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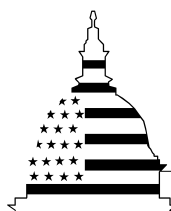
Report to the Chairman, Committee on  
Government Reform, House of  
Representatives

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August 2002

INSPECTORS  
GENERAL

Office Consolidation  
and Related Issues



G A O

Accountability \* Integrity \* Reliability

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United States General Accounting Office  
Washington, D.C. 20548

August 15, 2002

The Honorable Dan Burton  
Chairman  
Committee on Government Reform  
House of Representatives

Dear Mr. Chairman:

This report responds to your request that we provide information about how certain changes might affect the federal offices of inspectors general (IG). There are currently 57 IGs subject to the IG Act of 1978, as amended, or similar statutory provisions, with 29 IGs who are appointed by the President and confirmed by the Senate, and 28 IGs who are appointed by their agency heads in designated federal entities (DFE IGs). Among other duties, the IGs are responsible for (1) conducting and supervising audits and investigations; (2) promoting economy, efficiency, and effectiveness; and (3) preventing and detecting fraud and abuse in their agencies' programs and operations.

Specifically, our objectives were to survey the IGs to obtain their views on how independence, quality of work, and use of resources might be affected by (1) converting DFE IGs from appointment by their agency heads to appointment by the President with Senate confirmation (conversion) and (2) consolidating IG offices by moving smaller DFE IG offices into larger Presidential IG offices (consolidation). We also obtained the IGs' views on (1) creating a statutory alternative to the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE)<sup>1</sup> and (2) applying a budget-level threshold to determine which agencies should have IGs as opposed to receiving oversight on a collateral basis from a larger agency's IG. We are also presenting our views on the impact that conversion, consolidation, and potential legislated changes to the PCIE and ECIE could have on IG effectiveness, and a discussion of options to illustrate possible examples of IG conversion and consolidation for consideration by the Congress.

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<sup>1</sup> The PCIE is an interagency council comprised principally of the presidentially appointed and Senate-confirmed IGs, which was established by Executive Order No. 12301 in 1981, to coordinate and enhance the work of the IGs. In 1992, Executive Order No. 12805 created the ECIE, which is comprised primarily of statutory IGs appointed by the heads of designated federal entities. The Deputy Director for Management in the Office of Management and Budget serves as the chair of both organizations.

As part of our review, we developed a survey instrument which included 28 key elements related to IG independence, quality of work, and use of resources. (See table 1.)

**Table 1: Twenty-eight Key Elements Related to IG Independence, Quality of Work, and Use of Resources**

**Independence**

- |   |                               |
|---|-------------------------------|
| 1. Independence resulting from conversion | 3. Appearance of independence |
| 2. Actual independence                    |                               |

**Quality of work**

- |   |   |
|---|---|
| 4. Ability to issue hard hitting reports        | 11. Ability of DFE head to get the IG's attention |
| 5. Ability to review issues crossing DFEs       | 12. Presence of the IG as a prevention measure    |
| 6. Attention to IG recommendations              | 13. Knowledge of DFE agency missions              |
| 7. Ability to audit issues of high risk         | 14. Knowledge of DFE agency priorities            |
| 8. Ability to uniformly measure performance     | 15. Planning for IG oversight                     |
| 9. Day-to-day contact between IGs and officials | 16. Timeliness of reports                         |
| 10. Communication between IGs and DFE heads     | 17. Oversight coverage of DFE agencies            |

**Use of IG resources**

- |  |   |
|--|---|
| 18. Control over spending                  | 24. Ability to share methods                |
| 19. Control over budget requests           | 25. Ability to share technology specialists |
| 20. Ability to absorb resource reductions  | 26. Efficient use of human capital skills   |
| 21. Resources available for investigations | 27. Availability of adequate resources      |
| 22. Ability to minimize audit duplication  | 28. Resources available to cover DFE agency |
| 23. Quality of audit training              |   |

We obtained the views of the IGs on the potential impact of conversion and consolidation on each of these elements. The survey also asked the IGs about the potential impact of a permanent statutory alternative to the PCIE and the ECIE and the usefulness of a budget threshold to determine where IG offices should be established.

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Finally, as discussed with your staff, we are including our views on the impact that conversion, consolidation, and legislated changes to the PCIE and ECIE could have on IG effectiveness and a discussion of options to illustrate possible examples of IG conversion and consolidation for consideration by the Congress.

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## Results in Brief

Our survey results indicate a clear delineation between the responses of the Presidential IGs and the DFE IGs regarding the potential impact of conversion and consolidation. Overall, the Presidential IGs generally indicated that DFE IG independence, quality, and use of resources could be strengthened by conversion and consolidation. At the same time, the DFE IGs' responses to these same survey questions indicated that there would be either no impact or that these elements could be weakened. (See appendix I). The difference in views between the Presidential and DFE IGs regarding the impact of conversion and consolidation is not surprising given the nature of the questions and issues involved, their various related interests, and the potential impact on the affected offices, especially the DFE IGs.

Specifically, the Presidential IGs indicated that conversion could strengthen DFE IG independence while the DFE IGs in general indicated that there would be no effect on independence. Regarding the impact of consolidation, the Presidential IGs indicated that both the DFE IGs' actual independence and appearance of independence could be strengthened while the DFE IGs generally indicated that there would be no impact.

The Presidential IGs also indicated that several elements affecting the DFE IGs' quality of work could be strengthened through consolidation, including the ability to issue hard-hitting reports when necessary, to audit issues of high risk, to review issues across agencies, to get attention to recommendations made by the IGs, and to plan work. In addition, the Presidential IGs indicated that consolidation could strengthen the DFE IGs' use of resources by increasing control over spending and budget requests, the availability of investigative resources, the ability to minimize duplication of audit efforts, the ability to share methods and technology specialists and to use human capital skills efficiently. At the same time, the DFE IGs generally indicated that there would be either no effect or that these elements would be weakened through consolidation.

The Presidential IGs and DFE IGs generally agreed in their responses that consolidation could result in weaknesses affecting the day-to-day contact

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of IGs and DFE agency officials, knowledge of the DFE agency missions and priorities, and the availability of resources to cover DFE agency issues. For other elements in our survey, the Presidential IGs' responses were inconclusive while the DFE IGs indicated potential weaknesses could occur.

The IGs overwhelmingly responded that establishing the PCIE and ECIE through legislation could make these organizations more effective, especially if provided a permanent-funding source along with stated roles and responsibilities. These changes were viewed as increasing the ability of both the PCIE and ECIE to provide coordinating mechanisms for effective governmentwide oversight.

In our survey, most IGs responded that agency budgets should not be the primary factor for determining whether an IG office should be established in a specific agency and that other factors, such as mission and risk, may indicate the need for an IG regardless of the size of an agency's budget. Comments provided by the IGs to our survey suggested that in addition to agency budgets, other factors, such as the amount of federal funds at risk, should be considered when determining how to provide IG oversight.

We believe that certain elements of DFE IG independence and effectiveness could be strengthened through conversion or consolidation. Also, if IG offices were to be consolidated, the potential weaknesses indicated by the DFE IGs' responses, if implemented properly, could be mitigated through targeted and proactive attention to the various areas of risk. For example, the lack of day-to-day contact between IGs and DFE agency officials could be mitigated by having IG staff at the agency, where appropriate, to keep both the IG and the agency head informed and to coordinate necessary meetings between them. We also agree with the combined DFE and Presidential IGs' responses that legislative changes to the PCIE and ECIE could strengthen IG effectiveness. In addition, we believe that legislation could strengthen the planning and coordination of the IGs' efforts with other oversight organizations, such as GAO.

Any specific conversions or consolidations of IG offices should be a process of continuing dialogue among the PCIE, ECIE, affected agencies, and the Congress. Nevertheless, should the Congress choose to pursue the conversion or consolidation of the DFE IGs, there are some options that are illustrative of how this could be accomplished. For example, the relative size of the IG budgets shows that several DFE IGs are comparable to Presidential IGs and on that basis could be considered



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for conversion, while other IGs with relatively small budgets could be considered for consolidation with Presidential IGs. Specifically, due to the relative size of their budgets, the U.S. Postal Service (USPS), National Science Foundation (NSF), and Federal Reserve Board (FRB) IGs could be considered as candidates for possible conversion and most of the remaining DFE IGs could be considered for consolidation with Presidential IGs based on some similarity of their agencies' missions. This consolidation would include the Amtrak IG, which has a budget comparable to Presidential IGs but an oversight mission closely related to the work of the Department of Transportation (DOT) IG. The Government Printing Office (GPO) IG also has a budget comparable to Presidential IGs but GPO is a legislative branch agency and the IG would not be considered for conversion or consolidation with a Presidential IG in the executive branch.

In our view, the conversion and consolidation of selected DFE IG offices would serve to further enhance the overall independence, efficiency, and effectiveness of the IG community. Therefore, we are including matters for consideration by the Congress related to amending the IG Act to include specific conversion and consolidation of DFE IGs, as well as establishing an IG council by statute.

Similar to the survey results, the PCIE and ECIE IGs provided a clear divergence of views in making comments on a draft of our report. The PCIE response did not take exception to the information and conclusions presented in our draft report. In contrast, the ECIE IGs raised broad concerns with our report conclusions and methodology. A summary of the PCIE and ECIE IGs' comments with our response are presented on page 57 and their comments are reprinted in their entirety in appendixes VII and VIII.

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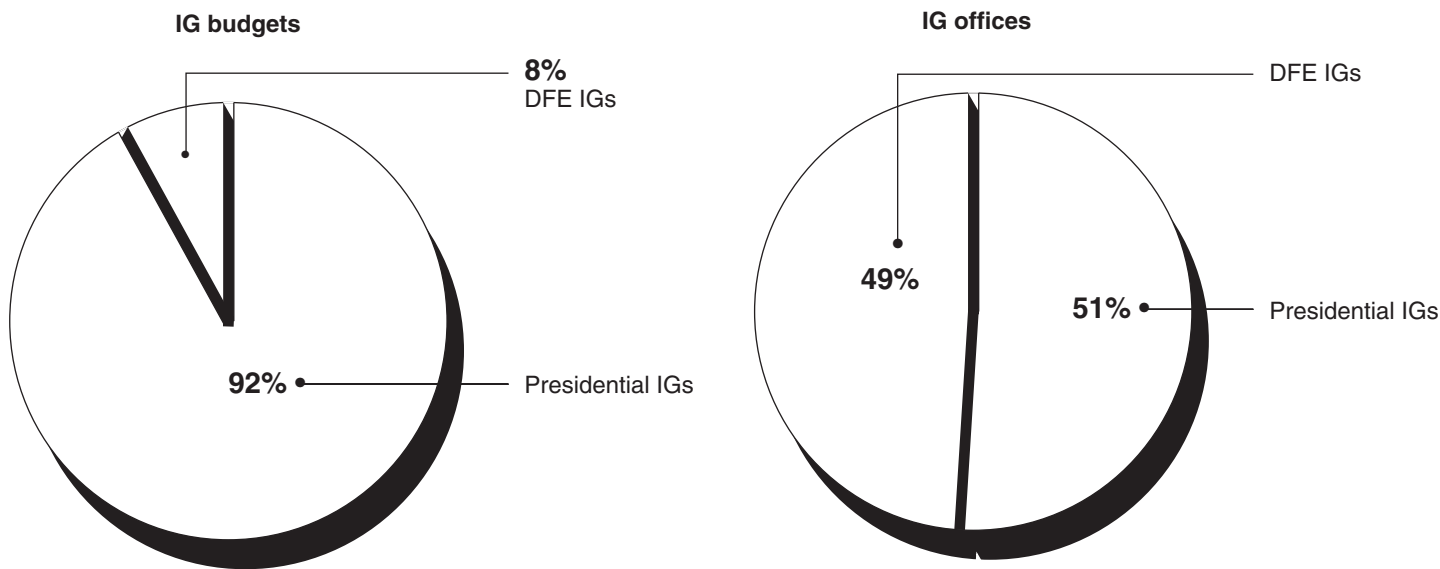
## Background

Over two decades ago, the Congress created IGs throughout the federal government as a result of growing reports of serious and widespread internal control breakdowns resulting in dollar losses and reduced effectiveness or efficiency in federal activities. In the intervening years, IGs have reported success in carrying out this mission through billions of dollars in reported savings and cost recoveries and thousands of prosecutions of criminal cases resulting from their work. For example, for fiscal year 2000, IGs reported potential savings to the government of \$9.5 billion; actions to recover \$5.5 billion in fines and restitutions, suspensions or debarments of 7,000 individuals or businesses; and more

than 2,600 civil or personnel actions resulting from their audit and investigative work in that year alone. In total, for fiscal year 2000, the IGs reported a potential return of taxpayer money of approximately \$12 for every \$1 spent.

In fiscal year 2000, the 57 IG offices had total fiscal year budgets of about \$1.3 billion and about 11,000 staff. While all IGs have the same basic mission and responsibilities, the IGs in the DFEs, with three exceptions, have smaller budgets and fewer staff than do the IGs who are appointed by the President. (See appendixes III and IV). Total fiscal year 2000 budgets for the DFE IGs was \$111.1 million, or about 8 percent of the total budgets for all IGs for that year. The Presidential IGs for fiscal year 2000 had \$1.26 billion, or about 92 percent of total IG budgets for that year. (See figure 1.)

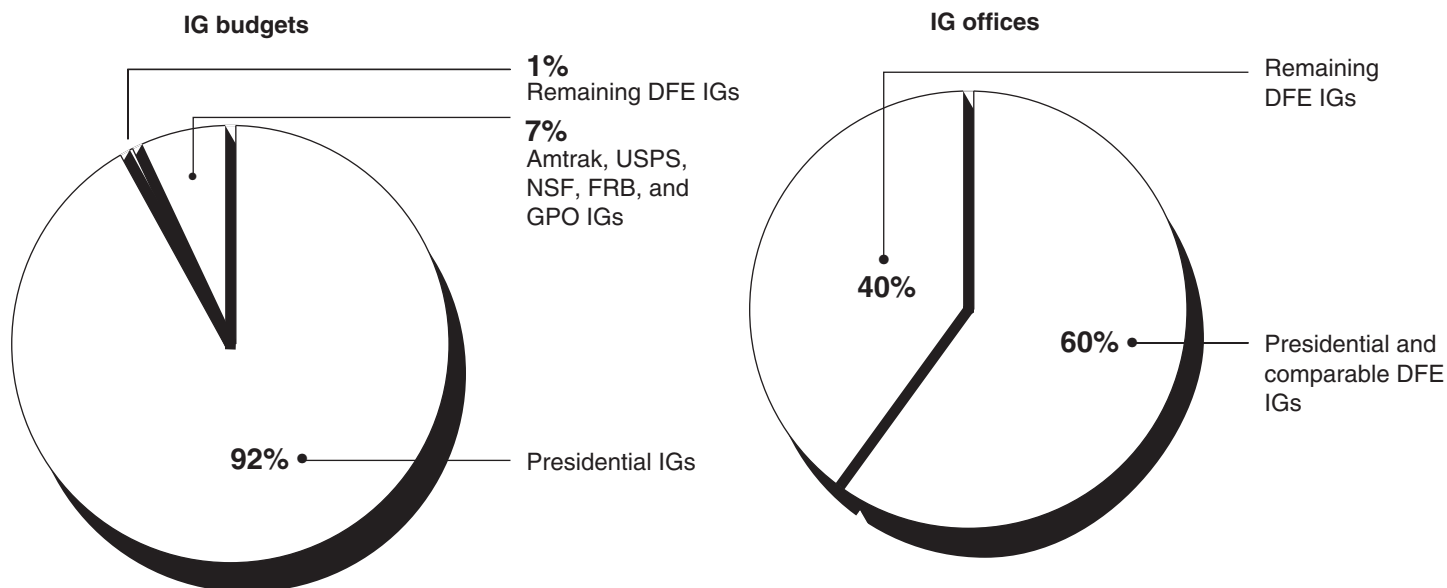
**Figure 1: Distribution of Fiscal Year 2000 IG Budgets and Offices**



The IGs at the U.S. Postal Service (USPS), Amtrak, and the National Science Foundation (NSF), had budgets larger than some IGs appointed by the President. In addition, the Federal Reserve Board (FRB) and the Government Printing Office (GPO) IGs are each comparable in size with budgets that were equal to about 80 percent of the smallest Presidential IG budget. (See appendix V.) For example, the USPS IG had a fiscal year 2000

budget of about \$72 million, the fifth largest of all IG budgets. Likewise, the fiscal year 2000 budget for Amtrak was about \$6.3 million, and for the NSF IG, it was about \$5.4 million. Both the Amtrak and NSF IGs' budgets are larger than the budgets of two IGs appointed by the President. The FRB and GPO IGs each had fiscal year 2000 budgets over \$3 million compared to the Presidential IG at the Corporation for National Service which had a \$4 million budget. The total fiscal year 2000 budgets of these five largest DFE IGs make up about 81 percent of all DFE IG budgets, or about 7 percent of all IG budgets. The remaining 23 DFE IGs had budgets that total about \$21 million, roughly 1 percent of all IG budgets. (See figure 2.) Fourteen of these 23 DFE IGs had budgets under \$1 million and 17 had less than 10 staff.

**Figure 2: Distribution of IGs with Comparable Fiscal Year 2000 Budgets and Offices**



Consolidation of IG offices would likely result in IG oversight being provided across several federal agencies and their respective missions. This type of consolidated oversight is already being applied in various departments and agencies across the government through both statutes and other arrangements. For example, the oversight for the Broadcasting Board of Governors and the International Broadcasting Bureau is consolidated under the Department of State IG through the Foreign Affairs Reform and Restructuring Act of 1998 (Public Law 105-277). This statute

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authorizes the Department of State IG to exercise the same authorities with respect to these two agencies as the IG exercises under the IG Act of 1978 and section 209 of the Foreign Service Act of 1980 with respect to the Department of State. In another example, the Agency for International Development (AID) IG may conduct reviews, investigations, and inspections of all phases of the Overseas Private Investment Corporation (OPIC) and is required to report these findings to OPIC's Board under the authority of the Foreign Assistance Act of 1961, as amended. As a result of the OPIC Amendments Act of 1981, Public Law 87-65, the AID IG performs audits, investigations, and inspections at the request of OPIC management and is authorized to be reimbursed for expenses incurred on behalf of OPIC. In addition, 1999 amendments to the IG Act of 1978 direct the AID IG to supervise, direct, and control audit and investigative activities relating to programs and operations within the Inter-American Foundation and the African Development Foundation.

In another example of consolidated IG oversight, the Amtrak Reform and Accountability Act of 1997 (Public Law 105-134) authorizes the Department of Transportation (DOT) IG to approve and oversee the contract for the assessment of financial requirements of Amtrak through fiscal year 2002. Also, the National Transportation Safety Board (NTSB) Amendments Act of 2000 (Public Law 106-424) provides the DOT IG the authority to review the financial management, property management, and business operations of the NTSB, including internal accounting and administrative control systems, to determine compliance with applicable laws, rules, and regulations. In another example, the Appalachian Regional Commission's IG provides audit and investigative services to the Denali Commission through a memorandum of agreement between the IG and the commission.

In 1998 the PCIE surveyed both the Presidential IGs and the DFE IGs to obtain their views on S. 2167, the Inspector General Act Amendments of 1998, then under consideration.<sup>2</sup> Among other considerations, the amendments contemplated consolidations of certain specific DFE IG offices with specific IGs appointed by the President. For example, these amendments proposed that the functions of the IGs for the Corporation for Public Broadcasting, the National Endowment for the Arts, the National Endowment for the Humanities, and the Smithsonian Institution be

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<sup>2</sup> President's Council on Integrity and Efficiency, *State of the Inspector General Community, PCIE Survey on S. 2167, for the Senate Committee on Governmental Affairs* (Washington, D.C.: Sept. 9, 1998).

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transferred to the IG at the Department of Education. The bill did not become public law, but the 1998 PCIE survey of the IGs did elicit valuable and relevant information concerning advantages and disadvantages associated with the consolidation of IG offices.

In particular, the 1998 PCIE survey concluded that those IGs who agreed with the proposed IG Act amendments felt that the independence of IG oversight would be enhanced in the entities to be consolidated. However, the IGs who opposed such a transfer felt that the benefits associated with the presence of an IG in the smaller agencies outweighed the administrative inefficiencies that may have existed. Also, the IGs responded that the size of an IG organization does not adequately measure the effectiveness and contributions of the IG in preventing and detecting fraud, waste, and abuse in the DFE agencies' operations. Other IG comments reported by the 1998 PCIE survey results include recognition that by their proximity to the areas served, the DFE IGs are more attuned to the agency employees, functions, operations, and goals which they review. Finally, the PCIE reported that the IGs felt the issue of transferring IG functions from DFE IGs to Presidential IGs needs further study to determine whether such transfers would contribute to increased efficiencies and more effective oversight.

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## Objectives, Scope, and Methodology

In order to provide information on the potential impact of the consolidation or conversion of DFE IGs, we developed and sent a structured survey to all existing IGs. As agreed with your staff, we identified and analyzed 28 elements of IG effectiveness in the areas of (1) IG independence, (2) the quality of IG work, and (3) the effective use of IG resources. The elements were obtained from IG Act requirements, the IGs' vision statement,<sup>3</sup> audit and investigative standards, past GAO reports, and statements from the IGs and members of the Congress. We also obtained comments from a panel of DFE IGs regarding the use of the criteria for IG effectiveness.

We developed a survey instrument that was sent to the IGs to obtain their views on the potential impact of conversion and consolidation on the elements of effectiveness for the DFE IG offices, the potential impact of a permanent statutory alternative to the PCIE and the ECIE, and the

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<sup>3</sup> President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency, *Inspectors General Vision and Strategies to Apply Our Reinvention Principles* (Washington, D.C.: January 1994).

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usefulness of using a budget threshold to determine at which agencies IG offices should be established. Survey responses were received from an equal number of Presidential and DFE IGs - 28 of the IGs appointed by the President and 28 of the IGs appointed by their agency heads. The Central Intelligence Agency IG declined to respond. We did not independently verify the information the IGs provided.

Our survey addressed the potential impact that both conversion and consolidation could have on the independence of the DFE IGs and the resulting Presidential IG offices. However, because consolidation would to a large extent result in making DFE IG offices a part of Presidential IG offices, we did not duplicate the entire survey for both conversion and consolidation but rather relied on the IG responses to consolidation.

Any number of scenarios exist for implementing a conversion or consolidation strategy. Two options for conversion and consolidation of IG offices not specifically addressed by our survey include (1) combining the DFE IGs to create one large DFE IG office to cover all DFE agencies and (2) combining all the DFE IGs under a new IG appointed by the President and confirmed by the Senate. These options for conversion and consolidation were previously studied through a survey of the IGs and were met with limited support. The results of our prior study, which were provided in a 1999 report,<sup>4</sup> showed that the first option was supported by 27 percent of the Presidential IGs and 7 percent of the DFE IGs. The second option was supported by 15 percent of the Presidential IGs and 10 percent of the DFE IGs.

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<sup>4</sup> U.S. General Accounting Office, *Inspectors General: Information on Operational and Staffing Issues*, GAO/AIMD-99-29 (Washington, D.C.: Jan. 4, 1999).

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Our current survey was completed prior to recent changes to *Government Auditing Standards*<sup>5</sup> regarding auditor independence and therefore addresses the requirements of the older independence standards. Nevertheless, as a basic premise under the revised standards, the IGs appointed by the President and confirmed by the Senate and IGs appointed by and reporting to a statutorily created governing body, as well as the DFE IGs appointed by their agency heads, are considered organizationally independent to report externally.<sup>6</sup> Therefore, we do not believe that our survey results would have changed in any material way as a result of the changes in the auditor independence standards.

We obtained comments on a draft of this report from the Presidential IGs and the DFE IGs through the PCIE and the ECIE. These included technical changes that have been incorporated in the report. A summary of their written comments and our response are presented on page 57. The PCIE and ECIE comments are reprinted in their entirety in appendixes VII and VIII. We performed our review from March 2001 through March 2002 in accordance with generally accepted government auditing standards.

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<sup>5</sup> U.S. General Accounting Office, *Government Auditing Standards, Amendment No. 3, Independence*, [GAO-02-388G](#) (Washington, D.C.: January 2002).

<sup>6</sup> The IG Act provides the DFE IGs appointed by their agency heads with all the statutory safeguards listed in the revised standards for organizational independence. However, these IGs must document that the specific statutory safeguards are applicable and have them reviewed by an independent quality control review at least once every 3 years.

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## Independence

The independence of an audit entity is one of the most important elements of the overall effectiveness of the audit function. Auditors need to be as independent from external influences as possible both in fact and appearance, in order to ensure that their audit work is credible and respected. Therefore, the effect on IG independence is critical when considering the conversion of the DFE IGs to appointment by the President or consolidation of their offices with IGs appointed by the President. The IGs derive independence through numerous provisions in the IG Act. These include the authority of IGs to report violations of law directly to the Department of Justice, the requirement for IGs to prepare semiannual reports of their activities for the Congress without alteration by their agencies, the authority of IGs to perform any audit or investigation without interference from the agency head and others except under certain conditions specified by the act, and the requirement for the President or the agency head to communicate to the Congress the reasons for removing an IG. In addition, the IGs are required to follow *Government Auditing Standards*,<sup>7</sup> which require IGs and individual auditors to be free from personal, organizational, and external impairments to independence, and to be independent in appearance.

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## Conversion and Independence

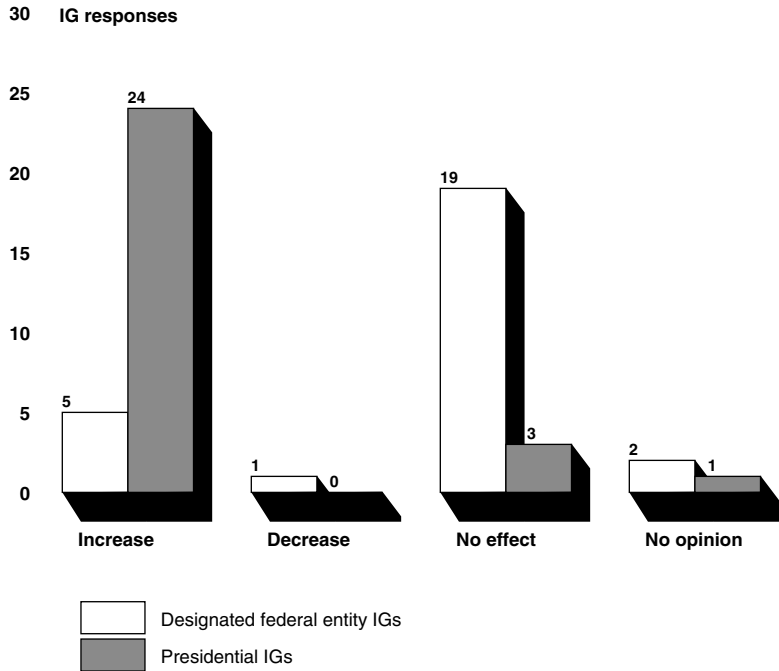
The survey responses from the Presidential IGs and the DFE IGs differed as to whether DFE IG independence could be increased by having IGs appointed by the President with Senate confirmation instead of the present practice of IG appointment by the heads of agencies in which they would lead the IG staff. Specifically, as shown in figure 3, 29 IGs (24 Presidential and 5 DFE) responded that independence could be increased in this way and 22 IGs (19 DFE and 3 Presidential), responded that conversion would have no impact on DFE IG independence. One DFE IG responded that independence could be decreased. Two DFE IGs and one Presidential IG had no opinions and an additional IG did not respond.

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<sup>7</sup> *Government Auditing Standards*, 1994 revision, as amended, was issued by the Comptroller General of the United States. IGs are required to follow these standards in their audit work.



**Figure 3: Potential Effect of Conversion on IG Independence**



Five of the 19 DFE IGs who responded that conversion would have no impact on their independence also stated that appointment by the President could actually increase political influence on the IGs. This contrasts rather sharply with 24 of the Presidential IGs' survey responses that conversion could increase the independence of DFE IGs. Typically, the further removed the appointment source is from the entity to be audited, the greater the level of independence. To illustrate, conversion of IGs from appointment by their agency heads to appointment by the President with Senate confirmation has been recognized previously by the Congress as a way to obtain increased IG independence. Specifically, the perceived limitation of the Federal Deposit Insurance Corporation IG's independence as a DFE IG under the IG Act was recognized as a reason to convert the IG to appointment by the President with Senate confirmation when Public Law 103-204 was passed on December 17, 1993. More recently, Public Law 106-422, November 1, 2000, converted the Tennessee Valley Authority (TVA) IG to appointment by the President with Senate confirmation because of concerns about interference by TVA management and recognized that the IG's independence would be enhanced under appointment by the President. Consequently, the change from agency

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appointment to appointment by the President has been recognized by the Congress since the advent of the IG concept as a strengthening of this critical element of IG effectiveness.

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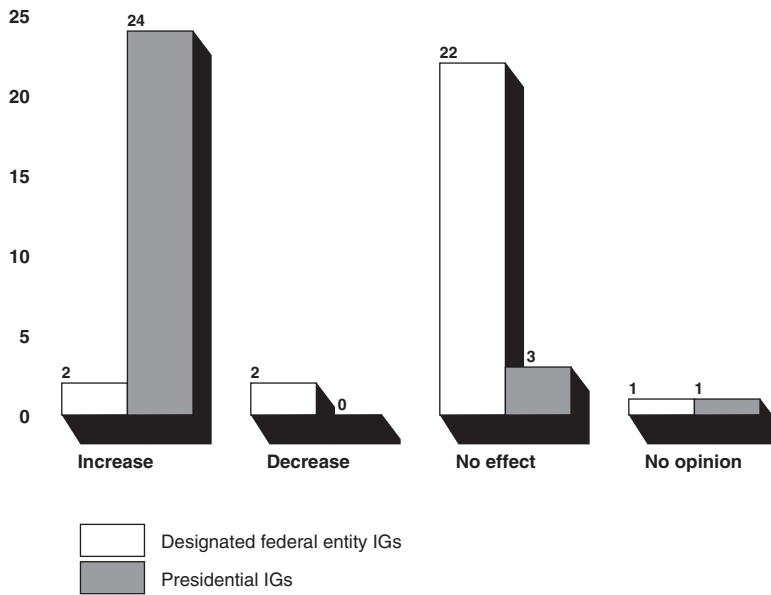
## Consolidation and Independence

Similar to the survey results regarding conversion, the Presidential and DFE IGs' responses were different regarding the impact that consolidation could have on DFE IG independence. In responding to our survey, 26 IGs (24 Presidential and 2 DFE) indicated that independence could be increased and 2 DFE IGs believe it could be decreased. Of the remaining IGs, 25 (22 DFE and 3 Presidential) responded that consolidation would have no effect on independence and 2 (1 Presidential and 1 DFE) had no opinion. An additional IG did not respond. (See figure 4).

Three DFE IGs provided explanations of how independence would be decreased. Specifically, one DFE IG explained that the independence of the agency (rather than IG independence) would decrease due to agency concerns about undue political influence from the President. Another DFE IG stated a preference for increasing independence through added provisions in the IG Act rather than through consolidation, and the remaining DFE IG stated that IGs appointed by the President are more affected by politics and are more likely to be forced to resign.

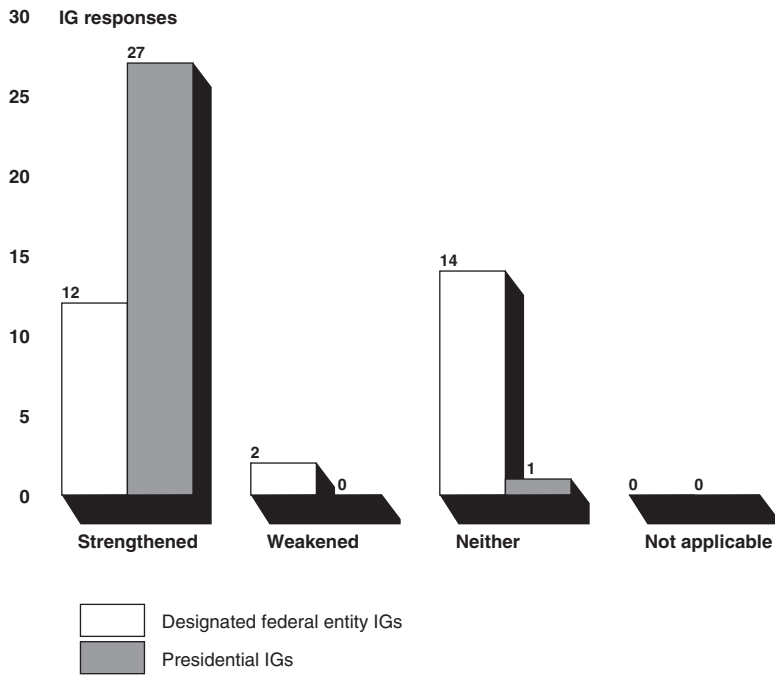
**Figure 4: Potential Effect of Consolidation on Actual IG Independence**

30 IG responses



With respect to the appearance of independence there was some consensus. As shown in figure 5, 39 IGs (27 Presidential and 12 DFE) indicated that the appearance of independence could be strengthened by consolidating DFE IGs with Presidential IGs. Fifteen IGs (14 DFE and 1 Presidential) responded that there would be no effect, and 2 DFE IGs indicated that the appearance of independence would be weakened through consolidation. Of the two DFE IGs who indicated that the appearance of independence would be decreased, one provided additional comments, reiterating that the decrease in appearance of independence would be the result of an appearance of political influence by an IG appointed by the President.

**Figure 5: Potential Effect of Consolidation on the Appearance of IG Independence**



## Consolidation and IG Quality of Work

The quality of audits and investigations is also a critical element of IG effectiveness. To determine the possible impact of consolidation on the quality of IG work, we obtained information for use in our survey from IG testimony before the Congress, IG reports, concerns of the Congress, and professional standards. These sources indicate that the quality of work is largely determined by the ability to issue hard-hitting reports when necessary, to review issues across agencies, to get attention to recommendations made by the IGs, to audit issues of high risk, and to measure agency performance. Also, within each agency the quality of work is affected by the relationship the IG has with the agency and includes day-to-day contact with agency management, communication between the IG and the agency head including the ability of the agency head to get the attention of the IG, the presence of an IG as a prevention measure, the knowledge of agency missions and priorities, the IG's ability to plan work, the timeliness of IG reports, and the audit coverage of the agency.

As with the other survey questions, the views of Presidential IGs and DFE IGs are markedly different regarding the potential effect of consolidation

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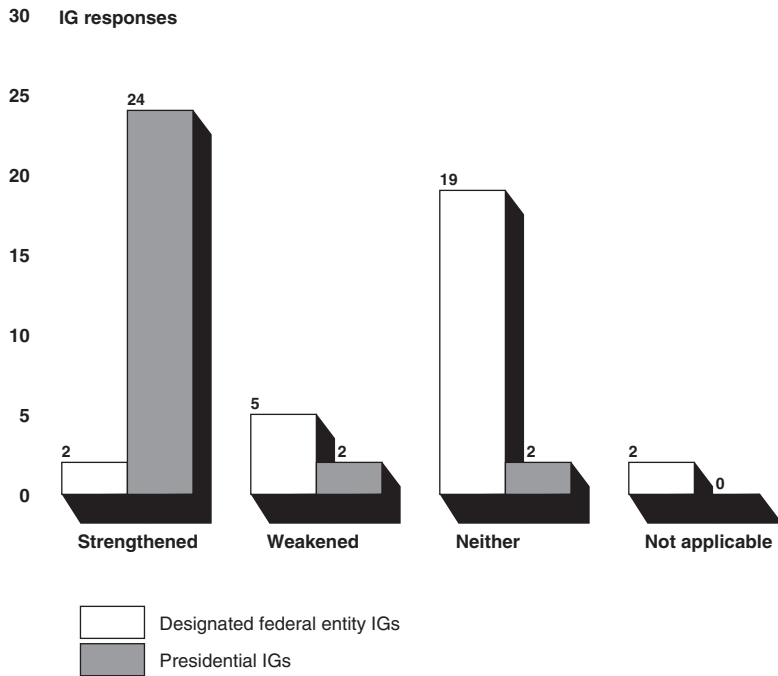
on the quality of future IG work. The Presidential IGs' responses indicate that consolidation could increase some of the elements of IG quality. For these same elements, the DFE IGs' responses indicate that consolidation would either have no impact or that work quality could be weakened. In addition, responses from both the Presidential IGs and the DFE IGs indicate that there are elements of quality that could be weakened. These types of risks to quality would need to be addressed by the management of the merged IG operations to avoid or abate any undesired consequences by a consolidated IG. In our view, consolidation of DFE IG offices with Presidential IGs would not necessarily result in a reduction of audit quality, especially if proper steps are taken to mitigate areas that could be weakened.

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### Ability to Issue Hard-hitting Reports When Necessary

The DFE IGs and the Presidential IGs again responded differently in assessing the impact of consolidation on their ability to present hard-hitting reports when necessary. Generally, the Presidential IGs responded that the DFE IGs' ability to issue hard-hitting reports could be strengthened through consolidation. However, the DFE IGs generally responded that consolidation would either have no impact on this ability or that the quality of work could be weakened. Specifically, 26 IGs (24 Presidential and 2 DFE) indicated that the ability of DFE IGs to issue hard-hitting reports would be strengthened. However, 21 IGs (19 DFE and 2 Presidential) responded that there would be no impact, and 7 IGs (5 DFE and 2 Presidential) indicated this ability could be weakened. (See figure 4.) The IGs provided no comments to explain their responses.

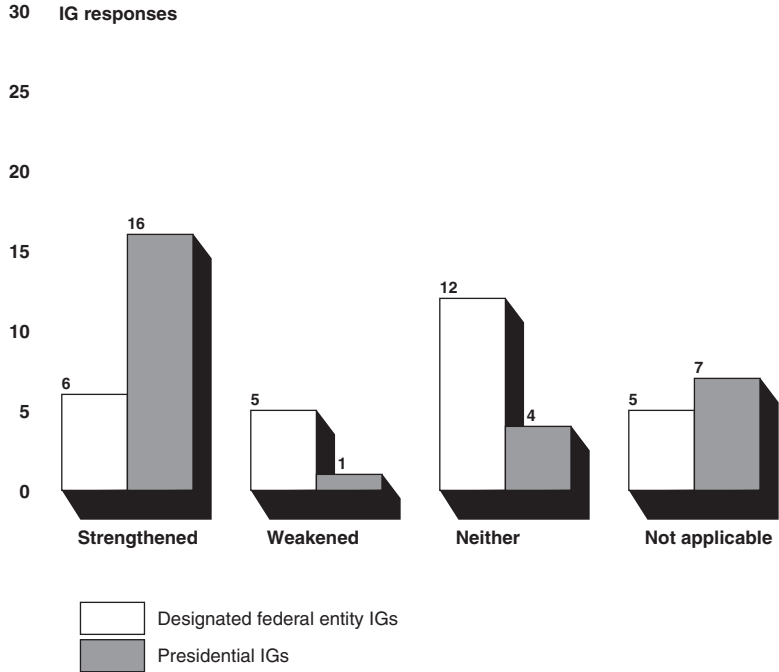
**Figure 6: Potential Effect of Consolidation on the Ability of IGs to Issue Hard-hitting Reports**



## Oversight of Cross-Cutting Issues

The ability of IGs to issue reports that address not only issues that are particular to their specific agencies but which address issues of broad interest across several agencies is another function of the PCIE and ECIE. This ability provides reports of cross-cutting issues for the Congress and for the benefit of the IGs' collective agencies. As a result, the IGs have issued reports on such cross-cutting issues as computer security, debt collection, the use of government credit cards, and financial management. Twenty-two IGs (16 Presidential and 6 DFE) responded that consolidation could strengthen their ability to review issues that cut across other agencies while 16 IGs (12 DFE and 4 Presidential) indicated that there would be no effect on the ability of the DFE IGs to issue cross-cutting reports. In addition, six IGs (five DFE and one Presidential) responded that this ability would be weakened by consolidation. (See figure 7).

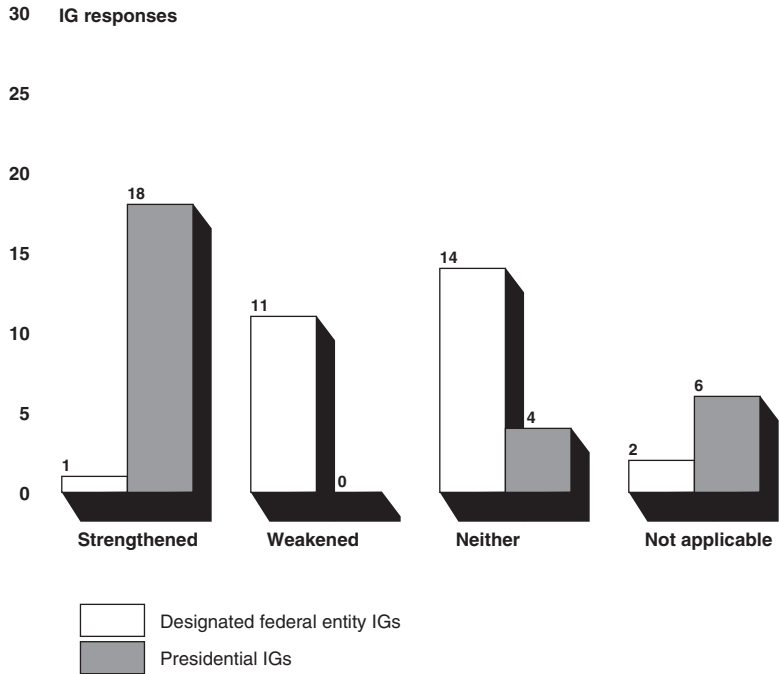
**Figure 7: Potential Effect of Consolidation on the IGs' Ability to Use Audit Resources to Review Issues That Cross All DFE Agencies**



## Attention to IG Recommendations

The ability of the IGs to achieve results through their recommendations is another key element of effectiveness. Some important objectives of the IGs' audit work include improving accountability, saving tax dollars, improving programs and operations, and providing better service to the public. Auditors' recommendations are vehicles for fulfilling these objectives but only the effective implementation of recommendations, not the recommendations themselves, will enable the government to work better at lower cost. Nineteen IGs (18 Presidential and 1 DFE) responded that greater attention would be given DFE IG recommendations as a result of consolidation. Eighteen IGs (14 DFE and 4 Presidential) indicated that there would be no effect on the level of attention given to their recommendations as a result of consolidation. Also, 11 IGs (all were DFE) responded that there would be less attention to IG recommendations. (See figure 8.) In comments regarding the potential weaknesses of consolidation, one IG stated that consolidation would result in less credibility of the IG in the DFE, and another IG stated that DFE IG recommendations already receive attention.

**Figure 8: Potential Effect of Consolidation on the Attention That DFE Agencies and the Congress Give to IG Recommendations**

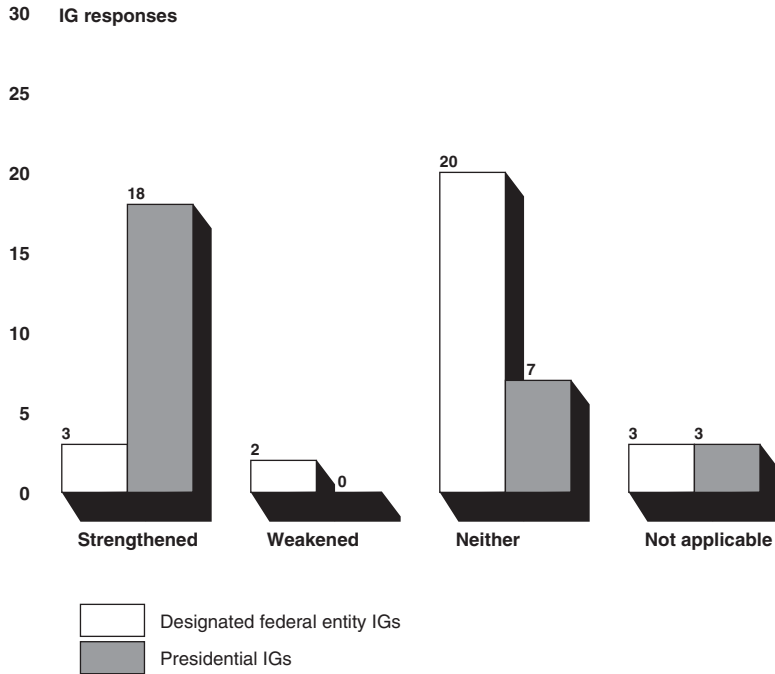


### Ability to Address High-Risk and Priority Issues

Assessing risk and establishing priorities for audits are important elements of the planning process for audit organizations. The ability to address those areas designated as high risk and of highest priority is fundamental to any audit organization's work. The Presidential IGs and the DFE IGs again had widely different responses to this element of IG effectiveness. Twenty-one IGs (18 Presidential and 3 DFE) indicated that consolidation could strengthen the ability of the DFE IGs to address issues of higher risk and priority. However, 27 IGs (20 DFE and 7 Presidential) indicated that consolidation would have no impact. In addition, two IGs (both were DFE) indicated that their ability in this area could be weakened. (See figure 9.) There were no additional comments provided by the IGs regarding their responses.



**Figure 9: Potential Effect of Consolidation on the Ability of DFE IGs to Address Issues of Higher Risk and Priority**

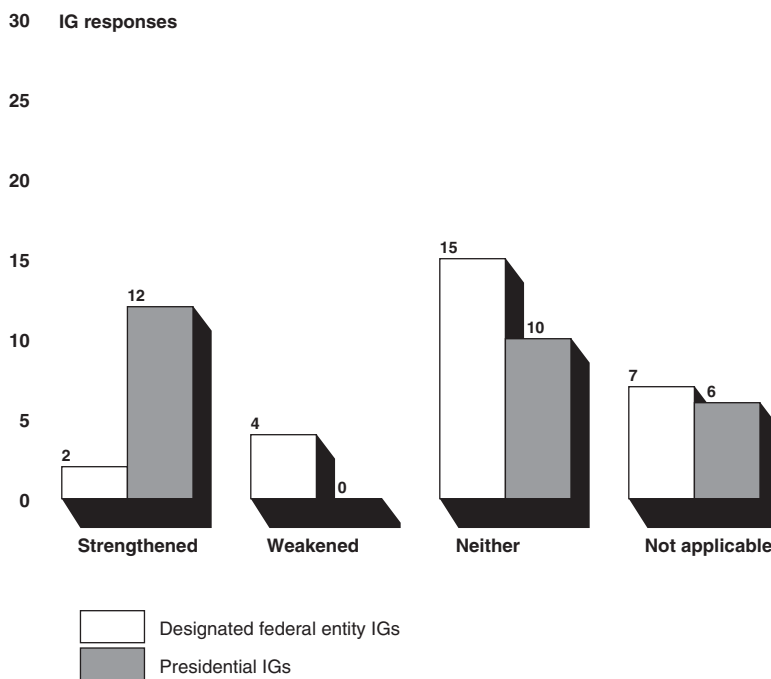


## Ability to Uniformly Measure Performance

The Government Performance and Results Act of 1993 (GPRA) includes requirements for federal agencies to engage in strategic planning, establish performance measures, and report on their ability to meet these measures. The validity of the measures and the verification of agency reports of meeting the established measures is an important part of the success in implementing GPRA. At the request of members of the Congress, the IGs perform activities in the validation and verification of performance measures developed by their agencies in compliance with GPRA requirements. While there is no specific requirement in the act for the IGs to audit GPRA results, the extent of the IGs' ability to assist their agencies continues to be of interest to the Congress. To the extent IGs can uniformly measure the performance of their agencies through use of the GPRA measures and their own audit efforts, the IGs will be increasingly effective in reporting on their agencies' ability to successfully achieve their missions, goals, and specific performance measures.

Twenty-five IGs (15 DFE and 10 Presidential) indicated that consolidation would have no impact on the ability to measure DFE agency performance. Fourteen IGs (12 Presidential and 2 DFE) indicated that this ability could be strengthened. Four IGs (all were DFE) responded that their ability would be weakened. Thirteen IGs responded that the question was not applicable. (See figure 10.) No comments were provided by the IGs on this issue.

**Figure 10: Potential Effect of Consolidation on the Ability to Uniformly Measure DFE Agency Performance**



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## IG Contact with DFE Officials

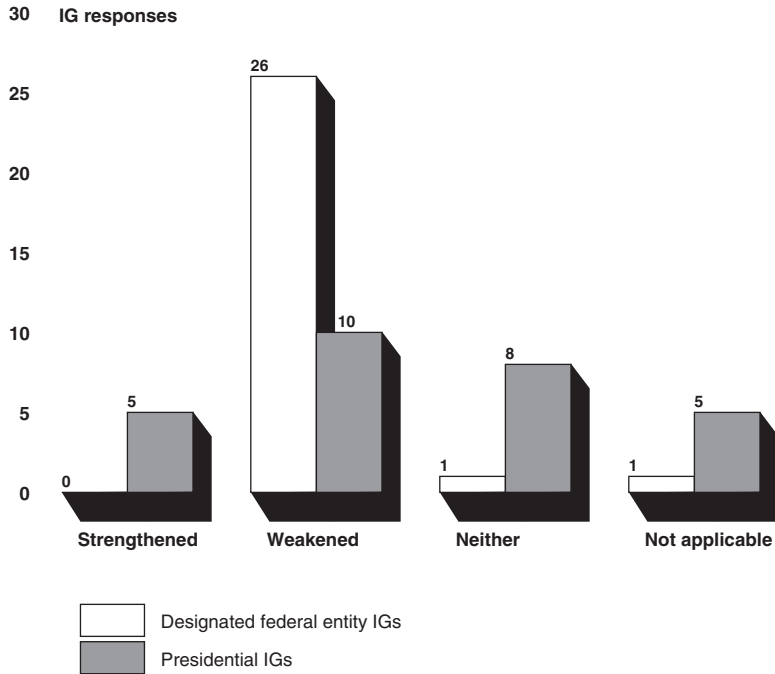
The legislative history of the IG Act of 1978 includes guidance on IG effectiveness by indicating that the IGs must have a close relationship with their agency heads and be responsive to their concerns. Moreover, the guidance illustrates that if the agency head is committed to managing the agency effectively the IG can be the agency head's strong right arm while maintaining the IG independence needed to honor reporting responsibilities to the Congress.<sup>8</sup> The survey responses indicate that both Presidential and DFE IGs believe this working relationship between the IGs and their DFE heads could be weakened through consolidation of the IG offices.

Responses from 36 IGs (26 DFE and 10 Presidential) indicate that consolidation could weaken the ability of the IGs to have day-to-day contact with senior DFE agency officials. Nine IGs (eight Presidential and one DFE) indicated that there would be no impact on their day-to-day contact with agency officials and five IGs (all were Presidential) responded that day-to-day contact could be strengthened. (See figure 11.)

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<sup>8</sup> U.S. Government Printing Office, *Establishment of Offices of Inspector and Auditor General in Certain Executive Departments and Agencies, Report of the Committee on Governmental Affairs United States Senate*, Report No. 95-1071 (Washington, D.C.: Aug. 8, 1978).

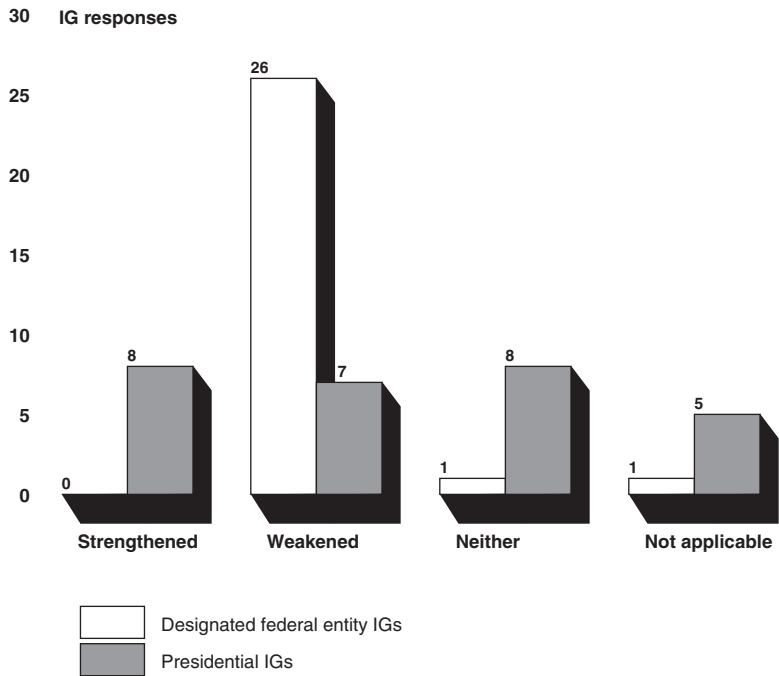
**Figure 11: Potential Effect of Consolidation on Day-to-Day Contact with Senior DFE Officials**



### Communication between IGs and DFE Agency Heads

Attention to communication among IGs, agency heads, and program management staff is included as part of the IGs' vision statement. The IGs have stated their intent to work with agency heads and the Congress to improve program management. Therefore, IG communication with DFE agency heads is another indicator of the quality of IG work. Thirty-three IGs (26 DFE and 7 Presidential) responded that this communication could be weakened by consolidation. The Presidential IGs' responses were almost evenly divided among the strengthen, weaken, and no impact choices with eight responses indicating that consolidation could actually strengthen communication and eight responses indicating that there would be no impact on communication. (See figure 12.) One DFE IG stated that close working relations with the agency head are currently enjoyed by the IG. No specific comments were made to indicate specifically how communication between the IG and DFE head would be weakened.

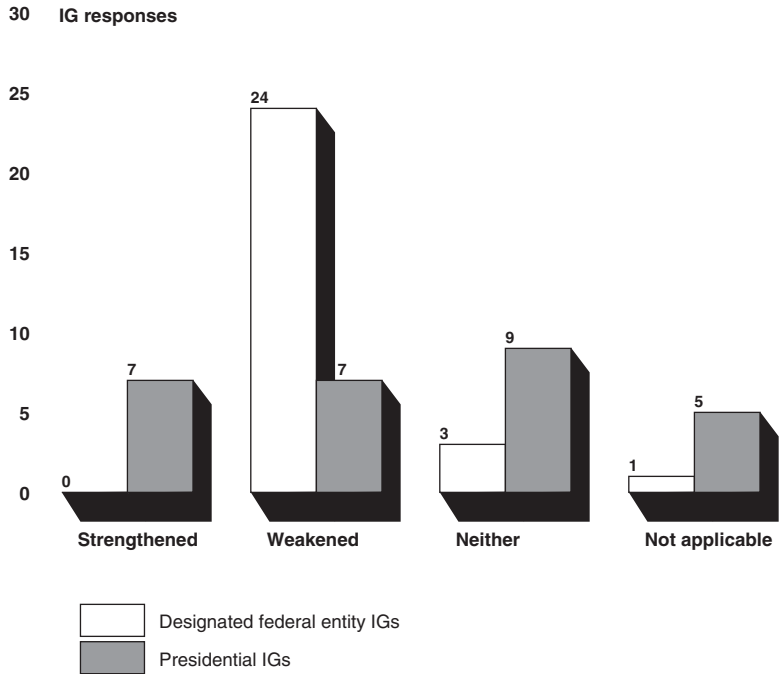
**Figure 12: Potential Effect of Consolidation on Communication between the IGs and DFE Agency Heads**



### Ability of DFE Head to Get the Attention of the IG

While there are statutory protections to IG independence provided by the IG Act, each IG is required by the act to be under the general supervision of their respective agency head. In addition, the IG vision statement recognizes the need for the agency head and the IG to work together. Thirty-one IGs (24 DFE and 7 Presidential) responded that this ability could be weakened by consolidation. The remaining responses of the Presidential IGs include seven who took an opposing view indicating that this ability could be strengthened by consolidation, and nine who indicated that there would be no impact. (See figure 13.)

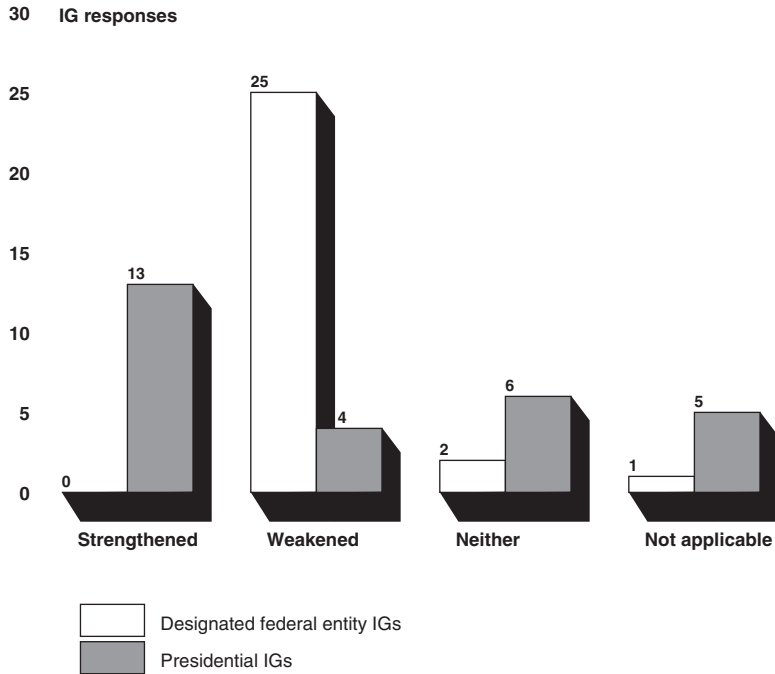
**Figure 13: Potential Effect of Consolidation on the Ability of DFE Agency Head to Get the IG's Attention**



## IG Presence as a Preventative Measure

Comments from the DFE IGs raised concerns that through consolidation with large IG offices the DFE agencies would possibly lose the effect of having a “cop on the beat” which can act as a deterrent to fraud, waste, abuse, and mismanagement. While the survey results indicate a concern about weakening this IG presence, the concern is largely from the DFE IGs and not the Presidential IGs. Twenty-nine IGs (25 DFE and 4 Presidential) indicated that the IGs’ presence as a preventative measure would be weakened in the DFE through consolidation. However, 13 Presidential IGs responded that the IG presence in the DFE agencies would be strengthened by consolidation. The remaining IG responses indicated either no impact or that the question was not applicable. (See figure 14.)

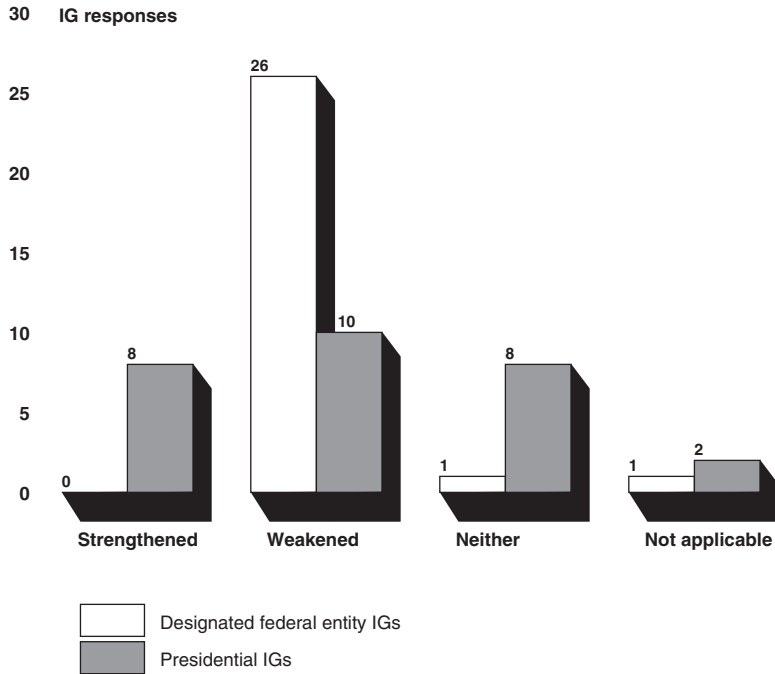
**Figure 14: Potential Effect of Consolidation on IG Presence as a Preventative Measure for the DFE Agencies**



## IG Knowledge of DFE Missions

Thirty-six IGs (26 DFE and 10 Presidential) indicated that the IG's knowledge of each DFE agency's mission, operations, and activities would be weakened through consolidation. This response appears to assume that current DFE IG staff and their knowledge would no longer exist to provide DFE agency oversight. However, eight Presidential IGs indicated that consolidation could strengthen the IG's knowledge of each DFE agency and eight indicated that there would be no impact. (See figure 15.) One IG's comments indicated there would be a large learning curve for the IGs not familiar with the DFEs; however another IG stated that the IG's knowledge could be strengthened depending on staffing and the availability of resources.

**Figure 15: Potential Effect of Consolidation on IG Knowledge of DFE Agency Missions, Operations, and Resource Limitations**

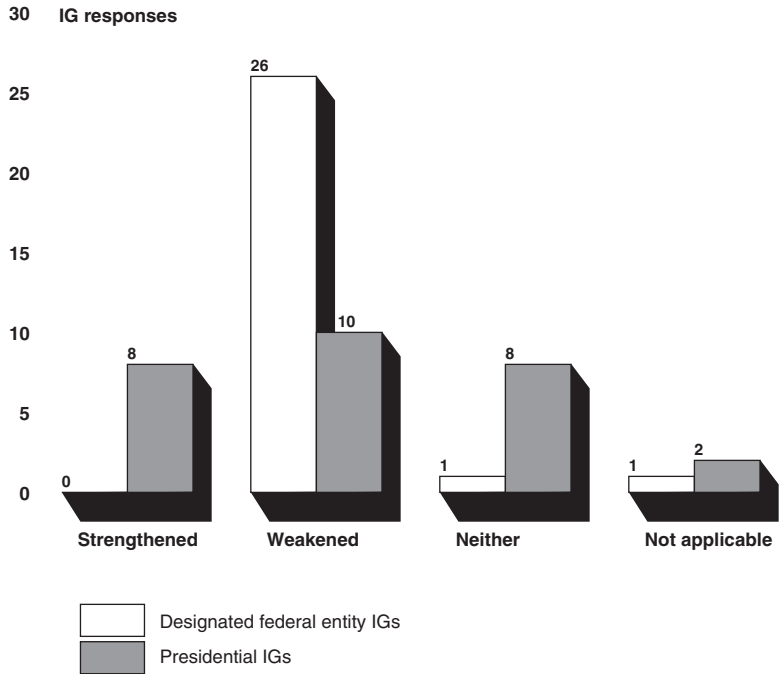


## IG Knowledge of DFE Priorities

In responses identical to the previous survey question, 36 IGs (26 DFE and 10 Presidential) indicated that IG knowledge of the DFE agencies' priorities and issues could be weakened through consolidation. Likewise, eight Presidential IGs indicated that this knowledge could be strengthened and eight indicated that consolidation would have no impact. (See figure 16.) One IG provided comments and stated that after consolidation, the IGs would lose their perspective about the DFE agencies' goals and direction. This response appears to assume that current DFE IG staff would no longer be available to provide such a perspective.



**Figure 16: Potential Effect of Consolidation on IG Knowledge of Priorities and Issues within Each of the DFE Agencies**

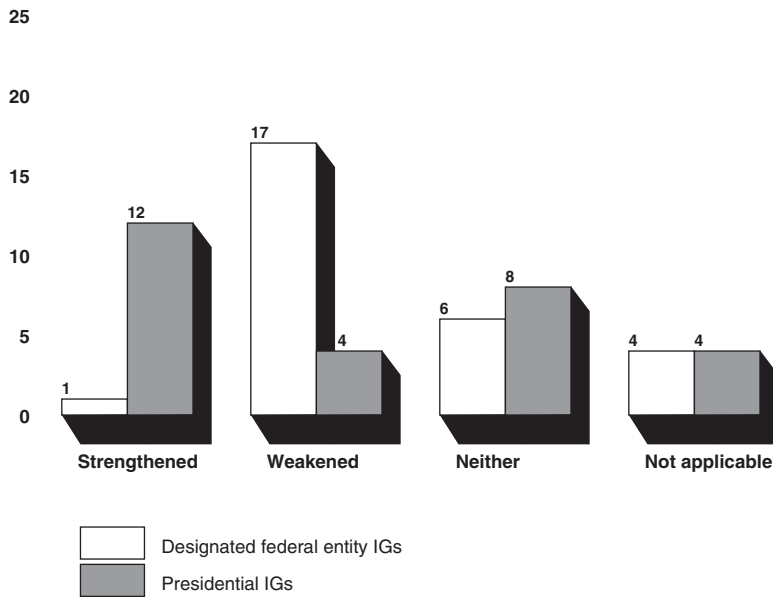


## IG Ability to Plan Work

In the area of planning work, 21 IGs (17 DFE and 4 Presidential) responded that the ability to plan their work at the DFEs could be weakened. This contrasts with the responses of 13 IGs (12 Presidential and 1 DFE) who indicated that planning could be strengthened. Fourteen IGs (eight Presidential and six DFE) indicated that consolidation would have no impact. (See figure 17.) No IGs commented on how this ability would be strengthened; however, one DFE IG stated that planning for coverage of the DFE agencies would be diluted by the other work requirements of the consolidated IG office.

**Figure 17: Potential Effect of Consolidation on Oversight Planning**

30 IG responses

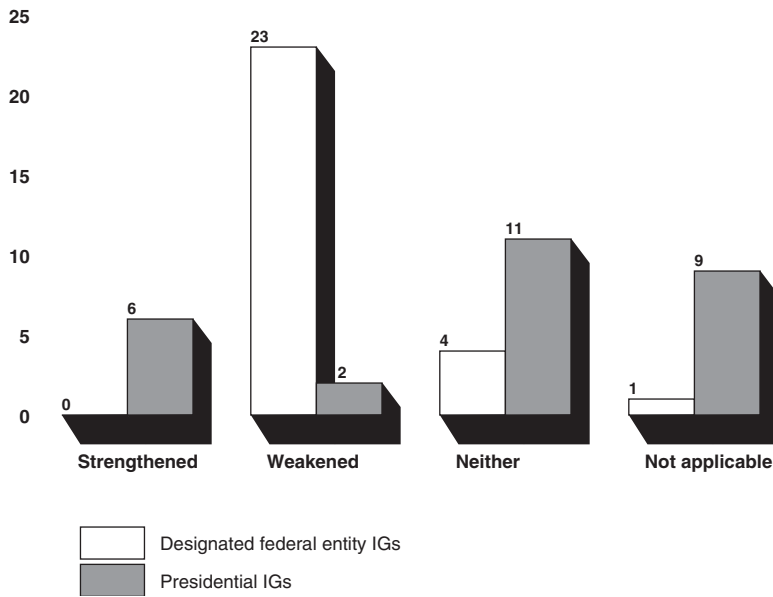


## Timeliness of IG Reporting

Twenty-five IGs (23 DFE and 2 Presidential) indicated that the timeliness of reports would be weakened by consolidation. Fifteen IGs (11 Presidential and 4 DFE) indicated that consolidation would have no impact. Also, six Presidential IGs indicated that timeliness could be strengthened. Ten IGs (nine Presidential and one DFE) responded that the question was not applicable. (See figure 18.) In comments provided, one IG observed that the reports in large audit organizations generally have longer report review cycles. Likewise, comments from two DFE IGs stated they believe reports by the DFE IGs are probably more timely than they would be under consolidation. No comments were provided by the six IGs who indicated that timeliness could be strengthened.

**Figure 18: Potential Effect of Consolidation on the Timeliness of IG Reports**

30 IG responses

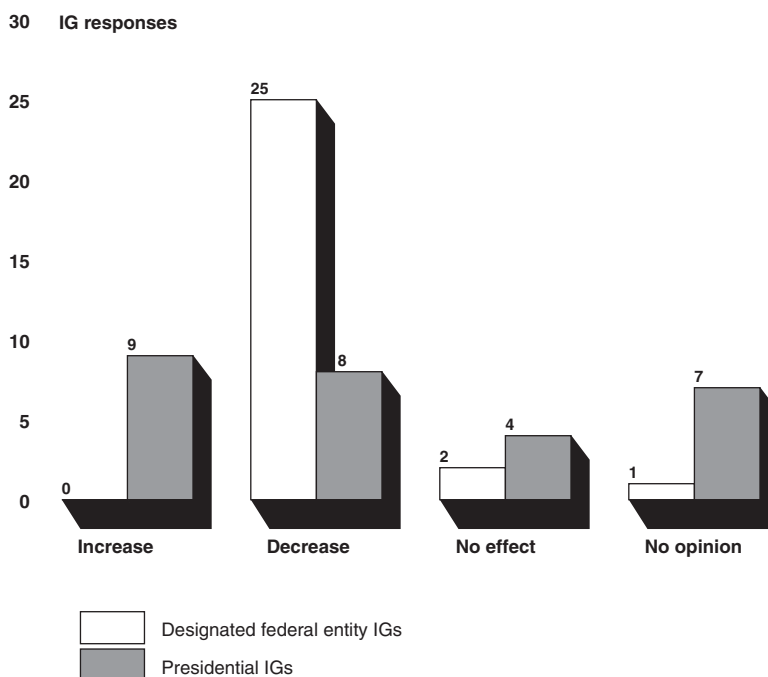


## Oversight Coverage of DFE Agencies

The IGs are required by the IG Act to coordinate, conduct, and provide policy direction for audits and investigations in their agencies. Therefore, IG oversight coverage of agency programs, offices, and activities is another element of IG quality. Thirty-three IGs (25 DFE and 8 Presidential) indicated that IG coverage at the DFE agencies would be decreased. Nine Presidential IGs took the opposite view, responding that coverage could be increased. The 14 remaining IG responses (11 Presidential and 3 DFE) indicated either no impact or that they did not have an opinion on this matter. (See figure 19.) Most of the IGs' comments explained that the decrease would be the result of low priorities for coverage in the DFEs by IGs who are appointed by the President. Specifically, one DFE IG stated that larger agencies have requirements that differ from those of smaller agencies, making it much more likely that the priorities of large agencies would supercede those of smaller agencies. In contrast, one Presidential IG commented that audit coverage of the DFE would increase after consolidation because the IG resulting from consolidation would first test the control environment of the DFE agencies to determine the necessary level of coverage, which would result, at least initially, in more coverage.

Also, another DFE IG who indicated that consolidation would have no effect on coverage stated that coverage depends on the IG resources available as well as the priorities established.

**Figure 19: Potential Effect of Consolidation on DFE Agency Audit Coverage**



## Consolidation and the Potential Impact on IG Resources

The efficient and effective use of IG resources and human capital can significantly affect the overall effectiveness of IG offices in helping their agencies address problems. For example, many IGs have determined that protecting agency information technology resources is a priority and often assist their agencies through independent advice and guidance on appropriate levels of IT security. However, these efforts require the use of knowledgeable IT specialists and a wise use of overall budgetary resources by the IGs. Also, the better IGs can control their own spending, budget requests, and absorb any budget decreases the more effective they can be in addressing the oversight of their agencies. In addition, information from IG testimony before the Congress, IG reports, concerns of the Congress, and professional standards indicate that IGs are affected by the ability to obtain resources for investigations, the ability to minimize duplication of

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efforts, the quality of training, the ability to share methods and technology specialists, the efficient use of human capital skills, and the availability of adequate resources to provide oversight of the agency.

The IG Act Amendments of 1988 require separate appropriations accounts for the IGs appointed by the President, which provides greater control for these IGs over their budgets. The IG Act does not require such accounts for the DFE IGs. We reported in a prior review of 16 DFE IGs' budgets that 14 of the DFE IGs had entity officials making decisions affecting the IGs' fiscal year budgets who also competed with the IGs for resources and whose programs and operations were subject to IG audits and investigations.<sup>9</sup> The results of our survey indicate that eight DFE IGs continue to obtain approval from agency officials to make spending decisions in one or all of the areas of travel, training, and personnel.

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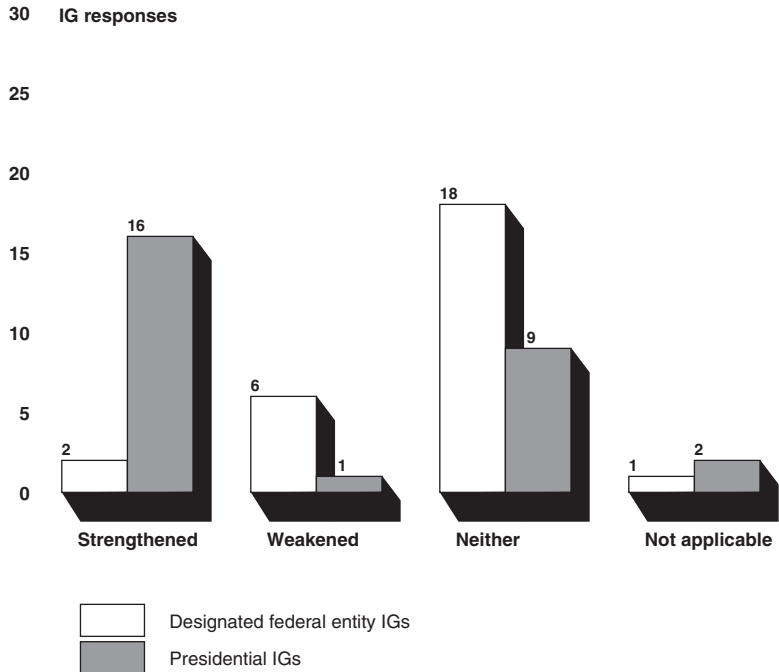
## IG Control over Spending

The survey results were again clearly delineated between the responses from the Presidential IGs and the DFE IGs. In response to our survey question on IG control over spending on travel, training, and personnel for oversight of the DFE agencies, 27 IGs (18 DFE and 9 Presidential) indicated that consolidation would have no impact. However, 18 IGs (16 Presidential and 2 DFE) believe this control could be strengthened by consolidation. In addition, seven IGs (6 DFE and 1 Presidential) indicated that IG control over this spending could be weakened. (See figure 20.)

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<sup>9</sup> U.S. General Accounting Office, *Inspectors General: Action Needed to Strengthen OIGs at Designated Federal Entities*, [GAO/AIMD-94-39](#) (Washington, D.C.: Nov. 30, 1993).

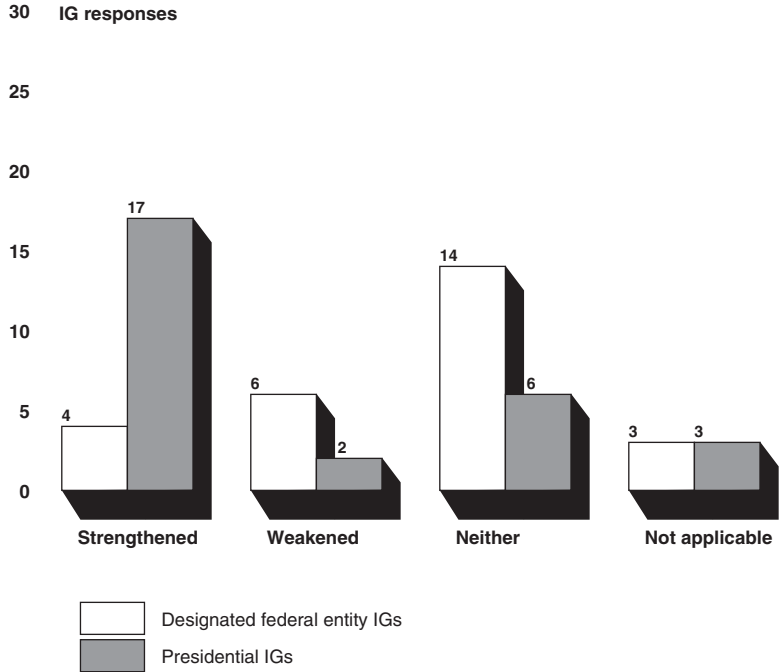
**Figure 20: Potential Effect of Consolidation on IG Control over Spending for Travel, Training, and Personnel Related to Oversight of DFE Agencies**



## IG Control over Budget Requests

The responses to the survey question on IG control over budget requests for their own offices were clearly divided between Presidential IG and DFE IG responses. Eighteen IGs (17 Presidential and 4 DFE) indicated that control could be strengthened by consolidation, while 20 IGs (14 DFE and 6 Presidential) indicated that there would be no impact on IG control of budget requests. Eight IGs (6 DFE and 2 Presidential) indicated that consolidation could weaken IG control over budget requests, and the remaining six IGs indicated that the question was not applicable. One IG did not respond to the survey question. (See figure 21.) One DFE IG expressed doubt that resources of the consolidated IGs would be devoted to oversight of the DFE agencies; however, another DFE IG stated that consolidation could result in fewer IG budget cuts.

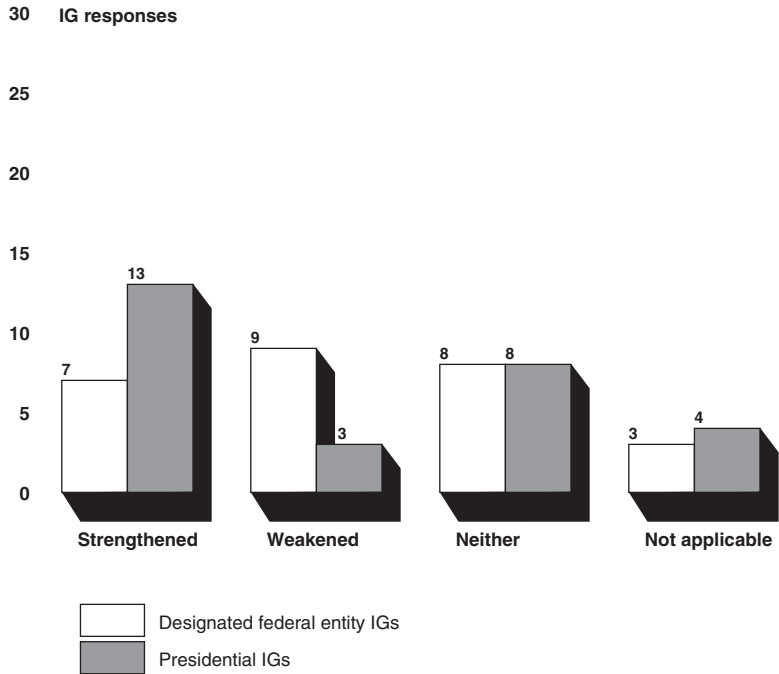
**Figure 21: Potential Effect of Consolidation on IG Control over Their Own Budget Requests for Oversight Activity**



### IG Ability to Absorb Budget Reductions

Twenty IGs (13 Presidential and 7 DFE) responded that consolidation could strengthen the IGs' ability to absorb resource reductions. Sixteen IGs (8 Presidential and 8 DFE) indicated that consolidation would have no impact, and 12 IGs (9 DFE and 3 Presidential) indicated that this ability would be weakened. (See figure 22.) One DFE IG commented that the ability to absorb resource reductions is irrelevant because the DFE agencies would be a low priority for the IGs after consolidation. Along the same lines, another DFE IG expressed doubt that resources would be devoted to DFE agency oversight.

**Figure 22: Potential Effect of Consolidation on the IGs' Ability to Absorb Resource Reductions**

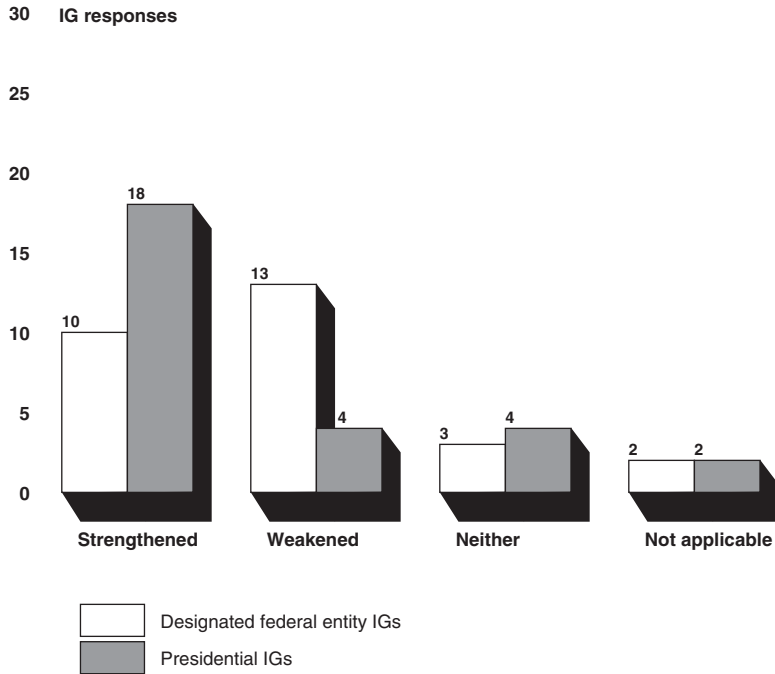


### Availability of Investigative Resources

In other areas of IG resources, 28 IGs (18 Presidential and 10 DFE) indicated that consolidation could strengthen the availability of investigative resources for coverage of the DFE agencies and 17 IGs (13 DFE and 4 Presidential) indicated that it would be weakened. Seven IGs (four Presidential and three DFE) indicated that consolidation would have no impact. One DFE IG commented that while more resources would be available they would not be used for coverage of the DFEs. (See figure 23.)



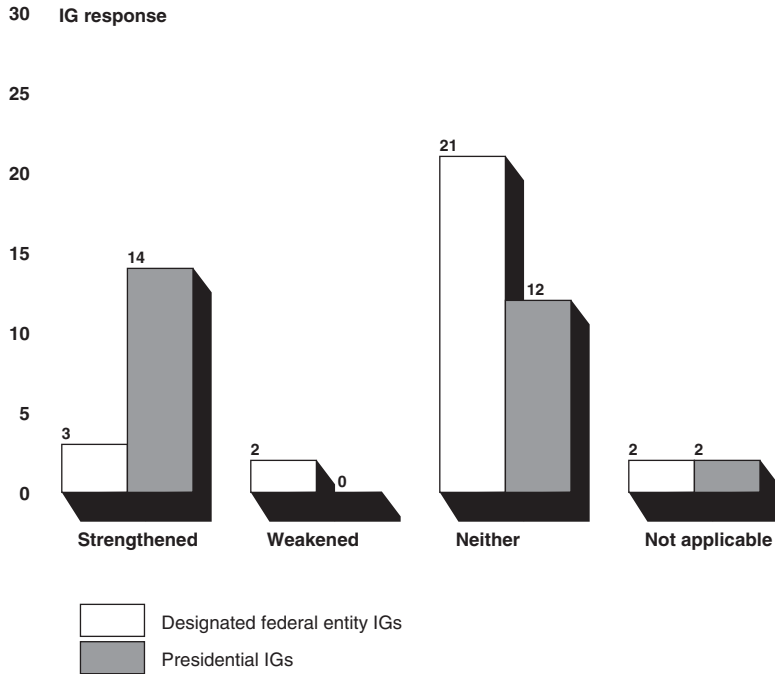
**Figure 23: Potential Effect of Consolidation on the Availability of IG Resources for Investigative Coverage**



### Minimization of Duplication across IGs

Thirty-three IGs (21 DFE and 12 Presidential) responded that consolidation would have no impact on the duplication of audit efforts by the IGs. However, 17 IGs (14 Presidential and 3 DFE) indicated that the ability to minimize duplication could be strengthened by consolidation. Two DFE IGs indicated that this ability could be weakened. (See figure 24.) There were no specific comments regarding the issue of audit duplication.

**Figure 24: Potential Effect of Consolidation on the IGs' Ability to Minimize Duplication of Audit Efforts across the Federal Government**

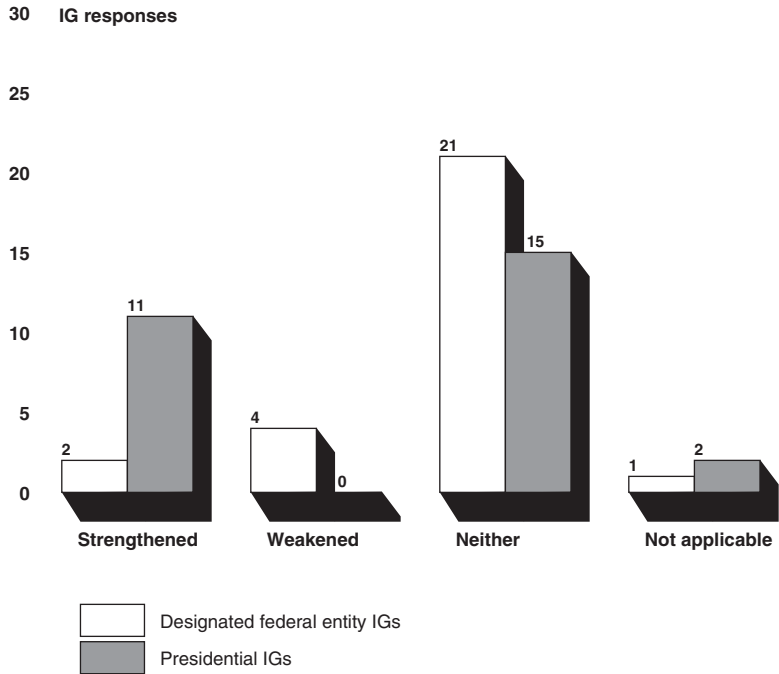


## Quality of Audit Training

Continuing education and training for auditors improves their knowledge and refines their skills, allowing them to better meet the challenges of the audit environment. Such education and training, since it enhances auditor proficiency, helps ensure the quality of audits. In addition, auditors working on audits in accordance with *Government Auditing Standards* must comply with specific continuing educational requirements specified by these standards.

A majority of the IGs (21 DFE and 15 Presidential) indicated through our survey that consolidation would have no impact on the quality of auditor training. Thirteen IGs (11 Presidential and 2 DFE) responded that the quality of training could be strengthened and 4 DFE IGs indicated that training could be weakened. (See figure 25.) One DFE IG commented that Presidential IGs and DFE IGs use the same training sources, and another DFE IG stated concern that consolidation would reduce the quality of training because DFE agency-related subjects may decline depending on the work priorities of the consolidated IG.

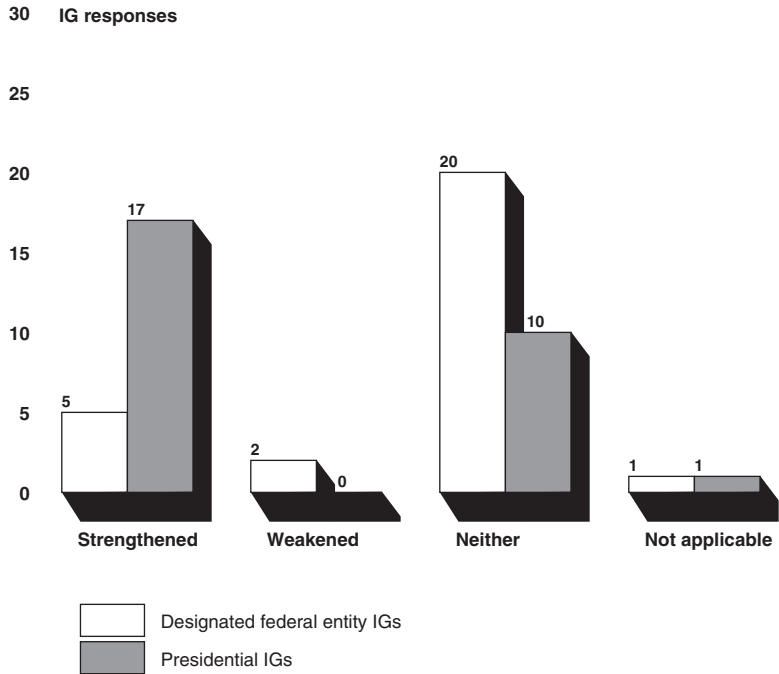
**Figure 25: Potential Effect of Consolidation on the Quality of Training for IG Audit Work**



**Ability to Share Methods**

The ability of IGs to share methods and programs for audits and investigations can enhance their use of government resources. Thirty IGs (20 DFE and 10 Presidential) indicated that consolidation would have no impact on this ability. However, 22 IGs (17 Presidential and 5 DFE) indicated that this area could be strengthened through consolidation. (See figure 26.)

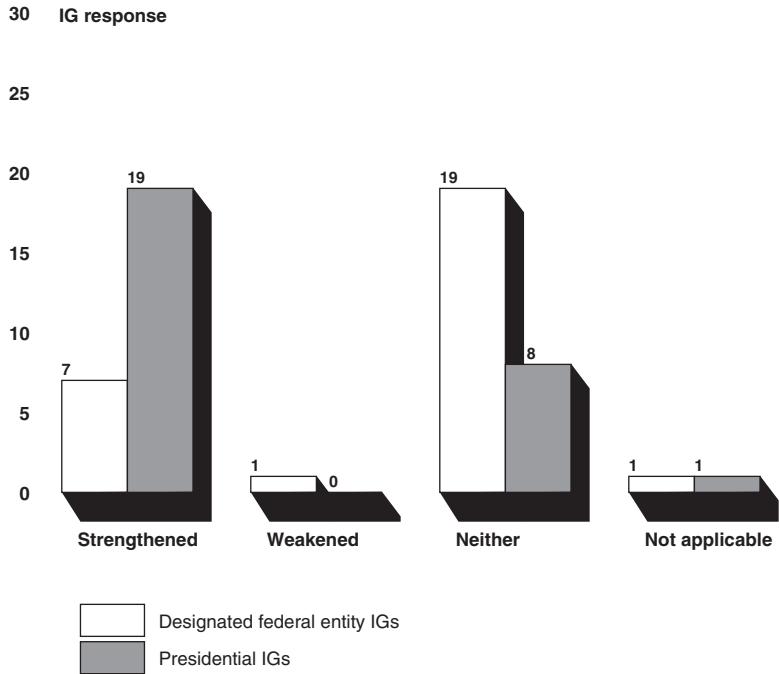
**Figure 26: Potential Effect of Consolidation on the IGs' Ability to Share Methods and Programs for Audits and Investigations across the Federal Government**



### Ability to Share Technology Specialists and Expertise

Twenty-six IGs (19 Presidential and 7 DFE) indicated that the IGs' ability to share technology specialists and expertise could be strengthened by consolidation while 1 DFE IG indicated that it would be weakened. Twenty-seven IGs (19 DFE and 8 Presidential) indicated that consolidation would have no impact on this ability. (See figure 27.) One DFE IG commented that there is currently no difficulty obtaining needed specialists and expertise. Another DFE IG stated that the IGs already share such skills.

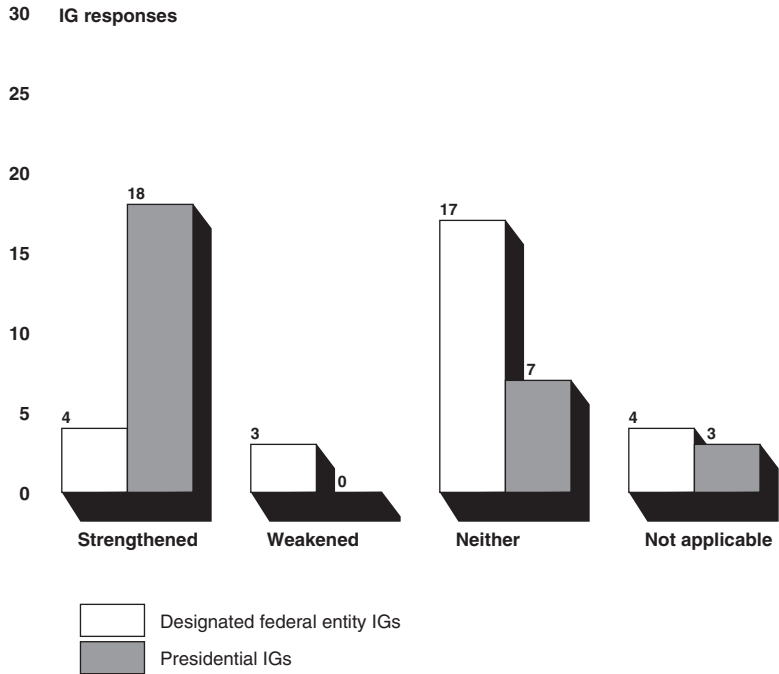
**Figure 27: Potential Effect of Consolidation on the IGs' Ability to Share Technology Specialists and Expertise**



## Efficient Use of Human Capital Skills

The survey results were also characteristically widespread between the responses of the Presidential IGs and the DFE IGs regarding consolidation and the efficient use of human capital skills. Twenty-four IGs (17 DFE and 7 Presidential) indicated that consolidation would have no impact. However, 22 IGs (18 Presidential and 4 DFE) indicated that consolidation could strengthen the efficient use of human capital skills. In addition, 3 DFE IGs indicated that this could be weakened. (See figure 28.)

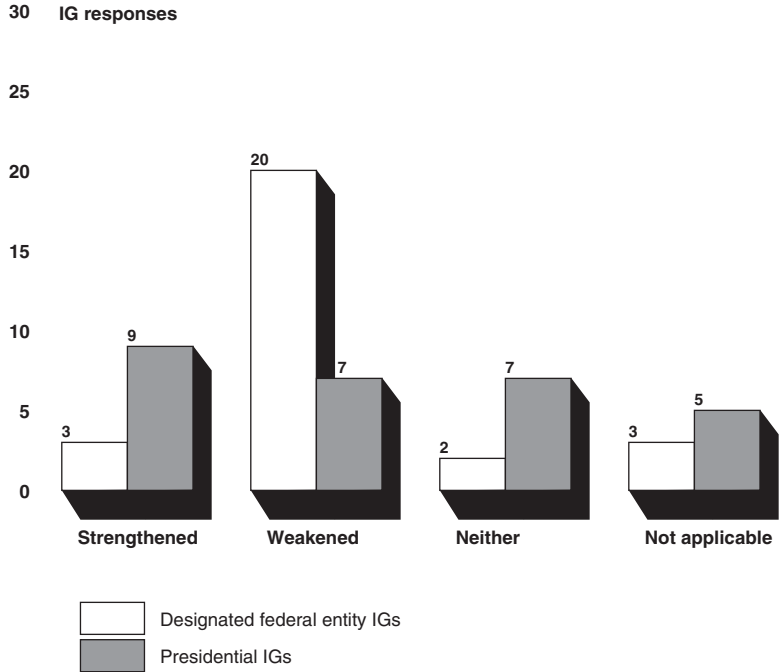
**Figure 28: Potential Effect of Consolidation on the IGs' Efficient Use of Human Capital Skills and Resources across the Federal Government**



**Availability of Adequate IG Resources**

The availability of adequate IG resources could be weakened by consolidation according to the responses of 20 DFE IGs and 7 Presidential IGs. At the same time, 12 IGs (9 Presidential and 3 DFE) indicated that the availability of resources could be strengthened. Nine IGs (seven Presidential and two DFE) responded that consolidation would have no impact. (See figure 29.)

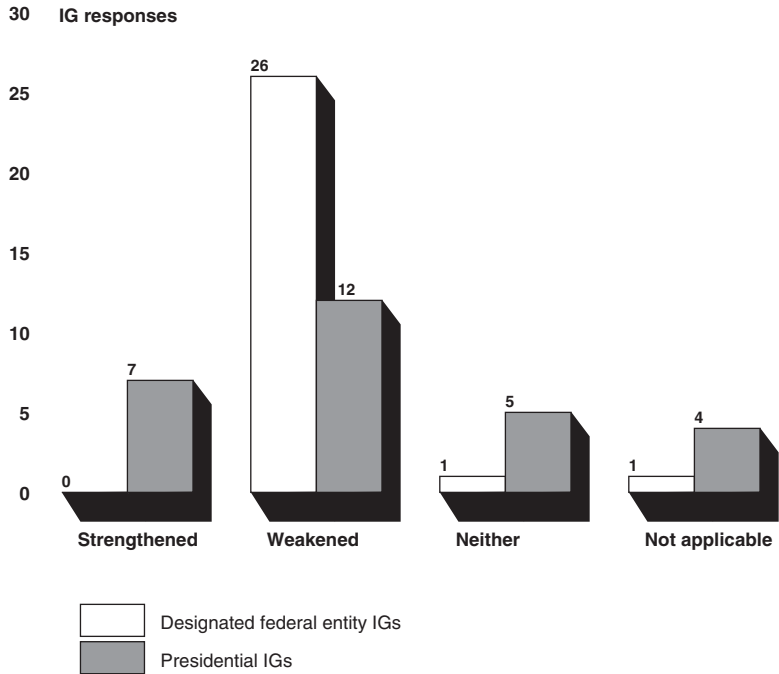
**Figure 29: Potential Effect of Consolidation on the Availability of Adequate IG Resources**



**Availability of IG Resources to Cover DFE Issues**

Similar to their concerns about the potential for the lack of audit coverage of DFE agency issues if the DFE IGs were consolidated, 38 IGs (26 DFE and 12 Presidential) responded that resources available to cover DFE issues would be weakened by consolidation. Nevertheless, 7 Presidential IGs indicated that consolidation could strengthen the coverage of DFE agencies. Six IGs (five Presidential and one DFE) indicated that consolidation would have no effect. (See figure 30.)

**Figure 30: Potential Effect of Consolidation on the Availability of Resources to Cover DFE Agency Issues**



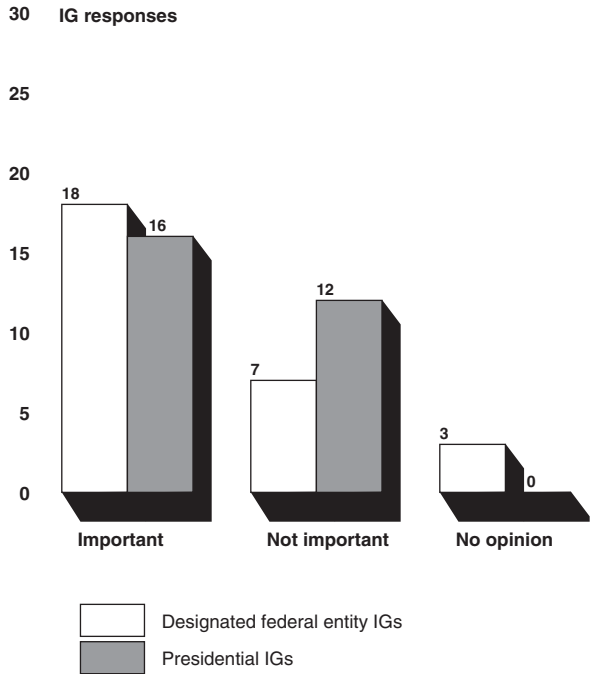
## Strengthening the PCIE and ECIE

Our survey addressed issues that would affect the PCIE and ECIE. The survey responses indicated that the PCIE and ECIE could be strengthened by establishing an alternative council under statute with specified funding sources and defined roles and responsibilities. It was generally viewed that statutory authority with stated roles, responsibilities, and funding sources would provide an alternative to the PCIE and ECIE with a permanent, institutional footing that would allow the IGs to reach their full potential and better serve the needs of the administration and the Congress.

We asked the IGs how establishing the PCIE and ECIE by statute rather than executive order would affect the effectiveness of these councils. Thirty-four IGs (18 DFE and 16 Presidential) indicated that it was important for the PCIE and ECIE to be established under statute. Nineteen IGs (12 Presidential and 7 DFE) believe such statutory councils would be of little or no importance. (See figure 31.)



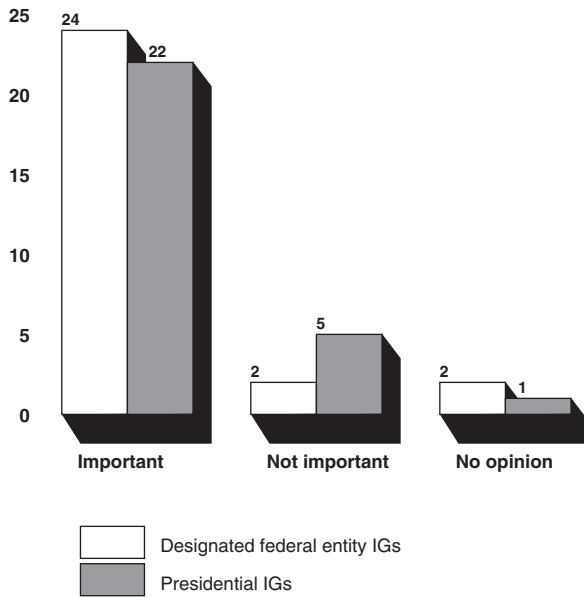
**Figure 31: How Important Is It to Establish a Statutory PCIE/ECIE Organization for Improving Their Operations?**



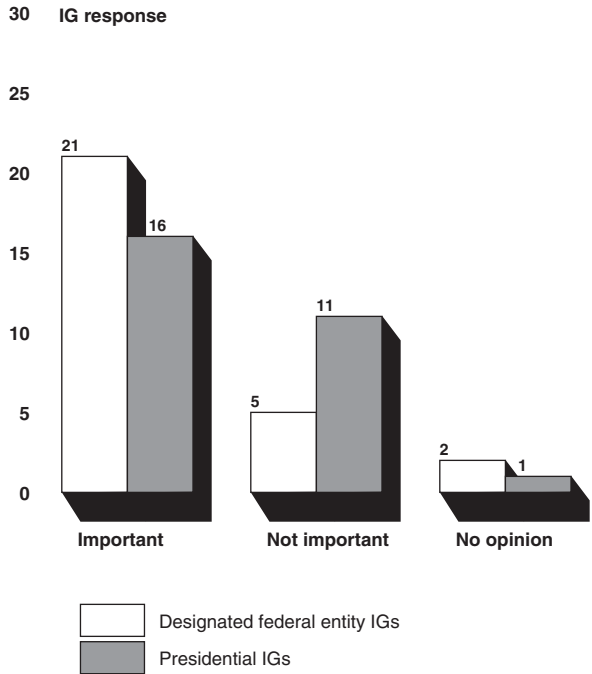
We also asked the IGs whether having designated funding sources for the PCIE and ECIE would be of importance. Forty-six IGs (24 DFE and 22 Presidential) believe that a designated funding source for the operation of these councils would be of importance, and seven IGs (five Presidential and two DFE) believe such funding is of little or no importance. (See figure 32.) In addition, we asked the IGs whether stated roles and responsibilities of the PCIE and ECIE in statute would be of importance. Thirty-seven IGs (21 DFE and 16 Presidential) responded that such statutory roles and responsibilities would be of importance, and 16 (11 Presidential and 5 DFE) indicated that they would be of little or no importance. (See figure 33.)

**Figure 32: How Important Is It to Provide Designated Funding Sources to the PCIE/ECIE Organization for Improving Their Operations?**

30 IG responses



**Figure 33: How Important Is It to Establish Stated Roles and Responsibilities of an Alternative PCIE/ECIE Organization in Order to Improve Operations?**



Comments from individual IGs indicate that appropriate statutory powers could provide some improvements to the PCIE and ECIE. One IG stated that such a statute would give shape, direction, and a mission to the PCIE. Another IG commented that, once under statute, there would be a wider base of support for the PCIE and ECIE by those sponsoring the legislation. In other comments, some IGs stated that this would facilitate getting the IG message to the Congress and the administration, would provide visibility and clout to the councils, eliminate the appearance of conflict between IGs and the chair of the councils, and provide the appearance that the PCIE stands independently rather than as a subgroup of the Office of Management and Budget. Perhaps most significantly, one IG stated that having these councils established through legislation would provide permanent and institutional footing.

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## Agency Budgets are Not the Sole Criteria for Establishing IGs

The Inspector General Act Amendments of 1988 and the Government Printing Office (GPO) Inspector General Act of 1988 (Titles I and II, Public Law 100-504) established offices of inspectors general in 33 designated federal entities and GPO. One of the criteria used by the Congress to determine where to establish these new IGs offices was a budget threshold of \$100 million for the designated federal entities. Specifically, those agencies with an annual budget of \$100 million or greater were considered for inclusion in the IG Act Amendments of 1988. Other agencies below this budget threshold were also included for specific reasons.

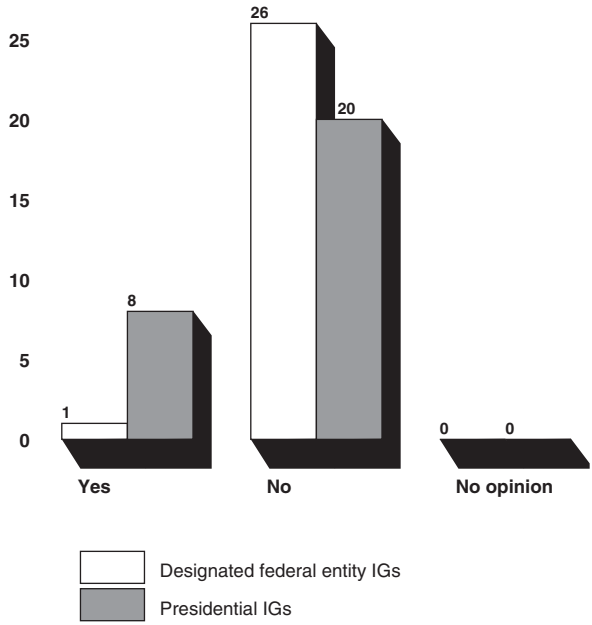
In preparation for our survey, we calculated that the \$100 million threshold from 1988 would have been about \$134 million in fiscal year 2000, if adjusted for inflation.<sup>10</sup> If this budget threshold were applied to the current agencies that have statutory IGs, 12 agencies would no longer meet this budget criteria to justify an IG office. (See appendix VI.) In response to our survey, 46 IGs (26 DFE and 20 Presidential) indicated that dollar thresholds of agency budgets should not be the primary factor determining which agencies should have IGs. However, nine IGs (eight Presidential and one DFE) indicated that budget dollar thresholds should be the primary factor. (See figure 34.) One IG stated that the primary factor for determining which agencies should have IGs should be the level of oversight that the Congress desires. Additional IGs responded that other factors, such as the importance of the agency's mission and the associated risks, should be considered. Also, eight IGs (17 DFE and 11 Presidential) responded that agencies with budgets below the \$134 million threshold should have IGs. However, 14 IGs (13 Presidential and 1 DFE) indicated that an IG is not necessary for those agencies. (See figure 35.) In their comments, the IGs stated that dollar thresholds are not meaningful by themselves and that the budgets may be just one factor in making such a determination. Another IG stated that the impact on public services should be considered, including vulnerable groups and overseas missions.

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<sup>10</sup> From the U.S. Department of Commerce, Bureau of Economic Analysis's Gross Domestic Product (GDP) Price Index.

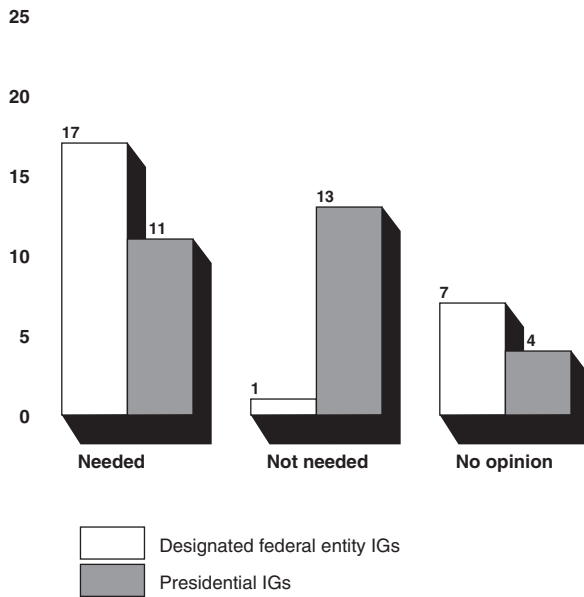
**Figure 34: Should Dollar Thresholds of Agency Budgets Be the Primary Factor in Determining Which Agencies Have an IG?**

30 IG responses



**Figure 35: Are Statutory IGs Needed for Agencies with Budgets Below \$134 Million?**

30 IG responses



## Survey Conclusions and GAO Views Regarding Conversion and Consolidation

We believe that if properly structured and implemented, the conversion and/or consolidation of selected DFE IG offices could serve to enhance the overall independence, economy, efficiency, and effectiveness of the IG community. We recognize that there are potential weaknesses resulting from consolidation, as indicated by the DFE IGs' responses, that would have to be mitigated through proactive and targeted actions in order for the benefits of consolidation to be realized without adversely affecting DFE agency audit coverage. One of the most important of these targeted areas would be communication between the IG and the agency head as well as agency management officials where the IG is responsible for oversight. The lack of an IG at the DFE agency should be mitigated by the physical presence of at least one of the consolidated IG's staff.

Also, we agree with the IGs' responses that indicate a legislative underpinning for the PCIE and ECIE could strengthen the effectiveness of these or alternative councils of IGs. In addition, we believe that any legislative underpinning should include a requirement for coordinating the efforts of these organizations with other oversight organizations, such as

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GAO. Regarding the use of agency budgets as the criteria for establishing IG offices in federal agencies, we agree with the IG responses that indicate other factors, such as the risk and mission of the agency, must be considered in addition to their budgets.

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## Independence

The Presidential IGs mostly indicated that conversion could strengthen DFE IG independence while the DFE IGs' generally indicated that there would be no effect on their independence. Likewise, in their responses regarding the impact of consolidation on independence, the IGs were predictably different in their responses with Presidential IGs indicating a strengthening of independence and the DFE IGs indicating either a weakness or no impact.

DFE IGs are established in legislation in a manner that makes them independent external auditors under *Government Auditing Standards*. The IG Act provides the DFE IGs with statutory protections, that among others, prevent the audited entity from interfering with the initiation, scope, timing, and completion of any audit and provide the IGs access to records and documents that relate to the agency, program, or function being audited. On the other hand, having IGs appointed by the President with Senate confirmation provides a higher level of appearance of independence. At the same time, given the number and relatively small size of all but a few of the DFE IG offices and the organizations they are responsible for auditing, it is not practical for all of them to be converted to Presidential appointment and we do not favor the wholesale conversion of DFE IGs to Presidential IGs. Therefore, the consolidation of some DFE IG offices with Presidential IG offices would also serve to increase the perceived independence of the IGs where conversion is not practical.

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## IG Quality of Work

The Presidential IGs also generally indicated that consolidation could strengthen the IGs' quality of work, while the DFE IGs indicated that consolidation would either have no impact or would weaken quality as related to (1) the ability to issue hard-hitting reports when necessary, (2) the ability to review issues that cross agencies, (3) the ability to get attention to IG audit recommendations, (4) the ability to audit issues of high risk and priority, (5) the presence of the IG as a preventative measure, and (6) the ability to plan work.

We believe that consolidation could serve to strengthen the IGs' ability to issue hard-hitting reports, to issue reports on cross-agency issues, to get

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attention to their audit recommendations, and to address high-risk and priority areas because IGs of consolidated offices could use their broader range of resources in the context of a governmentwide perspective rather than in the context of a single, relatively small agency. In addition, consolidation per se does not have to result in any material reduction on the IGs' day-to-day contact and communication with the agency head and ability to report on DFE agency performance as long as IGs maintain some physical presence at the DFE agencies or take other proactive steps to mitigate any potential reduction in communication and audit coverage. Finally, in our view, consolidation could enable IG offices to better target overall resources in planning their work to areas of greatest value and risk.

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## Use of IG Resources

The Presidential and DFE IGs also had differences in their responses regarding the impact that consolidation could have on the use of IG resources. The DFE IGs responded that consolidation would weaken or have no impact, while the Presidential IG responses indicated that consolidation could strengthen (1) the ability to control spending, (2) the ability to control budget requests, (3) the ability to absorb budget reductions, (4) the availability of investigative resources, (5) the ability to minimize duplication of audit efforts across IGs, (6) the ability to share methods, (7) the ability to share technology specialists, (8) the efficient use of human capital skills, and (9) the availability of adequate resources.

We believe that consolidation would serve to strengthen the ability of IGs to improve the allocation of human and financial resources within their offices and to attract and retain a workforce with the talents, multidisciplinary knowledge, and up-to-date skills to ensure the IG office is equipped to achieve its mission. For the majority of DFE IG offices, we view consolidation not only as a means to achieve economies of scale but more importantly as providing an enhanced critical mass of skills, particularly given the emergence of technology and the ever increasing need for technical staff with specialized skills. This is especially appropriate given the limited resources in most DFE IG offices where 12 DFE IGs had five or fewer full time equivalent staff and another five had less than 10 staff. In addition, consolidation should serve to increase the availability of investigative resources through economies of scale and other efficiencies and reduce the potential for duplication of work across IGs through enhancement of a value and risk approach to the investment and allocation of IG resources. Likewise, consolidation would serve to increase the ability of IGs to share methods and to leverage overall IG resources to



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increase the ability of IGs to properly use IG personnel in technical areas, including information systems and forensic audits.

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## Potential Weaknesses and Mitigation of Risks

The survey responses from both the Presidential and DFE IGs did indicate agreement that certain elements of effectiveness could be weakened through consolidation. These include potential weaknesses in (1) the day-to-day contact of IGs and DFE agency officials, (2) knowledge of the DFE agency missions, (3) knowledge of DFE agency priorities, and (4) the availability of resources to cover DFE agency issues. Additional potential weaknesses were identified by the DFE IGs while the Presidential IGs' answers to the same questions were inconclusive due to their relatively even distribution across the possible responses. The potential weaknesses cited by the DFE IGs were in (1) communication between the DFE agency head and the IG, (2) the ability of the DFE agency head to get the attention of the IG, (3) the timeliness of IG reporting, and (4) oversight coverage of the DFE agencies.

We agree that if appropriate actions were not taken to mitigate potential weaknesses, consolidation could weaken (1) the ability of the DFE IGs to have day-to-day contact with senior DFE agency officials, (2) communication between the DFE head and the IG, (3) the ability of the DFE agency head to get the attention of the IG, (4) the knowledge of DFE agency missions, (5) the knowledge of DFE agency priorities, and (6) the resources to cover DFE issues. However, we believe that for the areas of potential weaknesses indicated by the IGs, proactive steps could be taken to reduce the related risks and mitigate their impact on IG effectiveness to an acceptable level. For example, where appropriate a consolidated IG could maintain onsite facilities at DFE agencies with one or more dedicated staff to foster day-to-day communication with agency officials and communication with the DFE head. To facilitate oversight planning and to provide adequate oversight coverage, the IGs could leverage the detailed knowledge of the DFE agencies' missions and priorities by obtaining information from existing DFE IG personnel. In addition, the current DFE IG staff would be available to provide the necessary information for the proper planning and oversight of the DFE agencies. An additional concern by the DFE IGs, the timeliness of reports, could be addressed by having the IG establish priorities for reports on selected DFE agency issues based on risk. Finally, if congressional attention were given to mitigating the potential weaknesses identified by the IG responses to our survey, consolidation would not necessarily result in a loss of IG effectiveness in these areas.

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For about 90 percent of the DFE IGs, many of their additional comments indicated concern about the potential loss of adequate audit coverage of the DFE agencies that could result from consolidation. About 28 percent of the Presidential IGs also had the view that audit coverage of the DFEs would be weakened. While there may be a fewer number of audits or even less coverage of those issues currently audited at the DFE agencies, the survey responses of the Presidential IGs indicate that coverage by a consolidated IG could address areas of higher risk, value, and priority, resulting in potentially a more efficient and effective use of overall IG resources.

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### Strengthening the PCIE and ECIE

The survey results indicate a general agreement among both the Presidential and DFE IGs that a statutory alternative to the PCIE and ECIE along with a specified funding source and stated roles and responsibilities would be beneficial. In our view, providing a statutory basis for the roles and responsibilities of IG councils would help ensure permanence of the councils and further enhance the appearance of the councils' independence. Further, if adequately funded the councils' capability to be more effective and proactive by taking on a broader scope and more sensitive issues would also be enhanced. In addition, the PCIE and ECIE or any alternative statutory council should have a mechanism in place that would ensure the coordination and sharing of information among these councils and other federal oversight organizations, including our office. This should include developing strategic and annual plans and addressing ongoing areas of mutual interest, such as methodologies, tools, and training. Through this increased coordination, the efficient and effective use of all federal oversight resources, as well as the overall effectiveness of the IGs, can be greatly enhanced.

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### Agency Budgets as Criteria for Establishing IG Offices

The Presidential and DFE IGs were in general agreement that the use of an agency budget threshold as sole criteria for establishing IG offices would not be appropriate. In our view, the determination of whether an agency should have its own IG should be based on a range of issues to include (1) the nature of the agency, (2) the risk and value of the agency's operations and activities, (3) the significance of the financial amounts involved, and (4) critical mass and economies of scale considerations.

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## Approaches to IG Conversion and Consolidation

As you requested, we are providing a discussion on conversion and consolidation options. Specific conversions, consolidations, and changes to the structure of the IG community should be a process of continuing dialogue among the PCIE, ECIE, affected agencies, and the Congress. We do not believe the wholesale conversion of all DFE IGs to Presidential appointment with Senate confirmation would be beneficial, nor do we believe that all DFE IGs should be consolidated with Presidential IGs. For example, we do not include the Government Printing Office (GPO) IG as an option for consolidation because it is a legislative branch office and therefore not a candidate for either conversion or consolidation with an executive branch office. Various approaches exist to reorganize the IGs based on the resulting effectiveness of conversion and consolidation. The following options are intended to foster discussion among interested parties should the Congress decide to pursue such changes, and are not specifically recommended for implementation without consideration of input from the affected agencies, the IGs, congressional committees, and other interested parties.

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## Options for Conversion

In terms of budget size, the DFE IGs at the U.S. Postal Service (USPS), National Science Foundation (NSF), Amtrak, Federal Reserve Board (FRB), and GPO have staff and budgets comparable to Presidential IGs, and, in the case of USPS, much larger than most Presidential IGs. On that basis, these IGs could be considered for conversion to appointment by the President with Senate confirmation with the exception of the GPO IG, which is a legislative branch office and therefore not a candidate for conversion or consolidation. Specifically, the USPS IG was the fifth largest IG office in terms of all fiscal year 2000 IG budget resources. The NSF IG had fiscal year 2000 budget resources that were larger than two Presidential IGs. Also, while the Amtrak IG has budget resources comparable to some Presidential IGs, the oversight of Amtrak is closely related to the work of the Department of Transportation (DOT) IG. Moreover, the DOT IG currently provides some oversight of various Amtrak programs. Therefore, the consolidation of the Amtrak IG with the DOT IG could be considered, rather than conversion to Presidential appointment with Senate confirmation.

Assuming that USPS, NSF, and FRB IGs were converted to Presidential appointment, the Amtrak IG were consolidated with the DOT IG, and the GPO IG had no changes, the remaining 23 DFE IGs had total fiscal year 2000 budgets of about \$21 million, or about 1 percent of all IG budgets, and

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total staff of about 172. Staff sizes at these remaining 23 DFE IGs ranged from a low of one at the Federal Labor Relations Authority IG to a high of 20 at the Smithsonian Institution IG. Therefore, we do not view these remaining 23 IGs, 17 of which had less than 10 full time equivalent staff, as candidates for conversion.

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### Illustrative Potential Option for Consolidation

Presented in appendix II is one option for consolidating the Amtrak and DOT IGs and many of the remaining 23 IGs with other Presidential IG offices if the USPS, NSF, and FRB IGs were converted to Presidential appointment and the GPO IG remained the same. This option indicates how agency missions may suggest consolidation of DFE IGs with Presidential IGs to provide oversight of DFE agencies. For example, the consolidation of the IGs at the Legal Services Corporation, Equal Employment Opportunity Commission, and the Federal Trade Commission with the Department of Justice IG would bring together those DFE IGs with a Presidential IG to address law enforcement and legal issues. In another example, the consolidation of IGs at Amtrak and the Federal Maritime Commission with the Department of Transportation IG would combine those IG offices that focus on transportation-related issues.

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### Matters for Congressional Consideration

Our survey results did not provide a clear cut agreement from the combined IGs' responses regarding the impact of conversion and consolidation on the effectiveness of DFE IG offices. However, the Presidential IGs did indicate that elements of effectiveness could be strengthened and we generally agree. In our view, the conversion and consolidation of selected DFE IG offices would, if implemented properly, serve to enhance the overall independence, economy, efficiency, and effectiveness of the IG community. Therefore, based on these IG responses and our views, we are providing the following matters for congressional consideration intended as a starting point for a dialogue among the PCIE, the ECIE, the affected agencies, and the Congress. These matters are that the Congress consider

(1) amending the IG Act to elevate the IGs at USPS, NSF, and FRB to Presidential status,

(2) amending the IG Act to consolidate DFE IGs with Presidential IGs based on related agency missions or where potential benefits to IG effectiveness can be shown, and

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(3) establishing an IG council by statute that includes stated roles and responsibilities, designated funding sources, and provisions for the coordination of annual, strategic, and ongoing plans with other federal oversight organizations, such as our office.

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## Agency Comments and Our Response

We received comments on a draft of this report from the PCIE and ECIE, both of which had consolidated comments from the responding IGs within their respective councils. Similar to the survey results discussed in the body of this report, there was a clear divergence in views between the comments received from the Presidential IGs in the PCIE's response and the DFE IGs in the ECIE's response. The difference is not surprising given the potential impact of consolidating the DFE IGs with the Presidentially appointed IGs compared to the related interests of the two groups of IGs. We believe that this difference in perspective between the two groups of IGs, more than any other factor, helps to explain the significant divergence in the responses to the survey as well as in the comments on our draft report. The PCIE and ECIE IGs' comments also included technical changes that have been incorporated in our report.

The consolidated PCIE response did not take exception to the information or conclusions presented in our draft report. The response specifically stated that none of the PCIE IGs objected to our conclusion that establishing an IG council by statute with defined roles and designated funding sources could strengthen the effectiveness of these councils and points out that in July 2000 the Vice Chair of the PCIE testified in support of legislation to codify the PCIE and ECIE.

According to the PCIE comment letter, of the 25 IGs responding to the request for input to the PCIE response, 16 had no comments. The remaining nine Presidential IGs discussed issues of concern or technical corrections, with eight IGs commenting on the depth with which our report discusses certain implementation issues surrounding consolidation or conversion. Among the implementation issues discussed by the Presidential IGs are funding, staff resources, areas of expertise, and criteria for consolidation. One particular implementation issue involved an IG office being subject to supervision by more than one agency head, assuming that a consolidation initiative would be approached from a functional perspective, such as having one IG provide audit services for all grant-making agencies.

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We understand and appreciate the desire for additional detail on how any such changes or realignments might be accomplished. Likewise, we fully agree that the implementation issues raised by the Presidential IGs would be key to the success and effectiveness of such an endeavor. In this regard, it was not our objective to identify or recommend a specific strategy or approach for accomplishing this. As stated in our report, any specific conversions, consolidations, and changes to the structure of the IG community should be a process of continuing dialogue among the PCIE, ECIE, affected agencies, and the Congress.

Clearly, various approaches exist to reorganize the IGs based on the resulting effectiveness of conversion or consolidation. The scenarios we offer are intended to foster discussion among interested parties should the Congress decide to pursue such changes, and are not specifically recommended for implementation without consideration of input from the affected agencies, the IGs, congressional committees, and other interested parties.

In contrast with the PCIE's general agreement with our report, the ECIE raised broad concerns with our report conclusions and methodology. Specifically, the ECIE stated its belief that (1) our report draws conclusions that are inconsistent with the preponderance of the survey responses and lacks supporting evidence, (2) the consolidation of IG offices presents certain implementation problems, and (3) the effect of recent revisions to auditor independence standards after our survey was conducted could have changed the survey results. In addition, the ECIE cited a prior GAO survey of IGs where the IGs indicated that they had the resources and expertise necessary to carry out their responsibilities.

Specifically, in commenting on our survey results, the ECIE stated that, "The DFE IGs do not believe the report shows that the IG structure created by the IG Act and 1988 amendments is broken and in need of a 'fix' as complex and substantive as consolidation." Our report does not include, nor was it the objective of our survey, to identify problems that must be corrected in order for DFE IGs to be effective. As clearly stated in our report, the objective of our survey was to obtain the views of the IGs on how independence, quality of work, and use of resources might be affected by conversion or consolidation of DFE IGs with Presidentially appointed IGs.

The ECIE also commented that, "GAO draws conclusions that are inconsistent with the preponderance of the survey responses." As a basis

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for this comment, the ECIE recast the results of our survey without distinguishing between the Presidential IGs and the DFE IGs, and also combined the “no impact” responses with the “weakened” responses. The ECIE’s recasting of the survey results by combining all the IG responses is inappropriate given the widely differing perspectives and interests between the Presidential IGs and the DFE IGs, which are clearly demonstrated by the survey results. It is misleading to disregard these differences by relying on a simple majority of responses when analyzing the survey results. To do so would have resulted in a report that lacks contextual sophistication and that would have been of little value to the Congress and other readers. Instead, we provided a more detailed analysis of survey responses by Presidential IG and DFE IG categories that clearly showed where differences and a lack of consensus exist. In addition, to provide a balanced, objective analysis, we showed the IGs’ “no impact” responses as a separate category. By their separate definitions, it is inappropriate to combine the “no impact” responses with either the “strengthened” or “weakened” responses for purposes of analyzing or presenting the survey results. Finally, due to the widely divergent views of the ECIE and PCIE IGs, we chose to add our own views on the potential impact of conversion and consolidation, which represent our independent, objective and professional opinion on these matters.

In comments about the implementation of IG consolidation, the ECIE states that “GAO’s proposed consolidation scenarios are overly simplistic given the diverse missions of the agencies involved; the various types of funding, administrative, and personnel authorities and practices; the differences in congressional oversight and appropriations processes; and the separate governance and oversight structures of the regulatory entities, state and/or federal commissions, independent corporations and boards, and unique agencies that comprise the DFE IG agencies.” The options presented in our report are intended to illustrate several possible ways of conversion and consolidation of specific IG offices. As mentioned previously, our report clearly states that any specific conversions or consolidations of IG offices should be a process of continuing dialogue among the PCIE, ECIE, affected agencies, and Congress. For instance, the examples of possible IG consolidations provided by our report are intended as a starting point for discussions on where the most appropriate consolidations might occur and are based on similarities in the basic missions of the agencies. We fully agree that other options for conversions and consolidations may be appropriate in that the missions of all the IGs as defined by the IG Act are the same regardless of their agencies’ missions.

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Regarding the implementation of IG consolidations, the ECIE's comments state that: "The DFE IGs also emphasized that consolidation sacrifices providing a local preventive presence, oversight, and focus at individual agencies or entities in favor of potentially fragmenting the attention of a larger IG office across a broad and diverse spectrum of programs and operations." The ECIE further points out that "... legitimate questions could be raised regarding whether priorities at the DFE agencies would be considered "areas of greatest value and risk ..." and "... consolidation would probably result in fewer resources to cover DFE agencies."

These examples of possible negative impact resulting from consolidation provided by the ECIE's comments are clearly identified in our draft report, which concludes that these weaknesses would need to be mitigated for the benefits of consolidation to be fully realized. Our report also states that these weaknesses can be mitigated by providing an IG presence at each DFE agency, using the expertise of current IG staff for planning required oversight, and by providing adequate audit coverage. Our report concludes that consolidation could strengthen the ability of IGs to improve the allocation of human and financial resources within their offices and to attract and retain a workforce with the talents, multidisciplinary knowledge, and up-to-date skills to ensure that the IG office is equipped to achieve its mission. DFE IG offices are generally very small - 11 have 5 or fewer staff - compared to the Presidential IG offices where 23 have over 100 staff. Basically, for the vast majority of DFE IG offices, consolidation is not only a means to achieve economies of scale and greater independence but, more importantly, a way to provide an enhanced critical mass and range of skills, particularly given the rapidly evolving emergence of technology and the ever-increasing need for technical staff with specialized skills.



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Regarding the potential impact of recent changes in standards<sup>11</sup> for auditor independence on our survey results, the ECIE states that “The DFE IGs strongly believe that, contrary to GAO’s assertion in the report, the survey results may have been materially affected by this amendment. The revised standards, for the first time, recognize specifically that Presidential appointment with Senate confirmation is but one way of achieving organizational independence and that other organizational structures can provide independence if a detailed list of safeguards are met.” We disagree with the implication of the DFE IGs’ comments that the revised auditor independence standard<sup>12</sup> may have materially affected our survey results. Under Government Auditing Standards, which are issued by the Comptroller General, the DFE IGs were previously recognized as being independent. What the new standard does is to more fully articulate the rationale for this recognition by explicitly stating the criteria that is used in the independence provisions of the IG Act. The DFE IGs have been considered independent under Government Auditing Standards since they were established by the 1988 IG Act amendments. Therefore, the independence of the DFE IGs both before and after the revised standards is the same. Moreover, the survey questions focused on the relative impact of conversion and consolidation on IG independence, which are valid questions regardless of the revised standards.

Finally, the ECIE’s comments cited a prior GAO report<sup>13</sup> which concluded that “. . . the IGs’ work covers a broad spectrum of agency programs and operations and, in general, the IGs indicated that they have the expertise and resources necessary to assemble the teams of staff needed to perform the major types of work for which they are responsible.” The ECIE also noted that this previous report also indicated that “IGs have the capability to obtain contractors or consultants, as needed, to provide supplementary expertise in certain areas.” In this regard, our prior report and our current report need to be considered within the context of their different purposes, scope, and objectives, the major difference being that the objectives of our prior report did not extend to obtaining and analyzing the IGs’ views as to

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<sup>11</sup> U.S. General Accounting Office, *Government Auditing Standards*, 1994 revision, as amended.

<sup>12</sup> U.S. General Accounting Office, *Government Auditing Standards, Answers to Independence Standard Questions*, [GAO-02-870G](#) (Washington, D.C.: July 2002).

<sup>13</sup> U.S. General Accounting Office, *Inspectors General: Information on Operational and Staffing Issues*, [GAO/AIMD-99-29](#), (Washington, D.C.: Jan. 4, 1999).

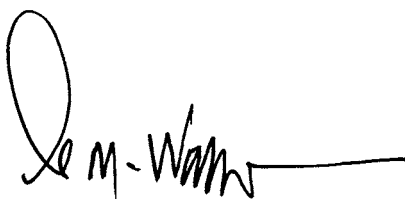
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whether the ability to obtain necessary resources could be strengthened or weakened by the conversion or consolidation of DFE IGs and Presidential IGs. The survey responses of the Presidential IGs point to a significant difference in the inherent ability of a large audit organization versus a very small organization to address the need for specialized expertise and skills, which is our view as well.

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As agreed with your office, unless you announce its contents earlier, we plan no further distribution of this report until 30 days after its issuance date. At that time, we will send copies to the Ranking Minority Member of the House Committee on Government Reform, the Chairman and Ranking Member of the Senate Committee on Governmental Affairs, the Deputy Director for Management of the Office of Management and Budget, and the federal offices of inspectors general. After our final distribution this report will be available at no charge on the GAO Web site at <http://www.gao.gov>. If you have any questions or would like to discuss this report, please contact Jeanette M. Franzel, Director, at (202) 512 9471, or by e-mail at [franzelj@gao.gov](mailto:franzelj@gao.gov); or Jackson Hufnagle, Assistant Director, at (202) 512 9470, or by e-mail at [hufnaglej@gao.gov](mailto:hufnaglej@gao.gov).

Sincerely yours,

A handwritten signature in black ink, appearing to read "D M Walker", with a long horizontal line extending to the right.

David M. Walker  
Comptroller General  
of the United States

# Summary of IG Survey Responses Regarding Conversion and Consolidation

IG effectiveness category	Elements of IG effectiveness	Summary of survey responses with GAO views		
		Presidential IGs	DFE IGs	GAO
<b>Conversion</b>				
1. IG independence	Independence resulting from conversion	Strengthened	No impact	Strengthened
<b>Consolidation</b>				
2.	Actual independence	Strengthened	No impact	Strengthened
3.	Appearance of independence	Strengthened	No impact	Strengthened
4. IG quality of work	Ability to issue hard-hitting reports	Strengthened	No impact	Strengthened
5.	Ability to review issues crossing DFEs	Strengthened	No impact	Strengthened
6.	Attention to IG recommendations	Strengthened	No impact	Strengthened
7.	Ability to audit issues of high risk	Strengthened	No impact	Strengthened
8.	Ability to uniformly measure performance	No impact	No impact	No impact
9.	Day-to-day contact with DFE officials	Weakened	Weakened	Weakened
10.	Communication - DFE head and the IG	Inconclusive <sup>a</sup>	Weakened	Weakened
11.	Ability of DFE head get attention of the IG	Inconclusive <sup>a</sup>	Weakened	Weakened
12.	Presence of IG as a prevention measure	Strengthened	Weakened	No impact
13.	Knowledge of DFE missions	Weakened	Weakened	Weakened
14.	Knowledge of DFE priorities and issues	Weakened	Weakened	Weakened
15.	Planning for IG oversight	Strengthened	Weakened	Strengthened
16.	Timeliness of reports	Inconclusive <sup>a</sup>	Weakened	No impact
17.	Oversight coverage of the DFEs	Inconclusive <sup>a</sup>	Weakened	No impact
18. IG resources	Control over spending	Strengthened	No impact	Strengthened
19.	Control over budget requests	Strengthened	No impact	Strengthened
20.	Ability to absorb resource reductions	Strengthened	Inconclusive <sup>a</sup>	Strengthened
21.	Resources for investigative coverage	Strengthened	Weakened	Strengthened
22.	Ability to minimize audit duplication	Strengthened	No impact	Strengthened
23.	Quality of audit training	No impact	No impact	No impact
24.	Ability share methods	Strengthened	No impact	Strengthened
25.	Ability to share technology specialists	Strengthened	No impact	Strengthened
26.	Efficient use of human capital skills	Strengthened	No impact	Strengthened
27.	Availability of adequate resources	Strengthened	Weakened	Strengthened
28.	Resources to cover DFE issues	Weakened	Weakened	Weakened

<sup>a</sup>The IG responses were generally evenly divided among possible answers.

# Potential IG Consolidations and Related Agency Missions

Illustrative examples of agencies that could consolidate IG oversight	Primary agency missions
<b>Department of Agriculture</b>	Enhance the quality of life by supporting the production of agriculture.
Farm Credit Administration	Promote a safe and sound competitive Farm Credit System.
<b>Department of Commerce</b>	Promote job creation, economic growth, and sustain development and improved living standards.
Federal Communications Commission	Regulation of communications by radio, television, mire satellite, and cable.
Corporation for Public Broadcasting	Provide grants to qualified public television and radio stations to be used primarily for program production or acquisition.
Appalachian Regional Commission	Support economic and social development in the Appalachian region.
U.S. International Trade Commission	Administer U.S. trade laws and provide information on trade matters.
Consumer Product Safety Commission	Reduce the risk of injuries and deaths from consumer products.
<b>Department of Housing and Urban Development</b>	Promote a decent, safe, and sanitary home and living environment for all.
Federal Housing Finance Board	Regulate banks that help finance community development needs.
<b>Department of Justice</b>	Enforcement of laws in the public interest.
Legal Services Corporation	Ensure equal access to justice under the law.
Equal Employment Opportunity Commission	Enforce federal statutes prohibiting discrimination.
Federal Trade Commission	Prevent monopolies, restraints, and unfair and deceptive practices that affect free enterprise.
<b>Department of the Treasury</b>	Responsible for financial, economic, and tax policy, as well as financial law enforcement and the manufacturing of coins and currency.
Securities and Exchange Commission	Administer federal securities laws that seek to provide protection for investors, to ensure that securities markets are fair and honest, and to provide the means to enforce securities laws through sanctions.
Commodity Futures Trading Commission	Protect market participants against manipulation, abusive trade practices, and fraud.
<b>Federal Deposit Insurance Corporation</b>	Contribute to the stability of and confidence in the nation's financial system.

**Appendix II  
Potential IG Consolidations and Related  
Agency Missions**

*(Continued From Previous Page)*

<b>Illustrative examples of agencies that could consolidate IG oversight</b>	<b>Primary agency missions</b>
National Credit Union Administration	Regulate and insure federal credit unions and insure state-chartered credit unions.
<b>General Services Administration</b>	Provide quality services, space, and products at competitive cost to enable federal employees to accomplish their missions.
Smithsonian Institution	Hold artifacts and specimens for the increase and diffusion of knowledge.
National Archives and Records Administration	Preserve the nation's history by overseeing and managing federal records.
National Endowment for the Arts	Nurture human creativity and foster appreciation of artistic accomplishments.
National Endowment for the Humanities	Support research, education, and public programs in the humanities.
Federal Election Commission	Disclose campaign finance information, enforce provisions of the Federal Campaign Act, and oversee public funding of Presidential Elections.
<b>Department of Labor</b>	Foster, promote, and develop the welfare of U.S. wage earners.
Federal Labor Relations Authority	Provide leadership and resolve disputes relating to federal labor-management.
National Labor Relations Board	Enforce the laws governing relations between unions and employees.
Pension Benefit Guaranty Corporation	Encourage the growth and operations of defined benefit pension plans.
<b>Department of State</b>	Promote U.S. interests and the President's foreign policy in shaping a free, secure, and prosperous world.
Peace Corps	Promote world peace and friendship.
<b>Department of Transportation</b>	Develop policies for the national transportation system with regard for need, the environment, and national defense.
Amtrak	Develop modern rail service in meeting inter-city passenger transportation needs.
Federal Maritime Commission	Regulate shipping in foreign U.S. trade.
<b>DFE IG offices for possible conversion</b>	
United States Postal Service	Appointment by the President.
National Science Foundation	Appointment by the President.
Federal Reserve Board	Appointment by the President
<b>IG office not a candidate for conversion or consolidation</b>	
Government Printing Office	Legislative branch agency

# Designated Federal Entity Inspectors General: Fiscal Year 2000 Budgets and Full-time Equivalents (FTEs)

	DFE IGs	Budgets	Total FTEs
1	United States Postal Service <sup>a</sup>	\$72,000,000	629
2	Amtrak	6,300,000	64
3	National Science Foundation	5,450,000	50
4	Federal Reserve Board	3,312,661	29
5	Government Printing Office	3,198,555	27
6	Pension Benefit Guaranty Corporation	2,512,000	13
7	Legal Services Corporation <sup>b</sup>	2,300,000	17
8	Smithsonian Institution <sup>c</sup>	1,844,000	20
9	Peace Corps	1,678,400	15
10	Securities and Exchange Commission	1,416,200	9
11	National Archives and Records Administration	1,170,000	12.5
12	Federal Communications Commission	1,128,000	8
13	Equal Employment Opportunity Commission	1,086,662	11
14	National Credit Union Administration	1,050,883	7
15	Farm Credit Administration	802,852	4.8
16	National Labor Relations Board	775,800	7
17	Corporation for Public Broadcasting	715,000	8.5
18	Federal Trade Commission	607,500	5
19	Commodity Futures Trading Commission	474,000	4
20	Federal Housing Finance Board	473,475	5
21	Appalachian Regional Commission	468,000	3
22	National Endowment for the Humanities	449,000	5
23	United States International Trade Commission <sup>a</sup>	383,000	3.5
24	National Endowment for the Arts	365,000	4
25	Federal Election Commission	348,773	4
26	Federal Maritime Commission	345,000	3
27	Federal Labor Relations Authority	214,000	1
28	Consumer Product Safety Commission	187,000	2
	<b>DFE IG totals</b>	<b>\$111,055,761</b>	<b>971.3</b>

<sup>a</sup>Estimates provided by the ECIE.

<sup>b</sup>Staff on board.

<sup>c</sup>Includes \$419,000 in nonappropriated funds.

Source: As reported by the DFE IGs.

# Inspectors General Appointed by the President: Fiscal Year 2000 Budgets and Full-time Equivalents (FTEs)

	Departments/agencies IGs	Fiscal year 2000 <sup>a</sup>	
		Budgets	FTEs
1	Department of Health and Human Services <sup>b</sup>	\$208,000,000	1,432
2	Department of Defense	137,000,000	1,212
3	Treasury's IG for Tax Administration	114,000,000	1,020
4	Department of Housing and Urban Development	83,000,000	705
5	Department of Agriculture	68,000,000	753
6	Social Security Administration	66,000,000	536
7	Department of Labor	52,000,000	428
8	Department of Justice	51,000,000	380
9	Department of Transportation	48,000,000	455
10	Department of Veterans Affairs	46,000,000	384
11	Environmental Protection Agency	43,000,000	374
12	Department of Education	34,000,000	285
13	Federal Deposit Insurance Corporation	34,000,000	231
14	General Services Administration	33,000,000	297
15	Department of the Treasury	31,000,000	282
16	Department of Energy	30,000,000	265
17	Department of the Interior	29,000,000	265
18	Department of State	27,000,000	277
19	Agency for International Development	25,000,000	165
20	Department of Commerce	20,000,000	200
21	National Aeronautics and Space Administration	20,000,000	210
22	Office of Personnel Management	11,000,000	107
23	Small Business Administration	11,000,000	117
24	Federal Emergency Management Agency	8,000,000	80
25	Tennessee Valley Authority <sup>c</sup>	7,154,000	74
26	Nuclear Regulatory Commission	6,000,000	44
27	Railroad Retirement Board	5,000,000	58
28	Corporation for National Service	4,000,000	18
29	Central Intelligence Agency	na <sup>d</sup>	na <sup>d</sup>
<b>Totals</b>		<b>\$1,251,154,000</b>	<b>10,654</b>

<sup>a</sup>Budget authority and FTE estimates from the *Fiscal Year 2001 President's Budget*.

<sup>b</sup>Includes budget authority of \$155 million to combat Medicare fraud.

<sup>c</sup>Tennessee Valley Authority IG to be appointed by the President under Public Law 106-422.

<sup>d</sup>Budget and FTE information not available.

# Presidential IGs with Five Comparable DFE IGs: Fiscal Year 2000 Budgets

	Department/agency IGs	Fiscal year 2000 <sup>a</sup> budgets
1	Department of Health and Human Services <sup>b</sup>	\$208,000,000
2	Department of Defense	137,000,000
3	Treasury's IG for Tax Administration	114,000,000
4	Department of Housing and Urban Development	83,000,000
5	<b>United States Postal Service<sup>c</sup></b>	72,000,000
6	Department of Agriculture	68,000,000
7	Social Security Administration	66,000,000
8	Department of Labor	52,000,000
9	Department of Justice	51,000,000
10	Department of Transportation	48,000,000
11	Department of Veterans Affairs	46,000,000
12	Environmental Protection Agency	43,000,000
13	Department of Education	34,000,000
14	Federal Deposit Insurance Corporation	34,000,000
15	General Services Administration	33,000,000
16	Department of the Treasury	31,000,000
17	Department of Energy	30,000,000
18	Department of the Interior	29,000,000
19	Department of State	27,000,000
20	Agency for International Development	25,000,000
21	Department of Commerce	20,000,000
22	National Aeronautics and Space Administration	20,000,000
23	Office of Personnel Management	11,000,000
24	Small Business Administration	11,000,000
25	Federal Emergency Management Agency	8,000,000
26	Tennessee Valley Authority <sup>d</sup>	7,154,000
27	<b>Amtrak<sup>e</sup></b>	6,300,000
28	Nuclear Regulatory Commission	6,000,000
29	<b>National Science Foundation<sup>e</sup></b>	5,450,000
30	Railroad Retirement Board	5,000,000
31	Corporation for National Service	4,000,000
32	Central Intelligence Agency	na <sup>f</sup>
33	<b>Federal Reserve Board<sup>e</sup></b>	3,312,661
34	<b>Government Printing Office<sup>e</sup></b>	3,198,555
	<b>Totals</b>	<b>\$1,341,415,216</b>



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**Appendix V**  
**Presidential IGs with Five Comparable DFE**  
**IGs: Fiscal Year 2000 Budgets**

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<sup>a</sup>Budget authority estimates from the *Fiscal Year 2001 President's Budget*.

<sup>b</sup>Includes budget authority of \$155 million to combat Medicare fraud.

<sup>c</sup>Information supplied by the ECIE.

<sup>d</sup>Tennessee Valley Authority IG to be appointed by the President under Public Law 106-422.

<sup>e</sup>Information provided by the IG.

<sup>f</sup>Budget information not available.

# Designated Federal Entities: Fiscal Year 2000 Budgets with \$134 Million Threshold

Dollars in millions

Designated federal entities		Fiscal year 2000 budgets <sup>a</sup>	Budget threshold
1	United States Postal Service	\$68,393	
2	Federal Communications Commission	6,795	
3	Tennessee Valley Authority <sup>b</sup>	6,562	
4	National Science Foundation	4,085	
5	Amtrak <sup>c</sup>	2,771	
6	Pension Benefit Guaranty Corporation	2,510	
7	Government Printing Office	892	
8	National Credit Union Administration	823	
9	Smithsonian Institution	546	
10	Securities and Exchange Commission	378	
11	National Archives and Records Administration	341	
12	Corporation for Public Broadcasting	316	
13	Legal Services Corporation	305	
14	Equal Employment Opportunity Commission	284	
15	Peace Corps	249	
16	National Labor Relations Board	205	
17	Federal Reserve Board (operations)	200	134
18	Federal Trade Commission	126	
19	National Endowment for the Humanities	118	
20	National Endowment for the Arts	102	
21	Appalachian Regional Commission	72	
22	Commodity Futures Trading Commission	63	
23	Consumer Product Safety Commission	52	
24	United States International Trade Commission	44	
25	Federal Election Commission	38	
26	Farm Credit Administration	36	
27	Federal Labor Relations Authority	24	
28	Federal Housing Finance Board	19	
29	Federal Maritime Commission	15	
<b>Totals</b>		<b>\$96,364</b>	

Note: \$134 million is the present value of the \$100 million threshold used by the Congress to establish IG offices in 1988. The present value is adjusted for inflation using the U.S. Department of Commerce, Bureau of Economic Analysis's Gross Domestic Product (GDP) Price Index.

<sup>a</sup>Budget amounts are from the *Fiscal Year 2002 President's Budget*.

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**Appendix VI**  
**Designated Federal Entities: Fiscal Year 2000**  
**Budgets with \$134 Million Threshold**

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<sup>b</sup>Tennessee Valley Authority IG to be appointed by the President under Public Law 106-422.

<sup>c</sup>Amount provided by the IG.

# Comments from the President's Council on Integrity and Efficiency



## PRESIDENT'S COUNCIL on INTEGRITY & EFFICIENCY

June 20, 2002

Ms. Jeanette M. Franzel  
Acting Director  
Financial Management and Assurance  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Ms. Franzel:

Thank you for the opportunity to comment on GAO's draft report, *Inspectors General: Issues Related to the Consolidation of IG Offices*, regarding your survey on the potential impact of consolidation and other changes to the offices of inspectors general (OIGs). In your letter of May 23, 2002, you requested that the President's Council on Integrity and Efficiency (PCIE) consolidate its comments into a single response. As the PCIE Vice Chair, I have collected the report comments from my colleagues and consolidated them below.

Overall, 25 of the 29 PCIE OIGs responded to the request for comments. Of the 25 responding, 16 OIGs did not have any comments on the report. The comments detailed below represent the issues, concerns, or technical corrections raised by the 9 OIGs responding with written comments. For your convenience, we have organized our comments along the three main issues of the report—consolidation/conversion of designated federal entity (DFE) OIGs, statutory alternative to the PCIE, and application of a budget level threshold.

### **Consolidation/Conversion of DFE OIGs**

The PCIE is primarily composed of the 29 Inspectors General (IGs) who are appointed by the President and confirmed by the Senate. These IGs are referred to as PAS IGs. The other 28 federal IGs are appointed by their agency head and are referred to as DFE IGs. As discussed in the draft report, the PAS IGs generally responded that independence, quality, and use of resources could be strengthened by conversion or consolidation. We did not receive any additional comments on this matter during the comment period of this draft report. However, eight of the IGs offering written comments expressed concern that significant issues surrounding consolidation were not more thoroughly explored and addressed in the report.

These issues included funding and staffing resources, organizational supervision, independence, areas of expertise, and criteria for consolidation. Several of the OIGs noted that any benefits that consolidation could potentially provide would be lost if these issues were not appropriately addressed.

Nearly all the OIGs providing written comments expressed concern about how the funding and staffing issues would be resolved. One OIG pointed out the inherent complications of being under the general supervision of more than one agency head. Another OIG commented that

**Appendix VII**  
**Comments from the President's Council on**  
**Integrity and Efficiency**

while the report notes differences between the PAS and DFE IGs over the issue of independence, it does not provide any analysis or follow-up interviews to determine why the divergence of opinions exist.

Several of the OIGs offering their comments suggested that the report should note other consolidation options and consolidation criteria to broaden the discussion and highlight the issues needing attention. For example, the General Services Administration OIG pointed out that the benefits of consolidation might best be achieved by consolidating OIGs from agencies with *similar* responsibilities and expertise (i.e., grant-making agencies with other grant-making agencies). The U.S. Agency for International Development (AID) OIG noted that because the Peace Corps has a similar mission and field operations structure and comes under the jurisdiction of the same congressional committees as AID, such criteria should be considered when evaluating consolidation decisions.

**Statutory Alternative to the PCIE**

Two OIGs specifically concurred with the GAO's conclusion that establishing an IG council by statute with defined roles and designated funding sources could strengthen the effectiveness of these councils. None of the PCIE OIGs expressed concern about this conclusion or GAO's offering this issue as a matter of consideration by the Congress. In July 2000, I testified, in my capacity as the PCIE Vice Chair, in support of codifying the two councils.

**Application of a Budget-Level Threshold**

None of the PCIE members specifically commented on this issue.

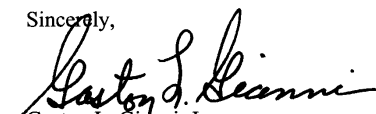
**Technical Comments**

One OIG raised a concern about the report presentation and suggested a reordering of the report. Specifically, the OIG advised presenting a more detailed examination of the issues and legislative proposals first and then use the survey as an appendix to show the divergence of views in the OIG community. Additional technical comments are enclosed.

\* \* \* \* \*

On behalf of the PCIE, I appreciate the opportunity to share our comments on this report. Please contact me at (202) 416-2026, if you have any questions or need additional information.

Sincerely,



Gaston L. Gianni, Jr.  
Vice Chair

Enclosure

cc: PCIE Members  
Mr. Barry Snyder, ECIE Vice Chair

# Comments from the Executive Council on Integrity and Efficiency



## Executive Council on Integrity and Efficiency

June 26, 2002

Ms. Jeanette M. Franzel  
Acting Director  
Financial Management and Assurance  
U.S. General Accounting Office  
441 G Street, NW  
Washington, DC 20548

Dear Ms. Franzel:

Thank you for the opportunity to comment on the draft report, *Inspectors General: Issues Related to the Consolidation of IG Offices*. Your May 23, 2002, transmittal letter requests that the Vice Chair of the Executive Council on Integrity and Efficiency (ECIE) incorporate comments from the council's Inspectors General (IGs) into a single ECIE response. While each IG has a unique perspective on the draft report, this letter incorporates the general comments and feedback from twenty-six of the twenty-eight ECIE IGs regarding the conclusions and matters for consideration presented in GAO's draft report.

The draft report essentially summarizes the responses to an opinion survey, conducted more than a year ago, regarding the potential impact of consolidation and other changes to federal IGs. Survey opinions were obtained from twenty-eight IGs who are appointed by the President and confirmed by the Senate (PAS IGs) and twenty-eight IGs who are appointed by the agency heads in designated federal entities (DFE IGs). The draft report also includes GAO's opinion regarding the issues surveyed.

Overall, the DFE IGs commented that GAO's analysis and resulting conclusions and opinions are not fully supported by the data gathered, are contradictory in places, and are insufficient given the importance of effective oversight of federal agencies' programs and operations. As such, the DFE IGs disagree with GAO that conversion of a few DFE IGs to PAS IGs and, more importantly, consolidation of the majority of DFE IGs with PAS IGs, would serve to further enhance the overall independence, efficiency, and effectiveness of the IG community.

The DFE IGs expressed concern that GAO proposes significant and far-reaching changes to the IG Act and to IG organizations based largely on subjective responses to an opinion survey, without providing credible supporting evidence that indicates changes to the current IG structure are truly warranted. Views of DFE agency management, customers, and stakeholders are missing, as is any supporting analysis of the results of DFE IG operations over the past fifteen years. While a survey instrument can be a useful tool to gauge opinions and flag items for

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further analyses, the DFE IGs commented that the design and validity of the survey instrument used on this review and the overall study construct was inappropriate to support the type of cause and effect relationships and conclusions presented. In addition, DFE IGs expressed concern that GAO did not independently verify the survey results or assess specific reasons for differences between the PAS and DFE IGs on key issues. Instead, GAO appears to give more credence to the responses of PAS IGs than to those of DFE IGs, even though DFE IGs have the most direct experience with the issues that were surveyed. Absent factual or evaluative information regarding the existence and magnitude of problems with the current structure, the DFE IGs question whether conversion or consolidation would bring more cost-effective, value-added IG operations and results.

The majority of the DFE IGs commented that GAO draws conclusions that are inconsistent with the preponderance of the survey responses. For example, GAO's conclusion that, "... the conversion and consolidation of selected DFE IG offices would serve to further enhance the overall independence, efficiency, and effectiveness of the IG community," is not supported by the majority of IG survey responses, regardless of type of IG appointment. As shown in the following tables, the majority of IGs (50 percent or more), when viewed in total, responded that consolidation would weaken or have no impact on IG effectiveness in twenty-two of the twenty-eight (over 75 percent) of GAO's survey elements, particularly those elements in the categories of IG quality of work and IG use of resources. The majority of IGs expressed their opinion that consolidation would strengthen IG effectiveness in only three of the twenty-eight survey elements: independence resulting from conversion to PAS IGs (53 percent), the **appearance** (emphasis added) of IG independence at the DFEs (70 percent), and resources for investigative coverage (50 percent).

The DFE IGs do not believe that the report shows that the IG structure created by the IG Act and 1988 amendments is broken and in need of a "fix" as complex and substantive as consolidation. Almost all of the DFE IGs commented that GAO's proposed consolidation scenarios are overly simplistic given the diverse missions of the agencies involved; the various types of funding, administrative, and personnel authorities and practices; the differences in congressional oversight and appropriations processes; and the separate governance and oversight structures of the regulatory entities, state and/or federal commissions, independent corporations and boards, and unique agencies that comprise the DFE IG agencies. The DFE IGs also emphasized that consolidation sacrifices providing a local preventive presence, oversight, and focus at individual agencies or entities in favor of potentially fragmenting the attention of a larger IG office across a broad and diverse spectrum of programs and operations. Furthermore, the proposed mitigation strategies to overcome the deficiencies created by consolidation would, in the opinion of the DFE IGs that commented, make the resulting IG operations less efficient and economical (maintaining a few staff at separate, multiple locations) and would likely prove to be ineffective over time (DFE staff would lose their detailed knowledge base if they do not perform ongoing work in the DFE).

More specific comments are provided below in alignment with the report's context of independence, quality of work, and use of IG resources. Where applicable, viable alternatives to conversion or consolidation that warrant future consideration are presented. The DFE IGs do agree with GAO that, "Any specific conversions or consolidations of IG offices should be a

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process of continuing dialogue among the PCIE, ECIE, affected agencies, and the Congress.” They also agree with GAO on providing a statutory basis for the IG councils and on not using budget information as the sole criteria for establishing IGs in federal agencies.

**Independence**

In January 2002, subsequent to the survey period for this draft report, GAO issued *Government Auditing Standards, Amendment No. 3, Independence*. Under the revised standard, both PAS and DFE IGs are considered organizationally independent to report externally. This amendment to the standards clarified this issue, which heretofore had a degree of ambiguity given that the DFE IGs were established after GAO’s last update of the independence provision in the standards. The DFE IGs strongly believe that, contrary to GAO’s assertion in the report, the survey results may have been materially affected by this amendment. The revised standards, for the first time, recognize specifically that Presidential appointment with Senate confirmation is but one way of achieving organizational independence and that other organizational structures can provide independence if a detailed list of safeguards are met. These safeguards match the provisions in the IG Act that cover all IGs, thus all can be considered to be organizationally independent.

As shown in table 1 below, 53 percent of the IGs responded that converting DFE IGs to PAS IGs would strengthen independence, and 70 percent IGs responded that consolidating DFE IGs with PAS IGs would strengthen *the appearance* of independence at the DFE IG. These results could be considerably different now that the organizational independence definition has been clarified by the audit standards revision. It should be noted, however, that less than half (47 percent) of those IGs that responded to the survey believed that consolidation would strengthen the IGs actual independence.

**Table 1: ECIE Analysis of IG Responses to GAO’s Survey Regarding Independence**

	IG EFFECTIVENESS CATEGORY	ELEMENTS OF IG EFFECTIVENESS	SURVEY RESPONSES		
			Strengthen No. / Percent	Weaken or No Impact No. / Percent	Not Applicable Or No Basis To Judge No. / Percent
		<b>Conversion</b>			
1.	<b>IG Independence</b>	Independence resulting from conversion	29 / 53 %	23 / 42%	3 / 5%
		<b>Consolidation</b>			
2.		Actual independence	26 / 47%	27 / 49%	2 / 4%
3.		Appearance of independence	39 / <del>70</del> %	17 / 30%	0 / 0%

The DFE IGs commented that strengthening the appearance of DFE IG independence is desirable, but other alternatives should first be considered before moving forward with conversion or consolidation. For example, additional statutory protections could be enacted, where applicable, to require DFE IGs to submit their budget requests as either a separate line



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item in their agencies' budget submissions or to submit their requests directly to OMB and/or the Congress rather than going through the agency review process. Additional controls could also be implemented to further strengthen overall IG independence, regardless of the type of appointment. These additional controls could include providing a statutory provision that removal of an IG is only for cause; clarifying the general supervision clause of the IG Act, particularly with respect to the salary administration of IGs; and establishing term limits for IG positions.

### Quality of Work

In this category, the DFE IGs commented that GAO draws conclusions that are largely contradicted by the survey response data when taken as a whole and reflect a bias toward consolidation. As discussed below, the DFE IG's analysis of the GAO survey data shows that in all but one of the fourteen elements in the IG Quality of Work category, the majority of survey responses indicated that consolidation would weaken or have no impact on IG effectiveness. However, GAO concludes that, "... consolidation could serve to strengthen the IG's ability to issue hard-hitting reports, to issue reports on cross-agency issues, to get attention to their audit recommendations, and to address high risk and priority areas because IGs of consolidated offices could use their broader range of resources in the context of a government-wide perspective rather than in the context of a single relatively small agency."

DFE IGs emphasized that GAO draws these conclusions without providing evidence that DFE IGs have not issued so called hard-hitting reports, have not addressed high-risk areas of their agencies, or have provided recommendations to DFE agencies that are going unheeded. Additionally, in recent years, DFE and PAS IGs have worked together through the President's Council on Integrity and Efficiency (PCIE) and the ECIE to effectively and efficiently address cross-cutting or government-wide challenges in a variety of areas, including information technology, debt collection, compliance and accountability, and financial management. The annual report, *A Progress Report to the President*, issued jointly by the PCIE and ECIE, not only highlights the accomplishments of the individual DFE and PAS IGs, but also focuses attention on cross-cutting initiatives that the IG community has addressed as a whole.

DFE IGs' analysis shows that, in each of the areas cited in GAO's conclusions, the majority of IGs surveyed (50 percent or more) viewed the proposed consolidation as having no impact upon the DFE IGs' quality of work or having a negative impact (see table 2). Furthermore, over 70 percent of IGs responded that consolidation would weaken or have no impact on the working relationship between the IGs and DFE agency heads. Both the PAS and the DFE IGs agreed that day-to-day contact with DFE officials will be diminished; knowledge of agency missions, priorities and issues will be weaker; and most importantly, consolidation would probably result in fewer resources to cover DFE agencies. According to the DFE IGs, legitimate questions could be raised regarding whether priorities at the DFE agencies would be considered "areas of greatest value and risk" to PAS IGs who are often stretching already scarce resources to cover high-dollar programs in cabinet level departments.

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**Table 2: ECIE Analysis of IG Responses to GAO's Survey Regarding IG Quality of Work**

	IG EFFECTIVENESS CATEGORY	ELEMENTS OF IG EFFECTIVENESS	SURVEY RESPONSES		
			Strengthen	Weaken or No Impact	Not Applicable Or No Basis To Judge
			No. / Percent	No. / Percent	No. / Percent
4.	<b>IG Quality of Work</b>	Ability to issue hard-hitting reports	26 / 46%	28 / <del>50%</del>	2 / 4%
5.		Ability to review issues crossing DFEs	22 / 39%	22 / 39%	12 / 21%
6.		Attention to IG recommendations	19 / 34%	29 / <del>52%</del>	8 / 14%
7.		Ability to audit issues of high risk	21 / 38%	29 / <del>52%</del>	6 / 11%
8.		Ability to uniformly measure performance	14 / 25%	29 / <del>52%</del>	13 / 23%
9.		Day-to-day contact with DFE officials	5 / 9%	45 / <del>80%</del>	6 / 11%
10.		Communication - DFE head and the IG	8 / 14%	42 / <del>75%</del>	6 / 11%
11.		Ability of DFE head get attention of the IG	7 / 13%	43 / <del>77%</del>	6 / 11%
12.		Presence of IG as a prevention measure	13 / 23%	37 / <del>66%</del>	6 / 11%
13.		Knowledge of DFE missions	8 / 14%	45 / <del>80%</del>	3 / 5%
14.		Knowledge of DFE priorities and issues	8 / 14%	45 / <del>80%</del>	3 / 5%
15.		Planning for IG oversight	13 / 23%	35 / <del>63%</del>	8 / 14%
16.		Timeliness of reports	6 / 11%	40 / <del>71%</del>	10 / 18%
17.		Oversight coverage of the DFEs	9 / 16%	39 / <del>70%</del>	8 / 14%

DFE IGs commented that, in considering the 1988 IG Act amendments, Congress studied issues such as independence, audit and investigative coverage, and the presence of an IG as a prevention measure, and ultimately decided to create the DFE IGs to address the need for independent and objective audits, investigations, and other reviews at certain designated agencies. Prior to the 1988 amendments, these agencies historically had received limited oversight by the Congress, the media, or the public. Congress recognized the value of an on-site IG as a visible deterrent to potential fraud, waste, and abuse and as an objective evaluator of the economy, efficiency, and effectiveness of programs and operations in these agencies.

**Use of IG Resources**

GAO concluded that consolidation would serve to strengthen the ability of IGs to improve the allocation of human and financial resources within their offices and to attract and retain a multi-disciplinary workforce, even though the survey results and past GAO work reflect a different conclusion. As shown in table 3 below, the majority of IGs responded that consolidation would strengthen the use of IG resources in just one of the eleven elements in this category — resources for investigative coverage. Furthermore, only 13 percent of IGs (both PAS and DFE) replied that consolidation would strengthen resources to cover DFE issues, and only 21 percent replied that the availability of adequate resources would be strengthened. On this latter issue, however, GAO concluded that consolidation would strengthen the availability of adequate resources even though survey responses from thirty-six IGs (fourteen PAS IGs and twenty-two DFE IGs) expressed a different opinion.

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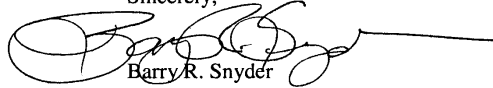
**Table 3: ECIE Analysis of IG Responses to GAO's Survey Regarding IG Resources**

	IG EFFECTIVENESS CATEGORY	ELEMENTS OF IG EFFECTIVENESS	SURVEY RESPONSES		
			Strengthen No. / Percent	Weaken or No Impact No. / Percent	Not Applicable Or No Basis To Judge No. / Percent
18.	IG Resources	Control over spending	18 / 33%	34 / <del>62%</del>	3 / 5%
19.		Control over budget requests	21 / 38%	28 / <del>51%</del>	6 / 11%
20.		Ability to absorb resource reductions	20 / 36%	28 / <del>51%</del>	7 / 13%
21.		Resources for investigative coverage	28 / <del>50%</del>	24 / 43%	4 / 7%
22.		Ability to minimize audit duplication	17 / 30%	35 / <del>63%</del>	4 / 7%
23.		Quality of audit training	13 / 23%	40 / <del>71%</del>	3 / 5%
24.		Ability share methods	22 / 39%	32 / <del>57%</del>	2 / 4%
25.		Ability to share technology specialists	26 / 46%	28 / <del>50%</del>	2 / 4%
26.		Efficient use of human capital skills	22 / 39%	27 / 48%	7 / 13%
27.		Availability of adequate resources	12 / 21%	36 / <del>64%</del>	8 / 14%
28.		Resources to cover DFE issues	7 / 13%	44 / <del>79%</del>	5 / 9%

DFE IGs referred to a 1999 report, *Inspectors General: Information on Operational and Staffing Issues* (GAO/AIMD-99-29), where GAO reported that the IGs' work covers a broad spectrum of agency programs and operations and, in general, the IGs indicated that they have the expertise and resources necessary to assemble the teams of staff needed to perform the major types of work for which they are responsible. The report also indicated that IGs have the capability to obtain contractors or consultants, as needed, to provide supplementary expertise in certain areas. According to the report, the DFE IGs use contractors and/or consultants primarily for financial statement audits and, to a lesser extent, for computer security, other information technology work, and statistical analyses. DFE IGs commented that alternatives to consolidation — such as use of consultants and memoranda of understanding with other IGs that have developed specialized expertise — have been used successfully in the past to augment scarce resources and may offer a way to further strengthen use of resources across all IGs.

Again, the DFE IGs appreciate the opportunity to comment on this draft report. Please contact me at (202) 973-5003 if you have any questions concerning these comments.

Sincerely,



Barry R. Snyder  
Vice Chair  
Executive Council on Integrity and Efficiency

cc: ECIE Members  
Mr. Gaston Gianni, PCIE Vice Chair  
Ms. Karen Shaffer, OMB PCIE/ECIE Liaison

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