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Program abuses

Fraud

Ethical conduct

Oversight by Congress

Management information

Internal audits

Auditing systems

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STATEMENT OF
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COMPTROLLER GENERAL OF THE UNITED STATES
BEFORE THE
SUBCOMMITTEE ON FEDERAL SPENDING PRACTICES
AND OPEN GOVERNMENT
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
ON

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FEDERAL EFFORTS TO COMBAT FRAUD
IN GOVERNMENT PROGRAMS

Mr. Chairman and Members of the Subcommittee:

I am particularly pleased to be here today to discuss our report "Federal Agencies Can, and Should Do More to Combat Fraud in Government Programs" because it provides me with an opportunity to not only discuss the important matters covered in this report, but also in that context provide this Committee with some added insight into the importance of GAO's self-initiated work. I think you will agree that because of the press of legislative responsibilities, the Congress generally does not approach the oversight of Federal programs in a methodical fashion. One of GAO's major functions is to cover this shortfall--to

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systematically examine the major operations of Federal agencies and programs. Obviously in doing this, we are often not addressing the concerns of the moment but by the same token, these efforts can and often do disclose major weaknesses deserving of congressional consideration.

Let me explain the genesis of this particular GAO audit to illustrate the point I just made. In mid-1976, we started some exploratory work aimed at ascertaining whether Federal agencies had instituted effective policies and procedures for combating the fraud that might exist in their programs. In doing this, we had to formulate criteria regarding the composition of an effective antifraud effort. It seemed to us that the essential elements of such an effort would include

- a set of procedures to assess the vulnerability of the programs in question. We wanted to learn if agencies had thought through the type of fraudulent schemes to which their programs were susceptible.
- the comprehensive collection and analysis of information on known incidents of fraud. The question here was whether the agencies were alert to identifying patterns or trends in the types of frauds being perpetrated.
- an aggressive effort to followup on instances of fraud that may have surfaced, but to not only react but also actively seek out fraudulent schemes. We wanted to know whether the agencies were "policing" as well as "investigating"

--strong leadership on the part of the Department of Justice in bringing its expertise to bear on the overall problem. Our intent here was to find out if the Department of Justice was doing what it could in assisting the agencies to combat fraud.

Having established the hypotheses to be tested, our next step--an arduous and time-consuming one--was to identify and gather the evidence needed to confirm or deny the existence of the postulated problems. As discussed in the report, we reviewed these activities at the Departments of Agriculture; Labor; Transportation; and Housing and Urban Development, and the Veterans, General Services, and Small Business Administrations. We examined these agencies' policies, procedures, and records and held discussions with their officials at headquarters and field offices in five States. We believed that this kind of coverage was necessary if we were to draw sweeping conclusions about the matters being reviewed. We also performed work at the Department of Justice's Civil and Criminal Divisions and at various U.S. Attorneys offices.

We believe the scope of our work amply supports the conclusions contained in our report. Although some bright spots existed here and there with respect to an individual agency's antifraud activities, overall our worst fears were confirmed and the existence of the postulated problems established.

At this point, Mr. Chairman, we will discuss the principal findings in our report. Although these problems were common to all of the agencies encompassed in our review, we shall emphasize examples involving the General Services Administration because of your particular interest in that agency. Before doing that though, I would like to refer to an important related effort underway in the Congress to establish offices of Inspector General across Government.

The need for stronger internal audit and inspection is reenforced by our report, but a strengthened criminal investigative capability is not sufficient to solve these problems. The internal auditors should also be very much involved. They have as one of their major tasks the evaluation of the adequacy of management's internal control systems necessary to the prevention of fraud. Theirs is a preventive role. In doing this they must work closely with the investigators in providing leads to the latter on potentially fraudulent situations and in return consider the investigator's findings as part of the internal control system assessment. Each has an important role to play but not to the exclusion of the other. It is for this reason that we have urged the Congress to designate the proposed officers "Auditor and Inspector General" as provided for in the Senate bill. The House bill would designate these officers as "Inspectors General" with the auditor relegated to the third level in the organization. I hope very much that the Senate approach will be adopted in conference.

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The Government's economic assistance programs, amounting to about \$250 billion annually, are vulnerable targets of fraud and related white-collar crimes. Identifying the extent, nature, and frequency of these illegal acts, together with strong internal controls and effective audit coverage, are essential first steps to combating and preventing them. Yet the agencies we reviewed were not doing nearly enough to identify fraud.

Federal programs involving grants, contracts, and loan guarantees are exploited through such means as

- false claims for benefits or services,
- false statements to induce contracts or secure goods or services,
- bribery or corruption of public employees and officials,
- false payment claims for goods and services not delivered and
- collusion involving contractors.

No one knows the magnitude of fraud against the Government. Hidden within apparently legitimate undertakings, it usually is unreported and/or undetected. However, all indications are that fraud is a problem of critical proportion. Department of Justice officials believe that the incidence of fraud in Federal programs ranges anywhere from 1 to 10 percent of the programs' expenditures. A former Secretary of the Department

of Health, Education, and Welfare estimated that losses under the Medicaid program alone total \$750 million annually from fraud and abuse.

At the time of our review, top level GSA officials in Washington and the various field locations visited were of the impression that fraud and abuse was not a major problem--not a major problem because few instances had been detected. This attitude reflected the passive effort taken by GSA to comprehensively assess its vulnerability. GSA, like the other agencies visited, lacked any systematic effort to identify and root out fraud.

Agencies have not established management information systems on fraud. As a result, they do not know the amount of identified fraud in their programs, nor can they estimate the potential amount of unknown fraud. GSA lacked such a system and therefore could not identify the extent of fraud and abuse that occurred in its program. We noted, however, that individual case data was kept which could be used as a basis to formulate such a system. Without such data, agencies have no basis for establishing the level of resources needed to combat fraud, map antifraud strategies, and evaluate the scope and effectiveness of antifraud activities.

Until recently, agencies have not made fraud detection a high priority. Because their overriding concern is program execution, emphasis is on such program objectives as providing

loan assistance. The low priority given to fraud detection leads to passiveness regarding potentially fraudulent situations. The Federal Highway Administration, for instance, generally views contract violations as honest mistakes, with no consideration of the underlying reasons for the violations or potential fraud. The Department of Labor regards questionable personnel and training cost reports submitted by prime sponsors as possible funds to be recovered rather than possible fraud. GSA regarded contract irregularities, such as substitution of material or incomplete performance as "sloppy work to save a buck," rather than potential fraud.

None of the agencies reviewed have, until recently, designated a focal point responsible for seeking out and identifying fraud. Consequently, they generally take a reactive, rather than active, approach to fraud detection. However, a reactive approach is inadequate for detecting fraud, since there is often no obvious incident to react to. The only ongoing, systematic mechanism to actively look for fraud in those agencies reviewed is the Department of Housing and Urban Development's operational survey--a concentrated effort by joint teams of investigators and auditors to detect fraud and program weaknesses. The surveys have consistently uncovered numerous occurrences of suspected fraud. In other isolated instances where agencies have actively sought fraud, they also identified suspected fraud cases.

GSA headquarters and regional officials agreed that if fraud identification becomes a priority effort, a focal point to monitor antifraud efforts would be essential.

Agencies have no assurance that those personnel administering programs are referring all suspected frauds for investigation because:

- There are no controls to see that suspicious matters are reported.
- Large workloads hinder identifying suspected fraud by program personnel. For example, only three employees were responsible for administering \$104 million in one Department of Labor program.
- Employees lose interest in reporting suspected frauds when followup actions, such as investigations and prosecutions, are not promptly taken.
- Many Federal programs are administered by State, local, or private sector institutions, and Federal agencies often unjustifiably rely on those non-Federal entities to identify and report frauds.

GSA officials cite the agency's employees' code of conduct procedures and administrative manual as its effort to encourage employees to report suspicious matters. It lacks controls, however, to ensure that such procedures are being followed, and that all potential fraud or abuse are in fact being referred for investigation.

Agency investigators often do not have the background, experience, and training needed to effectively detect and identify fraud. About 70 percent of them have had no prior experience in fraud investigations, and about 80 percent have had no formal training in investigating fraud. Where investigators have had such training, it was generally limited to procurement fraud. Most investigators have also lacked the education in finance and accounting-related subjects often needed to identify fraud. Since fraud against the Government often involves examining financial documents, absence of a financial background could be detrimental to effective fraud investigations.

GSA officials said that their investigators have had limited training in the fraud area. They agree that such training would be beneficial and that efforts should be taken to provide training in the fraud area.

JUSTICE NEEDS TO PROVIDE
STRONGER LEADERSHIP

The Department of Justice has been slow to assist, coordinate, and monitor the antifraud efforts of Federal agencies. Justice has not provided agencies with

- overall management information on how fraud has occurred and can occur in their programs and
- specific, formal guidelines on which types of fraud cases will be accepted for prosecution and how they should be developed to increase the likelihood of successful prosecution.

In 1975 Justice, recognizing the need to deal with white-collar crime, established a white-collar crime committee. One activity of this committee was to provide guidance to agencies on combating fraud. It has met extensively with agency officials and has assisted agencies in carrying out several successful projects demonstrating the existence of fraud in their programs. However, this effort's effectiveness relies on the receptivity of the agencies to Justice's encouragement and the availability of resources Justice can devote to it.

We believe a more active, systematic approach to identifying fraud is needed. Our report contains specific recommendations to assist Federal agencies comprehensively address the fraud and abuse problem.

Our recommendations are only directed at the program agencies covered in our review. We believe, however, they are most essential to effectively deal with fraud and abuse in Government programs, and therefore should be considered by other Federal agencies in their efforts to comprehensively address this serious problem.

AGENCY RESPONSES

The various Federal program agencies agreed that more needs to be done to effectively cope with fraud and abuse in Government programs. Most of the program agencies said that they have recently made fraud identification a high priority and have fixed organizational responsibility for fraud detection.

These agencies have also identified certain other actions they have taken or plan to take to further bolster the fraud detection effort.

The Department of Justice also agreed that there is substantial room for improvement in its efforts and those of agency enforcement groups. It believes that efforts already underway such as expanding resources committed to program fraud, training investigators in fraud detection, and establishing special fraud units in U.S. attorney offices, will upgrade the Department's effectiveness.

On May 23, 1978, Administrator Solomon commented on the matters disclosed in our draft report. He was in basic agreement with the findings of the report. He told us he had appointed Mr. Vincent R. Alto to head a task force established to review and investigate areas of GSA operations most susceptible to criminal abuse. He also agreed that the agency's capability for audits, inspections, and investigations was inadequate.

In addition, he cited several other actions that should be taken to bring GSA operations under control. These included --an agency-wide review of delegations of authority to assure that responsibility for decisionmaking and oversight operations is vested in officials at appropriate levels of accountability and

--requiring the Office of Audits and Inspections to report directly to him on a weekly basis and strengthening the Office with the addition of 25 people.

Mr. Chairman, this concludes our statement. We will be glad to respond to any questions you may have.



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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The President
The White House

Dear Mr. President:

As you know, the Chairman, Subcommittee on Federal Spending Practices and Open Government, Senate Committee on Governmental Affairs, has been holding hearings on the recent fraud and abuse scandal at the General Services Administration (GSA). I recently testified before this Subcommittee on our audit efforts at GSA and, more specifically, our report titled, "Federal Agencies Can, And Should, Do More To Combat Fraud In Government Programs" (copy enclosed). As a result of these hearings and our recent review of Federal agencies' abilities to identify and root out fraud in their programs, it became apparent that the solutions for dealing with fraud and abuse are complex, and will require a total Federal commitment. *(S. J. 78-62 9-19-78)*

There are many Federal programs which are subject to fraud and abuse and their vulnerability to fraud is dependent on the strength of internal controls and administration. If the Federal Government is to establish a formal system to deal with fraud and abuse, a vulnerability assessment of these programs would be a prerequisite to developing any comprehensive law enforcement strategy. This assessment would identify those programs most susceptible to fraudulent activity and thus form the basis for setting law enforcement priorities. Because of the many Federal agencies involved with this common Government problem, we believe there is need to establish a Federal policy to insure that vulnerability assessments are made and the proper Federal strategy is implemented.

Mr. President, there are many options available to you for establishing a forum to develop such a Federal policy. This forum could consist of a special panel made up of Federal agency heads--possibly headed by the Attorney General--or a special commission made up of independent parties with no direct Government affiliation. Whatever the choice, this forum would provide the solidification necessary to comprehensively address this Government-wide problem.

Once this direction and leadership has been provided and the vulnerability assessment made, the enforcement strategy and plan can then be developed. The Federal strategy could set forth the specific goals and objectives which would lay out intended accomplishments; the operational plan, including the approach to identify, investigate, and prosecute fraud and abuse; and the evaluation system to measure outcomes. After the strategy has been agreed to and the plan for implementation crystalized, resources and other tools can then be identified. We believe this approach, coupled with implementing the recommendations contained in our report, should produce the effective Federal efforts needed for handling the problem.

Without a total Federal commitment to a comprehensive approach for dealing with this Government-wide problem, I believe Federal efforts will remain piecemeal. I have agreed to work closely with Chairman Lawton Chiles in his efforts to address this problem and I extend this same commitment to you if you so desire.

Respectfully yours,

(Signed, MARK A. SMITH)

Comptroller General
of the United States

Enclosure