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STATUTORY OFFICES OF INSPECTOR GENERAL (LEADERSHIP AND RESOURCES)

SIXTH REPORT

BY THE

COMMITTEE ON GOVERNMENT OPERATIONS

together with

ADDITIONAL VIEWS

JULY 30, 1981.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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LETTER OF TRANSMITTAL

HOUSE OF REPRESENTATIVES,
Washington, D.C., July 30, 1981.

Hon. THOMAS P. O'NEILL, Jr.,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: By direction of the Committee on Government Operations, I submit herewith the committee's sixth report to the 97th Congress. The committee's report is based on a study made by its Intergovernmental Relations and Human Resources Subcommittee.

JACK BROOKS, *Chairman.*

CONTENTS

APPENDIXES

VIEWS

97TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } { No. 97-211

STATUTORY OFFICES OF INSPECTOR GENERAL (LEADERSHIP AND RESOURCES)

JULY 30, 1981.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. BROOKS, from the Committee on Government Operations, submitted the following

SIXTH REPORT

together with

ADDITIONAL VIEWS

On July 30, 1981, the Committee on Government Operations approved and adopted a report entitled "Statutory Offices of Inspector General (Leadership and Resources)." The chairman was directed to transmit a copy to the Speaker of the House.

I. INTRODUCTION

Since 1976, 15 statutory Offices of Inspector General have been established under legislation initiated by the Committee on Government Operations; a sixteenth has been created under similar legislation reported out by other committees. Four additional statutory offices would be established under further legislation developed by the Committee on Government Operations which has been approved by the House but not yet acted upon by the Senate.

During the 96th Congress, the Intergovernmental Relations and Human Resources Subcommittee began a continuing oversight review of the laws establishing statutory Offices of Inspector General and the operations and activities being conducted pursuant to such laws. This report, which is concerned primarily with problems relating to leadership and resources, is the first in what is expected to be a number of reports on the subcommittee's review.

As part of the current phase of its review, the subcommittee held public hearings on April 1 and June 10, 1981,[1] taking testimony from the following Federal officials:

[1] Hearings before a subcommittee of the Committee on Government Operations on oversight of statutory Offices of Inspector General, April 1 and June 10, 1981; hereafter cited as "1981 Hearings."

OFFICE OF MANAGEMENT AND BUDGET

Edwin L Harper, Deputy Director (Mr. Harper is also Chairman of the Council on Integrity and Efficiency).

Harold I. Steinberg, Associate Director for Management.

U.S GENERAL ACCOUNTING OFFICE

Donald L. Scantlebury, Chief Accountant of GAO, and Director, Accounting and Financial Management Division.

George L. Egan, Associate Director, Accounting and Financial Management Division.

John J. Adair, Deputy Associate Director, Accounting and Financial Management Division.

U.S. DEPARTMENT OF AGRICULTURE

Robert E. Magee, Acting Inspector General.

DEPARTMENT OF COMMERCE

Frederick Heim, Assistant Inspector General for Auditing.

DEPARTMENT OF LABOR

Edward Stepnick, Assistant Inspector General for Audit.

ENVIRONMENTAL PROTECTION AGENCY

Ernest E. Bradley, Acting Inspector General.

Richard Campbell, Assistant Inspector General for Investigations.

Thomas Gower, Acting Assistant Inspector General for Audits.

Testimony at the hearings was supplemented by data furnished for the record and by additional information obtained by the subcommittee staff. A review of earlier hearings and reports relating to the statutory Offices of Inspector General was also made.

II. Summary

The Inspector General concept came into being in 1962, after a subcommittee investigation of the activities of Billie Sol Estes disclosed that audit and investigative activities of the Department of Agriculture were being conducted by a number of separate and uncoordinated units which reported to officials directly responsible for the programs being reviewed. Disclosure of these organizational and procedural deficiencies led to consolidation by then Secretary of Agriculture Freeman of USDA auditing and investigative responsibilities under a single high-level official reporting directly to the Secretary.

A 1974–75 investigation found that units responsible for combating fraud and abuse in programs of the Department of Health, Education, and Welfare were scattered throughout the Department in a haphazard and fragmented patte[illegible]

all responsibility and authority necessary to provide effective leadership. Moreover, although HEW then had more than 129,000 employees and was responsible for the expenditure of well over $100 billion annually, its central investigative unit had only ten investigators with a ten-year backlog of uninvestigated cases.

That investigation—together with the 1974 abolition of the Department of Agriculture's non-statutory Office of Inspector General—resulted in the establishment in 1976 of the first statutory Inspector General at HEW. A second statutory Office of Inspector General was created at the Department of Energy when that Department was formed in 1977.

Comprehensive hearings in 1977 on the desirability of establishing additional statutory Inspectors General disclosed serious deficiencies in the auditing and investigative organization and procedures of practically every agency reviewed, such as:

Multiple audit or investigative units within a single agency organized in fragmented fashion and without effective central leadership;

Auditors and investigators reporting to officials who were responsible for the programs under review or were devoting only a fraction of their time to audit and investigative responsibilities;

Instances in which, because of lack of independence, investigators had been kept from looking into suspected irregularities, or even ordered to discontinue an ongoing investigation; and

There were no procedures to insure that Congress was informed of serious problems disclosed by agency audits and investigations, and there was evidence that agency officials frequently ignored audit recommendations.

Because of inadequate resources, some departments and agencies had audit cycles ranging from 9 to 10 years to as long as 20 years. Some activities had never been audited. One department had only 6 trained investigators to look into irregularities in the expenditure of approximately $25 billion annually.

Despite strong initial opposition from the Office of Management and Budget, the Justice Department and all departments and agencies affected, legislation to establish statutory Offices of Inspector General in twelve additional establishments was reported by the Committee on Government Operations, approved by the House by a vote of 388 to 6, and became law as the Inspector General Act of 1978.

A statutory Inspector General with the same powers and duties as those created under the 1978 law was established in 1979 as a part of the new Department of Education. A sixteenth statutory Inspector General with substantially the same powers and duties as the others was created in the Department of State under the Foreign Service Act of 1980.

Further legislation to include the Departments of Defense, Justice and Treasury and the Agency for International Development under the provisions of the Inspector General Act of 1978 was approved by the House in May 1981 by a vote of 334 to 65—over the opposition of the Departments of Defense and Justice—and is currently pending in the Senate.

President Carter eventually supported enactment of the Inspector [illegible] 1, he made a number of public statements praising the new law. The Office of Management and Budget, which had strongly opposed the IG bill in 1977, described the 1978 Act in 1980 as "landmark legislation that warrants full and active support of all three branches of government."

In December 1978, President Carter asked Federal agencies which did not have statutory Inspectors General to designate a single official to oversee their efforts to eliminate waste, fraud and error. In May 1979, he established an Executive Group composed of statutory IG's and other Federal officials to combat fraud and waste on a coordinated basis.

In most instances, President Carter nominated experienced career employees to fill Inspctor General positions within a few months after the posts were authorized. In other cases, however, there were long delays in making nominations. Two vacancies occurred because of resignations during the Carter Administration. In one instance, a replacement was not nominated for more than a year; in the other, no replacement was nominated during the more than eight months remaining before the end of the Carter Administration.

An official of the Office of Management and Budget testifying at a Committee hearing in August 1980 said that OMB had instituted special procedures to review the adequacy of resources provided for statutory Offices of Inspector General and that the Carter budget would allow the Offices a 5 percent increase in staffing to a total of 5,917 positions for fiscal year 1981. He failed to disclose, however, that a hiring freeze already imposed by the Carter administration would insure that the number of positions actually available would be far less.

A July 1979 report by the General Accounting Office showed that most Federal audit organizations have historically had little success in obtaining added resources requested from their agencies and OMB. Over a five-year period from 1973 to 1978, the report stated, 21 auditing organizations requested a total of 3,084 additional staff positions. Their agencies approved only 1,242—about 40 percent of the number requested. OMB then made a further reduction to 638 positions.

Although some statutory Offices of Inspector General managed to obtain substantial increases in staffing during the Carter Administration, there is little reason to believe that assistance from OMB was a major factor in their success.

Both before and after being elected, President Reagan emphasized his concern about the magnitude of fraud and waste in Federal programs and the urgent need for corrective action. However, on Inauguration Day the President imposed a freeze on hiring by Inspectors General which was even stricter than the one previously imposed under the Carter Administration. In a second action on the same day, the President summarily removed all incumbent Inspectors General without notice or specific reason.

A subsequent subcommittee inquiry disclosed that no meaningful examination of the qualifications and performance of the incumbent IG's had been made before they were removed. Moreover, no Members of Congress of either party and no individuals designated to head the affected agencies were either notified or consulted before the IG's were removed.

Unlike most Presidential appointees, statutory Inspectors General are required to be appointed without regard to political affiliation on the basis of integrity and professional qualifications and are prohibited from engaging in partisan political activities. Removal of the IG's in the same manner as Carter Administration political appointees caused widespread concern that the move might be part of an attempt to "politicize" their offices. President Reagan subsequently assured Committee members that he had no intention of "politicizing" the IG offices.

Although Administration officials had initially predicted that the vacant IG positions would be filled rapidly, the process turned out to be more time-consuming than had been anticipated. Four months after the removal of the IG's, all sixteen statutory Inspector General positions were still vacant and only three nominations had been sent to the Senate. After the subcommittee scheduled a hearing concerning the matter, twelve more nominations were sent to the Senate in a three-week period.

Six former Inspectors General were reappointed to IG positions; most of the other nominees have had extensive Federal Government experience. As of July 21, 1981, nine nominees had been confirmed and six nominations were awaiting final action by the Senate. No nomination had yet been made for the IG position at the Environmental Protection Agency

In testimony before the subcommittee, OMB Deputy Director Harper contended that the Reagan Administration budget reflected increases in the total staffing for Offices of Inspector General. However, the "increases" were calculated by comparing positions requested for fiscal years 1981 and 1982 with the number of persons actually employed in fiscal year 1980.

While there is some disagreement as to whether the Carter Administration or the Reagan Administration requested the most resources for the Offices of Inspector General, information provided by the IG offices indicates that resources provided for many of them have been grossly inadequate under both administrations.

Disruption caused by the mass removal of Inspectors General, lack of permanent leadership for many months, and serious deficiencies in resources have undoubtedly severely hampered the work of the IG offices. However, evidence presented to the subcommittee indicates that the Offices have continued to achieve impressive savings and recoveries in spite of these handicaps.

III. Findings and Conclusions

1. The mass removal of all incumbent Inspectors General on January 20, 1981 was not in accordance with the intent of the laws authorizing these offices

The laws establishing statutory Offices of Inspector General were carefully drawn to distinguish the IG's from political appointees. Inspectors General are required to be appointed without regard to political affiliation on the basis of integrity and demonstrated ability in specified professional disciplines. Unlike most Presidential appointees, they are prohibited by law from engaging in partisan political activities.

While removal of an Inspector General for unsatisfactory performance would clearly not contravene the intent of the authorizing legislation, it was never intended that IG's be automatically replaced on a wholesale basis without regard to their individual merits whenever there is a change in administrations.

The President's letters to Congress concerning the removal gave no specific reason or reasons for the action, but strongly suggested the IG's were being routinely removed, in the same manner as political appointees, to be replaced by persons of the President's own choosing.

The mass removal of the Inspectors General without regard to their individual merits created widespread concern that it was the first step in an effort to "politicize" these offices. Subsequent events, as noted below, have done much to alleviate this concern.

2. The mass removal of incumbent Inspectors General was carried out abruptly and without careful consideration and had serious adverse effects on the operations of Offices of Inspector General

The action was taken on Inauguration Day, without notice to or consultation with Members of Congress of either party or any of the individuals designated to head the affected agencies.

No meaningful review of the qualifications and performance of the incumbent Inspectors General was made before they were removed. Inquiries conducted by the Reagan Administration immediately afterward resulted in the conclusion that approximately half of the IG's were highly qualified, highly professional, and had done a truly outstanding job.

No apparent thought was given to how long it would take to fill the vacancies resulting from the mass removals or how the IG offices would be managed in the meantime.

Because of the mass removals, there were no statutory Inspectors General for at least four months; most of the IG positions were vacant for nearly six months. On July 21, 1981, seven IG positions were still vacant, including one for which no nomination had yet been made. Ongoing operations of the Offices of Inspector General have been delayed or impaired because of the confusion, uncertainty and loss of permanent leadership resulting from the removals; the damage would have been even worse without the efforts of a number of highly competent professionals serving in the IG offices.

3. Assurances by the President and the appointment or re-appointment of highly-qualified individuals as Inspectors General have done much to alleviate concern about "politicization" of the Offices of Inspector General. Edwin Harper, Deputy Director of the Office of Management and Budget, deserves to be commended for his part in this process

Shortly after the removal of the Inspectors General, President Reagan told Committee members—both personally and through correspondence—that he had no intention of "politicizing" the Offices and pledged to appoint an outstanding team of top-qualified professionals to pursue the bipartisan objective of eliminating fraud and waste.

Nominations have now been made for fifteen of the sixteen statutory Inspector General positions. While the committee is not in a position to make an informed judgment about every nominee on an individual basis at this time, it is clear that the nominees as a group have excellent qualifications and experience. Six of them are former Inspectors General who were reappointed.

Deputy OMB Director Edwin Harper was in charge of the selection process; his efforts undoubtedly contributed substantially to the generally high quality of the nominees.

4. Staffing and other resources available to the statutory Offices of Inspector General are grossly inadequate

Serious inadequacies in the resources available to audit and investigative units were one of the motivating factors in the establishment of statutory Offices of Inspector General. While there have been some improvements since the Offices were created, overall resources are still grossly inadequate.

The sixteen statutory Offices of Inspector General are responsible for monitoring the expenditure of around $400 billion annually of public funds. Yet the total staffing for all sixteen offices is substantially less than 5,500 persons. By comparison, the Department of Defense has more than 18,000 auditors, investigators and inspectors and the Federal Bureau of Investigation employs nearly 20,000 people. The Los Angeles County Sheriff alone has far more employees than all sixteen statutory Offices of Inspector General combined.

Some IG Offices have particularly serious problems. The Environmental Protection Agency has only ten investigators with a five-year backlog of uncompleted work to look into fraud, waste and abuse in 12,000 water pollution control grants totalling $29 billion. The Commerce Department Office of Inspector General has such limited resources that there is a 36-year audit cycle for management audits. In order to monitor the CETA program, the Labor Department OIG has had to practically ignore a number of other large programs which are exceptionally vulnerable to fraud, waste and abuse.

Both President Carter and President Reagan have made strong publice statements emphaszing their concern about fraud, waste and abuse and their support of the statutory Offices of Inspector General, but neither one has backed up his word by requesting adequate staff and other resources for the Inspectors General.

The Office of Management and Budget under both the Carter and Reagan administrations has not taken effective action to provide adequate resources for the Offices of Inspector General and has been less than candid in keeping the Congress informed about the resources needed.

The inadequacy of OIG resources is particularly ironic and indefensible in the light of strong evidence that additional personnel for these offices would return far more in savings and recoveries than the cost of hiring and supporting them.

5. The Nature of the budget process has contributed to the inadequacy of OIG resources

The Office of Management and Budget customarily sets overall ceilings for executive departments and agencies and leaves it to these establishments to allocate the available resources. Consequently, Offices of Inspector General must compete against other segments of their

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own agency for limited resources, with the final decisions usually being made by program and budget personnel. Program officials are likely to be less than enthusiastic about giving up any of their own resources to the Office of Inspector General.

Funds for Offices of Inspector General, in many instances have not been separately identified but have been included as part of the appropriation for a larger unit, such as the Office of the Secretary, making it more difficult to ascertain the amount actually available to the IG.

IV. Recommendations

1. The committee recommends that both Congress and the Administration work toward strengthening and maintaining a system of strong, independent Offices of Inspector General, headed by nonpartisan, highly competent and thoroughly professional Inspectors General.

2. The committee recommends that the Administration:

   (a) to the extent feasible and appropriate, take immediate steps to meet urgent needs of Offices of Inspector General for additional resources; and

   (b) take appropriate action to assure that adequate resources are requested for Offices of Inspector General in the future.

The committee further recommends that the Office of Management and Budget request separately identified appropriations for Offices of Inspector General in the future.

3. The committee recommends that the Congress closely examine the resources being provided to the statutory Offices of Inspector General through appropriations and agency allocations with a view to insuring their adequacy.

In this connection, the committee wishes to acknowledge and express appreciation for the support provided for the Offices of Inspector General by the Chairman and Members of the House Appropriations Committee and other concerned Members of Congress.

V. Background

Development of the Inspector General concept

The Inspector General concept—which might best be described as the consolidation of auditing and investigative responsibilities under a single high-level official reporting directly to the agency head—came into being in 1962, when then Secretary Orville Freeman established a non-statutory Office of Inspector General for the Department of Agriculture.

Secretary Freeman's action was motivated to a considerable extent by an investigation of the activities of Billie Sol Estes conducted by the Intergovernmental Relations and Human Resources Subcommittee.[2]

At that time, USDA audit and investigative activities were being conducted by a number of separate units, which reported to officials directly responsible for the programs being reviewed. The investigation disclosed that several separate audit or investigative units of the Department of Agriculture had looked into various phases of Mr. Estes' questionable activities over a period of nearly ten years; however, because of an almost total lack of coordination or communication among these units, no effective remedial action was taken until after a newspaper story disclosed the extent of Mr. Estes' illegal operations.[3]

Although similarly named, the USDA Office of Inspector General was not patterned after existing Offices of Inspector General in the military services, which are a different type of institution.

Establishment of a non-statutory Office of Inspector General at the Department of Agriculture resulted in very substantial improvements in the auditing and investigative activities of that department.[4]

Additional nonstatutory Offices of Inspector General were established at the Department of Housing and Urban Development in 1972 [5] and at the Veterans Administration in late 1977.[6]

Events during mid-1970's

Two events in the mid-1970's led directly to the establishment of a statutory Office of Inspector General at the Department of Health, Education, and Welfare.

The potentially impermanent nature of non-statutory Offices of Inspector General was clearly demonstrated in 1974 when then Secretary of Agriculture, Earl Butz, abolished that agency's Office of Inspector General.[7] (A non-statutory Inspector General was reestablished by Bob Bergland when he became Secretary of Agriculture in 1977.) [8]

In late 1974 and 1975, the Intergovernmental Relations and Human Resources Subcommittee made a comprehensive review of the procedures and resources being used by the Department of Health, Education, and Welfare to prevent and detect fraud and program abuse in its operations. The subcommittee found that: [9]

> HEW's operations—which then involved about 300 separate programs totaling more than $118 billion annually—presented an unparalleled danger of loss from fraud and abuse.
>
> Basic data needed by both Congress and HEW for effective action against fraud and abuse was simply not available. HEW officials could not provide information on which to base a meaningful estimate of losses from fraud, waste and abuse; in fact, they could not even give the subcommittee an accurate count of the number of programs the department was administering.
>
> HEW's investigative resources were ridiculously inadequate. Although the department had more than 110,000 full-time permanent employees, its central investigative unit had only 10 investigators with a 10-year backlog of uninvestigated cases.
>
> HEW had no central unit with the overall authority, responsibility and resources necessary to insure effective action against fraud and program abuse. The units it did have were scattered

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[2] Hearings before a subcommittee of the Committee on Government Operations on Inspector General Act Amendments of 1980, Aug. 27 and 28, 1980; hereafter cited as "1980 Hearings," p. 18.

[3] 1980 hearings, p. 18–19.

[4] Hearings before a subcommittee of the Committee on Government Operations on Establishment of Offices of Inspector General, May 17, 24; June 1, 7, 13, 21, 29; and July 25, 27, 1977; hereafter cited as "1977 Hearings," pp. 21–22.

[5] 1977 hearings, p. 121.

[6] 1977 hearings, pp. 334–337.

[7] 1977 hearings, pp. 25–29.

[8] 1977 hearings, pp. 30–31.

[9] H. Rept. 94–786, "Department of Health, Education, and Welfare (Prevention and [illegible] 6, pp. 8–10.

throughout the department in a haphazard, fragmented and inefficient fashion. Under these organizational arrangements, there was little assurance that the Secretary would be kept informed of serious fraud and abuse problems or that action necessary to correct such problems would be taken.

Personnel of fraud and abuse units lacked independence. In most instances, they reported to and were hired and fired by officials directly responsible for the programs they were investigating. Personnel of the Office of Investigations were required to obtain specific approval of the Secretary or Undersecretary before undertaking any investigation.

When serious deficiencies were disclosed in reports to program officials, there was little incentive for those responsible to take prompt and aggressive corrective action which might necessitate public laundering of their own dirty linen. The investigation disclosed instances in which it took as long as five years or more for HEW to take corrective action concerning known deficiencies.

Establishment of statutory Inspector General at HEW

On the basis of its findings, the subcommittee developed legislation to establish a statutory Office of Inspector General at the Department of Health, Education, and Welfare. The proposed legislation assigned overall responsibility for coordination and leadership of HEW's auditing and investigative activities to a single individual with no program responsibilities, reporting directly to the Secretary, who would be responsible for giving undivided attention to the prevention and detection of fraud and abuse and the promotion of economy and efficiency in HEW's programs and operations. The legislation provided for appointment of the Inspector General by the President, and directed the IG to report to both the Secretary and the Congress concerning significant problems, abuses or deficiencies and the progress of corrective action concerning them. In addition, it gave the IG broad authority to conduct audits and investigations and to obtain the information necessary for this purpose.[10]

Despite the obvious need for strengthened audit and investigative procedures and resources, HEW did not support establishment of a statutory Inspector General.[11] However, the IG legislation was unanimously approved by both House and Senate, and was signed into law by President Ford on October 15, 1976.[12]

Serious deficiencies at other departments and agencies

In early 1977, the subcommittee began a comprehensive inquiry to determine whether statutory Offices of Inspector General were needed in other Federal departments and agencies. The subcommittee investigation disclosed serious deficiencies in the organization and procedures of auditing and investigative units at a number of these establishments.

The subcommittee found that auditors and investigators at a number of departments and agencies reported to different officials, rather than being under the same leadership.[13] In other instances, there was no unit with agencywide audit or investigative jurisdiction; the Department of Transportation reported having 116 separate audit and investigative units.[14]

Almost without exception, auditors and investigators were reporting to officials who either had responsibility for programs subject to audit or investigation or were unable to devote full time to their audit or investigative responsibilities.[15]

Most of the departments and agencies included in the bill had no affirmative programs to look for possible fraud or abuse; instead, they relied primarily on complaints.[16] In some cases, agency regulations did not even require employees to report evidence of irregularities.[17] Other agencies had not prepared annual audit plans, even though preparation of such plans is required by OMB Circular 73–2.[18]

Even when complaints were received, investigators in some agencies were not permitted to initiate investigations without clearance from officials responsible for the programs involved.[19]

Justice Department officials responsible for prosecuting fraud against the Government testified that, with some exceptions, working relationships with other Federal departments and agencies on fraud matters were far from optimum.[20] They also told the subcommittee that coordination would be easier if all agencies had a single high-level official devoting full time to overall direction of both audit and investigative activities.[21]

Although Justice Department witnesses endorsed direct referral of fraud cases to Justice by investigators, some agencies required that all such referrals be cleared by their Office of General Counsel.[22] In some instances, potential fraud cases were never referred to Justice by agency Offices of General Counsel.[23] A partial review of Agriculture Department files disclosed that, during a two-year period, 24 cases referred by the USDA Office of Investigation were held for more than six months in the Office of General Counsel before being sent to the Department of Justice; one case was held for more than two years.[24]

Although some agencies testified that it was their policy to voluntarily inform Congress concerning serious problems,[25] the subcommittee found no evidence that any formal procedures existed to insure such reporting.[26]

Other testimony indicated that program officials frequently ignored recommendations of auditors.[27]

Grossly inadequate audit and investigative resources

Subcommittee hearings disclosed serious deficiencies in the resources devoted to auditing and investigations.

Internal audit cycles (the length of time between audits) were incredibly long. General Services Administration representatives testi-

[10] H. Rept. 94–1573, "HEW Office of Inspector General," Sept. 16, 1976, pp. 5–6.
[11] Hearings before a subcommittee of the Committee on Government Operations to Establish the Office of Inspector General in the Department of Health, Education, and Welfare, May 25 and 27, 1976, pp. 77–78.
[12] Public Law 94–505.
[13] 1977 hearings, pp. 98–99, 162–163, 177–178, 218, 360–363.

[14] 1977 hearings, pp. 102, 219, and 560.
[15] 1977 hearings, pp. 96–98, 100–101, 166–169, 192, 222, 243, 260, 286, 333–334, 362–363, and 495.
[16] 1977 hearings, pp. 100, 104, 197, 221, 309–311, 348, and 383.
[17] 1977 hearings, pp. 104, 184, and 381.
[18] 1977 hearings, pp. 86, 338.
[19] 1977 hearings, pp. 101–102, and 381.
[20] 1977 hearings, pp. 414, 429–430, and 436.
[21] 1977 hearings, pp. 429–430.
[22] 1977 hearings, pp. 50, 187, 384, 434, and 552.
[23] 1977 hearings, pp. 51–55, and 384.
[24] 1977 hearings, pp. 56–57.
[25] 1977 hearings, pp. 181–182.
[26] 1977 hearings, pp. 113, 182, 197, and 245.
[27] 1977 hearings, pp. 148–149, and 393–394.

fied that it would take as long as 20 years to audit all activities with that agency's present resources.[28] Other lengthy audit cycles reported were 13 years for the Department of Commerce,[29] nine or ten years for Interior,[30] and ten years for the Department of Transportation.[31] The Small Business Administration and the Veterans' Administration estimated their audit cycles as 12 to 14 and 10 to 12 years, respectively.[32]

Witnesses from the Department of the Interior and the Department of Transportation acknowledged that their departments had never audited some activities.[33]

Many agency representatives told the subcommittee that their audit and/or investigative manpower was only a fraction of the amount needed to do an adequate job. Interior Department witnesses said their audit manpower was sufficient for only about half of the agency's priority workload, with no resources available for affirmative programs to detect fraud.[34]

Representatives of the Department of Labor and the Small Business Administration testified that they had only one-third the audit manpower they needed.[35] Community Services Administration witnesses indicated their audit resources were even less than one-third the amount needed.[36]

According to testimony from Labor Department witnesses, that department had only six trained criminal investigators to look into irregularities in the expenditure of some $25 billion annually.[37] Veterans' Administration officials told the subcommittee they had less than one-fifth the number of investigators they believed they needed.[38]

The severe shortages of manpower at many agencies were particulary ironic in view of uniform testimony that additional auditors and investigators would more than repay their cost through savings and recoveries.[39] National Aeronautics and Space Administration officials estimated their auditors recover three to four times the amount spent.[40] According to Veterans' Administration witnesses, their internal auditors saved or recovered more than $14 million at a cost of less than $3 million.[41] GSA officials estimated their agency's ratio of savings to costs at 20 to 1.[42]

The importance of adequate auditing and investigative personnel was emphasized by Justice Department officials, who testified that the bulk of Government fraud cases originate through referrals from program agencies; if agency investigative operations are ineffective because of lack of personnel, potential fraud cases will not be referred.[43]

Inspector General Act of 1978

In order to correct the deficiencies disclosed by its investigation, the subcommittee proposed establishment of 12 additional statutory

[28] 1977 hearings, pp. 274–275.
[29] 1977 hearings, pp. 103.
[30] 1977 hearings, pp. 192–193.
[31] 1977 hearings, pp. 235.
[32] 1977 hearings, pp. 193, and 235.
[33] 1977 hearings, pp. 193 and 235.
[34] 1977 hearings, pp. 201–202.
[35] 1977 hearings, pp. 188 and 308.
[36] 1977 hearings, pp. 371.
[37] 1977 hearings, p. 176.
[38] 1977 hearings, p. 350.
[39] 1977 hearings, pp. 149, 188, 275, 292, 313, 349.
[40] 1977 hearings, p. 289.
[41] 1977 hearings, p. 349.
[42] 1977 hearings, p. 275.
[43] 1977 hearings, p. 437.

Offices of Inspector General patterned generally after the existing statutory IG office at HEW.

Most of the 12 departments and agencies for which statutory Inspectors General were proposed readily acknowledged that the IG concept was a desirable one.[44] However, all 12 cited various reasons for opposing enactment of the proposed legislation.[45]

The Justice Department contended that a "serious constitutional problem" was raised by provisions of the bill 1) requiring the President to notify Congress of the reasons for removal of an Inspector General and 2) providing for IG reports to be submitted to Congress without interference by the agency concerned.[46]

In a May 13, 1977, letter, the Office of Management and Budget stated that "we strongly oppose" establishment of statutory Inspectors General. In addition to citing the Justice Department's contention that certain provisions of the proposed legislation were "constitutionally infirm," OMB argued that enactment of a law assigning specific responsibility for combating fraud, waste and abuse to statutory Inspectors General would not be "sound public policy." [47]

The OMB letter also stated that enactment of the legislation "would not be in accord with the program of the President." However, after a number of minor modifications—not involving significant changes—were made in the proposed legislation, President Carter eventually supported it.[48]

The proposed legislation passed the House in April 1978 by a vote of 388 to 6, and was approved by the Senate in September without a dissenting vote. It was signed into law by President Carter on October 12, 1978.[49]

Other Statutory Offices of Inspector General

A statutory Office of Inspector General, patterned after the one at HEW, was established as a part of the Department of Energy when that Department was created in August 1977.[50]

A statutory Inspector General with the same powers and duties as those created under the 1978 Act was provided for the Department of Education under the October 17, 1979, Act establishing that department.[51]

The Foreign Service Act of 1980 [52] established a statutory Inspector General for the Department of State with substantially the same powers and duties as the IG's previously created under the 1978 Act.

Inspector General Act amendments

Proposed amendments to include the Departments of Defense, Justice and Treasury and the Agency for International Development within the provisions of the Inspector General Act of 1978 [53] have been approved by the House but not yet acted upon by the Senate.

President Reagan has announced his support of statutory Inspectors

[44] 1977 hearings, pp. 21–22, 24, 30–31, 120, 286–287, 290, 306, 323, and 337.
[45] H. Rept. 95–584, "Establishment of Offices of Inspector General in Certain Executive Departments and Agencies," Aug. 5, 1977, pp. 7–8; hereafter referred to as "House Report 95–584."
[46] H. Rept. 95–584, pp. 8–10.
[47] 1977 hearings, pp. 768–769.
[48] Letter to Senator Robert C. Byrd, Sept. 22, 1978.
[49] Public Law 95–452.
[50] Public Law 95–91.
[51] Public Law 96–88.
[52] Public Law 96–465.

General for these four agencies.[54] However, the Departments of Defense and Justice, while professing support for the concept of statutory Inspectors General, have conditioned their support on changes which would fundamentally alter the nature of the proposed Offices.

The Department of Defense insists that a statutory IG must be "subject to the authority, direction, and control" of the Secretary of Defense, so that the Secretary can prohibit the Inspector General from looking into matters the Secretary does not want investigated.[55]

The Justice Department indicated it would support a statutory Inspector General only if the IG had no authority to look into matters involving "law enforcement, litigation, and corrections" [56]—a restriction that would deprive the Justice Department IG of jurisdiction over almost every activity of that Department.

VI. Developments Under Carter Administration

Statements of support

President Carter did not issue a formal statement of support for the 1978 Inspector General legislation until September 1978, just before the Senate acted on the bill.[57]

On the day the bill was signed, the President stated that ". . . the Inspectors General will be of prime importance to my administration in our continuing, concerted effort to root out fraud, abuse, and waste in agency programs." [58]

A few weeks later, on December 13, 1978, the President described the Inspectors General as "Perhaps the most important new tools in the fight against fraud . . .".[59]

The publicly expressed attitude of the Office of Management and Budget changed significantly during the course of the Carter Administration. In May 1977, OMB told the subcommittee "... we strongly oppose [the IG bill] and its enactment would not be in accord with the program of the President." [60] Two years later, then OMB Director McIntyre told a St. Louis audience that "The Administration gave strong support to the Inspectors General Act that became law last year." [61] In August 1980, John White, then Deputy Director of OMB, publicly stated that "The Inspector General Act of 1978 is landmark legislation that warrants full and active support of all three branches of the government." [62]

Actions designed to assist Inspectors General

Shortly after enactment of the Inspector General Act of 1978, President Carter asked the Office of Management and Budget to provide

[54] Testimony of Edwin L. Harper, Deputy Director, Office of Management and Budget, before the Legislation and National Security Subcommittee, House Committee on Government Operations, Mar. 8, 1981.
[55] Testimony of William H. Taft, IV, General Counsel, Department of Defense, before the Legislation and National Security Subcommittee, House Committee on Government Operations, Mar. 8, 1981.
[56] Proposed amendment furnished by the Department of Justice to the Legislation and National Security Subcommittee, House Committee on Government Operations.
[57] Letter to Senator Robert C. Byrd, Sept. 22, 1978.
[58] Statement on signing H.R. 8588 into law, Oct. 12, 1978.
[59] Remarks at HEW National Conference on Fraud, Abuse, and Error.
[60] 1977 hearings, p. 769.
[61] Remarks at the Annual Symposium, Association of Government Accountants, June 20, 1979.
[62] 1980 hearings, p. 50.

direction and assistance in implementing the Act and to assume oversight responsibility for governmentwide efforts to combat fraud, waste, and mismanagement in program operations.[63]

In December 1978, the President told the heads of all departments and agencies that significant features of the Inspector General program should be extended through the Federal Government to agencies not covered by the 1978 Act. The agency heads were not asked to appoint nonstatutory Inspectors General but were asked to designate a signal official accountable directly to them to oversee their agencies' efforts to eliminate waste, fraud and error.[64]

In May 1979, President Carter established an Executive Group to Combat Fraud and Waste in Government. Its membership consisted of all statutory Inspectors General and representatives of OMB, the Justice Department and other Federal agencies. Responsibilities and functions of the Executive Group included providing leadership and formulating policy and operational guidance to the Inspectors General and other officers of the Executive Branch in combating fraud and waste in Government programs. The Executive Group was also assigned responsibility for promoting coordinated allocation and direction of audit and investigative resources and for dealng with problems relating to fraud and waste which were beyond the capacity or authority of individual executive departments or agencies.[65]

Appointment of Inspectors General by President Carter

President Carter sent nominations to the Senate for ten of the twelve Inspector General positions created under the 1978 Act by March 7, 1979. Eight of the ten persons nominated were career Federal employees with extensive government experience. However, the eleventh nomination was not made until June 14, 1979; the twelfth name was sent to the Senate on September 20, 1979—nearly a year after enactment of the Inspector General Act of 1978.

Seven of the 12 persons nominated by President Carter for IG positions under the 1978 Act had been confirmed by the end of June 1979. Three more were confirmed in July, and another in October. The last of the 12 nominees was not confirmed until December 1979, more than a year after enactment of the 1978 law.

Thomas Morris, the Inspector General at the Department of Health, Education, and Welfare, resigned effective September 28, 1979. No replacement was nominated until August 5, 1980—nearly 11 months later.

Marjorie Knowles, the Inspector General at the Department of Labor, resigned effective May 2, 1980. No replacement was nominated during the remaining eight months of the Carter Administration.

Further details concerning the Carter Administration Inspector General appointments appear in Appendix I.

OMB claim of increased OIG resources during Carter administration

As noted earlier in this report, a comprehensive inquiry by the subcommittee in 1977—the first year of the Carter Administration—dis-

[63] Memorandum for the Heads of Executive Departments and Agencies, Nov. 13, 1978.
[64] 1980 hearings, p. 46.
[65] Memorandum from the President on Federal programs to improve management and combat waste and fraud, May 3, 1979.

closed that audit and investigative resources at a number of Federal departments and agencies were grossly inadequate.

In August 1980, John P. White, then Deputy Director of the Office of Management and Budget, testified in some detail about the post-1977 role of OMB in seeking to assure adequate resources for the statutory Offices of Inspector General. According to Mr. White: [66]

> The President was determined to make the Inspector General legislation a success and secure its implementation in as many Executive Branch processes as possible, including the resource allocation decisions made in the budget process.

Mr. White further indicated that an extensive special review by OMB had resulted in a significant increase in personnel for the statutory Offices of Inspector General, stating that: [67]

> Last year, as part of our effort to assure effective implementation of the Inspector General program, we paid special attention to the Inspectors General throughout the fiscal year 1981 budget process. We built into the process an Inspector General Resources review that included a government-wide overview by our management staff as well as special individual analyses in each Inspector General agency by our budget examiners.
>
> Early in last year's budget process, the budget guidance letters from OMB to each agency having a statutory Inspector General noted: "The President has asked that you make a special review of the resources supporting your office of Inspector General. Within the planning ceiling provided, and in the context of your department (agency)-wide ranking in the zero-base budget process, the adequacy of Inspector General program support should be considered thoroughly."
>
> OMB examiners addressed the Inspector General resources issue in individual agency hearings and prepared a special analysis in each case. These were specifically addressed in the final Director's Review sessions. Finally, an across-the-board analysis was done by our management staff.
>
> The result of this extensive special review was inclusion in the President's Budget of overall increases totaling almost 12 percent in fiscal year 1981 budget authority and almost 5 percent in the number of positions over fiscal year 1980 for the statutory Inspector General agencies. This translates into $246.9 million and 5,917 positions—a clear demonstration of the President's support for the Inspector General program in a very tight budget year.

During 1981 hearings by the Intergovernmental Relations and Human Resources Subcommittee, OMB was asked to provide copies of any available reports on the special review. However, an OMB witness testified that there was no written report.[68]

Carter administration hiring freeze

Mr. White's testimony strongly suggested that 5,917 positions were being made available to the statutory Inspectors General for fiscal

[66] 1980 hearings, p. 44.
[67] 1980 hearings, pp. 48–50.
[68] 1981 hearings, p. 60.

year 1981. However, Mr. White failed to point out that a hiring freeze already imposed by OMB prohibited Inspectors General from filling any vacancies existing in their offices on February 29 and allowed them to fill only half of any vacancies occurring thereafter.[69] In view of the hiring freeze, OMB officials must have known that the number of positions actually available to the IG's in fiscal 1981 would be far less than 5,917.

The impact of the hiring freeze was especially severe on those IG offices which experienced a large number of retirements or resignations or had a large number of vacancies on February 29, 1980. The Department of Transportation's Office of Inspector General was particularly hard-hit. Because of the freeze, that office had 94 vacancies in mid-1980 and faced the prospect of having to incur 65 more vacancies before being able to hire a single replacement.[70]

At the urging of the subcommittee chairman, OMB eventually agreed to allow the Transportation Department OIG and two other IG offices some limited relief from the hiring freeze.[71]

Earlier record of OMB and agencies on requests for audit resources

The General Accounting Office has been concerned for a number of years about the adequacy of resources available to Federal audit organizations. In a July 1979 report [72] GAO described the results of efforts by 21 Federal auditing organizations to obtain additional staff over a five-year period ending on September 30, 1978.

GAO found that the 21 auditing organizations had requested a total of 3,084 additional positions from their agencies during the period. The agencies approved only 1,242 positions—about 40 percent of the number requested. OMB then made a further reduction of almost 50 percent, approving only 638 positions.

Congress subsequently approved a total of 798 positions, 160 more than OMB had requested.

Substantially increased resources at some IG offices

Some Offices of Inspector General managed to obtain substantial increases in personnel during the Carter Administration.

The HEW OIG's Office of Investigations increased its staff from 10 to 100 or more.[73]

GSA 's Office of Inspector General nearly doubled in size from 1978 to 1980—going from 243 to 470.[74]

The Veterans Administration Office of Inspector General increased its authorized staff from 114 in 1977 to 358 in 1980.[75]

It is doubtful that the Office of Management and Budget played any significant role in obtaining additional resources for these offices.

Congress acted rapidly to provide more resources for HEW's Office of Investigations after a 1975 investigation by this subcommittee revealed the Office had only ten investigators with a ten-year backlog of uninvestigated cases.

[69] OMB Bulletin No. 80–7, Mar. 17, 1980.
[70] Information obtained from Office of Inspector General, Department of Transportation.
[71] 1981 hearings, pp. 62–63.
[72] "Federal Civilian Audit Organizations Have Often Been Unsuccessful in Obtaining Additional Staff," FGMSD 79–43, July 27, 1979.
[73] Hearings, p. 191.
[74] Information obtained from Office of Inspector General, General Services Administration.
[75] Information obtained from Office of Inspector General, Veterans' Administration.

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President Carter personally promised to provide at least 100 more positions for GSA's Office of Inspector General after widely publicized Congressional investigations disclosed serious corruption problems at that agency.[76]

Max Cleland, Administrator of the Veterans Administration during the Carter Administration, was a strong supporter of the Inspector General concept; Mr. Cleland established a nonstatutory Inspector General at VA even before enactment of the 1978 law.[77]

The overall adequacy of OIG resources at the present time is discussed later in this report.

VII. Developments Under Reagan Administration

Emphasis on need to combat fraud, waste, and abuse

As a presidential candidate, Governor Reagan emphasized his concern about the magnitude of fraud and waste in Federal programs and the need for corrective action. One September 1980 press report indicated that Governor Reagan had said in Chicago that government spending could be reduced $195 billion over a five-year period by eliminating waste and "outright fraud." [78]

During the campaign debate with President Carter, Governor Reagan stated that "We've had the General Accounting Office estimate that there is probably tens of billions of dollars that is lost in fraud alone, and they have added that waste adds even more to that." [79]

In an address to a joint session of Congress on February 18, 1981, President Reagan commented on this subject as follows: [80]

> Let me say a word here about the general problem of waste and fraud in the Federal Government. One government estimate indicated that fraud alone may account for anywhere from 1 to 10 percent—as much as $25 billion—of Federal expenditures for social programs. If the tax dollars that are wasted or mismanaged are added to this fraud total, the staggering dimensions of this problem begin to emerge.
>
> The Office of Management and Budget is now putting together an interagency task force to attack waste and fraud. We are also planning to appoint as Inspectors General highly trained professionals who will spare no effort to do this job.
>
> No administration can promise to immediately stop a trend that has grown in recent years as quickly as Government expenditures themselves. But let me say this: waste and fraud in the Federal budget is exactly what I have called it before—an unrelenting national scandal—a scandal we are bound and determined to do something about.

On March 26, 1981, President Reagan told the heads of Federal departments and agencies that "The reduction of fraud and waste

[76] Remarks at bill signing ceremony, Inspector General Act of 1978, Oct. 12, 1978.
[77] 1977 hearings, pp. 334–337.
[78] Wall Street Journal, Sept. 10, 1980.
[79] Presidential campaign debate, Cleveland, Ohio, Oct. 28, 1980.
[80] Congressional Record, p. H512.

in the operation of all Federal programs is a major commitment and priority of my Administration." The President then announced that he was establishing a Presidents Council on Integrity and Efficiency "to focus and improve our efforts to deal with the problem." [81]

In an accompanying statement, the President pledged that "we are going to follow every lead, root out every incompetent, and prosecute any crook we find who's cheating the people of this Nation. This I promise." [82]

President Reagan reemphasized his intentions the following month, stating that ". . . we will not tolerate fraud, waste, and abuse of the taxpayers' dollars. Every allegation of wrongdoing, every investigative lead will be pursued thoroughly and objectively.[83]

Mass removal of incumbent Inspectors General

Material included in the Weekly Compilation of Presidential Documents for January 20, 1981, indicates that, in addition to nomination of Cabinet Members, two official actions took place that day.

The first action was the imposition of a new hiring freeze by President Reagan which was even tougher than the earlier one put into effect by President Carter. This freeze was clearly destined to cause further problems for Offices of Inspector General whose staff resources were already grossly inadequate.[84]

However, the freeze was overshadowed by the second official action on January 20—the mass removal of all incumbent Inspectors General.

Under the law, Inspectors General are required to be appointed by the President, by and with the advice and consent of the Senate, "without regard to political affiliation and solely on the basis of integrity and demonstrated ability in accounting, auditing, financial analysis, law, management analysis, public administration, or investigations." [85] An Inspector General cannot be removed by an agency head. If removed by the President, the law specifies that "The President shall communicate the reasons for any such removal to both Houses of Congress." [86] Unlike most Presidential appointees, Inspectors General are not permitted to engage in partisan, political activities.[87]

In January 20 letters to the Speaker of the House and the President of the Senate, President Reagan gave no specific reasons for removing the incumbent Inspectors General. Instead, the President simply noted that Inspectors General would have critical roles in the achievement of his objective of uncovering fraud, waste and mismanagement and promoting economy, efficiency, and effectiveness. He then stated that "As is the case with regard to all positions where I, as President, have the power of appointment by and with the advice and consent of the Senate, it is vital that I have the fullest confidence in the ability, integrity and commitment of each appointee to the position of Inspector General." [88]

[81] Memorandum for the Heads of Departments and Agencies on Government-Wide Anti-Fraud and Waste Efforts; 1981 hearings, p. 43.
[82] Statement on signing Executive Order 12301, Mar. 26, 1981.
[83] Statement on actions taken by the President's Council on Integrity and Efficiency, Apr. 16, 1981.
[84] Memorandum from the President on Federal employee hiring freeze.
[85] Section 3(a), Public Law 95–452.
[86] Section 3(b), Public Law 95–452.
[87] Section 3(c), Public Law 95–452.
[88] Notification pursuant to Public Law 95–452.

Concern about mass removal

On January 23, 1981, the subcommittee chairman wrote to the President to express concern about the mass removal of the Inspectors General.

It is common practice for political appointees to be removed when there is a change in administrations. The President's letters made it unmistakably clear that the Inspectors General were being treated in the same manner as political appointees. In his letter the chairman pointed out that "Unlike most Presidential appointees, Inspectors General are prohibited by law from engaging in partisan political activities" and emphasized that the provision relating to removal by the President "was intended to permit the President to make changes where the performance of an Inspector General was unsatisfactory or where it appeared that appointment of another individual might result in more effective performance of the responsibilities of the office. It was never intended, however, that Inspectors General be automatically replaced on a wholesale basis without regard to their individual merits whenever there is a change in administrations.[89]

The chairman further noted that most of the statutory Inspectors General were career employees who had served under both Republican and Democratic administrations in non-political positions and commented "However intended, the wholesale removal of all current Inspectors General without any meaningful examination of their qualifications and performance has inevitably given the appearance of an attempt to politicize these vitally important offices."

Assurances from the President

On February 19, 1981, Max Friedersdorf, Assistant to the President for Legislative Affairs, wrote to Chairman Fountain to assure him that both the President and Deputy OMB Director Edwin Harper had made personal pledges "to insure that the Inspector General program not become infested with partisan political considerations" and that "the single bipartisan objective of eliminating fraud and waste be observed and thoroughly pursued by an outstanding team of top-qualified professionals." [90]

Mr. Friedersdorf's letter also stated that "the appointment of the next corps of Inspectors General is expected to be accomplished in the very near future" and that there was a possibility that as many as half the dismissed Inspectors General would be reoffered IG positions.

Shortly thereafter, the President personally assured Chairman Fountain that he recognized the vitally important role of the statutory Offices of the Inspectors General, and he intended to give them strong support.[91]

The President had previously assured Congressmen Jack Brooks and Frank Horton, Chairman and Ranking Minority Member of the Committee on Government Operations, that he had no intention of "politicizing" the Offices of the Inspector General.[92]

[89] Letter to the President from Hon. L. H. Fountain, chairman, Intergovernmental Relations and Human Resources Subcommittee, Jan. 23, 1981; 1981 hearings, p. 4.
[90] 1981 hearings, p. 8.
[91] 1981 hearings, p. 2.
[92] 1981 hearings, pp. 11, 51–52.

Circumstances of mass removal

Although The President's assurances considerably lessened concern that the mass removal of the Inspectors General might be the first step in a plan to "politicize" their offices, the subcommittee subsequently conducted an inquiry to obtain additional details concerning the matter.

The removal of the Inspectors General was handled by the White House Personnel Office. An invitation for a representative of that Office to testify at subcommittee hearings was not accepted; consequently, the subcommittee was not in a position to obtain first-hand information about some aspects of the situation.

In the absence of a representative of the White House Personnel Office, the principal witness who testified about the removal of the Inspectors General and the process used to select new ones was Edwin Harper, Deputy Director of the Office of Management and Budget. Mr. Harper also serves as Chairman of the President's Council on Integrity and Efficiency and has played a key role in the selection of nominees for IG positions.[93]

Mr. Harper testified that he had not been involved in the decision to remove all incumbent Inspectors General. However, Harper indicated he concurred in the decision. His reasoning was based on the belief that, given the importance of the IG positions, it was not unreasonable to drop any person who had not done an outstanding job. And, while some IG's had clearly done outstanding jobs, others had been less successful. It was "humanitarian," Harper suggested, to fire all the IG's rather than single out those who were believed to have done a less than outstanding job.[94]

While the subcommittee has not taken testimony from any of the former Inspector Generals who were removed on January 20, informal inquiries suggest it is safe to assume that none of them regarded their removal as a "humanitarian" gesture.

Although questions remain concerning the motivation for the mass removal of Inspectors General, there is no doubt that it was carried out in an abrupt and disorganized manner.

Harper's testimony—and the subcommittee's own inquiry—disclosed that: [95]

Neither Harper nor anyone else at OMB was consulted prior to the decision to terminate all incumbent IG's;

No meaningful examination of the qualifications and performance of the incumbent Inspector General was made before they were summarily removed;

No Members of Congress of either party were consulted or even notified prior to the mass removal; and

None of the individuals designated to head the affected departments or agencies were consulted or notified prior to the removal of their establishment's Inspector General.

The Inspectors General were removed on January 20, 1981, but were not told what had happened to them until the next day, when most of them received letters dated January 21 from E. Pendleton James,

[93] 1981 hearings, pp. 20, and 23–24.
[94] 1981 hearings, p. 22.
[95] 1981 hearings, pp. 22 and 53.

Assistant to the President for Presidential Personnel. One former Inspector General first learned of her removal from a television news program. Another was notified of his "removal" three weeks after the effective date of his retirement.

Except for the name of the addressee and the agency, all the letters were identical, reading as follows:

> This is to inform you that the President has removed you from the position of Inspector General of the ———, effective January 20, 1981. The reasons for your removal are stated in the President's communications to Congress, copies of which are enclosed for your reference.
>
> If you are interested in being considered for reappointment to this position, please make your interest known by sending your application, together with a copy of this letter, to the White House personnel office."
>
> On behalf of the President, I wish to thank you for your service to the United States.

In the typed signature on each of the letters, Mr. James' middle named was misspelled "Pendelton."

Although no meaningful examination of the qualifications and performance of the incumbent IG's was made before they were removed, inquiries about them were made immediately after January 20. According to Harper, these inquiries produced a very clear consenus that "approximately half of the Inspectors General had done a truly outstanding job, were highly qualified and highly professional and would be recommended for reappointment." [96]

Adverse effects of mass removals and continuing vacancies

At a March 26, 1981, press briefing, OMB Deputy Director Harper contended that the IG offices were continuing to carry out their duties vigorously despite the removal of the Inspectors General. He acknowledged, however, that an ongoing program can continue on its own momentum for only a short period of time.[97]

Donald L. Scantlebury, Chief Accountant of the General Accounting Office and Director of GAO's Accounting and Financial Management Division, told the subcommittee that the disruptive effect of not having IG's in place "throws organizations into turmoil. Generally while government agencies or even subagencies are waiting for a new leader nobody strikes out in any strong new directions. They tend to tread water to see what is going to happen." [98]

Scantlebury's view was reinforced by the testimony of Ernest E. Bradley, Acting Inspector General of the Environmental Protection Agency, who said that "we do not want to make any decisions to tie the new Inspector General when he comes in to something he will be held to that he is not in accordance with." [99]

Questions concerning the status and authority of acting Inspectors General added to the confusion. An April 1981 memorandum by Fred F. Fielding, Counsel to the President, concluded that each

[96] 1981 hearings, p. 16.
[97] Briefing for reporters by members of the Presidential Council on Integrity and Efficiency, Mar. 26, 1981.
[98] 1981 hearings, p. 182.
[99] 1981 hearings, p. 191.

former IG's first assistance would take over as acting IG under applicable law "until a successor is appointed." However, Fielding also concluded that a provision of the Vacancies Act, 5 U.S.C. 3348, imposes a 30-day limitation on the power of acting IG's in the Executive Departments to act in that capacity. As a result, Fielding stated, the Departments of Agriculture, Commerce, Energy, HHS, HUD, Labor, Interior and Transportation "are and have been without IG's subsequent to February 20, 1981." [100]

The terminated Inspectors General, according to Fielding, lost all legal authority to exercise the powers of their former offices on January 20; nominees for IG positions could not legally exercise powers of the offices until confirmed or reconfirmed by the Senate.

It is impossible to determine exactly what might have happened if Presidentially-appointed Inspectors General had been present to fight for adequate resources for their offices. However, there is no doubt that the absence of IG's contributed to the serious deficiencies in resources discussed elsewhere in this report.

In the long run, whether or not the January 20 removals have a lasting adverse impact on the Offices of Inspector General depends on whether or not such action is perceived as likely to be repeated in the future. Certainly, if outstanding service as an Inspector General is considered likely to be rewarded with preemptory dismissal whenever there is a change in administrations, it will be difficult to continue to obtain the highly qualified professionals needed to realize the full potential of the Inspector General offices.

In this connection, it is encouraging to note the following testimony of OMB Deputy Director Harper: [101]

> I would not anticipate that a future administration would, or that something like this would be done again with respect to the Inspectors General. I think there has been some confusion, frankly, in people's minds about what is the relationship of the Inspector General to the Executive Branch and to the Congress.
>
> I think that members of the Administration have a clearer sense of that now than they may have had in the past, and I think the point is better understood on everybody's part with respect to the future.

Appointment of new Inspectors General by President Reagan

In his January 20, 1981, letters to the Speaker of the House and the President of the Senate concerning removal of the Inspectors General, President Reagan advised that he would be submitting nominations for the vacant positions to the Senate "in the near future." During his April 1, 1981, testimony, OMB Deputy Director Harper told the subcommittee he hoped all the new Inspectors General would be named "in the next couple of weeks." [102]

However, by May 20, 1981—four months after the IG's were removed—only three nominations had been submitted to the Senate for the 16 vacant Inspector General positions, and none had been con-

[100] Memorandum for Edwin L. Harper from Fred F. Fielding, Apr. 21, 1981; 1981 hearings, p. 144.
[101] 1981 hearings, p. 54.
[102] 1981 hearings, p. 56.

firmed. On May 22, the subcommittee chairman wrote President Reagan to advise that he was scheduling a further hearing to look into the slow pace at which nominations were being submitted. By June 10, when the hearing was held, twelve additional nominations had been made. As of July 16, nearly six months after Inauguration Day, only five nominees had been confirmed and eleven IG positions were still vacant. Four additional nominees were confirmed on July 17. (See Appendix II for details concerning Reagan Administration Inspector General appointments.)

Although the subcommittee is not in a position to make an informed judgment about every nominee on an individual basis at this time, it is clear that the nominees as a group have excellent qualifications and experience. The obviously high quality of the nominees has helped considerably in alleviating concern that the removal of the former IG's was the first step in a plan to "politicize" the offices. OMB Deputy Director Harper and those who assisted him in the selection process deserve to be commended for this achievement.

Six former Inspectors General were reappointed, three to the same department or agency and three to new ones. (A seventh former IG, whose qualifications and record were acknowledged to be outstanding, was not reappointed.) [103]

OMB claim of increased OIG resources, during Reagan administration

In his April 1, 1981, testimony, OMB Director Harper told the subcommittee that President Reagan's budget reflected increases in total staffing for Inspectors General in both fiscal years 1981 and 1982 over fiscal year 1980 actual figures. According to Harper, the actual figure for 1980 was 5,224 positions as compared to 5,395 for 1981 and 5,523 in 1982.[104]

Harper subsequently advised that 53 additional positions had been added for both 1981 and 1982 at two IG offices and that 50 field auditors at another agency were being transferred to IG control.[105]

While the above figures suggest a modest increase in IG staffing in the Reagan budget as compared with the Carter administration, the comparison is not really that simple. The Reagan figures represent "authorized" positions—the maximum number that the Inspectors General will be permitted to hire. "Actual" figures represent the number of positions actually filled; because of continuing staff turnover and unavoidable delays in filling vacancies, the actual number of positions filled is almost always less than the number authorized.

Consequently, the subcommittee asked OMB to provide a comparison of the authorized—rather that "actual"—staffing for fiscal year 1980 with the authorized figures already provided for fiscal years 1981 and 1982. The response provided by OMB appears below in its entirety: [106]

> Clarification of authorized staffing in the Offices of Inspector General versus actual staffing.
>
> We cannot provide specific "authorization" figures since OMB maintains its record on either "Full Time Equivalent" or "End of Year" basis. According to the OMB records, the total IG staffing level has clearly increased in fiscal years 1981 and 1982 over fiscal year 1980. (This is the information provided for the record with Dr. Harper's testimony.)
>
> "Authorization" levels are estimates that the Congress deals with. "Actual" levels frequently differ from "authorized," often resulting in lower figures.
>
> While we do not have "authorization" figures to compare the three years in question, we believe we know the reason for the Committee's concern. In early 1980, Dr. John White, then Deputy Director of OMB, testified that the IG program would have some 5,900 positions for fiscal year 1981. This was the then current estimate. Subsequently, however, the Carter Administration imposed a hiring freeze that affected IG staffing levels. Since 1980 staffing levels, consequently, never reached the level anticipated, that Administration revised downward its estimates for 1981 staffing levels. Our current estimates for 1982 are based on what actually occurred in 1980 and thus far in 1981, rather than on Dr. White's earlier estimates. We believe these earlier estimates are what Mr. Naughton of the Committee's staff has been referring to as "authorized" levels.

103 1981 hearings, p. 142.
104 1981 hearings, pp. 24–25.
105 1981 hearings, p. 112.
106 1981 hearings, p. 146.

The statement provided by OMB was—to say the least—puzzling, since the subcommittee has been operating under the impression that "authorized" positions represented the maximum number of persons who could be hired rather than mere "estimates."

Moreover, it is hard to reconcile with testimony of John White, OMB Deputy Director under the Carter Administration, on August 28, 1980—long after the imposition of the Carter Administration's hiring freeze. At that time, Dr. White described an "extensive special review" conducted by OMB of the adequacy of OIG resources. Dr. White then stated that: [107]

> The result of this extensive special review was inclusion in the President's budget of overall increases totalling almost 12 percent in fiscal year 1981 budget authority and almost 5 percent in the number of positions over fiscal year 1980 for the statutory Inspector General agencies. This translates into \$246.9 million and 5,917 positions—a clear demonstration of the President's support for the Inspector General program in a very tight budget year.

Figures submitted by OMB indicate that the revised fiscal year 1981 Budget request submitted by the Carter Administration after the 1980 election called for total IG staffing of 5,446 for fiscal year 1981 and 5,604 for fiscal year 1982. The Carter Administration figures did not include any positions for the State Department, which did not yet have a statutory Office of Inspector General; the Reagan Budget includes 74 positions for the State Department IG in fiscal year 1981 and 75 in fiscal year 1982. After subtracting the State Department positions and adding on the 53 additional IG positions granted after submission of the Reagan Budget, the Carter Administration totals for both 1981 and 1982 are slightly higher than those in the Reagan Budget.

An argument could be made that the Carter Administration requested a few more IG positions than the Reagan Administration—or vice versa. But the argument is not worth making.

What is significant—and is documented elsewhere in this report—is that the Office of Management and Budget under both administrations has provided grossly inadequate resources for the statutory Offices of Inspector General and has been less than candid in telling the Congress what it has done.

VIII. Adequacy of Current Resources

1980 views of Inspectors General

In March 1980, the subcommittee asked each Inspector General to advise whether or not, in their judgment, the current staffing of their office was adequate. At that time there were 14 statutory Offices of Inspector General. Eleven of the fourteen IG's reported that their staffing was not adequate. Two others advised that their staffing was marginally adequate or could be if the hiring freeze was lifted and the remaining one did not take a position.[108]

Two of the fourteen Inspectors General reported that they had adequate travel funds; four others regarded their travel funds as "probably" adequate. Eight IG's said their travel funds were not adequate.[109]

Three Inspectors General regarded their office space and equipment as adequate; three more responded with qualified "yes" answers. Eight IG's said their support facilities were not adequate.[110]

Current budget situation

As noted earlier, the Reagan Budget currently calls for Inspectors General to receive only very modest increases in resources—if any—over the levels provided in 1980.

The 16 statutory Offices of Inspector General are responsible for monitoring around $400 billion annually in expenditures of public funds.[111] (Budget of the United States Government, Fiscal Year 1982, page 553.) Yet the total staffing presently planned for these offices is only around 5,500 and current staffing is substantially less.[112] By contrast, the Department of Defense has more than 18,000 auditors, investigators and inspectors [113] and the Federal Bureau of Investigation employs nearly 20,000 people.[114] The Los Angeles County Sheriff alone has a staff which is substantially larger than all 16 statutory Offices of Inspector General combined.[115]

The IG's staffing problems have been aggrevated by the establishment of the Presidential Council on Integrity and Efficiency, which has called upon the Inspectors General to use their staffs for a dozen projects assigned by the Council.[116]

[108] Replies to Mar. 4, 1980, questionnaire.
[109] Ibid.
[110] Ibid.
[111] Budget of the U.S. Government, fiscal year 1982, p. 553.
[112] 1981 hearings, p. 68.
[113] Report by the Task Force on Evaluation of Audit, Inspection and Investigative Components of the Department of Defense, May 1, 1980, vol. I, pp. 294–297.
[114] Hearings before House Subcommittee on the Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies, part VI, Apr. 2, 1981, p. 794.
[115] According to information obtained from Los Angeles County, the total staff authorized for the sheriff's department in 1980 was 7,534 persons.
[116] 1981 hearings, pp. 113, 160–161.

Deputy OMB Director Harper told the subcommittee he believed the current budget request would provide enough resources so that Inspectors General will be able to carry out President Reagan's pledge that "Every allegation of wrongdoing, every investigative lead will be pursued thoroughly and objectively," but acknowledged that he thought it was something that deserved to be continually monitored.[117]

However, a study conducted by the Merit Systems Protection Board concluded that a substantial number of Federal employees have failed to report wasteful or illegal activities because of the belief that "nothing would be done." [118]

1981 views of Offices of Inspector General

In their semi-annual reports for the six-month period ending March 31, 1981, Offices of Inspector General expressed the following views on the adequacy of their resources:

Department of Agriculture

> The lack of sufficient resources, both travel and personnel, continued to be a major impediment in terms of operating at the effectiveness and level which was envisioned by our 1981 budget. . . . Our effectiveness has also been hampered by restrictions on travel. . . . The programs of the Department are widely dispersed geographically, and our auditors and investigators must travel in order to be effective in their jobs.

Department of Education

> The magnitude of our workload, coupled with increasing demands by Congress, the Office of Management and Budget, and the U.S. General Accounting Office makes it evident that the current personnel ceiling of 304 is far below our actual needs.
>
> The Department has provided some relief by increasing our ceiling from the Fiscal Year 1981 level of 304 to 335 in Fiscal Year 1982.

Department of Labor

> A matter of major concern to the Office of Inspector General as a whole concerns staffing resources. During this period, OIG employment strength increased from 388 to 459. Despite this sizable increase, the cumulative effect of the government-wide hiring freezes, in place during much of the past year, prevented anticipated staff expansion to the authorized level of 487. This made it impossible to accomplish all of the previously planned OIG initiatives. The revised Fiscal Year 1981 and 1982 budgets provide for 441 positions. As a result, while there will be an increase in OIG activity over previous levels, there will be reductions in relation to previously planned program levels.

[117] 1981 hearings, p. 157.
[118] Statement on actions taken by the President's Council on Integrity and Efficiency, Apr. 16, 1981.

Department of Transportation

Our workload requirements continue to be greater than our resource availability. As a result, there are audit and investigative areas which are not receiving the required attention.

Owing to our present staff levels, we have not been able to allocate sufficient resources to increase the coverage and frequency of internal audits of DOT programs and activities. These audits are a primary means of assuring that adequate controls are in place to prevent fraud, waste, and mismanagement. Another area of concern is our growing backlog of investigative cases. Despite internal reprogramming of some positions to increase investigative staffing, our backlog continues to grow.

* * * * *

Our staffing levels have improved only slightly since our last Semi-annual Report to Congress. We were given authority in October 1980 to fill 50 existing vacancies and replace losses on a one-for-two basis. We were able to hire 59 people before the most recent hiring freeze was imposed in January 1981. However, these gains were mostly offset by 47 personnel losses that occurred during the 6-month period ended March 31, 1981.

* * * * *

Since September 30, 1980, our authorization and budget ceilings have been reduced by a total of 50 spaces. Further reductions are programmed each year through Fiscal Year 1986. However, corresponding reductions are not occurring in our workload. In fact, as we pointed out in our previous Semi-annual Report to Congress, recent legislation has imposed further responsibilities on the Office of Inspector General (OIG) and there are legislative proposals which contemplate OIG involvement in additional areas. Consequently, we anticipate that our workload requirements will continue to be greater than our capabilities, thus resulting in a continued backlog of audits and investigations.

Community Services Administration

Operating under a continuing Congressional resolution, OIG authorized staffing remained at 61 employees, subsequently reduced to 60 by the CSA Director. As a result of hiring freezes imposed by both the incoming and outgoing Administrations, vacant positions could not be filled. Ten additional OIG positions which had been approved by the Office of Management and Budget were included in the FY 1981 CSA budget request. However, since a new appropriation was not enacted by the Congress, the Agency was directed to operate on a continuing resolution which limited spending to the FY 1980 level.

* * * * *

Hiring freezes prolonged an almost intolerable situation in which the Office of Inspector General was severely hampered in its efforts to effectively meet the mandates of the Inspector General Act of 1978. The Office was forced to set stricter priorities and was unable to perform economy and efficiency audits, program results audits and the planned number of Quality Assurance Reviews. The office was also unable to prepare and revise the Auditing Office's standards and policies and was unable to conduct vulnerability reviews and approximately one-fourth of planned internal audits. In addition, the backlog of investigative cases continued to grow.

Environmental Protection Agency

The most critical problem facing the Inspector General at EPA continues to be the shortage of manpower necessary to provide an appropriate level of oversight to EPA programs and functions. . . .

* * * * *

During the last six months, our staff shortage situations has worsened instead of improving. Staff cutbacks for the remainder of the fiscal year will reduce the efforts which can be expended in combating fraud, abuse, and waste in EPA programs, activities, and functions. At the same time, it has become exceedingly clear that even more resources are needed than were formerly projected.

* * * * *

Some of the shortages caused by this reduction are considered especially disruptive. For example, the investigative staff now has no personnel in two of our divisional offices which cover five EPA regional offices administering more than $10.2 billion of active grants. In the Dallas office, we are now down to only two auditors.

* * * * *

As workload needs continue to grow and resources are not made available to provide even reasonable coverage of EPA programs, the Office of Inspector General becomes less able to fulfill its established mission of reducing fraud, waste, abuse, and mismanagement in EPA programs.

General Services Administration

. . . on the basis of a funding reduction imposed by the Office of Management and Budget (OMB), this Office's personnel ceiling for Fiscal Year (FY) 1981 was recently reduced from 622 to 538. Our current staffing level of 536 is just below this reduced ceiling. However, because of the Full-Time Equivalency (FTE) restrictions imposed by OMB for FY 1982, we cannot as a practical matter fill any more positions, even those which may be vacated during the remainder of FY 1981.

National Aeronautics and Space Administration

The Office of Inspector General workforce was reduced from 114 to 100 positions, a cut of 12 percent when the agency was reduced less than 4 percent, and our equipment funds (hardware for our management information system) were halved. These reductions are at variance with President Reagan's budget as presented to Congress at the Inspector General oversight hearing on April 1, 1981, and now threaten the Office's ability to execute its audit plan and initiate timely investigations of procurement fraud.

June 1981 testimony

Testimony at the subcommittee's June 10 hearing provided even more striking evidence of inadequacies in IG resources.

Witnesses from the Office of Inspector General at the Environmental Protection Agency testified that their office had only ten investigators with a five-year backlog of uncompleted work to investigate fraud, waste and abuse in 12,000 water pollution control grants totaling $29 billion.[119]

EPA OIG witnesses further testified that their office had eight vacancies in the fall of 1980 which could not be filled because of the Carter Administration hiring freeze. OMB, at the urging of the subcommittee, then gave the EPA OIG an exemption from the freeze. Only one vacancy had been filled by January 20, 1981; imposition of the Reagan Administration hiring freeze on that day left the office with seven vacancies which it could not fill.[120]

Thereafter, 15 more vacancies occurred because of resignations and retirements, leaving a total of 22 vacancies which could not be filled. The Reagan Administration hiring freeze was subsequently lifted; however, before any of the vacant positions could be filled, EPA imposed its own hiring freeze.[121]

The Assistant Inspector General for Auditing at the Department of Commerce told the subcommittee that his unit's resources were so limited that there was approximately a 36-year audit cycle for management audits.[122]

The Labor Department's Assistant Inspector General for Audit testified that his office believed it was doing a fairly decent job of monitoring the CETA program, but in order to do so, it had been necessary to practically ignore a number of other large programs which are exceptionally vulnerable to fraud, waste and abuse.[123]

A memorandum from an HHS investigator, which was included in the record, described a project being carried out by their Sacramento, California, office which was returning $7 for every $1 expended. However, the two investigators working on the project were losing the equivalent of approximately one week per month—an eighth of the professional time available—because they did not have a copying machine and had to stand in line and feed coins into a public machine in the hall whenever copies were needed.[124]

[119] 1981 hearings, pp. 186–187.
[120] 1981 hearings, pp. 184–185.
[121] 1981 hearings, p. 185.
[122] 1981 hearings, p. 202.
[123] 1981 hearings, p. 192.
[124] 1981 hearings, pp. 152–155.

IX. Savings and Accomplishments

In spite of severe shortages of resources, the statutory Offices of Inspector General have achieved impressive savings and other accomplishments. Examples of items included in semi-annual reports for the six-month period ending March 31, 1981, follow:

Department of Agriculture

During the reporting period, we issued 874 investigative reports and 243 audit reports. Our audit and investigative work during the period identified, or resulted in, approximately $90 million in recoveries, savings, erroneous payments, management improvements, incorrect loan amounts, penalties, claims, fines and judgments. Our investigative work resulted in 381 indictments and 235 convictions during the period.

* * * * *

Most of our indictments were for felony offenses such as food stamp trafficking, and fraud in relationship to departmental loan programs.

Department of Commerce

During the first six months of fiscal year 1981, our audit efforts resulted in $3.7 million of estimated savings and approximately $0.6 million in cost avoidance or deferrals. In addition, we made recommendations for improvements for which savings are not readily determinable. Our preventive investigative efforts assisted Department officials in identifying and avoiding loan actions totalling $3.1 million which carried associated undue risks.

Department of Education

We have issued or processed a total of 2,761 audit reports during this period which questioned costs totalling about $30 million and recommended numerous improvements in operations. The number of reports issued or processed increased by 61 percent over the previous period and is indicative of a trend which is expected to continue. Our accomplishments also included resolution and closure of 1,061 audit reports. Of these, 442 had monetary findings which have or will result in recoveries or savings of about $8.8 million. During this period, we also initiated a number of important internal audits on Departmental programs and activities and issued a major internal audit report on the Department's control over payments. . . . Investigation activities culminated in five indict-

Department of Health and Human Services (1980 Annual Report)

In calendar year 1980, audit reports identified some $80 million in proposed adjustments; even more meaningful some $126.5 million in audit recommended financial adjustments were concurred with by the responsible program officials last year. . . . OI was responsible for 137 indictments, 145 convictions and $4.7 million in savings through recoveries, fines and restitutions for calendar year 1980.

Department of Housing and Urban Development

[Dollars in millions]

Cash recoveries (OIG and non-Federal audits)	$14.2
Dollar value of reported deficencies and questionable items (OIG) and non-Federal audits)	$363.6

* * * * *

Investigation cases opened	1,089
Investigation cases pending, March 31, 1981	2,166
Investigation cases referred for prosecution	277
Persons/firms indicted	85
HUD employees indicted	3
Persons/firms convicted	50
HUD employees convicted	1

Department of the Interior

During this reporting period we referred 25 cases to the Department of Justice. Of the 25 cases referred, 15 were accepted for prosecution, 5 were returned for administrative action, and 5 are pending final decision. So far, the cases accepted for prosecution have resulted in 16 indictments and 11 convictions.

Department of Labor

171 audit reports were issued on DOL grantees and contractors which took exception to $86 million of the $3.4 billion audited. Major continuing problems noted were enrollment of ineligible CETA participants, inadequate monitoring of CETA sub-grantee activities, poor financial management systems, and insufficient documentation to support expenditures. . . . 284 fraud investigative cases were opened and 272 were closed. 40 indictments and 26 convictions were obtained. . . . 54 organized crime and labor racketeering cases were opened. 16 indictments and 10 convictions were obtained.

Community Services Administration

During the six-month period ending March 31, 1981, the Auditing staff reviewed and issued 747 reports and questioned grantee costs of $14 million. Costs were questioned in 256 audit reports and ranged from $8.00 in one report to $2,044,631 in another.

All questioned costs for the period between 1971 through 1981 were reviewed. The review disclosed that of the $8.8 billion in grant funds awarded, $271 million (3 percent) was questioned by auditors. Of that amount, $157 million (58 percent) was allowed by program officials, $68 million (25 percent) was disallowed and the balance of $46 million (17 percent) remained unresolved as of March 31, 1981. Program officials resolved an average of 97 audits per month during the six-month period which ended March 31, 1981.

Environmental Protection Agency

We issued 789 audit reports which questioned $56.7 million of the $1.7 billion audited. A substantial portion of these

monies should be recovered. Other audit reports identified systems and control deficiencies and recommended corrective actions to help prevent fraud, abuse, waste, and mismanagement.

General Services Administration

Made 120 referrals for prosecution to the Department of Justice. . . . Issued 187 internal audit reports and 244 contract audit reports, the latter recommending savings in excess of $52,688,000.

National Aeronautics and Space Administration

The latest measurable results for all audits for fiscal year 1980 showed the auditors questioned $181 million on actions completed during the period and issued about 590 pre-award and post-award reports. This resulted in a net saving or cost avoidance of about $30.9 million.

Small Business Administration

Investigations completed during this report period and final action on previous investigations have resulted in savings or recoveries to SBA amounting to $13,793,493.63.

Veterans Administration

During the six-month period, 10 special initiative audits and one preinstallation audit were completed along with 61 cyclical internal audits which included five followup audits. . . . Estimated savings for the 61 reports, primarily in the nature of cost avoidance, totalled $18 million.

The 227 completed external audits of contractors, grantees, and other external organizations participating in VA programs represented $136 million of audited costs. Cost adjustments of $12.7 million were recommended and $5.8 million in unsupported costs were identified.

X. Ratio of Costs to Benefits

Problems in ascertaining cost/benefit ratios

In trying to ascertain the true actual work done by the Offices of Inspector General, it is important to remember that recommendations by auditors and investigators will not result in specific, measurable savings or recoveries unless they are implemented by the agency concerned. Testimony during the 1977 hearings which led to the Inspector General Act of 1978 indicated that program officials frequently ignored recommendations of auditors.[125]

More recently, former Comptroller General Elmer Staats told the Legislation and National Security Subcommittee of the House Government Operations Committee that the GAO had identified more than $4.3 billion in unresolved audit findings at 34 agencies two years

[125] 1977 hearings, pp. 148–149, and 393–394.

ago. A new survey early this year showed that these same agencies had unresolved audit findings totaling $14.3 billion.[126]

GAO witnesses told the subcommittee that even when amounts are collected because of audit recommendations, weaknesses in agency accounting and collection systems often make it difficult to accurately measure the savings.[127]

Measurable savings and recoveries

GAO witnesses told the subcommittee that the Inspectors General reports questioned costs which had been agreed to by the agency concerned totaling $1.4 billion. This amount is approximately 7 times the costs of the IG offices. Not all of the $1.4 billion will be collected, of course, but GAO personnel indicated they believed that a substantial portion of it would be recovered.[128]

Robert Magee, Acting Inspector General at the Department of Agriculture, told the subcommittee that his investigators had saved or recovered an average of $90,000 per year each over a four-year period and that auditors had averaged about $150,000 per year during the same period. Magee told the subcommittee that these figures did not include "soft" amounts which might or might not be collected.[129] Since the cost of hiring auditors and investigators—including benefits and travel costs—was less than $50,000 per year, Magee estimated that OIG auditors and investigators were returning to the taxpayers two or three times the amount it cost to hire and support them.[130]

OMB officials were subsequently asked to review Mr. Magee's figures and advise the subcommittee if they disagreed with his savings claims; after reviewing Mr. Magee's figures, OMB advised the subcommittee that ". . . we don't feel it is appropriate to dispute his calculations." [131]

Despite solid evidence that reducing the staff of the Agriculture Department's Office of Inspector General would cost at least twice as much in lost savings and recoveries as it would save in salaries and related costs, Deputy OMB Director Harper defended a cut of 50 positions (from 930 to 880) for that office as "an appropriate level of resources." [132]

On an earlier occasion, Harper acknowledged that the Offices of Inspector General were more than paying for themselves, commenting that ". . . Certainly the Inspectors General and the audit function has paid for itself many times over in the past and it will, I'm sure, do even better in the future . . ." [133]

"Deterrent" value of IG work

In addition to measurable savings and recoveries, Offices of Inspector General undoubtedly benefit the taxpayers through the "deterrent"

[126] Hearing for the Legislation and National Security Subcommittee, House Committee on Government Operations, Feb. 25, 1981.
[127] 1981 hearings, p. 171.
[128] 1981 hearings, p. 170.
[129] 1981 hearings, p. 90.
[130] 1981 hearings, p. 100.
[131] 1981 hearings, p. 148.
[132] 1981 hearings, p. 118.
[133] Briefing for reporters by Members of the Presidential Council on Integrity and Efficiency, Mar. 26, 1981.

value of their activities. Well-publicized investigations, indictments and convictions undoubtedly may discourage persons disposed to engage in fraudulent activities from doing so or may encourage others to discontinue such activities even if they have not been detected.

For example, an investigation by the Agriculture Department Office of Inspector General led to conviction of a South Dakota man for fraud in an emergency hay transportation program. After the conviction, some 300 individuals repaid money obtained through overstated transportation claims.[134]

XI. Budget Procedures

Testimony of General Accounting Office

Witnesses from the General Accounting Office told the subcommittee that "workload requirements imposed on the Inspectors General are constantly growing, but the Inspectors General have not been given the resources to meet these new demands." Moreover, they added, "Government-wide hiring freeze and travel fund restrictions have seriously affected their ability to obtain needed staff and have limited the number of audits and investigations started and the scopes of both ongoing and planned efforts." [135]

The GAO witnesses further noted that lack of a separate line item in the budget at some IG offices made it more difficult for Congress to keep track of the resources actually available for auditing and investigative activities.[136]

The witnesses also advocated giving more flexibility to Inspectors General in the use of available resources, pointing out that there were situations in which IG offices had funds available for hiring outside auditors but could not use them to employ additional staff no matter how much more efficient it might be.[137]

[134] Information obtained from the South Dakota Agricultural Stabilization and Conservation Service office.
[135] 1981 hearings, pp. 176–177.
[136] 1981 hearings, p. 177.
[137] 1981 hearings, p. 178.

APPENDIXES

APPENDIX I.—INSPECTOR GENERAL APPOINTMENTS—CARTER ADMINISTRATION

Department or agency and appointee	Date of announcement	Date of nomination	Date confirmed	Termination of service
Agriculture: Thomas McBride	Feb. 28, 1979	Feb. 28, 1979	July 24, 1979	Jan. 20, 1981
Commerce: Mary Bass	Mar. 8, 1979	Mar. 7, 1979	July 2, 1979	Do.
Education: James Thomas	June 12, 1980	June 13, 1980	Aug. 24, 1980	Do.
Energy: J. K. Mansfield	Apr. 19, 1978	Apr. 20, 1978	May 3, 1978	Do.
HEW/HHS:				
Thomas Morris	Feb. 24, 1977	Feb. 24, 1977	Mar. 27, 1977	[1] Sept. 28, 1979
Richard Lowe	Aug. 5, 1980	Aug. 5, 1980	[2]	
HUD: Charles Dempsey	Feb. 28, 1979	Feb. 28, 1979	June 27, 1979	Jan. 20, 1981
Interior: June Brown	do	do	May 10, 1979	Do.
Labor: Marjorie Knowles	do	do	do	[3] May 2, 1980
State: No statutory position.				
Transportation: Frank Sato	Mar. 8, 1979	Mar. 7, 1979	do	Jan. 20, 1981
CSA: Frankie Freeman	June 14, 1979	June 14, 1979	Oct. 5, 1979	Do.
EPA: Inez Reid	Sept. 19, 1979	Sept. 20, 1979	Dec. 9, 1979	Do.
GSA: Kurt Muellenberg	Jan. 30, 1979	Mar. 1, 1979	Apr. 11, 1979	Do.
NASA: Eldon Taylor	Mar. 8, 1979	Mar. 7, 1979	July 30, 1979	[4] Dec. 31, 1980
SBA: Paul Boucher	do	do	June 27, 1979	Jan. 20, 1981
VA: Allan Reynolds	Feb. 28, 1979	Feb. 28, 1979	May 10, 1979	Do.

[1] Effective date of resignation.
[2] Mr. Lowe's nomination was not acted upon by the Senate.
[3] Effective date of resignation.
[4] Effective date of retirement.

APPENDIX II.—INSPECTOR GENERAL APPOINTMENTS—REAGAN ADMINISTRATION (As of July 21, 1981)

Department or agency and appointee	Date of announcement	Date of nomination	Date confirmed
Agriculture: John Graziano	May 6, 1981	June 9, 1981	
Commerce: Sherman Funk	Apr. 22, 1981	June 1, 1981	
Education: James Thomas	Mar. 26, 1981	do	July 17, 1981
Energy: James Richards	May 15, 1981	June 9, 1981	
HHS: Richard Kusserow	Apr. 28, 1981	May 5, 1981	June 1, 1981
HUD: Charles Dempsey	Mar. 26, 1981	May 27, 1981	
Interior: Richard Mulberry	June 1, 1981	June 1, 1981	July 10, 1981
Labor: Thomas McBride	Mar. 26, 1981	do	July 17, 1981
State: Robert Brown	do	Mar. 26, 1981	June 22, 1981
Transportation: Joseph Welsch	Apr. 21, 1981	May 29, 1981	July 17, 1981
CSA: William O'Connor	May 6, 1981	June 9, 1981	July 10, 1981
EPA:			
Frank Sato [1]	Mar. 26, 1981	------------	
Vinton Lide [2]	May 15, 1981	------------	
GSA: Joseph Sickon	May 6, 1981	June 1, 1981	
NASA: June Brown	June 2, 1981	June 10, 1981	July 17, 1981
SBA: Paul Boucher	Mar. 26, 1981	May 12, 1981	June 19, 1981
VA: Frank Sato	May 13, 1981	May 29, 1981	

[1] Mr. Sato was subsequently nominated to be Inspector General at the Veterans' Administration.
[2] Mr. Lide withdrew before being nominated.

Note: Matthew Novick was nominated to be Inspector General at the Environmental Protection Agency on July 23, 1981.

ADDITIONAL VIEWS OF HON. ELLIOTT H. LEVITAS

I think the report is constructive and well-documented. It does an excellent job of calling attention to serious problems facing the statutory Offices of Inspector General, and I fully support its adoption.

However, I think the report might well have been more critical of both the Carter and Reagan Administrations.

While President Carter eventually supported enactment of legislation to establish statutory Offices of Inspector General in the major civilian agencies, he did so only after it was clear that the Congress would overwhelmingly approve such legislation over the opposition of his Administration.

As recently as August of last year, President Carter stood aside while the Department of Defense and the Department of Justice continued to oppose legislation to provide statutory Inspectors General for those Departments.

Moreover, while President Carter and his associates frequently pledged support for the statutory Offices of Inspector General after they were established, very little was done to assure that the Inspectors General had adequate resources to carry out their responsibilities.

President Reagan has assured the subcommittee that he had no intention of "politicizing" the Offices of Inspector General when he removed all incumbent IG's on January 20. The report does not question the President's motives—nor do I.

Unfortunately, the circumstances surrounding the bizarre removal of all incumbent IG's remain shrouded in mystery because the White House was unwilling to permit the testimony of witnesses who had first-hand knowledge of the facts. In this connection, it is interesting to note that E. Pendleton James, Assistant to the President for Personnel, who was directly involved in the removals, formerly worked in the Nixon White House under Fred Malek. In a December 23, 1971, memorandum to H. R. Haldeman concerning efforts to support President Nixon's re-election, Malek flatly stated that one of the basic objectives of his operation was to "politicize" the Executive Branch. In order to accomplish this objective, Malek recommended that:

> We should take action to ensure that the day-to-day Departmental operations are conducted as much as possible to support the President's re-election. Since it is impossible for the White House to directly control day-to-day activities, we must establish management procedures to ensure that the Departments systematically identify opportunities and utilize resources for maximum political benefit.

Malek further recommended that:

> As this concept is refined further, I propose we stop calling it "politicizing the Executive Branch," and instead call it something like strengthening the Government's responsiveness.

President Reagan has been even more outspoken than President Carter in condemning waste, fraud and abuse in Federal programs and in pledging remedial action. But he has—so far—done little or nothing to carry out his pledges by requesting adequate resources for the Offices of Inspector General.

Moreover, although President Reagan has announced his support for statutory Offices of Inspector General in the Defense and Justice Departments, there is so far no indication that the President is using his well-known powers of persuasion to help secure Senate passage of legislation establishing such offices.

I hope that President Reagan will act without delay to make it unmistakably clear that his pledges of support for the statutory Offices of Inspector General are not just empty words. He can do this by moving rapidly to secure adequate resources for these offices and by giving his full and unqualified support to legislation to provide statutory IG's for the Departments of Defense and Justice.

O