

March 2007

INSPECTORS  
GENERAL

Activities of the  
Department of State  
Office of Inspector  
General





Highlights of [GAO-07-138](#), a report to the Chairman and Ranking Member, Committee on Foreign Affairs, and the Honorable F. James Sensenbrenner, Jr., House of Representatives.

## Why GAO Did This Study

GAO was asked to review the Department of State Office of Inspector General (State IG) including its (1) organization, budget levels, and accomplishments; (2) audit and inspection coverage of the department; (3) role of inspections in the oversight of the department; (4) quality assurance process including assurance of independence; and (5) coordination of State IG investigations with the State Department's Bureau of Diplomatic Security. GAO obtained information from State IG reports, interviews, and documentation for a sample of inspections.

## What GAO Recommends

GAO is making five recommendations for the State IG to (1) reassess the proper mix of audits and inspections to ensure appropriate oversight, (2) include reviews of information technology inspections in its internal quality review process, (3) develop a succession planning policy that specifies appropriate personnel to serve in an acting IG capacity, (4) provide staffing alternatives for identifying those who lead inspections, and (5) develop a formal agreement to coordinate internal department investigations with the Bureau of Diplomatic Security.

In comments on a draft of the report, the State IG agreed with two recommendations, partially agreed with one, and disagreed with two.

[www.gao.gov/cgi-bin/getrpt?GAO-07-138](http://www.gao.gov/cgi-bin/getrpt?GAO-07-138).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Jeanette Franzel, (202) 512-9471, [franzelj@gao.gov](mailto:franzelj@gao.gov).

# INSPECTORS GENERAL

## Activities of the Department of State Office of Inspector General

### What GAO Found

The State IG provides oversight of the State Department, the Broadcasting Board of Governors, and the foreign affairs community, including the approximately 260 bureaus and posts around the world, through financial and performance audits, inspections, and investigations. Over fiscal years 2001 through 2005, in terms of constant dollars, the State IG's budget has increased by 1 percent while the State Department's overall budget has increased by 50 percent. This represents a relative decrease when comparing State IG with other agencies' ratios of IG budget to total agency budget.

The State IG provides oversight coverage of the areas designated as high-risk by GAO and management challenges identified by the IG, with a heavy emphasis on inspections. The State IG covers the high-risk areas of human resources, counterterrorism, public diplomacy, and information security, almost exclusively through inspections. In fiscal year 2005, the State IG's ratio of inspections to audits was over two to one, while the federal statutory IGs had a combined ratio of one inspection to every ten audits.

There are fundamental differences between inspections and audits. By design, audits performed under *Government Auditing Standards* are subject to more in-depth requirements for the levels of evidence and the documentation supporting the findings than are inspections performed under inspection standards. Due to the significance of the high-risk areas covered largely by inspections, the State IG would benefit by reassessing the mix of audit and inspection coverage of those areas.

The State IG's audit and investigative functions both had recent peer reviews of quality assurance that resulted in "clean opinions." There is no requirement for a peer review of inspections; however, during our audit the State IG began an internal quality review process for inspections but did not include reviews of information technology inspections.

Independence is critical to the quality and credibility of all the work of the State IG. Two areas of continuing concern that we have with the independence of the State IG involve (1) the temporary appointment of State Department management personnel to head the State IG office in an acting IG capacity and who subsequently return to management positions, and (2) the rotation of Foreign Service staff to lead IG inspections, including many who, along with other IG staff, move to positions in department management offices. Such staffing arrangements represent potential impairments to independence and the appearance of independence under professional standards applicable to the IGs.

Both the State IG and the State Department's Bureau of Diplomatic Security pursue allegations of fraud by department employees. There is no functional written agreement in place to help ensure the independence of internal departmental investigations and preclude the duplication of efforts.

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# Contents

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<b>Letter</b>		1
	Results in Brief	2
	Scope and Methodology	7
	Background	8
	State IG Organization, Budgets, and Reported Accomplishments	12
	State IG Audit and Inspection Coverage of High-Risk Areas and Management Challenges	16
	Fundamental Differences between Audits and Inspections	19
	State IG Quality Assurance Process, Including Assurance over Independence	20
	IG Coordination with State Department Investigations	25
	Conclusions	27
	Recommendations for Executive Action	28
	Agency Comments and Our Response	29
<b>Appendix I</b>	<b>A Comparison of Fiscal Year 2001 Budgetary Resources for Selected Inspectors General and Agencies</b>	32
<b>Appendix II</b>	<b>A Comparison of Fiscal Year 2005 Budgetary Resources for Selected Inspectors General and Agencies</b>	34
<b>Appendix III</b>	<b>Comments from the Inspector General, Department of State</b>	36
<b>Appendix IV</b>	<b>GAO Contact and Staff Acknowledgments</b>	43
<b>Tables</b>		
	Table 1: State IG Audit and Inspection Coverage of High-Risk Areas and Management Challenges for Fiscal Years 2004 through 2005	18

---

Table 2: State Department Positions Held by Management Officials before and after Serving in an Acting State IG Capacity from January 24, 2003, through May 2, 2005	24
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**Figures**

Figure 1: State IG Organization	13
Figure 2: Selected State Department and State IG Resources for Fiscal Years 2001 through 2005	14
Figure 3: Distribution of State IG Onboard Staff, September 30, 2005	15

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**Abbreviations**

DS	Bureau of Diplomatic Security
ECIE	Executive Council on Integrity and Efficiency
FISMA	Federal Information Security Management Act of 2002
FTE	Full-time-equivalent
IG	Inspector General
IG Act	Inspector General Act of 1978, as amended
IRS CI	Internal Revenue Service Criminal Investigation
IT	information technology
OMB	Office of Management and Budget
PCIE	President's Council on Integrity and Efficiency
State IG	Department of State Office of Inspector General
TIGTA	Treasury Inspector General for Tax Administration
TVA	Tennessee Valley Authority

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United States Government Accountability Office  
Washington, DC 20548

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March 23, 2007

The Honorable Tom Lantos  
Chairman  
The Honorable Ileana Ros-Lehtinen  
Ranking Member  
Committee on Foreign Affairs  
House of Representatives

The Honorable F. James Sensenbrenner, Jr.  
House of Representatives

This report responds to your request that we review the operations and activities of the Department of State Office of Inspector General (State IG), including the audit, inspection, and investigative functions of the office. The State IG was established by section 413 of the Omnibus Diplomatic Security and Antiterrorism Act of 1986,<sup>1</sup> which amended the Inspector General Act of 1978 (IG Act),<sup>2</sup> to include an independent office within the Department of State with a mission to prevent and detect waste, fraud, abuse and mismanagement, and to improve the efficiency, effectiveness, economy, integrity, and accountability of the department. The IG Act created independent and objective Offices of Inspectors General to conduct and supervise audits and investigations.

The State IG provides oversight of the Department of State, the Broadcasting Board of Governors, and the foreign affairs community through audits, inspections, and investigations. The State IG performs financial and performance audits that cover a wide range of the department's operations, financial management, contracts and grants, property management, and procurement. The State IG also performs inspections of the department's approximately 260 bureaus and posts around the world to evaluate whether policy goals and objectives are being achieved, U.S. interests are effectively represented, posts are operating in accordance with U.S. foreign policy, and security vulnerabilities are identified that could compromise national security and threaten the safety and well-being of U.S. personnel and facilities

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<sup>1</sup>Pub. L. No. 99-399, Title IV, § 413, 100 Stat. 853, 867-68 (Aug. 27, 1986).

<sup>2</sup>Pub. L. No. 95-452, 92 Stat. 1101 (Oct. 12, 1978), *codified as amended at* 5 U.S.C. App.

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domestically and abroad. Also, specific allegations or other information indicating possible violations of law or regulation are investigated by IG investigators, supported by experts from other IG offices.

To review the activities of the State IG, our specific objectives were to provide information regarding (1) organization, budget levels, and reported accomplishments; (2) audit and inspection coverage of the department; (3) the role of inspections in the State IG's oversight of the department; (4) the quality assurance process used by the State IG, including assurance over independence; and (5) the coordination of the State IG's investigative activity with the department's Bureau of Diplomatic Security. We obtained information about the State IG's budget and staffing levels by analyzing budget data reported by the Office of Management and Budget (OMB), and information regarding reported accomplishments in the State IG's semiannual reports to the Congress. We conducted interviews with State IG officials and reviewed internal documents to obtain an understanding of the State IG's allocation of resources and its quality assurance processes. We also reviewed the State IG's documentation for a sample of inspection reports.

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## Results in Brief

Over fiscal years 2001 through 2005, the State IG's budget has increased from \$29 million to \$32 million, which, when adjusted for inflation, represents an increase of approximately 1 percent in constant dollars. During the same period, the overall State Department budget has increased from \$13.7 billion to \$22.4 billion, an increase of approximately 50 percent in constant dollars adjusted for inflation. When compared with other federal IG budgets, State IG's relative ranking has declined in terms of its ratio of budgetary resources as a percentage of agency budget resources between fiscal years 2001 and 2005. During these same years, the State IG's authorized full-time equivalent (FTE) staffing level went from 289 to 314, with staff on board at 191 at the end of fiscal year 2005. In distributing its resources, the State IG's greatest use of staff during fiscal year 2005 was in performing inspections, which involved 38 percent of total staff, with audits representing 28 percent of staff, and investigations representing 9 percent. The remaining 25 percent of staff provided administrative, personnel and legal support, and other specialized services. The State IG's reported accomplishments over fiscal years 2001 through 2005 include the issuance of 461 inspection reports and 210 audit reports, and the closing of 252 investigative cases. The State IG also reported \$75 million in financial accomplishments and \$58.6 million in judicial recoveries and court-ordered fines and restitutions during that same period.

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The State IG provides oversight coverage of the areas designated as high-risk by GAO and of the significant management challenges identified by the IG through a combination of audits and inspections, with a heavy emphasis on inspections and to a lesser extent on audits. To illustrate, the State IG relies almost exclusively on inspections to provide coverage for the following four areas identified both as high-risk areas and as management challenges: human resources, counterterrorism, public diplomacy, and information security. In the high-risk areas and management challenges of physical security the State IG provides coverage mostly through inspections, but includes audits that address specific contracts and procurements for the purchase of equipment and services. The high-risk areas and management challenges of financial management are covered by the State IG's financial audits and by a related component in each post inspection. As a comparison with other IG offices, in fiscal year 2005, the State IG's ratio of inspections to audits was over two to one, while the statutory IGs across the federal government had a combined ratio of one inspection to every ten audits. Due to the significance of the high-risk areas covered largely by inspections, the State IG would benefit by reassessing the mix of audit and inspection coverage of those areas.

There are fundamental differences between inspections and audits. For example, inspections and audits are typically conducted under separate standards with different basic requirements. IGs are required by the IG Act to follow *Government Auditing Standards* when performing audits.<sup>3</sup> In contrast, there are no statutorily mandated standards for inspections, although IGs are encouraged by the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE)<sup>4</sup> to follow the councils' jointly created standards, *Quality Standards for Inspections*, when conducting inspections. By design, audits performed under *Government Auditing Standards* are subject to more in-depth requirements for levels of evidence and documentation supporting the findings than are inspections performed under the *Quality Standards for Inspections*. Also, auditing standards require external quality reviews of

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<sup>3</sup>5 U.S.C. App. § 4(b)(1).

<sup>4</sup>The PCIE is composed principally of the presidentially appointed and Senate-confirmed IGs, and the 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.

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audits, or peer reviews, on a 3-year cycle, while inspection standards do not call for any such external reviews.

The State IG has distinct quality assurance processes that cover, in varying degrees, its three major lines of work: audits, inspections, and investigations. The State IG has received “clean” opinions on its audit practice from the two external peer reviews it has received since 2001. The State IG has also implemented regular internal reviews of its audit process. For investigations, the State IG obtained the results of its first external quality review in November 2005. The results included a conclusion that the State IG’s investigative function was in full compliance with PCIE *Quality Standards for Investigations* and the *Attorney General Guidelines For Offices Of Inspector General With Statutory Law Enforcement Authority*. The external review also suggested improvements, which are being addressed by the IG. An external quality review, or peer review, of the State IG’s inspections is not required under the inspection standards. However, during our audit, the State IG established an internal program to review the quality of the inspection practice to determine whether that work was done in accordance with the PCIE and ECIE inspection standards. The internal review did not include information technology (IT) inspections, and a report of the internal review results was not yet available at the time we completed our work.

Independence is an overarching element critical to the quality and credibility of all the work of the State IG and is at the heart of *Government Auditing Standards* and the IG Act. In addition, the *Quality Standards for Federal Offices of Inspector General* issued by the PCIE and ECIE to provide an overall quality framework for all the activities of the IG offices states that independence is a critical element of an IG’s obligation to be objective and free of conflicts of interest whether factual or perceived. Likewise, inspection standards also require that the inspection organization and each individual inspector be free both in fact and appearance from impairments to independence. The above standards recognize that personal impairments to independence can result from having responsibility for managing an entity or decision making that could affect operations of the entity or program being reviewed.

Two continuing areas of concern that we have with the independence of the State IG involve (1) the temporary appointment of State Department management personnel to head the State IG office in an acting IG capacity and who subsequently return to management positions, and (2) the rotation of Foreign Service staff to lead IG inspections, including many who, along with other IG staff, move to positions in department



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management offices. For example, Foreign Service officials with the rank of ambassador or at the ambassador level typically lead the inspections work in accordance with the State IG's policy. Such staffing arrangements represent potential impairments to independence and to the appearance of independence under all applicable professional standards. We raised concerns about these independence issues in reports as far back as 1978<sup>5</sup> and 1982.<sup>6</sup>

The IG Act established an independent and objective Office of Inspector General to conduct and supervise audits and investigations to prevent and detect fraud, waste, abuse, and mismanagement in the State Department.<sup>7</sup> In addition to the State IG, the Bureau of Diplomatic Security (DS) of the State Department's Office of Management performs investigations for the department as part of its worldwide law enforcement functions and security mission. However, there is no functional agreement between DS and the State IG for coordinating their investigative activities. Both the State IG and DS investigators have responsibility for pursuing cases of passport and visa fraud that may involve State Department employees. Other agencies with investigative functions apart from their IGs, such as at the U.S. Postal Service and the Internal Revenue Service, have formal arrangements between the agency and the IG generally making the IG responsible for internal investigations of agency employees to help ensure not only the independence of the investigations, but also to prevent duplicative reviews. The State IG does not have such an agreement with DS regarding its internal investigations of department employees. Such an agreement could help to provide independent investigations of fraud with regard to State Department personnel, promote an efficient use of limited resources, and prevent duplication of efforts.

Due to the risk and significance of the areas of the State Department's operations that are largely being covered by inspections, and in light of the increasing level of funding provided to the department, we recommend in this report that the State IG reassess the proper mix of audit and inspection coverage with input from key stakeholders in the department and the Congress. In addition, to provide for a more complete quality

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<sup>5</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).

<sup>6</sup>GAO, *State Department's Office of Inspector General Should Be More Independent and Effective*, AFMD-83-56 (Washington, D.C.: June 2, 1982).

<sup>7</sup>5 U.S.C. App. § 2.

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review, we recommend that the State IG include inspections performed by the State IG's Office of Information Technology (IT) in its quality review process. Also, to address our concerns regarding independence, we recommend that the State IG work with the Secretary of State to develop a succession planning policy that would prohibit career Foreign Service officers or other department management staff from heading the State IG office in an acting IG capacity, and would remove reliance on career Foreign Service staff, and others who routinely rotate to management offices, to lead inspections. We also recommend that the State IG work with DS, the State Department Office of Management, and the Secretary of State to develop a formal written agreement to help ensure the independence and coordination of internal department investigations.

In comments on a draft of this report the State IG agreed to include all IG inspections, including inspections performed by IT, in its quality review process and to work with DS and others to develop a written agreement delineating the areas of responsibility for department investigations. The State IG disagreed with our recommendation to reassess the mix of audit and inspection coverage and stated that little can be accomplished by reassessment if there are not more auditors and more resources to perform audits. In addition, the State IG does not disagree with our concerns about Foreign Service officers temporarily heading the IG office in an acting capacity, but believes that our recommendation goes too far by limiting the pool of eligible candidates to personnel without State Department management careers. Also, the State IG believes that ambassadors who serve as team leaders for inspections raise a concern about the appearance of independence but that this concern is significantly outweighed by the overriding need for people with the experience and expertise of ambassadors to lead inspections.

We continue to recommend that the State IG reassess the mix of audits and inspections as a way for the IG to define the appropriate level of oversight, reallocate current resources as appropriate, and justify any additional resources that may be necessary. In addition, we continue to recommend that the State IG better safeguard the independence requirements of his office through succession planning that excludes career department management officials from consideration for acting State IG positions. We also continue to recommend that the State IG inspections not be led by career Foreign Service officials, ambassadors, or other staff who could impair the independence of the inspection team or create the appearance of impaired independence. As team members rather than team leaders, such staff could provide the benefits of their experience and expertise without jeopardizing the inspection team's independence.

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## Scope and Methodology

We obtained the budget authority and the staffing levels at the State IG office and the budget authority of the State Department for fiscal years 2001 through 2005 by analyzing OMB budget data for those years. Additional information on staff levels and resource distribution were obtained from the State IG to identify trends over this period. We identified audit, inspection, and investigative accomplishments reported by the State IG in semiannual reports to the Congress for fiscal years 2001 through 2005. We did not audit or otherwise verify the dollar amounts of the financial accomplishments reported by the State IG.

To review the IG's audit and inspection oversight coverage of the State Department, we compared the contents of the audits and inspections completed by the State IG in fiscal years 2004 and 2005 with the high-risk areas designated by GAO and with the management and performance challenges identified by the State IG. To review the investigative coverage, we used the investigative accomplishments reported by the State IG to show the level of investigative activity.

To obtain information about the quality control process used by the State IG, we obtained an understanding of the internal quality review process used by the IG. We also obtained reports of the most recent external quality peer reviews of the State IG's audit and investigative activities performed by other IG offices. Due to the lack of a peer review requirement for inspections, we compared the State IG's inspections with relevant standards related to independence, quality control, and evidence from the PCIE and ECIE *Quality Standards for Inspections*, 2005 revision, as well as the State IG's implementing policies and procedures for these standards. We also compared relevant inspection standards with *Government Auditing Standards*, and compared additional activities of the State IG related to independence with PCIE and ECIE *Quality Standards for Offices of Inspector General*, revised in October 2003. Specifically, we gained an understanding of the types of documentation and evidence supporting inspection recommendations through a judgmental sample of 10 inspection reports selected from a total of 112 inspection reports issued over fiscal years 2004 through 2005 that were not classified for national security purposes, and that did not include inspections of the Board of Broadcasting Governors. We did not test the reasonableness of the inspection recommendations or otherwise re-perform the inspections. Our sample covered different months, various team leaders, and different State Department locations.

Due to the concerns of the State IG about the confidentiality of information sources used to complete the IG's inspections, we agreed to

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limit the types of documentation subject to our review. Officials for the IG stated that the documents not provided for our review were memorandums with information from confidential sources. We base our conclusions on the documents and information that we reviewed related to our sample of inspection reports. In those examples where inspection report recommendations lacked documented support, we verified that this was not due to any such limitation to our review.

To review the coordination of the State IG with DS, we obtained the annual reports issued by DS and additional information on cases of visa fraud that were investigated during fiscal years 2004 through 2005 from DS reports and a prior GAO report.<sup>8</sup> We also compared the coordination of investigations at the State Department with the practices of other IG offices at the U.S. Postal Service and the Internal Revenue Service.

We obtained comments on a draft of this report from the State IG which are reprinted in their entirety in appendix III. A summary of the State IG's written comments and our response are presented on page 29. We performed our audit from November 2005 through October 2006, in accordance with U.S. generally accepted government auditing standards.

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## Background

The inspection function within the State Department originated in 1906, when the Congress statutorily created a consular inspection corps of five officers to inspect the activities of the U.S. consulates at least once every 2 years.<sup>9</sup> In 1924, the Congress established the Foreign Service to replace the Diplomatic and Consular Service, and required the officers of the newly created Foreign Service to inspect diplomatic and consular branches, as provided under the 1906 Act.<sup>10</sup> The provisions of the 1906 and 1924 acts were repealed by the Foreign Service Act of 1946,<sup>11</sup> which required the Secretary of State to assign Foreign Service officers to inspect the diplomatic and consular establishments of the United States at least once every 2 years. In 1957, the State Department established an Inspector General of Foreign Service, which carried out the inspections of

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<sup>8</sup>GAO, *Border Security: More Emphasis on State's Consular Safeguards Could Mitigate Visa Malfeasance Risks*, [GAO-06-115](#) (Washington, D.C.: Oct. 6, 2005).

<sup>9</sup>Pub. L. No. 83, ch. 1366, § 4, 34 Stat. 99, 100 (Apr. 5, 1906).

<sup>10</sup>Pub. L. No. 135, ch. 182, § 10, 43 Stat. 140, 142 (May 24, 1924).

<sup>11</sup>Pub. L. No. 724, ch. 957, § 681, 60 Stat. 999, 1018 (Aug. 13, 1946).

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diplomatic and consular offices for the State Department. In 1961, the Congress created a statutory Inspector General in the State Department with duties separate from that of the Inspector General of Foreign Service, which had been established by the State Department. The new inspector general had the statutory responsibility to conduct reviews, inspections, and audits of State Department economic and military assistance programs and the activities of the Peace Corps.<sup>12</sup> Effective July 1, 1978, the statutory IG office created in 1961 was abolished by law and all of the duties of that office were statutorily transferred to the Inspector General of Foreign Service.<sup>13</sup> The newly designated Inspector General of Foreign Service was tasked with carrying out the foreign assistance program review function and the inspections of diplomatic and consular offices that had previously been conducted by the two separate offices.

In 1978, GAO reviewed the operations of the Inspector General of Foreign Service and determined that the IG's inspection reports lacked substance because of the legal requirement for biennial inspections and the exceedingly broad scope and thin coverage of each inspection.<sup>14</sup> GAO recommended that the Congress substitute the requirement for an inspection of each diplomatic and consular post at least every 2 years with a more flexible review schedule. GAO also questioned the independence of Foreign Service officers who were temporarily detailed to the IG's office and recommended the elimination of this requirement provided by the Foreign Service Act of 1946.

In 1980, the Congress again established a statutory IG, this time to act as a centralized unit within the State Department to include the functions of the previous IG of Foreign Service and to perform all audits, inspections, and investigations. Section 209 of the Foreign Service Act of 1980 established the Inspector General of the Department of State and Foreign Service and outlined the authority and functions of that position in specific terms.<sup>15</sup> Section 209 patterned the State Department IG office after similar

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<sup>12</sup>Pub. L. No. 87-195, § 624, 75 Stat. 424, 447 (Sept. 4, 1961).

<sup>13</sup>Pub. L. No. 95-88, § 124, 91 Stat. 533, 541-42 (Aug. 3, 1977). Section 124 authorized the President to assign to the Inspector General of Foreign Service all of the duties and responsibilities of the Inspector General of Foreign Assistance, which he did by Executive Order 12066, June 29, 1978.

<sup>14</sup>ID-78-19.

<sup>15</sup>Pub. L. No. 96-465, Title I, ch. 2, § 209, 94 Stat. 2071, 2080 (Oct. 17, 1980).

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offices in other agencies under the IG Act, but added functions from the Foreign Service Act of 1946 specific to the State Department. With regard to inspections, the Congress directed the IG to “periodically (at least every 5 years) inspect and audit the administration of activities and operations of each Foreign Service post and each bureau and other operating units of the Department of State.”

In 1982, we reviewed the operations of the Inspector General for the Department of State and Foreign Service.<sup>16</sup> In that report, we compared the differences between the Foreign Service Act and the IG Act and noted that the 5-year inspection cycle required by the Foreign Service Act led to problems with the IG’s effectiveness by limiting the ability to do other work. In addition, our report expressed our persistent concerns about independence. These concerns were due, in part, to the IG’s continued use of temporarily assigned Foreign Service officers and other persons from operational units within the department to staff the IG office. Our report also noted that the IG had not established a quality review system to help ensure that the work of the office complied with professional standards, and that the IG used staff from the State Department’s Office of Security, a unit of management, to conduct investigations of fraud, waste, and abuse. We recommended that the Secretary of State work with the IG to establish a permanent IG staff and discontinue its reliance on temporary staff who rotate back to assignments in the Foreign Service or management positions. We also recommended that the Secretary and the IG establish an investigative capability within the IG office to enable it to conduct its own investigations, and to transfer qualified investigators from the Office of Security to the IG for this work.

Reacting to concerns similar to those expressed in our 1982 report, the Congress established an IG for the Department of State through amendments to the IG Act in both 1985<sup>17</sup> and 1986.<sup>18</sup> These amendments designated the State Department as an agency requiring an IG under the IG Act and abolished the previous Office of Inspector General of State and Foreign Service, which was created under section 209 of the Foreign Service Act of 1980. The 1986 Act authorized the State IG to perform all duties and responsibilities, and to exercise the authorities, stated in

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<sup>16</sup> AFMD-83-56.

<sup>17</sup> Pub. L. No. 99-93, § 150, 99 Stat. 405, 427 (Aug. 16, 1985).

<sup>18</sup> Pub. L. No. 99-399, Title IV, § 413.

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section 209 of the Foreign Service Act and in the IG Act. The 1986 Act also prohibited a career member of the Foreign Service from being appointed as the State IG.

Since 1996, the Congress, through Department of State appropriations acts, annually waives the language in section 209(a) of the Foreign Service Act that calls for every post to be inspected every 5 years. The State IG continues to inspect the department's approximately 260 posts and bureaus, and international broadcasting installations throughout the world by applying a risk-based approach. To illustrate, the State IG completed inspections at 223 bureaus and posts over the 5-year period of fiscal years 2001 through 2005. These inspections encompass a wide range of objectives, which include reviewing whether department policy goals are being achieved and whether the interests of the United States are being represented and advanced effectively. In addition, the State IG performs specialized security inspections and audits in support of the department's mission to provide effective protection to its personnel, facilities, and sensitive intelligence information. Therefore, while there is no requirement as a result of the annual waiver that inspections be performed, the State IG continues to conduct inspections as part of its plan for oversight of the department, using a risk-based approach to identify locations for inspections rather than the 5-year requirement.

Inspections are defined by the PCIE and ECIE<sup>19</sup> as a process that evaluates, reviews, studies, and analyzes the programs and activities of an agency for the purposes of providing information to managers for decision making; making recommendations for improvements to programs, policies, or procedures; and identifying where administrative action may be necessary. Inspections may be used to provide factual and analytical information; monitor compliance; measure performance; assess the efficiency and effectiveness of programs and operations; share best practices; and inquire into allegations of fraud, waste, abuse, and mismanagement.

The IG Act requires the IGs to recommend policies, and to conduct, supervise, or coordinate other activities, in addition to audits and investigations, carried out by the department for the purpose of promoting economy and efficiency, and preventing fraud and abuse in its programs

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<sup>19</sup>The PCIE and ECIE make no distinction between inspections and evaluations and include both in their definition.

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and operations.<sup>20</sup> These requirements of the IG Act are broad enough to cover inspections, which are widely used by the IG community. According to the IG community, inspections provide the benefits of a flexible mechanism for optimizing resources, expanding agency coverage, and using alternative review methods and techniques. In fiscal year 2005, across the federal government, the statutory IGs issued a total of 443 inspection reports compared to a total of 4,354 audit reports, a ratio of inspections to audits of about 1 to 10. As a comparison, 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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## State IG Organization, Budgets, and Reported Accomplishments

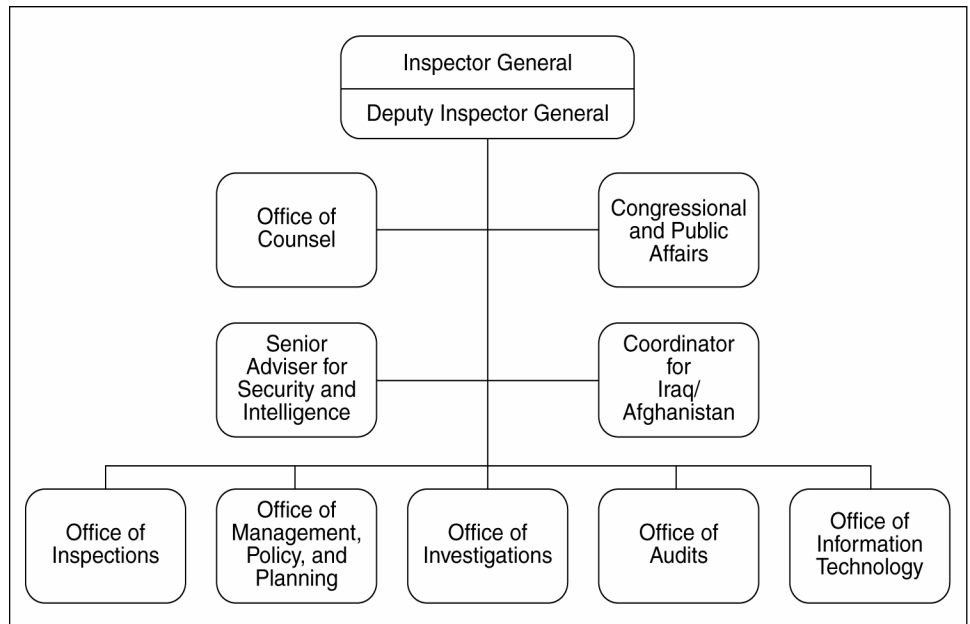
The State IG currently provides oversight of the Department of State, the Broadcasting Board of Governors, and the foreign affairs community through audits, inspections, and investigations. This work is led by the State Department Inspector General, Deputy Inspector General, Assistant Inspectors General for Audits; Inspections; Management, Policy, and Planning; and Investigations, and a Director for Information Technology. In addition, the State IG has four advisory and support offices, which are the Office of Counsel, Congressional and Public Affairs, Senior Advisor for Security and Intelligence, and Coordinator for Iraq and Afghanistan. (See fig. 1.)

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<sup>20</sup>5 U.S.C. App. § 4(a)(3).



**Figure 1: State IG Organization**



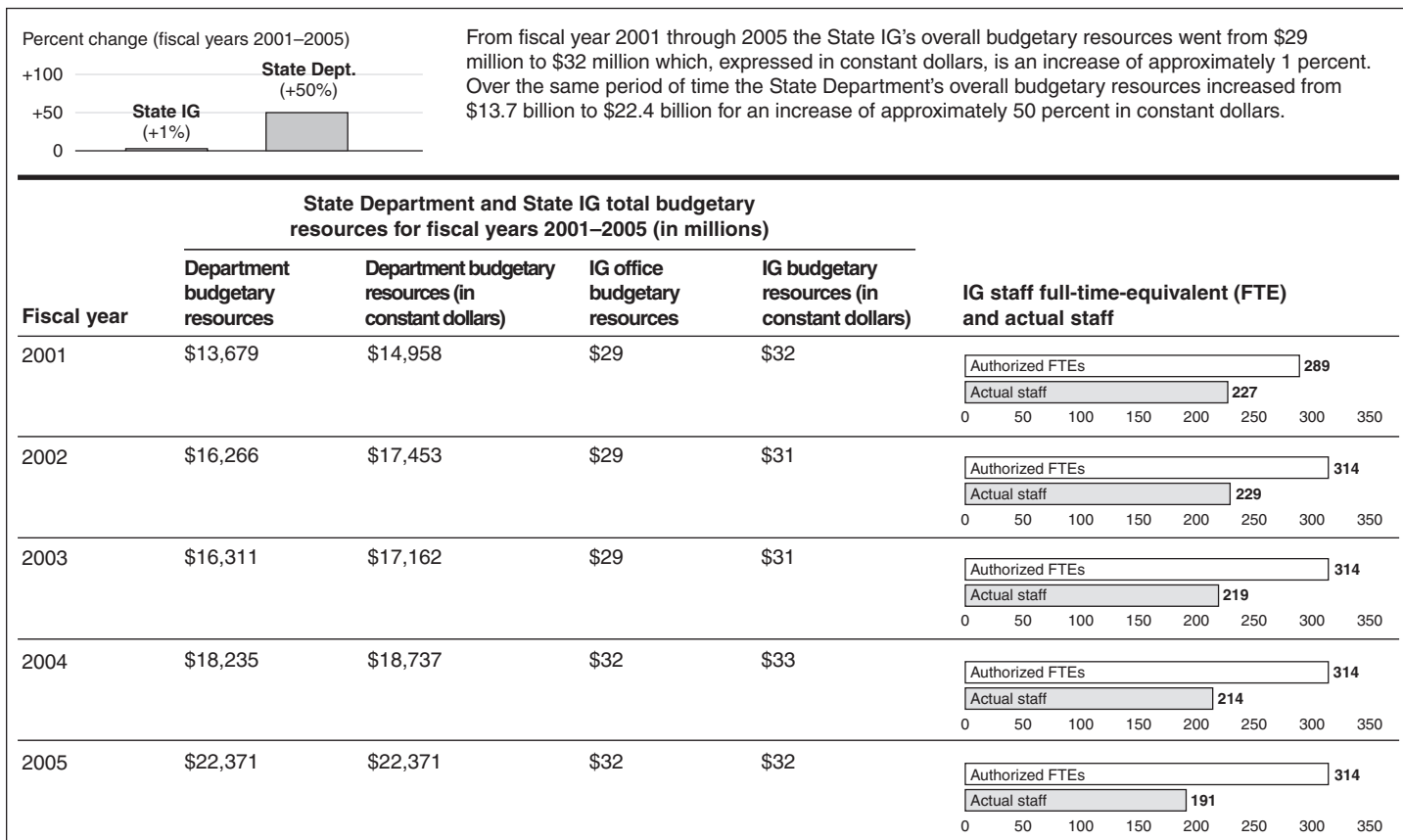
Source: State IG.

From fiscal year 2001 through 2005, the State IG’s overall budget authority went from \$29 million to \$32 million, which, when expressed in constant dollars,<sup>21</sup> is an increase of approximately 1 percent. (See fig. 2.) Over the same period of time, the State Department’s overall budget authority increased from \$13.7 billion in fiscal year 2001 to \$22.4 billion in fiscal year 2005, an increase of approximately 50 percent in constant dollars. When compared with other federal IG budgets, the State IG’s ranking in terms of percentage of total agency budgetary resources decreased from eighth (0.21 percent of total agency budgetary resources) to twelfth (0.14 percent of total agency budgetary resources) between fiscal years 2001 and 2005. (See apps. I and II.) The department’s budgetary increases reflect, in part, initiatives in transformational diplomacy, particularly in Iraq and Afghanistan, and substantial increases in programs for counter narcotics, counterterrorism, embassy construction and security, and IT. During the same time period, the State IG’s authorized FTE staff increased from 289 in fiscal year 2001 to 314 in fiscal year 2005; however, during 2005, the IG

<sup>21</sup>We adjusted for inflation using the OMB Gross Domestic Product (GDP) inflator.

limited the actual onboard staffing to 191 of the 314 authorized FTEs due to budgetary constraints. This represents a 16 percent reduction of onboard staff when compared to the fiscal year onboard staffing level of 227 in fiscal year 2001. The State IG has reported that its limited resources are further strained by the significant growth in the number of department programs and grants with mandated IG oversight and requests for joint activities with other departments, agencies, and IG offices.

**Figure 2: Selected State Department and State IG Resources for Fiscal Years 2001 through 2005**

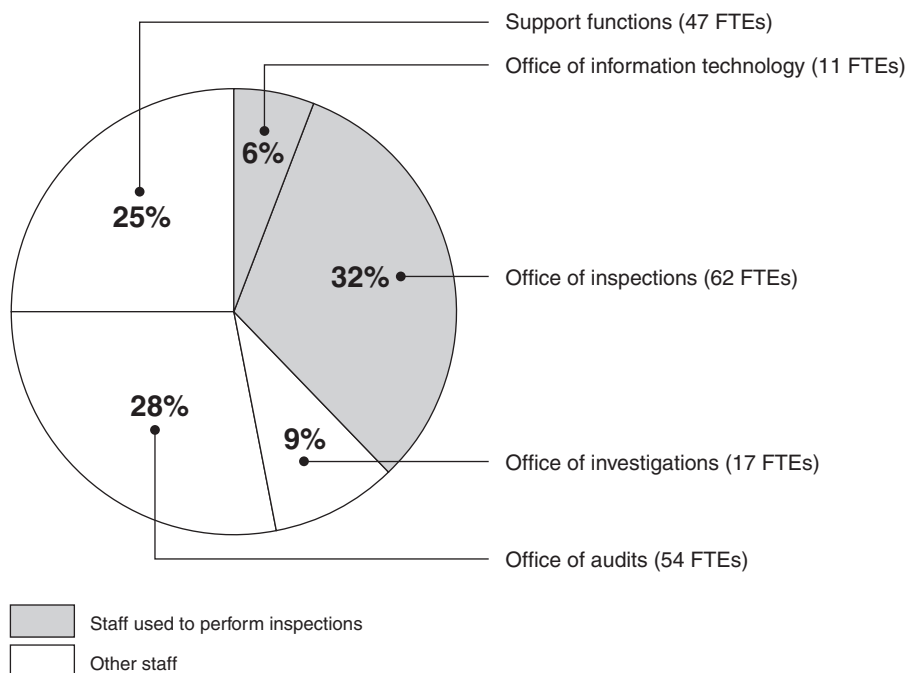


Source: OMB, State IG.

For fiscal year 2005, the State IG Office distributed its 191 onboard staff as follows: 38 percent of the staff performing inspections in the Office of Inspections and in the Office of Information Technology, 28 percent in the Office of Audits, 9 percent in the Office of Investigations, and the remaining 25 percent in support positions to address administrative,

personnel, legal and other specialized issues. (See fig. 3.) This distribution shows the significant emphasis that the State IG places on inspections in relation to either audits or investigations.

**Figure 3: Distribution of State IG Onboard Staff, September 30, 2005**



Source: State IG.

Statutory IGs, including the State IG, are required by the IG Act to summarize the activities and accomplishments of their offices and include this information in semiannual reports provided for the Congress.<sup>22</sup> The information includes the number of audit reports issued and the dollar amount of questioned costs, unsupported costs, and funds to be put to better use. As defined by the IG Act, questioned costs include alleged violations of laws, regulations, contracts, grants, or agreements; costs not supported by adequate documentation; or the expenditure of funds for an intended purpose that was unnecessary or unreasonable. In addition, unsupported costs are defined as costs that do not have adequate documentation, and funds to be put to better use are defined as

<sup>22</sup>5 U.S.C. App. § 5.

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inefficiencies in the use of agency funds identified by the IG. As an illustration of funds to be put to better use, the State IG identified weaknesses in the department's purchase card program that resulted in untimely purchase card payments that precluded the department from earning rebates from the purchase card provider.<sup>23</sup>

During fiscal years 2001 through 2005 the State IG reported that it issued a total of 210 audit reports with total financial accomplishments of approximately \$75 million. This included \$37.1 million in questioned costs of which \$17.9 million were unsupported costs, and \$38 million in funds to be put to better use. The investigative activity reported over the same 5-year period included 252 cases closed and financial accomplishments of \$29.4 million in judicial recoveries, \$17.6 million in court-ordered fines, and \$11.5 million in court-ordered restitutions. In addition, the State IG reported that its investigations resulted in 92 prosecutorial referrals, 53 indictments, 52 convictions, and 42 criminal sentences.

Over the same 5-year period the State IG reported that it had issued 461 inspection reports. The State IG's semiannual reports include summarized results of its inspection activity even though this information is not specifically required by the IG Act. The results vary from identification of weaknesses in operations to recommendations for proper implementation of State Department policies. There were no significant monetary results reported from the State IG's inspections.

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## State IG Audit and Inspection Coverage of High-Risk Areas and Management Challenges

The State IG provides oversight coverage of the department primarily through a combination of audits and inspections, with, as shown earlier, a heavier emphasis on inspections. Although the Congress annually waives the requirement to conduct inspections under section 209(a) of the Foreign Service Act, State IG officials told us that State Department management encourages the IG inspections and have found the results very significant and useful. Therefore, the IG continues to plan for inspections on a cyclical basis using a risk-based approach. As a result, over the 5-year period of fiscal years 2001 through 2005, the IG completed inspections at 223 of the 260 department bureaus and posts.

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<sup>23</sup>State IG, *Review of the Department of State's Overseas Purchase Card Program*, AUD/PPA-05-01 (Washington, D.C.: December 2004).

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We also analyzed the State IG's coverage of the areas designated as high risk by GAO and the significant management challenges identified by the State IG. Since 1990, we have periodically reported on government operations, including those of the State Department that we have designated as high risk because of their greater vulnerabilities to fraud, waste, abuse, and mismanagement. In addition, the IGs began the identification of management challenges in 1997 at the request of congressional members who asked the IGs to identify the most serious management problems in their respective agencies. This began a yearly process that continues as a result of the Reports Consolidation Act of 2000.<sup>24</sup> The act 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, OMB, and the Congress.

In our most recent reports of government high-risk areas issued in January 2003<sup>25</sup> and January 2005,<sup>26</sup> we identified seven such areas at the State Department. These high-risk areas were also included in management challenges identified by the State IG. (See table 1.) Each year the State IG's Office of Inspections includes the management challenges identified by the IG as areas of emphasis in inspections of the department's bureaus or missions. Some areas of emphasis may be applicable only to embassies and other missions, while other areas of emphasis may be applicable only to domestic entities such as bureaus, offices, and other units.

In our review of the issues addressed by the State IG's audit and inspection reports for fiscal years 2004 and 2005, we determined that the State IG had provided oversight of all identified high-risk areas and management challenges largely through inspections. The State IG inspectors use a questionnaire during each inspection to compile the information regarding the areas of emphasis including management challenges identified by the IG. Each questionnaire can cover numerous areas of emphasis, including several management challenges. Therefore, while the State IG issued a total of 203 inspection reports over fiscal years 2004 through 2005, these inspections addressed 605 management challenges in the various posts, bureaus, and offices reviewed. In addition,

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<sup>24</sup>Pub. L. No. 106-531, 114 Stat. 2537 (Nov. 22, 2000).

<sup>25</sup>GAO, *High-Risk Series: An Update*, [GAO-03-119](#) (Washington, D.C.: January 2003).

<sup>26</sup>GAO, *High-Risk Series: An Update*, [GAO-05-207](#) (Washington, D.C.: January 2005).

the State IG relies almost exclusively on the results of inspections, as compared to audits, to cover the four high-risk areas and management challenges related to human resources, counterterrorism, public diplomacy and information security. (See table 1.)

**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 right-size 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>
Total audit and inspection reports issued		44	104	44	99

Source: GAO.

<sup>a</sup>GAO, High-Risk Series: An Update, [GAO-05-207](#) (Washington, D.C.: January 2005) and GAO, High-Risk Series: An Update, [GAO-03-119](#) (Washington, D.C.: January 2003).

<sup>b</sup>Department of State, FY 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.

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<sup>1</sup>Post inspections include a selected financial management component.

To illustrate, for 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.) In contrast, over the same 2-year period, the State IG issued 88 audit reports and each addressed a single management challenge. For example, in the high-risk areas and management challenges of physical security, the State IG provides coverage mostly through inspections but includes audits that address specific contracts and procurements for the purchase of equipment and services. Also, while the State IG's inspections obtain financial information at the department's bureaus and posts, the high-risk areas and management challenges of financial management are covered almost exclusively by the State IG's financial audits. Due to the significance of the high-risk areas covered largely by inspections, the State IG would benefit by reassessing the mix of audit and inspection coverage for those areas.

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## Fundamental Differences between Audits and Inspections

There are fundamental differences between inspections and audits. The PCIE and ECIE developed *Quality Standards for Inspections* in 1993, and revised them in 2005, to provide a framework for performing inspections. There are similarities between these inspection standards and the *Government Auditing Standards* required by the IG Act for audits; but there are fundamental differences as well. Both standards require that (1) staff be independent, (2) evidence for reported results be documented, and (3) the elements of a finding—criteria, condition, cause, and effect—be included with the reported results. A fundamental difference between audits and inspections is the level of detail and requirements in the areas of sufficient, appropriate evidence to support findings and conclusions, and the levels of documentation of evidence needed to support findings, conclusions, and recommendations. Audits performed under *Government Auditing Standards*, by design, are subject to more depth in the requirements for levels of evidence and documentation supporting the findings than inspections performed under the inspection standards. In addition, while auditing standards require external quality reviews of auditing practices, or peer reviews, on a 3-year cycle by reviewers independent of the State IG's office, neither the inspection standards nor the State IG's policies and procedures require such external reviews of inspections.

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We reviewed the documentation for 10 inspections to gain an understanding of the extent of documented evidence in the inspectors' working papers to support each report's recommendations. 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 for which we had access. The reports for the 10 inspections included a total of 183 recommendations. We found that the inspectors relied heavily on questionnaires completed by the staff at each bureau or post that was inspected, official State Department documents, correspondence and electronic mail, internal department memos including those from the Secretary, interview memorandums, and the inspectors' review summaries. We did not find additional testing of evidence or sampling of agency responses to test for the relevance, validity, and reliability of the evidence as would be required under auditing standards.

We also found that for 43 of the 183 recommendations contained in the 10 inspections we reviewed, the related inspection files did not contain documented support beyond written summaries of the findings and recommendations. While the State IG's inspection policies for implementing the PCIE and ECIE inspection standards require that supporting documentation be attached to the written summaries, the summaries indicated that there was no additional supporting documentation.

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## State IG Quality Assurance Process, Including Assurance over Independence

The State IG has quality assurance processes that cover its three main lines of work: (1) audits, (2) investigations, and (3) inspections. Independence is a key element that should permeate all of the IG's major lines of work. For audits, *Government Auditing Standards* requires an appropriate internal quality control system and an external peer review of audit quality every 3 years. These standards specify that quality control systems should include procedures for monitoring, on an ongoing basis, whether the policies and procedures related to the standards are suitably designed and are being effectively applied. For investigations, the Homeland Security Act of 2002<sup>27</sup> amended the IG Act to require that each IG office with investigative or law enforcement authority under the act have its investigative function reviewed periodically by another IG office and that the results be communicated in writing to the IG and to the Attorney General. For inspections, PCIE and ECIE inspection standards

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<sup>27</sup>Pub. L. No. 107-296, § 812, 116 Stat. 2135, 2223 (Nov. 25, 2002).



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provide guidance for quality control and include a requirement for ongoing internal quality inspection, but they do not contain a requirement for an external quality review, or peer review.

Following is a summary of recent quality reviews of the State IG's audit, inspection, and investigative work:

**Audits.** Peer reviews provide an independent opinion on the quality control system related to audits. The State IG has obtained two external peer reviews of its audit practice from other IG offices since the beginning of fiscal year 2001 and obtained an unqualified, or "clean," opinion in each review. Both peer reviews concluded that the State IG's quality control system for the audit function had been designed in accordance with professional auditing standards. In addition, the most recent peer review completed by the Department of the Interior IG in 2004, provided useful suggestions for improvement. The most significant suggestion was for the State IG to establish ongoing internal quality reviews of the audit function as required by professional auditing standards. While the State IG did conduct internal quality reviews for its audit practice that were completed in May 2001 and March 2003, the Interior IG found that the reviews were not the result of an ongoing process. To address the peer review's suggestion, the State IG established the Policy, Planning, and Quality Assurance Division in November 2005 under the Assistant IG for Audits, to conduct internal reviews and provide summary reports on a semiannual basis, which we view as a very positive action to help ensure ongoing audit quality.

**Investigations.** The State IG obtained the results of the first external quality review of its investigations from the Tennessee Valley Authority (TVA) IG on November 16, 2005. The TVA IG used the PCIE *Quality Standards for Investigations*, the *Quality Assessment Review* guidelines established by the PCIE, and the *Attorney General Guidelines For Offices Of Inspector General With Statutory Law Enforcement Authority* to review the quality of the State IG's investigations. The TVA IG concluded that the State IG's system of internal safeguards and management procedures for the investigative function was in full compliance with quality standards established by the PCIE and the Attorney General's guidelines, and provides reasonable assurance of conforming with professional standards. The reviewers also suggested improvements for the State IG and these are currently being addressed by the Assistant IG for Investigations.

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**Inspections.** An external quality review, or peer review, of the State IG's inspections is not required under the inspection standards. During our review, the State IG implemented a plan for conducting an internal quality review of inspections as called for by the PCIE and ECIE inspection standards. The first such review was currently being conducted at the time of our audit, but the report on inspection quality had not yet been completed. This review includes a sample of completed inspections to determine whether they meet the PCIE and ECIE quality inspection standards. Currently, the State IG's quality review does not include inspections by the Office of Information Technology, and at the time of our review there was no internal quality review process for IT inspections. Because the inspection work of the IG's IT office is used, at least in part, by the department to ensure its compliance with the requirements of the Federal Information Security Management Act of 2002 (FISMA)<sup>28</sup> for effective information security controls, the quality of the IT inspections is critical to the department for providing overall assurance of FISMA compliance. Inspection quality is critical also because of the State IG's almost exclusive reliance on inspections to cover the information security area, which has been identified by GAO as high-risk and by the State IG as a management challenge for the department.

**Independence.** Independence is an overarching element that is critical to quality and credibility across all of the work of the State IG and is fundamental to *Government Auditing Standards* and the IG Act. *Quality Standards for Federal Offices of Inspector General*, updated by the PCIE and ECIE in October 2003, also addresses independence in its quality standards for the management, operations, and conduct of federal IG offices. Both sets of standards recognize that IG independence is a critical element of the IG's obligation to be objective, impartial, intellectually honest, and free of conflicts of interest. Also, consistent with *Government Auditing Standards*, the IG quality standards for IG offices state that without independence both in fact and in appearance, objectivity is impaired. In addition, the PCIE and ECIE *Quality Standards for Inspections* require that the inspections organization and each individual inspector to be free both in fact and appearance from impairments to independence.

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<sup>28</sup>Title III, E-Government Act of 2002, Pub. L. No. 107-347, 116 Stat. 2899, 2946 (Dec. 17, 2002).

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Two areas of continuing concern regarding independence are (1) the temporary appointment of management personnel with various titles such as Deputy IG, Acting IG, or Acting Deputy IG, to head the State IG office; and (2) the use of Foreign Service staff to lead State IG inspections. For example, between the last two presidentially appointed IGs—covering a period of over 2 years from January 24, 2003, until May 2, 2005—all four of those heading the State IG office in an acting IG capacity were selected from State Department management staff and temporarily employed in the State IG office. These individuals had served in the Foreign Service in prior management positions, including as U.S. ambassadors to foreign countries. In addition, three of these individuals returned to significant management positions within the State Department after heading the State IG office. Table 2 shows prior and subsequent positions held by those heading the State IG office for a recent 27-month period until the current IG was confirmed on May 2, 2005. This use of temporarily assigned State Department management staff to head the State IG office can affect the perceived independence of the entire office in its reviews of department operations, and the practice is not consistent with (1) independence requirements of *Government Auditing Standards*, (2) other professional standards followed by the IGs, and (3) the purpose of the IG Act. Career members of the Foreign Service are prohibited by statute from being appointed as State IG.<sup>29</sup> This exclusion of career Foreign Service staff from consideration when appointing the State IG avoids the personal impairments to independence that could result when reviewing the bureaus and posts of fellow Foreign Service officers and diplomats. The same concern with independence arises when career Foreign Service officers and diplomats temporarily head the State IG office in an acting IG capacity.

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<sup>29</sup>22 U.S.C. § 4861(d).

**Table 2: State Department Positions Held by Management Officials before and after Serving in an Acting State IG Capacity from January 24, 2003, through May 2, 2005**

Department positions prior to serving as acting State IG	Department positions after serving as acting State IG	Beginning dates of service as acting State IG	Period of time serving as the acting State IG
Ambassador to Kyrgyzstan	Retired from government service	January 24, 2003	8 months
Ambassador to Columbia	Deputy and Acting Permanent Representative at the U.S. Mission to the United Nations <sup>a</sup>	September 28, 2003	10 months
Deputy Global AIDS Coordinator	Special Representative on Avian and Pandemic Influenza	August 3, 2004	1 month
Ambassador to South Africa	Chargé d’Affaires, Khartoum, Sudan	August 23, 2004	8 months

Source: State IG.

<sup>a</sup>Currently the Assistant Secretary for International Narcotics and Law Enforcement Affairs.

In addition to the potential independence impairment of acting IGs, the State IG can impair its independence with its reliance on staff in the Foreign Service temporarily employed by the IG office to lead inspections. As a condition of their employment, Foreign Service staff are expected to help formulate, implement, and defend government policy, which severely limits the appearance of objectivity when reviewing department activities that may require them to question official policies.

The State IG’s inspection policy is for Foreign Service staff with the rank of ambassador, or other staff who serve at the ambassador level, to lead inspections. Long-serving State IG officials told us that the program knowledge of these State Department officials is important when reviewing the department’s bureaus and posts. In the 112 inspections completed during fiscal years 2004 and 2005 for which we had access, 79 had team leaders who held the rank of ambassador or served at the ambassador level. Foreign Service staff on these inspections often move through the State IG office on rotational assignments to serve again in Foreign Service positions for the department after working for the State IG. For example, 9 of the 22 Foreign Service officials who were assigned to these 112 inspections as either staff or team leaders had transferred or returned to management offices in the State Department by December 2005.

The State IG’s use of career Foreign Service staff and others at the ambassador level to lead inspections provides a potential impairment to independence. In both our 1978 and 1982 reports we reported concerns

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about the independence of inspection staff reassigned to and from management offices within the department. In these prior reports, we stated that the desire of State IG staff to receive favorable assignments after their State IG tours could influence their objectivity. While they may offer valuable insights from their experience in the department, we believe that there is considerable risk that independence could be impaired, resulting in a detrimental effect on the quality of State IG inspections and the effectiveness of the State Department, and that it is important that officials not sacrifice independence, in fact or appearance, for other factors in the staffing and leadership of the IG's office. As an alternative, such staff could provide the benefits of their experience and expertise as team members rather than team leaders without impairing the inspection team's independence.

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## IG Coordination with State Department Investigations

The IG Act established the State IG to conduct and supervise independent audits and investigations that prevent and detect fraud, waste, abuse, and mismanagement in the State Department.<sup>30</sup> The Bureau of Diplomatic Security (DS)—as part of its worldwide responsibilities for law enforcement and security operations—also performs investigations of passport and visa fraud both externally and within the department.<sup>31</sup> Currently, there is no functional written agreement or other formal mechanism in place between DS and the State IG to coordinate their investigative activities.

DS assigns special agents to U.S. diplomatic missions overseas and to field offices throughout the United States. The special agents conduct passport and visa fraud investigations and are responsible for security at 285 diplomatic facilities around the world. This effort currently entails 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 fiscal year 2004, DS reported that it opened 5,275 new criminal investigations and made 538 arrests for passport fraud, 123 for visa fraud, and 54 for other offenses. For fiscal year 2005, DS reported 1,150 arrests combined for passport and visa fraud.

Both the State IG and DS pursue allegations of passport and visa fraud by State Department employees. State IG officials stated that they were

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<sup>30</sup>5 U.S.C. App. § 2.

<sup>31</sup>22 U.S.C. § 4807.

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aware of DS investigations in these areas that were not coordinated with the State IG. 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. Also, because DS reports to the State Department's Undersecretary for Management, DS investigations of department employees, especially when management officials are the subjects of the allegations, can result in management investigating itself.

In other agencies where significant law enforcement functions like those at DS exist alongside their inspectors general, the division of investigative functions between the agency and the IG is established through written agreements. For example, the U.S. Postal Service has the Postal IG established by the IG Act and the Chief Postal Inspector who is head of the U.S. Postal Inspection Service with jurisdiction in criminal matters affecting the integrity and security of the mail. Postal inspectors investigate postal crimes and provide security for the protection of postal employees at 37,000 postal facilities throughout the country. In 2006, a memorandum was signed by the Chairman of the Board of Governors and the Postmaster General announcing the completion of the transfer of investigative jurisdiction for postal employees from the Postal Inspection Service to the Office of Inspector General. The Postal IG was recognized as having full responsibility for the investigation of internal crimes, whereas the Postal Inspection Service is responsible for security and the investigation of external crimes. This agreement also included a shift of resources between both organizations to cover their responsibilities.

In another example, the Internal Revenue Service Criminal Investigation (IRS CI) and the Treasury Inspector General for Tax Administration (TIGTA) have signed a memorandum of understanding that recognizes IRS CI's responsibility to investigate criminal violations of the tax code while TIGTA has the responsibility to protect the IRS against attempts to corrupt or threaten IRS employees, and to investigate violations by IRS employees. This agreement includes the coordination of investigative activities between these offices and recognizes TIGTA as the final authority to investigate IRS Criminal Investigation employees. Agreements such as those crafted by the U.S. Postal Service and the IRS can serve as models for a formal agreement between DS and the State IG.

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## Conclusions

The State IG relies heavily on inspections instead of audits for oversight of high-risk areas and management challenges. Areas such as human resources, counterterrorism, public diplomacy, and information security, are almost exclusively covered through inspections. By design, inspections are conducted under less in-depth requirements than audits performed under *Government Auditing Standards* in terms of levels of evidence and documentation to support findings and recommendations. Federal IGs use inspections as an important oversight tool along with audits and investigations, which are specifically required by the IG Act. However, the State IG conducts a much greater proportion of inspections to audits than the federal statutory IG community as a whole. Due to the risk and significance of the high-risk areas being covered largely by inspections, the State IG would benefit from reassessing risk and its heavy reliance on inspections in those areas to determine whether the current mix of audits and inspections provides the amount and type of oversight coverage needed. Given the important role that inspections currently play in the State IG's oversight of the department, assurance of inspection quality is also important. The State IG is currently conducting its first internal review of inspections, but the results are not yet reported and the review does not include IT inspections.

Independence is a critical element to the quality and credibility of an IG's work under the IG Act and is fundamental to *Government Auditing Standards* and professional standards issued by the PCIE and ECIE. Based on our current concerns and those from our past reports, we believe that the State IG would benefit from additional policies and revised structures in order to avoid situations that raise concerns about independence, such as State Department management officials appointed to head the State IG office in an acting IG capacity, and State Department career Foreign Service staff and others who transfer from or return to department management offices leading IG inspections. Such policies and structures would be geared toward (1) providing for independent acting IG coverage in the event of delays between IG appointments and (2) assuring that State IG inspections are not led by career Foreign Service or other staff who move to assignments within State Department management. With regard to ambassadors, Foreign Service officers, and other rotational staff leading inspections, approaches could range from the State IG limiting its inspection activities to a level that is supportable without reliance on staff that routinely rotate to management offices, to permanently transferring or hiring additional staff, or FTEs, along with associated resources for the State IG office to eliminate the need to rely on Foreign Service and other rotational staff to conduct inspections. In addition, the State IG's inspection teams could include experienced

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ambassadors and Foreign Service officers at the ambassador level as team members rather than team leaders to help mitigate concerns regarding the lack of an appearance of independence caused by the State IG's current practice.

Finally, there is a need for a formal agreement between the State IG and the State Department Bureau of Diplomatic Security to coordinate their investigative activities to help ensure the independence of investigations of the State Department's management staff and to prevent duplication.

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## Recommendations for Executive Action

To help ensure that the State IG provides the appropriate breadth and depth of oversight of the State Department's high-risk areas and management challenges, we recommend that the State IG reassess the proper mix of audit and inspection coverage for those areas. This reassessment should include input from key stakeholders in the State Department and the Congress and also entail an analysis of an appropriate level of resources needed to provide adequate IG coverage of high-risk and other areas in light of the increasing level of funding provided to the State Department.

To provide for more complete internal quality reviews of inspections we recommend that the State IG include inspections performed by the State IG's Office of Information Technology in its internal quality review process.

To help ensure the independence of the IG office, we recommend that the State IG work with the Secretary of State to take the following actions:

- Develop a succession planning policy for the appointment of individuals to head the State IG office in an acting IG capacity that is consistent with the IG Act regarding State IG appointment and provides for independent coverage in the event of delays between IG appointments. The policy should prohibit career Foreign Service officers from heading the State IG office in an acting IG capacity and specify within the IG's own succession order that acting IG vacancies are to be filled by eligible personnel without State Department management careers.
- 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. Approaches could range from the State IG limiting its inspection activities to a level that is supportable without reliance on staff who routinely rotate to management offices, to



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permanently transferring or hiring additional staff, or FTEs, along with associated resources for the State IG office to eliminate the need to rely on Foreign Service and other rotational staff to lead inspections.

In order to provide for independent investigations of State Department management and to prevent duplicative investigations, we recommend that the State IG work with the Bureau of Diplomatic Security, the Office of Management, and the Secretary of State to develop a formal written agreement that delineates the areas of responsibility for State Department investigations. Such an agreement would, for example, address the coordination of investigative activities to help ensure the independence of internal departmental investigations and preclude the duplication of efforts.

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## Agency Comments and Our Response

In comments on a draft of this report the State IG provided additional clarifying information and acknowledged that our review helped identify areas for improvement. With respect to our five recommendations in the draft report, the State IG agreed with two recommendations, partially agreed with one, and disagreed with two others. We are reaffirming our recommendations and provide our reasons below.

With respect to the two recommendations for which there is agreement, the State IG agreed with our recommendations to (1) include all IG inspections, including inspections performed by the Office of Information Technology, in the internal quality review process and (2) work with DS and others to develop a written agreement delineating the areas of responsibility for department investigations.

The State IG disagreed with our recommendation to reassess the mix of audit and inspection coverage stating that “simply reassessing the mix of audit and inspection coverage will accomplish little if there are not more auditors and more resources available to perform audits.” Our recommendation provides the IG with a way to define the appropriate level of oversight of the department, reallocate current resources as appropriate, and justify any additional resources that may be necessary. This reassessment is especially important given the increased appropriations provided to the State Department and in light of the fact that the current mix of audits and inspections has evolved over a number of years when State Department management personnel served as acting IGs. By achieving a proper mix of audits and inspections the State IG can help maximize the use of the department’s resources through more effective oversight. In addition, the State IG’s comments do not recognize

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the potential for reallocating inspection staff to an audit role. Under *Government Auditing Standards*, the current inspection staff may also conduct performance audits in order to provide both a forward-looking analysis and a review of historical performance. Redesigning some inspections as performance audits to be performed by the current inspection staff could meet the needs of management for inspection results at the department's bureaus and posts and also provide the level of objectivity and evidence needed to assess high-risk areas and management challenges. Thus, for all the above stated reasons we continue to recommend that the State IG reassess the mix of audit and inspection coverage.

The State IG does not disagree with our concerns about Foreign Service officers temporarily heading the IG office in an acting capacity, but believes that the recommendation goes too far by limiting the pool of eligible candidates to personnel without State Department management careers. We disagree with the IG's comments due to the importance of independence which is the most critical element for IG effectiveness and success. To preserve IG independence, the IG Act requires that the IG not report to or be subject to supervision by any other officer other than the Secretary, or if delegated, the Deputy Secretary. Appointing career department managers as acting State IGs would effectively have the IG office subject to supervision by a management official other than the Secretary or Deputy Secretary. Therefore, we continue to recommend that the State IG exclude from consideration in the succession planning of his office department officials with management careers due to possible conflicts of interest and resulting independence issues. As alternatives, the State IG could consider PCIE recommendations for personnel to fill future acting IG positions, as well as IG staff with proven ability from other agencies. In addition, we have revised the recommendation in our report to clarify that the intended action is directed to the succession planning activities of the State IG's office in order to avoid any unintended conflict with the Vacancies Act,<sup>32</sup> which gives the President wide authority to appoint personnel to acting positions throughout the executive branch of the federal government.

The State IG acknowledged that ambassadors who serve as team leaders for inspections raise a concern about the appearance of independence. The State IG also believes that this concern is significantly outweighed by

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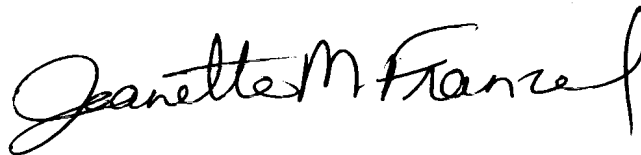
<sup>32</sup>5 U.S.C. §§ 3345-3349(d).

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the overriding need for people with the experience and expertise of ambassadors to lead inspections. We disagree with putting independence second to experience and expertise and believe that the State IG can achieve both objectives with the proper staffing and structuring of its inspections. 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 rather than team leaders to help mitigate concerns about the appearance of independence caused by the State IG's current practice. Therefore, we continue to recommend that the State IG work with the Secretary of State to develop options to ensure that the IG's inspections are not led by career Foreign Service officials, including ambassadors or other staff who rotate from State Department management.

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As agreed with your office, unless you publicly announce the contents of this report earlier, we will not distribute it until 30 days from its date. At that time we will send copies of the report to the Secretary of State, the State Department IG, the State Department Undersecretary for Management, the State Department Assistant Secretary for Diplomatic Security, the OMB Deputy Director for Management, the Chairman and Ranking Member of the Senate Committee on Foreign Relations, other congressional committees, and interested parties. This report will also 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 me at (202) 512-9471 or by e-mail at [franzelj@gao.gov](mailto:franzelj@gao.gov). Major contributors to this report are listed in appendix IV.



Jeanette M. Franzel  
Director  
Financial Management and Assurance

# Appendix I: A Comparison of Fiscal Year 2001 Budgetary Resources for Selected Inspectors General and Agencies

Dollars in millions

Rank	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	7	546	1.28
2	Small Business Administration	15	2,580	0.58
3	Environmental Protection Agency	56	11,577	0.48
4	Corporation for National and Community Service	6	1,265	0.47
5	Agency for International Development	35	9,269 <sup>a</sup>	0.38
6	Treasury Inspector General for Tax Administration	127	39,937	0.32
7	Department of Commerce	21	8,632	0.24
8	Department of State	29	13,679 <sup>b</sup>	0.21
9	Department of Justice	60	31,780	0.19
10	Department of the Interior	31	19,871	0.16
11	General Services Administration	36	23,115	0.16
12	National Aeronautics and Space Administration	24	15,807	0.15
13	Tennessee Valley Authority (TVA)	8 <sup>c</sup>	7,016	0.11
14	Department of Energy	34	30,638	0.11
15	Department of Housing and Urban Development	95	83,063	0.11
16	Department of Labor	69	65,489	0.11
17	Department of Veterans Affairs	50	57,391	0.09
18	Federal Deposit Insurance Corporation	43	47,967	0.09
19	Department of Agriculture	78	106,365	0.07
20	Railroad Retirement Board	6 <sup>d</sup>	9,201	0.07
21	Department of Education	37	55,858	0.07
22	Department of Transportation	55	85,399	0.06
23	Department of Health and Human Services	231 <sup>e</sup>	555,621	0.04
24	Department of Defense—Military	156	453,875	0.03
25	Office of Personnel Management	12	126,224	0.01
26	Social Security Administration	70	498,918	0.01
27	Department of the Treasury	35	366,620 <sup>f</sup>	0.01
28	Department of Homeland Security <sup>g</sup>	n.a.	n.a.	n.a.
29	Central Intelligence Agency <sup>g</sup>	n.a.	n.a.	n.a.

Source: GAO analysis of OMB data.

Notes: The agencies presented are those with presidentially appointed inspectors general (IG).

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**Appendix I: A Comparison of Fiscal Year 2001  
Budgetary Resources for Selected Inspectors  
General and Agencies**

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<sup>a</sup>Total budgetary resources appearing in Agency for International Development's FY 2001 Performance and Accountability Report.

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

<sup>c</sup>Amount for TVA IG is from fiscal year 2002 PCIE profile data.

<sup>d</sup>Amount for Railroad Retirement Board IG is from fiscal year 2002 PCIE profile data.

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

<sup>f</sup>Treasury's total budget authority excludes amounts for IRS.

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

# Appendix II: A Comparison of Fiscal Year 2005 Budgetary Resources for Selected Inspectors General and Agencies

Dollars in millions

Rank	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	9	723	1.24
2	Corporation for National and Community Service	9	1,190	0.76
3	Environmental Protection Agency	64	13,153	0.49
4	Agency for International Development	49	14,822 <sup>a</sup>	0.33
5	Small Business Administration	14	4,855	0.29
6	Department of Justice	80	31,073	0.26
7	Department of Commerce	22	10,179	0.22
8	Treasury Inspector General for Tax Administration	131	66,338	0.20
9	General Services Administration	46	26,378	0.17
10	National Aeronautics and Space Administration	31	19,045	0.16
11	Department of Interior	42	26,890	0.16
12	Department of State	32	22,371 <sup>b</sup>	0.14
13	Department of Housing and Urban Development	103	83,359	0.12
14	Department of Energy	42	34,728	0.12
15	Tennessee Valley Authority (TVA)	9 <sup>c</sup>	8,027	0.11
16	Department of Homeland Security	117	121,830	0.10
17	Department of Labor	69	72,893	0.09
18	Department of Veterans Affairs	74	83,656	0.09
19	Railroad Retirement Board	7 <sup>d</sup>	10,849	0.06
20	Department of Agriculture	84	135,903	0.06
21	Department of Education	48	84,359	0.06
22	Federal Deposit Insurance Corporation	28	50,612	0.06
23	Department of Transportation	65	117,707	0.06
24	Department of Health and Human Services	437 <sup>e</sup>	789,041	0.06
25	Department of Defense—Military	205	716,702	0.03
26	Social Security Administration	91	605,134	0.02
27	Office of Personnel Management	18	160,759	0.01
28	Department of the Treasury	20	329,345 <sup>f</sup>	0.01
29	Central Intelligence Agency <sup>g</sup>	n.a.	n.a.	n.a.

Source: GAO analysis of OMB data.

Notes: The agencies presented are those with presidentially appointed inspectors general (IG).

<sup>a</sup>Total budgetary resources appearing in Agency for International Development's FY 2005 Performance and Accountability Report.

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**Appendix II: A Comparison of Fiscal Year  
2005 Budgetary Resources for Selected  
Inspectors General and Agencies**

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

<sup>c</sup>Amount for TVA IG is from fiscal year 2005 PCIE profile data.

<sup>d</sup>Amount for Railroad Retirement Board IG is from fiscal year 2005 PCIE profile data.

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

<sup>f</sup>Treasury's total budget authority excludes amount for IRS.

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

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# Appendix III: Comments from the Inspector General, Department of State

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**United States Department of State  
and the Broadcasting Board of Governors**

*Inspector General*

March 2, 2007

Jeanette M. Franzel  
Director  
Financial Management and Assurance  
U.S. Government Accountability Office  
Washington, DC 20548

Dear Ms. Franzel:

Thank you for the opportunity to review and comment on the draft GAO report on the Activities of the Department of State Office of Inspector General (“OIG”). GAO’s review has helped to identify areas where improvements can be made to OIG’s oversight activities. OIG appreciates the professionalism and courtesies extended by you and your staff in carrying out this review.

GAO’s review covers a period consisting of fiscal years 2001 through 2005. Over 90% of that period occurred prior to my arrival at OIG. Nevertheless, I will try to comment on several of the broad issues raised in GAO’s report. In a previous e-mail, OIG has provided what it believes to be technical and factual corrections to the draft report. For purposes of this letter, I am assuming changes and corrections will be made as necessary in the final report to reflect the points previously made.

There are at least two elements that significantly affect OIG’s structure and activities and against which the structure and activities should be judged:

1. Statutorily Mandated Post and Bureau Inspections.

As noted by GAO, Section 209 of the Foreign Service Act of 1980 mandates that OIG inspect each Foreign Service post and each bureau and other operating unit of the Department of State (the “Department”) at least every five years. This means that OIG must plan its work, staff its personnel, and budget its resources in order to comply with this statutory

**Address correspondence to: U.S. Department of State, Office of Inspector General, Washington, D.C. 20522-0308**



mandate. Parenthetically, it should be noted that the number, size and complexity of U.S. missions abroad have expanded vastly since 1980 – for example, missions in places such as Baghdad, Kabul, Hanoi, the former states of the Soviet Union, Beijing, member states of the United Nations that did not exist, and others either were not present in 1980 or have changed radically since. As early as 1982, GAO noted that the mandated five-year inspection cycle adversely affected OIG’s effectiveness by limiting its ability to do other work.

For the years reviewed by GAO (2001 through 2005), Congress, in Department appropriations acts, annually waived the five-year inspection language. However, those waivers have come from three to six months after the commencement of each fiscal year, and their eventual grant by Congress cannot be assumed, with the result that OIG has had to go into each fiscal year with work plans, staff, and resources designed to comply with existing law. Moreover, the Department has come to rely on the deterrent effects and constructive evaluations and recommendations that come from the inspection process, and to have posts and bureaus go more than seven or so years without inspection is considered to be high risk. On balance, OIG tries to comply with a five to seven year cycle, but my experience suggests this should be done free from a statutory mandate so that high risk or high priority matters at a particular time can be attended to.

2. Declining Resources.

While OIG’s numbers show an actual decrease in OIG resources over the five-year period (as opposed to the 1% increase suggested in the draft report) and an increase in Department resources even greater than the 50% suggested in the draft report -- particularly if numbers for the Broadcasting Board of Governors, for which OIG also has oversight authority, are included -- whatever numbers are used, it is abundantly clear that over a period where world events have exponentially increased the demands upon OIG and the opportunities for it to produce savings, increase efficiency, reduce waste, and bring about positive change throughout the Department’s activities, OIG’s resources have been static or declining. This anomaly is accentuated when one considers that approximately 85% of OIG’s resources go to compensation and the next biggest expense is foreign travel. Even in a period of relatively low inflation, OIG has faced to a greater proportion than most others mandatory wage increases and higher travel costs due to

increased jet fuel costs, post 9/11 security costs, and lower dollar exchange rates.

Against the foregoing background, I will comment on GAO's broadest areas:

*Proper Mix of Audits and Inspections*

The statutory mandate for inspections means that OIG must have the people on board to perform inspections. For the most part, auditors and inspectors are not inter-changeable or fungible. Simply "reassessing the mix of audit and inspection coverage" will accomplish little if there are not more auditors and more resources available to perform audits. One thing that OIG does, and which skews the figures cited by GAO comparing the number of inspection reports issued to the number of audit reports, is to include auditors and audit-like procedures in most inspections. Thus, while GAO observes that OIG covers high-risk areas "almost exclusively through inspections" with a higher ratio of inspections to audits than other federal statutory IGs, in fact many of these inspections have audit components to them. Moreover, I am unaware of any other IG that has a statutory inspection mandate such as OIG, and more than a few perform few or no inspections. The House Committee on Foreign Affairs report on Section 209 of the Foreign Service Act explained that it went beyond the financial audit and investigation aspects of the Inspector General Act of 1978 by providing for authority to determine compliance with U.S. foreign policy objectives. "In the view of the committee, the historically dual responsibility of the office of the Inspector General to prevent waste and misuse of funds and also to determine compliance with U.S. foreign policy objectives sets this office apart from other Inspectors General."

Because of the Congressional mandate and OIG's limited resources to hire more auditors, there are things that could be done in the context of an audit which OIG has to do through an inspection. If an inspection team is already going to a foreign location, it would not be a wise use of limited resources to also send an audit team to that location. Nevertheless, OIG does provide coverage through audits not just to contracts, procurements, and financial management, but also to matters such as emergency preparedness. Moreover, OIG Audit's significant contributions to the audit of the Department's financial statements and the implementation of OMB

Circular 123 have come near and subsequent to the close of the period reviewed by GAO.

With respect to the “fundamental differences between audits and inspections” cited by GAO, I agree that inspections have a different level of detail and requirements in the areas of sufficient, appropriate evidence to support findings and conclusions and the level of documentation to reflect that support. This is a principal reason why your reviewers did not find the level of documented support they might have expected. Inspections by their nature tend to be much more subjective and less objective than audits, and they require experience and expertise in the unique operations of foreign posts. Many inspection assignments do not lend themselves to audits. Inspections also tend to be forward looking as well as historical, and it is often difficult to document just why a particular recommendation will improve the overall effectiveness of a post. Nevertheless, OIG very much takes to heart GAO’s observation that summary worksheets, questionnaires from post employees, and interview memoranda are not always adequate, and OIG’s Office of Inspections has increased its emphasis on workpapers and supporting documentation in the training of new inspectors.

*Independence*

1. I agree with GAO’s concern when career Foreign Service officers and diplomats temporarily head OIG in an acting IG capacity. While independence is a part of my concern, perhaps an even greater concern is that a career Foreign Service officer is specifically precluded by law (22 USC 4861d) from becoming IG of the Department. Thus, a Foreign Service Acting IG, no matter how good a job he/she is doing, cannot become permanent and is always temporary, and is known by all to be so. This can have a debilitating effect on OIG, particularly over a lengthy period.

The four Foreign Service Acting IGs were, of course, prior to my time. However, I am aware that each was the Deputy Inspector General at the time of becoming Acting IG. In OIG at the present time under my leadership, the Deputy Inspector General is a Civil Service officer rather than Foreign Service. This reduces the possibility that a Foreign Service officer would become Acting IG.

Although I do not disagree with GAO's recommendation that a policy be adopted to "prohibit career Foreign Service officers from heading the State IG office in an acting IG capacity", I believe the recommendation goes too far by limiting eligibility to "personnel without State Department management careers". To eliminate all Foreign Service officers and all Civil Service officers with management careers is to unduly limit the eligible sources for an Acting IG and inhibit the ability to get a prompt, capable Acting IG in place. GAO should also consider whether its recommendation is consistent with the Vacancies Act (5 USC 3345-3349d).

2. I do not agree with GAO's recommendation "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". Having spent nearly 25 years in the private sector as legal counsel to Big Eight and Big Six independent public accounting firms, I can assure you I am extremely sensitive to the concept of independence. Independence comprises the appearance of independence and the fact of independence. I acknowledge that OIG's policy of having ambassadors serve as team leaders for inspections raises a concern about the appearance of independence. However, I believe this concern is significantly outweighed by the overriding need to have people with the experience and expertise of an ambassador lead an inspection of a foreign post. There is simply no substitute for "having been there, done that", "having walked in those shoes", and having performed under the difficult and often adverse conditions that characterize a foreign post. Likewise, there is no substitute to the credibility which is given to the evaluations and recommendations of an ambassador, including the critical Inspector Evaluation Reports on the performance of the COM and DCM at a post, or to the trust and acceptance accorded to an ambassador by people at a foreign post. A keystone of the inspection process is the willingness of the whole range of foreign and civil service personnel at a post, foreign service nationals, locally employed staff, entry and junior level officers, eligible family members, and the whole community up to the COM -- and even outsiders in the host country and the local diplomatic corps -- to be open, candid, and critical in expressing views to the inspection team. I just do not believe this process can be replicated without the presence of an ambassador team leader and to the exclusion from the team of those with foreign service experience. As the Preface to the PCIE Quality Standards for Inspections states: "The inspection function at each Department/Agency is tailored to the unique mission of the

6

respective Department/Agency.” OIG needs the experience and expertise of ambassadorial leaders and Foreign Service staff to design and implement inspections tailored to the unique mission of the State Department. I believe that 9 of 22 Foreign Service officers transferring over the five years is, if anything, too low, not too high. As the House Foreign Affairs Committee Report referred to above observed: “The Inspector General must be served ... by individuals who possess foreign policy training and knowledge of the Foreign Service”.

Even more critical than the appearance of independence is the fact of independence. As the draft report notes, GAO has been expressing for nearly 30 years -- going back to its 1978 report -- its concern that the desire of OIG staff to receive favorable assignments could influence their objectivity. Based on my knowledge and experience, this concern is theoretical but is unwarranted in fact. There are several checks and balances in OIG’s policies and procedures, as well as in Department standards and PCIE Quality Standards, but more important, I am unaware of any situation in thirty years of a credible allegation supporting this concern and I have not seen during my tenure any sign of actual impairment of independence. I also note that the entire Federal government is characterized by and populated with people moving and graduating to other positions within and outside their present agencies, and to make that a negative or a *prima facie* concern for objectivity risks greater concerns for efficiency. In terms of actual numbers, I am advised that over the past five years, out of 14 Foreign Service team leaders, only three went back to the Department (one for a brief time before leaving) and 11 have retired or plan to retire after leaving OIG. Fifteen other team leaders were retired annuitants and not likely to present a concern. At the end of FY 06 only 18 of the 65 Office of Inspection positions were filled by Foreign Service officers.

#### *Reviews of IT Inspections*

The draft report recognizes that, although external quality or peer review is not required for inspections, at the time of GAO’s work “the State IG established an internal program to review the quality of the inspection practice”. The draft report states that the internal review did not include information technology inspections. Actually, the internal quality review undertaken by OIG does include a review of the information technology portion of any inspection in which IT staff participated. However the draft

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report rightly notes that the quality of IT inspections is critical for providing overall assurance of FISMA compliance. Accordingly, OIG agrees with the recommendation that all inspections performed by the Office of Information Technology be included in the internal quality review process.

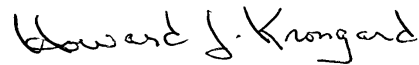
*Agreement on Investigative Activities*

The draft report correctly points out the absence of a functional agreement between OIG and the Bureau of Diplomatic Security (“DS”) for coordinating investigative activities. It is my understanding that efforts were made some ten years ago and thereafter to, reach a Memorandum of Understanding between OIG and DS but it was never completed. I am advised that an obstacle was the significant disparity in size and resources between DS and OIG/INV. The GAO draft report describes DS as “a global force of approximately 32,000”. I cannot confirm that number or its components, but OIG/INV consisted at the end of FY 2006 of 21 people of whom 17 were Special Agents, whereas DS had approximately 1,448 Special Agents.

OIG agrees with GAO’s recommendation that it work with DS and others to develop a written agreement delineating the areas of responsibility for Department investigations. OIG appreciates the examples provided by GAO of other agencies where significant law enforcement functions exist alongside inspectors general and the written agreements they have achieved. OIG will pursue efforts to develop an agreement with DS using the models suggested.

Thank you again for the professionalism and courtesies of your staff. Should you have any questions regarding the comments herein, please contact me.

Sincerely,



Howard J. Krongard  
Inspector General

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# Appendix IV: GAO Contact and Staff Acknowledgments

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## GAO Contact

Jeanette M. Franzel, (202) 512-9471 or franzelj@gao.gov

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## Acknowledgments

### **Financial Management and Assurance**

Jackson W. Hufnagle, Assistant Director  
Clarence A. Whitt, Analyst-in-Charge

### **Office of the General Counsel**

Francis Dymond, Assistant General Counsel  
Jacquelyn Hamilton, Deputy Assistant General Counsel  
Amy Bowser, Attorney

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Washington, D.C. 20548

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Paul Anderson, Managing Director, [AndersonP1@gao.gov](mailto:AndersonP1@gao.gov) (202) 512-4800  
U.S. Government Accountability Office, 441 G Street NW, Room 7149  
Washington, D.C. 20548