

## Hubert Sparks

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**From:** Hubert Sparks  
**Sent:** Wednesday, December 30, 2015 2:15 PM  
**To:** 'IGS@list.nih.gov'  
**Subject:** FW: Scanned image from MX-M623N----Historical Information  
**Attachments:** arcscan@arc.gov\_20151230\_152927.pdf

Inspectors General:: Pardon my ignorance as I have been informed my first attempt was unsuccessful. Attached is a rather lengthy but very informative presentation by the first IG at the USDA-OIG established in 1962. Although I started with USDA-OIG in 1963 I was not aware of this document until recently. I was impressed by the concepts, practices and vision noted that form, or should form, the primary characteristics of current OIGs. It reminded me of why the 1978 IG Act authors relied heavily on the USDA-OIG model.

Hubert Sparks  
ARC-IG

-----Original Message-----

**From:** ARC Scan On Behalf Of arcscan@  
**Sent:** Wednesday, December 30, 2015 3:29 PM  
**To:** Hubert Sparks  
**Subject:** Scanned image from MX-M623N

Reply to: [arcscan@arc.gov](mailto:arcscan@arc.gov) <[arcscan@arc.gov](mailto:arcscan@arc.gov)> Device Name: Not Set Device Model: MX-M623N  
Location: Not Set

File Format: PDF (Medium)  
Resolution: 200dpi x 200dpi

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**Presentation by Lester P. Condon – USDA Inspector General  
To the Financial Management Roundtable  
March 24, 1964**

**THE SINGLE MANAGEMENT CONCEPT FOR AUDIT AND INVESTIGATION**

My subject tonight is "The Single Management Concept for Internal Audit and Investigation". Why did Agriculture adopt it? How does it work? How does it meet the criteria for effective internal audit as set forth in House Report No. 456?

I want to take this opportunity to note that, in addition to the statement on internal auditing, this report contains some of the best material I have read on the subject of standards of performance, economy, and efficiency in the management of Government. I agree wholeheartedly with the proposition it so aptly presents that we need in government an effective substitute for the control afforded industry by the "Profit and Loss Statement". I believe that this need increases as the size and complexity of a department or agency increases, and the Department of Agriculture is not the lesser among the giant government organizations of today.

There are in the Department of Agriculture over 116,000 people working on a varied assortment of programs that cost approximately 7 billion dollars last year. These programs are carried out by a multiplicity of agencies and offices. In some instances, the achievement of program objectives calls for the joint efforts of several agencies, thus imposing a requirement for effective planning, coordination, and interaction. But, whether program accomplishment requires single or multiple agency effort, the undertaking is always viewed as an immense public trust. Therefore, we in the Department of Agriculture are sensitive to the anxieties of Congressional Committees, the Comptroller General, and the public, as to whether there are adequate controls and systems of measurement to protect the public interest, and to insure effective but frugal performance.

I believe that this sensitivity was prominent in Secretary Freeman's mind when he directed the centralization of all audit and investigation in the Department of Agriculture. I know that he believed that this action would benefit the Department, and ultimately the American taxpayer, by increasing the effectiveness of the audit and investigation functions and, in turn, increasing the assistance that could be provided to him and to the agencies in the Department. We believe that the organization that was created has achieved increased effectiveness, and in so doing the Department of Agriculture has met, in one small way, President Johnson's challenge in the budget messaging January, to develop "A passion for efficiency and economy in every aspect of Government operations."

I am sure that the managers of the organizations represented here tonight are equally interested in performance effectiveness, in efficiency, and in contributing to the achievement of the President's goals. I therefore welcome the opportunity to share with you my experiences in setting up the Office of the Inspector General in the Department of Agriculture.

To come directly to the point, and to answer the question posed by the moderator a few minutes ago, I am very much in agreement with the proposals in House Report No. 456, for effective internal audit. Further, with the support and encouragement of Secretary Freeman, I believe the OIG is actively practicing, with only limited variations or interpretations, all the precepts set forth in that report. Let me set the stage for the action that took place.

Audit and investigation functions have existed in the Department of Agriculture for many years. The gradual expansion of these functions, from rather limited beginnings, was accelerated;

In the early "fifties" by an Act of Congress, with which you are all familiar,

And a few years later by the prodding of both the Bureau of the Budget and the General Accounting Office.

During this period, policy statements had been issued by the Department of Agriculture that gradually broadened the scope of internal audit, raised the level of reporting, and increased the number of agencies with internal audit staffs.

From this first chart you can get an idea of the results of these changes.

By 1958, internal audit staffs were operating in every large agency within the Department, and on paper, these staffs reported to the agency heads.

Departmental guidance was provided by the Office of Budget and Finance, under the Assistant Secretary for Administration, from 1945 until my appointment as Inspector General in 1962.

During the same period, the investigative function was developing and growing. By the late 1950's, personnel misconduct investigations for the entire department had been assigned to the Departmental Office of Personnel. Program investigations were being carried out in several of the agencies. In total, there were ten internal audit staffs, two with investigative responsibility, on agency investigation staff as such, and investigation group in the Office of Personnel. The remaining fifteen agencies and offices were without such service.

The existing audit and investigation staffs varied in size from five (5) employees in one agency to over three hundred (300) in another. An effort was made by the Office of Budget and Finance to guide and follow up in the work of these agencies, and to relay their significant findings to the Secretary. However, insufficient staff and other limitations tended to dilute the effectiveness of the effort. I think it important to note the double green line which indicates that the Agency Administrators had operational control over the audit and investigation

activities in their agencies; and the red policy line, and blue report distribution line which both go through the Agency Administrator's office. As you can see, reporting to the Secretary was subject to screening and, often subject to delays.

Early in 1962, in response to Secretarial interest expressed some time earlier, a department-wide survey and evaluation was made of the internal audit and investigation functions of the Department of Agriculture. This was long before I came upon the scene. I mention this so that you will understand that I do not come before you as an advocate of a new system because I was the destroyer of the old. I want to emphasize, however, that in my opinion, the survey report was broad in its scope, correct in its findings, sound in its conclusions, and wise in its recommendations.

With compassionate correctness it acknowledged the Department's frailties. This recital of weaknesses became a bill of particulars, and once accepted by higher authority, it became a mandate for change.

I will numerate a number of the conditions reported by the survey team. This will accomplish two objectives:

First, it will enable you to satisfy yourselves as to our need for change, to evaluate the changes we have made;

Second, it will enable you to relate these problems and these changes, to any similar situations that exist in your own agency or department.

I am doing this in the conviction that those whose practices were inquired into were sincere and dedicated people who were doing what they thought best.

One of the principal observations of the survey team was that the Department's 1957 policy statement providing for a broad, comprehensive, appraisal type of internal audit had not been fully implemented.

The survey team also reported that:

1. Coverage in the 10 agencies having internal audit staffs varied widely;
2. Audit effort was primarily directed toward the fiscal aspects of operations, except for two large agencies;
3. Program appraisal was nominal and, in most agencies, national office levels were not audited;
4. In most instances, comprehensive appraisals of programs on an agency wide, interagency, or department wide basis had not been undertaken;

5. Generally, follow up procedures in most agencies did not provide for prompt and decisive action on audit recommendations; and

6. The Secretary and his immediate staff were not promptly informed of significant conditions disclosed through audit and investigation.

The survey report recommended three alternative courses of action.

The one chosen provided for the creation of an office directly responsible to the Secretary. This office, to be known as the Office of the Inspector General, would assume the responsibilities of the Office of Budget and Finance for audit and investigation policy. It would provide the necessary direction and supervision to assure that such policies were implemented at the agency level. It would be responsible for providing audit and investigative service to agencies not having internal audit staffs, and for keeping the Secretary and other departmental officials informed of significant matters. It would also assume the responsibilities of the Office of Personnel for the conduct of personnel investigations.

There was not a departmental level organization having a limited performance mission and, more importantly, a very broad and challenging mission to coordinate the activities of the independent agency level groups, to provide a uniform framework in which they could operate, and to improve the flow of information to the Secretary and his staff.

This alternative was chosen with the thought that it would fill the needs pointed up by the survey team without disrupting the organization or authorities of the various agencies. Please note that there was very little change in the control and reporting channels and authorities.

I was appointed to head up this office in July 1962. We struggled for several months to do an effective job with only a policy and coordinating authority, but by December it became evident that the principal objectives in creating the Office of the Inspector General would not be achieved in a reasonable period to time, if at all, unless the Inspector General had direct line authority over all internal audit and investigation activities in the department. Therefore, with this evidence in hand, the Secretary took the initiative, and on December, 1962, transferred the audit and investigation activities from the 10 major agencies of the Department of the Office of the Inspector General. This was the birth of the single management concept for audit and investigation in Agriculture.

Turning for a moment to point on the chart here, you will note that House Report 456 calls for a central internal audit system in every large department or agency, organized independent of department or agency operations. In this regard Agriculture and the sub-committee certainly see eye-to-eye.

Returning to the OIG story, the announced purposes of the Secretary in directing the consolidation were:

1. To establish an organization tailored to meet the specific needs of the Department of Agriculture and geared to serve the community of agencies individually, and the departmental entity as a whole.

2. To broaden the professional capability of the staff and expand the scope of its efforts to the point where it could render valuable assistance in increasing administrative and program effectiveness throughout the department. By way of emphasis I should add that our jurisdiction to conduct audits, surveys, studies, analyses, appraisals, evaluations and investigations is not circumscribed in any way except for the restraints of prudence and good judgement that the Secretary expects will be exercised. This is in full accord with point 4 of the sub-committee's report.

The third objective was to insure the free flow of timely information on adverse situations and matters in need of improvement.

I believe the over-riding objective can best be stated in the Secretary's own words: "We must be sure that nowhere in this department are functions, people, facilities, or programs being used unfairly—or in a way that may adversely affect any individual or operation."

We have spent the past year designing and installing the organization and systems to accomplish the first and third of these objectives, namely to set up an organization and provide for the free flow of information. We have maintained a steady output of reports all during the reorganization, but have only made a start on reorienting our performance.

We have melded the 650 professional employees and the administrative support personnel of our predecessor groups into 7 operating regional offices guided by a headquarters office here in Washington. On July 1, 1963, we appointed Regional Inspector Generals, who were charged with accomplishing the organization of our field offices, including the merging of various agency staff formerly operating independent of each other within the same locality and with installing our new administrative and operating procedures. On October 1, the new organization became fully operative. We feel this new organization is responsive to the service objectives of the Secretary, and that through organizational structure and new operating procedures, we have corrected the weakness noted by the survey team in 1962.

Please note the drastic changes that have been made in the operational authority and reporting channels. These, without question, accomplish the major objectives of the centralization project.

Let's consider the new organization and touch quickly on some of the basic concepts that we have adopted.

We are now operating a decentralized organization in which responsibility for the performance of all audits and investigations has been delegated to seven regional offices. Each regional

office is under the supervision of a Regional Inspector General who is assisted by a staff or competent professionals with many years of experience in conducting audits and investigations.

The regional concept, in which a single office is responsible for providing both audit and investigation service to all USDA activities in a geographical area, is designed to meet the need for improved coordination that was highlighted by the survey team and Congressional Committee during the Estes Hearings. Through nationwide cross referencing and operational control procedures we have linked the efforts of the Regional Offices into a unified, cohesive, nationwide service system.

We have, in our operations staff in the OIG headquarters, professional personnel knowledgeable in the details of the various programs of the department. One of the principal responsibilities of this staff is to assure a "Whole Cloth" approach to these programs in all of our efforts. By this I mean that our personnel will be alert to the implications of conditions affecting each and every activity of the department regardless of the organizational lines involved, and will report on the total effect of such conditions rather than on its limited effect in any one agency or organizational element. Our field personnel have been directed to disregard organizational lines in their day to day work and follow leads, as required, into any office, station, work unit, or activity of the department. In carrying out this whole cloth approach, the headquarters staff also will plan and direct the accomplishment of inquiries aimed at evaluating given operating programs of the department, by following the trails through every agency and office concerned. Thus, we will be able to identify areas of need improvement in the individual agencies and offices, as well as in the department as a whole.

In setting up a decentralized organization, we have placed a great deal of responsibility on our Regional Inspectors General. They are responsible for contacting agency field operating personnel directly, in all phases of their work, including distribution and follow up on reports. We believe that in the course of day to day interrelations between agency field personnel and OIG regional people, an atmosphere of trust and cooperation is developing that is leading to many benefits. For one thing, it is bringing both groups together as members of a team working mutually toward the solution of local problems. For another, it is eliminating costly paper shuffling. We believe strongly that a working relationship in the field (informal if necessary) is a continuing requirement. It is one of our methods of encouraging joint deliberation and joint consideration of matters that will become, are, or have been the object of audit or investigation; and we believe that this joint deliberation and joint consideration extends to all matters, whether they are called to our attention by the agency itself; whether they result from our audits and investigations; or whether they come to our attention by way of allegations or information from outside sources.

This candid, direct, approach is also designed to bring home to everyone in the department that the OIG is not a "Cloak and Dagger" or "Gumshoe" outfit; that we are not interested in persecuting people, or conducting inquisitions. On the contrary, we are proving that we are in business to assist operating personnel and to protect individuals at all levels from false or

incorrect accusations or incriminations in the discharge of their jobs. To make sure we practice what we preach, all of our offices will acknowledge all information received, they will acknowledge all requests for investigation, and most important, they will inform interested agency personnel of all matters which are, or will be the subject of inquiry by the OIG. There is only successful accomplishment of an inquiry.

To enable this decentralized organization to function more effectively we have installed uniform report formats, one for audit and one for investigation, and uniform reporting and follow up system. Under our procedures, distribution of audit and investigation reports is made to agency officials who have the assigned action responsibility in connection with OIG reported matters. Copies of our reports are furnished to officials having an interest in the reported matter. Tailored distribution patterns have been worked out with each agency. In cases involving possible criminal violation or civil action, copies of investigative reports are sent to a representative of the Office of the General Counsel concurrent with distribution to operating officials.

In general terms our objectives in this reporting area are:

A. To arrange for the free flow of timely information on adverse situations, and on matters in need of improvement to all interested officials.

B. To avoid burdening top management levels with routine reports that can readily be channeled to subordinate levels; but to be sure that the Secretary, agency administrators, and their immediate assistants are kept fully informed of developments on matters they may be called upon personally to explain. To this end we have established criteria for designating certain audits and investigations as significant. We have installed a procedure whereby our field officers will send interim reports on such matters directly to the OIG headquarters for transmittal to these top levels.

C. To eliminate from our reports the type of material that leads to charges of nit-picking and fly-specking, and

D. To establish an effective follow-up system on our reports. Our policy statement requires that action addressed reply to our reports within 45 days of publication.

The reporting system we adopted does not follow, to the letter, the House Report that:

“All reports and recommendations of the internal audit staff must be submitted directly to the agency or department head.”

We believe, however, that ours is an effective and reasonable adaptation of the committee's statement. We believe so, because the stature our organization has gained as an arm of the Secretary gives our reports the kind of prestige that encourages responsiveness at action levels without involving agency heads or the Secretary in matters that do not otherwise require their



attention. This has allow us to shorten the lines of communication and eliminate unnecessary handling. Thus, our system combines the virtues of simplicity, responsibility, frugality and performance effectiveness.

We energetically endorse point 2 of the committee that professional personnel assigned to this function must be sufficiently qualified to earn the respect and confidence of the department and agency heads. We agree generally that personnel with accounting background and auditing experience have the basic capabilities required for this work. We will continue to utilize auditors to accomplish our financial and management oriented workload. However, our charter of responsibility is rather extensive and our scope unlimited. It embraces not only audits and investigations, but, as mentioned before, studies, analyses, and inquiries in such other forms as will enable us to perform comprehensive reviews of all manner of programs and activities. To do this successfully we believe that we have a wider requirement to recruit, train, and develop personnel who are qualified in the professionals and science or who have skills necessary to make effective evaluations of the Agriculture programs and submit meaningful reports. 11

In addition we have embarked upon a program to train our personnel to perform the functions of both auditor and investigator. While we have, and will continue to utilize auditors and investigators in their particular area of competence, it is our contention that it is possible for one professional employee, in many instances, to handle both the audit and investigative aspects of an assignment. We think this cross utilization is feasible, can be extended, and that in time it will improve our operating flexibility and contribute to increased economy and effectiveness. It will also, from a selfish standpoint, benefit the individual staff member by enhancing his stature in the profession.

Why do we think that this is possible? Well it has been done before and we have studied the jobs and found that they demand much the same qualifications for adequate performance. What is more, they both employ, for the most part, in the conduct of their work:

Interviews,  
Observations, and  
Record examinations,

all leading to the preparation of written reports. We think, too, that the professional auditor and investigator share common personality traits such as poise, tact, orderliness, resourcefulness; good judgement, and last but not least, personal integrity. We are fully aware of the need for knowledge of accounting principles on the one hand, and rules of evidence on the other. However, with the increasing emphasis on operational auditing, the need for the former will be minimized, and it is not too difficult a training job to put across the latter. 11

One of the most important elements in achieving increased effectiveness is being able to program priorities of areas in need of service on a department wide basis. The advantages of operating within the Inspector General concept is our ability in pooling our manpower

resources in forecasting our annual programs, goals and objectives and in responding quickly to changes when the shifting of priorities is essential.

Recommendation #5 of the committee suggest that:

“Personnel assigned to the internal audit function must be protected from recrimination and arbitrary personnel action resulting from the adverse effect their reports might have upon other department or agency employees.”

I am firmly committed to this cardinal principle. I have actively publicized the fact that I want objectionable conduct or the exercise of palpably bad judgment by OIG employees to be reported to our Regional Inspector General. They, in turn, are required to immediately advise me of the complaint. If found to be true, appropriate disciplinary action is taken. If on the other hand, the allegations are found to be an effort to discredit a blameless employee because of what he uncovered in the course of duty, I have, and will continue to promptly report such instances to the appropriate level for administrative action. This area has always been one in which I have taken a firm, objective stand.

The last of the recommendations in the House Report deals with the availability of audit reports to GAO and Congressional Committees. Within the Office of the Inspector General, we attempt to work very closely with the General Accounting Office and Congressional Committees on audit and investigative matters. We provide liaisons with these groups, assisting them where possible in getting information they seek. Our own reports and recommendations are available with only a few exceptions. The exceptions result from restrictions in the law covering the activity under review, and the necessity of protecting information in investigation reports which, if prematurely released, might jeopardize actions by the Department of Justice.

Understandably, since we are an element of the Department of Agriculture, and a service group for the Secretary and agencies, our position requires that we afford responsible department and Agency officials' reasonable time to evaluate our findings prior to releasing the information to outside groups.

On the other side of the coin, we actively encourage the flow of information from outside groups through our office. Finding of Congressional Committees and the GAO are vigorously pursued with the responsible operating officials and evaluated as to the propriety of their dispositions. We also review such reports for indications of the need for further efforts on our part to resolve reported problem areas.

We have already shown that what we have done in Agriculture in modifying our audits and investigation functions was the result of developments over a period of years; that conditions within the department led to a survey early in 1962. We have shown that the Secretary responded to the findings and recommendations of the survey team by inaugurating the single management concept in 1962. We have discussed the 6 criteria of Chairman Brooks' Committee. We have seen how closely the concepts of the Secretary and those of the

Committee coincide, and I have commented on almost all of the benefits shown on the middle chart.

But, we knew that all of these seeds would fall on parched soil unless we succeeded in making a working team of all those who perform the audits and investigations, and those affected them. Therefore, at the cost of a bit of repetition, let me explain some of the problems we faced, and the manner in which we established a cooperative environment without diminishing our complete independence and objectivity.

It is not to be supposed that the changes I have enumerated were either sought or welcomed by those who were affected by them. There is a general tendency for people to resist change, and a very understandable reluctance to lose long held prerogatives. The implementation of the single management concept involved both change and loss. Change is not easy to effectuate, and the acceptance of the single management concept has depended in great measure on our minimizing the impact of the transfer of authority, and at the same time securing the cooperation of the yielding agencies. This is one of the most important insights that I will give you here tonight, for this is without a doubt one of the most serious problems an organization will face up to in introducing new approaches and concepts. Ladies and Gentlemen, I'm afraid I have no "Pat" formula for negotiating change. But, I believe that we have been quite successful in establishing a cooperative atmosphere, and that our relationships with the organizations whose functions we absorbed have been good. Why? They have been good because they and we have made the effort to make them good.

At the very outset I took a few of my immediate staff members and visited each Agency Administrator in his office to explain to him the logic behind the establishment of the OIG. I stressed that I was desirous above all else, of working in a cooperative atmosphere, and explained some of the basic policies that the OIG would operate under. Shortly thereafter, we set up meetings at which the Agency Administrators briefed my headquarters staff on the programs, operating policies, and goals of their agencies.

Just a month or two ago, the OIG conducted another series of briefings for the Agency Administrators and their top management assistants. At these meeting we again explained our desire for a cooperative effort, and emphasized the complete objectivity and impartiality with which we intended to operate. We passed quickly over those procedures with which they were familiar, that were carryovers from our predecessor organizations, and went into great detail in explaining those which were departures from past practices. We made certain that the reasons for the change were clear to everyone in order that nothing we did would carry the sting of rejection, or the hurt of arbitrariness. We felt it was more than just a matter of correctness and decency to give a briefing to the leaders of the operating agencies. We believed it to be absolutely essential to set the stage for subsequent communications, cooperation, and the interchange of ideas. We appreciated the importance of establishing rapport, and recognized the practical advantage of winning the support of an entire organization by gaining the understanding and the support of its leadership.

We realized, too, that audits and investigations conducted on "hit and run" basis could never commend themselves or us to the fellow who got hit. We knew he would like some first aid, and perhaps a lift to the hospital. And so we concluded that audits and investigations must be more than diagnostic. They must be remedial. They must be curative. This means that our auditors and investigators must not only understand the techniques and skills of their own job, but the operational problems of the activity they have under study and review. Further, they must be sufficiently schooled in the practices and concepts of management to enable them to suggest management solutions, to the management inadequacies they encounter. These are our views, and these views we have made known.

During my career, I have been fortunate enough to also have served in an operational capacity, and to have been on the receiving end of audits and investigations. Based on this experience, it is my belief that the operating official has a right to insist on the establishment of high standards to guide the auditor and investigator in the conduct of his work. These standards must stress objectivity and quality in the execution of inquiries. They must also include a code of ethics that emphasizes the preservation of personal and reporting integrity. These are the standards I have set for my staff, and these standards are known throughout the department.

In the day to day operations at the field level we established procedures which not only encouraged, but required communication between our people and the operational people. We devised a method of distributing reports to keep the operational people systematically and currently advised of what we are doing. Surprised, deception, and dictatorial attitudes have no place in our methodology. And the operating agencies now know it!

Finally, in this transfer of function and responsibility, I come to the problem of our effecting a satisfactory working relationship with the individual employee in each operating agency in order to gain the benefits so earnestly sought. This, I think is the key to the achievement of personnel and operational integrity, employee productivity, economy, and the other objectives of good management, because these achievements, or the lack of these achievements, are largely the result of the attitudes and the efforts of the individual employee.

I believe that primary responsibility for morality and good ethics rests with the individual. Accounting to one's conscience is a personal obligation, but it is an obligation, I believe the individual is the real autocrat. It is he who contaminates, or it is he who ennobles. It is he who is careful, or it is he who is careless. It is he who is mediocre, or it is he who is superior. It is he who is wrong, or it is he who is right.

I do not deny the great service the auditor or investigator of OIG can perform. I think he is an essential and indispensable tool.

But something more is needed!

When I ponder the importance of the individual in the accomplishment of the aims of good management, I am reminded of the veteran centurion, who, passing in review before Caesar on his way to battle, shouted:

“I’ll make you proud of me today, Sir!”

I would like to think that the OIG is part of a team consisting of individuals nurtured in the ideal that they go into each day’s battle with the thought of making their Government proud of them. Individual performance will make for group performance. Individual sensitivity to waste will make for group and program economy. Individual excellence will make for program and operational excellence. Individual integrity will make for total integrity.

We in OIG, can and do move in to provide an examination of records, and analysis of operations, and inquiries into allegations of waste or personnel misconduct.

But, the effect of all this will fall short unless we can develop in others the will to achieve, the will to conserve, the will to economize, the will to incorruptibility, and the will to improve. I think that here is a special role for OIG. I am sure every segment of the Department of Agriculture wants to stimulate such attitudes among their employees. I feel that here is an excellent opportunity for truly significant joint operation by the OIG and operating agencies.

We know that our very presence among others means that many pairs of eyes follow us as searchingly as the radar beams that scan the skies. We know that if we are to be effective we must teach not only by precept, but by example. We know too that those exposed to our inquiries ask many times, and justly so,

“Who investigates the investigators, and who audits the auditors?”

In order to face up to these questions and to assure that our own house is in order, we have set up an “Inspection Unit” in our headquarters, to evaluate all aspects of our own performance.

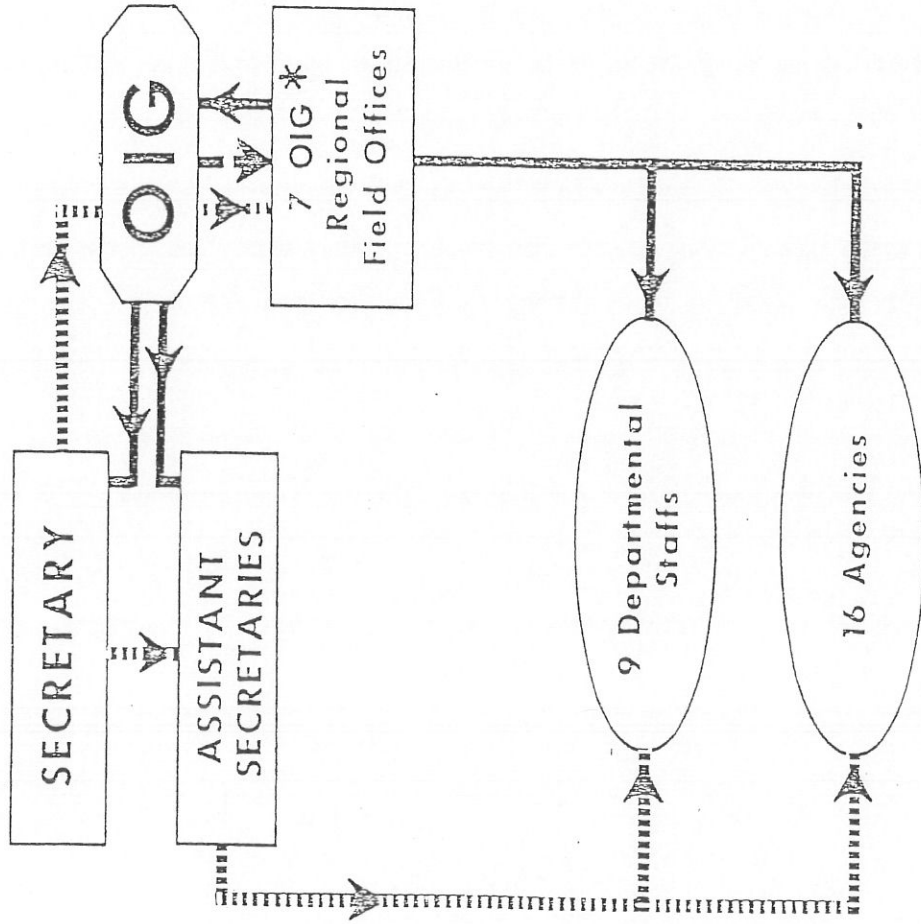
Our OIG Personnel must be skilled in attitudes and human relations. It has been said that a man’s attitude is his most important tool. And with equal truth it is said that all human relations are emotional relations. I think it is apparent that careless indifference to the other fellow’s feelings and problems can destroy the victory that hard work seemed to promise. Therefore, the use of the right personal attitude in our work is paramount.

These are some of the guiding principles of the office of the Inspector General.

I want to make one point absolutely clear. We do not take the position that other agencies or departments should do what we have done. We do not recommend the transplant of a method or a system. Each and every department must find its own way, and what was done seemed best for us.

I am sure there are those of you who will differ with us, and that is as it should be, for out of this diversity fresh ideas and action should emerge.

DECEMBER 1962



LINE SUPERVISION

POLICY GUIDANCE

FLOW OF AUDIT AND INVESTIGATION REPORTS

\*PERFORMANCE MISSION-AUDITS AND INVESTIGATIONS

BENEFITS REALIZED FROM INSPECTOR GENERAL CONCEPT

Service to both the Secretary and community of agencies

Whole cloth approach

Timely reporting of significant matters

Maximum independence and objectivity

Increased Effectiveness

Flexibility in Programming

Cross-utilization of Personnel

Standardization of Operations

Improved Career Development Potential

Stature

Relationship with organizations serviced

Improved Recruiting Potential



Excerpts From 2013 CIGIE draft on OIG history.

Apparently not published but may be used in training programs.

<p>4. Landmark legislation: The 1978 IG Act</p>	<p><b>Transition</b></p> <p>-Speaking of IG legislation, are you familiar with the landmark legislation that established IGs in the Federal government? Do you know which law of the land gives you the <i>authority</i> to do the work you do?</p> <p>-Let's talk about that. But first, let's talk about the events leading up to the law's creation, and the political climate of what was going on in America at the time.</p> <p>-In order to have an understanding of how we arrived at the IGs we have today, we have to move to the 1960s and the Billie Sol Estes scandal.</p>
<p>Billie Sol Estes Scandal and USDA</p>	<p><b>Billie Sol Estes Scandal and USDA</b></p> <p>-Billie Sol Estes was a young man raised in the farmlands of Texas. He was said to be brilliant with finances from a young age and was a millionaire by his 30s due to his involvement in various agriculture business endeavors. However, his dealings were not always "squeaky clean."</p> <p>-In the 1960s, the U.S. Department of Agriculture (USDA) began controlling the price of cotton, specifying quotas to farmers.<sup>23</sup></p> <p>-Farmers had an acreage allotment of how much cotton they could grow and the allotment was not transferrable from the land it was associated with.<sup>24</sup></p> <p>-There was an exception to this rule, however, and farmers could transfer the cotton allotment to another piece of land if the land had been taken by eminent domain. (Meaning, the government had taken the land for public projects.)<sup>25</sup></p> <p>-Estes persuaded farmers who had been displaced by eminent domain to buy farmland from him in Texas, transfer their cotton allotments to the new land, and lease the land and allotments to Estes.<sup>26</sup></p> <p>-He also wrote the lease agreements for this land to include a clause such that a small lease payment he paid to the farmers effectively transferred ownership of the land and allotments to Estes.<sup>27</sup></p> <p>-Effectively, Estes was hoarding cotton allotments, bulking up his market/share of a government-controlled</p>

<sup>23</sup> Wikipedia ([http://en.wikipedia.org/wiki/Billie\\_Sol\\_Estes](http://en.wikipedia.org/wiki/Billie_Sol_Estes)), PDF p.1.

<sup>24</sup> Wikipedia ([http://en.wikipedia.org/wiki/Billie\\_Sol\\_Estes](http://en.wikipedia.org/wiki/Billie_Sol_Estes)), PDF p.1.

<sup>25</sup> Wikipedia ([http://en.wikipedia.org/wiki/Billie\\_Sol\\_Estes](http://en.wikipedia.org/wiki/Billie_Sol_Estes)), PDF p.1.

<sup>26</sup> Salem Press (<http://salempress.com/store/pdfs/villains.pdf>), p. 181.

<sup>27</sup> Salem Press (<http://salempress.com/store/pdfs/villains.pdf>), p. 181.

<p><i>Other Scandal Details</i></p> <p><u>Fertilizer tanks:</u>  <i>In 1958, Estes owed a lot of money to Commercial Solvents, his fertilizer distributor.</i>  <i>He persuaded a Texas tank manufacturer to let area farmers buy nonexistent fertilizer storage tanks, sign bogus mortgages on them, then lease the mortgages back to Estes.</i>  <i>Estes used these nonexistent storage tanks and fake mortgages as collateral to borrow \$22 million from finance companies.</i></p> <p><u>Grain storage:</u>  <i>Again, Estes owed a lot of money to Commercial Solvents (CS), his fertilizer distributor.</i>  <i>Estes convinced CS to defer his debt and instead lend him money to build grain storage facilities.</i>  <i>The government had a contract to pay storage fees for grain storage, and Estes may have won that federal contract by taking three Department of Agriculture officials on a shopping spree to Neiman Marcus in Dallas.</i>  <i>With the contract in place, Estes paid the government-collected fees to CS, who in turn gave him cheap fertilizer.</i>  <i>Estes sold the fertilizer at under-cut prices and ran his competitors out of business.</i></p>	<p>crop.</p> <p>-In case you think that Estes wasn't doing anything shady, in 1961, Henry Marshall, a local USDA official who was believed to have been investigating Estes' cotton allotments, was found dead. Despite being shot five times, his death was ruled a suicide.<sup>28</sup></p> <p>-Estes was also involved with other fraudulent schemes. He sold mortgages for nonexistent fertilizer storage tanks and then used the bogus tanks and mortgages as collateral to borrow millions of dollars from finance companies.<sup>29</sup>  <i>(See side for more details, if desired.)</i></p> <p>-Estes also defrauded the Federal government's grain storage program. Now the connection between his shady dealings and this program is not as clear, but at one point Estes took three federal Agriculture officials on a shopping spree at the Neiman Marcus store in Dallas, which may have helped land him a Federal grain storage contract.<sup>30</sup> (This would be referred to as bribery.) <i>(See side for more details.)</i></p> <p>-A number of investigations were launched against Estes by various agencies within the Department of Agriculture, but he dodged one investigation after another by making false statement after false statement. Despite numerous investigations, Estes continued to stay in business.<sup>31</sup></p> <p>-Eventually, in 1962, a local newspaper wrote an investigative series on Estes' scam on the mortgages on the nonexistent fertilizer storage tanks and he was arrested.<sup>32</sup></p> <p>-When Congress learned about Estes and his various schemes which involved programs in the Department of Agriculture, they launched an exhaustive investigation, led by the House Intergovernmental Relations subcommittee.<sup>33</sup></p> <p>-Twenty-one days of hearings showed that Estes had built a financial empire by deceiving the Department of Agriculture. The findings of the hearings caused USDA's subsidy programs to come under intense scrutiny.<sup>34</sup></p> <p>-The subcommittee's final report said that while Estes</p>
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<sup>28</sup> Pecos Enterprise (June 11, 1962). *Grand Jury Calls Estes to Testify* (PDF p. 2-3).

<sup>29</sup> Salem Press (<http://salempress.com/store/pdfs/villains.pdf>), p. 181.

<sup>30</sup> New York Times (Dec 10, 2011). *Oscar Griffin, Jr.... Dies.* (PDF p. 3).

<sup>31</sup> Light, P (1993). *Monitoring Government: Inspectors General and the Search for Accountability* (p. 31).

<sup>32</sup> New York Times (Dec. 10, 2011). *Oscar Griffin, Jr.... Dies.* (PDF p. 3). See also: Pecos Enterprise (Mar 1, 1962). *Tank Transactions Soar to \$34 million* (PDF p. 2-3).

<sup>33</sup> Light, P (1993). *Monitoring Government: Inspectors General and the Search for Accountability* (p. 31).

<sup>34</sup> Light, P (1993). *Monitoring Government: Inspectors General and the Search for Accountability* (p. 31).

demonstrated his talent for deception, “his misrepresentations...succeeded primarily because of shortcomings in the performance of the Department of Agriculture.”<sup>35</sup>

-According to the subcommittee, Agriculture personnel “displayed a conspicuous lack of alertness,” and none of the numerous agencies that had investigated the growing allegations against Estes had ever talked with one another.<sup>36</sup>

-“Had all—or even a few—of the many Federal investigations of Estes’ operations been properly coordinated, it is almost inconceivable that his fraudulent activities could have been continued for such a long period.”<sup>37</sup>

-Let’s take a moment to clarify here: Federal agencies and Departments like USDA did not have Offices of Inspector General yet, but audit and investigative functions did exist to some extent in some government agencies at the time, including USDA.

-However, these were scattered offices, in various component bureaus or agencies who reported to their individual agency management. Naturally, these functions didn’t report outside of their individual offices, and there were no requirements of reporting to Congress. There were also no standards on what or how to investigate or audit.

-Therefore, each individual agency could decide what problems to deal with - or what not to deal with – after problems were uncovered or reported. In some agencies, a problem may not be addressed at all, or may not be properly prioritized.

-So what does all of this shady business have to do with OIGs?

-As part of the response to the Estes hearings, Secretary of Agriculture Orville Freeman administratively created the first Office of Inspector General in the Department of Agriculture in 1962.<sup>38</sup>

-As we said, USDA did already have audit and investigative services to some extent, but they were scattered throughout the Department and uncoordinated. An Office of the Inspector General was to provide coordinated audit and investigative services pertaining to

Admin OIG created at USDA, Lester Condon, 1962

<sup>35</sup> Light, P (1993). *Monitoring Government: Inspectors General and the Search for Accountability* (p. 31).

<sup>36</sup> Light, P (1993). *Monitoring Government: Inspectors General and the Search for Accountability* (p. 31).

<sup>37</sup> Light, P (1993). *Monitoring Government: Inspectors General and the Search for Accountability* (p. 31).

<sup>38</sup> Salem Press (<http://salempress.com/store/pdfs/villains.pdf>), p. 183.

Admin OIG abolished at USDA, 1974

No serious  
impact on  
OIG operations

12 years  
later!

Waste/fraud at HEW

the Department and was to report directly to the Secretary of Agriculture. Lester Condon was the first Agriculture IG.<sup>39</sup>

-This significant installation of an Agriculture OIG seemed successful, and the office had a good track record for over a decade.

-However, Lester Condon's successor would soon find out the problem with having one boss and no statutory basis.

-“What the Secretary giveth, the Secretary can taketh away,” and in 1974 when Earl Butz became Secretary of Agriculture, he abruptly eliminated the position of Inspector General.

-While the Billie Sol Estes scandal brought to light the need for an OIG and the Department created it, only a short time later a new department head abolished the office. This highlights the need for a statutory OIG, and Congress would soon learn from this lesson.

-Just hold on to this thought about a statutory IG for a minute. We'll revisit it in a moment.

1976 HEW Act<sup>40</sup>

-Let's skip up a couple years to 1976, when a department called HEW (Health, Education, and Welfare) existed. It is the predecessor to today's Department of Health and Human Services and the Department of Education.

-Suspecting problems at HEW, Congress launched two investigations into the Department. Congress was met with evidences of fraud, waste, and abuse.

-One investigation turned up \$1.8 billion worth of kickbacks, fraudulent billings, unnecessary care, and inflated charges within Medicaid each year.

-The other investigation found glaring audit and investigatory weaknesses. While audits and investigations existed within HEW to some extent, they, too, were found to be seriously lacking and unorganized.

-For example, HEW's central investigative unit had 10 investigators and a 10-year backlog of uninvestigated cases.

-Organizationally, units responsible for combating fraud and abuse were scattered throughout the Department in a

<sup>39</sup> Light, P (1993). *Monitoring Government: Inspectors General and the Search for Accountability* (p. 32).

<sup>40</sup> Light, P (1993). *Monitoring Government: Inspectors General and the Search for Accountability* (p. 40).

Statutory HEW OIG

Did not impact OIG operations to any degree

Administration did not support IG Act but President Carter signed the legislation

3 congressmen voted against the Act including I believe Al Gore.

Dan Rostenkowski essentially wrote the IG Act of 1978

haphazard way, with no single overhead unit.

-In response, Congress thought to answer these problems with a familiar solution they had seen when confronted with the fraud and lack of coordinated efforts found at Agriculture: an Inspector General.

-But remember how I said we would come back to the fact that Earl Butz abolished the OIG shortly after he became Secretary of Agriculture? (1974)

-Congress took an important lesson from this in providing the IG some protection. And in 1976, Congress passed legislation to statutorily establish an Office of the Inspector General within HEW.

#### 1978 IG Act

-We now have an idea of the political climate of the late 70s. Serious fraud, waste, and abuse had been discovered at two large Federal agencies, first at Agriculture and then at HEW.

-However, these abuses had been discovered at the two agencies through extensive Congressional investigations, and Congress recognized it lacked resources to launch investigations into every Federal agency.<sup>41</sup>

-Rather, Congress held a general viewpoint that government was fundamentally flawed and *broad reform* was needed. Congress argued that IGs were needed *government-wide* to root out fraud, waste, and abuse.<sup>42</sup>

-As a result, in 1978 Congress passed "the big one:" the Inspector General Act of 1978, which established statutory IGs in 12 major Government agencies:

Agriculture  
Commerce  
Housing and Urban Development  
Interior  
Labor  
Transportation  
Community Services Administration  
Environmental Protection Agency  
General Services Administration  
National Aeronautics and Space Administration  
Small Business Administration  
Veterans Administration<sup>43</sup>

<sup>41</sup> Light, P (1993). *Monitoring Government: Inspectors General and the Search for Accountability* (p. 41).

<sup>42</sup> Light, P (1993). *Monitoring Government: Inspectors General and the Search for Accountability* (p. 41).

<sup>43</sup> Light, P (1993). *Monitoring Government: Inspectors General and the Search for Accountability* (p. 26).