

Testimony of Congressman John B. Larson
Subcommittee on Government Management, Organization, and Procurement
Committee on Oversight and Government Reform
March 25, 2009

Thank you, Chairwoman Watson and Ranking Member Bilbray, for allowing me to testify before the Subcommittee today and to address my concerns regarding the role of Inspectors General in light of our current economic crisis.

As the committee is likely aware, I recently introduced a bill entitled the “Improved Financial and Commodity Markets Oversight and Accountability Act,” HR 885. Last Congress, I introduced similar legislation which would have elevated the Inspector General (IG) of the Commodities Futures Trading Commission (CFTC) to a Section 3, independent IG. As we discussed various ways to fight the rampant speculation that was driving up the cost of oil, I introduced HR 6406, a measure that would have provided the CFTC – those who were charged with monitoring speculation – with a stronger Inspector General, one that was more independent and could hold the CFTC more accountable for their actions – or failure to take action. It was my belief then that the CFTC needed a watchdog – an entity designed to investigate any incompetence in leadership that may have gone uninvestigated or unreported. That legislation passed in the 110th Congress by voice vote on September 24, 2008, but unfortunately the Senate did not act on it.

But today we face a problem much larger than speculators in the oil market. Today, Wall St. is hemorrhaging, insurance executives cash undeserved bonuses and investment managers run Ponzi schemes; our problem is much deeper than the commodities market. That is why I have expanded my bill to include both commodities and financial markets: the CFTC, the Board of Governors of the Federal Reserve, the National Credit Union Administration (NCUA), the Pension Benefits Guaranty Corporation (PBGC), and the Securities and Exchange Commission (SEC). This bill would make these five federal agencies more independent and better able to investigate waste, fraud, and abuse within the agencies.

The need for these agencies to have more independent Offices of Inspectors General (OIGs) is clear. When the Congressional Research Service (CRS) sampled the number of closed and open investigations and audits by the five agencies affected by this bill, those with non-independent, or designated OIGs averaged only 12 closed investigations in 2008 with an average of 11 investigations remaining open at the end of the year. However, CRS also looked at independent, or established, OIGs of five agencies of comparable size;¹ these OIGs averaged 117 closed investigations, with 108 investigations remaining open by the close of 2008. These statistics demonstrate a positive correlation between the ability to conduct thorough investigations and provide extensive oversight and the independence of the OIG.

HR 885 is simple. It uses a legislative power already granted in the Inspector General Act of 1978. In the Inspector General Act, there are two main types of inspectors general: Section 3

¹ Agencies sampled include: the Agency for International Development (USAID), the Corporation for National and Community Service (CNCS), the Export Import Bank of the United States (EX-IM Bank), the Federal Deposit Insurance Corporation (FDIC), and the Railroad Retirement Board (RRB).

inspectors general, who are appointed by the President and confirmed by the Senate. These presidentially appointed IGs operate with a great deal of independence; they have their own, independent office, separate from the office of the agency's chairperson. The second main type of inspector general is a designated inspector general, described under Section 8G of the Inspector General Act. These OIGs do not operate wholly independent offices, but rather sit under the office of the agency chairperson. They are hired by the chairperson of the agency and can also be removed by the chairperson. All investigations must go through the agency chairperson, as well. My bill would elevate the five aforementioned designated inspectors general to presidentially appointed inspectors general.

This committee completed important work in the 110th Congress with the Inspector General Reform Act. I believe HR 885 is another important step to make the Inspector General Act more current and effective. This bill recognizes the importance of our financial and commodities markets and the role federal agencies like the SEC and Federal Reserve have in all of our lives, specifically during this current economic crisis. The Inspector General act determined which agencies would be significant enough to be granted an independent inspector general over 30 years ago. Times have changed and the economic crisis in which we have found ourselves has forced us to reconsider the importance of some of our financial regulatory agencies. This bill is not intended to punish any of these agencies; rather, it is intended to provide them with the oversight they need to do their jobs more effectively as each agency faces new challenges. I have talked to most of the heads of the affected agencies and all are supportive of more transparency in their agencies.

It is important not to take lightly the role these 5 agencies play in Americans' lives today. The PBGC oversees the current and future pensions of over 1.3 million Americans and is a safety valve for those who have worked their entire lives for a company that can no longer afford to fund their employees' pensions. The Federal Reserve just last week printed a trillion dollars! And the SEC was responsible for overseeing the transactions that lead to the Bernie Madoff scheme where investors and charities lost billions of dollars.

Today, when a majority of Americans are investors in the stock market, whether individually, through mutual funds, or through their pensions or 401Ks, we as Congress cannot be too vigilant in ensuring that there is oversight of these agencies safeguard their investments.

Elevating the Office of the Inspector General in several key financial and commodity-trading institutions is an important step toward a more transparent and accountable government. Whether it is in the energy market or the economy, our constituents demand and deserve greater government transparency.

Thank you for the important work you do on this committee and for allowing me to testify before you today.