ANALYSIS OF COMMONWEALTH AUDIT RESOURCES

AND

INSPECTOR GENERAL FUNCTIONS

OCTOBER 2009

Auditor of
Public Accounts
COMMONWEALTH OF VIRGINIA

SUMMARY

- Inspector general functions serve an important oversight role within government; however, policy makers, when creating these offices, have created duplicated audit responsibilities.

- Inspector general offices concentrate on investigating complaints and do not work on issues of accountability; fraud, waste, and abuse prevention; and program and operational reviews.

- The Commonwealth has existing resources and capacity to conduct investigations of fraud, waste, and abuse; reviews of accountability; and reviews of programs and operations related to economy and efficiency. Demands of the current workload can at times exceed current resources and, in some cases, there is a need to coordinate efforts of the various groups.

- The Inspectors General in Virginia's Departments of Transportation, Corrections, and Juvenile Justices serve as model organizations for the creation of this function in the Commonwealth. These organizations avoid the duplication of audit efforts, provide a balance in program delivery, and have appropriate reporting oversight in their respective departments.

Should policy makers wish to create an inspector general function, this report reviews the issues that warrant consideration in creating these organizations. Inspector general functions appear most effective when they work within agencies and institutions and are part of the organizational structure. However, not every agency or institution needs an inspector general function; therefore, the recommendation is that large organizations within a cabinet secretariat could provide resources for the smaller agencies through the Cabinet Secretary.

Inspector general functions should report at least annually on their work to the General Assembly. Further, the General Assembly should maintain oversight of the inspector general function by having either the Auditor of Public Accounts or Joint Legislative Audit and Review Commission review their operations.

Improvements to the State Employee Fraud Waste and Abuse Hotline could occur by expanding and coordinating the activities of the hotline. Outsourcing the call center could expand the availability of the hotline. Further, a coordinating group from the Legislative, Executive, and Judicial branches, rather than the State Internal Auditor, could help expand the hotline to all of state government and not just the executive branch.

Additional details for all of the above issues are included in the report. The report also includes other recommendations that are not part of this summary.

- T A B L E O F C O N T E N T S -

INTRODUCTION

Over the past several years, many individuals, including members of the General Assembly, have advocated the need for a state office of Inspector General as a mechanism to improve accountability in the Commonwealth. An inspector general is a high-ranking official charged with the mission to inspect and report on accountability, program mismanagement, fraud, waste, and abuse.

Most states, including the Commonwealth, have existing agencies and entities that have statutory or regulatory responsibilities for performing all or a portion of the duties and responsibilities given to an inspector general. In many states, the creation of the inspector general creates a duplicate and additional layer of agencies and entities performing the same primary functions.

Additionally, the Offices of Inspectors General created in most states function differently than the Offices of Inspectors General within the Federal Government. In many cases, the most significant difference is the elimination of the dual reporting requirement to both the U.S. Congress and the Executive Agency head. Several states have found that the federal model of an inspector general's office, one with dual reporting responsibilities, creates a constitutional separation of powers problem; and since many legislatures do not meet year round, the inspector general often becomes another executive branch audit function.

The other issue states have encountered with inspector general offices is determining which branch of government should have control of the office. Historically, legislative bodies or elected officials have had responsibilities for many of the functions assigned to the inspector general office and they have been reluctant to lose this oversight. This historical relationship relates to the legislature's control of the fiscal oversight of the budget or more commonly referred to as "***control of the purse strings***."

To determine if the Commonwealth needs an Office of Inspector General, this report reviews the Commonwealth's current efforts to address accountability, program mismanagement, fraud, waste, and abuse. The report addresses which entities have responsibility to review these issues, how they address the issues, and to whom they report their findings. We plan to issue a second report on the status of the internal audit functions in the Executive Branch of government.

This report will provide a summary of the agencies and entities involved in addressing accountability, program mismanagement, fraud, waste, and abuse. This report will not review how most of the entities deal with accountability, since responsibility is inherent in most of the agencies' and entities' basic missions.

We reviewed the Commonwealth's current structure for investigating fraud, waste, and abuse and examined the role of the State Employee Fraud, Waste, and Abuse Hotline. We compared the Commonwealth's agencies with the responsibilities of other states' and the federal Offices of Inspectors General. In addition, we explored the possibility of outsourcing some of the Commonwealth's functions related to fraud reporting.

WHAT IS AN INSPECTOR GENERAL?

Typically, an inspector general is a type of investigator who audits the actions and operations of an entity to ensure that the organization complies with applicable laws, regulations, contracts, and grants. Furthermore, during an audit, an inspector general tries to identify any criminal or non-criminal waste, fraud, abuse, theft, or misconduct of the agency's resources. These offices also evaluate program operations, policy implementation, and the management of resources. Inspectors general may perform audits of matters within the internal organization or may review external grant recipients, contractors, or other loan or subsidy recipients.

The above description of what an inspector general is comes from the Association of Inspectors General, which has federal, state, and local government membership. Most state and local government inspectors general do not have law enforcement powers and normally report to either the executive or legislative branch of government, but not both. It appears that only the federal inspectors general have responsibilities of reporting to both the executive branch and Congress and have law enforcement powers.

Much like internal and external auditors, inspectors general conduct audits to obtain and evaluate evidence and support and later draw conclusions based on this information. An audit is typically the evaluation or assessment of a subject matter, such as a program, financial statement, system, or process. Audit objectives vary widely depending on the subject matter. Auditors often conduct financial statement audits to evaluate whether an entity's financial statements are properly stated and free of material misstatement. In addition, auditors may evaluate the effectiveness of internal controls, programs, or processes or determine what occurred in instances of alleged misconduct or wrongdoing. A well planned financial or performance audit will promote accountability. This includes evaluating whether the audited entity is performing in an efficient and effective manner and appropriately managing its resources.

As noted above most inspectors general will use some form of an audit to identify any criminal or non-criminal waste, fraud, abuse, theft, or misconduct of the agency's resources and evaluate program operations, policy implementation, and the management of resources. Many of the inspectors general follow some form of auditing standards when performing their work. Based on information from the Association of Inspectors General the most commonly followed standards are either the Government Auditing Standards issued by the U.S. Comptroller General of the Government Accountability Office or those of the Institute of Internal Auditors. The use of Government Auditing Standards is the result of the significant number of federal inspectors general, which must statutorily follow these standards.

CURRENT AUDIT EFFORTS BY THE COMMONWEALTH

The Commonwealth has some form of audit function in each branch of government. The legislative branch has the Auditor of Public Accounts and Joint Legislative Audit and Review Commission, which can audit all Commonwealth governmental operations including the legislative funds and agencies. Both the Executive and Judicial branches have internal audit departments, which audit information within those branches of government or a particular department.

EXECUTIVE BRANCH

The Executive Branch is unique in that there exists a Division of State Internal Audit and several agencies that have an Office of Inspector General, however, none of the offices work in a similar fashion to the federal model discussed later in this report.

Division of State Internal Audit

In 1985, the Governor requested legislation to implement a previous Executive Order to create a Department of the State Internal Auditor, and the General Assembly enacted this legislation. The Department of the State Internal Auditor existed as a separate agency until fiscal year 2002, when due to budget reductions, the department received no funding and the General Assembly transferred the training funding and two positions to the Department of Accounts.

Since 2002, the Division of State Internal Audit (DSIA) at the Department of Accounts assumed most statutory responsibilities of the Department of the State Internal Auditor and continues to administer the State Employee Fraud, Waste, and Abuse Hotline (hotline). Initially, the focus of the DSIA was the training of internal auditors and others functioning in this capacity with secondary emphasis on the hotline operations. Budget reductions have limited DSIA from performing any function other than operating the hotline, performing limited special projects, arranging training for the internal auditors, and investigating a limited number of hotline complaints

In 1992, the Governor issued an Executive Order to create the hotline. The Division of State Internal Audit since 2002 promotes the availability of the State Employee Fraud, Waste, and Abuse Hotline with notices on employees' paychecks or earning statements, informational posters, and email notifications to state employees.

DSIA is responsible for:

- Providing assistance and ongoing training to Executive Branch agency heads in fulfilling their responsibilities for maintaining appropriate internal controls to protect against fraud, waste, and abuse.
- Making available to state employees a variety of means to report fraud, waste, and abuse in the Commonwealth's government business including an anonymous toll-free number and any other communications through the Governor's office, Cabinet Secretaries, agency heads, U.S. Mail, e-mail, fax, and the Internet.
- Making appropriate efforts to publicize the availability of the hotline and means to access it.

- Implementing a process for handling allegations of fraud, waste, and abuse received through the hotline.
- Ensuring the referral of instances of potential criminal conduct to the appropriate law enforcement agency.

The DSIA does not directly investigate most hotline complaints, but refers the complaints to the respective agency or institution's Internal Audit Director or a designated agency fraud hotline coordinator and reports matters to the Commonwealth's Comptroller and the Secretary of Finance. The agency or institution Internal Audit Director or a designated agency fraud hotline coordinator conducts the investigation, works with management and law enforcement officials, and reports their findings and outcome of the investigation to DSIA.

For smaller agencies and institutions or when the complaint may involve the agency or institution head, DSIA will conduct the investigation. Complaints involving the Judicial Branch go to the Supreme Court's internal auditor and those involving the legislative branch or local governments come to the Auditor of Public Accounts.

Originally, the Department of the State Internal Auditor was supposed to ensure the quality of work of internal audit operations around the Commonwealth by setting performance standards for internal auditors, conducting reviews of the work performed by the various internal audit operations and providing training. Due to a lack of funding, the DSIA currently provides limited training and guidance to agency heads and managers related to responsibilities for maintaining appropriate internal controls to protect against fraud, waste, and abuse. In recent years, DSIA has updated its standards but has not performed any quality reviews of the various internal operations.

Since the creation of the Department of the State Internal Auditor, the Institute of Internal Auditors has begun a program of actively setting standards for internal auditors and arranging for quality review of internal audit organizations. Further, most internal audit organizations in the Commonwealth appear to be meeting their continuing professional education requirements.

Individual Agency Internal Audit Departments

In addition to DSIA, 25 agencies and 14 institutions of higher education have internal audit departments. The size and scope of the work performed by these groups varies by the size and complexity of their respective organization. Almost all of these departments conduct audits, investigations, and inspections to promote economy, effectiveness and efficiency and to prevent and detect fraud, waste and abuse.

In addition, they typically audit internal controls, financial transaction processes, and system development efforts. Some Commonwealth internal auditors also perform program audits to evaluate the effectiveness of programs and determine whether management operates these programs in an efficient manner. Generally, internal auditors report to the agency head and, in the case of higher education, to the Boards of Visitors.

Offices of Inspector General

Several agencies and institutions have created internal positions titled Inspector General, except for the Department of Behavioral Health and Developmental Services, whose Inspector General is created in statute. Below we will discuss what these inspectors general do and why the agencies and institutions created the position or function.

The Virginia Military Institute (VMI) adopted the military concept and terminology of an inspector general. As with the military model of an inspector general, this individual and staff review and report on the performance, efficiency, discipline, morale, and effectiveness of the institute. The VMI Inspector General undertakes official investigations received from the Superintendent or reported by other agencies. The VMI Inspector General also serves as the Title IX Civil Rights coordinator and coordinates the policies, procedures, and training programs for students and employees. The Inspector General reports to the VMI Superintendent but does not perform any of the typical duties of an internal audit function.

Originally, the Virginia Department of Transportation (Transportation) had two audit organizations within the Department. Transportation had an internal audit department that conducted a typical internal audit function including any fraud, waste, and abuse investigations. The second audit organization conducted external audits of vendors and contractors working for Transportation. The project auditors not only reviewed information submitted by the vendors and contractors on a project but also had the contractual authority to audit the vendor’s or contractor’s internal financial records on costs submitted to Transportation. Transportation management determined that consolidating the operation of these two audit organization would increase audit efficiency and staffing flexibility. Also, the consolidated operation would allow for better overall reviews of projects.

Transportation created the head of this consolidated audit organization as the Inspector General, who currently has a staff of 42; this team audits business processes and internal controls, reviews private entities providing services to Transportation, and investigates allegations of fraud, waste, and abuse. The staff perform business performance reviews and investigations, provide advisory and technical assistance to both management and external organizations, and monitor action plans in response to external audits. The Inspector General reports to the Commissioner of Transportation.

Originally, the Virginia Department of Corrections (Corrections) had a separate internal audit unit, an internal affairs unit, and a special investigative unit. Like Transportation, Corrections’ management determined that all of these units would more effectively operate if they worked under one leadership and created the Office of Inspector General. The Office has four main components: the special investigations unit, internal auditing unit, extradition/fugitive unit, and the background investigations unit. The Office has a staff of approximately 48 state employees. Corrections’ Inspector General employs two part-time investigators to address DSIA hotline referrals. The internal audit unit takes a risk assessment model approach to evaluate and determine its audit plan. The special investigations unit looks into violations of laws and serious administration violations such as hostage situations, sexual assaults, and escapes. The Inspector General reports to the Director of Corrections.

The Department of Juvenile Justice (Juvenile Justice) was originally part of Corrections, and became a separate agency. The consolidation of the various units occurred in Corrections before Juvenile Justice became a separate agency and the new agency continued the Office of the Inspector General. This Office has fifteen employees and four separate components: investigations, certification, internal audit, and the Ombudsman Program. Their primary objective is to look into allegations of fraud, waste, and abuse, including assaults, child abuse and neglect, theft, and criminal acts inside the juvenile correctional centers. Their internal audit unit evaluates functions and internal controls at Juvenile Justice and advises management of concerns. The certification unit monitors the compliance of facilities for juveniles, while the Ombudsman Program unit monitors the overall living conditions at the centers. The Inspector General reports to the Director of Juvenile Justice.

The Department of Behavioral Health and Developmental Services' Office of Inspector General has four employees. The primary objectives of their Inspector General, as mandated by the Code of Virginia, are: to inspect, monitor, and review the quality of services provided by the 16 state facilities and 44 Community Service Boards; to investigate complaints of abuse, neglect, and inadequate care; to make policy and operational recommendations in order to prevent issues from occurring; and to keep management aware of significant problems, abuse, and deficiencies. The Governor appoints the Inspector General, the General Assembly confirms the appointment, and the individual reports to both. This Inspector General Office is the closest operational example to the federal government inspector general model.

However, the Inspector General does not become involved in fraud, waste, and abuse complaints received thorough the hotline, unless they deal with patient or employee behavior. The Department of Behavioral Health and Developmental Services has an internal audit department that operates like most internal audit functions and investigates most of the fraud, waste, and abuse complaints. Internal Audit reports to the Commissioner.

Other Executive Branch Resources Addressing Waste and Potential Abuse

Department of Human Resource Management

The Department of Human Resource Management operates an employee suggestion program; this is where Commonwealth employees can report innovative and creative ideas for improving state government through reducing costs, eliminating waste, increasing productivity, improving safety, and increasing state revenue. Employees receive rewards for having ideas which result in program savings or cost reductions.

Program Hotlines and other Internal Processes for Fraud, Waste and Abuse Information

A number of agencies and internal audit groups encourage employees and recipients to report cases of fraud, waste, and abuse. This mechanism includes program-oriented hotlines and periodic e-mail notification to employees to report instances to the internal auditors. We could find no evidence on how effective these alternatives were in receiving complaints.

Other agencies within the Executive Branch have special fraud units that investigate and audit program recipients, vendors, or service providers. The two largest groups exist within the Departments of Social Services and Medical Assistance Services (for Medicaid). Social Services receives funding from both the state and federal government to pay for Commonwealth Attorneys, who specialize in the prosecution of recipient and provider fraud. Social Services has several internal groups who review program eligibility and other aspects of their programs. These internal groups have responsibility to report individuals and vendors to the Commonwealth Attorneys for additional investigation and potential prosecution.

Medical Assistance Services has several internal groups which conduct recipient, provider, and other vendor utilization and reviews to ensure the level of care is appropriate, as well as determine if someone is abusing the system. These groups can take administrative actions if the recipient, provider, and other vendors are not properly reporting information or other issues. If these groups determine that there is a case of fraud, they refer the case to the Attorney General's Office that has a special unit, which works with Medical Assistance Services to prosecute recipient and provider fraud.

Department of State Police

Department of State Police's Bureau of Criminal Investigation regularly investigates fraud complaints involving state agencies and institutions, state vendors and contractors, and local government officials and employees. Historically, the Commonwealth has required that the State Police receive the Attorney General's approval for conducting any investigation of a state or local elected official. Also, in recent years the increase in the white-collar investigative experience of other law enforcement organizations has allowed the Bureau of Criminal Investigation to rely on these organizations to conduct the investigation.

JUDICIAL BRANCH

As the administrative head of the judicial system, the Chief Justice of the Supreme Court has established a technical assistance group within the Office of the Executive Secretary of the Supreme Court. This technical assistance group provides guidance on internal control and other accounting issues to all other agencies within this branch including all of the local district courts, except for the Circuit Court Clerks. Since the Circuit Court Clerks are elected officials, the technical assistance group provides guidance only when requested, since they do not believe that the technical assistance group has the authority to tell Circuit Court Clerks what to do. The technical assistance group houses this branch's internal audit function. The internal audit function reviews not only the central agencies, but all of the district courts.

LEGISLATIVE BRANCH

The legislative branch of government as part of its budgetary oversight responsibilities houses two audit organizations, the Joint Legislative Audit and Review Commission and the Auditor of Public Accounts. Through the Joint Legislative Audit and Review Commission, the General Assembly oversees the work of both of these groups and approves their annual work plans.

Joint Legislative Audit and Review Commission

A primary objective of the Joint Legislative Audit and Review Commission (JLARC) is to help ensure that Commonwealth programs operate efficiently. Implementation of some JLARC recommendations can also lead to savings or new revenue for the Commonwealth.

JLARC is a legislative commission comprised of 14 General Assembly members, 9 from the House and 5 from Senate. Both of the General Assembly's budget committees have representation on JLARC with at least five House members from the Appropriations Committee and two Senate members from the Finance Committee. The Auditor of Public Accounts also serves on the Commission. JLARC appoints a Staff Director, who employs the staff.

The staff conducts studies to evaluate the efficiency and effectiveness of Commonwealth agencies and programs. The General Assembly may request studies through either a Joint Resolution, language in the Appropriation Act, or by request of the Commission members. Based on study findings, staff develop recommendations to help improve agency operations, improve services delivered and funded by the Commonwealth, and eliminate duplication and poor performance.

Recommendations may be for agencies or secretariats to take certain actions or for the General Assembly to consider enacting particular legislation. A JLARC report may also provide a baseline assessment of a new program or issue of concern or a program or issue for which there is not a recent evaluation.

JLARC also has a variety of ongoing oversight responsibilities, which include:

- Following the management and funding of the Virginia Retirement System

- Analyzing and reporting annually on budget growth, state spending, and the Standards of Quality (SOQ), the constitutionally required standards for Virginia public schools.

- Evaluating proposed health insurance mandates and reporting findings to the Special Advisory Commission on Mandated Health Insurance Benefits.

- Monitoring 13 internal service funds managed by the Department of General Services, the Virginia Information Technologies Agency, and the Department of Accounts.

Staff conduct special reviews of alleged waste and abuse in state agencies and programs and sometimes perform these reviews with the assistance of staff from the Auditor of Public Accounts.

Auditor of Public Accounts

The Auditor of Public Accounts (APA) is a constitutional officer elected by the General Assembly to a four-year term and serves as the independent auditor for both the Commonwealth's Executive and Judicial branches of government. The APA completes comprehensive financial and operational audits, conducts effective and efficient operations, and focuses on value-added improvements and proactive approaches to management of the agencies.

The following is a summary of the statutory duties of this office.

- Audit all the accounts of every state department, officer, board, commission, institution or other agency handling any state funds and issue reports to the General Assembly, Governor, and agency on each audit.
- Conduct special reviews, studies, or audits as requested by General Assembly members, or through joint resolutions or appropriation language and issue appropriate reports.
- Investigate and coordinate with the Department of State Police, the unauthorized, illegal, irregular, or unsafe handling or expenditure of state funds and report those facts to the Governor, the JLARC, and the Comptroller. In cases where there is any irregularity in the accounts of the Comptroller, the Auditor shall report it to the Governor and to the General Assembly.
- Conduct the federal Single Audit of the Commonwealth and audit the accounts pertaining to federal funds received by state departments, officers, boards, commissions, institutions or other agencies.
- Audit all accounts and records of every city and county official and agency in the Commonwealth; handling state funds at least once every two years. Issue reports to the General Assembly, Governor, and the locality's officials.
- Maintain a searchable database of the Commonwealth major financial information known as Commonwealth Data Point.

The APA completes financial audit work under Government Auditing Standards, which includes reporting on fraud, abuse, and illegal acts and abuse. Abuse includes the misuse of authority or position for personal financial interests and behavior that is deficient or improper when compared with behavior that a prudent person would consider a reasonable and necessary business practice given the facts and circumstances.

The Code of Virginia mandates that state agencies and institutions, and local constitutional officers notify the APA and State Police when the staff reasonably suspects a state employee, official or constitutional officer or their employee may have caused a fraudulent transaction. The APA has a group of auditors trained in forensic audit techniques to either investigate or work with other auditors to investigate any incidents reported to the office. These investigations not only identify the cause of the incident, but also recommend corrections to internal controls and systems to prevent future occurrences.

Capitol Police

Agencies located in buildings which are within the Capitol Police's jurisdiction can report allegations of fraud to the Capitol Police and they will conduct the investigation. The Capital Police will coordinate their activities with both State Police and the APA.

OTHER OFFICES OF INSPECTOR GENERAL

At the start of this report, we provided a working definition of an inspector general to further develop an understanding of how inspectors general' offices are structured; we have analyzed the organization of those offices at the federal level and provide a comparison of four Offices of Inspector General in states other than Virginia.

We selected four states to provide examples of how various states have implemented the concept of inspector general. Georgia created the office with an executive order and the office can only review executive branch agencies and institutions. New Jersey used an executive order to create the office and all reports are directed to the Governor; the legislature enacted statutory language to make the office permanent and the office has oversight over most of state government. Ohio's office is also both executive and legislatively approved, but has oversight of a limited part of state government. The California example is very similar to our Inspector General in the Department of Behavioral Health and Developmental Services, but supports Corrections.

In addition, we also reviewed the federal government Office of Inspector General structure.

FEDERAL GOVERNMENT

Auditing and investigation occurs at the federal government in both the Executive and Legislative branches. Congress has the Government Accountability Office (GAO), which conducts audits, and operational and performance reviews of agencies, programs and activities, and investigates fraud, waste, and abuse not only within the various federal, state and local governmental units, but also by contractors, vendors, and grant recipients. Congress and its members can request that the GAO also conduct special focused reviews, and Congress regularly incorporates special assignments for GAO in legislation.

Major executive branch and special agencies such as the Departments of State, Energy, and Health and Human Services, have an inspector general; many of these offices are part of the legislation creating these offices. The legislatively created inspectors general have a semiannual reporting requirement to both the President and Congress. In certain circumstances, these inspectors general must report certain activities they investigate not only to the agency head, but also to Congress. Those offices of inspector general not created by legislation only report to the agency head.

Most major executive branch and special agencies also have internal audit functions and in some of these agencies there also exists special investigation units. These internal audit functions conduct internal reviews, including performance, operational, and fraud audits. All of these internal audit functions report directly to the agency head only.

United States Government - Offices of Inspector General

Each inspector general organizes their office slightly differently depending on their Department. The inspectors general usually conduct independent audits, inspections, and investigations on a wide scope of topics within their respective departments. Some offices may have additional sections, depending on their mission, objectives, and responsibilities. They design their work to promote integrity, efficiency, effectiveness, and economy and to prevent and detect waste, fraud, abuse, and mismanagement.

Generally, the audit section of each office of inspector general completes performance and financial audits and tends to focus on contracts and grants management, financial management, property, and procurement. The inspection function generally covers areas such as policy implementation, resource management, and management controls. Staff may evaluate whether policy implementation achieves policy goals and objectives, as well as whether the department efficiently and effectively manages resources. In addition, the inspector general may evaluate whether the department's activities and operations meet the requirements of applicable laws and regulations and deter, correct, and prevent fraud, waste, and abuse.

The investigation units of the inspectors general conduct investigations of alleged or reported criminal, civil, and administrative misconduct and other possible violations of laws. The inspectors general may receive these allegations and reports from the public or employees through dedicated hotlines, email, and mail. In an effort to prevent and deter fraud, many inspectors general issue fraud alert bulletins and management implication reports. They frequently issue the fraud bulletins to every executive director when an investigation documents a universal weakness with the intention of influencing other sections of the department to review the noted weakness. Additionally, the inspectors general will issue a management implication report with recommendations for corrective action when staff identifies a weakness confined to a particular program.

The federal government has, at many departments and agencies, at least three layers of auditing; GAO, Inspector General, and Internal Audit, with each layer duplicating some functions and oversight of one of the other layers. To attempt to deal with the layers, Congress enacted legislation coordinating the activities of the organizations. A recent example is the American Recovery and Reinvestment Act (Stimulus Fund), which sets forth audit responsibilities for both GAO and the collective inspectors general. Congress, in this law, also clearly defined that the inspectors general should work collectively and created the Recovery Accountability and Transparency Board to coordinate the twelve inspector general offices.

In some of the major departments, the agency head will have the inspector general and the internal audit function develop work plans to minimize the overlap. Also, to coordinate audits and other activities, the inspectors general have an Inspector General Council on Integrity and Efficiency that provides a forum to allow different offices to work together. The need for coordination is that States and large local governments constitute the primary recipients of many of the departments' grants and contracts. Although, the inspectors general, agency heads, and internal audit functions try to coordinate activities, a clear overlap of audit work and responsibilities exists.

Characteristics:	Federal Level		Commonwealth Level								
	Presidentially Appointed Inspector Generals	**Agency Appointed Inspector Generals**	**Auditor of Public Accounts**	**Join Legislative Audit and Review Commission**	**Commonwealth Internal Audit Organizations**	**Department of State Internal Auditor**	**DMHMRSAS Inspector General**	**DOC Inspector Generals**	**DJJ Inspector Generals**	**VDOT Inspector General**	**VMI Inspector General**
Code Citation	5 USC Appendix Inspector General Act of 1978	5 USC Appendix Inspector General Act of 1978	Code of Virginia, Sections 30-130 thru 30-142	Code of Virginia, Sections 30-56 thru 30-73.4	none, management decision	Code of Virginia Sections 2.2-1600 thru 2.2-1602	Code of Virginia Sections 37.2-423 thru 37.2-425	Code of Virginia Sections 53.1-16	Code of Virginia Sections 66-3.1	none, management decision	
Number of Entities	29	28	1	1	24 agencies; 14 higher ed. institutions	1	1	1	1	1	1
Governance											
Appointment	President	Agency Head	General Assembly	JLARC, with General Assembly confirmation	Agency Head	State Comptroller	Governor, with General Assembly confirmation	Agency Head	Agency Head	Agency Head	Superintendent
General Supervision	Agency Head or Deputy	Agency Head or Deputy	JLARC	JLARC	Agency Head	State Comptroller	Governor	Agency Head	Agency Head	Agency Head	VMI Post
Reporting Relationship	Congress / Agency Head	Congress / Agency Head	Agency in Question, Governor, General Assembly	Agency in Question, Governor, General Assembly	Agency Head	State Comptroller	Governor, General Assembly, Joint Commission on Health Care	Agency Head/ Secretary of Public Safety and Board of Corrections	Agency Head	Agency Head, Secretary of Transportation, Secretary of Transportation's Audit Committee	Superintendent
Removal	President, with notification of Congress	Agency Head, with notification of Congress	General Assembly	JLARC	Agency Head	State Comptroller	Governor	Agency Head	Agency Head	Agency Head	Superintendent
Functions											
Conduct audits	X	X	X	X	X	X	X	X	X	X	
Conduct investigations	X	X	X	x	X	X	X	X	X	X	X
Conduct inspections	X	X	X	X	X		X		X	X	X
Maintain and respond to fraud hotline	X	X			X	X	X- respond	X- respond	X- respond	X- respond	X-respond
Prevent and detect waste, fraud, and abuse	X	X	X	X	X		X	X	X	X	X
Promote economy, effectiveness and efficiency	X	X	X	X	X	X	X	X	X	X	X
Review pending legislation and regulation	X	X	X	X		X	X	X	X	X- upon Request	X
Provide training	X	X	X			X		X	X		X
Authorizations											
Direct access to all records and information of agency	X	X	X	X	X	X	X	X	X	X	X
Ready access to agency head	X	X	X	X	X	X	X	X	X	X	X
Conduct such investigations and issue such reports as the IG thinks appropriate (with limited national security and law enforcement exceptions)	X	X	X	X	X		X	X	X	X	X
Issue subpoenas for information and documents outside the agency (with same limited exceptions)	X	X							X		
Administer oaths for taking testimony	X	X	X						X		
Hire and control their own staff and contract resources	X	X	X	X	X	X	X	X	X	X	X
Reporting											
Audit reports	X	X	X		X	X	X	X	X	X	
Investigative reports	X	X	X	X		X	X	X	X	X	X
Inspection/evaluation reports	X	X	X	X			X	X	X	X	X
Semiannual, annual reports	X	X	X	X	X	X	X			X	X
Immediate correspondence	X	X	X	X	X		X	X	X	X	X
Testimony	X	X	X	X			X	X	X	X	
Governance Body	President's Council on Integrity and Efficiency	Executive Council on Integrity and Efficiency			DSIA	State Comptroller and Secretary of Finance	Governor	Agency Head	Agency Head	Agency Head	Superintendent
Allegations of Misconduct Referred to	President's Council on Integrity and Efficiency	Executive Council on Integrity and Efficiency	JLARC			Various Management Personnel	Various Management Personnel	Various Management Personnel	Various Management Personnel	Various Management Personnel	Various Management Personnel

OTHER STATES

As part of our review, we selected four other states (Georgia, New Jersey, Ohio, and California) to determine how these states operate their respective Offices of Inspector General and what were the primary responsibilities and mission. In general, each state Inspector General's primary mission is to detect and prevent fraud, waste, abuse, and corruption in their respective states. Each state has a dedicated hotline and investigates allegations.

While all of the inspectors general indicated that part of their responsibilities included review of accountability and program economy, efficiency, and operations, a review of annual reports found that only the California Inspector General regularly reported on these matters. The Ohio Inspector General did address these matters, if the issues came to light during an investigation.

Just like with the federal government, we found that the states reviewed have several layers of overlapping audit responsibility and oversight, as well as similar missions and responsibilities. The legislatures in Georgia, New Jersey, and California have one or more audit organizations that have the same responsibilities for reviewing state agency operations, accountability, fraud, waste, and abuse and performance. Ohio has an elected Auditor of State, who has these responsibilities.

The California Inspector General operates only in the Department of Corrections and Rehabilitation. Georgia and New Jersey restrict the scope of their inspectors general to the executive branch agencies and institutions. Ohio's Inspector General deals primarily with agencies and institutions under the Governor and has restricted or no access to other executive branch elected officials, unless permitted by legislation.

In addition to the inspectors general, all four states have internal audit functions within their individual agencies and institutions, which also perform many of the audit responsibilities given to the inspector general. It appears that any of these inspectors general, with the exception of California, can audit grants and contracts at the local government level.

The table below briefly compares the responsibilities of the different states' Offices of Inspectors General. We have included a comparison with Virginia's DSIA to the extent that they operate the State Employee Fraud Waste and Abuse hotline.

	Georgia	New Jersey	Ohio	California[2]	Virginia
Reports to:	Governor	Governor	Governor	Governor (OIG confirmed by Senate)	Secretary of Finance and Comptroller
Types of Reports:					
Accountability	Yes	Yes	Yes	Yes	No
Economy, Efficiency and Operational Reviews	No	Yes	No	Yes	No
Details of Fraud, Waste and Abuse[5]	Yes	Yes	Yes	Yes	Yes
Receives complaints from state employees:	Yes	Yes	Yes	Yes	Yes
Receives complaints from citizens:	Yes	Yes	Yes	Yes	No
Performs investigations:	Yes	Yes	Yes	Yes	Yes
Government entities investigated:	Executive	Executive	Executive	Executive	Executive
Means of accepting allegations:	Mail, fax, email, and online	Phone, mail, fax, email, and online	Phone, mail, and email	Phone, mail, fax, and online	Phone, mail, fax, and email
Type of State Auditors:					
Executive Branch[3]	Yes[4]	Yes	Yes	Yes	Yes
Legislative Branch	Yes[4]	Yes	No	Yes	Yes
Independent Agency	Yes	No	No	No	Yes
Elected State Auditor	No	No	Yes	No	No
Agency based Internal Audit[1]	Yes	Yes	Yes	Yes	Yes

Note 1: Indicates that at least some state agencies have an internal audit function.
Note 2: In California, the Inspector General's authority is limited to the state's correctional system. Additionally, the California Bureau of State Audits operates a fraud hotline during business hours, and the executive branch operates a waste and abuse hotline during business hours.
Note 3: This includes inspectors general who are appointed or report to that state's Governor.
Note 4: In accordance with the "Georgia Code", the Department of Audits and Accounts can receive recommendations to audit a state entity by either the legislature or the Governor.
Note 5: Reports issued by each inspector general contain sufficient information to allow a reader to determine the types of waste, fraud or abuse that is alleged to have occurred.

California's Office of Inspector General, which is limited to the state's correctional system, operates very similar to Virginia's Department of Behavioral Health and Developmental Services. The California Office of Inspector General self-initiates investigations, audits, and special reviews of Correctional System matters. The Inspector General can also initiate these reviews at the request of the Governor, Legislature, or Secretary of the California Department of Corrections and Rehabilitation. This office is also involved in the oversight and auditing of adult and juvenile correctional institutions. Finally, citizens and state employees can report all matters concerning the Correctional Systems to the California Office of Inspector General. Although the Inspector General does accountability and operational reviews, they coordinate these activities with the Department of Corrections internal audit function.

California's Office of Inspector General operates very much like the Offices of Inspector General within Virginia's Departments of Corrections and Juvenile Justice and has many of the same responsibilities, including periodic inspections, investigations of abuse or misconduct, and facility compliance. However, these offices do not operate hotline numbers that receive all allegations about the departments.

STATE EMPLOYEE FRAUD, WASTE, AND ABUSE HOTLINE

One of the most often cited reasons for creating an Office of Inspector General is creation and operation of the fraud, waste, and abuse hotline. While almost all Inspectors General operate a hotline, many have expanded their operations to include electronic and other media receipt of complaints. Since the Commonwealth operates one specific hotline for state employees to report fraud, waste, and abuse, we reviewed this component of the Inspector General's operation separately.

Current Hotline Operations

DSIA operates the State Employee Fraud, Waste, and Abuse hotline, which is a non-traceable, toll-free number. This hotline provides Commonwealth employees an anonymous method to report suspected fraud, waste, and abuse so the appropriate parties can investigate. The hotline is available from 8:15 A.M. to 5:00 PM, Monday through Friday, excluding state holidays. Individuals may also submit information via the postal mail, electronic mail, and fax.

The hotline's primary audience is Executive Branch employees, who wish to report suspected occurrences of fraud, waste, and abuse in state agencies and institutions. When an individual contacts the hotline with a report concerning a judicial, legislative, quasi-state agency or local government, the hotline directs the individual to contact that agency individually, or the call information is referred to either the Auditor of Public Accounts, the local government auditor, or the Judicial Inquiry and Review Commission.

The hotline also directs individuals to call a state agency or institution when the caller has a concern about a fraud that deals with a state agency, but does not allegedly involve a state employee. In some cases, state agencies and institutions have their own hotlines and DSIA directs these callers appropriately.

Many state agencies and institutions have their own hotlines for individuals to report suspected fraud, waste, and abuse. For example, Virginia Commonwealth University runs the VCU Helpline, which is a hotline for students and employees to report ethics, compliance, and misconduct concerns. The Department of Motor Vehicles (Motor Vehicles) operates the Zero Fraud hotline, which is a mechanism for citizens and employees to report fraud specific to Motor Vehicles, such as driver's license, odometer, title, and sales tax fraud. In addition, the Department of Lottery, the Department of Medical Assistance Services, the Virginia Employment Commission, the Department of Professional and Occupational Regulation, and the Department of Alcoholic Beverage Control have similar hotlines related to fraud, waste, and abuse. In addition, as already mentioned, the

Department of Human Resource Management operates the employee suggestion program for Commonwealth employees to report ideas for eliminating waste and reducing costs.

DSIA staff currently operate the State Employee Fraud, Waste, and Abuse hotline by answering all calls and receiving allegations. DSIA staff review the allegations to determine the appropriateness of investigating and then generally turn the reports over to the fraud hotline coordinator for the respective agency. The fraud hotline coordinator is generally an internal auditor or inspector general; agencies without either office appoint another individual within the organization as their fraud hotline coordinator. DSIA staff complete investigations involving the Governor's appointees, Internal Audit Departments, and agencies in which there is no hotline coordinator.

Within 60 days, DSIA requires fraud coordinators to file a written report. The report must include a case number, amount of funds involved in the fraud, waste, or abuse, nature of the complaint, results of the investigation, auditor's conclusion, any corrective action taken or planned, the name of the subject of the complaint, any internal control weaknesses identified and corrected, and the cost of the investigation.

Annually, DSIA compiles their investigation statistics to report on the number of reported and substantiated cases. However, DSIA does not perform any overall analyses on frauds reported or substantiated to determine whether patterns exist, such as weaknesses in internal controls at one particular agency or statewide, areas of larger risks, or any other areas of concern. Other entities have had success with analyzing their statistics; for example, Motor Vehicles recently pooled together resources and determined there was a need to improve some policies and procedures after the results showed a systemic problem.

Observations on the Current Hotline Operations

While we understand that the hotline once operated 24 hours seven days a week and budget cuts reduced the availability of the Hotline, DSIA does have limited business hours, which increases the difficulty for individuals working during normal business hours to file a report. In addition, the hotline's 800 number does not accept telephone calls from individuals with a non-Virginia area code. As a result, executive branch employees that may utilize a cell phone with a non-Virginia area code will not be able to contact the hotline. Further, while employees can call DSIA directly, DSIA cannot protect the caller's phone number, therefore losing the anonymousness of the caller. DSIA has also not established an online reporting mechanism with specific questions. This online capability could increase the accessibility of the hotline and increase the efficiency of its employees.

Most judicial, legislative, and quasi-state agencies do not have a fraud hotline to include a dedicated phone line, hotline coordinator, or a toll-free, non-traceable, confidential line; as a result, individuals do not have a formal process for notifying these entities of concerns. These barriers may deter individuals from voicing their concerns. If an individual tries to report these concerns to the State Employee Fraud, Waste, and Abuse Hotline and DSIA staff normally direct the individual to the respective entity, then the caller may no longer pursue reporting their concerns.

For those agencies that do not have their own fraud hotline, individuals do not have a formal process for notifying entities of fraud that deals with a state agency, but not a state employee. As with the lack of an established hotline for judicial, legislative, and quasi-state agencies, this creates a barrier that may deter individuals from voicing their concerns.

Agency and institution hotlines do not proactively coordinate their activities with one another or the DSIA hotline to share resources and eliminate duplicate efforts. Opportunities could exist for these agencies to pool resources while improving the quality of the data collected about alleged fraud, waste, or abuse.

DSIA does provide limited guidance and training for handling fraud hotline investigations and will respond to questions regarding investigations. Their policies and procedures manual for fraud hotline investigations is available on their website. In addition, DSIA sponsors fraud training for Commonwealth internal auditors. However, DSIA does not provide formalized training for performing investigations, especially to the 30 agency fraud coordinators that are not internal auditors or inspectors general; as a result, fraud coordinators may not have the necessary knowledge to perform these investigations.

As part of its annual report process, DSIA does not perform an analysis of fraud, waste and abuse cases and outcomes. Staff could perform this analysis and send fraud or risk alerts to agencies and their independent auditors to warn them of these concerns or suggest further follow-up on internal controls.

POTENTIAL OUTSOURCING

DSIA currently has four employees and about $459,000 in annual operating costs to operate the hotline internally; these costs include about $405,000 for salaries and fringe benefits, VITA equipment rentals, and supplies and travel of $11,000. DSIA received nearly $44,000 in training revenue during fiscal year 2009 from agencies for employees attending DSIA-hosted conferences and incurred training contracts of around $43,000.

External vendors also provide fraud hotline services to other states and municipalities. We obtained quotes and information from vendors for illustrative purposes to determine the services that other vendors provide and the associated costs of these services. These services generally provide a toll-free hotline available 24 hours a day, 365 days a year, with operators trained in the receipt of fraud tips. Vendors also provide a means to file an online report with the vendor's website. Finally, these services provide a case management system that allows for management and analysis of tips. The following tables are illustrative examples of the annual cost of an external vendor operating the fraud hotline at varying volumes. The table below does not include the cost the Commonwealth would incur in investigating any complaints. These services deal only with taking complaints and providing callers a mechanism to follow-up on their calls.

Service	Vendor 1	Vendor 2	Vendor 3
5,000 calls	$98,000	$104,000	$50,000
10,000 calls	$180,000	$198,000	
Online Submission	included	$7- $10 per report	
Additional Costs		for investigator and case manager access	

Additional Information:

1) We estimated a call volume of 5,000 to 10,000 calls for illustrative purposes only.
2) We assumed 35 percent of the calls received are for general non-fraud related issues to be redirected to an agency more suited to handle those concerns.
3) Vendor 3 does not provide a case management system

REPORT ON INTERNAL AUDITORS

The Auditor of Public Accounts will issue another report related to Internal Auditors in early calendar year 2010. This next report will provide a comparison of the Commonwealth's 40 Internal Audit departments, including a review of their charters, risk assessments, work plans, reports of results, and quality assurance reviews as required by the Institute of Internal Auditors' (IIA) standards. We anticipate including recommendations for more cost-effective strategies for complying with IIA standards and industry best practices. Our report will also contain guiding principles, which boards and agency heads may consider in developing their own methods for evaluating their Internal Auditors against industry best practices.

ISSUES, CONCLUSIONS, AND RECOMMENDATIONS

For Consideration in Establishing an Inspector General Function

Avoiding Duplicate Audit and Oversight Functions

In creating the inspector general functions, it appears most governments inadvertently duplicate existing audit functions. The inspectors general have the same responsibilities of many of the existing audit and oversight functions, adding another layer of auditors to the legislative or separately elected auditors and internal auditors or investigators.

The Commonwealth has several existing offices of inspector general, which we believe avoid the duplication of audit and oversight functions. The offices of inspector general in the Departments of Corrections, Juvenile Justice, and Transportation should serve as models for establishing the function. These organizations combined existing operations such as internal audit, internal affairs, and other groups into their inspector general offices. This approach eliminated the duplication we found in other governments.

Recommendation

> When establishing inspector general offices in the Commonwealth, the Departments of Corrections, Juvenile Justice, and Transportation should serve as a model to avoid duplication of audit and oversight functions.

Determining and Maintaining the Inspector General's Mission

Most governments create inspector general offices with three primary objectives: reviewing accountability; reviewing programs for operations, economy and efficiencies; and investigating fraud, waste, and abuse. During our review, we found that most inspectors general concentrate their efforts on investigating fraud, waste, and abuse. Except for the federal inspectors general, we found little work on fraud, waste, and abuse prevention or strengthening processes and internal controls to stop fraud, waste, and abuse from occurring.

Reviews of programs for operations, economies, and efficiencies as seen by the work of the Joint Legislative Audit and Review Commission staff and the federal inspectors general has the opportunity to generate savings in excess of losses. Therefore, if the inspector general program is to succeed, a balance needs to exist between the three primary objectives of the office.

Recommendation

> In establishing inspector general offices, most appropriately use the three primary objectives; however, the functions of reviewing accountability and reviewing programs for operations, economies, and efficiencies should have an equal weight with the investigation of fraud, waste, and abuse. Inspectors general should regularly report on their operations in achieving all three objectives and follow appropriate standards.

> Fraud, waste, and abuse prevention can have longer-term savings and benefits and in establishing the inspector general offices, the Commonwealth could add this as a fourth objective. Many private corporations are having their internal audit groups also report on prevention efforts since these deter losses and save the cost of loss, the investigation time, and other indirect losses in productivity.

Reporting and Oversight Relationship of Inspector General Offices

Inspectors general in the federal government report directly to both the executive branch and Congress. Additionally, the inspectors general have a high degree of independence, including budgetary, from the agency they work in. This relationship is part of the reason Congress strengthened the relationship of GAO to review these offices and why many of the federal agencies continue to maintain separate internal audit and investigative functions.

It appears that most states are reluctant to have this reporting and oversight relationship, which is why the offices are either housed directly in the Executive Branch or report to the Governor. Also, like the federal government we have found that states allow agencies to maintain internal audit functions, which have many of the same responsibilities that the inspector general has.

A review of some of the literature explains that the executive branch department heads need to have resources to conduct investigations when they find problems, make sure that their systems and controls are working, and address special projects reviewing operations. Since the inspector general is independent of the executive branch department head, the only way to meet this goal is maintaining a duplicate internal audit function.

We observed two possible options that the Commonwealth could use in addressing the report and oversight of the inspector general function. The first option is a model similar to the Inspector General in Virginia's Department of Behavioral Health and Developmental Services, which reports to both the Executive Branch and the General Assembly, but concentrates on waste and abuse and program operations, economy and efficiency. The internal audit department continues to report to the Commissioner and deals primarily with fraud and accountability.

The second option is a hybrid of several states in which the inspector general has the ability to report when necessary to the legislature, but must do so at least annually, on the office's operations, results, and work plan for both the current and future year. On a day-to-day basis, the inspector general is part of the organizational unit the office serves and works with the organizational unit management to meet their needs as well as the objectives of the inspector general.

Recommendation

> In establishing an inspector general function, the General Assembly needs to determine what reporting and oversight it wants of the function. Additionally, the General Assembly, in deciding this matter, needs to make sure that the reporting and oversight does not result in the Executive Branch creating or maintaining duplicate audit and investigative functions in agencies and institutions.

Determining the Number and Placement of Inspector General Offices

Not every state agency or institution needs an inspector general or internal audit function; however, there may exist a need for these organizations to have access to this type of function. The experience in the Commonwealth shows that inspectors general and internal audit in agencies and institutions are more effective, since they understand the operations and systems.

Several ideas in the past have suggested smaller organizations having the staff of one of the larger similar organizations provide the service or have a central staff associated with a cabinet secretary provide services. The Commonwealth has also considered having one central staff provide services, when there was a Department of the State Internal Auditor; however, the smaller agencies and institutions did not receive any service unless they had a serious problem, such as a fraud.

Recommendation

> In establishing an inspector general function, the cabinet secretaries should have access to resources to allow the smaller agencies and institutions to benefit from this function. As an example, the cabinet secretary should have the ability to have inspector general staff in larger agencies assist the smaller agencies without staff. The cabinet secretary could also have a small staff of inspector general staff to deal only with the smaller agencies within the secretariat.

Determine Jurisdiction and Intergovernmental Relationship

Federal offices of inspector general have both an audit and investigative unit and many of the investigative units have police powers, including the ability to arrest someone. These inspectors general also have the authority to audit both vendors and other units of government receiving funds, such as states and localities.

The state inspectors general typically have audit and investigative units, but only in limited circumstances do these offices have police powers. Also, less clear is the ability to conduct audits and investigations of vendor records and local government units beyond a specific grant or contract.

In the Commonwealth, the Inspectors General of Corrections and Juvenile Justice have police powers because these units conduct internal affairs review of correction officers. No other inspector general or internal audit unit has these powers. Also, only through contract and grant agreement does the Inspector General at Transportation have the authority to audit vendors and grants to local governments. Several internal audit organizations also have the authority to audit grants to local governments because it is part of the grant agreement.

Currently, internal auditors rely on the State Police, Capital Police, campus police, or local law enforcement for any investigative work requiring law enforcement involvement. Generally, these arrangements are effective and efficient and both the internal auditor and law enforcement are able to complement and not duplicate the work performed.

The Auditor of Public Accounts and the State Police conduct investigations of local constitutional officers, and the locality's internal auditor or their certified public accounting firm conducts investigation of local government aided by either the State Police or a local law enforcement agency. The State Police cannot conduct an investigation of a locally elected official without the approval of the Attorney General or Governor.

The Commonwealth has limited granting law enforcement powers and has given powers only to those individuals involved with law enforcement personnel issues. Also, the Commonwealth has limited access to vendor financial or local government records to the extent covered by either contract or grant agreement.

Recommendation

> In establishing an inspector general function, the Commonwealth should continue to limit giving law enforcement power to only those organizations that deal with other law enforcement personnel matters. The Commonwealth should continue to allow access to vendor and local government records as set forth in contract and grant agreements.

Maintain Legislative Oversight

The General Assembly exercises its oversight of the finances and programs of the Commonwealth through the work performed by the Auditor of Public Accounts and Joint Legislative Audit and Review Commission. In our review of inspectors general in both the federal and state government, the legislative oversight has been strengthened by ensuring that the Legislature has access to all information and other materials created by the inspectors general.

Recommendation

> The General Assembly should ensure that it has access to information maintained, if the Commonwealth establishes an inspector general function. If legislation is enacted, the General Assembly should ensure that the Auditor of Public Accounts and Joint Legislative Audit and Review Commission have access to any information generated.

Improve the State Employee Fraud, Waste and Abuse Hotline

Whether or not the Commonwealth establishes an inspector general function, during this review we made some observations of opportunities to strengthen the Employee Fraud, Waste, and Abuse Hotline. An effective fraud, waste, and abuse hotline appears to be a strong reason for creating an inspector general function.

Consider Expanding the Hotline to All Branches of Government

Currently, DSIA operates the hotline primarily for complaints about executive branch employees. DSIA either refers calls about vendors or grantees to the agency or another existing hotline or refers calls about legislative or judicial branches to either the Auditor of Public Accounts or the Supreme Court.

In the past, the executive branch has been reluctant to expand the use of the hotline since it did not want any accusation of directing calls against the other branches. Also, there has been some hesitation that non-employees would use the hotline improperly to falsely accuse elected officials.

Finally, there have been some issues raised that a shared hotline could result in the premature and inappropriate release of information of unsubstantiated allegations. While this may be a valid concern, appropriate controls in restricting the oversight of the hotline could address this issue.

Recommendation

> Effective hotlines in organizations do not try to redirect or limit calls, but deal with inappropriate calls through a screening process. In order to ensure adequate oversight of an expanded hotline, the General Assembly, Governor and the Chief Justice could establish an oversight group, which would operate and direct the staff or vendor maintaining the hotline on the procedures and other actions taken with any calls. This joint oversight group could work to establish appropriate safeguards to prevent the release of information of unsubstantiated allegations. We believe the greater the access to this hotline, the more effective it will be.

<u>Expand Hotline Time and Coordinate with Other Hotlines</u>

As the report indicates, the State Employee Fraud, Waste, and Abuse Hotline limits operations to business hours of the DSIA and does not coordinate its activities with other organizations' hotlines mentioned in the report. DSIA also tries to redirect calls to other organizations if they believe the call does not involve a state and executive branch employee or is fraud committed by an outsider against an agency or institution.

Our research indicates that effective hotlines make callers feel that the organization is interested in their issues and is dealing with them promptly. Also, hotline and other electronic communication channels allow the caller to call when they believe it is safe and private to make the call.

Recommendation

> To enhance the hotline, DSIA could coordinate it efforts with some of the other hotlines to increase hours and coverage. Further, both DSIA and these other hotlines could examine contracting with an outside vendor to increase time available for calls, use the vendor to screen and direct calls, and provide privacy and safety for the caller. Many of the services also provide for other electronic means of contacting the hotline.

Improve Training for Investigators and Coordinators

DSIA does provide limited guidance and training for handling fraud hotline investigations and will respond to questions regarding investigations. Their policies and procedures manual for fraud hotline investigations is available on their website. In addition, DSIA sponsors fraud training for Commonwealth internal auditors. However, DSIA does not provide formalized training for performing investigations, especially to the 30 agency fraud coordinators that are not internal auditors or inspectors general; as a result, fraud coordinators may not have the necessary knowledge to perform these investigations.

Recommendation

> DSIA should offer regular training in hotline investigations especially for fraud coordinators who may not have any accounting, auditing, or investigative background or skills.

Other Matters

Repeal the Department of the State Internal Auditor Statutes

If, in establishing an inspector general function, the Commonwealth does not want to create duplicate auditing and investigate functions and instead incorporates these into the inspector general function, the Division of State Internal Audit is no longer needed. Further, there may not be a need for formal statutory functions, since the federal model of a coordinating council of inspectors general operates effectively.

Recommendation

> The General Assembly may wish to repeal the statutes creating the Division of State Internal Audit, since it has not had any funding for the past seven years. The General Assembly could encourage the existing Internal Audit Directors and Inspectors General to create a coordinating council similar to the federal *Inspector General Council on Integrity and Efficiency* that serves a joint forum for training, policy issues, and other matters common to the inspector general community.

Commonwealth of Virginia

Auditor of Public Accounts
P.O. Box 1295
Walter J. Kucharski, Auditor
Richmond, Virginia 23218

October 5, 2009

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission

We have audited Virginia's need for a state Office of the Inspector General and are pleased to submit our report entitled **Analysis of Commonwealth Audit Resources and Inspector General Functions**. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Methodology

We interviewed and corresponded with the Division of State Internal Audit and the Commonwealth's Offices of Inspector General. We reviewed applicable sections of the Code of Virginia. In addition, we contacted other states and the federal government and reviewed their publically available documents. We also obtained independent quotes for outside vendors for illustrative purposes.

Exit Conference and Report Distribution

We discussed this report with Division of State Internal Audit management on October 21, 2009. Management's response has been included at the end of this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

COMMONWEALTH of VIRGINIA

DAVID A. VON MOLL, CPA
COMPTROLLER

Office of the Comptroller

P. O. BOX 1971
RICHMOND, VIRGINIA 23218-1971

October 27, 2009

Mr. Walter J. Kucharski
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Dear Mr. Kucharski:

Thank you for the opportunity to comment on your report related to fraud and the Office of Inspector General, which includes several references to the Department of Accounts' Division of State Internal Audit (DSIA). To clarify, the 2002 budget reduction action that eliminated the Department of the State Internal Auditor and created the DSIA within the Department of Accounts eliminated all available resources except those required to administer the State Employee Fraud, Waste and Abuse Hotline (Hotline).

As a result of this action, just one of the ten statutory responsibilities of the Department of the State Internal Auditor was assumed. That responsibility was to assist in the professional development of agency internal auditors by developing and conducting training programs, which was assumed only on the condition that all training costs be recovered from training program participants. Accordingly, our training program determines training needs, procures trainers and facilitates training delivery. DSIA provided training to 364 state employees in FY 2009. If these employees had procured the training directly from the vendors, costs would have been approximately \$303,000 – \$260,000 higher than the \$43,000 cost DSIA actually incurred and charged participants. DSIA's coordination of the training program has resulted in savings to the Commonwealth of \$760,000 over the past four years.

DSIA's annual cost to operate the Hotline is less than \$416,000. These costs cover processing initial and follow-up Hotline calls, providing callers with detailed guidance regarding questions about State policies and procedures, performing investigations (52 cases last year) and follow-up reviews, providing guidance to and answering investigators' questions, and reviewing investigative reports conducted by agency Internal Audit departments for completeness and adequacy. The Hotline calls taken and the associated case write-ups forwarded for investigation include allegations that involve Executive Branch agencies and their employees, vendor performance on contracts, and recipient and sub-recipient grants. In addition, DSIA has agreements with the Legislative Branch, Judicial Branch, and Independent agencies to write-up and forward allegations to

(804) 225-2109 FAX (804) 786-3356 TDD (804) 371-8588

them for investigation. DSIA provides each and every Hotline caller with a means of reporting their concerns for investigation.

Although the number of assigned Hotline cases has increased from 443 to 612 in the last three years, DSIA continues to seek new ways of promoting the Hotline. DSIA was assessing a web-based method of reporting allegations at the time of your report and, pursuant to your recommendation, plan to expand our research into the feasibility of making the Hotline available to receive allegations by phone 24 hours a day, 7 days a week.

Finally, while I support your recommendation to repeal the statutes creating the Department of the State Internal Auditor, in the abundance of caution given the similar names, this statutory repeal should be done in a manner that does not inadvertently disrupt the operations of the Division of State Internal Audit in the Department of Accounts.

Again, thank you for the opportunity to respond to your report.

Sincerely,

DAVM

David A. Von Moll

copy: John A. Spooner, State Internal Auditor