

1 compare it to the Federal Government's budget of \$3.5
2 trillion. But, if you add it all up--and we are talking
3 about well over a billion dollars in budget authority every
4 year that has virtually no oversight--\$1 billion is not
5 small, even by Washington standards.

6 When there is no oversight and accountability, money
7 gets wasted and mismanagement goes unaddressed. At the
8 National Mediation Board, for example, GAO recently cited a
9 number of management challenges, many of which are the types
10 of challenges generally identified and tracked by an
11 inspector general.

12 For example, NMB contracts have external auditors to
13 review its annual financial statements, but the auditors are
14 limited in scope only to the areas they are specifically
15 hired to evaluate.

16 When GAO asked the NMB what sort of process they had in
17 place for addressing the auditors' findings and
18 recommendations, NMB officials said they had no formal
19 process. Instead, they just assumed that any deficiencies
20 cited by the auditors would get resolved sometime before the
21 topic was reviewed again.

22 At the Federal Mediation and Conciliation Services,
23 which also has no statutory relationship with an IG, it took
24 whistleblowers to uncover gross mismanagement. To their
25 credit, the Federal Mediation and Conciliation Services did

1 take these concerns to the inspector general for the
2 National Labor Relations Board and asked that office to
3 investigate.

4 The NLRB IG generally substantiated claims that FMCS
5 was abusing its purchase card account to pay for employees'
6 home internet service without proper controls and appeared
7 to have paid holiday bonuses to its building's custodial
8 employees with checks from the purchase card account, among
9 other problems.

10 I think most of the folks at these agencies are
11 hardworking people just trying to do their jobs. But, when
12 there is no independent inspector general asking any
13 questions, problems can be missed or ignored. And, when
14 there is no oversight, those problems have a tendency to
15 fester and build and never get resolved.

16 Some small agencies actually do have IGs to oversee
17 them, but a small agency is going to have an even small IG.
18 Some IG offices are as small as one person, and that
19 presents its own set of issues and problems.

20 For example, small IG offices may lack the resources
21 necessary to conduct management and program oversight
22 because of the number of required audits they have to
23 conduct by law. IGs are required to conduct information
24 security audits annually.

25 This is obviously a serious concern, and I do not want

1 to minimize it. But the result of these required audits is
2 that a small IG office, through no fault of its own, simply
3 may not have the resources to provide adequate oversight of
4 the agency's programs and expenditures.

5 Based on these concerns, I have begun to work on
6 legislation to address the need for more efficient and
7 effective oversight for small agencies. The Subcommittee
8 has been working on a draft which was circulated to you
9 before this hearing. I look forward to hearing your
10 thoughts on these ideas.

11 I want to work through this process together. The goal
12 here is strong oversight of every Federal dollar. And you
13 are the experts, so I welcome your feedback.

14 The small agencies under discussion today may be small
15 potatoes in the vast Federal Government. I doubt that
16 anyone who is not in the rail or airline industry knows what
17 the National Mediation Board does or how it differs from the
18 National Labor Relations Board. I am sure that unless you
19 are president of a unionized company or a union leader you
20 do not know what the Federal Mediation and Conciliation
21 Service is.

22 But I also believe that it is at these small agencies
23 that effective oversight can make a huge difference. This
24 is low-hanging fruit.

25 I thank the witnesses for being here. I really

1 appreciate having the opportunity to convene a panel of
2 professionals who represent a wide swath of government
3 oversight. The witnesses here today represent a diverse
4 spectrum of IG offices. And we will also hear from the GAO,
5 which sets the gold standard for oversight through its own
6 work and by developing the government auditing standards,
7 known by us that have a lot of affection for the audit world
8 as the Yellow Book.

9 I look forward to the witnesses' testimony and our
10 discussion.

11 Senator Johnson.

12 OPENING STATEMENT OF SENATOR JOHNSON

13 Senator Johnson. Thank you, Madam Chair. I appreciate
14 your holding this hearing.

15 I, like you, have a great deal of respect for the type
16 of information the inspectors general provide to Congress,
17 to give us the information to hopefully write good
18 legislation, to make this government efficient. So I am
19 just looking forward to the testimony from the witnesses.

20 Thanks.

21 Senator McCaskill. Thank you, Senator Johnson.

22 Let me introduce the witnesses, and then we will
23 proceed with testimony.

24 Peggy Gustafson is the Inspector General for the Small
25 Business Administration and the Chair of the Legislation

1 Committee of the Council of Inspectors General on Integrity
2 and Efficiency, known as CIGIE. Prior to becoming Inspector
3 General, Ms. Gustafson was my general counsel, where she
4 wisely advised me on oversight issues and helped write
5 legislation that has significantly strengthened the offices
6 of inspectors general. From 1997 to 2007, Ms. Gustafson was
7 my general counsel when I served as State Auditor of the
8 State of Missouri.

9 Osvaldo Gratacos? Close?

10 Mr. Gratacos. Close enough.

11 Senator McCaskill. Close enough. Is the Inspector
12 General for the Export-Import Bank of the United States.
13 Prior to that, Mr. Gratacos served as acting inspector
14 general and deputy inspector general and counsel.

15 Previously, Mr. Gratacos worked as a commercial counsel for
16 Motorola with worldwide responsibilities for Federal
17 transactions and also covered the Latin American region for
18 commercial transactions.

19 Hubert Sparks is the Inspector General for the
20 Appalachian Regional Commission. Mr. Sparks has 46 years of
21 service in the Federal Government. He was the first
22 inspector general for the Appalachian Regional Commission
23 and the Denali Commission and has also served at the Offices
24 of Inspector General for the U.S. Department of Agriculture,
25 the Veterans Administration and the Department of Homeland

1 Security. Mr. Sparks previously served as Chair of the
2 Small Inspectors General Group at the Council of Inspectors
3 General for Integrity and Efficiency.

4 Michael Carroll is the Acting Inspector General for the
5 U.S. Agency for International Development, known as USAID,
6 and has served in that capacity since 2011. Prior to that,
7 Mr. Carroll was deputy inspector general. Mr. Carroll has
8 over 28 years of public service, and prior to his time at
9 USAID, Mr. Carroll served as the Director of Administration
10 for the Bureau of Industry and Security in the Department of
11 Commerce.

12 Beryl Davis is the Director of Financial Management and
13 Assurance team at the Government Accountability Office,
14 where her responsibilities include audits related to
15 improper payments, grants management, agencies' internal
16 controls and Federal inspector general issues. Ms. Davis
17 also serves as the GAO's representative in addressing
18 standard-setting processes and activities of the
19 International Organization of Supreme Audit Institutions.

20 That is an awesome name, isn't it? Supreme Audit
21 Institutions. Wow.

22 Before joining the Federal Government, Ms. Davis served
23 as Vice President, Standards and Guidance for the Institute
24 of Internal Auditors. She also served as Director of Audit
25 Services and Management Support for the City of Orlando.

1 It is the custom of this Subcommittee to swear all
2 witnesses. If you would not mind, I would ask you to stand.

3 Do you swear the testimony you are about to give before
4 this Subcommittee will be the truth, the whole truth and
5 nothing but the truth; so help you, God?

6 Ms. Gustafson. I do.

7 Mr. Gratacos. I do.

8 Mr. Sparks. I do.

9 Mr. Carroll. I do.

10 Ms. Davis. I do.

11 Senator McCaskill. Thank you very much.

12 We will begin with Ms. Gustafson.

1 TESTIMONY OF THE HONORABLE PEGGY E. GUSTAFSON,
2 INSPECTOR GENERAL, U.S. SMALL BUSINESS
3 ADMINISTRATION

4 Ms. Gustafson. Good morning, Chairman McCaskill,
5 Ranking Member Johnson. On behalf of the Chair of the
6 Council of Inspectors General on Integrity and Efficiency,
7 CIGIE, I am honored to represent the Federal inspector
8 general community this morning in my capacity as Chair of
9 CIGIE's Legislation Committee.

10 Let me begin by again thanking this Subcommittee for
11 your continuing support of our mission and your interest in
12 our work.

13 As you know, CIGIE serves a leadership role as the core
14 of the IG community. Together, the work of the IG community
15 results in significant improvements to the economy and
16 efficiency of programs governmentwide, with potential
17 savings totaling approximately \$46.3 billion in 1 fiscal
18 year. With the IG community's aggregate fiscal year 2012
19 budget of approximately \$2.7 billion, these potential
20 savings represented about a \$17 return on every dollar
21 invested in offices of inspector general.

22 The IG Reform Act established CIGIE in 2008 to serve as
23 its unified council of statutory Federal IGs to carry out 2
24 specific missions--to address the economy, integrity and
25 effectiveness issues that transcend individual government

1 agencies and to increase the professionalism and
2 effectiveness of personnel by developing policies, standards
3 and approaches to aid in the establishment of a well-trained
4 and highly skilled workforce in offices of inspector
5 general.

6 Over the past several years, the IG community has
7 identified and addressed a number of issues that transcend
8 individual agencies. Among CIGIE's reports, we have
9 addressed topics such as cyber security, suspension and
10 debarment, the use of new media, IG hotline operations,
11 whistleblower protections and inspector general oversight of
12 the American Recovery and Reinvestment Act of 2009. These
13 reports and others are publically available on CIGIE's web
14 site.

15 Our training and professional development mission is
16 addressed through our training institute. The institute is
17 still in the developmental phase, but in fiscal year 2012
18 the institute delivered specialized training courses to
19 1,677 students, which was a 17 percent increase in students
20 from the previous year.

21 CIGIE does recognize that not every agency experiences
22 independent oversight by an inspector general and offices of
23 inspector general vary in their available resources and law
24 enforcement powers necessary to conduct effective oversight.

25 In the past, CIGIE has played a role in facilitating

1 requests for assistance to ensure effective agency oversight
2 by an office of inspector general.

3 Where IGs lack law enforcement powers, CIGIE has served
4 as a quick and efficient means to communicate requests for
5 such support from other members of the community.

6 CIGIE has also been called upon for ad hoc requests
7 such as assistance by its members to ensure effective
8 oversight of the agencies under the particular OIG's
9 jurisdiction.

10 CIGIE will continue to provide this facilitation role
11 and support requests to promote the efficiency and effective
12 oversight.

13 I want to just briefly mention that we are also
14 grateful for the introduction of Senate Bill 1953, the
15 Oversight Workforce Improvement Act, by Chairman Tester and
16 Senator McCaskill and the support of that bill by its co-
17 sponsor. This bill does recognize certain challenges faced
18 by the IG community and addresses most concerns offered by
19 CIGIE in its March 19, 2013 letter to OMB, which outlines
20 our current legislative initiatives.

21 In addition to the legislative changes championed by
22 1953, CIGIE continues to feel strongly that IGs should be
23 exempted from the Computer Matching and Privacy Protection
24 Act relative to using electronic means to identify those who
25 improperly receive Federal assistance. And, as always, I am

1 here to answer any questions about that, but I definitely
2 wanted to mention that while I was here.

3 I am grateful that IGs across the government have a
4 voice through CIGIE and have access to training and other
5 resources that did not exist prior to the IG Reform Act. We
6 also have an unprecedented degree of transparency in our
7 annual budget request, which helps assure independence.

8 This does conclude my verbal testimony.

9 Again, I want to thank you for inviting me here this
10 morning, and I will be pleased to answer any questions you
11 may have.

12 [The prepared statement of Ms. Gustafson follows:]

1 Senator McCaskill. Thank you.

2 Mr. Gratacos.

1 TESTIMONY OF THE HONORABLE OSVALDO L. GRATACOS,
2 INSPECTOR GENERAL, EXPORT-IMPORT BANK OF THE
3 UNITED STATES

4 Mr. Gratacos. Good morning, Madam Chair, Ranking
5 Member Johnson and other members of this Subcommittee.

6 Thank you for the invitation and opportunity to testify
7 before you today about the oversight of small Federal
8 agencies, specifically about my experience as the Inspector
9 General of the Export-Import Bank.

10 On Tuesday, I had an opportunity to read the draft bill
11 circulated to us on Monday afternoon. The proposed draft
12 bill could disrupt the operation of some of the established
13 small IGs that have already found solutions to some of the
14 challenges I discuss in my written testimony.

15 There are a number of ways to strengthen small IGs, and
16 that is the discussion my testimony is intended to
17 accomplish.

18 During my short testimony today, I would like to
19 summarize Ex-Im Bank's mission, present a short history of
20 Ex-Im Bank's OIG since we are one of the newest OIGs--
21 Presidentially-appointed OIGs--and discuss some of the
22 challenges my office has faced since its inception.

23 Before I continue, I would like to thank the Almighty
24 for the opportunity, my family and the members of the OIG
25 staff for their hard work.

1 Ex-Im Bank--for some of you who do not know, Ex-Im Bank
2 is the official credit agency of the United States. It
3 supports the financing of U.S. goods and services in
4 international markets, turning export opportunities into
5 actual sales that helps U.S. companies of all sizes create
6 and maintain jobs in the United States.

7 Ex-Im Bank has programs to address short, medium and
8 long-term needs of exporters, assuming the credit and
9 country risks the private sector is unable or unwilling to
10 accept.

11 In fiscal years, 2012 and 2013, Ex-Im Bank approved
12 over \$60 billion in export transactions combined.

13 Ex-Im Bank's portfolio has increased by 94 percent
14 since 2008, which is when the OIG was created. So the
15 exposure increased from \$58 billion to \$113 billion as of
16 the end of last year.

17 In the current charter, Ex-Im Bank has authority to
18 approve up to \$140 billion in export transactions.

19 Ex-Im Bank OIG was created in 2002, but the inspector
20 general did not officially take office until August 2007.
21 The OIG has achieved noticeable success in performing its
22 statutory duties. Specifically, since fiscal year 2009, we
23 have issued over 40 audits, inspections and special reports
24 containing 170 findings, recommendations and suggestions for
25 improving Ex-Im Bank programs and operations.

1 Our law enforcement have resulted in a number of
2 actions, including over 70 indictments and informations, 45
3 convictions, 40 guilty pleas entered in court, over 400
4 management referrals for enhanced diligence actions and
5 approximately \$300 million in court-imposed restitution,
6 forfeitures or repayments to the bank.

7 All of this has been accomplished with a very modest
8 budget, starting at approximately \$1 million and gradually
9 increasing, or rising, to about \$5 million for this current
10 fiscal year.

11 But, as a small IG, my experience offers some
12 highlights of some of the challenges that we face when we
13 are establishing a new office or we are running a small
14 office. Because of limited resources, I often rely on the
15 agency to provide essential support functions, like IT,
16 personnel management and financial management.

17 As a small IG, I can name some of the challenges that
18 we face--access to information, adequate office space, which
19 is one of the challenges we had at Ex-Im Bank, and human
20 resources support, for example.

21 Despite these challenges, in my opinion, we have
22 provided effective oversight of Ex-Im Bank, as our numbers
23 show.

24 Madam Chair, Ranking Member Johnson and members of this
25 Committee, thank you once again for the opportunity to

1 testify before you today. I will be pleased to respond to
2 any questions you may have. Thank you.

3 [The prepared statement of Mr. Gratacos follows:]

1 Senator McCaskill. Thank you.

2 Mr. Sparks.

1 TESTIMONY OF THE HUBERT SPARKS, INSPECTOR GENERAL,
2 APPALACHIAN REGIONAL COMMISSION

3 Mr. Sparks. Good morning, Chair McCaskill and Ranking
4 Member Johnson.

5 I welcome the opportunity to discuss OIG oversight of
6 small agencies. My comments are based on 44 of my 47 years
7 being in the OIG community, including 29 years at major IGs
8 and 15 years at IGs in small agencies.

9 I guess I am representing the very smallest OIGs.

10 I surely believe that independent oversight of Federal
11 spending and program operations is sound policy. Although
12 OIGs generate very impressive statistics, including large
13 potential benefits, one, if not the primary, benefit of an
14 OIG presence is the preventive and deterrent value of such
15 offices regardless of the size of the IG office.

16 My written statement emphasized the optional structures
17 providing an OIG presence in entities that currently do not
18 have independent OIG oversight. These options included:

19 Small agencies contracting with OIGs for services. I
20 am not a fan of that because of some of the challenges that
21 Chairman McCaskill mentioned about getting full authorities
22 for these contracts.

23 A permanent IG presence. I do not believe a permanent
24 IG presence is necessary at some of the very small entities
25 that were in the discussion draft you had for having an IG

1 presence. There may be a few of those that deserve a full-
2 time independent IG.

3 The primary options that I would recommend are
4 legislative oversight provided by another IG office, and
5 this could be either from a large IG office or one of the
6 smaller IG offices, depending on the size of the entity for
7 which oversight is requested.

8 Another option which I supported at the end for my
9 agency is establishing OIG responsibilities for oversight of
10 several of the smaller entities for which independent
11 oversight is proposed.

12 I would be glad to discuss these options.

13 I appreciate the efforts of the Committee on this
14 important issue. However, I would like to spend a minute or
15 so.

16 At the time of my written statement, I did not realize
17 the proposal would include the elimination of nine
18 Designated Federal Entities' smaller IGs. Thus, I would
19 like to take a minute to comment on this aspect of the
20 proposal.

21 Although I will be completing my final retirement
22 shortly and thus have no direct horse in this race, so to
23 speak, I have concerns with the elimination of the noted DFE
24 OIGs.

25 Recognizing Chairman McCaskill's comments about the

1 challenges that smaller IGs face, I also believe that
2 elimination would substantially reduce the level of
3 oversight provided to their respective agencies, and this
4 might be somewhat contrary to our overall objective of
5 providing oversight to all Federal funds.

6 Expertise gained over many years in the experience of
7 running a smaller IG and dealing with the challenges and
8 dealing independently with agency heads and senior officials
9 on a regular basis would be reduced.

10 I do not know the criteria for reaching elimination
11 conclusions, but I do not believe such issues maybe as just
12 the size of our current staff should be primary factor. I
13 think it should be how much we are benefitting and what
14 value we provide to the agencies we now oversight.

15 Also, the cost of service provided by another IG would
16 probably at least equal current OIG costs if the level of
17 oversight is to be maintained. However, the very important
18 element of onsite presence would be significantly reduced.

19 Other practical matters involve the staffing of
20 oversight of smaller agencies by the acquiring OIG and the
21 large IG's interest or enthusiasm with respect to providing
22 such services, considering the high-risk programs that large
23 IGs have to oversight.

24 I also believe established smaller IGs can provide
25 necessary oversight to smaller entities without such

1 oversight and could concentrate more directly on this
2 responsibility than large IGs who, admittedly, have far
3 higher priorities.

4 I was somewhat surprised the employee rights section of
5 the discussion draft provides that newly assigned IGs will
6 determine whether staff of the transferred IG will be
7 employed. This basically results in smaller IGs, most of
8 whom are long-term career employees who earned their
9 positions through demonstrated performance, not only having
10 their organizations abolished but also being subject to
11 termination if the acquiring IG does not pick them up.

12 I would suggest that the legislation, if it goes
13 forward, clearly transfer the staff of the smaller IGs to
14 the acquiring IG and those staff would be part of the normal
15 evaluation process and assessed on how their performance is
16 rather than kind of having to wait in limbo to see for a
17 year if they are going to be picked up by the major IG.

18 I would hope also that the legislation should consider
19 eliminating for now the elimination of the small DFE OIGs.
20 I think it is a good subject for discussion, but I think
21 there should be more discussion with the smaller IGs and
22 with GAO, who established us in the first place.

23 And, if the proposal goes forward, I would recommend
24 that it not include at the present time elimination of the
25 Designated Federal Entities until we could have more

1 discussion of a very important subject.

2 One of the things that I did agree--and I appreciate
3 that it is in the proposed draft--is I and the former IG at
4 the Appalachian Regional Commission have regularly commented
5 that consolidation of our seven small economic development
6 commissions, most of whom are supposed to have a legislated
7 IG, be consolidated into one IG office.

8 These commissions are very unique joint state/Federal
9 partnerships paid for partially by state funds, partially by
10 Federal funds. And, currently, there is only one IG
11 presence in all seven, and that is me at the Appalachian
12 Regional Commission.

13 And I do believe that that kind of a consolidation
14 would be very valuable. I do not mean this to be supportive
15 of other consolidations for which my knowledge is limited.

16 Thank you very much. I would be glad to answer any
17 questions.

18 [The prepared statement of Mr. Sparks follows:]

- 1 Senator McCaskill. Thank you, Mr. Sparks.
- 2 Mr. Carroll.

1 TESTIMONY OF MICHAEL G. CARROLL, ACTING INSPECTOR
2 GENERAL, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

3 Mr. Carroll. Chairman McCaskill, Ranking Member
4 Johnson, I appreciate the opportunity to appear before the
5 Committee today to discuss and share my experiences and the
6 experiences of the USAID OIG in providing oversight for five
7 Federal agencies, ranging in size from \$24 billion to \$22
8 million.

9 And I look forward to the opportunity to work with you
10 and your staff. I have a vested interest in this
11 legislation, and I really look forward to working with you
12 to move this legislation forward.

13 I think that, at least in my opinion, the consolidated
14 model that you are considering here is clearly an effective
15 model for providing oversight of small agencies. You get
16 economies of scale. You get functional depth. And you get
17 a critical mass of oversight that really allows for
18 effective oversight of smaller agencies.

19 Now the consolidated model works for us particularly
20 because we have sort of organizational alignment, if you
21 will, with the agencies in our portfolio. All of the five
22 agencies that we are responsible for are foreign
23 affairs/foreign assistance agencies that deliver their
24 oversight in developing countries, and the organizational
25 depth that we have to oversee that is substantial over the

1 years.

2 We are a Foreign Service organization, as you know, and
3 we have the technical expertise and the structural
4 infrastructure in place to support oversight, whether it is
5 a billion dollar AID program in Afghanistan, whether it is a
6 \$500 million program for MCC in Africa or whether it is a
7 \$10,000 IAF grant in Latin America. So, regardless of the
8 agency, the modality or the scale, we have the technical
9 expertise to oversee those programs.

10 The other thing that consolidation brings--and I will,
11 you know, refer to IG Gratacos's written testimony--is
12 economies of scale with administrative services. I think we
13 would all agree that effective oversight is independent
14 oversight. And it is difficult, I realize, for the small
15 IGs getting their administrative services from their
16 agencies to be as independent as they would like to be.

17 At the AID IG, we maintain and operate our own
18 administrative services separate from the agency. There is
19 a cost incurred there, but I think it is money well spent.
20 And it allows us to very effectively and equitably
21 distribute our administrative overhead across the five
22 agencies that we are responsible for.

23 I think the other thing that--the other benefit that
24 consolidation gives you when you have alignment with the
25 businesses of your organizations--and we have talked about

1 this before in a special IG context--is strategic, or cross-
2 cutting, oversight of whatever the line of business is.

3 For us, it is foreign assistance. So we have oversight
4 currently of the five primary foreign assistance agencies in
5 the United States Government, and that gives us the ability
6 and the sort of strategic look at that sector and provide
7 oversight if, in fact, there was a need to do that.

8 I would like to, if I could, just identify one
9 challenge that we have had in overseeing five Federal
10 agencies that I do not think right now, the way I have seen
11 the draft legislation, is as good as it could be.
12 Certainly, this is great legislation, but there is one
13 particular issue I would like to bring up.

14 Our construct is we were created in 1980 based on the
15 IG Act. So it is very clear what our authorities are as it
16 relates to the OIG as it relates to AID.

17 The other four agencies--the Overseas Private
18 Investment Corporation, the Inter-American Foundation, U.S.
19 African Development Foundation and MCC--our authorities
20 there come from a wide array of legislation over time that
21 is not, in my opinion, as effective as the IG Act.

22 So, for example, six months into the fiscal year of
23 2014, we are still negotiating with OPIC on an oversight
24 package.

25 And, while this is not the case anymore under Daniel

1 Yohannes, but prior to his leadership at MCC, we had
2 historically a very difficult relationship with them
3 because, as we were trying to apply the authorities that we
4 had and the responsibilities that we had to oversee their
5 programs, they did not see the nexus or the authority. In
6 fact, I had a conversation at one point with the deputy CEO
7 of MCC, when we were trying to implement a particular
8 requirement that we had, and he said that is your problem,
9 not mine.

10 So I do not think that the Committee wants to see any
11 of the IGs in a position where we are negotiating our
12 authorities.

13 So I think, ideally--and this may be difficult, but
14 ideally, what I would love to see is when we--when you
15 implement this implementation, that the authorities for all
16 of these entities, even the ones currently under my
17 authority, are all captured in the IG Act.

18 That would have the added benefit of creating a nexus
19 to this Committee that might not exist right now for those
20 other four agencies. It certainly does with AID, where we
21 have oversight over the IG function. But by virtue of the
22 fact that those four agencies are not captured in the IG
23 Act, it creates uncertainty, if you will, not that you could
24 not exert your authority if you wanted to.

25 So that is the one real critical piece of feedback I

1 would like to give the Committee.

2 And then, as several people at the table have stated,
3 it is a challenge to stay focused on the small organizations
4 when you have large organizations that you are overseeing.
5 You have Senator McCaskill, with Senator Coburn, wanting to
6 know what is going on in Afghanistan or Iraq, and you have
7 still got to worry about that \$10,000 grant that IAF is
8 issuing in Latin America.

9 So it is not impossible, and it is certainly doable,
10 but it is just the IGs really have to stay focused on their
11 entire portfolio. And I would submit that at five agencies
12 I am about the edge of the span of control that you would
13 want for an IG.

14 And I appreciate the fact that in the legislation that
15 the Ex-Im IG could pick up OPIC, and I think that makes
16 sense from a line of business point of view, that it much
17 more aligns with his operation than it does with mine.

18 So I appreciate the opportunity to appear here, and I
19 am happy to answer any questions that the Committee might
20 have.

21 [The prepared statement of Mr. Carroll follows:]

1 Senator McCaskill. Thank you.

2 Ms. Davis.

1 TESTIMONY OF BERYL DAVIS, DIRECTOR, FINANCIAL
2 MANAGEMENT AND ASSURANCE, U.S. GOVERNMENT
3 ACCOUNTABILITY OFFICE

4 Ms. Davis. Chair McCaskill, Ranking Member Johnson,
5 thank you for the opportunity to be here today to discuss
6 oversight of the small Federal agencies.

7 My testimony will focus on the creation of independent
8 inspector general offices, IG oversight of small agencies,
9 and IG independence and budgetary resources.

10 The Inspector General Act of 1978 established IG
11 offices with IGs appointed by the President and confirmed by
12 the Senate in 12 major departments and agencies of the
13 government. Their responsibilities include conducting and
14 supervising audits and investigations, recommending policies
15 to promote economy, efficiency and effectiveness, and
16 preventing and detecting fraud and abuse in programs and
17 operations.

18 Since then, additional IGs have been added through a
19 series of amendments to the Act. The 1980 amendments
20 established IGs in Designated Federal Entities, also known
21 as DFEs, with responsibilities similar to those of IGs
22 appointed by the President.

23 However, there is a clear distinction. They are
24 appointed and removed by their agency heads rather than by
25 the President and are not confirmed by the Senate.

1 GAO has long supported the creation of independent IG
2 offices in appropriate Federal departments, agencies and
3 entities. In 2001, when asked to review the need for an IG
4 at the Export-Import Bank, we presented just one option,
5 establishing a new IG office with an IG appointed by either
6 the President or by the Export-Import Bank chairman.

7 We have also recommended that certain small agencies
8 could benefit by obtaining IG oversight from another
9 agency's IG office where the missions of the two agencies
10 are somewhat similar. In 2008, we reported on the
11 responsiveness of the Chemical Safety Hazard Investigation
12 Board to past IG recommendations. The Environmental
13 Protection Agency IG had been providing oversight to the CSB
14 since 2004 through a temporary mandate.

15 Our review disclosed that the CSB was not investigating
16 all accidental chemical releases that involved a fatality,
17 serious injury or substantial property damage. As a result,
18 we proposed alternative oversight mechanisms to give the EPA
19 IG permanent oversight authority.

20 In a recent example, our review of the programs and
21 management practices of the National Mediation Board
22 concluded in a 2013 report that this small agency with a
23 vital role in facilitating labor relations in the Nation's
24 railroads and airlines lacked certain internal controls that
25 could help achieve results and minimize operational

1 problems. We recommended that an existing Federal agency's
2 IG office provide independent audit and investigative
3 oversight.

4 Independence is the cornerstone of professional
5 auditing and one of the most important elements of an
6 effective IG function. The IG Act provides protections to
7 IG independence that are necessary in large part because of
8 the unusual reporting relationships of the IGs who are
9 subject to the general supervision of their agency heads
10 while, at the same time, reporting externally to the
11 Congress.

12 The IG Act provides the IGs with independence by
13 authorizing them to select and employ their staffs and
14 make such investigations and reports as they deem necessary.

15 The IG Reform Act of 2008 further enhanced IG
16 independence and accountability by specifying the levels of
17 basic pay for IGs and requiring IGs to obtain legal advice
18 independent of their agencies.

19 It also provides a process for handling allegations of
20 wrongdoing by IGs so that such reviews are not done by the
21 management officials or subject to IG oversight. The Act
22 requires both the President and the DFE heads to give
23 Congress notice at least 30 days before removing an IG.

24 In addition, the Reform Act helps ensure IG
25 independence through adequate funding by requiring the IG

1 budget requests be separately identified in the President's
2 budget submission to Congress.

3 The Dodd-Frank Act of 2010 amended the IG Act with
4 provisions to enhance the independence of IGs in DFEs, who
5 may now report to the entire board or commission rather than
6 an individual chairman. A two-thirds majority of the board
7 or commission is required to remove the IG.

8 With the growing complexity of the Federal Government
9 and the fiscal constraints under which it operates, it is
10 important that an independent, objective and reliable IG
11 structure be in place where appropriate to ensure adequate
12 audit and investigative coverage. IG offices play a key
13 role in Federal agency oversight by enhancing government
14 accountability and protecting the Nation's resources.

15 There are different alternatives for IG oversight. The
16 determination of where and how to provide IG oversight in
17 specific agencies is a policy decision best addressed by the
18 Congress.

19 This concludes my prepared statement, Chair McCaskill
20 and Ranking Member Johnson. I would be pleased to answer
21 any questions you may have.

22 [The prepared statement of Ms. Davis follows:]

1 Senator McCaskill. Thank you all.

2 We have got an awful lot of expertise at this table,
3 and I am going to try to let you all guide this discussion
4 as much as possible so we can pick your brain on the right
5 way to get this fixed.

6 Is it inaccurate for me to say that right now for 41
7 different agencies or commissions the only time they get
8 independent oversight is if they ask for it? Does anybody
9 disagree with that statement?

10 [Witnesses shaking heads negatively.]

11 Senator McCaskill. So that is a problem because I have
12 not noticed in this business that your phone rings off the
13 hook for people calling and saying, please come look at us;
14 please come see us.

15 And also, am I correct in saying if, in fact, for some
16 reason they do call they get to pick and choose what you
17 look at? Is that correct?

18 Mr. Carroll. That is correct.

19 Senator McCaskill. So not only is it up to them to
20 decide if they want someone to take a look; it is also up to
21 them as to what you get to look at.

22 And I would like you, Mr. Carroll, to speak a little
23 bit about your experience with negotiating with OPIC. Are
24 you negotiating over cost because there is not a budget
25 line, or are you negotiating over scope?

1 Mr. Carroll. Scope. If you look back at the history
2 of our relationship with OPIC--and I am not going to
3 question the wisdom of Congress, but over time, in the
4 Foreign Assistance Act, our authorities have eroded. That
5 was a conscious decision that the Congress made to sort of
6 weaken our authorities, if you will.

7 Senator McCaskill. I wonder why. Do you know?

8 Mr. Carroll. I know the history. For example, at some
9 points, OPIC was given responsibility for conducting their
10 own financial statement audit, and you know, I would not
11 agree with that. I would never agree with that, and I do
12 not think you would either.

13 So--and one of the fixes that I have seen in the draft
14 legislation is our authority is "may" and the new authority
15 is "shall." And I think that is very important. It might
16 seem like a nuance, but it is clear in the material.

17 And literally, at this point, we do not have the
18 authority to do audits; that is clear. We have the
19 authority to conduct investigations and reviews.

20 So now we are in negotiation with them, six months into
21 the fiscal year, trying to do a risk assessment, for
22 example, and they will not sign the MOU with the risk
23 assessment in it because they are stating that there will be
24 an OPIC IG in 2015 based on the Power Africa Act. And they
25 are waiting on that, and they think this would be a waste of

1 money and be duplicative.

2 So I just--it is an untenable situation.

3 Senator McCaskill. They are waiting for legislation
4 from Congress?

5 Mr. Carroll. Yes. Right. There is legislation in the
6 House, if I am not mistaken. It is called the Power Africa
7 Act.

8 Senator McCaskill. You need to please explain to them
9 that may be "Waiting for Godot."

10 Mr. Carroll. Right. So there needs to be
11 communication here within the Congress.

12 But--so it is untenable. You know.

13 Here we are, and you know, they have been successful.
14 It has been a Fabian kind of defense, and they--I do not
15 want to say they are not negotiating in good faith, but it
16 has been a very difficult, contentious negotiation.

17 Senator McCaskill. Let me also talk a little bit about
18 IG independence. It has always seemed weird to me, since I
19 began learning about IGs when I came to Washington, that we
20 have some IGs that are Presidentially appointed and we have
21 other IGs that the agency hires.

22 Well, that is weird. I do not know how independent you
23 can be if you are subject to the complete control of the
24 head of the agency and if you owe your job to the head of
25 the agency and you owe how you--I mean, I get that you

1 cannot get removed as easily as maybe other employees.

2 Wouldn't there be value--I would love each of you to
3 speak briefly to this, and then I will turn it over to
4 Senator Johnson for some questions.

5 Wouldn't it be better if--I know we have difficulty
6 getting IGs confirmed. No matter what party is in charge
7 and what party has majority, confirmations are always a
8 difficult process, and we have too many people we have to
9 confirm.

10 But this is an area for independent oversight. It just
11 never has made sense to me that you would have an IG that is
12 actually hired by the person that they are supposed to be
13 overseeing, and I would like each of you to speak to that if
14 you are comfortable in doing so.

15 Mr. Sparks. As one of those Designated Federal Entity
16 IGs, I think in my statement I did not push for Presidential
17 for each of us. I think--I do not think--I think it is a
18 good idea. I think it has merits in some sense.

19 My experience is it has not really affected how I--I am
20 talking to most of my fellow smaller IGs--have operated.

21 The IG Act has such powerful authorities. Very few
22 bureaucrats have authorities to look at anything you want
23 and have access to all your records and have subpoena
24 authorities and to issue public reports. And, if they are
25 interfered with by the agency head, we have the right to

1 come to you folks and say we have been interfered with. So,
2 on a practical basis, I think.

3 Prestige-wise, I think it probably adds a little power,
4 the input, when you are dealing with the agency head.

5 The negative part--and I brought this up at our smaller
6 IG group meeting last week, and most did not see a real
7 need. They would certainly accept it, and they certainly
8 see it has some benefits, but they were somewhat concerned
9 that when you went to a Presidential IG the chances of an
10 experienced OIG employee that has come through the ranks to
11 get to be the IG at a small agency might be reduced because
12 there would be a different vacancy--number of candidates and
13 what you mentioned, the time of getting confirmed.

14 But I think basically we have dealt with that. I think
15 it would probably be--if you talked to a lot of the smaller
16 IGs, they might yes, it would probably add a little bit to
17 us.

18 I have been there for 15 years, at ARC, and the Denali
19 Commission for the first 3 years. I did not see that they
20 challenge us too much on our authority.

21 I always make the statement that we all ordered our
22 supervisors. If you are the IG at the Defense Department,
23 appointed by the President, on a day-to-day basis, you are
24 auditing your supervisors because any program you audit goes
25 through the Secretary of Defense. So you are auditing your

1 supervisors just like I audit my supervisors.

2 But we have some--lots of authority. So I think
3 administrative law judges with lifetime appointments have
4 more authorities than IGs, and we have got to use those
5 authorities judiciously.

6 So I have not pushed for that. Let me just stop there.

7 Senator McCaskill. I see both--I understand the
8 arguments you made. I think they are cogent and make sense
9 on both sides of the equation.

10 I have not noticed IGs--in fact, I have been involved
11 in trying to help find IGs for vacant agencies, and the pool
12 has generally respected people in the Federal IG community.

13 I have not noticed this President or, frankly,
14 President Bush--you know, I think the fear might be for
15 people who are not close to this system, that all of a
16 sudden this would become some kind of political appointment
17 as opposed to a professional appointment.

18 But I think that at least the two Presidents that I
19 have worked with since I came to Washington; both of those
20 Presidents, I think, have pretty much just tapped the pool
21 of good IGs that are out in the community that either get
22 moved from a smaller agency to a bigger agency or get moved
23 from an assistant IG to the IG as opposed to outsiders
24 coming in.

25 Mr. Sparks. Chairman, I totally agree with that, and

1 that is the way it goes.

2 And I mentioned to your counsel, Sarah, a couple of
3 weeks ago, as an aside, that if you made the Appalachian
4 Regional Commission IG a Presidential appointment and I
5 could get it, I would extend my life for six months and stay
6 there.

7 Senator McCaskill. There you go. There you go.

8 Ms. Gustafson. If I can just comment just quickly,
9 first off, I was not in that pool, and I am an IG, and I
10 think I would do okay. So it is not always a thing from
11 within the IG pool.

12 But I do want to say, having been on the outside--

13 Senator McCaskill. Let me rush to say that your
14 appointment, though, was based on merit for your many years
15 of service in the audit community.

16 Ms. Gustafson. Well, there is no question.

17 Senator McCaskill. I do not want anybody to think that
18 you were not highly qualified for the position.

19 Ms. Gustafson. No, eight years in an auditor's office.

20 And, actually, there have been a couple of IGs that I
21 can think of off the top of my head. DHS has a new IG who,
22 I believe, is from outside the community as is Michael
23 Horowitz who is from DoJ, who is the DoJ IG, who came from
24 outside the community.

25 So I certainly think that there are certainly strong

1 professionals being nominated who are being named IGs as
2 well that have not had that much experience with the IG
3 community before then.

4 But having been on the outside and not on the inside, I
5 understand your thoughts on Presidential versus DFE.

6 And now that I am an IG I have to say it really is--I
7 have come to really appreciate how strong the IG Act. I
8 mean, IGs are given a great deal of independence through
9 that Act, whether you are a DFE or you are a Presidential
10 appointee.

11 I am asked this question often. I have been asked this
12 question before, about whether there is a level of
13 independence. And I think Mr. Sparks makes a lot of good
14 points, but in the end, as I think you appreciate, it
15 depends on who the IG is.

16 I mean, I think you can be an IG who is a Presidential
17 appointee and allow yourself to get pushed around. You
18 know. Or, you could be a DFE and completely stand up. So,
19 in the end, it really is about the quality of the person as
20 the really the most crucial part.

21 Even understanding, I think, Mr. Sparks makes some
22 really good points, but, yes, I think it is a very strong
23 community with--it is a powerful tool. The IG Act is a very
24 powerful tool that you can use to exert a lot of
25 independence, and I think that we use that.

1 Senator McCaskill. Great. Okay, Senator Johnson.

2 Senator Johnson. Thank you, Madam Chair.

3 Interesting hearing. As I go through my questions,
4 first of all, whoever feels most qualified to answer just
5 chime in because I am not quite sure who I should really be
6 asking these things of.

7 I am coming at this from the perspective of a private
8 sector guy who has gone through a lot of financial statement
9 audits as well as ISO quality systems surveillance audits.

10 A lot of the issues we are discussing here are the same
11 issues involved in the private sector in terms of an
12 independent auditor that if he just comes into a business or
13 an agency cold has got a lot to learn and can also miss a
14 lot because they are not knowledgeable versus somebody who
15 has been with an agency or a company, an auditor long-term
16 that really knows the business and can spot things more
17 quickly but has the potential then, whether it is called
18 auditor capture or inspector general capture, to really lose
19 some independence. I think that is really the difficult
20 issue we are talking about here.

21 Let me start out by asking, within the agencies, what
22 is automatic in terms of inspections or audits every year?

23 Mr. Carroll. Well, there are a number of audits that
24 are required by law. The ones that come to mind are the
25 financial statement audit, the FISMA audit, and there are

1 some other audits that we have to do--IPERA for improper
2 payments, those sorts of things.

3 Senator Johnson. Which of those are contracted with an
4 outside auditing firm--

5 Mr. Carroll. Okay.

6 Senator Johnson. --versus done by the inspector
7 general's office?

8 Mr. Carroll. Right. So I think--well, I will only
9 answer for myself, and I think it has to do with scale, and
10 there is a philosophy.

11 For example, we do the financial statement audit of
12 USAID in-house.

13 We contract it out for the other four organizations
14 because they are smaller organizations and they sort of--
15 well, the two corporations and the two foundations have more
16 of a corporate structure that you are familiar with. So we
17 use outside audit firms that we supervise.

18 But with AID, since we are the indigenous IG, we do
19 that work ourselves. Where we need technical expertise, for
20 FISMA, for example, we will contract that out, to do
21 penetration testing and that thing--and that sort of thing.
22 But, again, we supervise that ourselves.

23 But, generally, we prefer to do all of the audit work
24 ourselves in-house.

25 Senator Johnson. So what is the tradeoff, and how do

1 you guard against that tradeoff in terms of being familiar
2 with the agency, familiar with what part you are auditing,
3 versus really being independent?

4 I know you have got auditing standards and that type of
5 thing. But, in terms of just the basic reality of the
6 situation, that is a really difficult problem, isn't it, and
7 how do you deal with that?

8 Mr. Carroll. Well, maybe I am misunderstanding your
9 question, Senator, but I think by virtue of the fact that
10 the statutory IG or the Federally Designated IG is the one
11 doing the work there is no question of independence there.
12 We understand the systems. We understand the
13 vulnerabilities. We understand the business model. And I
14 think that is a benefit rather than a disadvantage.

15 And I would say, you know, in the corporate world, the
16 for-profit is exactly that--for profit.

17 And I would say we are more independent than for-profit
18 audit organizations on the outside that are looking for the
19 work the next year.

20 Now I am not saying that they would do anything
21 different than we would do, but we are completely
22 independent, and I think that is a strength rather than a
23 weakness.

24 Senator Johnson. Well, I will agree with Ms.
25 Gustafson. It really does depend on the individuals.

1 We certainly saw that within the OIG's office within
2 DHS we had some real questions in terms of independence, and
3 I think that was because of an individual, not necessarily
4 the Act.

5 But, again, you are dealing with people, both in the
6 agencies and the IG's office. So I think it is a serious
7 concern in terms of how you maintain that type of
8 independence.

9 In terms of the consolidation, I see a real problem if
10 you just take an OIG from a particular agency and then
11 provide other smaller agencies that that IG is going to have
12 to provide those inspections for. What type of attention
13 are they going to get? Just speak to that issue.

14 I think from my standpoint it almost seems better to
15 have completely independent OIGs for five different agencies
16 rather than have one associated with one agency and then
17 offload four additional agencies to that one because, again,
18 I just think they are going to have far less attention. So
19 can you speak to that problem?

20 Mr. Gratacos. Well, to our situation, the bill talks
21 about--the draft bills talks about OPIC. And OPIC fits very
22 well with what we do, and that is what IG Carroll was
23 mentioning before. It is the same type of transactions we
24 look into. One is the investment side, which is risk
25 insurance, but they all go into that same process of

1 underwriting. So, for us, we would have the infrastructure
2 to take over OPIC, and it would be an easy match.

3 Now there was a discussion a few years ago on the House
4 side to bring also--I think it was USTDA under us. That was
5 a little different; so, grants. We do not do grants.

6 So, even though it is trade, it is grants. So USAID
7 might be better equipped to handle that.

8 So that is--those are the challenges that we have.

9 And, to go back to the OPIC thing, the discussion they
10 had a year ago or two years ago on the House side, they were
11 talking about only in the audit component and only for a
12 period of time--for two years, three years. We did not
13 think that was effective.

14 I think we need full authorities in the IG Act because
15 many times--and it happens to us at Ex-Im Bank--you are
16 looking at a transaction in an audit and you find fraud.
17 And so we are equipped right on the spot to investigate it.

18 Senator Johnson. Let me go to that because it has been
19 said that it is very important that the missions be similar.
20 I want to just really probe that a little bit.

21 I mean, a financial transaction is a financial
22 transaction. No matter what type of agency, fraud is fraud.
23 There are certain auditing standards. There is a process to
24 go through.

25 I mean, how important is it that the IGs are assigned

1 to agencies with similar missions when you are talking about
2 financial transactions that are common between different
3 agencies no matter what their agency mission is?

4 Mr. Gratacos. I think from our perspective we are
5 looking at, for example, at a product's financial structure
6 overseas, right. It is a little bit different than a
7 financial transaction on the government perspective. So
8 they are more commercial in nature.

9 That is what OPIC does, too. That is what we do. That
10 is what multilaterals do. You know, World Bank, MIGA, IDB.
11 And so that is a different component.

12 Now, when we are talking about financial statement
13 audits, there are very similar components. You can see
14 skills that you can transfer across agencies.

15 Performing audits, that is the Yellow Book. We can do
16 that across agencies.

17 But there are certain components and a certain level of
18 sophistication on the transactions that are involved in some
19 agencies that I think the expertise or the knowledge of at
20 least the basics of the transaction can really save you a
21 year or two of learning how it works.

22 Senator Johnson. Okay. My time has run out.

23 Anybody want to chime in just on the questions I had.

24 Mr. Sparks. Just back to your first question, Senator,
25 I guess as a smaller IG I recommend individual IGs as you

1 were talking about for each agency. I think the presence
2 and the knowledge that you gain with that agency cannot be
3 substituted by a part-time IG from another IG office,
4 particularly a large IG office.

5 My 33 years--in 30 years in the large IGs, I recognize
6 that we assigned and put highest priority on highest
7 priority projects and risks that the agency had. And it is
8 just human nature; we are not going to put our best staff on
9 a \$1 million or \$2 million entity.

10 So I think a separate IG with a budget and a
11 sensitivity to a program is well worthwhile.

12 With respect to the consolidation, what I was talking
13 about is very small agencies that have similar things. When
14 I talked about six economic development commissions, we do
15 exactly the same thing, and maybe one IG knows grants.

16 I have a counsel for--a legal counsel for--as Chair
17 McCaskill said, we have some challenges. Some of those have
18 to get legal counsel investigative help. And we have
19 generally have agreements with an IG that has similar
20 responsibilities as we have if we are going to conduct a
21 fraud investigation or get some legal opinions.

22 So I think I agree with you that, if possible, I do not
23 think it costs any more to have the separate IG even though
24 it is a small staff, with the onsite presence and knowledge
25 of that agency, as opposed to farming it out to another

1 agency who may or may not have targeted staff to put that
2 oversight and may not have the priority that they would have
3 for their regular programs.

4 Senator Johnson. Okay. Thank you.

5 Senator McCaskill. I know this is not in the draft,
6 and I know this is going to stir things up a little bit, but
7 honestly, if I could wave a magic wand, I look at the model
8 of the office that I am most familiar with, which is the
9 state auditor's office, we had the authority to go in
10 anywhere, in a wide variety of places, with a wide variety
11 of different missions, whether it was a highway commission
12 or a county government or whether it was the prison system.

13 And it was our experience that having someone who had
14 done that audit before was helpful, but it was also helpful
15 to have someone on that audit team who had never done that
16 audit before because you had fresh eyes. You had someone
17 who did not have a built-up relationship with the
18 administration and that agency. You had someone who was
19 taking a fresh look at it combined with the expertise of
20 somebody on the team that knew the agency well.

21 So, if we have 41 agencies that have nothing, why
22 couldn't we do an inspector general for small agencies that
23 has a staff large enough to develop the expertise--because
24 here is the problem we are going to have.

25 I could easily have you in front of this Committee, Mr.

1 Carroll, and talk about your risk assessment and say to you,
2 what in the world are you doing, looking at \$10,000 program,
3 when we are hemorrhaging billions in Iraq or Afghanistan,
4 because all of you are tasked professionally with going to
5 the places where there is the highest risk.

6 And my problem is that we are never going to get
7 economies of scale in some of these very small agencies in
8 terms of overhead unless we are going to go to CIGIE or some
9 other organization to provide overhead, which I agree; I
10 think the independence of the overhead--you know, just the
11 day-to-day HR administrative things--is something that can
12 really stress a small IG office to the point that they are
13 consumed with that instead of figuring out what rock they
14 need to look under.

15 So give me--assuming that there would not be a
16 widescale panic in the IG community that everyone was going
17 to be disrupted and their plans for the next 10 or 15 years
18 all of a sudden have disappeared in front of their eyes
19 because they are pretty comfortable where they are and they
20 are pretty sure they can stay at that agency until
21 retirement.

22 Other than that problem, what problem would you see
23 with us trying to fashion the Inspector General of Small
24 Agencies with the kind of competence staff and with the
25 requirement that every agency would have to have a line item

1 to support that agency in commiserate with the size of their
2 agency and the risk they represent?

3 Mr. Carroll. I do not--I will just speak to my own
4 universe.

5 I do not see any problem with that, theoretically, but
6 practically speaking, in my part of the world, it would be
7 very difficult to find a domestic IG that has the kind of
8 expertise and, like I said before, infrastructure.

9 We are a Foreign Service organization. We have people
10 posted around the world. So--and we can bring those people
11 and that expertise and those experiences with SAIs and local
12 law enforcement. We can bring all of that to bear on any of
13 those five agencies' programs being implemented in those
14 countries.

15 So I do not disagree that domestically that might work,
16 but I think in my particular case, if you were looking to
17 take IAF and USADF out from under my portfolio, or OPIC, I
18 would not argue that. I would be happy to do whatever you
19 wanted.

20 Senator McCaskill. I get the international
21 distinction. I think there is some merit to that.

22 Mr. Carroll. Right, right. But, domestically, I think
23 it could make sense, absolutely.

24 Senator McCaskill. I know you have to go back to the
25 IG communities. So I have to be careful here because I am

1 sure this would not be the most popular proposal that has
2 ever been put out by Congress.

3 Mr. Sparks. Well, actually, I agree. One of my
4 recommendations--I was not necessarily talking about
5 established IGs because I do think we want to look at lot
6 harder at them.

7 But one of my recommendations, particularly smaller
8 entities that are being proposed, is one IG. I think that
9 provides an IG staff that has a couple of auditors, a couple
10 of inspectors, a couple of evaluators, a lawyer and a couple
11 of investigators. And they can gain the expertise on those
12 very small programs fairly quickly.

13 A lot of the programs I looked at are basically
14 similar. Providing scholarships to high school students--
15 some of the smaller entities.

16 Ronald Reagan, I think, proposed an inspector general
17 for the executive branch that would be like GAO and put us
18 all in one IG.

19 There have been conversations about whether CIGIE
20 should establish a staff to do it. I do not think that is
21 practical. We would have 72 IGs trying to agree on an audit
22 report, and we would never get it out. We are already late
23 on getting most of them out, that type of thing.

24 So I think it has benefits to consolidate in that
25 sense.

1 One of the things that I know my fellow IGs probably
2 would not like is if I discussed the practicality of not
3 assigning or consolidating some of the small ones. And we
4 have had one small IG that agrees with this concept. Most
5 of them probably would not.

6 Consolidating several of the smaller IGs, rather than
7 putting them into a major IG office which does have a lot of
8 other priorities--I think that is a practical thing maybe to
9 be discussed further, and I know this is done in a couple of
10 instances in your proposal.

11 But I think the concept of what you are saying can
12 work, particularly if you do not have special circumstances,
13 like AID or the programs on FAST.

14 I have worked with many state auditor officers in
15 Appalachia, and as you say, they have a variety of programs
16 that they operate.

17 Ms. Gustafson. You know, Senator, I think basically,
18 as Ms. Davis had noted in her opening statement, what you
19 are talking about are policy questions over how this
20 oversight is going to get done.

21 And so I think that I am, again, very grateful that
22 this conversation that we--that these conversations have
23 been happening already. I think that this hearing is a good
24 way to, again, have more of these conversations.

25 I would urge you--you know, I think what next--I think

1 the next most helpful thing will be to talk to the IGs who
2 are directly affected. I think that they would, as Mr.
3 Sparks said, have a lot of opinions because I think in the
4 end it gets pretty granular.

5 I think, you know, this is a very bold idea. You know,
6 this is kind of a big swing. You know.

7 So I think that this is something that would be--
8 would benefit from a lot more conversations with not only
9 the small IGs affected but the big IGs. When you look at
10 your draft bill, you know, there are some responsibilities
11 that would be given to some large IGs that I think it would
12 be helpful to have those conversations as well. You know.

13 And then in the end, what it is, is a policy decision.

14 Just pretty quickly, when you talk--and of course, I am
15 well aware of the state auditor model.

16 The only difference--and I think one of the things that
17 you will hear about and one of the things you are grappling
18 with is one of the differences is when you are not located
19 within the agency.

20 I do have to say that one of the big strengths about
21 the IG Act in general and one of, I think, the brilliant--
22 you know, the strokes of genius that really happened in the
23 IG Act was to say here is this incredibly independent
24 entity, but you are in that agency.

25 And there are definitely benefits to that. I can tell

1 you that there are benefits to that--being able to be there
2 in place and to be able to walk down the hall. And, to a
3 certain extent, there is a different tenor to the
4 conversations when you are not the state auditor kind of
5 coming in.

6 That does not mean that it is insurmountable. I just
7 think it is something that is worth talking about, and that
8 is why I think it is an important conversation to have,
9 especially when you are talking about IGs that maybe are in
10 those agencies already.

11 I think it is going to be an important conversation and
12 just something to think about.

13 Senator McCaskill. It may be that you could work a
14 model, that you could have someone assigned interior to
15 every agency, but then you would have the problem of the
16 administrative overhead taken care of. You would have
17 continuity in case there was someone--part of problem is we
18 lose an IG and especially if it is--you know, sometimes it
19 takes forever.

20 I mean, we have had major IGs sit vacant for years in
21 this country, which is very frustrating.

22 And, for these small agencies, it would provide
23 continuity if they were there under the auspices of a small
24 agency IG but assigned to actually be within the agency for
25 their work.

1 Mr. Carroll. And, Senator, we do that with MCC. In
2 MCC's enabling legislation, there is a hard cap, and that is
3 another thing maybe we can talk about--the hard cap. There
4 is a hard cap of \$5 million set aside in MCC's budget for
5 oversight, and so we draw off of that.

6 And because of the scale of MCC, about a billion
7 dollars a year, we have created a separate infrastructure
8 within the USAID OIG to address MCC. And we bill that
9 direct labor back, and we bill the--

10 Senator McCaskill. We have a hard cap of \$5 million on
11 a budget of a billion?

12 Mr. Carroll. Yes. And I saw in the draft legislation
13 some potential caps and some potential--for example, I may
14 have misunderstood, but the IG would do one audit by a
15 certain amount of time. I would strongly recommend no cap
16 on audit and no cap on budget.

17 If we can develop with GAO's help--and they have looked
18 at this in the past--a percentage based on the complexity
19 and that sort of thing--

20 Senator McCaskill. Right, right.

21 Mr. Carroll. --I think that would be ideal.

22 Senator McCaskill. Okay, Senator Johnson.

23 Senator Johnson. You know, Mr. Sparks, you, to me,
24 spoke the magic words here--prevention and deterrence. If
25 there is a criteria that we really ought to be looking at as

1 we try and design something here to take care of the small
2 agencies, prevention and deterrence would probably be at the
3 top of the list in terms of how we design this thing because
4 you are a lot better off preventing and deterring than you
5 are mopping up a fraud after the fact.

6 So, Mr. Carroll, we were talking about the required
7 audits, required inspections. Do any of these small
8 agencies have any of those?

9 In other words, if they do not have an IG office, are
10 those inspections and are those audits being performed?

11 Mr. Carroll. Well, I am glad you asked the question
12 because it is a mixed bag. For example, we have had
13 discussions with the smaller agencies on whether some of
14 this applies to them.

15 IPERA, for example. There are discussions with the
16 foundations. Does, in fact, the IPERA legislation apply to
17 them?

18 And so we would say yes, but then we have to direct
19 them to OMB to get the final answer.

20 So that is why I think that if you capture all of these
21 agencies under the IG Act, then the ambiguity is completely
22 cleared up.

23 The other thing I would say, Senator, related to
24 prevention. We have a very robust program in USAID OIG--and
25 I am sure the other agencies do as well--of what we call

1 forward awareness. We have our auditors and investigators
2 go out and brief agency employees and brief agency
3 contractors on what fraud looks like.

4 And, inevitably, we are going to get calls on the
5 hotline or people come right up to us--you know, I saw that.
6 And then they become a source, and then we create an
7 investigation or an audit.

8 So I do believe that--and I am not--you know, I am not
9 knocking the smaller IGs, but we have a very robust fraud
10 awareness program/prevention program, and we have the
11 expertise to implement that.

12 And I am not saying that the DFE IGs do not. But,
13 certainly, when you have scale, then you can wall off the
14 resources available to do those kinds of things that are not
15 audits and are not investigations.

16 Senator Johnson. In the private sector, we have
17 something called the KISS principle--Keep It Simple, Stupid.

18 To me, it makes perfect sense that if you are gaining
19 your authority from multiple years, multiple layers of rules
20 and regulation, it makes an awful lot of sense to centralize
21 that authority under one act--

22 Mr. Carroll. Agreed.

23 Senator Johnson. --so that that simplifies things.

24 And then, if there is some way, whether to use CIGIE or
25 maybe within a newly created office of inspector general for

1 smaller agencies, if you also have some sort of gathering
2 space, an accumulator of best practices, in terms of fraud
3 preventions, fraud notification, just education, that is
4 what we have to look for. That is what I think would be far
5 more effective.

6 Mr. Sparks.

7 Mr. Sparks. Just to comment on deterrence and
8 prevention, which I totally agree with, I mean, one of the
9 things you look at--and I am sure folks have--is you look at
10 the small IGs and you look at some of the audit reports, you
11 are going to see in the tables a lot of zeroes, where there
12 are not big monetary benefits.

13 Well, a lot of the small IGs are in regulatory agencies
14 that are not putting out--that are having specific programs
15 or they are mediating things. I think the key to a small IG
16 is the prevention and deterrent.

17 Where we have got grant programs, like my agency, we
18 have dollars because you are looking at questioned costs and
19 ineligible costs.

20 If you talk to the agency head that I have, he would
21 tell you the greatest benefit of our office is we go out to
22 25 or 30 grantees a year and do grant audits of contractors.
23 And all those grantees of the 400 grants a year we make,
24 they think we are coming.

25 I put it with IRS audits. There are very few personal

1 tax audits of people now, but most people worry about an IRS
2 audit and they make out their taxes correctly.

3 And I think the benefit of a small IG is not that they
4 have a two-person staff or a three-person staff. It is how
5 effectively they use that in prevention and deterrent. If
6 you can accomplish that, you have accomplished the biggest
7 mission at the most value you are going to have.

8 You are never going to see the small IGs with big, big
9 dollars.

10 On the investigative side, I think the impact of our
11 investigations and the magnitude are probably a lot less
12 because we have got smaller agencies and small dollars. And
13 we try to use another IG with the expertise in the
14 investigation field and in that area to do it, and I think,
15 you know, we have been fairly successful.

16 One quick comment since you may recognize I am a little
17 biased on smaller IGs. On the administrative cross, I have
18 not run into a problem. We do use our HR--our agency for HR
19 services. Obviously, we get counsels from other IGs if we
20 need them.

21 It can be a problem. I have not really seen it because
22 our costs are relatively small because we have a small
23 staff.

24 And one of the things I wanted to mention before we
25 conclude is I thoroughly agree with the discussion you had

1 where you talked about having GAO look at the mandate in
2 reviews.

3 What are required of IGs at small agencies?

4 Senator McCaskill. Right.

5 Mr. Sparks. How much staff is put in a financial
6 statement and Federal Information Management System
7 monitoring?

8 We have to let the contracts. Is a one-year audit
9 required of a small entity?

10 And I think looking at that because when you ask what
11 are we responsible for we have a lot of mandated requests
12 from Congress for financial statement audits, improper
13 payments, travel, credit card use.

14 And, generally, a lot of times, the legislation comes
15 down and says all IGs will do a review.

16 I know we had one about use of government vehicles.
17 Well, we have one leased vehicle used part-time. That is
18 not going to affect the ecology of the world.

19 But I think looking at the mandated things for IGs is a
20 good, good initiative.

21 I would also look at the mandated audits that a small
22 entity is required to do. A lot of these small entities
23 that you are looking at, I think, do require financial
24 statement audits.

25 Now do they need them every year? Do they need IG

1 monitoring every year? I think we can get to a point of
2 over-monitoring and over-auditing, and there have to be risk
3 assessments to see how bad it is, just like there should be
4 a risk assessment of how much staff is going to be required
5 to service these new entities that you are looking at to put
6 into it.

7 Senator Johnson. Okay. Well, again, I appreciate your
8 testimony. I think you are exactly the kind of folks we
9 ought to be talking to in depth, in detail, as we craft this
10 so we can engage in those best practices so that the dollars
11 that we put to use are put to effective use, as well as the
12 personnel time.

13 So, again, I appreciate the testimony and appreciate
14 the hearing.

15 Senator McCaskill. I do, too, and I think we will
16 begin working in earnest to come up with a proposal that
17 makes the most sense without disrupting the IG community too
18 much.

19 I would appreciate, Ms. Gustafson, if you would check
20 with CIGIE about formalizing recommendations they might
21 have, particularly if there is any appetite for CIGIE being
22 used as something other than what it is now.

23 You know, could they be the clearinghouse for assigning
24 auditors to small agencies on an ongoing basis? Does it
25 make sense?

1 I do not think--I agree with Mr. Sparks. A recipe for
2 disaster would be having CIGIE have to decide what the audit
3 findings were going to be. I would not want to be in that
4 room. Even scope--I think there might be some serious
5 disagreements.

6 But we would like to get some formal input from CIGIE
7 on the proposed legislation and whether or not it should be
8 tweaked or changed in any way and maybe look at, seriously,
9 a model of an Inspector General for Small Agencies and what
10 that might look like also.

11 We are going to try to move this. I think honestly
12 this is something we could get passed. I cannot imagine
13 that we would find something to fight about over providing a
14 minimal amount--

15 Senator Johnson. We might.

16 Senator McCaskill. We might, but I do not think so.

17 Senator Johnson. No. This is just a good government
18 piece of legislation.

19 Senator McCaskill. Yes, especially if Senator Johnson
20 and I stay joined at the hip on not going too far but going
21 far enough.

22 And I think removing some of the mandates for these
23 smaller agencies is a terrific thing to do. It is stupid
24 that you are having to spend a lot of time on paperwork for
25 partially one leased vehicle because we have mandated that.

1 We ought to have it like what we did with banks. I
2 mean, if you were under a certain amount of assets, we
3 relieved them of some of the responsibilities in Dodd-Frank.

4 We should do the same thing on these mandates. If you
5 are under a certain threshold, we should look at those
6 mandates and see if they really make sense.

7 So we welcome--and GAO, too; your input is essential,
8 Ms. Davis--all of you, if you would help us craft this in a
9 way that makes sense and will accomplish the goals I think
10 we all hold in common, which is making sure that we do not
11 have agencies out there that know nobody is going to knock
12 on their door.

13 I do not like any government agency not thinking
14 somebody is going to knock on their door. Ever.

15 Mr. Carroll. Senator, could I just make one more
16 comment?

17 I wanted to thank you personally for your trust and
18 faith in the statutory IGs with the NDAA, the 2013 NDAA, and
19 the OCO legislation.

20 I just talked to Jon Rymer and Steve Linick and we
21 guarantee that we will be able to deliver, God forbid, in
22 the next overseas contingency operation. So thank you very
23 much for that.

24 Senator McCaskill. That is great. And I am hoping I
25 do not have to be here to hold you to that.

1 I am hoping we do not have another OCO, but we probably
2 will.

3 And no one is going to be more angry than I am if we do
4 not have lessons learned. This has been a painful process
5 to get lessons learned in the contingency space.

6 By the way, you should know, Mr. Carroll, I am pressing
7 the Pentagon on this as to whether or not they really can
8 justify the infrastructure endeavors they have undertaken in
9 a contingency with a counterinsurgency effort. I am not
10 convinced that the AIF or that the SERP money on steroids
11 has, in fact, been effective.

12 And this notion that we keep transferring back and
13 forth from AID to Defense, AID to Defense--who is building
14 the highway? Who is building the health center?

15 You know, it is mind-boggling how this has gone back
16 and forth, without rhyme or reason and without any data to
17 support it.

18 So I am on them, and I am asking them, you better show
19 us where the data is that make any sense for the military to
20 be doing this infrastructure as opposed to AID.

21 As you can tell, I can get jazzed about that.

22 And, by the way, that is billions and billions of
23 dollars.

24 Mr. Carroll. That it is.

25 Senator McCaskill. So it is real, real, real big

1 money.

2 Thank you all very much for your service and the jobs
3 you hold and for your time today. We appreciate it.

4 [Whereupon, at 12:05 p.m., the Subcommittee was
5 adjourned.]