

GAO

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INSPECTORS GENERAL

# Limitations of IG Oversight at the Department of State

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Comptroller General of the United States





Highlights of [GAO-08-135T](#), a testimony before the Subcommittee on International Organizations, Human Rights, and Oversight, Committee on Foreign Affairs, House of Representatives

## Why GAO Did This Study

GAO was asked to provide testimony about the effectiveness and reliability of the State Department's Office of Inspector General (State IG). We focused on the independence of the State IG, the use of inspections instead of audits to provide oversight of the department, and the effectiveness of the IG's investigative function. The testimony is based primarily on our March 2007 report, *Inspectors General: Activities of the Department of State Office of Inspector General* ([GAO-07-138](#)).

## What GAO Recommends

GAO's March report recommends that the State IG and the Secretary of State (1) develop a succession planning policy which avoids using management personnel to serve in an acting IG capacity, (2) develop staffing options to ensure State IG inspections are not led by Foreign Service officials, (3) reassess the proper mix of audits and inspections for department oversight, and (4) develop a formal agreement with the department's Bureau of Diplomatic Security (DS) to coordinate investigations.

In comments to our report the State IG disagreed with our recommendations regarding the use of line management personnel as acting IGs, not having inspections lead by Foreign Service officials, and reassessing the mix of audit and inspection coverage. The IG did agree to work with DS to develop a written agreement for investigations. Consequently, we reaffirmed our recommendations.

To view the full product, including the scope and methodology, click on [GAO-08-135T](#). For more information, contact Jeanette Franzel at (202) 512-9470 or [franzelj@gao.gov](mailto:franzelj@gao.gov).

# INSPECTORS GENERAL

## Limitations of IG Oversight at the Department of State

### What GAO Found

The effectiveness of the oversight provided by the State IG is limited by (1) a lack of resources, (2) structural independence issues, (3) gaps in audit coverage, and (4) the lack of assurance that the department obtains independent IG investigations. These limitations serve to reduce the credibility and oversight provided by the State IG.

From fiscal years 2001 through 2006, the State Department's budgets have increased from \$13.7 billion to about \$24 billion, an increase of almost 75 percent (or 55 percent in constant dollars adjusted for inflation) in order to manage an expanding role in the global war on terrorism. During this same period, the State IG's budget increased from \$29 million to \$31 million, which when adjusted for inflation is a decrease of about 6 percent in constant dollars. In addition, of the 318 authorized staff in the State IG's fiscal year 2006 budget, the actual onboard staff averaged 182, or about 57 percent of the authorized level and about 20 percent less than in fiscal year 2001.

We continue to identify concerns regarding the independence of the State IG that are similar to concerns we reported almost three decades ago. Independence is critical to the quality and credibility of all the work of the State IG and is one of the most important elements of the overall effectiveness of the IG function. Our concerns include (1) the appointment of line management officials to head the State IG in an acting capacity for extended periods, and (2) the use of ambassador-level Foreign Service staff to lead inspections of the department's bureaus and posts even though they may have conflicts of interest resulting from their roles in the Foreign Service.

In addition, because the State IG provides oversight coverage of high-risk areas and management challenges primarily through inspections rather than audits, the department has significant gaps in audit oversight. Compared to audits, oversight provided by inspections is fundamentally limited. To illustrate, the Inspector General Act requires the State IG to follow *Government Auditing Standards*, while use of inspection standards are voluntary. In addition, unlike auditing standards, inspection standards do not require an external peer review of quality. The State IG's ratio of inspections to audits in fiscal year 2005 was 2 to 1 while the ratio for the statutory federal IG community was about 1 to 10. We reviewed 10 of the State IG's inspections performed over fiscal years 2004 and 2005 and found that they relied heavily on questionnaires completed by management at each bureau or post being inspected without verification or testing for accuracy.

We also found that investigations of the State Department lack a formal written agreement between the State IG and DS. Such an agreement is critical to help ensure that investigations of internal department operations are performed by the IG and not by bureau investigators who report to department management.

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the activities of the Department of State Office of Inspector General (State IG), which is responsible for providing oversight of the department, the Broadcasting Board of Governors, the foreign affairs community, and more than 260 embassies, consulates, and other posts worldwide. The State IG has a critical responsibility to provide effective and objective oversight to assist both the department and the Congress.

In our March 2007<sup>1</sup> report on the activities of the State IG, we raised a number of concerns about the lack of adequate resources, the independence of the office, the lack of audit oversight in high-risk areas, and the lack of assurance that the department is receiving independent investigations.

My statement today is based primarily on our March report and recent testimonies<sup>2</sup> we have provided on the need for effective inspector general (IG) offices. I will discuss in more detail (1) the importance of auditor and IG independence, (2) independence concerns regarding the State IG that are similar to those we reported almost three decades ago, (3) gaps in State IG audit coverage in some high-risk areas due to the IG's reliance on inspections, and (4) a lack of assurance that investigations within the State Department are independent of management. We performed this work in accordance with generally accepted government auditing standards.

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## Background

The current State IG was created by a 1986 amendment to the Inspector General Act of 1978 (IG Act) to prevent and detect fraud, waste, abuse, and mismanagement in the department's programs and operations; conduct and supervise independent audits and investigations; and recommend policies to promote economy, efficiency, and effectiveness. Unique to the State IG is a requirement to provide inspections of the department's Foreign Service posts, bureaus, and operating units. The

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

<sup>2</sup>GAO, *Inspectors General: Proposals to Strengthen Independence and Accountability*, [GAO-07-1021T](#) (Washington, D.C.: June 20, 2007), and *Inspectors General: Opportunities to Enhance Independence and Accountability*, [GAO-07-1089T](#) (Washington, D.C.: July 11, 2007).

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State Department has had inspection functions in various forms since 1906. The function has changed and evolved over the years in response to numerous statutory changes.

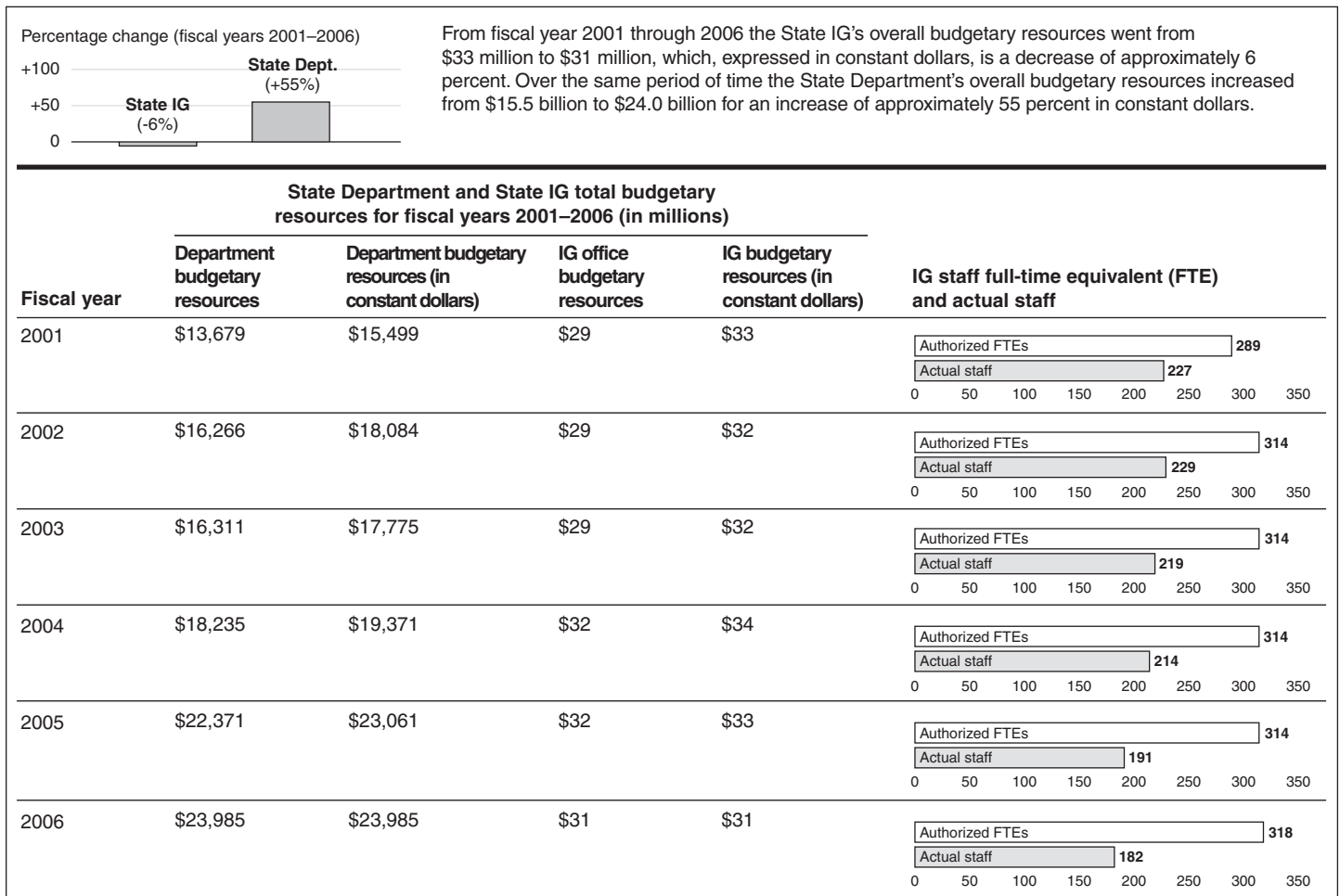
Since the terrorist attacks of September 11, 2001, the State Department has become involved in expanded reconstruction and stabilization roles and manages a global presence that includes mobilizing some 180 countries and territories in the war on terrorism. To manage this expanded role, the State Department's budget has increased over fiscal years 2001 through 2006 from \$13.7 billion to about \$24 billion, an increase of about 75 percent (55 percent in constant dollars adjusted for inflation). At the same time, the State IG's budget has been inadequate and its workforce has declined by approximately 20 percent. For example, from 2001 to 2006, the State IG's budget for oversight has increased from \$29 million to \$31 million, which when considered relative to inflation, is a budget decrease of approximately 6 percent over 6 years in constant dollars. During that same period, the State IG's staffing level has declined from 227 to 182. Of the 318 authorized staff in the State IG's fiscal year 2006 budget, the actual onboard staff averaged 182, or about 57 percent of the authorized level. (See fig. #1.)

In the State Department's *Performance and Accountability Report*<sup>3</sup> for fiscal year 2006, the State IG reported the need for expanded oversight to encompass new department initiatives in transformational diplomacy, global repositioning, and public diplomacy, as well as substantial increases in programs for Iraq and Afghanistan, counternarcotics, counterterrorism, embassy construction, and information technology. In addition, the IG has noted significant growth in the number of programs and grants with mandated IG oversight, congressional and management requests for special reviews and investigations, and opportunities for joint activities with other departments.

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<sup>3</sup>*United States Department of State, Performance and Accountability Report, Fiscal Year 2006.*

**Figure 1: State Department and IG Resources for Fiscal Years 2001 through 2006**



Sources: OMB, State IG.

The 1986 amendment that created the current IG office was a reaction to concerns expressed in prior GAO reports in 1978 and 1982. In those reports, we raised concerns about the independence of the previous IG offices established administratively by the department and through

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statutes prior to 1986.<sup>4</sup> At the same time, our concerns about the State IG's independence were based in part on the IG's use of temporarily assigned Foreign Service officers to staff the IG office for performing inspections.

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## Importance of Auditor and IG Independence

We continue to be concerned about the independence of the State IG, an issue that we first reported on almost three decades ago. Independence is the cornerstone of professional auditing. Without independence, an audit organization cannot conduct independent audits in compliance with generally accepted government auditing standards (*Government Auditing Standards*). Likewise, an IG who lacks independence cannot effectively fulfill the full range of requirements for the office. Lacking this critical attribute, an audit organization's work might be classified as studies, research reports, consulting reports, or reviews, rather than independent audits.

Independence is one of the most important elements of an effective IG function. In fact, much of the IG Act provides specific protections to IG independence that are unprecedented for an audit and investigative function located within the organization being reviewed. These protections are necessary in large part because of the unusual reporting requirements of the IGs, who are both subject to the general supervision and budget processes of the agencies they audit, while at the same time being expected to provide independent reports of their work externally to the Congress.

*Government Auditing Standards*<sup>5</sup> states, "in all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be free from **personal, external, and organizational** impairments to independence, and must avoid the appearance of such impairments to independence. Auditors and audit organizations must maintain independence so that their opinions, findings, conclusions, judgments, and recommendations will be impartial and

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<sup>4</sup>GAO, *State Department's Office of Inspector General, Foreign Service, Needs to Improve Its Internal Evaluation Process*, ID-78-19 (Washington, D.C.: Dec. 6, 1978), and *State Department's Office of Inspector General Should Be More Independent and Effective*, [GAO/AFMD-83-56](#) (Washington, D.C.: June 2, 1982).

<sup>5</sup>GAO, *Government Auditing Standards, January 2007 Revision*, [GAO-07-162G](#), Secs. 3.02 and 3.03 (Washington, D.C.: January 2007).

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viewed as impartial by objective third parties with knowledge of the relevant information.” [Emphasis added.]

- **Personal independence** applies to individual auditors at all levels of the audit organization, including the head of the organization. Personal independence refers to the auditor’s ability to remain objective and maintain an independent attitude in all matters relating to the audit, as well as the auditor’s ability to be recognized by others as independent. The auditor needs an independent and objective state of mind that does not allow personal bias or the undue influence of others to override the auditor’s professional judgments. This attitude is also referred to as intellectual honesty. The auditor must also be free from direct financial or managerial involvement with the audited entity or other potential conflicts of interest that might create the perception that the auditor is not independent.
- **External independence** refers to both the auditor’s and the audit organization’s freedom to make independent and objective judgments free from external influences or pressures. Examples of impairments to external independence include restrictions on access to records, government officials, or other individuals needed to conduct the audit; external interference over the assignment, appointment, compensation, or promotion of audit personnel; restrictions on funds or other resources provided to the audit organization that adversely affect the audit organization’s ability to carry out its responsibilities; or external authority to overrule or to inappropriately influence the auditors’ judgment as to appropriate reporting content.
- **Organizational independence** refers to the audit organization’s placement in relation to the activities being audited. Professional auditing standards have different criteria for organizational independence for external and internal audit organizations. The IGs, in their statutory role of providing oversight of their agencies’ operations, represent a unique hybrid of external and internal reporting responsibilities.

The IG Act requires IGs to perform audits in compliance with *Government Auditing Standards*. In addition, much of the act provides specific protections to IG independence for all the work of the IGs. Protections to IG independence include the requirement that IGs report only to their agency heads and not to lower-level management,<sup>6</sup> and a prohibition on

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<sup>6</sup>The head of the agency may delegate supervision of the IG only to the officer next in rank below the agency head.

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the ability of the agency head to prevent or prohibit the IG from initiating, carrying out, or completing any audit or investigation. This prohibition is meant to protect the IG office from external forces that could compromise an IG's independence. The IG's personal independence and the need to appear independent to knowledgeable third parties is also critical when the IG makes decisions related to the nature and scope of audit and investigative work performed by the IG office. The IG must determine how to utilize the IG Act's protection of independence in conducting and pursuing the audit and investigative work. The IG's personal independence is necessary to make the proper decisions in such cases.

The IG Act also provides the IG with protections to external independence by providing access to all agency documents and records, prompt access to the agency head, the ability to select and appoint IG staff, the authority to obtain services of experts, and the authority to enter into contracts. The IG may choose whether to exercise the act's specific authority to obtain access to information that is denied by agency officials. Again, each IG must make decisions regarding the use of the IG Act's provisions for access to information, and the IG's personal independence becomes key in making these decisions.

The IGs' external reporting requirements in the IG Act include reporting the results of their work in semiannual reports to the Congress. Under the IG Act, the IGs are to report their findings without alteration by their respective agencies, and these reports are to be made available to the general public. The IG Act also directs the IGs to keep their agency heads and the Congress fully and currently informed, which they do through these semiannual reports and otherwise, of any problems, deficiencies, abuses, fraud, or other serious problems relating to the administration of programs and operations of their agencies. Also, the IGs are required to report particularly serious or flagrant problems, abuses, or deficiencies immediately to their agency heads, who are required to transmit the IG's report to the Congress within 7 calendar days.

With the growing complexity of the federal government, the severity of the problems it faces, and the fiscal constraints under which it operates, it is important that an independent, objective, and reliable IG structure be in place at federal agencies to ensure adequate audit and investigative coverage of federal programs and operations. The IG Act provides each IG with the ability to exercise judgment in the use of protections to independence specified in the act. While the IG Act provides for IG independence, the ultimate success or failure of an IG office is largely determined by the individual IG placed in that office and that person's



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ability to maintain personal, external, and organizational independence both in fact and appearance while reporting the results of the office's work to both the agency head and to the Congress. An IG who lacks independence cannot effectively fulfill the full range of requirements for the office.

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## Continuing Concerns regarding the State IG's Independence

Two continuing areas of concern that we have with the independence of the office of the State IG involve (1) the appointment of management officials to head the State IG in an acting capacity for extended periods of time and (2) the use of Foreign Service staff to lead State IG inspections. These concerns are similar to those independence issues we reported in our 1978 and 1982 reports.

In 1978, GAO reviewed the operations of the office of the IG of Foreign Service and questioned the independence of Foreign Service officers who were temporarily detailed from program offices to the IG's office. In 1982, we reviewed the operations of the IG and again expressed our concerns about the independence of inspection staff reassigned to and from management offices within the department. In these reports we stated that the desire of State IG staff to receive favorable assignments after their State IG tours could influence their objectivity. Reacting to concerns similar to those in our 1982 report, the Congress established an IG for the Department of State through amendments to the IG Act in both 1985 and 1986. The 1986 amendment requires the State IG continue to perform inspections of the department's bureaus and posts, but also prohibits a career member of the Foreign Service from being appointed as the State IG.

After almost three decades, we continue to have similar concerns regarding the independence of the State IG's operations. In our March 2007 report we stated that during a period of approximately 27 months—from January 24, 2003, until May 2, 2005—four management officials from the State Department were acting in an IG capacity. All four of these officials served in the Foreign Service in prior line management positions, including political appointments as U.S. ambassadors to foreign countries. In addition, three of these officials returned to significant management positions within the State Department after heading the IG office. Therefore, over more than a 2-year period, oversight of the State Department was being provided by the department's own management officials. The 1986 amendment to the IG Act that created the current IG office prohibits a career Foreign Service official from becoming an IG of the State Department due to concerns about personal impairments to

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independence that could result. That same concern exists when Foreign Service officials head the State IG in an acting capacity, resulting in limitations to the independence and effectiveness of the office.

The second continuing concern discussed in our March 2007 report regarding State IG independence deals with the use of Foreign Service officers to lead inspections of the department's bureaus and posts. This practice creates the mistaken impression that because these inspections are products of an IG office, they are performed with the appropriate IG independence. However, State IG policy is for inspections to be led by Foreign Service officers at the ambassador level who are expected to help formulate, implement, and defend government policy. The resulting conflict of interest for career Foreign Service staff and others at the ambassador level who lead inspections that may criticize the department's policies provides an appearance of impaired independence to the State IG's inspection results.

To address these concerns about the independence of the State IG Office, we recommended in our March 2007 report that the IG work with the Secretary of State to develop a succession planning policy that would prohibit career Foreign Service officers and other department managers from heading the State IG office in an acting capacity and to develop options to ensure that State IG inspections are not led by career Foreign Service officials or other staff who rotate to assignments within State Department management.

In formal comments to a draft of our March 2007 report, the State IG agreed with our concerns about having career Foreign Service officers serving in an acting IG capacity and acknowledged that the temporary nature of such arrangements can have a debilitating effect on the office particularly over a lengthy period of time. However, the State IG disagreed with our recommendation that personnel with State Department management careers also not be considered for acting IG positions due to the need to obtain prompt and capable personnel to fill these positions. Also, the State IG agreed that use of Foreign Service personnel at the ambassador level to lead inspections does create an appearance of impaired independence; however, the IG plans to continue this practice in order to utilize the diplomatic expertise of these Foreign Service officers, which the IG believes is necessary for inspections.

We disagree with the State IG's comments. Independence is a critical element for IG effectiveness and success and is at the heart of auditing standards and the IG Act. The State IG's reluctance to take steps that

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would preclude career management officials from leading the office in an acting IG capacity and to stop the practice of having Foreign Service officers at the ambassador level lead inspections weakens the credibility of the entire office. For example, appointing career department managers as acting State IGs could have the practical effect of subjecting the State IG to supervision by management officials other than the Secretary or Deputy Secretary. As noted above, the IG Act limits supervision of the IG to the head of the department or the principal deputy rather than lower-level managers as an important protection to the IG's independence.

In addition, the State IG's decision to accept impairments to the appearance of independence for all inspections performed at the department limits the usefulness of these results for both the department and the Congress in taking appropriate actions. We agree that Foreign Service expertise could be a part of the inspection team, but we disagree with placing independence second to experience and expertise. The State IG can achieve both objectives with the proper staffing and structuring of its inspections. To illustrate, our position remains that the State IG's inspection teams should not be led by career Foreign Service officers and ambassadors, but could include experienced ambassadors and staff at the ambassador level as team members, consultants, or advisors to help mitigate concerns about the appearance of independence caused by the State IG's current practice.

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## State IG's Reliance on Inspections Results in Gaps in Audit Oversight for High Risk Areas

In addition to the specific requirements for independent audits and investigations, the State IG has a unique statutory requirement to inspect each post at least every 5 years. However, since 1996, the Congress, through the department's appropriations acts, annually waives the 5-year requirement. Nevertheless, the State IG completed inspections at 223 of the department's 260 bureaus and posts over the 5-year period of fiscal years 2001 through 2005. Consequently, the State IG relies on inspections rather than audits to provide the primary oversight of the State Department. As a comparison, in fiscal year 2005, the statutory IGs<sup>7</sup> issued a total of 443 inspection reports compared to 4,354 audit reports, a ratio of inspections to audits of about 1 to 10. During the same year, the State IG issued 99 inspection reports and 44 audit reports during fiscal year 2005, or a ratio of inspections to audits of over 2 to 1.

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<sup>7</sup>There are currently 64 statutory IG offices in the federal government created by the IG Act, as amended, and other legislation.

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A troubling outcome of the State IG's heavy emphasis on inspections is the resulting gaps in audit coverage for high-risk areas we have identified and the management challenges reported annually by the State IG in the department's performance and accountability reports. In our reports of the government's high-risk areas issued in January 2003<sup>8</sup> and January 2005,<sup>9</sup> we identified seven such areas at the State Department, which were also included in management challenges identified by the State IG.<sup>10</sup> These critical areas are (1) the physical security and protection of people and facilities, (2) information security, (3) financial management, (4) human resources, (5) counterterrorism and border security, (6) public diplomacy, and (7) postconflict stabilization and reconstruction.

To illustrate the State IG's reliance on inspections for oversight of these areas during fiscal years 2004 and 2005 combined, the State IG covered human resource issues with 1 audit and 103 inspections, counterterrorism and border security with 2 audits and 190 inspections, public diplomacy with 2 audits and 103 inspections, and information security with 1 audit and 13 inspections. (See table 1.) The high-risk areas of physical security and protection of people and facilities had limited audit coverage that addressed specific contracts and procurements, whereas financial management was covered by the State IG's financial audits. Postconflict stabilization and reconstruction was covered by both audits and inspections.

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<sup>8</sup>GAO, *High-Risk Series: An Update*, [GAO-03-119](#) (Washington, D.C.: January 2003).

<sup>9</sup>GAO, *High-Risk Series: An Update*, [GAO-05-207](#) (Washington, D.C.: January 2005).

<sup>10</sup>The Reports Consolidation Act of 2000, Pub. L. No. 106-531, 114 Stat. 2537, 2538 (Nov. 22, 2000), requires executive agencies, including the State Department, to include their IGs' lists of significant management challenges in their annual performance and accountability reports to the President, the Office of Management and Budget, and the Congress.

**Table 1: State IG Audit and Inspection Coverage of High-Risk Areas and Management Challenges for Fiscal Years 2004 through 2005**

| GAO high-risk areas <sup>a</sup>  | Management challenges identified by the State IG <sup>b</sup> | Fiscal year 2004 State IG reports <sup>c</sup> |                | Fiscal year 2005 State IG reports <sup>d</sup> |                |
|---|---|--|----------------|--|----------------|
|   |   | Audits   | Inspections    | Audits   | Inspections    |
| Physical security and management of U.S. facilities overseas  | Protection of people and facilities                           | 27   | 98             | 21   | 92             |
| Enhance information technology and security, strengthen financial management, improve performance planning <sup>e</sup> | Information security  | 1  | 6              | 0  | 7              |
|   | Financial management  | 10   | 0 <sup>f</sup> | 16   | 0 <sup>f</sup> |
| Continue to rightsize embassy staffing levels   | Human resources   | 1  | 50             | 0  | 53             |
| Better manage human capital strategies  |   |  |                |  |                |
| Strengthen the visa process through issuance of policies and procedures as an antiterrorism tool                        | Counterterrorism and border security                          | 0  | 98             | 2  | 92             |
| Improve the management of public diplomacy programs   | Public diplomacy  | 1  | 50             | 1  | 53             |
| Manage the large-scale reconstruction and nation-building programs  | Postconflict stabilization and reconstruction                 | 4  | 0              | 4  | 6              |
| <b>Total high-risk areas and management challenges addressed by audit and inspection reports</b>                        |   | <b>44</b>                                      | <b>302</b>     | <b>44</b>                                      | <b>303</b>     |
| <b>Total audit and inspection reports issued</b>  |   | <b>44</b>                                      | <b>104</b>     | <b>44</b>                                      | <b>99</b>      |

Source: GAO.

<sup>a</sup>GAO-05-207 and GAO-03-119.

<sup>b</sup>Department of State, *Fiscal Year 2005 Performance and Accountability Report*.

<sup>c</sup>State IG semiannual reports to the Congress for the periods ending March 31 and September 30, 2004.

<sup>d</sup>State IG semiannual reports to the Congress for the periods ending March 31 and September 30, 2005.

<sup>e</sup>Strategic and performance planning were removed in recognition of the State Department's considerable progress in addressing that challenge.

<sup>f</sup>Post inspections include a selected financial management component.

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Because of State IG's heavy reliance on inspections, it is important to note that there are fundamental differences between inspections and audits. Audits performed under *Government Auditing Standards*<sup>11</sup> are subject to more in-depth requirements in the areas of sufficient, appropriate, relevant, and complete evidence and documentation supporting the findings than are inspections performed under the *Quality Standards for Inspections*.<sup>12</sup> Also, auditing standards require independent external quality reviews of audits, or peer reviews, on a 3-year cycle, while inspection standards do not call for any such external quality reviews.

We reviewed the documentation for 10 State IG inspections to gain an understanding of the extent of documented evidence to support each report's findings and recommendations.<sup>13</sup> We found that the inspectors relied heavily on questionnaires completed by management at each bureau or post that was inspected, official department documents, correspondence and electronic mail, internal department memorandums, interviews, and the inspection review summaries. We did not find any examples of additional testing of evidence or sampling of agency responses to questionnaires and interviews to test for the accuracy, relevance, validity, and reliability of the information as would be required by auditing standards. In other words, for the inspections we reviewed, the State IG's results relied on the responses of department management through questionnaires, interviews, and agency documents without further verification.

We also found that for 43 of the 183 recommendations contained in the 10 inspections we reviewed, the inspection files did not contain documented support of any kind beyond the written summaries of the findings and

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<sup>11</sup>IGs are required by the IG Act to follow *Government Auditing Standards* when performing audits. 5 U.S.C. App. § 4(b)(1)(A).

<sup>12</sup>Use of inspection standards by the IGs is not mandated by statute. Rather, IGs are encouraged by the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) to follow the councils' jointly created standards, *Quality Standards for Inspections*, when conducting inspections. PCIE is composed principally of the presidentially appointed and Senate-confirmed IGs, and ECIE is composed principally of IGs appointed by the heads of designated federal entities defined by the IG Act. Both were established by Executive Order to coordinate and enhance the work of the IGs.

<sup>13</sup>The 10 inspections were taken from a total of 112 inspections completed over fiscal years 2004 and 2005 that were not classified for national security purposes, and did not include inspections of the Board of Broadcasting Governors.

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recommendations contained in the final inspection reports. While the State IG's inspection policies require that supporting documentation be attached to the written summaries, the summaries indicated that there was no additional supporting documentation. Due to the significance of the high-risk areas covered largely by inspections, the limited nature of inspections, and the appearance of impaired independence, the State IG would benefit by reassessing the mix of audit and inspection coverage for those areas.

In our March 2007 report, we recommended that in order to provide the appropriate breadth and depth of oversight coverage at the department, especially in high-risk areas and management challenges, the State IG reassess the proper mix of audit and inspection coverage. This assessment should include an analysis of an appropriate level of resources needed to address the increasing growth of the department's risks and responsibilities.

In formal comments on our report, the State IG disagreed with our recommendation to reassess the mix of audit and inspection coverage while agreeing that inspections are much more subjective than audits and have a different level of requirements for evidence. The State IG explained that the use of inspections is due to the congressional mandate for IG inspections, which has been waived annually late in the IG's planning cycle, and the limited resources to hire more auditors. Therefore, things that could be done in an audit have to be done through inspections.

We remain concerned that the State IG's current mix of audits and inspections does not provide adequate independent oversight. In addition, the State IG's use of inspections can create an "expectation gap" that inspections will have the same credibility and independence as the IG's audits. By ultimately placing the results of inspections in the IG's semiannual reports without clarifying that they are a substitute for audit coverage and are fundamentally limited in their results, the IG may be creating a misleading image of oversight coverage of the department and its high-risk areas.

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## Department Lacks Assurance of Obtaining Independent IG Investigations

The IG Act, as amended, established the State IG to conduct and supervise independent investigations, in addition to audits, in order to prevent and detect fraud, waste, abuse, and mismanagement in the State Department.<sup>14</sup> In addition, the department's Bureau of Diplomatic Security (DS), as part of its worldwide responsibilities for law enforcement and security operations, also performs investigations that include passport and visa fraud both externally and within the department.

While both the State IG and DS pursue allegations of passport and visa fraud by State Department employees, DS reports organizationally to the State Department Undersecretary for Management and is performing investigations as a function of management. Therefore, DS investigations of department employees, especially when management officials are the subjects of allegations, can result in management investigating itself. In contrast, the State IG is required by the IG Act to be independent of the offices and functions it investigates. However, State IG officials stated that they were aware of DS investigations in these areas that were not coordinated with the State IG.

Our March 2007 report noted that DS and the State IG had no functional written agreement or other formal mechanism in place to coordinate their investigative activities. Without a formal agreement to outline the responsibilities of both DS and the State IG regarding these investigations, there is inadequate assurance that this work will be coordinated to avoid duplication or that independent investigations of department personnel will be performed. Moreover, we also reported that in fiscal year 2005, DS entailed a global force of approximately 32,000 special agents, security specialists, and other professionals who make up the security and law enforcement arm of the State Department. In contrast, the State IG, which also has global responsibilities for independent investigations of the State Department, had a total of 21 positions in its investigative office with 10 investigators onboard at the time of our review.

In other federal agencies where significant law enforcement functions like those of DS exist alongside their IGs, the division of investigative functions between the agency and the IG is established through written agreement. Our March report provides examples of formal written agreements between (1) the U.S. Postal Service IG and the Chief Postal Inspector who heads the U.S. Postal Inspection Service and (2) the Treasury Inspector

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<sup>14</sup>5 U.S.C. App. § 2.



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General for Tax Administration and the Internal Revenue Service's Criminal Investigation. These signed memorandums can serve as models for a formal agreement between DS and the State IG for delineating jurisdiction in investigative matters to help ensure that the independence requirements of the IG Act are implemented.

In order to provide for independent investigations of State Department management and to prevent duplicative investigations, we recommended in our March 2007 report that the State IG work with DS and the Secretary of State to develop a formal, written agreement that delineates the areas of responsibility for State Department investigations. In comments on our report, the State IG agreed with this recommendation.

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## Concluding Observations

The mission of the State IG is critical to providing independent and objective oversight of the State Department and identifying any mismanagement of scarce taxpayer dollars. However, the effectiveness of the IG's oversight is limited by the lack of resources, the lack of an appearance of independence, gaps in audit coverage of high-risk areas, and the lack of assurance that investigations of internal department operations are performed by independent IG investigators. We made recommendations to address each of these areas in our related report ([GAO-07-138](#)). Overall, our recommendations are intended to assist in strengthening the IG office and the independence and effectiveness of oversight of the State Department.

We remain concerned about the weaknesses identified especially in light of the State IG's response to our March 2007 report. The State IG's comments to our report defend the status quo, and indicate an inadequate concern and regard for the independence necessary to provide effective and credible oversight of the department. Consequently, we reiterated the importance of our recommendations because of our continuing concerns about the adequacy of independent oversight provided by the State IG.

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Mr. Chairman, this concludes my prepared statement. I would be happy to respond to any questions you or other members of the subcommittee might have at this time.

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## Contacts and Acknowledgments

If you have any additional questions on matters discussed in this testimony, please contact Jeanette Franzel at (202) 512-9471 or by e-mail at [franzelj@gao.gov](mailto:franzelj@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this testimony. Other key contributors to this testimony include Jackson Hufnagle (Assistant Director) and Clarence Whitt.

# Appendix I: A Comparison of Agency and IG Fiscal Year 2006 Budgetary Resources

Dollars in millions

| No. | Federal departments and agencies                               | IG total budgetary resources | Agency total budgetary resources | IG budgetary resources as a percentage of agency budgetary resources |
|-----|--|------------------------------|----------------------------------|--|
| 1   | Nuclear Regulatory Commission                                  | \$10                         | \$811                            | 1.23   |
| 2   | Corporation for National and Community Service                 | 8                            | 1,267                            | 0.63   |
| 3   | Small Business Administration                                  | 21                           | 3,950                            | 0.53   |
| 4   | Environmental Protection Agency                                | 54                           | 13,383                           | 0.40   |
| 5   | Agency for International Development                           | 47                           | 12,984 <sup>a</sup>              | 0.36   |
| 6   | Department of Justice  | 83                           | 33,031                           | 0.25   |
| 7   | Department of Commerce   | 22                           | 10,764                           | 0.20   |
| 8   | Treasury Inspector General for Tax Administration <sup>b</sup> | 134                          | 66,964                           | 0.20   |
| 9   | General Services Administration                                | 48                           | 25,356                           | 0.19   |
| 10  | Tennessee Valley Authority (TVA)                               | 15 <sup>c</sup>              | 9,265                            | 0.16   |
| 11  | National Aeronautics and Space Administration                  | 32                           | 19,881                           | 0.16   |
| 12  | Department of the Interior                                     | 42                           | 27,604                           | 0.15   |
| 13  | Department of State  | 31                           | 23,985 <sup>d</sup>              | 0.13   |
| 14  | Department of Energy   | 42                           | 34,392                           | 0.12   |
| 15  | Department of Housing and Urban Development                    | 114                          | 98,189                           | 0.12   |
| 16  | Department of Homeland Security                                | 120                          | 104,577                          | 0.11   |
| 17  | Department of Labor  | 71                           | 75,744                           | 0.09   |
| 18  | Department of Veterans Affairs                                 | 75                           | 88,018                           | 0.09   |
| 19  | Railroad Retirement Board                                      | 7                            | 11,305                           | 0.06   |
| 20  | Department of Agriculture                                      | 88                           | 143,228                          | 0.06   |
| 21  | Department of Transportation                                   | 69                           | 116,769                          | 0.06   |
| 22  | Department of Health and Human Services                        | 512 <sup>e</sup>             | 947,318                          | 0.05   |
| 23  | Department of Education  | 49                           | 108,823                          | 0.05   |
| 24  | Federal Deposit Insurance Corporation                          | 23                           | 51,848                           | 0.04   |
| 25  | Department of Defense – Military                               | 214                          | 756,136                          | 0.03   |
| 26  | Social Security Administration                                 | 92                           | 630,549                          | 0.01   |
| 27  | Office of Personnel Management                                 | 18                           | 173,168                          | 0.01   |
| 28  | Department of the Treasury                                     | 19                           | 389,581 <sup>f</sup>             | 0.005  |
| 29  | Central Intelligence Agency                                    | na <sup>g</sup>              | na <sup>g</sup>                  | na <sup>g</sup>  |

Source: GAO analysis of OMB data

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Note: The agencies presented are those with IGs established by the IG Act and appointed by the President.

<sup>a</sup>Total budgetary resources appearing in the Agency for International Development's FY 2006 Performance and Accountability Report.

<sup>b</sup>The Treasury Inspector General for Tax Administration is the IG for the Internal Revenue Service (IRS).

<sup>c</sup>Amount for TVA IG is from PCIE.

<sup>d</sup>State Department budget does not include amounts for the Broadcasting Board of Governors.

<sup>e</sup>Includes budget authority to combat Medicare and Medicaid fraud.

<sup>f</sup>Department of the Treasury's budgetary resources exclude IRS.

<sup>g</sup>Information is not available.

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