



Testimony



STATEMENT OF
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GOVERNMENT MANAGEMENT, INFORMATION
AND TECHNOLOGY
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT
HOUSE OF REPRESENTATIVES
ON 20TH ANNIVERSARY OF IG ACT

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Mr. Chairman and Members of the Subcommittee:

As the Inspector General (IG) for the Department of Defense (DoD) and as the Vice Chairperson of the President's Council on Integrity and Efficiency (PCIE), I appreciate the opportunity to appear before you today to discuss the role of Inspectors General.

Ten years ago, one of my predecessors appeared before the Government Operations Committee, as this Committee was known then, and testified that the concept of the Inspector General was valid and had proven to be a success. During the last 10 years, the Federal Inspector General community has become firmly established as an integral and highly valued component of efforts to ensure effectiveness and efficiency throughout government. Some of the recent accomplishments of both the PCIE and the Executive Council on Integrity and Efficiency are contained in the joint publication titled A Progress Report to the President, Fiscal Year 1996. The numbers in that report are impressive. The PCIE, which consists of the statutory Presidentially appointed Inspectors General, reported over \$15 billion in funds put to better use as a result of IG recommendations. During that same year, IGs working independently, or with other Federal and non-Federal investigative agencies, obtained 3,372 successful prosecutions of criminal activities. FY 1996 also witnessed a total of 4,609 debarments, exclusions, and suspensions imposed upon individuals and entities doing business with the Federal government as a result of IG investigations.

HISTORICAL PERSPECTIVE

While the American concept of the Inspector General goes back to the Continental Congress and the army of General George Washington, it was not until the late 1970s that the original concept was expanded to include a much broader mission and mandated in certain Federal civilian departments. The Congress created the first statutory Inspector General at the then Department of Health, Education, and Welfare (HEW) in 1976. The following year, an Office of Inspector General was included in the legislation that created the Department of Energy. In 1978, due in large part to the successes of the IG at HEW, the concept was expanded to 12 agencies when the Congress passed the Inspector General Act (P.L. 95-452). At the time, it was hailed by Congressman Lawrence Fountain as "one of the most monumental pieces of legislation ... considered, because

of the billions of dollars it may well save through increased economy and efficiency and a reduction in fraud and program abuse." Congressman Ben Gilman called it a "first step in the process of government accountability." Despite some initial opposition, the Congress and Administration crafted a compromise bill that passed with overwhelming bipartisan support.

In 1982, a provision in the National Defense Authorization for FY 1983 (P.L. 97-252), created an Office of Inspector General for the Department of Defense. There had been much resistance within the Department to the idea of a statutorily mandated Inspector General. The Congress answered some of the Department's concerns about national security by granting the Secretary special authority to prohibit IG audits, investigations or subpoenas where "necessary" to preserve national security interests. The fact that that authority has never to date been exercised underscores the fact that the IG concept has indeed worked well at DoD over the years.

Since 1978, with the exception of 1984, 1985, 1990, 1991, and 1992, a new Office of Inspector General has been created every year and today there are 28 Presidentially appointed and Senate confirmed Inspectors General and 31 IGs appointed by the heads of designated Federal entities.

OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

I would like to take a few minutes to share with you some facts and comments relative to the Office of Inspector General, Department of Defense.

Combating fraud, waste and abuse in an entity as huge as the DoD is a substantial challenge: in Fiscal Year 1997, the DoD encompassed \$1 trillion in assets; 1.4 million active duty military forces; 1.4 million in the Ready and Standby Reserve; and about 800,000 civilian employees. The amount of taxpayer dollars at issue is just as huge: the Fiscal Year 1998 budget for the Department of Defense is \$250 billion.

In short, we in the IG's office have plenty to do. To accomplish our mission, we have today over 1,200 personnel, including auditors, criminal and administrative investigators, and program evaluators. I might add that there are many other investigators and auditors throughout the Department to which, for lack of resources, we often delegate work, reserving the right to oversee what they do.

Our criminal investigators focus primarily on contract and procurement fraud, health care fraud, antitrust violations, bribery, corruption and large-scale thefts of government property while our auditors perform the primary internal audit function within the Office of the Secretary of Defense, the Joint Chiefs of Staff, the Unified and Specified Commands and the Defense agencies. This work entails coverage of such areas as mismanagement, matters involving economy and efficiency in DoD operations, contracts and programs, and financial audits.

Recently, in response to concerns from the Congress regarding the need to improve oversight of the DoD intelligence community, we established a separate IG office of Intelligence Review. This office has functional oversight of the various Defense intelligence agencies, such as the National Security Agency, the Defense Intelligence Agency, and the National Reconnaissance Office.

Additionally, the IG is responsible for conducting administrative investigations of ethical violations and other misconduct by senior DoD military and civilian officials. We also conduct statutorily mandated whistleblower investigations and operate the DoD Hotline which last year received over 16,000 contacts.

While our work does include self-initiated risk assessments, a growing portion of it is prompted by DoD management requests and statutory mandates. In addition, we receive numerous requests from committees and individual Members of Congress to conduct audits and investigations. Last year, we received over 365 inquiries from Members, most on behalf of their constituents concerning personnel or contracting issues.

ACCOMPLISHMENTS

Looking back over the first 20 years since passage of the IG Act, there have been many significant accomplishments that attest to the wisdom and the value of this legislation. Monetary savings identified by audits and investigations alone are significant and have far outweighed the operational costs of conducting them. I have already cited the most recent figures for savings produced by the PCIE Members of the Inspector General community. At the Department of Defense, since Fiscal Year 1989, IG audit reports have identified almost \$16 billion in agreed upon savings. During that same period, monetary recoveries through investigations by the Defense Criminal Investigative Service (DCIS), the criminal investigative arm of my office, have totaled over \$4.5 billion. Historically, our criminal investigators alone have returned at least \$15 in recoveries and fines for every dollar spent on their operations.

Perhaps a more important but less quantifiable indicator of accomplishment may be the degree to which the Inspectors General have been increasingly entrusted to bring needed independent and credible oversight to a wide variety of critical issues throughout government. To insure both professionalism and independence, Congress equipped the Inspector General Act with two rare, if not unique features. First, the Act required that IGs be appointed on the basis of integrity and demonstrated ability in at least one of certain designated fields of expertise. Secondly, the Act established a dual reporting requirement for IGs--both to the head of their respective departments and to the Congress. The effectiveness of IGs is dependent on establishing a good working relationship with both. The dual reporting requirement in and of itself creates a clear incentive for objectivity, independence and professionalism in both audits and investigations.

Increasingly over the years, both the Congress and Executive Branch management have turned to the IGs for objective reviews of sensitive issues of all types. At Defense, we have been asked in the last few years to review such controversial and highly visible issues as costs and savings associated with the Base Realignment and Closure Commission; the adequacy of over 50 investigations involving deaths of service personnel; the assignment of military personnel to Congress; the disappearance of chemical logs created during the Gulf War; the shootdown of the Brothers to the Rescue plane by Cuban MiGs; training issues associated with the School of the Americas; and allegations

involving the deaths of U.S. citizens in Guatemala. These reviews were done at the request of Congress or the Department, and in some cases both. This type of reliance on the IG is not unique to the Department of Defense. Just recently, the Commissioner of the Internal Revenue Service sought out assistance from the PCIE in conducting a thorough and independent review of the IRS Inspection Service, a matter of some concern to the Congress. Several IGs have detailed a total of 10 people to work on this review, which is now ongoing. In short, while clearly the IGs are not perfect, our customers -principally the Congress and the Department in which we work - increasingly rely on us for objective and professional assessments of critically important issues.

CHANGES AFFECTING INSPECTORS GENERAL

In the 20 years since the passage of the IG Act, the core mission of the IGs, including the DoD IG, has not changed. As the Inspector General, my role is to use our resources to help the Department both identify its most critical problems and also find solutions to those problems. As stated in our strategic plan, the mission of the DoD IG, is:

"to promote national security and integrity and credibility in government by conducting objective and independent audits, investigations, and evaluations and other activities to prevent, detect and help correct problems in DoD programs and to identify opportunities for improving efficiencies and effectiveness."

While our mission is basically the same, the environment in which we operate is changing dramatically. The Department of Defense, as the rest of the government, is undergoing immense change. We are all facing significant new challenges in an era of shrinking government. As the government downsizes, difficult, and often painful, decisions must be made on where losses will be taken and what core processes need to be preserved.

As a result, there has been an intensified effort to combat waste and to streamline and reengineer processes. The Inspector General community, including our office, has been an integral part of that process on numerous fronts.

At DoD, acquisition reform, financial management, infrastructure reduction, and information technology have all had a major impact on the focus of our audit and investigative efforts. We have worked hard for instance to

promote acquisition reform while reporting deficiencies in weapons systems planning and supporting efforts to insert new lower cost and commercial dual use technologies into existing weapons systems. We have recommended the consolidation, automation, and integration of the Department's many, many financial and accounting systems, hoping to vastly improve the accuracy and reliability of the financial data in those systems.

On another front, while advances in information technology promise improved access to information, it also presents new and substantial additional challenges for government and for the Inspectors General. At Defense, there is a huge potential for abuse in its vast information infrastructure--that infrastructure now spans over 2 million computers, 10,000 local networks, and 100 long-distance networks. The Department spends more than \$10 billion a year on information technology. Nevertheless, it's been reported that as many as 250,000 attacks were carried out against Defense Department systems in 1995 and I am told that number has continued to grow in the last two years. This is accomplished using tools and techniques now available to millions of computer users. While it is estimated that at least 65 percent of those attacks are successful, only one percent are actually detected and reported.

As both the benefits and the challenges posed by the information technology revolution continue, the Inspectors General must expand their focus and their capabilities accordingly. At DoD, we are attempting appropriate oversight of the many key issues in this very complex and changing area. Those include addressing the serious challenges posed by the Year 2000 conversion program; improving the Department's perilous computer security posture; moving away from decades of disjointed information systems management to fully integrated systems; and effectively implementing the disciplined investment decision making process mandated by the Clinger/Cohen Act.

As the problem of computer intrusion grows, we have seen the emergence of "cyber fraud" which presents totally new and uncharted challenges for law enforcement, including the Inspectors General. At DoD, the DCIS is attempting to answer these challenges through a new computer intrusion and computer crimes investigations unit as well as close coordination with the FBI and the recently created National Infrastructure Protection Center.

Finally, as part of the increased emphasis on a more

effective, more efficient, and better managed government, many Inspectors General have in recent years moved to work more constructively with management, while still maintaining their independence. Our goal should be to become part of the solution process, rather than simply identifying the problems. Over the past 5 years, the DoD IG, has participated in over 100 management process action teams, integrated process teams and working groups that have been the Department's principal means of generating new ideas for reforms and process improvement across the spectrum of DoD business activities. At present we are involved in 57 such groups. The growing level of IG participation on those teams illustrates the good professional working relationships between the IG and the rest of the Department, as well as general acceptance of the need for our advice to be considered during the reengineering of processes, not just after new processes are already put into place.

PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY (PCIE)

By Executive Order 12301, the President's Council on Integrity and Efficiency (PCIE) was created in 1981 to "coordinate and enhance government efforts to promote integrity and efficiency" in Federal programs. In addition to the 28 Presidentially appointed and Senate confirmed IGs, its membership includes the Deputy Director of Management of the Office of Management and Budget, who serves as Chair; the Controller of the Office of Federal Financial Management; the Associate Deputy Director for Investigations of the Federal Bureau of Investigation; the Director, Office of Government Ethics; the Special Counsel of the Office of Special Counsel; and the Deputy Director of the Office of Personnel Management. (Executive Order 12805, signed May 11, 1992, made changes to the original Executive Order to reflect the changes made in 1988 to the IG Act.) The PCIE has 6 committees in which issues are examined in detail. They are the Audit Committee, the Inspections and Evaluations Committee, the Investigations Committee, the Legislation Committee, the Professional Development Committee, and the Integrity Committee.

As you know, the Inspector General community is a large and diverse one. While all the IGs who sit on the PCIE share a broad common mission, they have many differences ranging from the size and makeup of their operation to the specific focus and mission of the Department in which they operate. The great strength of the PCIE has been as a forum to bring together the IGs, establish agreement on issues of common concern, such as quality standards and training, and encourage them to share and learn from an exchange of "best

practices" and "lessons learned."

I became the Vice Chair of the PCIE in January 1998 and, in that capacity, want to share with you some of the positive contributions we believe the PCIE has made to the IG community and, in turn, to the goal of good government. Along those lines, recent and ongoing PCIE efforts have included:

- Review of the Next Generation of Card-Based Payment Systems (March 1997) - The PCIE issued a report prepared with the participation of the Chief Financial Officer's Council, on issues and concerns that need to be addressed as the government moves to increased use of credit cards for travel, purchase, and fleet card services.
- Quality Standards for Investigations (September 1997) - The PCIE reviewed earlier investigative standards for the IG community and updated them to reflect, among other things, the increased use of technology in investigations.
- Prescreening of Federal Grants and Loans by Offices of Inspector General and Their Agencies and Loan Offices - (January 1998) - The PCIE examined procedures used by the IGs and their respective agencies to review Federal assistance projects. This review has permitted the sharing of information among IGs about ways to prevent as well as detect waste, fraud and abuse by Federal grant and loan recipients.
- Working Relationships of IG Inspection and Evaluation Units (January 1998) - This survey of Inspection and Evaluation offices within the IGs identified and shared successful practices used in those offices.
- IG Investigations and You (April 1998) - Based on concerns raised by this subcommittee, the PCIE has formulated a general informational pamphlet for the IG community which can be customized for each Inspector General to distribute within their own department.
- Investigative Training - The IG community established an IG Criminal Investigative Academy (IGCIA) in Glynco, Georgia in 1993. After completion of course work at the Federal Law Enforcement Training Center, IG special agents then receive follow-on training specifically designed by the IG community.

- Audit Training - In 1991, the IG community also created the IG Auditor Training Institute (IGATI). IGATI stands alone as the only organization whose purpose is to address the unique training needs of Federal auditors.
- Audit Standards - The PCIE is working with the General Accounting Office to create one manual for the government for financial statement audits to address the many new issues emerging in government financial management.

The PCIE fully recognizes the importance of maintaining the integrity of the office and has, over the years, attempted to address concerns about accountability of Inspectors General, an issue also before this subcommittee. The PCIE supported and was instrumental in the drafting of Executive Order 12993, issued March 21, 1996. That order established the PCIE Integrity Committee, chaired by the FBI, as a formal mechanism empowered to review and, if appropriate, investigate allegations against IGs and certain senior staff members of IGs. If their investigation justifies further action, the Committee's report is forwarded to the Chair of the PCIE who, in turn, forwards it to the head of the agency involved for appropriate action. This Executive Order formalizes what had been an Allegations Review Subcommittee under the Integrity in Law Enforcement Committee, which the PCIE created in 1990. Prior to 1990, the PCIE had an informal working group which was a clearinghouse for allegations against IGs and their staffs.

The PCIE fully understands that integrity is, above all else, key to the credibility of individual IGs as well as the entire Inspector General community. With a formal process now in place as a result of the Executive Order, we intend to continually work with the Integrity Committee to help insure professional and timely investigations in this most critical area.

CONCERNS FOR THE FUTURE

I understand that the Subcommittee is interested not only in the major issues facing IGs today but also in ways in which the IGs can be strengthened for the future. I would like to conclude by focusing on what I see as some areas of growing concern for the Inspector General community. There are several emerging issues that cut across the community. These include:

- Cyber Fraud: The potential for criminal activity in the cyber environment continues to grow as government agencies increase reliance on electronic commerce and

processes. This creates not only a need for increased IG focus but also for specialized skills training and expertise throughout the IG community. This is a growing area of difficulty for IGs, not only in competitively attracting individuals with this expertise, but also in training and maintaining these skills in-house.

- **Record Retention and Digital Signatures:** As government and industry move to a paperless environment, there is a need to determine what records should be maintained in a non-electronic format. The move to electronic commerce and electronic filing systems has also raised the need to develop digital signatures that would authenticate original documents. Obviously, these are areas of concern for prosecutorial and law enforcement agencies, including the IGs, since they could substantially impact the government's ability to obtain the proof required for criminal prosecutions.
- **Outsourcing:** As efforts to streamline government continue, agencies are being encouraged to outsource functions that have been performed in-house. As IGs are increasingly relied upon to perform independent validation of outsourcing studies as required by OMB Circular A-76, this will create additional resource burdens for the community. Moreover, as outsourcing continues, there are legitimate questions about the extent to which government can maintain adequate oversight of the taxpayer dollars being directed to the private sector.
- **Potential amendments to the False Claims Act:** Members of industry have recently suggested changes to the False Claims Act, Section 3729-3733 of Title 31 United States Code. The Act has been an invaluable tool to the IGs and others in efforts to combat fraud against the government. Some recent proposals would limit the impact of the Act by raising the required standard of proof and decreasing the amount of applicable penalties. While some have suggested that the Act subjects simple innocent mistakes to unreasonable penalties, that argument is inconsistent with the clear language of the Act. What is undisputed is the fact that the Act has been a significant player in government efforts against fraud and abuse: in the last five years (FY 1993-1997) \$844,714,737 was collected as a result of DoD investigations of False Claims Act violations.
- **Resources -** Now may be the appropriate time to explore innovative ways to insure needed resources for Inspectors

General, including such things as asset forfeiture, retention of a portion of recovered penalties, and variations of the concepts embodied in the Health Fraud and Abuse Control Program, created in the Health Care Insurance Accountability and Portability Act (P.L. 104-191). As I have reported to the DoD and Congress on several occasions, including my last three IG semiannual reports to the Congress, I am very concerned that ongoing budget cuts at the DoD IG will adversely impact the adequacy of audit and investigative coverage of high risk areas. To be frank, my biggest concern has not been with the current provisions of the IG Act, which for the most part, have served us well. Rather, the biggest problem for my organization has been the continuing difficulties we face in coping with programmed downsizing. We have undergone staff reductions of 21 percent since 1995 and are currently scheduled to undergo further cuts of an additional 16 percent in the next three years. Despite our significant efforts at reengineering, we are quickly reaching the point where we can no longer overcome increasing workload demands with productivity increases while continuing to downsize. This is occurring during an era of turbulence and considerable risk for all of government as it struggles with the introduction of new processes, reorganizations, downsizing, increased stress on the workforce, outsourcing, and increased reliance on automated systems. Inadequate investment in a sound and effective Inspector General effort compounds the problems and the risks already facing government. There is no question that professionalism, independence and accountability are essential to effectiveness in IG efforts but, so too, are adequate resources.

In closing, let me assure you that I, and my colleagues in the PCIE, stand ready to work with you to improve and strengthen the entire Inspector General community.

Mr. Chairman, that concludes my prepared remarks. I would be happy to take any questions.