help ensure that any future deputy IG moving into an acting IG position would not be a Foreign Service officer. The Deputy IG stated that he is currently working with the department to update the *Foreign Affairs Manual* to reflect this change. Furthermore, the elimination of this position helps to strengthen the independence of the OIG. We believe the State IG's changes are responsive to the recommendation made in our 2007 report. Nevertheless, the State

Department has relied on acting IGs to provide oversight for over 5 of the last 8 years since January 2003. (See table 1.) This use of temporarily assigned State Department management staff to head the State OIG can affect the perceived independence of the entire office in its oversight of the department's operations, and the practice is questionable when compared to the independence requirements of *Government Auditing Standards* and other professional standards followed by the IGs. Further, career members of the Foreign Service are prohibited by statute from being appointed as State IG.¹⁴ This exclusion helps to protect against the personal impairments to independence that could result when a Foreign Service officer reviews the bureaus and posts of fellow Foreign Service officers and diplomats.

Regarding our recommendation to reassess the mix of audits and inspections for the appropriate breadth and depth of oversight coverage, especially in high-risk areas and management challenges, we noted gaps in audit coverage. Specifically, in both fiscal years 2009 and 2010, the OIG had gaps in the audit coverage of management challenges in the areas of (1) coordinating foreign assistance, (2) public diplomacy, and (3) human resources. However, the State OIG has made progress in planning for and providing additional audit coverage. Since 2007 the State OIG's resources have increased, providing the opportunity to augment its audit oversight of the department. Specifically, the OIG's total on board staff increased to 227, from 191 in at the end of fiscal year 2005. Also, the OIG's audit staff increased to 64 compared to 54 at the end of fiscal year 2005. In addition, the Office of Audits and the Middle East Regional Office are planning to merge resulting in the OIG's largest component.

In January 2010, the State OIG reorganized the focus of the Office of Audits and began to align its oversight efforts with the department's growing global mission and strategic priorities. The newly reorganized Office of Audit consists of six functional divisions and an audit operations division to address (1) contracts and grants, (2) information technology, (3) financial management, (4) international programs, (5) human capital and infrastructure, (6) security and intelligence, and (7) audit operations, which includes quality assurance. These audit areas are intended to develop expertise and address the department's management challenges. According to the *Office of Audits Fiscal Year 2011 Performance Plan*, the office will target high-cost programs, key management challenges, and

¹⁴22 U.S.C. § 4861(d).

vital operations to provide managers with information that will assist them in making operational decisions. The 2011 plan includes new areas such as global health, food security, climate change, democracy and governance, and human resource issues within the State Department. In addition, with the assistance of an independent public accountant, the State OIG has completed an audit of a major issue in coordinating foreign assistance, the Global HIV/AIDS Initiative related to the President's emergency plan for AIDS relief.¹⁵

Regarding our recommendation concerning the use of career Foreign Service officials to lead inspection teams, the State OIG's inspections handbook requires that the team leaders for inspections be a Foreign Service officer at the rank of ambassador. We also stated in our 2007 report that experience and expertise are important on inspection teams, but the expert need not be the team leader. However, the Deputy IG stated that having Foreign Service officers with the rank of ambassador as team leaders is critical to the effectiveness of the inspection teams. OIG officials stated that there are currently six Foreign Service officers at the ambassador level serving as the team leaders for inspections, four of whom are rehired annuitants working for the State OIG. To address independence impairments the State OIG relies on a recusal policy where Foreign Service officers must self-report whether they have worked in a post or embassy that is subject to an inspection and therefore presents a possible impairment. Further, State OIG officials noted that the team leaders report to a civil service Assistant IG and the inspection teams include other members of the civil service. We continue to believe that the State OIG's use of management staff who have the possibility of returning to management positions, even if they are rehired annuitants or currently report to civil service employees in the OIG, presents at least an appearance of impaired independence and is not fully consistent with professional standards.

Closing Observations

The mission of the State OIG is critical to providing independent and objective oversight of the State Department and identifying mismanagement of taxpayer dollars. While the IG Act provides each IG with the ability to exercise judgment in the use of protections to

¹⁵State Department OIG, *Audit of Sources and Uses of Global HIV/AIDS Initiative Global Health and Child Survival Funds Related to the President's Emergency Plan for AIDS Relief (PEPFAR) for FYs 2007 and 2008* (Washington, D.C.: Dec. 2010).

independence specified in the act, the ultimate success or failure of an IG office is largely determined by the individual IG placed in that office and that person's ability to maintain personal, external, and organizational independence both in fact and appearance, while reporting the results of the office's work to both the agency head and to the Congress. An IG who lacks independence cannot effectively fulfill the full range of requirements for this office.

The State OIG has either implemented or is in the process of implementing the recommendations from our 2007 report, with the exception of our recommendation to discontinue the use of Foreign Service officers as team leaders for inspections. We remain concerned about the independence issues that can arise from such an arrangement. In addition, we remain concerned that a permanent IG has not been appointed at the State Department for almost 3 years.

We commend the OIG for the steps it is taking to build and strengthen its audit practice, and we are re-emphasizing our 2007 recommendation for the OIG to reassess its mix of audit and inspections to achieve effective oversight of the department's areas of high risk and management challenges.

Madam Chairman Ros-Lehtinen, Ranking Member Berman, and Members of the Committee, this concludes my prepared statement. I would be happy to respond to any questions you or other Members of the Committee might have at this time.

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