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Sometimes cutting budgets raise deficits: The curious case of inspectors' general return on investment

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INTRODUCTION

Former secretary of state and 2016 presidential candidate Hillary Clinton recently came under fire for using her personal email to conduct official government business and for administering the server from her New York home. *The Wall Street Journal* reported that in the midst of this situation, the State Department's top watchdog position, the inspector general, was left vacant during Clinton's entire tenure. "The vacancy in the top watchdog spot left the State Department with no confirmed inspector general for more than five years, the longest gap since the position was created in 1957, according to department records."[2]

This revelation raised questions about oversight capacity at the State Department during Mrs. Clinton's tenure. But it should also raise the profile of inspectors general and the critical work they do protecting the people from waste, fraud, and abuse in government agencies.

Offices of inspectors general (OIGs) are among the most underappreciated and overly criticized institutions in the U.S. government. Congress views OIGs as politicized arms of executive agencies, intent on covering up on behalf of the president. Federal agencies view OIGs as the equivalent of executive branch "rat squads" that should be avoided more often than helped.

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2 http://www.wsj.com/articles/state-department-lacked-top-watchdog-during-hillary-clinton-tenure-1427239813

There are a variety of ways that political actors—on both ends of Pennsylvania Avenue—can disrupt or hinder the mission of OIGs. Efforts to slow, stop, challenge, or disrupt the work of OIGs put into jeopardy the benefits—fiscal and managerial—that they bring to the agencies they serve and to the government as a whole. This paper examines the ROI among a number of OIGs throughout the federal government and the enforcement division of the IRS.

In assessing the benefits OIGs bring to government, this paper focuses on the most quantifiable metric of their performance: the return on investment (ROI). The return on investment for an OIG—of any institution—considers its cost of doing business and the revenue that they collect. This basic performance measure, used widely throughout private enterprise to assess the profitability or viability of firms, business divisions, or individual actors, is often widely ignored by government, particularly congressional budget officials.

HOW BUDGET CUTS CAN GROW THE DEFICIT

When making budgetary and appropriations decisions, a refusal to consider return on investment almost always works against lofty goals such as budget balancing, deficit reduction, and fiscal responsibility. This paradox manifests in a serious way through budget cuts. Budget cuts have been a reality in OIGs, particularly in the past three years. As sequestration has taken hold of federal agencies, these investigatory and enforcement arms of the executive branch have seen their share, and at times more than their fair share, of budget cuts.

However, there is a cruel irony in cutting the budgets of OIGs: those budget cuts cost the government money. Congressional appropriators bent on reducing deficits through across-the-board spending cuts may achieve part of that goal in targeting contracting or grant making agencies. But when the cuts hit OIGs the opposite can result: budget cuts can grow the deficit.

This counterintuitive concept—budget cuts that grow the deficit—emerges from the fact that most OIGs are revenue-positive institutions. OIGs conduct audits, investigations, and other administrative and enforcement actions that allow the government to recoup money it is owed, ensure money is spent more efficiently, and avoid future misappropriations of funds. The result is that most OIGs save the government far more money than they cost to operate. In this sense, OIGs—as well as other agency-level enforcement divisions—offer government a unique benefit that is more often associated with private enterprise or financial markets: a positive return on investment.

This paper examines the ROI among a number of OIGs throughout the federal government and the enforcement division of the IRS. The paper proceeds as follows.

- First, we describe OIGs' role in government and the benefits they—and other revenue-positive entities—provide.

- Second, we describe our measure of ROI, address challenges that exist in calculating it, and provide data on ROI across several government agencies.

- Third, in order to understand how ROI functions at the agency level, we offer a case study of the IRS enforcement division and illustrate how budget cuts impact performance.

- Finally, we offer recommendations in two areas: how to improve ROI reporting and how Congress can maximize its use of this important measure when budgeting.

WHAT ARE INSPECTORS GENERAL?

Inspectors general are separate offices within federal agencies that work to safeguard against waste, fraud, abuse, mismanagement, illegality, inefficiency, and ineffectiveness. They are internal investigators charged with ensuring that bureaucracy is competently serving the public.

Despite a history of ad hoc investigatory posts in the federal government, offices of inspectors general were formally created by The Inspector General (IG) Act of 1978 (P.L. 95-452). The preamble of the law makes clear the goal of these offices. OIGs should be "independent and objective units" created,

> "to conduct and supervise audits and investigations relating to the programs and operations (of their agency)…to provide leadership and coordination and recommend policies for activities designed (A) to promote economy, efficiency, and effectiveness in the administration of, and (B) to prevent and detect fraud and abuse in, such programs and operations,…and to provide a means for keeping the head of the (agency) and the Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for and progress of corrective action."

Initially the Inspector General Act created OIGs in the 12 cabinet departments. Since then, the practice has been expanded, by statute, to 72 OIGs in a variety of federal entities ranging from the Department of Commerce and the Social Security Administration to Amtrak and the Securities and Exchange Commission. Every OIG is a bit different, with different priorities related to the nature of the agency in which they operate. More than two dozen have formal law enforcement authority, while others operate as more traditional administrative entities.[3] However, at their heart, they are internal government watchdogs that operate according to similar statutory mandates.

The reality, when it comes to OIGs, is that many are a great investment for government. The offices are relatively inexpensive to run. In the 14 cabinet agencies, the average OIG cost $103 million in

3 http://fas.org/sgp/crs/misc/R43722.pdf

2014. Offices are generally small in staff size compared to the entities within their jurisdiction and have a mix of career and appointed staff. While not wholly independent of the executive branch agencies in which they operate, statute offers them substantial independence relative to other federal entities—a requirement for their effectiveness.

HOW IGS ARE PERCEIVED

Despite their admirable role and mission, OIGs are often viewed quite skeptically *within* government. Congress laments that they are politicized arms of presidents, interested more in cover-ups than transparency. Agency officials, at times, have rocky relationships with OIGs, seeing them more as an executive branch version of a "rat squad." Some agencies have impeded OIG investigations, slowing down reports and hindering the work that OIGs do.[4]

In response to the recent scandal at the Department of Veterans Affairs, Sen. Ron Johnson (R-Wis.) told a news affiliate, "when you have an office of the IG that I do not believe has been fully transparent, has exhibited independence that I think an IG office should be exhibiting, my guess is there's gonna be bigger problems." Similarly, in discussing a recent Justice Department OIG report into misbehavior at the Drug Enforcement Agency, Bloomberg News reported, "the investigation was 'significantly impacted and delayed' by the DEA and FBI, the two larger agencies, which cited privacy laws as a reason for their heavily redacted reports."

OIGs play an oversight role in agencies, assisting or sometimes functioning in place of congressional oversight. Yet, Congress often remains unconvinced of the value of OIGs and their findings, except in instances in which OIGs uncover the type of mismanagement or wrongdoing that allows Congress to capitalize politically. More often, Congress will call an IG to testify and publicly rebuke the office. Such political theatrics are then complemented by similar criticism to media outlets. Even as congressional relations with the executive branch have frayed and Congress has largely abdicated its oversight role (except in high-profile instances), they maintain an often antagonistic relationship with these government watchdogs.

Beyond public criticism and internal stonewalling, there is another means by which government officials can weaken the ability of OIGs to do their job: budget cuts. In an era of sequestration and other spending reductions, OIGs—and other enforcement divisions within agencies—are hit hard.

These spending cuts hit OIGs for a variety of reasons. Across-the-board spending cuts should affect most divisions of agencies, and OIGs are no different. However, there are statutory authorizations that make some agency operations more mandatory (or perhaps more aptly, less discretionary) than other operations. As agency budgeting officials decide exactly how cuts will be distributed, OIGs

4 In 2014, for example, allegations of impeded OIG investigations have surfaced in the Justice Department, EPA, and the Peace Corps. http://www.grassley.senate.gov/sites/default/files/issues/upload/IG%20Access%20Letter%20to%20Congress%2008-05-2014.pdf

often have the statutory space to absorb more cuts. Finally, because OIGs tend to lack political popularity, there is little incentive in Congress or within agencies to protect these offices from spending reductions.

INSPECTORS GENERAL AND CALCULATING RETURN ON INVESTMENT

Inspired by the work done from GAO and the IRS in calculating projected and actual ROI in the IRS's Services and Enforcement Division, we sought to collect data on ROI across OIGs and other enforcement divisions within agencies. At the barebones accounting level, ROI is calculated as a ratio of receivables to costs, wherein a metric like a 6:1 ROI would mean for every dollar spent, the office brings in six dollars in savings or recovered funds.

However, finding and comparing data on agency-level ROI for OIGs can be a difficult task. Some OIGs calculate their own ROI and report it to Congress annually while others do not. Although OIGs are required by the IG Act to report to Congress the dollar value of their audits on a semiannual basis, the form and detail of these reports are not uniform across agencies. In order to gather data on OIG return on investment, we turned to two main data sources: receivables and operating costs. For data on receivables—the funds that an OIG returns to an agency through audits and investigations or prevents the agency from spending unnecessarily—we compiled numbers from each of the OIGs' semiannual reports to Congress. Although six agencies also reported their own ROI calculations, either in their congressional budget requests or other reports, we relied on our original data collection to calculate ROI and used self-reported ROI in those six agencies for reliability testing. Reliability testing results appear in Appendix I.

We collected operating cost data from the annual budget summaries submitted from the OIG to Congress.[5] Each annual budget summary includes a separate budget account for the OIG. We calculate ROI as the ratio of all received funds during each fiscal year to the budget for that fiscal year (receivables: operating costs).[6]

We found consistent and reliable data for all of the 15 cabinet departments and included a few independent agencies with OIGs active in fund recovery. They include the Environmental Protection Agency, the Office of Personnel Management, and the Social Security Administration. In addition, given its unique role in fund recovery, we also calculated the ROI of the IRS's enforcement division

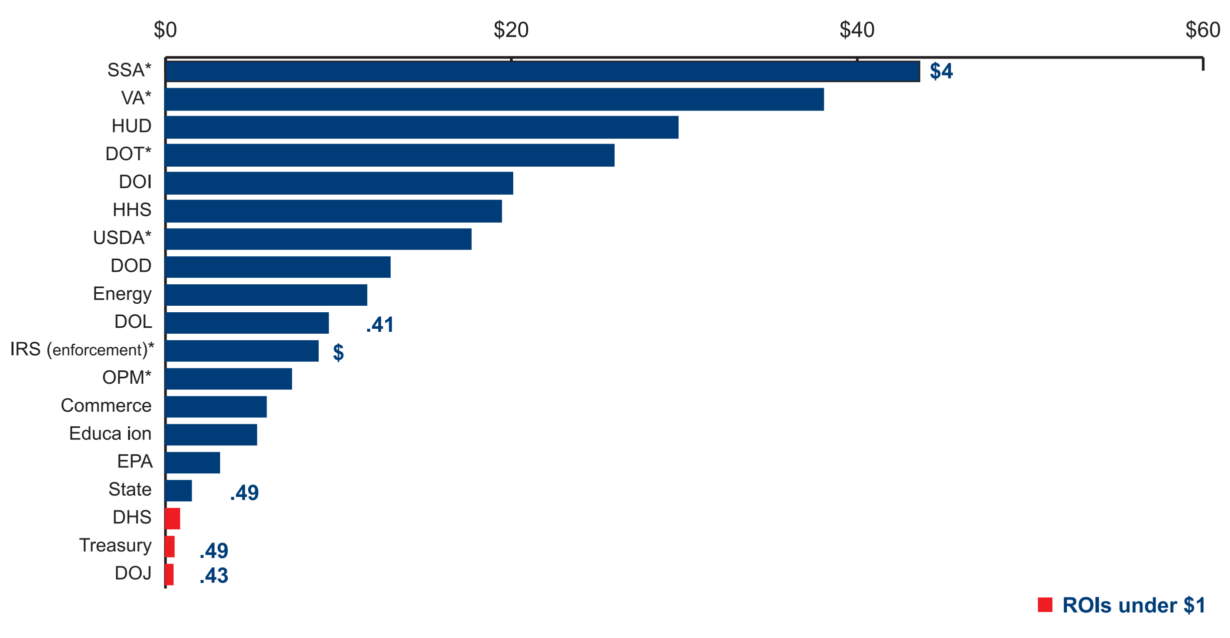
5 In the case of Energy and OPM, the agency self-reported their historical budgets in their Congressional Budget Request. Budget data for the OIGs of HUD, Education, and State were collected from historical data included in the President's Budget from OMB.

6 We used budget data reported two years out, so the figure represents dollars spent in the year (either appropriated or transferred) rather than projected or requested in the budget.

and reported estimates of government-wide ROI both with and without the IRS.[7] The resulting dataset provides ROI information across 19 government entities for the most recent five fiscal years, 2010-2014. The results are not surprising. In most years, almost every OIG had a positive return on investment. From 2010-2014, the mean annual ROI for OIGs was 13.41; the median was 6.38.

In addition, we were responsive to the reality that outliers can drive returns in specific years for individual OIGs depending on the nature of the office. For example, in 2013 the Interior Department's OIG recovered an exceptionally high amount of funds in absolute terms and for that office, largely because of a settlement with BP in response to the 2009 Gulf Oil Spill. There are also many instances where long term investigations, often with a high monetary value, begin in one year but do not pay out until future years. In response to these outliers, we also calculated five-year averages for each institution to get a more stable measure of ROI. Table 1 reports those results.

TABLE 1: FIVE YEAR AVERAGE ROI (CALCULATED), 201 - 4



Source: Agency semi-annual reports to Congress and annual budget requests.
**IRS (enforcement) refers to the IRS's Services and Enforcement division. The OIG for IRS is TIGTA.*

Table 1 shows how productive OIGs are, and the value gained from an effective fund recovery program. Inspectors general with the highest ROIs tend to oversee agencies that are more

7 A few points of clarity are necessary for our treatment of the Department of Treasury and its subsidiary parts. Throughout this paper, when we refer to "IRS enforcement," we are specifically referring to the Services and Compliance Division. The OIG for IRS is separate and known by the acronym "TIGTA" (Treasury Inspector General for Tax Administration). Finally, Treasury also maintains its own OIG for the Department, separate from IRS.

distributive in nature—those focused on grants, loans, contracts and direct payments. The Social Security Administration consistently has the highest ROI, and one that is stable (not driven by outlier years). This is sensible given that the function of SSA is to deliver direct payments to the public. For a large entitlement program like Social Security, there exist serious public concerns over waste, fraud, and abuse. The SSA's OIG is on the front lines, doing an effective job combating those concerns. It does so with very little funding. The SSA OIG's budget in 2014 was just over $102 million dollars, which may seem like a lot until it's compared with the Social Security Administration overall, a $11.8 billion dollar agency that oversees the distribution of over $800 billion dollars in social security payments annually. Of the eighteen agencies studied, SSA had the 7th largest combined budget over 2010-2014. SSA's ROI over the same period beat the average 5 year ROI for the 6 agencies with higher budgets by 232 percent.

Other distributive agencies like the Departments of Veterans Affairs, Housing and Urban Development, and Transportation also focus on the distribution of funds, and thus they face serious risks of revenue losses. Their OIGs consistently have high returns on investment as they serve as watchdogs over the allocation and use of federal dollars.

TOTAL RECEIVABLES, 2010-2014	
AGENCY	**RECEIVABLES**
IRS (total)	$273,499,000,000
HHS	$27,836,300,000
DOD	$20,417,100,000
SSA	$20,233,713,991
HUD	$18,455,869,998
VA	$18,402,000,000
DOT	$10,381,120,431
USDA	$7,905,383,857
DOI	$4,697,540,000
DOL	$3,935,601,198
Energy	$2,478,391,270
TIGTA	$2,349,696,120
Education	$1,560,838,190
OPM	$895,173,540
State	$878,793,535
Commerce	$800,300,000
EPA	$648,690,000
DHS	$558,704,668
DOJ	$180,159,319
Treasury	$58,947,419

Source: Agency semi-annual reports to Congress and annual budget requests.
**IRS (enforcement) refers to the IRS's Services and Enforcement division. The OIG for IRS is TIGTA.*

Some agencies have lower returns on investment. For instance, the Department of Justice's or the Department of Treasury's OIG have ROIs that are less than one, indicating that those offices cost more than they recover. This is not necessarily a reflection of an OIG that is not functioning well, but it may reflect an institution whose investigations focus more on management, personnel, or other nonmonetary operations.

CHALLENGES TO CALCULATING ROI

Although we were able to collect reliable data for most agencies, there are inherent challenges to calculating accurate ROI, even within a single department. OIG receivables are generally divided into two broad categories: returns from audit activities and returns from investigations. Audit returns include questioned costs, recommendations for funds to be put to better use, and other administrative savings. Investigative returns include any civil or criminal penalties or restitutions, settlements, fines, forfeited and seized assets, and other financial recoveries. We included both audit returns and investigations in our return data, an appropriate choice given what ROI is intended to capture. It is also consistent with agency self-reporting.[8]

However, there are challenges to calculating the data in a uniform fashion across agencies. First, there are differences in the line-item reporting of these data across agencies, and sometimes within one office over the course of several years.[9] Some agencies report their overall returns annually at the end of the year, while others only report them semiannually.

In addition, changes in reporting categories make it harder to track individual categories of receivable data over time. For example, the semiannual report from the Department of Labor's OIG listed 40 separate line items for audit and investigative returns and then individually listed single audit reports and their dollar value, followed by a list of unresolved or outstanding audits from the previous reporting period. This level of detail is certainly valuable for documenting the relationship between OIGs and their agencies. However, the complexity of the report creates challenges in calculating a valid measure of receivables. Many other OIGs had similarly complex reporting schemes. To ensure the validity of our measures from each OIG over time, we tallied audit and investigative returns at the most final stage available, rather than relying on OIGs' aggregated totals or self-reported ROIs.

Another challenge emerges because audits and investigatory actions can often begin in one year, only to be resolved in a following year. Departments may move funds from audit to investigatory

8 For example, in one congressional budget request the Commerce Department (which reported a five-year ROI for the first time in FY2016) writes, "OIG's ROI is based on a comparison of OIG's appropriations and transfers received with OIG's financial benefits, which include questioned costs, funds put to better use, and administrative, civil, and criminal recoveries." http://www.osec.doc.gov/bmi/budget/FY16CJ/OIG_FY_2016_CJ_final.pdf

9 For example, the Department of Education OIG reported questioned costs and unsupported costs as separate items in 2010 and 2011, but switched to combining them into a single line-item for 2012 through 2014.

uses within a year, which can make calculating exact ROI for specific activities more challenging. Once again, including both audit and investigative receivables assuages this concern.

Furthermore, many OIGs cooperate across agencies and with state and local law enforcement to reduce waste, fraud, and abuse. For example, HHS and DOJ partner on the Health Care Fraud and Abuse Control Program (HCFAC) which coordinates federal, state and local enforcement activities to combat health care fraud. HCFAC is incredibly successful—but nevertheless poses accounting challenges when attempting to calculate an OIG-specific ROI, particularly with regard to who gets credit for a given recovery/receivable. In a similar vein, the SSA oversees Cooperative Disability Investigative Units (CDIs) which investigate and prevent fraud in SSA's disability programs by partnering with local law enforcement. Since the program was established in 1998, "CDI efforts have resulted in $2.8 billion in projected savings to SSA's disability programs and $1.9 billion to non-SSA programs."[10] These are impressive savings, but attributing them solely to SSA's OIG wouldn't reflect the full effort put in by local law enforcement, yet double counting the returns would obviously be inappropriate. We recognize and are sensitive to this ongoing challenge. In addition, the presence of OIG enforcement has deterrent effects on fraud and abuse (and voluntary tax compliance, in the case of IRS) which are large but difficult to quantify. As such, we did not attempt to quantify the monetary value of deterrence, but it would only increase the already impressive ROI values.

Finally, OIGs perform a variety of audit and investigative functions that are not revenue-generating (such as compliance recommendations) which are nevertheless important and beneficial. Our undertaking in calculating an overall ROI for these departments is not intended to negate these benefits or suggest that this is not a complicated process. Instead, we propose to offer an accurate, comparable, reliable financial metric—positive return on investment—of OIG activity. While it is true that a broadly-defined measure of an OIG's "benefits" to government effectiveness would incorporate such nonrevenue-generating activities, it is beyond the purpose of the current paper.

ROI IN THE IRS: A CASE STUDY

One important exception to this understanding of ROI involves the Internal Revenue Service. The IRS is not a fund-distributing agency. Instead, its role as the nation's tax collector means that its focus is on money due to the government that goes uncollected.

Evaluating ROI at the IRS is surely not original to this paper. The IRS has sought to self-assess its effectiveness by measuring the performance of its own enforcement actions overall and by type. In their FY16 congressional budget justification, the IRS provided the most recent five years of their internally-calculated ROI data. Additionally, internal inspections and evaluations reports help quantify and contextualize their performance metrics. These efforts have helped the IRS design its strategic plans as required under the Government Performance and Results Act (GPRA). Those

10 http://oig.ssa.gov/cooperative-disability-investigations-cdi

efforts have also helped the agency understand how to deal with budget cuts more effectively. In the face of budget cuts, the IRS still must collect taxes and recover funds that are unpaid. Accurate assessments of ROI by audit or investigation type assist the agency in advancing its mission and achieving its goals.[11]

The return on investment to the IRS's enforcement activity has also been the subject of research by groups outside the IRS. The Government Accountability Office (GAO) has conducted research on the topic, producing multiple informative reports detailing the IRS's projected and actual ROI.

It is in the IRS's interest for research on ROI to be rigorous and independent in order for the agency to improve its efforts. At the same time, GAO provides a service to others in government by offering insight into best practices for other enforcement activities across agencies.

Additionally, media outlets have written about this concept from a variety of angles. Some outlets discuss the manner in which budget cuts have limited IRS operations[12] or affected the workforce.[13] Others, like a recent column from *The Los Angeles Times*' Doyle McManus, engage ROI and IRS efficiency head on.[14] The topic, as McManus notes, is appealing because the IRS tends to be an agency people "love to hate."

Despite vitriol directed at the IRS by Congress, presidential candidates, and taxpayers, the public should love the IRS. The IRS is at the forefront of 'keeping taxpayers honest' and certainly saving the government tremendous sums of money. The data support this point. From 2010-2014, the IRS's enforcement division had an average ROI of 8.79, meaning for every appropriated dollar to that office, it returns nearly nine dollars to the treasury.

IRS ENFORCEMENT ROI BY TYPE OF ENFORCEMENT ACTION

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
TOTAL	8.8	8.4	8	9.1	9.8
Examination	5.4	4.4	3.4	4.2	4.8
Collection	14.9	16	17.5	18.9	20.5
Automated Underreporter	18.8	19.4	19.7	20.5	19.4

Source: IRS Congressional Budget Justification for FY2016

11 While IRS has been active and engaged in learning from their own ROI calculations in terms of administrative planning and management, more can be done. In our conversations with GAO, it was clear that IRS has been less robust in factoring ROI into broader budgeting decisions. In addition, a report from TIGTA issued in 2013, noted that "IRS' use of cost/benefit information in managing its enforcement resources could be significant improved…The IRS also has not developed any policies or procedures to guide this critical process and has not established any requirement that business plan decisions based on cost/benefit information be fully documented." Source: http://www.treasury.gov/tigta/auditreports/2013reports/201310104fr.html

12 http://www.politico.com/story/2015/01/irs-service-degraded-taxpayers-to-pay-price-114257.html?hp=r2_4

13 http://www.govexec.com/technology/2015/04/union-irs-budget-cuts-hurt-workforce-customer-service/109411/

14 http://www.latimes.com/opinion/op-ed/la-oe-0401-mcmanus-irs-20150401-column.html

However, ROI is just one way to understand the value that the IRS provides. Understanding the sheer amount of money it recovers is also key. From 2010-2014, the IRS recovered over $273 billion that would have otherwise fallen victim to tax fraud or evasion or been underpaid because of honest tax filing errors. As noted by our Brookings colleagues recently, the estimated tax gap—the difference between estimated taxes owed to the government and the amount actually recovered—is larger than the total budget deficit for 2015.[15] Of course, going after every last tax dollar would be a losing proposition, but the reality is that budget cuts to the IRS directly reduce the amount of revenue the government can collect, further adding to the deficit.

Tax policy in the U.S. is certainly controversial. Debates rage from the halls of Congress to dining room tables about who should pay what in taxes. While the criticism and anger aimed at IRS is not unfounded, the longer wait times, lack of available agents, and the perception that tax filing is too complicated are largely the result of Congress' tax policy and the budget cuts to the IRS.

In fact, enforcement activities sometimes shoulder a disproportionate part of the burden. As a 2014 GAO report stated,

> "[The] IRS has absorbed the majority of cuts through attrition and, as a result, the programs that experienced the most attrition were the programs that absorbed the most cuts. In fiscal years 2012 through 2013, IRS absorbed roughly $516 million through attrition, nearly $383 million from enforcement activities, according to data provided by IRS. Officials also noted IRS has taken large budget cuts over the last several years. As IRS operates in an uncertain budget environment, it continues to examine and prioritize what it can cut and what it can postpone."[16]

The IRS allowed exceptions to the hiring freeze in high priority programs, and that strategy helped in part. However, the GAO report notes that the IRS does not have a long-term strategy for operating in an uncertain budget environment. In the IRS's FY16 budget summary, the agency notes that,

> "Over the last several years, the IRS has experienced significant budget reductions that are creating serious obstacles to the ability to fulfill its mission. Fortunately, the IRS has been able to execute a successful filing season, despite these cuts, but this success is often at the expense of other important but less visible activities. Any deterioration in taxpayer services and enforcement creates long-term risk for the U.S. tax system, which is based on voluntary compliance."[17]

Despite these challenges, it is remarkable that the IRS has been able to recover funds as effectively as it has in the face of budget cuts. The data indicate the realities of these budget and enforcement

15 http://www.newsweek.com/yes-government-spending-can-cut-deficit-321024

16 http://www.gao.gov/assets/670/664083.pdf

17 http://www.treasury.gov/about/budget-performance/CJ16/02-06.%20IRS%20FY%202016%20CJ.pdf

environments. From 2010-2014, the IRS's budget dropped 11 percent. In response, the IRS's ability to recover revenue has varied, dropping by 13 percent from 2010-2012, and after aggressive efforts to improve enforcement efficiency, the IRS' 2014 recovered funds have nearly bounced back to its 2010 levels.

One myopic response to this situation is that budget cuts spurred efficiency at the IRS, so that the office can continue to do more with less. However, reality is very different. The IRS's ability to improve its efficiency—to boost its ROI in the face of serious budget cuts—is a positive development. The proper response would be an increase to the budget of a better, more efficient operation. With streamlined, improved processes at IRS, additional dollars will likely do more in the recovery of funds.

Instead, the IRS is vilified. As criticism of the agency grows out of politicization and isolated scandal, what is lost is that most of the agency serves an important role in public policy and the fiscal health of the U.S. As politicians bemoan high deficits, they criticize and cut the budgets of institutions that help protect against deficits. The IRS is a prime example of this paradox and the consequences that flow from underfunding enforcement activities at IRS, OIGs, and other enforcement divisions throughout the executive branch.

HOW TO IMPROVE PUBLIC POLICY AROUND INSPECTORS' GENERAL ROI

Improving ROI reporting

As discussed in the data section above, OIGs currently report data in a variety of forms in different documents. One clear reform that would highlight ROI for both agencies and congressional appropriators would be to simply streamline the process of reporting audit and investigative returns.

Luckily, all the pieces for a comprehensive ROI reporting scheme already exist. Pursuant to the IG Act, all inspectors general must submit semiannual reports to Congress detailing in statistical tables the total number of audit reports and the dollar values of those recommendations. These reports must also include the status of those audit reports, the dollar value of disallowed costs that were recovered by management through collection, as well as an explanation for any reasons final action was not taken on an outstanding audit. Because the detail and presentation of these statistics vary from agency to agency, we recommend simply including a provision that summary ROI statistics be added to each OIG's congressional budget request. This would have the benefit of a) creating a uniform annual statistic common to all agencies and b) making the dollar value of audits and investigations easy to compare with the OIGs' annual budgets, while still preserving the detail in semiannual reports.

Furthermore, the reporting categories should be streamlined within OIGs semiannual reports, so data can remain stable and easy to interpret over time. The Counsel to the Inspectors General for Integrity and Efficiency (CIGIE), an independent entity within the executive branch tasked with "increasing the professionalism and effectiveness of the offices of Inspectors General," would most likely be the appropriate body to conduct such a review.

As noted above, enforcement actions that begin in one year may not culminate for a few years to come. Recovered funds to an agency may also come back into the coffers long after the funds for that enforcement action were spent. The simplest way to work around this issue is just to report funds at one time when the audit or investigation is closed, a process embraced by the Social Security Administration's OIG, for example. Therefore, a simple measurement of the total dollar value of audits and investigations closed during the given year would reduce reporting complexities.

There is already an indication that such a reform would be both feasible and welcome. As stated above, six OIGs consistently report their own ROI calculations in addition to their mandated semiannual reports to Congress. However, some of the other agencies that do not consistently report ROI have nevertheless been experimenting with ROI reporting.[18] This highlights the interest that congressional appropriators have in ROI information, and that the infrastructure already exists in multiple agencies to produce a measurement like this one.

In addition, agencies should be encouraged—either by statute or executive memorandum—to be more forward in reporting both their ROI and the impact of proposed budget cuts on deficits, in a manner similar to CBO scoring. Agencies should submit a direct statement to both House and Senate Appropriations and Budget Committees outlining the deficit impact of a budget cut to a revenue-positive office. The committees should treat these budget cuts the same as spending increases, as their net effect on the government's bottom line is identical. After CBO scoring, PAYGO rules could also apply to an OIG budget cut, further emphasizing their revenue-positive status by requiring budget offsets elsewhere. OMB, CBO, or GAO should compile an annual report using the most streamlined, accurate ROI data via the reform encouraged above. The report would aggregate the government-wide impact of spending reductions and crystallize for Congress the consequences of such budgetary actions.

Buffering OIGs from budget cuts

Automatic, across-the-board budgets represent lazy public policy at best, and are counterproductive at worst. Sequestration—the consequence of Congress being unwilling to agree to a deficit reduction

18 For example, the Department of Energy first self-reported an average ROI in their FY2014 Congressional Budget Justification, probably from years 2012-2014, but they didn't specify. Similarly, EPA first self-reported an annual ROI calculation in their FY2014 Congressional Budget Justification. The Department of Defense reported $9.3 billion in potential and actual recovery in their congressional budget request in FY2014, even though their actual returns were only $2.2 billion (the additional returns probably include potential savings from legislative review.)

package as part of the Budget Control Act of 2013—enacted substantial cuts throughout much of the federal government. However, in some instances, Congress undermined its own goals of deficit reduction by refusing to engage in a detailed appropriations process.

Automatic, across-the-board budgets represent lazy public policy at best, and are counterproductive at worst.

By allowing budget cuts to hit offices of inspectors general and other revenue-positive enforcement divisions, Congress put upward pressure on deficits. When budget cuts hit an office with a positive return on investment, a reduction of one dollar in its appropriation leaves more than a dollar's worth of funds—funds that are wasteful, fraudulent, or abusive—uncollected. In simple terms, these budget cuts grow deficits.

The idea of government functioning more like private enterprise is a popular talking point in many political circles. Sequestration and other budget cuts to OIGs and enforcement divisions do something no CEO or board of directors would ever allow—downsizing the most profitable divisions of a company. Congress has done and continues to do just that. By ignoring ROI, Congress has explicitly handcuffed some of its best performing offices.

There exists an irony in blanket budget cuts that hit all types of agencies. The executive branch is forced to do the same job (or sometimes more) with fewer resources. That requires agencies to prioritize work and apply administrative discretion in the execution of the law. As budgets shrink and workloads grow, appointees and careerists need to make hard choices about how those resources will be allocated. This provides the basis and justification (what some may call "cover") for presidents and other agency heads to engage in enforcement discretion. That enforcement discretion sometimes exists in mundane ways such as shifting IRS resources from in-person audits to computer-based auditing. In other cases, agencies exercise discretion in broader, more controversial ways on issues such as immigration, the environment, and marijuana policy. Ironically, Congress' across-the-board budget cuts can force agencies to exercise enforcement discretion—something Congress often decries.

In addition, many of the staunchest critics of bureaucratic waste are often those most hawkish on the deficit. Yet, the best way to reduce fraud in a program like disability insurance or at an agency like the EPA is not a blanket reduction in the agency's budget but to fund OIGs and enforcement offices that rein in that abuse.

There are a few policies Congress could adopt that are more informed and responsive to financial realities. One would be to exempt offices of inspectors general from across-the-board budget cuts. These 72 institutions compose a small part of the federal budget, but perform highly important and often revenue producing functions. It is true that not every OIG is revenue-positive, but most—and many of the largest ones—are. As noted above, many of the nonmonetary activities of OIGs are critical and would muster broad public support. They include protecting against mismanagement, personnel problems, and organizational dysfunction; OIGs serve as government watchdogs that keep bureaucracy honest and functional.

Using ROI in budgeting decisions

Congress could be hesitant to exempt all OIGs from budget cuts, particularly from across-the-board budgets cuts, for a variety of reasons. Broad exemptions would also include revenue-negative OIGs (those with ROIs under one).[19] If Congress were to exempt only revenue-positive institutions from mandatory budget cuts, this would explicitly build ROI into Congress' budget choices. It may surprise some that legislators care little about agency-level profitability when determining funding for those agencies—a basic consideration in private sector investment. However, it is a reality of the increasingly broken and illogical congressional budgeting process.

Such a system would further spotlight the need for uniform, effective, and rigorous reporting requirements around the calculation of ROI. Such budget cut exemptions would incentivize agencies to massage ROI numbers in order to extract more from the system, and data reporting reforms would be necessary to combat that practice.

This policy design would be controversial for other reasons, as well—and rightly so. Government performs many critically important duties that function as pure costs to government. Depending on your political views, these duties can include weapons programs or low-income housing or highway construction or health care for the elderly. These functions are inherently unprofitable and, in some cases, the most unprofitable among government activities. Despite that, there are many constituencies in Congress and in the public that support protecting those entities from cuts. Conversely, the constituency rallying in support of budget protections for OIGs is quite small and voiceless, particularly in Congress.

Specific to OIGs, some offices consistently have an ROI under one because of the non-distributive nature of the agencies that they oversee. Penalizing those agencies with budget cuts would seem ineffective and a punishment befitting no crime at all. That said, if the alternative is across-the-board budget cuts, and a political coalition is willing to exempt some agencies from such cuts, exemptions for only revenue-positive OIGs are better than that alternative.

More controversy could arise from a focus on exemptions for OIGs. Revenue-positive entities of the federal government are not isolated to offices of inspectors general. Other enforcement and/or fee collecting activities of federal agencies could generate positive ROIs that should and could be

19 Even though, as noted above revenue-negative OIGs are still engaged in activities critical to advancing goals of government efficiency, effectiveness, and performance, such nuance will likely escape the attention of deficit hawks.

considered in congressional budgeting choices, especially in the context of the distribution of cuts. Thus, a greater focus on ROI, as opposed to a blanket exemption for OIGs, would have the type of nuance and detail that the appropriations process needs.

How might this process work? Agencies, sub-agencies, or other entities could report their ROI to Congress annually, and agencies with ROIs greater than one would be exempt from spending reductions. Annual measures of ROI may not be the most accurate metric for such a purpose. Instead, it would be more effective for Congress to consider ROI rolling averages over the course of three to five years because some investigations last years and yield substantial receivables long after an audit or investigation is initiated. From this point, offices with ROI over one (revenue-positive offices) would not be subject to discretionary, annual budget manipulation—so long as their rolling average ROI holds.[20]

This automatic budgeting process is much like one of the commitment devices outlined in a recent paper by our colleague Richard Reeves. In "Ulysses goes to Washington: Political myopia and policy commitment devices," Reeves argues that one way to enact sensible policy change that is not subject to political winds is for Congress to delegate specific choices to an automatic process.[21] This takes the political costs out of the hands of politicians who might face public backlash, while advancing sensible public policy.

Regardless of the process or the extent to which Congress protected revenue-positive entities from deficit-growing budget cuts, the move would be a good one. Any ways in which Congress uses more information in making detailed decisions about agency appropriations would be an improvement. There are numerous types of considerations Congress must factor into spending policy in order to implement smarter, more effective budgeting. Focusing on ROI is a good place to start.

Creating an automatic OIG integrity fund

Building on the Improper Payment and Elimination Act of 2010, one other potential reform is the creation of an OIG-specific program integrity fund, where a small percentage (2 or 3 percent) of recovered funds from investigations and audits are automatically routed into a fund for OIG investigative activities. Unlike the provision included in several agencies budget summaries[22] allowing the OIG to request a transfer from the agency's overall appropriation, this fund would be an automatic deposit of OIG returns into a specific integrity fund. This would a) further incentivize the great work that IGs are already doing and b) protect the important functions IGs serve during times of temporary budget freezes. Being able to use the fund to cover budgeting shortfalls (i.e., avoid

20 In fact, in an ideal world—or at least one that saw government function more like the private sector—those government entities would be prime candidates for spending increases.

21 http://www.brookings.edu/research/papers/2015/04/06-ulysses-washington-political-myopia-reeves

22 http://www.socialsecurity.gov/budget/FY16Files/2016OIG.pdf (pg 167 - transfer authority)

furloughs) or to pilot new investigative programs would increase institutional innovation and further the efficient recovery of funds back to the government.[23] Of course, some fund sources would be statutorily unavailable for this purpose, but the remainder could easily be tracked using the uniform reporting measures recommended above.

CONCLUSION

It is time for congressional appropriators to examine the benefits of agencies' return on investment. In the current political climate, elected officials often criticize bureaucracy for lacking the efficiencies of private enterprise. Yet Congress consistently enacts policies that limit government's ability to grow such efficiencies. A congressional focus—or even acknowledgment—of ROI would be a good first step toward making spending policy line up with priorities such as fiscal responsibility and deficit reduction.

Offices of inspectors general and other enforcement divisions throughout the executive branch often function as revenue-positive institutions—entities that bring in more revenue than they cost. Budget cuts to these agencies not only affect their performance, but also their ability to return money to the nation's coffers. Beyond the loss in revenue, budget cuts to such offices threaten responsible, effective government as these offices often work to reduce waste, fraud and abuse, and improve the integrity of government operations. Yet, across-the-board spending cuts and budgeting-by-continuing resolution put those benefits in jeopardy.

If Congress adopted a more proactive approach to using ROI in fiscal matters, it would reap benefits that satisfy both Democratic and Republican goals. Instead, legislators choose to ignore this metric—one widely embraced and utilized in private enterprise—at their own peril.

This paper illustrates that revenue-positive government entities are not uncommon in the U.S. They exist across numerous OIGs and in a variety of enforcement divisions of federal agencies. Revenue-positive entities are part of a subset of a larger government idea that is often lost on observers and critics. Government agencies provide benefits in a variety of ways—some monetary and others less directly demonstrable. ROI is one means of measuring value and worth, but government agencies, researchers, and media should work harder to quantify value in the work of government. That value can take the form of collected revenue (like the receivables described in this paper), private market activity, or foregone expenses or costs. This paper should encourage work in this area that both quantifies such ideas—an effort advanced by CBO, OMB, and interest groups—and packages those metrics in ways that are both useful and appealing to Congress.

23 As an example, a 3% reinvestment from the EPA OIG's 2012 returns into their budget would have almost entirely covered the costs of sequestration in 2013, potentially allowing them to avoid furlough days during budget shortfalls, or respond to new enforcement needs without waiting for the results of the slow-moving congressional budgeting process.

Efforts to encourage Congress to appropriate funds in more careful and thoughtful ways would benefit all of society, and particularly the function of government. This paper paints a clear picture of congressional dysfunction. The legislative branch wants government to work more efficiently and responsibly and to operate in a more fiscally responsible way. At the same time, budget cuts to entities like OIGs and enforcement divisions barricade government's ability to achieve those goals. The system we profile in this paper is another example of a gap between elected officials' rhetoric and their actions. Our recommendations will help bridge that gap and advance the goals of fiscal responsibility and good government.

APPENDIX I

In this appendix, we calculated the correlation between our calculations of OIG's ROI and their self-reported figures (for those agencies that did self-report) as a reliability test. The results are reported below.

AGENCY/OIG	CORRELATION BETWEEN CALCULATED AND SELF-REPORTED ROI
IRS (enforcement)	0.998
USDA	0.999
VA	0.999
OPM*	0.426
DOT	0.994
SSA	0.999
All Agencies	0.995

*In OPM's 2016 Congressional Budget Justification, they explain that "Fines, Penalties, Assessments, and Forfeitures" were not included in their ROI calculation because those funds were returned to the OPM Trust fund. However, we did include recoveries from investigative actions in our self-calculated ROI for OPM in order to remain consistent. That is likely the cause of the discrepancy.

The correlation coefficient (a value between -1 and +1) tells you how strongly two variables are related to each other. A correlation coefficient of +1 indicates a perfect positive correlation.

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