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

A Working Group of Inspectors General Proposal
For An Innovative Pilot to Provide
Risk-Based, Right-Sized Oversight

This proposal reflects the views of the Working Group and is not intended to, and does not, fully reflect the views of the broader Inspector General community. It is not a product of the Council of the Inspectors General on Integrity and Efficiency, and the Working Group appreciates that Inspectors General who did not join the Working Group may have independent and divergent views.
A Working Group of Inspectors General Proposal
For An Innovative Pilot to Provide
Risk-Based, Right-Sized Oversight for Certain
Entities without an Office of Inspector General
Preface

Members of Congress have demonstrated growing interest in the development of a statutory solution to address perceived financial and public trust risks engendered by the absence of direct Office of Inspector General (OIG) oversight of certain federal entities. Focusing on a discussion draft for legislation that was distributed by a Senate subcommittee in early 2014, a diverse group of Inspectors General (IGs) independently formed a Working Group to formulate a risk-based approach for achieving effective, efficient, and economical oversight. Participation in the Working Group was open to all IGs. The Acting IG for the Pension Benefit Guaranty Corporation, the IG for the Farm Credit Administration, and the IG for the Department of Justice agreed to serve as co-chairs. We gathered information, conducted research, consulted with peers and other stakeholders, analyzed pertinent issues, and developed data-driven recommendations for risk-based, right-sized oversight.

Though the Working Group was not sponsored by the Council of the Inspectors General on Integrity and Efficiency (CIGIE), we shared working drafts with CIGIE’s Legislative Committee and briefed the Working Group’s formation and work at plenary CIGIE meetings. After we issued the November 6, 2014 proposal, the Working Group received comments from the IG community; we appreciate the interest demonstrated by the broader IG community and the comments received. The Working Group’s consideration of these comments is reflected in this updated report.

Over a period of several months, the members of our Working Group focused their experience and expertise on identification and resolution of issues central to establishing risk-based, right-sized oversight of the mostly small entities without OIGs. For these entities, given the nuanced challenges at hand, we brainstormed a wide range of novel and innovative oversight models reaching beyond the traditional OIG structure. Resolution of these challenges potentially has wide impact on the entire IG community. Concerns about independence, objectivity, accountability, efficiency, economy, and public trust are fundamental to our success and reputation. The Working Group did not consider every nuance to be explored, such as setting up Privacy Act systems of records. Nor did we attempt to address appropriation or funding matters. The primary objective of the Working Group was to raise the level of informed dialogue as a foundation for collegial deliberations and analysis among all stakeholders.

While many IGs who did not join the Working Group generously provided timely, extensive, insightful, and otherwise essential support to the Working Group’s deliberative process, it is important to emphasize that our proposal is not intended to, and does not, fully reflect the views of the broader IG community. Independence is a keynote of an IG’s responsibility, and views throughout the IG community are considerably varied. The Working Group appreciates that IGs who did not join the Working Group may have divergent views. We emphasize that while we have attempted to reflect and accommodate divergent views, the Working Group is solely responsible for the content and presentation of this report.

We note in particular that several IGs who are not members of the Working Group expressed concern that the proposed centrally administered Hotline (Central Hotline) could negatively impact their independence. At the same time, other IGs expressed concern that without centrally coordinated oversight, small entities currently without an OIG would not receive adequate attention and overall reporting activity would be negatively compromised. Working Group members highlighted the concern that absent the visibility of centralized transparency and accountability, commitment to effective small entity oversight could be undermined.
The Working Group’s proposed Central Hotline is intended to facilitate the effective and efficient collection and analysis of cross-cutting information about trends and vulnerabilities evidenced by reported issues. The proposed Central Hotline model also provides a platform for comprehensively raising awareness among stakeholders about pertinent substantive requirements and processes, as well as about the shared, public commitment of the IG community to efficiently and economically fight fraud, waste, abuse, and mismanagement in Federal Government programs.

The Working Group suggests that cross-cutting information gathered during the proposed pilot period would be of significant value in paving the path ahead and would potentially provide legislators with further information to make more permanent reforms. The Working Group fully recognizes – and repeatedly emphasizes – that independence of IGs is a bedrock principle. The consensus of the Working Group is that the Central Hotline model preserves independence while facilitating cross-cutting analysis, promoting awareness, emphasizing coordinated commitment to enhanced oversight, filtering out matters outside the scope of OIG responsibilities, and ensuring accountability. In brief, alternative variations of oversight models could be developed. For example, several IGs have stated an exclusive preference for direct Hotline reporting to the legislatively designated OIG (Designated OIG) or for a split system encompassing direct Hotline reporting to large Designated OIGs receiving oversight responsibilities of several entities and central reporting for others. The Working Group believes, however, that a Central Hotline would deliver the above-noted additional advantages, particularly during the proposed pilot period.

Respectfully submitted by the co-chairs and members of the Working Group:

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Executive Summary

In April 2014, a discussion draft for possible legislation suggested that certain additional entities throughout the Federal Government warrant legislatively assigned oversight by an Office of Inspector General (OIG). Subsequently, several additional entities were identified for consideration. This Proposal focuses on 56 Executive Branch entities without direct OIG oversight. These entities have combined budgets in excess of $1 billion. While many of these mostly small entities share common characteristics, implementation of a one-size-fits-all approach for OIG oversight would not be 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 Executive Branch 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.

An independent Working Group of Inspectors General (Working Group) reviewed the discussion draft, evaluated pertinent issues, and developed recommendations for achieving enhanced, right-sized OIG oversight of the identified Executive Branch entities currently without OIGs. Working over a period of several months, the Working Group quickly reached consensus on risk-based Guiding Principles for its work. 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. Like the discussion draft, the Working Group’s recommendations would require amendment of the Inspector General Act of 1978.

Two complementary models for risk-appropriate frameworks emerged from the Working Group’s deliberations. For each of the 56 selected Executive Branch entities currently without direct OIG oversight, the Working Group recommends a specific oversight model. For the majority of the entities, OIG alignments proposed by the Working Group closely track those in the discussion draft. Two key differences from the discussion draft’s approach are included in the Working Group’s suggestions: 1) the Working Group’s suggestion for Hotline-focused, rather than full oversight, of certain entities, and 2) the Working Group’s suggestion that OIGs be newly created for certain entities. 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.

For small entities with a low level of apparent risks, the Working Group recommends a Central Hotline-focused framework for OIG oversight. Each of these small entities would be paired with a legislatively designated OIG (Designated OIG). A Central Administrator would be established to manage a coordinated Central Hotline and refer allegations of fraud, waste, abuse, and whistleblower retaliation to the appropriate Designated OIG. The Designated OIGs would provide information to the Central Administrator on the disposition of each referral. Designated OIGs would also conduct initial assessments of financial and programmatic issues for assigned small entities, as well as provide annual fraud awareness training. In addition, the Designated OIGs would have authority to self-initiate investigations, audits, and other oversight. The Administrator of the Central Hotline would have no role in actually conducting any investigation, audit, or any other oversight activity; rather, the value of the Central Administrator would be the ability to help implement a comprehensive awareness-raising strategy.
and to aggregate statistics, significant findings, vulnerabilities, cross-cutting trends, and recommendations for an annual analytical report to Congress. Because the proposed concept envisions a pilot, the Central Administrator may phase out or evolve into a more specific, legislatively determined role.

The second proposed model is a framework for ensuring appropriate transparency and accountability of the entities that demonstrate risk factors warranting investment in comprehensive traditional OIG oversight. The full range of traditional, comprehensive oversight is warranted principally because of the nature of activities, financial complexity of operations, funding sources, size and frequency of expenditures, public visibility, and the dollar amounts at risk. The Working Group recommends: (1) creating four new OIGs for traditional oversight of six entities and (2) expanding the authorities and responsibilities of five existing OIGs to include traditional oversight of eleven entities with closely aligned missions, activities, and risks.

We intend this effort to be a concept for legislative consideration, and look forward to contributing to further consideration of enhanced right-sized OIG oversight to prevent and detect fraud, waste, and mismanagement in Executive Branch entities currently without OIGs.
Introduction

Recently, a discussion draft for possible legislation suggested 59 entities throughout the Federal Government warrant oversight by an Office of Inspector General (OIG). Subsequently, four additional federal entities without OIGs were identified for consideration. Of the resulting 63 entities, four are not in the Executive Branch; therefore, we excluded them from our analysis.

In addition, for three of the Executive Branch entities, appropriate statutorily-mandated oversight is already in place. Thus, this Proposal addresses oversight of 56 Executive Branch entities currently without direct OIG oversight.

Because Inspectors General (IGs) 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 mostly small entities without OIGs. In brief, while many share common characteristics, a one-size-fits-all approach is not practicable and fails to embody the OIG core values of efficiency, effectiveness, and economy.

The Executive Branch entities under consideration 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

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

2 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); two are in the Legislative Branch (U.S. Commission on International Religious Freedom and the Medicare Payment Advisory Commission). 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.

3 The three entities – the Defense Nuclear Facilities Safety Board, the Northern Great Plains Regional Authority, and the Federal Retirement Thrift Investment Board – are discussed below in the section: “Entities Identified in Discussion Draft but Not Included in Alignment Proposal.”
(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.

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.\(^4\) We tailored our models 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.\(^5\) The other model is designed to ensure comprehensive OIG oversight for entities that warrant full, traditional OIG oversight. For each entity, the Working Group recommends a specific oversight model. (The Working Group’s list of proposed Designated OIG alignments is at pages 20 – 24.) For the majority of entities, the Working Group’s proposed pairings with existing OIGs closely track the April 2014 discussion draft.\(^6\) 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 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

\(^4\) 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 or Acting 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. Several other IGs participated at various points in the deliberations.

\(^5\) The discussion draft envisions an assessment and report to Congress by GAO within one year of enactment of the legislation. GAO would conduct a government-wide review of existing mandatory reporting requirements for IGs. The GAO report would include recommendations on whether certain mandatory audits should be conducted annually for small agencies or should be completed at the discretion of an IG. Our proposed Central Hotline adopts this discretionary approach and encompasses a similar assessment objective.

\(^6\) Most of the selected 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 identified.
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.

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 significant problems, abuses, and deficiencies, while providing 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 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 the 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:⁷ (1) establishing a new statutory OIG responsible for conducting audits and investigations; (2) designating a cognizant OIG to provide reimbursable audit and investigative support through a formal Memorandum of Understanding; and (3) assigning a single existing OIG for consolidated audit and investigative support.

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⁷ 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. *See Report of PCIE Inspections and Special Reviews Committee, Sherman M. Funk, Chairman, Review of Small Agency Audit and Investigative Capabilities, May 1987.*
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 identified Executive Branch entities along the lines of two risk-appropriate, right-sized OIG oversight models:

I. Hotline-focused OIG oversight of small entities with limited apparent demonstration of financial and public trust risks by an aligned Designated OIG assigned by legislation. The proposed relationship includes the creation of a coordinated Central Hotline to make referrals to the Designated OIG, to assist in the development of targeted training, and to facilitate analysis of common vulnerabilities and trends. The Designated OIG would have responsibility for fraud training and awareness building and would provide *ad hoc* oversight support as deemed appropriate by the Designated 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.

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<tr>
<th>Hotline-focused OIG oversight</th>
<th>Full, traditional OIG oversight</th>
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<tr>
<td>• Small entities with limited risks</td>
<td>• Entities warranting comprehensive oversight</td>
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<td>• Coordinated Central Hotline with follow-up by &quot;Designated OIG&quot; specifically assigned by legislation</td>
<td>• Four new OIGs established</td>
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<td>• Time-framed initial assessment by Designated OIG of small entity’s financial and programmatic issues</td>
<td>• Five existing OIGs receive expanded authorities and responsibilities</td>
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<td>• Designated OIG responsible for fraud training, awareness building, and <em>ad hoc</em> oversight</td>
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<td>• Designated OIG SARC reports activities relating to assigned small entities</td>
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Resolution of a host of relationship issues between existing OIGs, small entities currently without OIGs, newly created OIGs, and newly expanded OIGs will be necessary. We believe the inherent challenges are not greater than would be encountered in implementing the discussion draft.

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8 While the Working Group recognizes that the onsite presence of a stand-alone OIG ordinarily provides the most comprehensive range of effective oversight, the Working Group is also mindful of the importance of efficiently and economically allocating resources. For this reason, during the proposed pilot period, the Central Hotline model mandates only limited oversight of these small entities, coupled with the authority of the Designated IG to self-initiate more comprehensive oversight activities as deemed appropriate by the Designated IG.
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.\(^9\) With the few exceptions discussed below, effective, efficient, and economical risk-based OIG oversight can be achieved by establishing a multi-agency Central Hotline (telephone and web-based), managed by a Central Administrator, to receive allegations of waste, fraud, abuse, and whistleblower retaliation.\(^10\) The Central Administrator would refer allegations and other information to a Designated OIG aligned 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, as well as provide a coordinated platform for raising awareness, enhancing transparency, and promoting public confidence.\(^11\) The Designated OIG would have broad discretion to self-initiate additional OIG oversight and to provide a range of other good-governance support.

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

1. Each small entity must be required to provide links on its website to a coordinated Central 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.
2. Each small entity will receive mandatory annual training for all entity officials and staff covering: fraud awareness; rights and responsibilities; what should be reported; whistleblower protections; reporting channels; and other pertinent matters.

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\(^9\) 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.

\(^10\) A large DFE IG has offered to provide an administrator and host the Central Hotline. A concern was expressed about the sustainability of the model given that a specific OIG volunteered to undertake the responsibilities of the Central Administrator. A fully funded model has appeal, and long-term funding could otherwise be provided, for example through CIGIE. The availability of a volunteer OIG was cited to underscore that a pilot for the Central Hotline could be quickly launched, subject to restructuring if warranted.

\(^11\) Several IGs expressed concerns about implementation of a Central Administrator framework to manage a coordinated Central Hotline. The notion of a separate, central entity for Hotline reporting was deemed unwieldy and unnecessary. These IGs emphasized their preference to avoid the extra layer of a Central Administrator by using their existing Hotlines to accept and field complaints regarding assigned entities. It was also noted that information on Hotline intake and action taken by an OIG could be appropriately incorporated into the IG’s Semiannual Report to Congress. The Working Group’s views on the countervailing benefits of the centralized approach are highlighted in the Preface and text above.
3. Each Designated OIG must be afforded the same access rights and authorities -- to exercise at the OIG’s discretion -- at its small entity as it has for its own agency, including initiation of audits, evaluations, inspections, investigations, and other reviews.

4. Each Designated OIG must inform the Central Administrator upon completion of an investigation, audit, evaluation, review, or other Hotline follow-up activity.

5. Each Designated OIG, within a legislatively specified period after the effective date of authorizing legislation, will assess the small entity’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 Designated OIG.

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

7. Each small entity will reimburse the Designated OIG for more than minimal activities undertaken by the Designated OIG.

8. The Central Administrator will submit an annual report to Congress setting out aggregate statistics, significant findings, cross-cutting trends, and recommendations.
**Full, Traditional OIG Oversight Model**

Seventeen 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 warranting 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 traditional OIG oversight, the Working Group recommends establishing two distinct variations, closely modeled on existing OIG frameworks:

1. Creation of four new OIGs (one multi-entity and three single-entity) to implement comprehensive oversight of six entities, and
2. Expansion of the authority and responsibilities of five existing OIGs to encompass comprehensive oversight of eleven other entities with closely aligned missions, activities, and risks.

**New OIGs**
- Museums and Performing Arts OIG
  - The National Gallery of Art
  - The U.S. Holocaust Museum
  - The John F. Kennedy Center for the Performing Arts
- Presidio Trust OIG
- AbilityOne OIG
- American Battle Monuments Commission OIG

**Expanded OIGs**
- Export-Import Bank OIG
- Appalachian Regional Commission OIG
- National Endowment for the Humanities OIG
- Office of Personnel Management OIG
- Farm Credit Administration OIG

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 existing 72 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 four new OIGs with responsibility for full, traditional oversight of six entities:

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, 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 readily transparent. Our recommendation for a new, multi-entity OIG for these entities underscores the Working Group’s focus on efficient, effective, and economical oversight.

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. The draft legislation placed these entities under the Smithsonian OIG’s oversight authority. The Working Group consulted with and obtained information from the Smithsonian OIG during our process. We were 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 (Presidio) 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, a Working Group member, concurs with 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 to establish an independent OIG 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, firmly placing it 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 their 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 about the need for 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 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, although this option would require significant resources.

D. American Battle Monuments Commission Office of Inspector General


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 Department of 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

The Working Group recommends that the authority and responsibilities of five existing OIGs be expanded to ensure full, traditional OIG oversight for eleven entities described below:

A. 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 warranting Central Hotline-model oversight, 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, an entity with an existing OIG. With reference to the Working Group’s Guiding Principles and appreciation of the complementary overseas finance aspects of OPIC, USTDA, and Export-Import Bank, we recommend oversight by the OIG for Export-Import Bank.

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. The suitability of an alternative approach emerged from the discussion draft, recent subcommittee testimony by OPIC’s current OIG oversight authority (the U.S. Agency for International Development OIG), and the Working Group’s analysis. The Working Group recommends expansion of the duties and responsibilities of the Export-Import Bank OIG to encompass OPIC. Expanded Export-Import Bank OIG oversight could also include USTDA, which is not currently subject to direct OIG oversight. Though either an expansion of the Export-Import Bank 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 Bank 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 Bank OIG’s responsibilities to encompass full OIG oversight of OPIC. The expanded framework would leverage the experience and expertise of the Export-Import Bank OIG. Because the Export-Import Bank 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 Bank OIG is well situated to provide full

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12 The Foreign Affairs Committees in the House and Senate have considered legislation that would establish a new, stand-alone OPIC OIG.
OIG coverage to OPIC. The Export-Import Bank 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 Bank 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 Bank OIG takes on expanded responsibility, in the area of international transactions, it may be appropriate to include oversight of 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, the Export-Import Bank OIG be the Designated OIG for USTDA Central Hotline-model oversight. The Export-Import Bank Acting 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 Department of Commerce OIG; the Commerce IG has also 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 the Export-Import Bank OIG would be more economical.\(^\text{13}\)

B. Regional Commissions \(^\text{14}\)

Currently, the Appalachian Regional Commission (ARC) is the only Regional Commission with well-established, direct OIG oversight. To achieve economies of scale and capitalize on the expertise and capabilities of the ARC OIG, the Working Group recommends combining oversight of the Regional Commissions currently without OIG oversight 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), 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

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\(^\text{13}\) If a stand-alone OIG is established for OPIC or OPIC is placed under the oversight authority of an OIG other than Export-Import Bank OIG, the Working Group recommends coupling oversight of USTDA within the same oversight framework as OPIC.

\(^\text{14}\) The discussion draft places the Denali Commission and the Northern Great Plains Regional Authority (NGPRA), along with the other entities in this section, within the framework of a newly created Regional Commission OIG. The Working Group has not included the Denali Commission and NGPRA in our proposed regional Commission OIG. The Denali Commission is one of several entities identified in the discussion draft that currently is directly subject to traditional, comprehensive OIG oversight under a stand-alone OIG established by the 1988 amendments to the IG Act. The Working Group’s analysis and deliberations focused on only entities initially identified as not subject to OIG oversight. NGPRA is one of three Executive Branch entities, further discussed below, that already have statutorily-mandated OIG oversight but were initially identified as not subject to oversight by an OIG. The authorizing statute for NGPRA (currently authorized through 2018) provides an annual audit requirement for the U.S. Department of Agriculture OIG, for any fiscal year for which funds are appropriated for NGPRA; no funds are currently appropriated.

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OIG with oversight of NBRC, SECRC, and SWBRC, but the legislation has not been implemented. See 40 U.S.C. 15704. (SECRC and SWBRC are inactive.) The ARC IG, 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 IG, 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 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 IG strongly asserted that full, traditional OIG oversight of these entities under OPM OIG is warranted.

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.
Entities Identified in Discussion Draft
But Not Included in Alignment Proposal

The Working Group excluded from its proposed alignments three Executive Branch entities identified in the discussion draft as not subject to OIG oversight, because appropriate OIG oversight mechanisms are already in place. Two of these entities are subject by statute to direct oversight by the OIG of another entity; one is subject to OIG oversight through a well-established alternative audit and review mechanism.

1. **Statutory OIG oversight by the OIG of a larger entity**

   The *Defense Nuclear Facilities Safety Board (DNFSB)* was included in the draft legislation as an entity requiring OIG oversight. The Inspector General of the Nuclear Regulatory Commission (NRC) informed the Working Group that full oversight by his agency had recently been established. Pursuant to the Consolidated Appropriations Act, 2014 (H.R. 3547; P.L. 113-76), effective January 17, 2014, the NRC OIG provides the same full range of OIG oversight of the DNFSB as the NRC Inspector General exercises under the Inspector General Act of 1978 with respect to the NRC. The cited legislation authorized this comprehensive NRC OIG responsibility for 2014 and all subsequent years.

   The *Northern Great Plains Regional Authority (NGPRA)* was included in the original discussion draft legislation as a component of a proposed, newly created Regional Commission. The Inspector General of the Department of Agriculture informed the Working Group that her agency has long had oversight cognizance over NGPRA. In the Agricultural Act of 2014 (H.R. 2642; Pub.L. 113-79), also known as the U.S. 2014 Farm Bill, Congress reauthorized NGRPA until 2018 and included a USDA OIG annual audit requirement for any year in which funds are appropriated. Currently, no funds are appropriated to NGPRA.

2. **Subject to OIG oversight through an alternative audit and review mechanism**

   The *Federal Retirement Thrift Investment Board (FRTIB)* was included in the draft legislation as an entity requiring oversight. The Working Group’s research found that, through the Federal Employees’ Retirement System Act of 1986 (FERSA), the Employee Benefits Security Administration (EBSA) has responsibility for fiduciary and auditing oversight of the FRTIB. Thus, Congress has assigned oversight responsibility of the FRTIB to EBSA. EBSA has established a comprehensive oversight program, including annual financial audits and other reviews of FRTIB. The Department of Labor (DOL) OIG has cognizance over EBSA’s programs and operations and has authority to

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15 Through comments on the Working Group’s original Proposal of November 6, 2014, two OIGs provided information that they currently have oversight of these entities.
conduct audits, evaluations, and investigations relating to the effectiveness of EBSA’s oversight of FRTIB, as deemed warranted by the DOL IG.
Conclusion

Our evaluative process and proposed frameworks for oversight of 56 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. 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 Executive Branch entities currently without OIGs.
Proposed Alignments

CENTRAL HOTLINE-FOCUSED OVERSIGHT OF SMALL ENTITIES BY EXISTING OFFICES OF INSPECTOR GENERAL

Board of Governors of the Federal Reserve System and Consumer Financial Protection Bureau Office of Inspector General

Federal Financial Institutions Examination Council*

Department of Commerce Office of Inspector General

1. Marine Mammal Commission*
2. Vietnam Education Foundation

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

Export-Import Bank of the United States Office of Inspector General

U.S. Trade and Development Agency

Department of Energy Office of Inspector General

Nuclear Waste Technical Review Board*

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16 Some Inspectors General emphasized that if they were assigned to be a Designated OIG under the proposed Central Hotline model, they would exercise the full range of OIG functions in overseeing the assigned entities. The Working Group notes that the proposed Central Hotline model fully accommodates the intention to exercise traditional, comprehensive oversight of assigned entities. As discussed above, the Central Hotline model envisions that a Designated OIG would have discretion to self-initiate the full range of traditional OIG oversight and provide other good-governance support.

17 As noted above, if a stand-alone OIG is established for OPIC or OPIC is placed under the oversight authority of an OIG other than the Export-Import Bank OIG, the Working Group recommends coupling oversight for USTDA within the same oversight framework as OPIC.
General Services Administration Office of Inspector General

National Capital Planning Commission*

Department of 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. Occupational Safety and Health Review Commission*

National Archives and Records Administration Office of Inspector General

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. Federal Mediation and Conciliation Service*
2. National Mediation Board*

National Science Foundation Office of Inspector General

Arctic Research Commission*
United States Postal Service Office of Inspector General

Selective Service System

Smithsonian Office of Inspector General

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

Japan-U.S. Friendship Commission

United States Agency for International Development Office of Inspector General

U.S. Institute of Peace

*The Working Group’s proposed alignment is the same as proposed in the discussion draft.
**This entity was not included in the discussion draft.
FULL, TRADITIONAL OFFICE OF INSPECTOR GENERAL OVERSIGHT (NEW AND EXPANDED)

NEW OFFICES OF INSPECTOR GENERAL

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

EXPANDED OFFICES OF INSPECTOR GENERAL TO PROVIDE FULL, TRADITIONAL OVERSIGHT

Export-Import Bank of the United States Office of Inspector General

Overseas Private Investment Corporation*

Farm Credit Administration Office of Inspector General

Farm Credit System Insurance Corporation**

National Endowment for the Humanities Office of Inspector General

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 (currently: Appalachian Regional Commission) Office of Inspector General

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

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**NO ALIGNMENT PROPOSED / OVERSIGHT ALREADY IN PLACE**

1. Defense Nuclear Facilities Safety Board
2. Northern Great Plains Regional Authority
3. Federal Retirement Thrift Investment Board

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**EXECUTIVE BRANCH OVERSIGHT NOT APPROPRIATE**

1. U.S. Tax Court
2. U.S. Court for of Appeals for Veterans Claims
4. Medicare Payment Advisory Commission