

AGA's Corporate Partner  
Advisory Group

# Survey Series

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Inspector General

**KEARNEY &  
COMPANY**



**AGA's Annual Inspector General Survey:**  
*Effective Oversight in a  
Changing Environment*

## Survey Contributors

### AGA

Relmond Van Daniker, DBA, CPA, Executive Director

Steven Sossei, CPA

### Kearney & Company

David M. Zavada, MPA, CPA, *Survey Director*

Jeffrey W. Green, CPA

Ronald Longo, CGFM, CPA

Kelly Gorrell, CGFM, CPA

Lyndsay McKeown

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Founded in 1985, Kearney & Company, P.C. provides auditing, accounting, and consulting services to Federal agencies and offices across the country. Narrowing our market focus allows us to deepen our understanding of Federal operations and broaden our impact: we specialize in providing financial services exclusively to Federal agencies.

Kearney is the third largest CPA firm providing services under the General Services Administration's (GSA) Financial and Business Solutions (FABS) Schedule. Our staff of more than 400 employees operates from our Alexandria, Virginia headquarters and eight satellite offices across the U.S. Please visit our website at [www.keneyco.com](http://www.keneyco.com).

# About the Survey

As part of its thought leadership initiative, the Association of Government Accountants (AGA) sponsors and prepares a wide range of informational reports that highlight emerging issues and common concerns among the financial accountability community, and provide research information on important topics. As part of this initiative, AGA, in partnership with Kearney & Company, P.C. (Kearney), has conducted its first annual survey of the Federal Inspector General (IG) community. The survey was conducted to meet two broad objectives — provide information on cross-cutting issues that affect IG operations in the Federal Government today, and identify issues that may emerge in future years that will impact IG operations.

This inaugural survey of the IG community took the pulse of the community through a series of interviews guided by our survey tool.

The insights that resulted provide an updated look at the state of the community, and the key issues and challenges related to providing ongoing effective oversight and accountability. Based on early outreach to former IGs and others, the survey focused on several themes, including: Budget and Operations, Human Resources, Data Analytics, Working with Management, Independence, and the Financial Audit. The survey also asked questions regarding the challenges faced by the IG community as it looks to the future.

## Methodology

In conjunction with AGA, Kearney developed an in-person survey instrument that included both closed and open-ended questions. We conducted non-random interviews with IG Offices, which included IGs, Deputy IGs, and/or the Assistant IGs for Audit. This

sample included both IGs appointed by the President as well as IGs appointed by agency heads of large and small agencies. We also consulted with a number of former IGs and oversight bodies regarding the content of the questions and the survey approach.

## Anonymity

To encourage respondents to speak freely, we do not attribute any thoughts and quotations to any individual executive or official. All results shall remain anonymous.

## Acknowledgements

AGA would like to thank the IGs and their staff who participated in this survey. We look forward to building upon this inaugural report in future years to provide an annual view of the issues and challenges facing the IG community.

# Executive Summary

The IG community plays an important role in providing independent oversight of Federal agency programs and operations, and preventing and detecting fraud, waste, and abuse. AGA, with the support of Kearney, undertook this first-ever survey of the IG community in an effort to provide information and insights across the community. It is our hope that these insights will help the community to continue to play a strong and effective oversight role.

Tight budgets, added responsibilities, and new technologies are changing the environment in which IGs operate. More than two-thirds of the IGs interviewed identified budget resources as a top challenge. Many offices are undertaking hiring restrictions and limiting new investments to operate under current budget levels.

New responsibilities related to major legislation and changing technologies are challenging IG offices to keep pace. Information technology (IT) security was identified by 85% of the respondents as the most significant area

where capabilities are needed. While changing technology creates IT security challenges, IG respondents felt that leveraging technology to integrate data analytics into their work held the greatest promise for improvements in efficiency and effectiveness.

The survey also identified new reporting “product lines” being used by IG offices. Product lines report issues sooner so action can be taken by management to mitigate risks and avoid more significant problems down the road.

Positive working relationships between IG offices and management were reported. However, greater opportunities for management input into audit plans exist to collaboratively address high-risk areas.

The financial audit was identified as an effective oversight tool for driving internal control and data integrity improvements within the Federal Government. Respondents indicated that the annual comprehensive review of internal controls that is part of the financial audit is important to keeping agencies

focused on financial stewardship, and provides IG offices with a number of opportunities for follow-on performance audits in related areas.

The top three challenges for the IG community identified by the survey were:

- **Budget** — Funding to meet growing oversight responsibilities in the areas of IT security, healthcare, financial services, and other specialized areas
- **Human Resources** — Acquiring and retaining people with the right skills, and providing ongoing training to maintain these skills
- **Timely and Relevant Reporting** — Issuing audit reports that are timely and improve programs and operations.

The top challenges are interrelated and incite the IG community to identify new and innovative approaches to improve efficiency and effectiveness in a changing and uncertain budget environment.



# Budget and Operations

IGs are hampered by budget cuts but are moving forward with improving their effectiveness. Among the areas addressed by the survey is the area of operational effectiveness. In this section of the survey, we focused on the impact sequestration has had on operational effectiveness, the tools being employed by the IG to improve effectiveness, and the extent to which the IGs are developing and utilizing meaningful metrics to report and measure their effectiveness.

## Adequacy of Budgets: Growing Responsibilities but Lower Budgets

Maintaining adequate budgets within IG offices to conduct oversight responsibilities was the most frequently mentioned challenge identified by the respondents. This was mentioned as a top challenge by more than two-thirds of the respondents. IG budgets have been affected in varying degrees by the tight budget environment. However, the inability to replace personnel who have retired or resigned, pay freezes, training reductions, and in some cases reductions in force were cited as budget-related consequences that present challenges. Many of the offices we interviewed indicated that they are at stagnant or reduced resource levels at a time when requirements and program complexity are increasing.

Program areas such as healthcare and financial services have grown in size and complexity, along with rapid changes in IT and information security. These changes

## Survey Results

- Adequacy of IG budgets is a major concern
- Stable or reduced resource levels at a time when responsibilities and program complexity are increasing (e.g., IT security, healthcare, and financial services)
- IGs use hiring freezes, delays, and furloughs to manage operations under the sequester
- Early warning reports to identify risks sooner are growing in popularity
- Large and small IG offices have different needs
- Traditional performance measures exist, but better effectiveness and cost measures are needed

create a need for IG offices to adapt and enhance their oversight capabilities to keep up. This challenge is interrelated to other challenges since it is not just about maintaining or acquiring more resources, but identifying ways to embrace and invest in new technology to improve effectiveness and efficiency. Part of this challenge is to maintain communications regarding expectations, capabilities, and related funding with all stakeholder groups, especially Congress.

## Impact of the Sequester on Operations

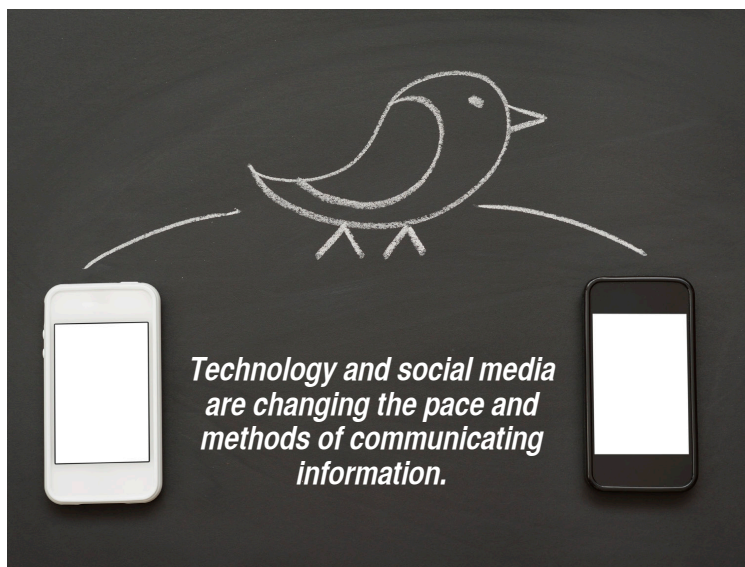
The IGs were asked to describe how the Federal budget process, particularly the current sequestration, has affected their operations. Most of the IGs we interviewed indicated that budget is one of their top concerns, and sequestration has had an adverse impact on their operations. Some IGs were

**Q** *Have budget issues caused you to defer such things as hiring of staff, development of new investigative or audit programs, development of data analytic capabilities, and/or training?*

**A** Many of the offices we interviewed indicated that they are at stagnant or reduced resource levels at a time when requirements and program complexity are increasing.

able to mitigate the severity of the impact by delaying or freezing hiring, consolidating travel requirements, utilizing web-based training, and reducing the scope of audits. Despite these proactive steps, the consensus from the IGs is that sequestration has had a significant impact on their ability to provide the level of oversight they believe is needed.

Since salaries are the biggest part of the IGs' budgets, that is where the biggest impact of sequestration has been felt. Most of the IGs we spoke with were operating under a hiring freeze or a modified hiring freeze (one hire for every three vacancies) and enduring significant reductions in their staff. One office had reduced its audit staff by 13%. Another office indicated that their full-time equivalent (FTE) count is at its lowest level since 1978, when the IG Act was passed. Coupled with this staffing trend are major increases in responsibilities in some agencies, such as agencies involved in IT and data security, healthcare, and financial services. In spite of the hiring freezes and staff reductions, many IG offices were facing



the prospect of furloughs. The furloughs were estimated to range from a low of 3 to 4 days to a high of 10 to 11 days.

The IGs cited a number of examples on how sequestration has impacted their ability to provide oversight for their agencies' programs. One office had to eliminate further development of its data analytics capability. Another office indicated that as the agency faces furloughs, the number of hotline complaints has risen. Since the IGs' offices are experiencing staff reductions as well, the threshold for investigating hotline complaints also rises, thus raising the possibility that legitimate hotline complaints may go un-investigated.

condensed communication makes it challenging to effectively report the results of complex audits.

To address this challenge, some IG offices have introduced new non-traditional reporting "product lines." Along these lines, a number of respondents indicated the use of "early warning" type reporting, where findings are communicated sooner than they are in the traditional audit process. An example may be health or safety issues requiring immediate action; but this approach can be used for the early communication

of any risk or vulnerability.

## Large and Small IG Offices Have Different Needs

There is a wide range of size within the IG community and variety within IG organizations. Respondents indicated that the issues and capabilities between large and small offices are different and that both types of offices could benefit from a more tailored approach. For example, when it comes to data analytics, larger IG offices often have an internal capability. However, smaller IG offices often do not have this

**Q** *Has your operation been adversely affected by the Federal budget problems? If so, how?*

**A** Most of the IGs interviewed indicated that the budget is one of their top concerns, and sequestration has had an adverse impact on their operations.

## Early Warning Reporting and Communications

Many respondents indicated ongoing challenges in getting traditional audit reports out timely so as to maintain relevance. Timely reporting was noted as an ongoing challenge within the community. Technology and social media are also changing the pace and methods of communicating information. Respondents indicated that information, once released, travels instantaneously across the world. One respondent indicated that they are challenged to condense audit report results to "140-character tweets." This type of instantaneous and

**Q** *What do you think would help you improve your effectiveness?*

**A** A number of respondents indicated the use of "early warning" type reporting, where findings are communicated sooner than in the traditional audit process.



capability, but still see it as a way to conduct oversight more effectively and efficiently in the future. Similarly, some of the more narrow technical assessment and audit requirements, such as annual Federal Information Security Management Act (FISMA) reviews or Improper Payments Elimination and Recovery Act (IPERA) validations, are narrow requirements that smaller IGs are challenged to meet. While contracting out is a viable option, so too could be the sharing of specialized resources between offices. Regardless, these are examples respondents provided to illustrate that large and small IG offices are often faced with a “different set of issues.”

## Measuring Performance

The consensus among those interviewed was that measuring and reporting on effectiveness was an important element of their efforts to report the results of their activities to stakeholders. There was not a similar consensus on the specific metrics that could be used to measure effectiveness.

All the IGs use a variety of output measures such as number of audit reports issued, and number of investigations opened and closed. The IGs also use a number of outcome measures that are relied upon to demonstrate operational effectiveness. Measures include the amount of costs questioned, the amount of dollars recovered either through audits or investigations, and the number of indictments and/or convictions obtained. Those interviewed acknowledged that these measures can be improved.

Several of the respondents reacted favorably when it was suggested that the measures may be more meaningful if costs were associated with the outputs or outcomes. They also reacted favorably when it was suggested that more context be provided for results (e.g., the number of dollars recovered as a percentage of costs questioned). Many of the respondents acknowledged that measuring outcomes has been a challenge for the IG community. They consider the measures generally in use to be useful but not ideal.

**Q** *What performance measures do you use to assess the effectiveness of your organization?*

**A** Those interviewed acknowledged that measures used can be improved.

*Maintaining adequate budgets was the most frequently mentioned challenge.*



# Human Resources

Although the basic mission of the IGs has remained the same since the passage of the IG Act, the skill sets required to accomplish the mission have changed over time, and further changes will occur in the future. In this component of the survey, our questions were focused on one of the most critical elements of an IG's operation - its human resources. Our questions addressed the issues of attracting the skill sets needed to fulfill the IG's mission in today's era of tight budgets, retaining the talent, and addressing the impact that an aging workforce has on the IG's operations.

**Q**

*Do you believe that your current mix of skills will allow you to meet the current and near-term challenges facing your office? What gaps do you see?*

The most prevalent [human resources] need was in the IT security area; 85% of the IG offices interviewed rated this as their most critical area of need.

**A**

## Survey Results

- Skills needed in a number of critical areas: IT security, data analytics, and specialized program areas, such as healthcare and financial services
- Acquiring and retaining staff with skills in key areas was identified as a challenge
- Specialized and ongoing training for the community is needed

### Skills Needed in Critical Areas


Nearly all the IGs indicated that they need to enhance their skills and capabilities in three critical areas: IT security, data analytics, and specialized program knowledge, such as healthcare and financial services. The most prevalent need of these three skills was in the IT security area; 85% of IG offices interviewed rated IT security as their most critical area of need. The IGs mentioned the difficulty in competing with the wages offered by the private sector and the cumbersome Federal hiring process as the most frequent factors that make it difficult for them to attract and retain the talent needed in today's dynamic environment.

Even in those IG offices where they are able to attract the skill sets needed, hiring and retaining those individuals is a challenge. Several IGs pointed out that because the Government's hiring process is lengthy and cumbersome, many talented individuals accept other positions in the time it takes for the Government to make an offer. Some respondents also expressed concern that talented young individuals who are hired gain a certain level of experience and then

leave for the private sector, where salaries and fringe benefits are more attractive than those in the Federal Government. Not all of the offices interviewed are experiencing difficulty retaining the talent once they are hired; however, these situations are the exception rather than the rule. One of the primary factors contributing to the ability of certain offices to retain talent is the challenge and interesting nature of the work IGs perform.

Other IGs described a different issue. They indicated that some offices currently have a greater share of experienced staff at all levels than they had in the past. They cited a number of factors contributing to this situation, the most common of which was the overall economic situation. In their view, the economic downturn has caused a number of more experienced staff to delay retirement. Without turnover in higher level positions, talented younger staff cannot move up within the organization. Since they cannot advance within their organizations, they look elsewhere for advancement. Another concern about lack of turnover is that the injection of new ideas and approaches can be limited without the benefit of new talent.





*The skill set most often needed, according to the IGs, is in the area of IT security.*

For example, one IG cited a need for staff skilled in data analytics. However, the lack of turnover and hiring restrictions have prevented his/her office from being able to hire individuals with data analytics backgrounds. Human capital issues have been and will continue to be among the greatest challenges facing IG offices.

### **Acquiring and Retaining Highly-Skilled Staff**

A common theme raised in a number of different sections of the survey is the increasing complexity of programs and the changes in IT and information security. IG respondents identified the need to keep pace with these changes as important to their ability to provide effective oversight. The skill set most often needed, according to the IGs, is in the area of IT security. The IGs also recognized the need for more

advanced skills in other areas, such as healthcare and financial services, where recent major legislative changes have resulted in sweeping changes to these program areas. IGs discussed the importance of having staff with the program knowledge and understanding needed to provide more effective oversight and the ability to translate this understanding to plan and execute a meaningful performance audit. Other areas of need cited by respondents included staff skilled in acquisition management and performance measurement. In terms of IT skills, the needs were twofold — IT security skills to assess the adequacy of safeguards for sensitive systems and data, and skills to exploit new technology-based approaches to oversight through data mining and other analytics. In some cases, agency programs have been ramped up to address certain needs in these and other areas. IG offices are challenged to keep pace and acquire similar

capabilities in these important, complex, and changing areas.

### **Specialized and Ongoing Training**

Respondents cited the need for training to maintain skill sets as a challenge. Given the specialized nature of IG work, the need to enhance audit and investigative skills, and other specialized needs, some respondents suggested that the IG community should utilize an “IG Academy” approach. The IG Academy would involve IG auditors and investigators going through a rigorous program similar to what an FBI agent or other law enforcement professional would be required to complete. Regardless of the approach, adapting the IG workforce, acquiring the right human resources, and maintaining sufficient training are challenges highlighted in the survey.



# Data Analytics

We asked the survey participants a series of questions focusing on the analytical tools and techniques available to the IG community at large and available to their specific organizations that are intended to be used to improve operational effectiveness.

## Developing Core Capabilities in Analytics

There was broad agreement among the participants that of all the tools and techniques available, improved data analytics has the greatest potential to significantly improve efficiency and effectiveness. The respondents indicated that using technology for data mining and data analytics provides the ability to conduct oversight in a more effective and efficient manner; the challenge is to develop and use this capability on a larger scale. However, some respondents indicated that data mining and analytical capabilities have a way to go to become more reliable.

Many of the participants interviewed pointed to the success they have had working with their respective program offices in developing and utilizing data analytics techniques. For example, many of the programs administered by larger agencies have their own data analytics capabilities. The IGs in these organizations are working collaboratively with these programs to identify anomalies and trends that may lead to future audits or investigations. Some IGs work with their program offices so that as anomalies are developed, they are shared. The results are used to assist the IG if further audit or investigation is warranted.

## Survey Results

- Data analytics are a key component to effective oversight; all IGs cited data analytics as offering the greatest potential for improved efficiency and effectiveness
- Opportunities exist to improve currently available data analytics tools
- Further sharing of data between agencies and IG offices can improve effectiveness
- Larger IG offices generally have a data analytics capability; shared solutions may benefit smaller offices
- Ability to invest in new analytical capabilities is a significant challenge

Looking forward, data analytics shows greater promise to assist IGs with their oversight responsibilities. As data sources and relationships are refined and capabilities to synthesize data are improved, the IG community should greatly benefit.

## Improving Currently Available Tools

The survey also focused on the usefulness of existing data analytics tools. While most respondents valued data analytics as a core capability, they noted that the information they are currently receiving through some of the existing tools often contain “false positives” and add to their workload in running down leads. In discussing the existing central activities or tools, an issue surfaced that may benefit from further study. Respondents believed there may be opportunities to better coordinate the activities of the Recovery, Accountability, and Transparency Board’s Recovery Operations Center and the Department of

the Treasury’s Do Not Pay databases, and provide a single source of information that can be used to serve multiple purposes.

Q

*How are you employing data analytics in your office?*

There was broad agreement among the participants that of all the tools and techniques available, improved data analytics has the greatest potential to significantly improve efficiency and effectiveness.

A

## Data Sharing

One of the consistent themes that emerged from the interviews was the benefit of sharing information between IG offices and the need for more information sharing. Further sharing of program and participant data, as well as the results of data analytics queries and some audit results between IG offices, can enhance effectiveness. For example, IGs from agencies involved in research and development activities highlighted the success they have had in identifying patterns in the activities of organizations receiving Federal funds. This information is being shared and used to help focus audit and investigative activities. Many of the IGs felt that the IG community as a whole would benefit if data sharing among agencies and IG offices was more widespread than it is currently.

## Capabilities of Larger and Smaller Offices

The extent to which IGs are developing or have developed their data analytics

capabilities varied significantly. As might be expected, the larger offices are generally more advanced in developing data analytics capabilities than the smaller offices. Several of the IGs from smaller offices suggested that smaller offices would benefit from an enhanced central capability that they could share.

Larger IG offices that have developed an internal capacity to do data analytics are challenged to refine these capabilities further. Smaller IG offices, on the other hand, have much further to go to develop or tap into such a capability. However, IG offices' abilities to invest in refinements and new data analytics capabilities are limited due to budget constraints.


## Ability to Invest/Enhance Data Analytics is Limited

There was broad agreement that budgetary restraints have significantly hampered IG offices' ability to develop and enhance a data analytics capability. While longer-term efficiencies can be achieved, shorter-term investments in technology and human

resources are required, which are difficult to achieve in the current budget environment.

**Q** *Do you think you would benefit from having the ability to exchange data and information with other organizations?*

**A** Many of the IGs felt that the IG community as a whole would benefit if data sharing among agencies and IG offices was more widespread than it is currently.

A man in a dark suit and tie stands with his arms crossed on the left side of the image. To his right is a chalkboard. On the chalkboard, there is a bar chart with three bars of increasing height. To the right of the chart is a large, shaded rectangular area. The text on the chalkboard reads: "As data sources and relationships are refined and capabilities to process and synthesize data are improved, the IG community should greatly benefit."

*As data sources and relationships are refined and capabilities to process and synthesize data are improved, the IG community should greatly benefit.*

# Working with Management and Congress

The Federal IGs have oversight responsibility to the American public to detect and prevent fraud, waste, abuse, and violations of the law while promoting economy, efficiency, and effectiveness in the operations of the Federal Government. To be most effective, the unique role of the IG must be accepted and supported by all involved in the process. The tone at the top of the agency with regard to IG acceptance is important, and Congressional Committees must meet with IGs to understand the issues and provide input. We asked the IGs questions regarding their working relationships between their agency's management and Congress. Our survey results found that the culture of support for the IGs is strong and supported by very good to excellent relationships with agency management.

## Relationship with Management

When assessing the tone at the top of an organization, auditors generally look at both the words conveyed by top executives as well as their actions. Auditors will also look for the actions in both a crisis mode and in day-to-day activities. This same paradigm can be used when assessing the tone at the top relative to the IG within the agency. All of the IGs interviewed in our survey felt that top-level management in the agency provided a positive tone at the top of the organization regarding the IG's

### Survey Results

- Relationships with management were rated as either Very Good or Excellent by all IGs responding
- More than two-thirds have regular, ongoing interaction with Congressional Committees
- Opportunities exist for greater management input and collaboration in developing audit plans and addressing risks

work and mission. They felt that top-level management was very supportive of their work in both words and actions. The survey results indicated that the tone at the top was either Very Good or Excellent in all of the agencies we surveyed, based on the responses we received to our questions regarding access to management, support exhibited in the conduct of IG engagements, and the reception agency management exhibited to implementing recommendations.

We asked the IGs how frequently they met with the highest levels of management in the agency and what was the purpose of the meetings they held. All of the IGs stated that they had regularly scheduled meetings with top-level officials in their agency. In all agencies, regular meetings were held with at least the top-level deputy in the agency, and frequently with the head of the agency and the top-level deputy. One IG informed us that he or she met with the Secretary and his staff on a weekly basis. The standard agenda for most of the scheduled meetings

was to provide updates on audit work in progress, future work, and any current concerns and risks that might have arisen since the last meeting.

All of the IGs felt the meetings were substantive and productive, with questions



*How would you rate the level of support that you receive from the parent agency staff and its senior management in your work?*



All of the IGs rated their level of support from agency management as either Very Good or Excellent.



being raised by agency officials regarding the work in progress. All of the IGs stressed that both the IG and agency managers wanted to avoid surprises from occurring. For example, if the IG had been asked to brief Congressional staffers on an issue or a report, they would often advise agency management regarding this request.

In addition to the regularly scheduled meetings, all of the IGs stated that they frequently requested ad hoc meetings to discuss problems and questions that needed immediate attention. One IG stated that when he or she had a problem or issue that needed immediate attention, he or she was always able to pick up the phone and discuss matters at an appropriate level with top management. One of the IGs stated that agency top management frequently invited him or her to attend top staff meetings as an observer to hear what new initiatives were being planned and remain apprised of agency operations. The IGs stressed that they were not involved in any decision-making with agency management, but that the observing agency's decision-making helped the IG to assess future risks in the agency.

One of the initial questions we asked

the IGs in our interviews was for them to rate the overall level of support they received from the parent agency staff and senior management while doing their work. We asked them to rate the level of support from Negative, meaning agency management is hostile to the IG's staff and do not cooperate in providing information or access to agency staff, up to Excellent. We defined Excellent as meaning senior management is cooperative and access to staff and information is excellent on all matters.

All of the IGs rated their level of support from agency management as either Very Good or Excellent. IG officials stated that it was their view that the highest level of agency management sees the IGs as adding value to their operations and fulfilling a key role in detecting and preventing fraud, waste, and abuse. One IG emphasized the importance of this type of acceptance and openness to building a strong relationship between the IG and senior management. Further, when this relationship is in place, it sets a positive tone at the top and much can be accomplished on behalf of the agency.

## Working with Congress

The IGs are in a unique position in the audit community, in that they report to multiple "masters." In many of the survey responses, IGs emphasized the importance of their relationship with Congress. IGs report to the head of the agency and one or more Congressional Committees. Some IGs may also report to a separate board if an agency has one in place. This dual reporting relationship is seen as an asset by the IGs we interviewed.

We asked the IGs to characterize their interactions with Congressional Committees and the frequency of such interactions. More so than the frequency of senior management's interaction, the extent of involvement with Congressional Committees varied.

As shown by Chart 1, 69% of the IGs included in the survey stated that they met with Congressional Committee staff on a regular basis. Some of the IGs who classified their interaction as "Regular" interacted with Congressional Committees on nearly a daily basis, some on a weekly basis, and others quite frequently. Other IGs who

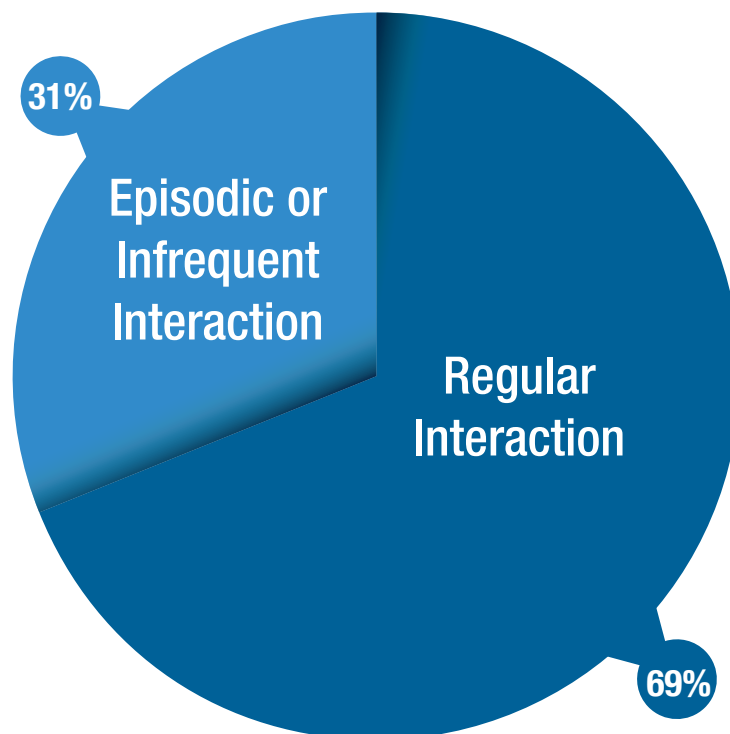
*When this relationship is in place,  
it sets a positive tone at the top  
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behalf of the agency.*



classified their interactions as “Episodic or Infrequent” interacted when singular issues arose, semi-annually, or less.

Some IGs that were classified as “Regular” have to interact with multiple Congressional Committees on a regular basis. Other IGs stated that they testified frequently throughout the year. Some offices have staff devoted to handling requests from its Congressional Committees and the public.

Regarding the quality of the interaction, we asked the IGs to characterize the relationship or interaction. One IG characterized the relationship as proactive and a two-way street. Information was exchanged in both directions and it provided a significant benefit to the office’s effectiveness. Several other IGs characterized the interaction as “briefings” on audit results, and another IG stated that most interaction is a result of requests for information by Congressional staff. Another IG classified as “Regular” receives frequent requests for audit from the Congressional Committees, which accounts for more than half of the annual audit plan.



*Chart 1:* IG interaction with Congress

**Q**

*Who provides input to your annual audit and inspection plan?*

**Management provided input to IG audit plans in only half of the offices surveyed, indicating that greater opportunities exist for collaboration between management and IGs related to addressing important and emerging risk areas.**

**A**

## Developing Audit Plans and Management Input

As budget resources become scarce and IG workforces become less stable or shrink, choosing audit areas of highest risk is critical. All of the IGs utilize a planning process to construct an annual plan. To be most effective, IGs reach out to management to help identify critical risk areas and thus spread its limited audit and investigative resources across an agency or department in the most effective manner. We asked the IGs if management has provided significant input in planning audit work by identifying areas of risk for their annual audit and inspection plan, requesting specific audits, or working more collaboratively with IGs to identify issues and risks proactively throughout the year. Almost all of the IGs stated that they requested input from the agency for their annual audit and investigation plans each year. However, management provided input to IG audit plans in only half of the

offices surveyed, indicating that greater opportunities exist for collaboration between management and IGs related to addressing important and emerging risk areas.

Several of the IGs expressed confidence that should a major risk area or a problem be identified, they believe that their agency management would bring this matter to their attention and seek assistance. Some IGs cited the recent experience of American Recovery and Reinvestment Act of 2009 (ARRA) funding as an example of a collaborative working relationship with agency management in setting audit priorities, and identifying risks to reduce fraud, waste, and abuse.

# Independence

*Government Auditing Standards* issued by the Government Accountability Office (GAO) instructs that independence should be considered in two ways: Independence of Mind and Independence in Appearance. The IGs achieve their independence through the Inspectors General Act of 1978, as amended, whereby they are appointed either by the President or the agency head, and Congress must be notified of their removal. We asked the IGs several questions regarding their independence and identifying challenges to their independence.

None of the IGs saw major impediments to their independence. They believe they have been able to establish cooperative working relationships with agency management

## Survey Results

- No major impediments noted
- Dual reporting relationship with Congress strengthens independence
- Dependence on agency management for support services has the potential to affect IG operations
- The number and length of time Acting IGs serve could delay critical decisions

while maintaining their integrity. In the course of our interviews, none of the IGs offered any examples where they had been asked to compromise or modify their professional judgment while performing their work or drawing conclusions.

## Dual Reporting Relationship with Congress

During our interviews, we asked the IGs if the dual reporting relationship of the IGs (i.e., reporting to both agency management and Congress) offered any concerns regarding independence. None of the IGs had concerns and nearly all of the IGs responded that the dual reporting relationship was a great support to their independence. The dual reporting relationship provides IGs with an outlet if something should threaten independence. It was termed by one IG as a “complementary relationship” while another IG called the dual reporting relationship the “lynch pin of independence” for IG operations.

## Dependence on Agency Management for Administrative Support Services

Although the IGs did not see any widespread threat to their independence, the dependency on agency management for administrative support was noted as an area of concern that needs to be monitored. Ideally, IGs should be functionally and financially independent to eliminate any threat. However, this is not always the case, as parent agencies provide a variety of support services for IG operations.

**Q** *The IG has dual reporting responsibilities, reporting to the Secretary (or agency head) and to Congress. Has this dual reporting responsibility created any conflicts for you?*

**A** The dual reporting relationship is the “lynch pin of independence” for IG operations.

**Q** *What do you see as the greatest impediment to IG independence?*

**A** The extent to which the IG depends upon the agency for support services causes some concern.



**Q** *Some IG vacancies have not been filled on a permanent basis for a period of time and the IGs in these agencies have been serving in an Acting capacity. Do Acting IGs impair independence of the office or limit effectiveness?*

**A** **Most felt that the Acting IG had and could maintain the independence of his or her office. The main problem the IGs saw with Acting IGs was the potentially harmful effect it had on long-term operations...by delaying major decisions that are necessary for the long-term health of the organization.**


IGs are often dependent upon the agencies for computer systems support, human resources services, and accounting and payment services. Each of these may, at times, lead an IG to question if the independence of their office might be compromised, and the extent to which the IG depends upon the agency for support services causes some concerns. One IG stated that they could not allow the agency or department to provide his or her operation with the necessary legal support it needed since legal staff are often heavily involved in investigations or providing legal interpretations necessary to

complete audit work, thus creating a conflict of interest for the legal staff.

Other IGs expressed similar concerns and included such things as allowing agency or department human resources staff to support their staff hiring process. Another concern was that the IG felt the agency human resources department put their needs last in priority, which caused problems at times. Others expressed concerns that they utilize the parent agency's e-mail and computer systems, depend on agency staff for computer support, and rely on the agency for adequate office space.

## Number and Length of Time Acting IGs Serve

Based on information on the Council of the Inspectors General on Integrity and Efficiency's website, there are six Acting IGs at major Federal agencies, some of which have been long-term. We asked the IGs if they felt having a long-standing Acting IG compromised the independence of the IGs. Most felt that the Acting IG had and could maintain the independence of his or her office. The main problem the IGs saw with Acting IGs was the potentially harmful effect it had on long-term operations. Nearly every IG interviewed felt that the number of Acting IGs was too high, and Acting IGs were staffed at the Acting level too long. They were concerned that the length of time IGs were on an Acting basis could hurt the particular IG operation by delaying major decisions that are necessary for the long-term health of the organization. The lack of an appointed IG could delay critical decisions and reduce the effectiveness of IG operations while a permanent IG is not in charge. The IGs surveyed felt it was critical to their community that this issue be addressed.



**Nearly every IG interviewed felt that the number of Acting IGs was too high, and Acting IGs were staffed at the Acting level too long.**

# Financial Audit

The survey asked a series of questions regarding the cost and benefits of financial statement audits. Financial statement audits have evolved to become important oversight tools through which IGs can exercise their management oversight and accountability responsibilities. As budgets tighten, IGs, along with the rest of the Federal Government, have taken a closer look at their budget line items and core responsibilities, and in the process, re-assessed the value of the financial audit. In all but a few cases, the annual financial statement audit is conducted by an independent CPA firm under close oversight of the IG. Since mandated audits, such as the annual financial audit requirement, are often a significant component of an IG's budget, the survey asked IG offices a series of questions regarding the funding and value of the annual financial statement audit requirement.

Throughout the responses to this section, a constant theme was the tremendous progress in improving internal controls resulting from the annual financial statement audit requirement. Further, while financial statement audits involved a significant resource commitment on the part of both agencies and the IGs, they also provided significant value in the improvement of internal controls and data integrity in financial and other related program areas. The majority of the IGs surveyed expressed concern that if the financial audits were not performed annually, agencies "would slip back," "unwind," or "redirect resources."

## Survey Results

- Internal control and data integrity improvements have been the greatest benefits of financial audits
- IGs exercise close oversight of independent CPAs performing financial audits
- Most of the IGs surveyed indicated that two to four follow-on performance audits resulted from issues identified during the annual financial audit

### Internal Control and Data Integrity Improvements are the Greatest Benefits of Financial Audits

IG respondents indicated that internal control and data integrity improvements were the primary benefits from the financial statement audit, and these areas would be at risk of decline if financial statement audits were not performed. The survey results indicated that 85% of the IGs interviewed specifically referenced internal control improvements resulting from financial statement audits. This same group of respondents said the financial statement audit is a key component of their oversight of internal controls within their agencies, and the audit "keeps internal controls on the agenda."

Similarly, within the group of respondents referencing internal control improvements as the primary benefit of the annual financial statement audit, 62% expressed concern that if it wasn't for the financial audit, "internal controls would deteriorate markedly," and there would be "less financial stewardship of funds." That is, for this group, slippage in internal control improvements or lack of adequate attention

to internal controls could be significant risks of not conducting the annual financial statement audits. Also, while some IGs noted the lack of attention a financial audit may get, it was referenced as a "good preventive tool."

Some respondents raised the possibility of conducting the financial statement audit and other mandated audits less than annually due to budget pressures. Within this group, only one respondent indicated that his or her agency's internal control assessment process was strong enough to maintain adequate internal controls in the absence

**Q** *Has the annual audit had a positive impact on agency internal controls?*

**A** *If it wasn't for the financial audit, "internal controls would deteriorate markedly," and there would be "less financial stewardship of funds."*

of an annual financial statement audit. Other respondents indicated that while the annual financial statement audits should continue, other annually mandated audits or assessments, like the ones conducted under IPERA and FISMA, may be candidates to be performed less frequently after a baseline is established.

## IGs Exercise Close Oversight over Independent CPAs Performing the Financial Audits

The overwhelming majority of the IGs surveyed contracted out for financial audit services. IG offices typically contract with an independent CPA firm to conduct the annual financial statement audit. The IGs surveyed dedicated varying levels of resources to overseeing and managing the financial audit process. The range depended on the size, complexity, and nature of the agency. Typically, IGs responded that they conduct close oversight of the financial audit process. IGs are responsible for facilitating the communication and exchange of information between the agency and the independent CPA, managing the audit contract itself by monitoring progress and deliverables, and ensuring audit quality and compliance with auditing standards. Also, in some cases, IGs were actually performing testing in certain sensitive audit areas or locations in support of the financial audit.

## Most IGs Initiate Separate Performance Audits Based on Financial Statement Audit Findings

The annual financial statement audit touches almost every part of an agency or department. While some internal control

*Financial statement audits...provided significant value in the improvement of internal controls and data integrity in financial and other related program areas.*



issues may eventually rise to the audit report itself, many others are identified and communicated in the annual Management Letter or in other internal communications during the course of the audit. The survey asked a series of questions to better understand how the financial audit results were integrated into IG audit plans or leveraged to conduct more in-depth performance audits in specific areas. All IGs responded that the audit results were used as part of developing their annual audit plans, and over half of the IGs surveyed said that they have used the financial audit results to structure more focused performance audits in a number of both financial and program areas.

IGs surveyed who conducted follow-on performance audits in related areas indicated that typically they initiate two to four performance audits a year based on the financial audit results. This may be the result of a specific finding in an area reported during the audit, or as a result of reviewing the annual Management Letter at the conclusion of the financial audit. The IGs surveyed indicated that often the performance audits take the form of more in-depth reviews of financial-related areas, such as purchase cards, undelivered orders, improper payments, or corrective action plans related to material weaknesses. However, the IGs reported performance audits in other related areas, such as procurement, safeguarding sensitive property, and IT security. Interestingly, in some cases, survey respondents indicated

that the performance audits resulting from the financial audits even crossed into program areas, such as delving further into program eligibility issues, property management, acquisition management, and focused management reviews of individual offices or programs.

Some respondents indicated that the results of the financial statement audit were insufficient to use as the basis for further performance audits. They indicated that the financial audit only “skimmed the surface” of the operations, processes,

and controls, and is insufficient as a basis on which to plan further audits. Other respondents indicated that while there were some excellent opportunities for follow-on performance audits, their budgets were too limited to take on the additional work. However, where budgets could not support additional performance audits, the results of the financial audit were leveraged to the extent possible to improve the quality internal controls.

**Q** *Have you ever initiated any program or performance audits as a result of information developed during the audit of your agency's financial statements?*

**A** Over half of the IGs surveyed said that they have used the financial audit results to structure more focused performance audits in a number of both financial and program areas.





*IGs will be required to balance stagnant budget resource levels and growing responsibilities with innovative approaches to oversight.*

## Conclusion

Budget uncertainties and technology are creating a changing environment within which IGs operate. While relationships with management and IG independence remain strong and provide a solid foundation for effective oversight, many IG offices are operating at stable or reduced resource levels. The adequacy of budget resources to address growing demands and responsibilities in areas such as IT security, healthcare, financial services, and other areas, are concerns. Hiring freezes, the inability to replace staff one-for-one, furloughs due to the sequester, and pay freezes all present human resources challenges that limit the ability of IG offices to acquire and retain individuals with the skill sets they need.

While these are areas of concern, there are also new approaches taking shape in the

IG community as part of the vision forward. New technology has created opportunities to work more efficiently and effectively using data analytics to detect and prevent fraud, waste, and abuse. Similarly, new “early warning” report product lines communicate health, safety, and other critical issues sooner, enabling management to take corrective action to avoid further problems down the road. The financial audit results are also being leveraged as a source of efficiently identifying performance audits. Also, sharing of specialized resources and capabilities among smaller IG offices, sharing more data and information between agencies, and enhancing and refining existing centrally-offered data analytics capabilities were also raised in the context of a more efficient and effective approach moving forward.

Looking ahead, many IGs will be required to balance stagnant budget resource levels and growing responsibilities with innovative approaches to oversight that leverage technology, greater collaboration and sharing, and more timely communication to maintain effective oversight in an uncertain and changing environment.

# Appendix:

## *Survey Results by Focus Area*

<i>Focus Area</i>	<i>Survey Results</i>
<b>Budget and Operations</b>	<ul style="list-style-type: none"> <li>• Adequacy of IG budgets is a major concern</li> <li>• Stable or reduced resource levels at a time when responsibilities and program complexity are increasing (e.g., IT security, healthcare, and financial services)</li> <li>• IGs using hiring freezes, delays, and furloughs to manage operations under the sequester</li> <li>• Early warning reports are growing in popularity to identify risks sooner</li> <li>• Large and small IG offices have different needs</li> <li>• Traditional performance measures exist, but better effectiveness and cost measures are needed</li> </ul>
<b>Human Resources</b>	<ul style="list-style-type: none"> <li>• Skills needed in a number of critical areas: IT security, data analytics, and specialized program areas, such as healthcare and financial services</li> <li>• Acquiring and retaining staff with skills in key areas was identified as a challenge</li> <li>• Specialized and ongoing training for the community is needed</li> </ul>
<b>Data Analytics</b>	<ul style="list-style-type: none"> <li>• Data analytics are a key component to effective oversight; all IGs cited data analytics as offering the greatest potential for improved efficiency and effectiveness</li> <li>• Opportunities exist to improve currently available data analytics tools</li> <li>• Further sharing of data between agencies and IG offices can improve effectiveness</li> <li>• Larger IG offices generally have a data analytics capability; shared solutions may benefit smaller offices</li> <li>• Ability to invest in new analytical capabilities is a significant challenge</li> </ul>
<b>Working with Management and Congress</b>	<ul style="list-style-type: none"> <li>• Relationships with management were rated as either Very Good or Excellent by all IGs responding</li> <li>• More than two-thirds have regular, ongoing interaction with Congressional Committees</li> <li>• Opportunities exist for greater management input and collaboration in developing audit plans and addressing risks</li> </ul>
<b>Independence</b>	<ul style="list-style-type: none"> <li>• No major impediments noted</li> <li>• Dual reporting relationship with Congress strengthens independence</li> <li>• Dependence on agency management for support services has the potential to affect IG operations</li> <li>• The number and length of time Acting IGs serve could delay critical decisions</li> </ul>
<b>Financial Audit</b>	<ul style="list-style-type: none"> <li>• Internal control and data integrity improvements have been the greatest benefit of financial audits</li> <li>• IGs exercise close oversight of independent CPAs performing financial audits</li> <li>• Most of the IGs surveyed indicated that two to four follow-on performance audits resulted from issues identified during the annual financial audit</li> </ul>

*If you would like more copies of this survey or an opportunity to hear more about its content and the challenges facing the Federal IG community, please contact AGA.*



1701 Duke Street  
Suite 500  
Alexandria, VA 22314

703.931.5600

[www.kearneyco.com](http://www.kearneyco.com)



2208 Mount Vernon Avenue  
Alexandria, VA 22301

800.AGA.7211  
703.684.6931

[www.agacgfm.org](http://www.agacgfm.org)  
[agamembers@agacgfm.org](mailto:agamembers@agacgfm.org)