

## Proposal for Oversight of Certain Entities without an Office of Inspector General

This attached report was prepared by a working group of Inspectors General to address oversight of entities without an Office of Inspector General. The issue was raised at an April 10, 2014 hearing, "Oversight of Small Agencies," held by the Subcommittee on Financial and Contracting Oversight, Senate Committee on Homeland Security and Governmental Affairs, and in discussion draft legislation.

The purpose and intent of the Working Group was to provide legislative drafters with recommendations for right-sized OIG oversight derived from risk-based analysis. We appreciate the opportunity to present our views for consideration and look forward to further contributing to the development of enhanced oversight to prevent and detect fraud, waste, and mismanagement in small entities currently without an Office of Inspector General.

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PROPOSAL FOR  
OVERSIGHT OF  
CERTAIN ENTITIES  
WITHOUT AN  
OFFICE OF INSPECTOR  
GENERAL

*November 6, 2014*

Inspectors General Working Group  
Recommendations  
For  
Risk-Based, Right-Sized Oversight

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## Executive Summary

Recently, a discussion draft for possible legislation has suggested that certain additional entities throughout the Federal Government warrant oversight by an Office of Inspector General (OIG). Sixty-three small federal entities currently without OIGs have been identified for consideration; 60 of these entities are in the Executive Branch and have a combined budget in excess of \$1 billion. While many of these small entities share common characteristics, a one-size-fits-all approach for OIG oversight is not practicable and would fail to embody the OIG core values of efficiency, effectiveness, and economy.

Risk-based assessment is essential to determining right-sized OIG oversight for the widely diverse entities under consideration. Oversight proportionate to demonstrated, entity-specific risks is particularly critical in our environment of increasingly constrained resources. Formulating a risk-based approach for achieving effective, efficient, economical oversight that promotes public trust and confidence in government decision-making processes presents many significant challenges.

A Working Group of Inspectors General reviewed the discussion draft, evaluated pertinent issues, and developed recommendations for achieving enhanced, right-sized OIG oversight of the selected Executive Branch entities currently without OIGs. The Working Group quickly reached consensus on risk-based Guiding Principles for its work. Over a period of several months, the Working Group gathered and analyzed a comprehensive range of overarching and entity-specific data, reviewed relevant legislative history, consulted with stakeholders, and drew upon collective expertise and experience in overseeing a wide range of OIG programs. Two complementary models for risk-appropriate frameworks emerged from the Working Group's deliberations. For each of the 60 selected Executive Branch entities, the Working Group recommends a specific oversight model. For the majority of the entities, the proposed OIG alignments closely track those in the discussion draft.

For small entities with a low level of apparent risks, the Working Group recommends a Hotline-focused framework for OIG oversight. Each of these small entities would be paired with a legislatively-designated partner. A Central Administrator would be established to manage a coordinated Hotline and refer allegations of fraud, waste, abuse, and whistleblower retaliation to the appropriate partner OIG; the OIG would follow-up with the Central Administrator on the disposition of each referral. Partner OIGs would also conduct initial assessments of financial and programmatic issues for assigned small entities, as well as provide annual fraud awareness training. The partner OIGs would have authority to self-initiate investigations, audits, and other oversight of their partner small entities. The Central Administrator would analyze and annually report to Congress on aggregate statistics, significant findings, vulnerabilities, cross-cutting trends, and recommendations.

The second proposed model is a framework for serving entities that demonstrate risk factors warranting investment in comprehensive OIG oversight encompassing the full range of traditional OIG oversight, principally because of the nature of activities, financial complexity of operations, funding sources, expenditures, public visibility, and the dollar amounts at risk. The Working Group recommends creating four new OIGs for six small entities and expanding the authorities and responsibilities of five existing OIGs for eleven entities with closely aligned missions, activities, and risks.

Like the discussion draft legislation, the Working Group's recommendations would require amendment of the Inspector General Act of 1978. The Working Group is confident in our community's willingness and ability to embrace and overcome attendant challenges. To further develop best practices and benefit from lessons learned, we recommend a five-year pilot program to provide insights into costs, impacts, unintended consequences and other results.

We look forward to contributing to further consideration of enhanced right-sized OIG oversight to prevent and detect fraud, waste, and mismanagement in small Executive Branch entities currently without OIGs.

## Introduction

Recently, a discussion draft for possible legislation has suggested that certain additional entities throughout the Federal Government warrant oversight by an Office of Inspector General (OIG), and 63 small federal entities without OIGs have been identified for consideration. Three of the

“After the passage of the IG Act [1978], OIGs made an impact in those early years by helping agencies repair serious and widespread internal control weaknesses. Recognizing OIGs’ effectiveness, Congress expanded the IG concept beyond the original 12 agencies. \* \* \*

Today, CIGIE [the Council of Inspectors General on Integrity and Efficiency] has 72 IG members that provide audit and investigative oversight to agencies across the Government and seek to prevent problems before they materialize.”

entities are not in the Executive Branch; therefore, we excluded them from our analysis.<sup>2</sup> Because Inspectors General direct resources principally on the basis of risk assessment, a risk-based perspective is essential to determining how best to provide OIG oversight to the selected diverse group of small entities without OIGs. In brief, while many small entities without OIGs share common characteristics, a one-size-fits-all approach is not practicable and would fail to embody the OIG core values of efficiency, effectiveness, and economy.

The 60 selected Executive Branch entities vary widely in mission, stakeholders, budget size, sources of funding (appropriated and non-appropriated), staff size, governance structure, organizational frameworks, legal authorities, extent of existing oversight, and exposure to public scrutiny. For example: more than 20 have budgets of \$4 million or less, while at the other end of the spectrum two receive annual appropriations of more than \$100 million; three handle significant non-appropriated funds and manage substantial contracting activity; one

manages a portfolio of \$18 billion in loans; at least five are authorized more than 200 full-time equivalents (FTEs); and several conduct a significant part of their operations overseas. These significant variations underscore the importance of entity-specific risk assessment to ensure that the structure, scope, and method of proposed OIG oversight are effective, efficient, and economical.

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<sup>1</sup> Progress Report to the President, Fiscal Year 2013, the Council of Inspectors General on Integrity and Efficiency. Copies of this publication may be obtained by calling (202) 292-2600, or from the Inspectors General website at [www.ignet.gov](http://www.ignet.gov).

<sup>2</sup> Two of these entities are Judicial Branch Article I courts (the U.S. Tax Court and the U.S. Court of Appeals for Veterans Claims); one is in the Legislative Branch (U.S. Commission on International Religious Freedom). The Working Group makes no recommendation for oversight of these non-Executive Branch entities, other than that they not be placed under the oversight of Executive Branch OIGs.

Below, a Working Group of Inspectors General (Working Group) proposes two complementary, data-driven models for achieving right-sized OIG oversight proportionate to entity-specific risks.<sup>3</sup> Our recommended models are tailored to leverage the frameworks, responsibilities, and expertise of existing OIGs. One model addresses the needs of small Executive Branch entities with limited apparent demonstration of financial and public trust risks. The other model is designed to ensure comprehensive OIG oversight for entities that warrant full, traditional OIG oversight. For each of the 60 selected Executive Branch entities, the Working Group recommends a specific oversight model. (The Working Group’s list of entity-specific recommendations for OIG oversight is on page 15.) For the majority of entities, the Working Group’s proposed pairings of small entities with existing OIGs closely track the discussion draft legislation.<sup>4</sup> Like the discussion draft, the Working Group’s proposal would require amendment of the Inspector General Act of 1978.

The Working Group’s vision for right-sized OIG oversight arose from Working Group deliberations built upon a solid foundation: extensive research on the selected small federal entities without OIGs; consultation with all IGs to whom new responsibilities would be assigned; discussions with many of the selected small entities without OIGs; research on the creation, legislative history, and evolution of Designated Federal Entity (DFE) OIGs; review of recent Congressional testimony and the discussion draft; review of pertinent entity-specific and overarching Government Accountability Office (GAO) reports; meetings with Congressional staff; and the experience and deliberations of Working Group members.

Though the Working Group members began this project with significantly differing views, our collective experience, research, consultations, discussions, and deliberations led us to clear consensus on most issues. Early in our work, a formulation of Guiding Principles emerged as fundamental to analytical integration of pertinent OIG oversight purposes, frameworks, and relationships. The inclusion below of entity-specific considerations that support more than one OIG oversight option highlights the transparency of the Working Group’s research, analysis, deliberations, and recommendations.

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<sup>3</sup> The Working Group was chaired by the IGs for the Department of Justice, the Pension Benefit Guaranty Corporation, and the Farm Credit Administration. Members included the IGs for the Appalachian Regional Commission, the Corporation for National and Community Service, the Department of the Interior, the Federal Maritime Commission, the Export-Import Bank of the United States, the Federal Trade Commission, the National Endowment for the Arts, the National Endowment for the Humanities, the National Science Foundation, and the United States Postal Service. As the Chair of CIGIE’s Legislation Committee, the IG for the Small Business Administration took part, *ex officio*. Several other IGs participated at various points in the deliberations.

<sup>4</sup> Most of the selected 60 small Executive Branch entities without OIGs were identified in a discussion draft presented at a Congressional hearing, “Oversight of Small Agencies,” held by the Subcommittee on Financial and Contracting Oversight, Committee on Homeland Security and Governmental Affairs, United States Senate, April 10, 2014. Immediately following the hearing, several additional entities warranting consideration for OIG oversight were added. For each of the entities, the Working Group’s list of entity-specific recommendations for OIG oversight indicates whether the entity was identified in the discussion draft or subsequently selected.

Recognizing that additional data and experience would significantly facilitate long-term implementation of effective, efficient, and economical OIG oversight proportionate to entity-specific risks, the Working Group suggests a five-year pilot program to provide insights into the costs, impacts, unintended consequences, and other results of the two proposed models, thereby ensuring long-term development of risk-proportionate oversight, if modifications are warranted.

## **Guiding Principles**

Our recommendations incorporate these Guiding Principles:

- Independent and objective OIG oversight of federal entities promotes economy, efficiency, effectiveness, and public confidence in the administration of federal programs and operations.
- Independent and objective OIG oversight prevents and detects fraud, waste, abuse, and mismanagement.
- Independent and objective OIG oversight keeps Congress, the public, and other stakeholders informed about serious problems and deficiencies and provides a mechanism for recommending, monitoring, and achieving corrective actions.
- Assessment of entity-specific risks and resources is a keystone for determining the appropriate scope, method, cost, and logistical requirements of OIG oversight.
- Investment in OIG oversight of small entities without an OIG should be proportionate to entity-specific risks and resources.
- Many small entities without OIGs do not present financial or public trust risks that warrant subjecting them to the full range of oversight reviews mandated for entities currently with OIGs. (*e.g.*, IPERIA, FISMA, purchase card).
- Absent a compelling justification for establishing a new OIG, leveraging the experience, expertise, and resources of existing OIGs is more efficient and economical than establishing new OIGs.
- To promote effectiveness, efficiency, and economy, oversight of small entities without an OIG should take into account similarities and synergies of entity characteristics and relationships with existing OIGs.
- Where an entity without an OIG has established a mutually satisfactory relationship with an existing OIG, that relationship should be preserved, if appropriate.
- Legislative and Judicial Branch entities should not be subjected to oversight by Executive Branch OIGs.

## Research

To inform our recommendations, the Working Group gathered and analyzed information about, *inter alia*: each small entity's mission; stakeholders; budgets; sources and levels of funding; staff size and geographic distribution; authorizing statutes and other legal authorities; governance structure; organizational frameworks; existing oversight accountability, transparency, and integrity systems and relationships; recent financial statements and annual reports (PARs or APRs/AFRs); recent publicly-reported audit and investigation activity; pertinent Congressional testimony; memoranda of understanding between entities and OIGs; recent news media attention; and public visibility.

The Working Group also benefitted from analysis and recommendations prepared in Fiscal Year (FY) 1986 by a Special Reviews Committee of the President's Council on Integrity and Efficiency (PCIE), a predecessor of the Council of Inspectors General on Integrity and Efficiency (CIGIE). At the request of the then-Chairman of the Senate Governmental Affairs Committee and in light of the well-established early successes of the first OIGs created in 1978, the Committee reviewed the audit and investigative capabilities of 63 federal entities then not subject to independent OIG oversight. The Committee developed a wide range of oversight options for Congressional consideration. This work was an important contribution to the creation in 1988 of 33 independent OIGs for DFEs by amendment of the Inspector General Act of 1978. Of the seven options the Committee developed, three involved direct OIG oversight and the concepts were particularly helpful to the Working Group's deliberations:<sup>5</sup> (1) establishing a new statutory OIG responsible for conducting audits and investigations; (2) designating a cognizant (partner) OIG to provide reimbursable audit and investigative support through a formal MOU; and (3) assigning a single existing OIG for consolidated audit and investigative support.

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<sup>5</sup> The Committee presented a total of seven options. The other four options were: 1) requesting GAO to perform agency internal audits, with certified public accounting (CPA) firms handling external audit work; 2) contracting with CPA firms; 3) strengthening in-house capabilities (staffing, budget, organizational independence) of entities; and 4) relying on existing management reviews. PCIE Inspections and Special Reviews Committee, Sherman M. Funk, Chairman, Review of Small Agency Audit and Investigative Capabilities, May 1987; as quoted and cited in "A White Paper on the Consolidation of Small Agency Offices of Inspector General," November 14, 1996.

## Two Models for Right-Sized OIG Oversight

With the Guiding Principles in mind, comprehensive data at hand, and drawing upon our collective experience in overseeing a wide range of government programs, the Working Group recommends dividing the 60 selected Executive Branch entities along the lines of two risk-appropriate, right-sized OIG oversight models:

- (i) Hotline-focused OIG oversight of each small entity with limited apparent demonstration of financial and public trust risks by a “partnered” OIG specifically designated by legislation. The proposed relationship includes the creation of a coordinated Central Hotline to make and follow up on referrals to the partner OIG and to facilitate analysis of common vulnerabilities and trends. The partner OIG would have responsibility for fraud training and awareness building and would provide *ad hoc* oversight support as deemed appropriate by the OIG.
- (ii) Full, traditional OIG oversight of entities warranting comprehensive oversight. This level of oversight would be achieved by legislation creating four new OIGs and by expanding the responsibilities of five existing OIGs to encompass full, traditional OIG oversight of eleven designated entities currently with no formal OIG oversight.

Hotline-focused OIG oversight	Full, traditional OIG oversight
<ul style="list-style-type: none"><li>• Small entities with limited risks</li><li>• Coordinated Central Hotline and "partnered OIG" specifically designated by legislation</li><li>• Partner OIG responsible for fraud training and awareness building and other ad hoc oversight</li></ul>	<ul style="list-style-type: none"><li>• Entities warranting comprehensive oversight</li><li>• Four new OIGs</li><li>• Expanded responsibilities of five existing OIGs for oversight of eleven designated entities without an OIG</li></ul>

Resolution of a host of relationship issues between existing OIGs, partnered small entities, newly created OIGs, and newly expanded OIGs will be necessary. The inherent challenges are not greater than would be encountered in implementing the discussion draft.

## **I. Hotline-Focused OIG Oversight Model for Small Entities**

At this point in time, most small entities under consideration present a low level of apparent risk that does not warrant the comprehensive scope of full, traditional OIG oversight. With the few exceptions discussed below,<sup>6</sup> effective, efficient, and economical risk-based OIG oversight can be achieved by establishing a multi-agency Hotline (telephone and web-based), managed by a Central Administrator, to receive allegations of waste, fraud, abuse, and whistleblower retaliation. The Central Administrator would refer allegations and other information to an OIG legislatively-partnered with the relevant small entity. Additionally, the creation of a Central Administrator would readily allow analysis of cross-cutting trends and vulnerabilities affecting small entities. The partner OIG would also provide its small agency partner with a range of other good-governance support and have broad discretion to self-initiate additional OIG oversight. (A large DFE IG has offered to provide an administrator and host the Hotline.)

The following are essential components of legislation to implement this Hotline-focused oversight model:

- A. Each partner small entity must be required to provide links on its website to a coordinated Hotline managed by a Central Administrator. The Central Administrator will maintain a website that includes content on reporting obligations, employee rights, fraud awareness, and other pertinent topics.
- B. Each partner small entity will receive mandatory annual training for all entity officials and staff on: fraud awareness; rights and responsibilities; what should be reported, whistleblower protections; reporting channels; and other pertinent matters.
- C. Each partner OIG must be afforded the same access rights and authorities -- to exercise at the OIG's discretion -- at its partner small entity as it has for its own agency, including initiation of audits, evaluations, inspections, investigations, and other reviews.
- D. Each partner OIG must report to the Central Administrator upon completion of an investigation, audit, evaluation, review, or other Hotline follow-up activity.
- E. Each partner OIG, within a legislatively specified period after the effective date of authorizing legislation, will conduct an assessment of its small entity partner's financial and programmatic issues. (The Working Group suggests a period not to exceed 18 months.) Following completion of this initial assessment, the OIG will timely include in its Semiannual Report to Congress (SARC) discussion of the OIG's conclusions, concerns, recommendations, and other matters, as deemed warranted by the OIG.
- F. Each partner OIG will include in its SARCs, to the extent deemed warranted by the OIG:
  - 1) highlights of investigations and financial statement audit reports, management letters,

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<sup>6</sup> Of course, the size of an entity's budget and the number of authorized FTEs cannot -- standing alone -- adequately capture the full scope of an entity's potential risks. The Working Group believes that several small entities with relatively small budgets warrant full OIG oversight by reason of distinguishing characteristics, including: receipt and expenditures of non-appropriated funds; complexity of program implementation; geographic range of activities and distribution of staff; public visibility; and other entity-specific vulnerabilities.

and any other internal reviews of its partner small entity or entities; 2) corrective actions recommended and taken; and 3) recommendations for improvements, if warranted, within the scope of OIG oversight.

G. Each small entity will reimburse the partner OIG for more than minimal activities undertaken by the partner OIG.

H. The Central Administrator will submit an annual report to Congress setting out aggregate statistics, significant findings, cross-cutting trends, and recommendations.

## II. Full, Traditional OIG Oversight Model

Several small entities without OIGs – principally because of the nature of their activities, financial complexity, funding sources, expenditures, public visibility, and the dollar amounts at risk – demonstrate risk factors that warrant greater investments to ensure right-sized OIG oversight encompassing the full range of OIG activities, including audits and reviews mandated for current OIGs. To ensure effective, efficient, and economical full, traditional OIG oversight, the Working Group recommends establishing two distinct variations, closely modeled on existing OIG frameworks:

1) Creation of four new OIGs (single and multi-entity) to encompass oversight of six small entities, and

2) Expansion of the authority and responsibilities of five existing OIGs to encompass comprehensive oversight of eleven small entities with closely aligned missions, activities, and risks.<sup>7</sup>



<sup>7</sup> Only one entity, the U.S. Trade and Development Agency, is recommended for OIG oversight by an expanded OIG but does not warrant full, traditional OIG oversight. The Working Group recommends Hotline-model oversight for this entity by Export-Import OIG, because it should be partnered with the OIG with oversight of the Overseas Private Investment Corporation, discussed below, which warrants comprehensive OIG oversight.

The new OIGs and expanded OIGs would be responsible for the full range of traditional OIG oversight activities, including audits and reviews mandated for current OIGs. Their authority and responsibilities would be on equal footing with the current 72 statutory and DFE OIGs. The Working Group emphasizes that if an existing OIG is to perform expanded responsibilities by providing comprehensive oversight of additional entities, additional resources will be required.

### **Creation of New Offices of Inspector General**

The Working Group recommends that the Inspector General Act of 1978 be amended to create the following four new OIGs:

#### **A. Museums and Performing Arts Office of Inspector General**

The Working Group recommends creating a new OIG with combined oversight of *the National Gallery of Art, the U.S. Holocaust Museum, and the John F. Kennedy Center for Performing Arts*. These three entities, currently without OIGs, have complex funding structures and significantly rely upon private-source income, including, endowments, trusts, donations, and fees, and contracts. For FY 2014, in federal appropriations alone, these entities received a combined amount of more than \$219 million; their substantial private-source income is not uniformly reported and is not transparent. Our recommendation for a new, multi-entity OIG for these entities underscores the Working Group's focus on efficient, effective, and economical oversight.

The discussion draft proposed placing these entities under oversight of the Smithsonian OIG; however, during the Working Group's extensive consultations with the Smithsonian Inspector General (IG), the Smithsonian IG emphasized that it could not handle oversight of these three entities without undermining its oversight responsibilities to the Smithsonian. Because these entities without OIGs are subject to a high level of Congressional and public scrutiny, engage in similar activities, conduct complex operations, are responsible for administering substantial budgets, and share risks and vulnerabilities, and the Working Group was persuaded that creation of a new multi-entity OIG for full, traditional OIG oversight is justified.

## B. Presidio Trust Office of Inspector General

The Working Group recommends establishing a new OIG for the Presidio Trust. Unlike other national parks, the *Presidio Trust* is financially self-sufficient, holding \$141 million in non-appropriated funds. It manages residential leases, maintains community facilities, and undertakes substantial construction and other contracting activities, all in the immediate confines of the Presidio base in San Francisco. Although its 301 employees are federal employees for most purposes, they are not subject to the provisions of Title 5 relating to hiring, compensation and termination. The Presidio established financial self-sufficiency in 2013 and, pursuant to its authorizing legislation, is no longer eligible to receive federal funding. The Presidio manages a highly valuable parcel of federal property and annually expends more than \$140 million. The Secretary of the Interior (or designee) is the only federal official or employee authorized to serve on the Presidio's Board of Directors. Given its status as a national park, the Presidio could be subject to oversight by the Department of the Interior OIG, as proposed in the discussion draft, but the Working Group suggests that the Presidio's unique and complex financial structure and activities justify a stand-alone, independent OIG located onsite. The Department of the Interior Deputy IG, who is a Working Group member, concurs in this recommendation.

## C. Committee for Purchase from People Who are Blind or Severely Disabled (AbilityOne) Office of Inspector General

The Working Group concurs with GAO's recent recommendation that an independent OIG be established for the *Committee for Purchase from People Who are Blind or Severely Disabled (AbilityOne)*. While the Committee's annual appropriation hovers at about \$5 million, suggesting that it is firmly placed in the midrange of small entities, the operations it oversees establish a compelling, risk-based justification for establishing an independent OIG exclusively dedicated to comprehensive oversight of its programs. The Committee supervises the *AbilityOne program*, through which more than 600 non-profit and state agencies employ blind and severely disabled individuals to provide services and manufacture products for the Federal Government. Annual sales total \$2 billion, and the AbilityOne program is exempt from the full and open competition requirements ordinarily attendant with programs administering federal procurement authority.

Most of the Committee's authority is delegated to two central non-profit agencies (CNAs) that award contracts to organizations participating in the AbilityOne program. As a practical matter, the Committee has extremely limited authority over the CNAs and little visibility into the Committee's operations. The Working Group is convinced that the structure and practices of the CNA boards create significant risks of conflicts of interest, fraud, waste, and mismanagement. The boards include executives of some of the non-profit entities that participate in the AbilityOne program and rely on the CNAs for business opportunities. Board members are not required to and do not disclose how contracts are awarded. Internal controls appear to be weak, and there is no system in place for reporting allegations and concerns about the program's

administration and activities. Moreover, in addition to directing contract awards, the CNA boards oversee expenditures of large operating expenses, totaling \$110 million in FY 2012; these funds are received exclusively from federal contracts awarded by the CNAs.

Recently, at the request of Congress, GAO reviewed the program and issued a report concluding that much stronger oversight is needed. (*Enhanced Oversight of the AbilityOne Program Needed*, GAO-13-457, May 2013). GAO has recommended that an independent OIG be established. GAO noted that the program's exemption from full and open competition requirements in the context of the program's administration of a federal procurement program with responsibility for \$2 billion in contracting dollars controlled by the CNAs creates significant vulnerabilities to waste, fraud, and abuse. Specifically, the Committee cannot control how CNAs: (1) spend their funds; (2) allocate projects; (3) set and manage performance goals; and (4) establish and implement governance policies and other internal controls. In addition to several recommendations to enhance Committee oversight of the program, GAO highlighted the absence of OIG oversight to provide independent investigative capabilities for the program, leading GAO to recommend that an independent OIG be established. The Committee agreed with GAO's recommendations. In its 2015 budget justification, the Committee noted its concurrence "in the value of having an independent entity, such as a dedicated IG, to conduct audits," but expressed concern if such an office was established without additional funding.

As is common for a number of small federal entities, GSA is responsible for the Committee's fiscal operations, including financial reporting. The Committee has established an MOU for investigative support with the GSA OIG but has never used it. The GSA OIG concurs that comprehensive, independent oversight is needed due to the size of the AbilityOne program and the nature of its activities and that establishing an independent OIG is likely the best model. If Congress does not establish an independent OIG, then GSA OIG is an alternate option to provide full oversight; this option would require significant resources.

#### D. American Battle Monuments Commission Office of Inspector General

The Working Group recommends creating a new OIG for the *American Battle Monuments Commission (ABMC)*. The ABMC administers, operates and maintains, in 10 foreign countries, 25 permanent American cemeteries and 26 separate memorials, monuments and markers (3 in the United States). Its overseas operations headquarters is in Garches, France. The ABMC's authorizing legislation requires that, subject to the availability of appropriations, the ABMC employ at least 50 individuals in the competitive service – including at least 43 assigned to duties in foreign countries – and almost 350 foreign nationals onsite in 10 foreign countries. For FY 2014, ABMC's appropriation was \$57.9 million; it was authorized 80 civilian employees, 50 of whom are in foreign countries.

The ABMC was originally assigned to the Veterans Affairs (VA) OIG. When the Working Group consulted the VA Inspector General, he responded in a letter stating:

The far-flung operations of the ABMC would create logistical and financial challenges for the VA OIG, particularly in employee travel, and potentially in language barriers with foreign national staff. Even if the proposed \$1 million authorized were appropriated, this amount would be inadequate to support the infrastructure necessary to conduct the required initial and annual audits overseas. Both the Department of Defense Inspector General and the Department of State Inspector General have statutory oversight responsibility for two of the Federal Government's largest Departments with an overseas presence. In fact, both OIGs presently have personnel assigned at overseas posts of duty, have established administrative infrastructure to support overseas operations, and have ready access to diplomatic passports.

If a new ABMC OIG is not established, the Working Group recommends the ABMC receive full oversight by an OIG that has a foreign presence.

### **Expansion of Existing OIGs to Provide Full, Traditional Oversight of Entities**

The Working Group recommends that the Inspector General Act of 1978 be amended to expand the authority and responsibilities of existing OIGs to ensure full, traditional OIG oversight as described below:

#### **A. Overseas Finance Entities: Overseas Private Investment Corporation and U.S. Trade and Development Agency**

The Working Group recommends that the *Overseas Private Investment Corporation (OPIC)*, a self-sustaining government corporation, receive full OIG oversight. OPIC has a large international credit portfolio and faces significant risk factors attendant to international transactions. Congress and OPIC itself recognize that comprehensive OIG scrutiny is warranted. The *U.S. Trade and Development Agency (USTDA)*, a much smaller entity, has core activities similar to OPIC's. The activities and risk factors of both OPIC and USTDA are similar to those of the Export-Import Bank (Export-Import), an agency with an existing OIG. With reference to the Working Group's Guiding Principles and appreciation of the complementary aspects of OPIC, USTDA, and Export-Import, we recommend oversight by Export-Import OIG.

OPIC generates revenue from fees and investments, issues loans, loan guarantees, and insurance to facilitate overseas investments and exports by U.S. companies. OPIC is authorized to extend up to \$29 billion in loans and has a \$62 million cap on investments. OPIC employs 280 FTEs. OPIC has requested its own DFE OIG, and the authorizing Foreign Affairs Committees have proposed it in legislation.<sup>8</sup> The suitability of an alternative approach emerged from the discussion draft, recent subcommittee testimony by OPIC's current oversight partner (the U.S.

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<sup>8</sup> The Foreign Affairs Committees in the House and Senate have considered legislation that would establish a new, stand-alone OPIC OIG.

Agency for International Development), and the Working Group's analysis. The Working Group recommends that the duties and responsibilities of the existing Export-Import OIG be expanded to encompass OPIC. This expanded Export-Import OIG oversight could also include USTDA, which is not currently subject to direct OIG oversight and does not warrant comprehensive OIG oversight. Though either an expansion of the Export-Import OIG or establishment of an independent OPIC OIG could provide adequate OIG oversight of USTDA, the Working Group believes that several significant considerations support expansion of the Export-Import OIG.

Our analysis highlighted the complementary missions of the entities, synergy of programs and activities, and principles of effectiveness, efficiency, and economy that would be implemented by expansion of Export-Import OIG's responsibilities to encompass full OIG oversight of OPIC. The expanded framework would leverage the experience and expertise of the Export-Import OIG. Because the Export-Import OIG has developed specialized expertise in federal loan guarantees and credit insurance involving overseas transactions, as well as expertise in policy and governance issues unique to government finance corporations, Export-Import OIG is well-situated to provide full OIG coverage to OPIC. The Export-Import OIG has provided comprehensive oversight of its entity's programs and activities, including risk management reviews, policy audits, and inspections of credit transactions. The Export-Import OIG also has received law enforcement authority from the Attorney General, and the OIG's investigations have resulted in numerous criminal judgments and administrative actions.

If the Export-Import OIG takes on expanded responsibility in the international transaction space, it may be appropriate to include oversight of the USTDA; USTDA provides grants to overseas sponsors to hire U.S. companies to implement development projects. USTDA has approximately 50 FTEs and a budget of \$55 million. The Working Group recommends that due to USTDA's small size, USTDA be treated as a small entity partnered with the Export-Import OIG. The Export-Import IG is a member of the Working Group and is willing to take on responsibility for OPIC and USTDA. The Working Group notes that the discussion draft assigned USTDA to the Commerce OIG; the Commerce IG has expressed the willingness and has the ability to perform appropriate OIG oversight. While the Working Group recognizes that effective oversight could be accomplished under either existing OIG, we believe that our proposed alignment of USTDA with OPIC would be more economical.

## B. Regional Commissions

Currently, the *Appalachian Regional Commission (ARC)* is the only Regional Commission with well-established, direct OIG oversight.<sup>9</sup> To achieve economies of scale and capitalize on the expertise and capabilities of the ARC OIG, the Working Group recommends combining oversight of all of the Regional Commissions in a single OIG under the existing ARC OIG. The following five Regional Commissions would be under the ARC OIG: the *Northern Border Regional Commission (NBRC)*, *Northern Great Plains Regional Authority (NGPGA)*, *the Southeast Crescent Regional Commission (SECRC)*, *the Southwest Border Regional Commission (SWBRC)*, *the Delta Regional Authority*, and *the Utah Reclamation Mitigation and Conservation Commission*. Legislation enacted in 2008 required establishment of a single OIG with oversight of NBRC, SECRC, and SWBRC, but the legislation has not been implemented. See 40 U.S.C. 15704. (NGPGA, SECRC, and SWBRC are inactive.) The ARC OIG, a Working Group member, concurs with this recommendation.

## C. Institute of Museum and Library Services

The Working Group recommends that the *Institute of Museum and Library Services (IMLS)* receive full OIG oversight by the National Endowment for the Humanities (NEH) OIG. IMLS is a grant-making and policy advisory body. With an appropriation of more than \$226 million, it is associated with both the National Endowment for the Arts (NEA) and the NEH. The NEH OIG has provided oversight from time to time at the request of the IMLS's Director. The Working Group recommends formalizing this relationship through legislation. The NEH OIG, a Working Group member, concurs with this recommendation.

## D. Merit Systems Protection Board, Office of Government Ethics, and Office of Special Counsel

The Working Group recommends full OIG oversight of the *Merit Systems Protection Board*, *Office of Government Ethics*, and *Office of Special Counsel* by the Office of Personnel Management (OPM) OIG. The discussion draft also proposes full OPM OIG oversight of these entities. The complementary missions and activities of these three entities were established to promote good governance and enhance public trust in government processes and decision-making. The responsibilities of these entities underscores that full OIG oversight is appropriate. Notably, when the Working Group shared its recommendations with the impacted Inspector General, OPM OIG extensively addressed both the suitability of the discussion draft's assignment of OPM OIG for oversight of these entities and the comprehensive scope of expanded OPM OIG oversight. The OPM OIG strongly asserted that full, traditional OIG oversight of these entities under OPM OIG is warranted.

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<sup>9</sup> The Denali Commission may also be considered to be a Regional Commission. The Denali Commission OIG is a DFE OIG under the 1988 IG Act amendments. Because the Denali Commission has an existing OIG, it is not covered in the Working Group's recommendations.

#### E. Farm Credit System Insurance Corporation

The *Farm Credit System Insurance Corporation (FCSIC)*, while not identified by Congressional staff for OIG oversight consideration, administers a \$3.5 billion insurance fund and is without OIG oversight. The lack of formal, day-to-day OIG oversight distinguishes FCSIC from other government insurers for financial institutions, such as the Federal Deposit Insurance Corporation and National Credit Union Administration. The Farm Credit Administration (FCA) OIG is well suited to provide full OIG oversight of FCSIC. FCA is the regulator of the Farm Credit System. FCSIC protects investors through administration of the insurance fund and minimizes loss thereto. FCA and FCSIC have complementary missions, ensuring credit to agricultural borrowers. FCA and FCSIC rely on similar funding sources (non-appropriated), have the same Congressional authorizing committees, and are administered under a closely aligned governance framework; further, FCA OIG is co-located with FCSIC in McLean, VA. The Working Group recommends statutorily establishing FCA OIG's authority and responsibilities for full OIG oversight of FCSIC. The FCA IG, a co-leader of the Working Group, concurs with this recommendation.

### **Conclusion**

Our evaluative process and proposed frameworks for oversight of 60 selected Executive Branch entities currently without OIG oversight highlight the importance of correlating risk with the structure, scope, and method of appropriate OIG oversight. In an environment of increasingly constrained resources, we believe assessment of entity-specific risks is essential to achieving effective, efficient, economical oversight that promotes public trust and confidence in government decision-making processes. The overarching and entity-specific considerations that informed the Working Group's deliberations provided a solid foundation for our recommendations.

The two-model proposal is well designed to establish right-sized oversight for preventing and detecting fraud, waste, and mismanagement in the selected entities currently without OIGs. While this approach will allow the OIG community to do more with less, we appreciate that implementation will present significant challenges. We are confident in our community's willingness and ability to embrace and overcome these challenges. Difficulties encountered in the early stages of implementation will allow us to further develop model practices and benefit from lessons learned. For this reason we recommend a five-year pilot program to provide insights into costs, impacts, unintended consequences and other results.

We appreciate the opportunity to prepare this proposal and look forward to contributing to further consideration of enhanced OIG oversight to prevent and detect fraud, waste, and mismanagement in small Executive Branch entities currently without OIGs.

## **Proposed Alignments**

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# HOTLINE-FOCUSED ALIGNMENTS FOR OVERSIGHT OF SMALL ENTITIES BY EXISTING OFFICES OF INSPECTOR GENERAL

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### **Department of Commerce Office of Inspector General**

1. Marine Mammal Commission\*

### **Department of Education Office of Inspector General**

1. Barry Goldwater Scholarship & Excellence in Education Program\*
2. Christopher Columbus Fellowship Foundation
3. Harry S. Truman Scholarship Foundation\*
4. James Madison Fellowship Foundation\*
5. National Council on Disability

### **Department of Energy Office of Inspector General**

1. Nuclear Waste Technical Review Board\*

### **Federal Labor Relations Authority Office of Inspector General**

1. Federal Mediation and Conciliation Service

### **Federal Reserve Board Office of Inspector General**

1. Federal Financial Institutions Examination Council\*

### **General Services Administration Office of Inspector General**

1. National Capital Planning Commission\*
2. Vietnam Education Foundation

### **Department of Homeland Security Office of Inspector General**

1. Commission on the Prevention of Weapons of Mass Destruction Proliferation and Terrorism\*\*

\*Recommendation same as discussion draft

\*\*Not included in discussion draft

### **Housing and Urban Development Office of Inspector General**

1. Neighborhood Reinvestment Corporation\*
2. U.S. Interagency Council on Homelessness\*

### **Department of the Interior Office of Inspector General**

1. Advisory Council on Historic Preservation\*
2. Dwight D. Eisenhower Memorial Commission\*
3. Morris K. Udall & Stewart L. Udall Foundation\*
4. Office of the Federal Coordinator for Alaska National Gas Transportation Projects\*
5. Office of Navajo and Hopi Indian Relocation\*
6. Valles Caldera Trust\*

### **Department of Justice Office of Inspector General**

1. Administrative Conference of the U.S.
2. Architectural and Transportation Barriers Compliance Board\*
3. Privacy and Civil Liberties Oversight Board\*\*
4. State Justice Institute\*
5. U.S. Commission on Civil Rights\*

### **Department of Labor Office of Inspector General**

1. Federal Mine Safety and Health Review Commission\*
2. Federal Retirement Thrift Investment Board
3. Occupational Safety and Health Review Commission\*

### **National Archives and Records Administration Office of Inspector General**

1. Public Interest Declassification Board

### **National Endowment for the Arts Office of Inspector General**

1. Commission of the Fine Arts
2. Institute of American Indian and Alaska Native Culture and Arts Development

### **National Labor Relations Board Office of Inspector General**

1. National Mediation Board\*

### **Nuclear Regulatory Commission Office of Inspector General**

1. Defense Nuclear Facilities Safety Board\*

\*Recommendation same as discussion draft

\*\*Not included in discussion draft

### **National Science Foundation Office of Inspector General**

1. Arctic Research Commission\*

### **United States Postal Service Office of Inspector General**

1. Medicare Payment Advisory Commission
2. Selective Service Commission

### **Smithsonian Office of Inspector General**

1. Woodrow Wilson Center\*

### **Department of State Office of Inspector General**

1. International Boundary Commission: U.S. and Canada\*
2. International Boundary and Water Commission\*
3. International Joint Commission: U.S. and Canada\*

### **Department of Treasury Office of Inspector General**

1. Japan-U.S. Friendship Commission

### **United States Agency for International Development Office of Inspector General**

1. U.S. Institute of Peace

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## FULL, TRADITIONAL OFFICE OF INSPECTOR GENERAL OVERSIGHT NEW OFFICES OF INSPECTOR GENERAL

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### **Museums and Performing Arts Office of Inspector General**

1. U.S. Holocaust Memorial Museum
2. John F. Kennedy Center for Performing Arts
3. National Gallery of Art

### **Office of Inspector General for the Presidio Trust**

### **Committee for Purchase from People Who are Blind or Severely Disabled (AbilityOne) Office of Inspector General**

### **American Battle Monuments Commission Office of Inspector General**

\*Recommendation same as discussion draft

\*\*Not included in discussion draft

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## EXPANSION OF EXISTING OFFICES OF INSPECTOR GENERAL TO PROVIDE FULL, TRADITIONAL OVERSIGHT OF ENTITIES

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### **Export-Import Bank Office of Inspector General**

1. Overseas Private Investment Corporation\*
2. U.S. Trade and Development Agency

### **Farm Credit Administration Office of Inspector General**

1. Farm Credit System Insurance Corporation\*\*

### **National Endowment for the Humanities Office of Inspector General**

1. Institute of Museum and Library Services

### **Office of Personnel Management Office of Inspector General**

1. Merit Systems Protection Board\*
2. Office of Government Ethics\*
3. Office of Special Counsel\*

### **Regional Commissions (Appalachian Regional Commission) Office of Inspector General**

1. Delta Regional Commission\*
2. Northern Border Regional Commission\*
3. Northern Great Plains Regional Authority\*
4. Southeast Crescent Regional Commission\*
5. Southwest Border Regional Commission\*
6. Utah Reclamation Mitigation and Conservation Commission

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## EXECUTIVE BRANCH OVERSIGHT NOT APPROPRIATE

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1. U.S. Tax Court
2. U.S. Court for of Appeals for Veterans Claims
3. U.S. Commission on International and Religious Freedom

\*Recommendation same as discussion draft

\*\*Not included in discussion draft