

## Statement of Hubert Sparks, Inspector General, Appalachian Regional Commission

Having been in the OIG community for over 43 years I want to initially express my appreciation to Congress for its long term support of the OIG concept and OIG community. Today's hearing is another example of Congressional interest in assuring protection of taxpayer interests by addressing the issue of independent oversight of entities receiving federal funds.

My opinions, comments and recommendations are primarily based on being IG at a small agency and a small OIG for 14 years.

I believe that independent oversight of federal spending and program operations is a sound policy. Although OIGs generate very impressive statistics, including large potential monetary benefits one, if not the primary, benefit of an OIG presence is the preventive and deterrent value of such offices.

Primary issues include identification of additional entities that should be subject to independent oversight and the most cost effective structure to accomplish this objective. In my opinion there is no one size fits all solution with respect to how oversight of small agencies can be provided in the most efficient and comprehensive manner and various options are available and should be considered.

Most designated federal entity IGs have existed for about 25 years and have dealt with the oversight and administrative challenges such as limited staff, mandated reviews that can consume considerable scarce resources, and need to obtain legal and investigative assistance from other OIGs. The appointment process whereby the Agency Head appoints the IG has, in my opinion, worked well, which I attribute primarily to Congressional action that provided DFE OIGs with the same authorities as Presidentially appointed IGs. As the Committee is aware the issue of the appearance of independence when direct beneficiaries of federal funds have control over the appointment and termination of the IG has surfaced. On a practical basis this issue has not been a problem to date at my agency.

The IG Act of 2008 combining the Presidents Council on Integrity and Efficiency ( PCIE ) and the Executive Council on Integrity and Efficiency ( ECIE ) into the Council

of Inspectors General for Integrity and Efficiency ( CIGIE ) and adding additional DFE IGs to CIGIE Committees results in small OIGs participating on an equal basis in CIGIE matters. Essentially there is a one IG, one vote rule that is beneficial to smaller OIGs with respect to CIGIE matters.

With respect to the overall issue of independent oversight of smaller entities the primary options include:

- Small entities contracting with OIGs for services
- A permanent OIG presence
- Legislated OIG oversight provided by another OIG
- Establishing an OIG with responsibilities for oversight of several small entities

As a general statement I do not believe full time OIG presence at very small agencies is cost effective or necessary. Intermittent/part time presence by another OIG or one OIG responsible for several small entities can be effective and cost beneficial with the degree of service or need based on assessment of risk based on entity size, budget, programs and mandated audit requirements.

#### Small entities contracting with OIGs for services

I am not aware of many instances where entities without independent oversight have contracted with OIGs for services nor involvement of CIGIE in assuring that such entities have adequate oversight. Some smaller entities probably use independent public accounting firms to conduct mandated reviews such as financial statement audit. Agency initiatives to contract with OIGs for services should require that any contracts include provisions that all the authorities of the IG Act apply to the services to be provided.

#### A permanent OIG presence

Depending on the entities being considered for an OIG presence there may be some that the program size or sensitivity would encourage a permanent OIG . AS noted for most additional smaller entities I do not believe a permanent OIG is needed.

### Legislated oversight provided by another OIG

Such an action, which has been recommended in prior legislative proposals and included in some legislation, appears to be one of the more viable options. A key issue is to which OIG should the entity be assigned, including whether the assigned OIG should be a smaller established OIG or a large OIG.

A large OIG has considerable resources but also has high risk programs that rightly receive the most attention. Also, depending on the extent of required audits mandated for the smaller entities, considerable resources of the assigned OIG may be necessary and this could conflict with needed attention to higher priority programs. Thus, the extent of oversight services provided to smaller entities may be limited unless an estimate of the extent of service to be provided is identified. I am aware of at least two instances where legislation assigned a large oversight entity to be the OIG for a smaller entity and this did not work out and such service is no longer provided.

A smaller DFE OIG, although deficient in current resources, has considerable experience in dealing with challenges involved in overseeing a smaller entity and could place a higher priority on assuring that the assigned entity receives a sufficient degree of oversight necessary to determine funds are being properly used and programs are efficiently and efficiently meeting objectives.

Regardless of identified OIGs the issue of OIG resources needs attention if it is expected that the assisting OIG will be willing or able to provide the oversight considered necessary.

### Using an OIG to oversight several small entities—Consolidation of OIG services

Such an option would better assure that the small entities received adequate oversight based on OIG risk based assessments as to the extent of oversight needed for each of the entities for which it is the OIG. Such an OIG presence would enhance programmatic expertise, priority setting, and availability of OIG resources to address immediate identified needs rather than decisions being left to another OIG office. Such an arrangement should result in cost efficiencies attributable to efficient use of available resources in relation to need.

Issues with respect to agencies with somewhat similar missions/programs , agency head, location, etc., should be resolvable.

As an example, I and a former ARC IG have recommended a consolidated OIG to oversight the seven small economic Commissions or Authorities. Legislation provides for OIG oversight at these entities. To date three of these Commissions have received very little or no appropriations . These entities are unique Federal/State partnerships whose mission to improve economic development in assigned geographical areas is similar. Use of one OIG would allow the OIG to have a small, but sufficient, staff to implement the full authorities of the IG Act rather than having to rely on other OIGs to provide services such as legal and investigative services and provide expertise with respect to these unique entities .As an aside, the Appalachian Regional Commission is the only entity currently having an OIG presence.

Overall, a consolidated OIG approach where practical would, in my opinion, provide a more effective and cost beneficial approach than an individual OIG or service by another OIG and would provide more directed and timely oversight based on knowledge of applicable entities and staff availability.

I did not include CIGIE as an option for providing oversight to small entities as I do not believe this is practical and would raise many issues as to how this could be implemented . However, in line with my opinion that structuring independent oversight for additional entities should be based on assessments of the agency risks it is possible that CIGIE, with assistance from IGs, could provide some additional input with respect to the extent of needed oversight and how entities without OIG oversight now receive oversight, if any.

Thus, except for entities where a permanent on-site OIG presence is determined to be needed assigning another IG to provide oversight or establishment of an OIG to oversight several entities are recommended.

Finally, a few additional comments are added in line with the Committees interest in impairments that could impact OIG independence and the separate issue of Presidential appointments for smaller IGs.

I appreciate and support Dodd-Frank legislation that significantly protected termination of DFE IGs by requiring a two thirds vote of the Agency Head that is composed of all the Commissioners/Board Members of the entity. The exception with respect to Agency Heads who are not federal appointees and who are directly or indirectly beneficiaries of federal funds, including grants, has been much debated. Although I agree with the potential for this to be an independence issue I have not heard where this in fact has occurred. I also disagree with arguments that Dodd-Frank implementation relegated the IG to internal auditor status and resulted in the IG auditing their supervisors. The IG Act provides enormous authorities such as access to records, initiation of reviews without needed approval, public issuance of reports and subpoena authority. These are not authorities generally provided internal auditors. All IGs are basically overseeing their supervisors be it the IG at the largest Department or smallest entity and the IG Act and GAO standards clearly reflect that placement within an entity does not compromise OIG independence. Agency Head interference with OIG authorized actions can be addressed, including notification to Congress about the problem.

Although a Presidential appointment carries substantial prestige I have not seen any negative impacts with respect to Agency Head dealings with IGs that would be resolved simply by such an appointment. Non Presidential appointees have the same recourse, in my opinion, if needed. A personally biased view is a requirement for a Presidential appointment could reduce opportunities for well qualified and experienced OIG staff to advance to a position of IG at a smaller OIG and the process of replacing an IG could be lengthened considerably.

Thank you for the opportunity to provide comments on an important issue dealing with federal accountability and performance.

