GAO

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161139

Accounting and Information
Management Division

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September 14, 1998

The Honorable John R. Kasich
Chairman, Committee on the Budget
House of Representatives

Subject: Fraud, Waste, and Abuse: The Cost of Mismanagement

Dear Mr. Chairman:

This letter responds to a request from your office for specific examples of the cost of fraud, waste, abuse, or mismanagement in major federal programs. The enclosure to this letter provides the requested examples, which were drawn from financial statement audits and from issued GAO and inspector general reports and testimonies. We have provided references to the specific reports and testimonies associated with each example.

Please contact me at (202) 512-9573 if you or your staff have any questions concerning the contents of this letter.

Sincerely yours,

Paul L. Posner

Paul L. Posner
Director, Budget Issues

Enclosure

161139

DEPARTMENT OF AGRICULTURE

FOOD STAMPS

Fraud and abuse in the Department of Agriculture (USDA) Food Stamp Program generally occurs in the form of either overpayments to recipients--including payments to ineligible persons such as prisoners or deceased individuals as well as eligible persons receiving more than they are entitled to receive--or trafficking, that is, exchanging food stamps for cash or other nonfood items. GAO has reported that USDA estimated overpayments in fiscal year 1996 to be over $1.5 billion, or about 7 percent of food stamps issued. That same year, errors also accounted for underpayments that USDA estimated to be about $518 million. With regard to trafficking, USDA estimated that in 1993 (the latest year of available data) about $815 million in food stamps, or approximately 4 percent of food stamps issued, were traded for cash at retail stores.

Food Assistance: Observations on Reducing Fraud and Abuse in the Food Stamp Program (GAO/T-RCED-98-167, April 23, 1998).

Food Stamp Program: Information on Trafficking Food Stamp Benefits (GAO/RCED-98-77, March 26, 1998).

Food Stamp Overpayments: Thousands of Deceased Individuals Are Being Counted as Household Members (GAO/RCED-98-53, February 11, 1998).

FOREST SERVICE

Forgone revenue, inefficiency, and waste throughout the Forest Service's operations and organization have cost taxpayers hundreds of millions of dollars. For example, prior GAO work has shown that the agency has (1) not obtained fair market fees for commercial activities on the national forests--including resort lodges, marinas, and guide services--or for special noncommercial uses--such as private recreational cabins and special group events--or recovered the costs incurred in reviewing and processing applications for special-use permits, (2) not charged fair market value for rights-of-way for oil and gas pipelines, power lines, and communications lines on its lands, and (3) not used sealed bids for timber sales, relying instead on oral bids, which generate lower revenue. In addition, in 1996, we reported that the inaccuracy of the financial statement data precluded the Forest Service and the Congress from using these data to help make informed decisions about future funding for the agency and raised questions about the reliability of the agency's program performance measures and certain budget data. For instance, the Forest Service's current system for maintaining cost data does not enable the agency to associate the costs incurred in generating revenue from various forest uses.

> Forest Service: Lack of Financial and Performance Accountability Has Resulted in Inefficiency and Waste (GAO/T-RCED/AIMD-98-135, March 26, 1998).
>
> Forest Service: Barriers to Generating Revenue or Reducing Costs (GAO/RCED-98-58, February 13, 1998).
>
> Forest Service (GAO/AIMD-97-11R, December 20, 1996).

The Forest Service's database for contracting activities, used both internally and externally, is so inaccurate that it is of little use in controlling contracting operations or assessing procurement policies. GAO identified errors in the Forest Service's data on most of the contracts reviewed. For example, several forests had awarded contracts but had not entered any data on them into their systems. For example, two forests had not reported any data and a third had significantly underreported its data. According to a local contracting official, the two forests that had not reported any contract actions had a total of about $15 million to $20 million in contracting activity in fiscal year 1996. During this period, the third forest had about $15 million in contracting activity but reported only about $3.2 million.

> Forest Service: Weak Contracting Practices Increase Vulnerability to Fraud, Waste, and Abuse (GAO/RCED-98-88, May 6, 1998).

DEPARTMENT OF DEFENSE (DOD)

DOD INVENTORY MANAGEMENT

Inventory management problems have plagued DOD for decades. As of September 30, 1995, about $34 billion–or about half–of DOD's $69.6 billion secondary inventory was not needed to support war reserve or current operating requirements. Further, GAO's work has shown some cases in which DOD had inventory on order for which current requirements no longer exist. GAO's analysis of selected DOD inventory reports as of September 30, 1996, showed that $1.6 billion of the $8.6 billion on order exceeded then-current operating and war reserve requirements.

The lack of integrated financial management systems and the lack of reliable inventory data have been major contributing factors to DOD's inability to account for and control its inventory. For example, the Navy's fiscal year 1996 financial statements did not include information on $7.8 billion in inventories on board ships and at Marine Corps activities. This information was omitted from the inventory data used for inventory management, budgeting, and financial reporting. The lack of Navy-wide visibility over inventories substantially increases the risk that the Navy may request funds to obtain additional inventories that are not needed because responsible managers may not receive information that some of these inventories may already be on hand in excess.

Also, in April 1998, GAO reported that the Navy did not always have valid requirements to support inventory purchases. For example, 68 of 200 items reviewed had about $13 million of planned program requirements that could be eliminated because the requirements were also included in the reorder level requirement. While GAO cannot precisely quantify the overall extent of this problem, this double counting could be indicative of a large problem because the Navy has a total of about $3.3 billion in planned program requirements that effect purchase decisions.

1998 DOD Budget: Operation and Maintenance Program (GAO/NSIAD-97-239R, August 21, 1997).

Defense Logistics: Much of the Inventory Exceeds Current Needs (GAO/NSIAD-97-71, February 28, 1997).

Defense Inventory: Spare and Repair Parts Inventory Costs Can Be Reduced (GAO/NSIAD-97-47, January 17,1997).

Financial Management: DOD Inventory of Financial Management Systems Is Incomplete (GAO/AIMD-97-29, January 31, 1997).

Defense Inventory Management (GAO/HR-97-5, February 1997).

CFO Act Financial Audits: Programmatic and Budgetary Implications of Navy Financial Data Deficiencies (GAO/AIMD-98-56, March 16, 1998).

Navy Inventory Management: Improvements Needed to Prevent Excess Purchases (GAO/NSIAD-98-86, April 30, 1998).

DOD CONTRACT PAYMENTS

DOD's contract payment process is error-prone and costly. DOD has made hundreds of millions of dollars in overpayments to contractors, some undetected for years, because it uses nonintegrated computer systems that require manual entry of data that is often erroneous or incomplete and a burdensome document-matching process. Between fiscal years 1994 and 1996, defense contractors voluntarily returned to DOD overpayments totaling about $1 billion per year. For the first 7 months of fiscal year 1997, about $559 million in such payments was received.

Contract Management: Fixing DOD's Payment Problems is Imperative (GAO/NSIAD-97-37, April 10, 1997).

DOD Procurement: Funds Returned by Defense Contractors (GAO/NSIAD-98-46R, October 28, 1997).

Defense Contract Management (GAO/HR-97-4, February 1997).

NAVY ACCOUNTS RECEIVABLE

Footnote disclosures on the Navy's accounts receivable raise questions about whether future budget resources may be needed or whether there may be opportunities to reduce resource requirements. To illustrate, if accounts receivable are overstated, the Navy may not receive amounts that it intended to use to support its operations and may therefore need to obtain additional funding. If the amount is understated, the Navy may lack the visibility necessary to ensure that it is taking appropriate action to collect all amounts due it. For example, based on historical rates, the Navy estimates that nearly 15 percent of the funds Navy personnel owed the Navy would not likely be collected. However, in some cases, more aggressive collection efforts could result in the recovery of amounts that could be used to reduce the Navy's request for funds.

CFO Act Financial Audits: Programmatic and Budgetary Implications of Navy Financial Data Deficiencies (GAO/AIMD-98-56, March 16, 1998).

DEPARTMENT OF EDUCATION

Education's (ED) fiscal year 1997 audited financial statements disclosed a cumulative $1.26 billion claims-in-process which it was actively pursuing for collection as of September 30, 1997. Claims-in-process are non-credit program claims for which collection probabilities have not yet been established. These claims, resulting from audits, are due from recipients of grant and financial assistance programs, and other federal agencies. Based on our discussions with ED's Office of Inspector General (OIG) and other ED officials, about $117 million of these claims-in-process related to fiscal year 1997. Additionally, the OIG's FY 1997 Report on Internal Controls for ED's financial statement audit reported that a systematic process was not in place to quantify the extent of misspent funds in grants made to postsecondary educational institutions.

> U.S. Department of Education Fiscal Year 1997 and 1996 Financial Statements and Accompanying Notes.
>
> U.S. Department of Education Annual Accountability Report, Fiscal Year Ended September 30, 1997, issued July 21, 1998.

In a January 1997 audit, the Department of Education's OIG found that for award year 1995-96, 102,000 students were over-awarded approximately $109 million in Pell grants because they either failed to report or underreported their income on their student aid applications. Although the Department requires educational institutions to verify key eligibility information reported by selected students, the process cannot detect students who intentionally underreport their income and provide false information. The audit also found that at least 1,200 students increased their eligibility for Pell grants by over $1.9 million by falsely claiming veteran status.

> Accuracy of Student Aid Award Can be Improved by Obtaining Income Data from the Internal Revenue Service (ACN:11-50001), January 29, 1997.

HEALTH CARE FINANCING ADMINISTRATION

MEDICARE

Medicare provides health care insurance for nearly all elderly Americans and many of the nation's disabled. Most Medicare beneficiaries obtain services through the fee-for-service sector while others obtain services through prepaid health care plans–such as health maintenance organizations (HMO)–that contract with Medicare. In fiscal year 1997, federal spending for Medicare was $207.5 billion–$181.8 billion for fee-for-service and $25.7 billion for managed care.

In recent years, GAO has reported on Medicare as one of several government programs highly vulnerable to waste, fraud, abuse, and mismanagement. According to the Department of Health and Human Services' (HHS) OIG, the latest estimates indicate that "improper payments" cost Medicare approximately $20.3 billion in fiscal year 1997, or about 11 percent of total fee-for-service expenses. These improper payments resulted from provider billings for services that were medically unnecessary, insufficiently documented, noncovered, incorrectly coded, or from providers' paperwork errors. The OIG has also found exploitative practices by Medicare HMOs, including marketing abuses and obtaining enhanced payments for beneficiaries improperly reported as residents of nursing homes or other institutions.

The Medicare program is inherently at risk for exploitation because of its size and complexity. Hundreds of thousands of providers bill the program, and Medicare uses approximately 60 claims processing contractors to handle its bill-paying. These contractors process over 800 million claims annually. Fraudulent billing is not the exclusive province of any one provider type. For example:

- Home health care, which provides skilled nursing care to home-bound patients, has been ripe for fraud because of the relaxed eligibility requirements for in-home care, limited oversight of the care provided, and weaknesses in the home health provider certification process. In one case, Medicare certified an agency owned by an individual with no home health experience who turned out to be a convicted drug felon and who later pled guilty with an associate to having defrauded Medicare of over $2.5 million. In another case, the owner of two home health agencies was sentenced for making false statements in Medicare cost reports and funneling the proceeds into a personal bank account. The owner was sentenced to 42 months in prison, ordered to pay $2.26 million and fined over $100,000.

- Medicare is often billed for Durable Medical Equipment (DME) never delivered, totally unnecessary, or at a higher cost than what is actually provided. In one case, the former owner of a DME company supplied air conditioners, televisions, and microwaves to beneficiaries in exchange for their Medicare numbers which he used to bill Medicare $12 million for DME not medically necessary. In another case, two sisters in Florida and the two companies they owned agreed to pay a total of close to $1.6 million for billing Medicare for DME that was not provided as claimed or was medically unnecessary. The sisters deposited the Medicare reimbursements in their joint personal account and used the money to buy real estate.

- Medicare often receives fraudulent claims for ambulance services. The owner of a Maryland ambulance company transported multiple patients in the same ambulance at the same time, and then billed Medicare as if each had taken a separate trip. He was sentenced to 5 years supervised probation and ordered to pay $33,990 in restitution.

- HHS and the Justice Department recently completed two multistate initiatives involving hospitals that yielded about $80 million in overpayments and damages. The 72-hour Project investigated whether hospitals were double billing Medicare for outpatient reimbursement for services performed within 72 hours of hospital admission and already covered by a Medicare inpatient payment. The Lab Unbundling Project investigated whether hospitals submitted duplicate Medicare claims for certain blood tests grouped together and performed concurrently.

Office of Inspector General Report on the Financial Statement Audit of the Health Care Financing Administration for Fiscal Year 1997 (A-17-97-00097), April 1998.

Office of Inspector General Report on the Financial Statement Audit of the Health Care Financing Administration for Fiscal Year 1996 (A-17-95-00096), July 1997.

Medicare: Fraud and Abuse Control Pose a Continuing Challenge (GAO/HEHS-98-215R, July 15, 1998).

MEDICAID

The Medicaid program, a joint federal and state funded health care financing program, served over 36 million people in fiscal year 1997 at a federal cost of more than $96 billion. Medicaid operates as a vendor payment program, with states paying providers of medical services directly. Medicaid is state administered, with federal oversight by HHS' Health Care Financing Administration. Authorizing legislation allows states a great deal of flexibility in designing their Medicaid programs. Within broad federal guidelines, each state decides eligible groups, types and range of services, payment levels for services, and administrative and operating procedures. The size and complexity of the program make Medicaid vulnerable to many types of waste, fraud, and abuse. In addition, very little detailed review of medical records supporting claims increases the risk of program exploitation. Specific examples of waste, fraud, and abuse in the Medicaid program reported by the HHS OIG include:

- In a review of 22 states, the HHS OIG concluded that the states potentially overpaid laboratory providers an estimated $33.9 million ($19.4 million federal share) for various laboratory tests over a 2-year period because the states did not have adequate controls to detect and prevent inappropriate payments for laboratory tests. Contrary to applicable laws and guidelines, the states paid medical providers more for clinical laboratory services processed by physicians' offices, independent laboratories, and hospital laboratories for outpatients than the amounts Medicare recognizes for the same services.

- Between 1990 and 1994, an Ohio man and his corporation, which operated four group homes for the mentally retarded, filed Medicaid cost reports containing falsified expenses for the homes, including personal expenses, invoices for fictitious services or supplies, and inflated expenses. He had actually spent the money to hire a go-go dancer as a consultant, install a sound system for a go-go night club, and fund other personal pleasures. The loss to Medicaid over a 2-year period was more than $490,000. The man and his corporation were convicted on 44 counts related to Medicaid fraud, including theft of government funds, mail fraud, Medicaid false claims, and money laundering.

- From December 1993 through March 1995, a Washington, D.C., taxi driver defrauded the Medicaid program of $31,890 by submitting false vouchers for Medicaid reimbursement. The taxi driver obtained blank taxicab vouchers from sources at several health care facilities and filled them out using interstate destinations to obtain a high reimbursement rate. The taxi driver had been previously investigated by the OIG and prosecuted for working the same scheme.

Office of Inspector General Report on the Financial Statement Audit of the Health Care Financing Administration for Fiscal Year 1997 (A-17-97-00097), April 1998.

Office of Inspector General Report on the Financial Statement Audit of the Health Care Financing Administration for Fiscal Year 1996 (A-17-95-00096), July 1997.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)

HUD FY 1999 BUDGET REQUEST

HUD's fiscal year 1999 budget request for $4.8 billion to renew and amend Section 8 tenant-based assisted housing contracts for fiscal year 1999 could be reduced by $439 million. This is the amount of excess budget authority in the Section 8 moderate rehabilitation program that could be used in place of new budget authority to renew expiring housing assistance contracts. In addition, because this excess budget authority exists, HUD may not need the $70 million it has requested for Section 8 moderate rehabilitation amendment funding.

> Housing and Urban Development: Comments on HUD's Fiscal Year 1999 Budget Request (GAO/T-RCED-98-137, March 25, 1998).

SECTION 8 TENANT-BASED HOUSING ASSISTANCE

In 1997, HUD estimated that $20.7 billion in unexpended budget authority existed in the Section 8 tenant-based program and that $9.9 billion of that amount was excess to known program needs. This is funding that housing agencies received under contracts with HUD but did not expend because the funding was not needed as planned to make housing assistance payments to landlords on behalf of low-income families. Because HUD based its estimate largely on the data in its tenant-based program's information system–which HUD's OIG and an independent audit firm have tested and determined to be reliable–GAO believes that the estimate is reasonably accurate. After the Congress rescinded a total of $4.2 billion and HUD set aside $2.2 billion for unanticipated costs and to account for future transactions, the balance of $3.5 billion was placed in a congressionally established Reserve Preservation Account in October 1997.

> Section 8 Tenant-Based Housing Assistance: Opportunities to Improve HUD's Financial Management (GAO/RCED-98-47, February 20, 1998).

HUD CONTRACT RENEWAL NEEDS

The budget formulation process that HUD used to prepare its fiscal year 1998 budget request for renewing Section 8 tenant-based contracts did not produce an accurate estimate of needs. Key HUD offices did not adequately oversee critical steps in the process, and the process did not require reasonable justification for substantial portions of the estimate–including several hundred million dollars proposed for contingency costs. In addition, although at the time of its fiscal year 1998 budget submission HUD had an estimate of the impact of welfare reform on the cost of the Section 8 program, more recent information caused the Department to conclude that including this estimate in the budget request was unnecessary. As a result, the Department eventually lowered by $1 billion (over 10 percent) its fiscal year 1998 budget estimate for renewing Section 8 contracts. To improve its process, HUD has further enhanced its tenant-based program's information system, consolidated its budget development with strategic planning and financial management, and changed its budget process; HUD also plans additional changes in these areas but does not have a timetable for accomplishing them.

> Section 8 Tenant-Based Housing Assistance: Opportunities to Improve HUD's Financial Management (GAO/RCED-98-47, February 20, 1998).

HUD HOUSING SUBSIDIES

In fiscal year 1997 HUD spent over $18 billion on rent and operating subsidies. A series of financial audit recommendations by HUD's IG have led to the development of a process enabling HUD to reasonably estimate excess rental subsidies, that is subsidies that should not have been paid based on the income of the participating household. The IG's fiscal year 1997 financial statement audit of HUD disclosed that excess rental payments exceeded $900 million (based on calendar year 1996 data), or about $1 out of every $18 dollars disbursed for housing subsidies.

> HUD Management: Information and Issues Concerning HUD's Management Reform Efforts (GAO/T-RCED-98-185, May 7, 1998).

> U.S. Department of Housing and Urban Development Audit of Fiscal Year 1997 Financial Statements, Office of Audit, Office of Inspector General (98-FO-177-0004), March 20, 1998.

SMALL BUSINESS ADMINISTRATION (SBA)

SBA requested and received a fiscal year 1997 appropriation of about $50 million more than needed to make about $7.8 billion in loan guarantees in the section 7(a) General Business Loan Program. The requested appropriation was incorrectly based on the portion of the loan amount guaranteed rather than the total face amount, overstating the estimated subsidy rate for this program by about 32 percent. On the basis of its discretionary appropriation, SBA announced that it could guarantee an additional $2.5 billion in section 7(a) loans above its planned and approved loan level.

> Small Business Administration: Credit Subsidy Estimates for the Sections 7(a) and 504 Business Loan Programs (GAO/T-RCED-97-197, July 16, 1997).

> Credit Reform: Greater Effort Needed to Overcome Persistent Cost Estimation Problems (GAO/AIMD-98-14, March 30, 1998).

SOCIAL SECURITY ADMINISTRATION (SSA)

SUPPLEMENTAL SECURITY INCOME (SSI) PROGRAM OVERPAYMENTS

The fiscal year 1997 financial statement audit of SSA reported a need to improve quality control activities, including those designed to prevent fraud, waste, abuse, and mismanagement in the SSI program. SSA's fiscal year 1997 financial statements disclosed that current and former recipients owed SSA more than $1.4 billion at the end of fiscal year 1997. We reported that over $1 billion in newly detected overpayments were identified for fiscal year 1997. Based on prior experience, SSA is likely to collect less than 15 percent of the outstanding debt. In fiscal year 1997, SSA disbursed approximately $27 billion in monthly SSI payments to 6.6 million recipients.

We believe the SSI program is at considerable risk of fraud, waste, and mismanagement because of an agency culture that has tended to view the SSI program in much the same way as SSA's other programs-which place emphasis on making payments to an entitled population rather than a welfare program that requires stronger income and asset verification policies. SSA relies on recipients' self reporting important eligibility information such as living arrangements, earned and unearned income, and assets without performing timely verification of the data. Certain detection controls, such as computer matching of Internal Revenue Service earnings data have built-in delays of 6 to 21 months.

- In March of 1998, we reported that newly available Office of Child Support Enforcement databases maintained by SSA could help SSA prevent or more quickly detect about $380 million in annual SSI overpayments caused by unreported recipient income.

- In the same report, we also concluded that SSA had opportunities to prevent almost $270 million in overpayments by obtaining more timely financial account information on SSI beneficiaries. This could be accomplished if SSA moves to obtain access to a nationwide network that currently links all financial institutions. Such information would help ensure that individuals whose bank accounts would make them ineligible for SSI do not gain eligibility.

- Additionally, in 1996, we reported that about 3,000 current and former prisoners in 13 county and local jails had been erroneously paid $5 million in SSI benefits, mainly because recipients or their representative payees did not report the incarceration to SSA as required, and SSA had not arranged for localities to report such information. Since then, SSA reported that it has established a national database which matches the social security numbers of recently incarcerated prisoners with SSA's records to initiate the suspension of benefits.

- In a report issued last year on SSI recipients admitted to nursing homes, we found that despite legislation requiring recipients and facilities to report such admissions, thousands of nursing home residents continued to received full SSI benefits. These erroneous payments occurred because recipients and nursing homes did not report admissions and SSA lacked timely and complete automated admissions data. SSA has estimated that overpayments to recipients in nursing homes may exceed $100 million annually.

The following cases, identified by the SSA-OIG Office of Investigations, are further examples of overpayments occurring as a result of insufficient verification of eligibility data:

- A California couple, when applying for SSI benefits, never declared owning property and a landscaping business for the past 10 years. As a result, the couple has been sentenced to jail (suspended) and ordered to pay restitution of which $48,634 was related to SSI overpayments.

- The Chula Vista Field Office performed a home residency verification study and determined that 63 recipients of its targeted population were overpaid more than $385,000 because SSA was unaware that they were not U.S. residents and, therefore, ineligible for SSI payments.

Social Security Accountability Report for Fiscal Year 1997 (SSA Pub. No. 31-231) November 1997.

Office of the Inspector General, Social Security Administration, Inspector General's Report to the Congress, October 1, 1996 - September 30, 1997 as incorporated in Social Security Accountability Report for Fiscal Year 1997 (SSA Pub. No. 31-231), November 1997.

Supplemental Security Income: Organizational Culture and Management Inattention Place Program at Continued Risk (GAO/T-HEHS-98-146, April 21, 1998).

Supplemental Security Income: Opportunities Exist for Improving Payment Accuracy (GAO/HEHS-98-75, March 27, 1998).

Supplemental Security Income: Timely Data Could Prevent Millions in Overpayments to Nursing Home Residents (GAO/HEHS-97-62, June 3, 1997).

Supplemental Security Income: SSA Efforts Fall Short in Correcting Erroneous Payments to Prisoners (GAO/HEHS-96-152, August 30, 1996).

DISABILITY INSURANCE (DI) PROGRAM OVERPAYMENTS

SSA disbursed about $45 billion in disability payments to approximately 6 million beneficiaries during fiscal year 1997. SSA also identified newly detected overpayments of approximately $500 million for this program in the same fiscal year. Control deficiencies in verifying medical eligibility requirements may have contributed to SSA disbursing overpayments in this program. For example, SSA is mandated by section 221(i) (1) of the Social Security Act to perform Continuing Disability Reviews every 3 years on DI beneficiaries to assess their continued medical eligibility. However, acknowledged delays and backlogs in performing these reviews undermines the effectiveness of this control. Additionally, SSA does not have sufficient controls to timely detect unreported or excessive earnings from which monthly benefit payment calculations are primarily derived. The following cases, identified by the SSA OIG Office of Investigations, are examples of fraud perpetrated as a result of insufficient verification of eligibility criteria:

- A Massachusetts man did not report wages to SSA while receiving disability insurance since 1990. He was ordered to pay $92,238 in restitution.

- An Indiana man was employed by a health care clinic while receiving disability benefits. As a result of this employment, the man received more than $90,000 of benefit overpayments to which he was not entitled.

Other examples of fraud perpetrated in the DI program are as follows:

- An Iowa woman pled guilty to concealing the 1986 death of her husband from SSA. The woman did not disclose the death to SSA, buried him in the back yard of their residence, and continued to receive his disability benefits totaling $106,318.

- A California woman, while collecting disability benefits, applied for and received a Social Security number and a California driver's license under a fictitious name and then gained employment. She did this to conceal her employment so she could continue to receive disability benefits. SSA incurred a loss of $112,000.

Social Security Accountability Report for Fiscal Year 1997 (SSA Pub. No. 31-231), November 1997.

Office of the Inspector General, Social Security Administration, Inspector General's Report to the Congress, October 1, 1996 - September 30, 1997 as incorporated in Social Security Accountability Report for Fiscal Year 1997 (SSA Pub. No. 31-231), November 1997.

DEPARTMENT OF TRANSPORTATION

FEDERAL AVIATION ADMINISTRATION (FAA)

The IG audit report on the 1997 financial statements identified serious deficiencies in FAA's reporting of operating materials and supplies and of property and equipment. These assets represent over 60 percent of FAA's total assets. Among the more serious deficiencies cited in the IG report were the following:

- The reported $764 million for operating materials and supplies could not be verified because FAA had not completed comprehensive physical inventories of spare parts at all field locations or maintained up-to-date records to accurately account for field spares. FAA also identified $98 million in excess and obsolete inventory, which it intends to dispose of, thus saving $16 million a year in holding costs.

- The reported $11.6 billion for property and equipment was unreliable because FAA had not, and still needs to, conduct comprehensive physical inventories of its property and the recorded value of property.

Department of Transportation Office of Inspector General Audit Report FY 1997 Financial Statements Federal Aviation Administration, (Report # FE-1998-098), March 25, 1998.

DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE (IRS)

In April 1997, IRS released the results of its tax year 1994 Earned Income Credit (EIC) compliance study. That study, which involved an in depth review of a sample of tax year 1994 EIC returns, showed that of $17.2 billion in EIC claimed during the study period, taxpayers overclaimed about $4.4 billion, or about 26 percent. However, there is insufficient evidence to determine how much of the noncompliance is intentional (i.e., due to fraud) or unintentional (i.e., arising from taxpayer confusion over EIC requirements). There have been several recent changes (i.e., new legislation and a specific appropriation for EIC compliance efforts) that, in our opinion, put IRS in a much better position to deal with EIC noncompliance.

Earned Income Credit: IRS' 1995 Controls Stopped Some Noncompliance, But Not Without Problems (GAO/GGD-96-172, September 18, 1996).

Tax Administration: Earned Income Credit Noncompliance (GAO/T-GGD-97-105, May 8, 1997).

Earned Income Credit: IRS' Tax Year 1994 Compliance Study and Recent Efforts to Reduce Noncompliance (GAO/GGD-98-150, July 28 1998).

As a tax revenue collection agency, IRS is responsible for collecting over 90 percent of the federal government's revenues. In fiscal year 1997, more than $1.6 trillion of revenue and $142 billion of refunds flowed through IRS' financial systems. To ensure that the proper amount of tax revenue is collected and safeguarded, it is imperative that IRS have strong financial management and internal controls in place. However, the results of GAO's audit of the IRS' custodial financial statements for FY 1997 indicated serious weaknesses in IRS' internal controls. While no set of controls can completely eliminate vulnerability, IRS' current controls over service center cash and checks received directly from taxpayers are not sufficient to adequately reduce the exposure to loss inherent in its receipts processing activities. Controls are also insufficient to ensure that IRS does not issue inappropriate tax refund payments.

Financial Audit: Examination of IRS' Fiscal Year 1997 Custodial Financial Statements (GAO/AIMD-98-77, February 26, 1998).

DEPARTMENT OF VETERANS AFFAIRS (VA)

VA COMPENSATION AND BENEFITS OVERPAYMENTS

The VA OIG reviewed the causes of Compensation and Pension (C&P) overpayments valued at $120 million outstanding as of the end of fiscal year 1995. Overpayments occurred when beneficiaries received money to which they are not entitled, generally as a result of changes in their entitlement status (income, dependency, hospitalization status, or death). The OIG estimated that overpayments valued at $26.2 million could be prevented annually if Veterans Benefit Administration's (VBA) policy and procedures were revised and cases are properly processed.

In addition, the OIG conducted a review of operations during fiscal year 1995 and the first half of fiscal year 1996 to evaluate the quality of decisions to waive the collection of C&P debts, and to assess Committee on Waivers and Compromises program policies and operating procedures. During fiscal year 1995, VBA waived beneficiary debts to VA valued at about $67 million. Based on a statistical analysis on debts valued at $11.6 million, the OIG found that waiver decisions in 30 percent of the debt cases reviewed were not supported by the evidence of record.

> Office of Inspector General, Semiannual Report to Congress, October 1, 1996 - March 31, 1997, Department of Veterans Affairs.

INFORMATION TECHNOLOGY INVESTMENTS

GAO reported in 1997 that over the past 6 years, federal agencies had obligated over $145 billion to build up and maintain their information technology infrastructure. The benefits from this vast expenditure, however, have frequently been disappointing, with numerous system development efforts suffering from multimillion dollar cost overruns, schedule slippages measured in years, and dismal mission-related results. For example, the DOD Corporate Information Management initiative was expected to save billions of dollars by streamlining operations and implementing standard systems; after 8 years and about $20 billion, the expected savings have not been realized. Similarly, when the Federal Aviation Administration restructured its automation program in 1994 due to severe cost, schedule, and technical problems, about $1.5 billion of the $2.6 billion that had been spent was wasted because the procured equipment and services could not be transferred to follow-on projects.

> High Risk Series: Information Management and Technology (GAO/HR-97-9, February 1997).

> Air Traffic Control: Evolution and Status of FAA's Automation Program (GAO/T-RCED/AIMD-98-85, March 5, 1998).

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