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The Federal Government's economic assistance programs, amounting to about \$250 billion annually, are vulnerable targets of fraud and related white collar crimes. Identification of the extent, nature, and frequency of these illegal acts, together with strong internal controls and effective audit coverage, are essential first steps in combating and preventing them.

Findings/Conclusions: A review of several agencies indicated that they have not been doing enough to identify fraud in their programs and that the Department of Justice has been slow in assisting Federal agencies' antifraud efforts. However, Federal agencies have recently recognized that more needs to be done, have indicated that fraud detection is now an agency high priority, and actions are being taken to bolster their current efforts. Recommendations: The heads of the eight Federal agencies discussed in this report should: develop management information systems aimed at providing information on the most likely types and methods of fraud; elevate fraud identification to a high priority; take steps to make employees more aware of the potential for fraud and establish controls to see that irregularities are promptly referred to appropriate personnel; fix organizational responsibility for identifying fraud; and provide agency investigators with appropriate fraud training. The Attorney General should establish a formal plan to assist Federal agencies in combating fraud. (Author/SC)

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BY THE COMPTROLLER GENERAL

# Report To The Congress

OF THE UNITED STATES

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## Federal Agencies Can, And Should, Do More To Combat Fraud In Government Programs

Federal economic assistance programs amounting to about \$250 billion annually are susceptible to fraud and related white-collar crimes. No one knows the extent of fraud against the Government, but Department of Justice officials believe it ranges from 1 to 10 percent of the expenditures.

Federal agencies have not been doing enough to identify fraud in their programs, and the Department of Justice has been slow in assisting Federal agencies' antifraud efforts. But Federal agencies have recently recognized that more needs to be done and have said that (1) fraud detection is now a high agency priority and (2) actions are being taken to bolster their current efforts.

This report contains recommendations to help Federal agencies take a more active, systematic approach to identifying fraud in their programs.



GGD-78-62  
SEPTEMBER 19, 1978



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

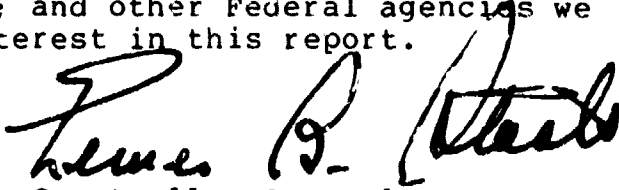
B-171019

To the President of the Senate and the  
Speaker of the House of Representatives

This report discusses the passive efforts taken by various Federal agencies to detect fraud in their programs. The report also points out that the Justice Department must play a more active role in helping agencies identify and reduce opportunities for fraud. Chapters 3 and 4 contain recommendations to the heads of the Federal agencies and to the Attorney General for improving the Federal effort in the area of fraud and abuse.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending copies of the report to the Director, Office of Management and Budget; the Secretaries of Health, Education, and Welfare; Housing and Urban Development; Transportation; Labor; and Agriculture; the Attorney General; the Administrators of Veterans Affairs, General Services, and the Small Business Administration; and other Federal agencies we believe may have a special interest in this report.

  
Comptroller General  
of the United States

D I G E S T

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 GAO reviewed--the Departments of Agriculture, Labor, Transportation, and Housing and Urban Development; and the Veterans, General Services, and Small Business Administrations--are 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, or
- 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.

The amount of suspected fraud which has surfaced confirms that the problem is severe. In 1976, for example, local jurisdictions reported to the Department of Labor that about \$38 million in alleged fraudulent unemployment insurance benefits were paid to claimants. Fraud against the Government ranks fourth among all criminal cases filed by Justice. As of March 1978, pending civil fraud suits in Justice totaled about \$250 million. According to Justice officials, this number is only a fraction of the actual amount defrauded from the Government.

Opportunities for defrauding the Government are virtually limitless because of the number, variety, and value of Federal programs. These programs, amounting to billions of dollars, involve numerous recipients, providers of goods and services, and public employees at all levels of government. The involvement of so much money, and so many people and institutions makes the Federal programs vulnerable to fraud. (See ch. 2.)

#### PASSIVE APPROACH TO DETECTION OF FRAUD

Federal agencies have not acted aggressively to detect fraud in their programs, and their practices are generally inadequate to identify potential 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. 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. The absence of management information systems

also precludes agencies from taking affirmative actions aimed at identifying and anticipating fraudulent activity, such as

- tracking fraud occurrences to determine trends and patterns,
- zeroing in on investigative targets,
- directing investigative resources where most needed, and
- pinpointing management procedures and program weaknesses which require strengthening to prevent recurrences of fraud. (See pp. 13 to 17.)

Until recently, agencies have not made fraud detection a high priority. Because their overriding concern is program execution, emphasis is on such things 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. (See pp. 17 to 19.)

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. (See pp. 19 to 22.)

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 these non-Federal entities to identify and report frauds. (See pp. 23 to 26.)

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. (See pp. 26 to 28.)

### JUSTICE NEEDS TO PROVIDE STRONGER LEADERSHIP

The Department of Justice has been slow to assist, coordinate, and monitor the anti-fraud 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 persuasion and encouragement and the availability of resources Justice can devote to it. (See ch. 4.)

### ACTIONS NEEDED TO ENHANCE THE FEDERAL EFFORT

Current national media coverage of the alleged frauds in building construction and maintenance contracting at the General Services Administration highlights Federal vulnerability to white-collar crime and the consequent need for an effective strategy to combat it.

GAO believes a more active, systematic approach to identifying fraud is needed. Heads of the Federal agencies discussed in this report should:



- Develop management information systems aimed at providing information on the most likely types and methods of fraud, including the development of techniques for estimating the magnitude of fraud in agency programs.
- Elevate fraud identification to a high agency priority.
- Take steps to make employees more aware of the potential for fraud and establish controls to see that irregularities are promptly referred to appropriate personnel.
- Fix organizational responsibility for identifying fraud.
- Provide agency investigators with appropriate fraud training. In future hirings, concentrate on recruitment of personnel with backgrounds and education more suited to the financial complexities of fraud.

The Attorney General should establish a formal plan to assist Federal agencies in combating fraud, including such procedures as:

- Working with Federal agencies to develop information on the nature of potential fraud in their programs.
- Consulting with agencies to devise systems to identify and investigate fraud.
- Advising agencies of the types of cases which will receive priority for prosecution and working with agencies to devise alternative solutions for those which will not.
- Providing feedback to Federal agency officials on program and administrative weaknesses developed by Federal prosecutors during the course of various prosecutions.

AGENCIES' COMMENTS AND RECENT ACTIONS  
TAKEN OR TO BE TAKEN

The various Federal program agencies agree that more needs to be done to effectively cope with fraud and abuse in Government programs. Most of the program agencies have 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. (See apps. I to VII.)

The Department of Justice also agrees 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. (See app. VIII.)

Some of these agencies did voice concern over certain statements contained in this report and the manner in which the report characterizes their fraud detection efforts. Chapter 5 addresses these concerns and the various agency actions taken.

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## ABBREVIATIONS

CETA	Comprehensive Employment and Training Act
FBI	Federal Bureau of Investigation
FWHA	Federal Highway Administration
GAO	General Accounting Office
GSA	General Services Administration
HEW	Department of Health, Education, and Welfare
HUD	Department of Housing and Urban Development
SBA	Small Business Administration
USDA	U.S. Department of Agriculture
VA	Veterans Administration

## CHAPTER 1

### INTRODUCTION

Recent disclosures of fraud and abuse involving Medicare and food stamps have received wide publicity. Yet these are only two of the many Federal assistance programs vulnerable to fraud to which the Government allocates billions of dollars each year in grants, contracts, loan guarantees, and other forms of economic aid. Government procurement activities are also susceptible to fraud.

### ECONOMIC CRIMES

Although economic crime or white-collar crime has no formal or statutory definition, the American Bar Association defines it as "any non-violent, illegal activity which principally involves deceit, misrepresentation, concealment, manipulation, breach of trust, subterfuge, or illegal circumvention."

Aside from outright embezzlement or diversion of funds and services, economic crimes include such offenses as bribery, kickbacks, and collusive bidding. Fraud <sup>1/</sup>, however, is a common element of most of these crimes.

As a major distributor of funds and provider of goods and services, the Government is a likely target for fraud. Hundreds of Federal programs exist to meet a wide range of social objectives such as maintaining minimum income levels for the needy, developing an adequate supply of housing, encouraging proper nutrition, and providing small business opportunities. Because of the vast amounts the Government spends and the diversity of its spending, Federal programs are tempting targets for fraud.

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<sup>1/</sup>A principal Federal fraud statute (18 U.S.C. 1001) states: "Whoever, in any matter within the jurisdiction of any department or agency of the United States knowingly and willfully falsifies, conceals or covers up by any trick, scheme, or device a material fact, or makes any false, fictitious or fraudulent statements or representations, or makes or uses any false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry, shall be fined not more than \$10,000 or imprisoned not more than five years, or both."

Numerous Federal criminal statutes have been enacted against fraud. More than 50 other statutes prohibit more specific types of fraud such as falsifying statements to obtain a Government pension, making payments to procure a Government position, and embezzling personnel training funds. Violations of many of these laws constitute felonies. Some violators can also be prosecuted civilly under the False Claims Act (31 U.S.C. 231-235), which allows the Government to recover double the damages sustained by fraud, together with the costs of suit and a fine of \$2,000.

### FEDERAL CONTROL RESPONSIBILITIES

Various elements within Federal program agencies and the Department of Justice help control fraud against the Government. Initial control is intended to be provided by an agency's normal management controls. These controls are aimed primarily at preventing fraud and abuse. Agency personnel who administer assistance programs generally have no explicit responsibility to control fraud other than to ensure adherence to management controls and to report suspicious circumstances.

Agency auditors and investigators are an additional control over fraud. Also, the Congress has in some instances specifically authorized an agency to investigate fraud on a program-by-program basis. The U.S. Department of Agriculture, (USDA), for example, has investigative jurisdiction (e.g. grain inspection) over many violations in Title 7 of the United States Code. Through auditors' reviews of agency operations, they often can identify possible fraud situations. Once irregularities have been identified by program administrative personnel, auditors, or other sources, they should be referred to agency investigators.

As of July 1977, the number of personnel in each agency we reviewed conducting audits and investigations was as follows:

	<u>Total</u>	<u>Headquarters</u>	<u>Field</u>
Department of Agriculture (note a):			
Office of Audit	440	43	397
Office of Investigation	305	44	261
Department of Housing and Urban Development:			
Office of Inspector General:			
Office of Audit	313	33	280
Office of Investigation	66	9	57
Department of Labor (note b):			
Directorate of Audit and Investigations:			
Auditors	154	41	113
Investigators	6	6	0
Office of Investigation and Compliance:			
Program analysts	13	13	0
Federal Highway Administra- tion:			
Office of Program Review and Investigations:			
External Audit Divi- sion	229	19	210
Investigations Divi- sion	4	4	0
General Services Administra- tion (note c):			
Office of Audits and Investigations:			
Office of Audits	84	42	42
Office of Investi- gations	90	16	72
Small Business Adminis- tration:			
Office of Audits and Investigations:			
Audit divisions	72	21	51
Security and Inves- tigations Divi- sion	12	12	0
Veterans Administration (note d):			
Internal Audit Serv- ice	72	66	6
Investigation and Security Service	25	16	9

a/A reorganization, completed in January 1978, placed USDA's audit and investigations offices under the Office of Inspector General.

b/On April 13, 1978, the Secretary of Labor established a permanent Office of Special Investigations to carry out the audit and investigative functions of the Department.

c/On May 9, 1978, the Administrator of General Services announced the appointment of a Special Counsel, on an interim basis, to exercise most of the authorities and responsibilities of an Inspector General.

d/On January 1, 1978, an Office of Inspector General was established with two components, an Office of Audit and an Office of Investigation.



Most agency investigators are in the GS-1811 classification (criminal investigator). They usually investigate irregularities referred to them to establish whether there is sufficient evidence that a crime has been committed. In some cases, an agency will continue to investigate after it believes a crime has been committed. An example is USDA's investigation of grain inspection activities.

Legislation has been proposed in the 95th Congress which would establish offices of inspector general in various Federal program agencies. This legislation contains provisions which require these offices to recommend policy for activities designed to prevent and detect fraud and abuse in agency programs and operations. In June and July 1978, we testified on this proposed legislation (H.R. 8588) before the Subcommittee on Governmental Efficiency and the District of Columbia, Senate Committee on Governmental Affairs. We stated that fraud detection should be a priority effort and that a portion of audit efforts should be devoted to detecting fraud. However, to provide maximum benefits, agencies must also maintain a balance among the types of audit coverage--financial, economy and efficiency of operations, program effectiveness, and fraud detection.

Several Justice components carry out different responsibilities connected with Government fraud.

- The Federal Bureau of Investigation (FBI) investigates alleged violations of Federal law. It generally investigates fraud against the Government upon referral by an agency or an allegation of fraud by any other source.

- At Justice headquarters, the Fraud Section of the Criminal Division monitors Federal prosecutions of fraud, reviews investigations, assists U.S. attorneys where needed in prosecuting fraud cases, and reviews relevant Federal legislation.

- The Criminal Division's Public Integrity Section prosecutes or assists in prosecuting alleged violations of the corruption statutes.

- The Frauds Section of the Civil Division handles certain civil actions to recover Federal funds obtained through fraud or damages sustained due to fraud.

U.S. attorneys prosecute fraud cases. Additionally, U.S. attorneys in about 25 major cities direct task forces composed of FBI agents, postal inspectors, and Department of Housing and Urban Development (HUD) investigators and auditors. These target cities have been designated for intensive investigative and prosecutive efforts to combat fraud and corruption in various HUD programs.

The Attorney General's White-Collar Crime Committee is made up of about a dozen high-level Justice officials. Its objective is to develop an integrated program to combat white-collar offenses and to coordinate all enforcement and prosecutive efforts. The Committee assesses the problems of white-collar crime, evaluates Justice's response, and makes recommendations for future Justice efforts. One of the Committee's objectives is to formulate strategies to improve law enforcement methods and techniques to combat fraud against the Government.

### SCOPE OF REVIEW

Our review examined how well Federal agencies are equipped to identify fraud in their programs. We focused on selected economic assistance programs such as grants, contracts, and loan guarantees carried out by the following agencies:

Department of Agriculture:	Nutrition programs (excluding food stamps). <u>1/</u>
Department of Labor:	Work Incentive Program and the Comprehensive Employment and Training Act.
Department of Housing and Urban Development:	Mortgage insurance and mortgage assistance programs.
Federal Highway Administration:	Highway construction and State assistance programs.
Small Business Administration:	Section 7(a) business loan program
Veterans Administration:	Education, loan and mortgage guaranty, and disability programs.

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1/References to food stamps in this report are based on our prior report--CED-77-112 (July 18, 1977).

We also performed work at the General Services Administration (GSA) to assess its involvement in identifying fraud in procurement activities. GSA's main mission is to satisfy the supply, service, and construction needs of Federal agencies. These procurement programs are also vulnerable to fraudulent activities.

We examined agencies' policies, procedures, and records, and held discussions with officials at headquarters and field offices in California, Illinois, New York, Pennsylvania, and Texas.

We also performed work at the Department of Justice's Civil and Criminal Divisions and at various U.S. attorneys' offices. Our work at Justice was limited to examining its activities to assist agency efforts against fraud. We did not evaluate Justice's investigative or prosecutive activities.

## CHAPTER 2

### HOW BIG A PROBLEM?

From time to time, headlines like these appear in the Nation's newspapers:

"Fraud Eyed in Drug Clinic Medicaid Bills"

"Pays Premium on Insurance with Federal Dollars"

"Probe Sale of Summer Jobs"

"Report Alleges Welfare Fraud of \$25 Million"

But the problem they relate to--defrauding the Government--probably occurs more frequently than an occasional headline suggests.

No one knows the actual extent of fraud and related white-collar crimes against the Government. However, in view of the Government's vast amount of dollar assistance and the many ways in which these funds can be diverted, indications are that fraud is of mammoth proportions.

Most crime statistics are generally believed to be understated because many, maybe most, crimes go unreported. This is especially true for fraud, since it is usually hidden or disguised within the framework of an apparently legitimate undertaking. Not only is fraud often unreported, it is often undetected. However, the former Assistant Attorney General, Criminal Division, said that public losses from all types of economic crimes far exceed the combined losses from the more publicized crimes of robbery, extortion, or burglary. He also said that banks lose three times as much from white-collar crime as from armed robberies. The U.S. Chamber of Commerce in 1974 estimated that total losses from white-collar crime in both the public and private sectors exceeded \$40 billion annually.

Opportunities for defrauding the Government are virtually limitless, owing to the number and variety of Federal programs. For example, Justice has described more than 30 known methods by which fraud can occur in Federal housing programs. Generally, Government programs are exploited through such means as

--false claims for benefits or services,

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

There are many ways in which fraud against the Government could be committed. For example, the Government has charged individuals or firms with:

- Fraudulently issuing and cashing checks totaling more than \$100,000 against a federally funded training program account.
- Fraudulently executing on-the-job training contracts for nonexistent companies, forging names of actual companies to obtain funds through the program, and embezzling and converting to personal use approximately \$3,970 of Federal money.
- Deliberately selling materials to the Government which did not meet contract standards. The manufacturing of the substandard materials resulted in reduced production costs of \$7,149.
- Accepting a \$10,000 bribe for processing a \$400,000 loan application, knowing this application was fraudulent.
- Conspiring to defraud the Government in obtaining Federal rent subsidies for tenants. To rent all of the apartments in a large housing complex, the employees allegedly filed applications using false names, understated their income, and added fictitious dependents and residents for the apartments.
- Filing \$104,000 in false vouchers for work which was never performed.
- Altering and forging material facts to secure a guaranty of \$29,100 on a loan.
- Embezzling at least \$850,000 of Federal funds by generating and altering payment vouchers.

Federal agencies generally are unaware of the amount of fraud which may be occurring in their programs. Estimates from some agencies, although undocumented, indicate that fraud is a major problem. The Department of Health, Education, and Welfare's (HEW's) Office of Inspector General annual report, dated March 31, 1978, estimated that in fiscal year 1977, fraud, abuse, and waste in HEW's programs was as much as \$5.3 billion. This report points out that it is virtually impossible to distinguish sharply between fraud, abuse, and waste, since frequently one problem involves all three. A former HEW Secretary estimated fraud and abuse in the Medicaid program alone to be \$750 million. Suspected fraud by recipients of food stamps is also considered to be a very serious problem. The Department of Commerce estimates that fraud in the Office of Minority Business Enterprise amounts to 10 percent of the program, or about \$5.3 million annually. From experience, Justice officials estimate that the incidence of fraud in Federal programs ranges anywhere from 1 to 10 percent of the programs' expenditures. These fragmented estimates, while serious in themselves, indicate a problem of critical proportions when considering that Federal financial assistance in fiscal year 1978 is estimated at \$250 billion (excluding Defense outlays). 1/

The amount of fraud which has actually surfaced tends to confirm the existence of a severe problem. Over the past several years, FBI statistics indicate a substantial amount of actual and suspected fraud against the Government. In fiscal years 1975 and 1976, and the first 9 months of 1977, the FBI handled more than 16,000 matters involving fraud against the Government. The FBI claimed savings of about \$31 million and reported that an additional \$25.8 million in fines and recoveries were collected as a result of successful fraud investigations.

Fraud against the Government ranks fourth among all criminal cases filed by Justice. As of March 1978, pending civil fraud suits in Justice's Civil Division totaled about \$250 million, and Justice officials believe this figure represents only a fraction of the actual amounts defrauded from the Government.

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1/The fiscal year 1979 Budget of the U.S. Government estimated Federal outlays to be \$462 and \$500 billion for fiscal years 1978 and 1979. Of this amount, 54 percent represents direct benefit payments to individuals and grants to States and localities.

Justice officials have pointed out that in every instance where they have looked for fraud in Federal programs, they have found it. For example, they said that a Justice test of unemployment benefits paid in a 3-month period produced 8,000 instances of employed individuals who may be fraudulently receiving benefits totaling \$2.3 million.

Our recent reviews of Federal economic assistance programs have found these programs to be riddled with abuse and error. For example:

--Local jurisdictions provided data to Labor which revealed that, of the more than \$119 million in unemployment insurance benefit overpayments in 1976, \$38 million was alleged to be fraudulent. 1/

--More than one-half billion dollars were lost annually through food stamp overissuances caused by local food stamp office errors, misrepresentations, and suspected fraud by recipients. Available data at five locations reviewed showed that half of the overissuances were classified by local program officials as suspected fraud. 2/

--As of June 30, 1975, the former Bureau of Health Insurance 3/ had received almost 36,000 complaints of program abuse, about half of which allegedly involved fraud. 4/

If, as is believed, much crime is not reported, and reported fraud reflects only "the tip of the iceberg," then it appears that the actual extent of fraud is tremendous. The potential for fraud is staggering in view of the

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1/"Unemployment Insurance--Need to Reduce Inequitable Treatment of Claimants While Improving Benefit Payment Controls and Tax Collections," HRD-78-1 (Apr. 5, 1978).

2/"The Food Stamp Program--Overissued Benefits Not Recovered and Fraud Not Punished," CED-77-112 (July 18, 1977).

3/The Bureau of Health Insurance was abolished on June 19, 1977, and its functions were transferred to the newly formed Office of Program Integrity in the newly established Health Care Financing Administration.

4/"Investigations of Medicare and Medicaid Fraud and Abuse--Improvements Needed," HRD-77-19 (May 23, 1977).

massive amount of dollars and people involved in the Government's economic assistance activities. The estimated \$250 billion of Federal financial assistance in fiscal year 1978 was distributed over and filtered through a network of millions of individuals and organizations. There are, of course, the actual recipients of Government assistance, as well as the various segments which help provide goods and services such as food suppliers, community service organizations, banks, real estate brokers, medical institutions, contractors, and the millions of Federal, State, and local employees who operate these programs.

The vulnerability of Government programs because of the involvement of so many parties can be shown by a relatively straightforward Veterans Administration (VA) home loan guaranty. This transaction may involve the (1) builder or seller of the home, (2) lender, (3) real estate broker, (4) credit reporting agency, (5) title company, (6) insurance company, (7) fee appraiser, (8) fee compliance inspector, (9) veteran, and (10) VA employees. A VA official said that such a situation allows the possibility of someone trying to find a way to make a dollar faster or obtain a service he or she does not qualify for. While most people involved in Government assistance programs are honest, there will always be some who seek to profit by exploiting a vulnerable system.

Dollar losses are only one aspect of the harm resulting from fraud and other white-collar offenses. When Federal programs are exploited and abused, it not only costs the taxpayers more but also may diminish public support for the programs, deprive eligible beneficiaries of benefits, and lower the level of services provided. For example:

--Bribery of a Federal meat inspector could lead to unwholesome meats being distributed and consumed by the public.

--A fraudulent medical scheme may cause the sick to receive unnecessary, unsafe, or inadequate treatment.

--Misrepresentations about the quality of construction materials could result in unsafe or substandard homes and buildings being constructed.

Also damaging is the effect of revelations of fraud upon the ordinary citizen's perceptions of the Government; fraud in Federal programs can seriously undermine public trust and confidence in governmental institutions. During a recent



prosecution of fraud in VA programs in Chicago, the jurors took the unusual step of writing the following letter to the U.S. District Court judge who presided over the trial. It suggests something about the intangible costs of fraud in Government programs:

"Although we the jury realize that the evidence testimony presented in this trial fully supports the guilt of (the defendant) on all counts in this indictment beyond a reasonable doubt, we would like to take this opportunity to express our strong concern about another matter--the obvious ineffectiveness of VA to help prevent fraud crime with respect to utilization of agency benefit funds due to a lack of an adequate audit system. The Government as well as the private sector has a responsibility to eliminate and/or minimize these temptations via effective systems and adequate audits thereof. When we pay our taxes, we in effect give the Government a fiduciary trust and they should handle it accordingly."

The extent of fraud in Government programs cannot be taken lightly. Even a low-side estimate of fraud, such as 1 percent, would amount to \$2.5 billion annually. While substantial in itself, this amount is more significant when considered in terms of the goods and services it could provide at current funding levels--enough to (1) fund the school lunch program for over 1 year; (2) increase the number of jobs provided under the Comprehensive Employment and Training Act (CETA) programs; (3) increase nearly five-fold the grants for cancer research; or (4) increase nearly 20-fold, grants for air pollution control.

Clearly, the impact of fraud, both financially and socially, is a formidable problem for Federal agencies. Their effectiveness and credibility in dealing with social and economic problems may depend in large part on their success in dealing with the problem of fraud.

## CHAPTER 3

### PROBLEMS PRECLUDING EFFECTIVE IDENTIFICATION OF FRAUD BY FEDERAL AGENCIES

Even though fraud is a serious threat to Government assistance programs, Federal agencies generally have not made concerted efforts to deal with it. For the most part, agencies (1) lack information on the extent of fraud detected and the ways it is committed, (2) have not given fraud identification a high priority, (3) have not fixed responsibility for identifying fraud, (4) have not assured that suspected frauds are referred for investigation, and (5) may not have investigators qualified to effectively investigate fraud. As a result, agencies have not mounted an aggressive and effective effort to detect fraud or surface and expose potential frauds.

#### AGENCIES LACK MANAGEMENT INFORMATION ON FRAUD

Prerequisites to controlling fraud in agency programs are knowing (1) the types of methods used to defraud the Government and (2) where fraud has occurred and its extent. Agencies have not established management information systems designed to provide data which could be useful in combating fraud. Consequently, they do not know the amount of fraud identified in their programs nor how it occurred. Also, they cannot take affirmative actions aimed at anticipating, seeking out, and identifying fraudulent activity.

#### Agencies do not know the extent of fraud

Agencies do not have data which would enable them to estimate the amount or incidence of fraud in their programs, nor do they have established techniques to assist in generating valid data. As a result, even agency officials who are convinced that fraud exists in their programs and try to estimate its extent are unable to support or document their estimates.

The uncertainty among agencies regarding the extent of fraud is indicated by the fact that officials of the same agency often have conflicting estimates of the problem. Agency investigators and auditors believe this problem is much more serious than program administrative officials do. In one instance, a Small Business Administration (SBA) official told us that fraud was a real problem and probably more widespread than realized, while another official in

the same region believed that the incidence of fraud was low.

While it is not possible to pinpoint how much fraud is occurring, some attempt must be made to define the scope of the problem to deal with it. Essential for program planning purposes is establishing targets against which agencies can measure effectiveness and provide a baseline for requesting and allocating resources necessary to combat fraud. Many Government agencies do, in fact, establish such targets as an essential part of their mission. The Drug Enforcement Administration, for example, must estimate the size of the illicit drug market and the extent of drug trafficking to plan programs aimed at combating it. The National Institute of Alcohol Abuse and Alcoholism needs to know the estimated number of alcoholics and the extent of alcoholism in the Nation to implement the most effective programs. Even those agencies in our review make similar estimates for carrying out their program responsibilities. HUD could not effectively implement certain housing programs without knowing how many people live in substandard housing. Labor must be aware of the estimated number of hardcore unemployed to initiate programs of the right size and in the right locations. Yet, the same urgency to define the scope of various social and economic problems has not been extended to the problem of fraud.

#### Agencies lack information which would help them to detect fraud

A management information system is basically an intelligence system which can serve as a major analytical tool to combat fraud. A Law Enforcement Assistance Administration-sponsored study has pointed out that the crime of fraud is often not a neat set of easily described acts but rather a complex, subtle, and dynamic process through which thefts are perpetrated. An information system draws a picture of this process to anticipate the how, when, and where of fraud and provide the basis for attacking it. Without such a system, agency efforts to detect fraud schemes are hampered.

As a minimum, a viable management information system should include data on

- locations where agency programs are being carried out;
- dollars spent in each program and location;

- groups and individuals involved as recipients or deliverers of goods and services;
- summaries of past fraud schemes perpetrated, methods of perpetration, and means by which detected;
- experiences and findings of other agency offices and law enforcement agencies; and
- management weaknesses previously identified by investigators, auditors, or others, which increase a program's vulnerability to fraud.

This body of knowledge should be systematically organized and analyzed to permit reconstructing past events and facilitating the identification of trends, patterns, or unusual occurrences indicating possible fraud.

None of the agencies in our review had a management information system to enable it to handle fraud and devise the best means of attacking it. Two agencies, however, have made some attempt in this direction.

USDA established a computerized information retrieval system in 1966 to identify, classify, and summarize information about weaknesses and irregularities in its operations. The system provided for codifying investigative and audit findings of USDA and other agencies and incorporated other information, such as geographic location and severity of findings. USDA regional officials told us that although the system was valuable to USDA auditors, it had little value to USDA investigators, mainly because of technical problems. (Too much data was placed into the system, much of it insignificant or duplicative.) In some instances, certain types of data could not be tabulated or retrieved quickly enough.

The revised USDA system is less ambitious and directed more at improving internal administration of the USDA investigative work force, rather than as a tool for anticipating fraud. USDA representatives told us that the new system could be modified to assist in detecting patterns of fraud, but there are no plans to do this.

HUD regional offices of investigations maintain a basic information system geared primarily to providing statistics to HUD headquarters on monthly caseloads. The data, however, is inadequate for serving as an analytical tool for identifying fraud patterns. Categories of investigative matters and the HUD program involved are not specific enough, nor is there any indication of the size or extent of the suspected fraud.

Because of a lack of management information systems, Federal agencies are unable to:

- Estimate the extent of fraud in their programs, thereby providing a basis for (1) establishing the level of resources needed to combat fraud and (2) evaluating the scope and effectiveness of investigations and audits.
- Track fraud occurrences to determine what trends and patterns exist.
- Provide leads to investigators and auditors prior to beginning assignments.
- Zero in on investigative targets which are most vulnerable to fraud.
- Direct investigative resources where most needed and where greatest benefit could be derived.
- Pinpoint management procedures and program weaknesses which require strengthening to prevent recurrences of fraud.

One important feature of a management information system is that it provides a means of identifying procedural weaknesses which make agency programs vulnerable to fraud. This, in turn, provides a basis for analyzing and correcting those weaknesses to prevent problems from recurring. Agencies in our review have not systematically corrected procedural deficiencies as a result of fraud-related investigative findings.

Some agency officials cited instances where procedural changes were recommended as a result of fraud-related investigations. USDA investigations, for example, recommended that the Food and Nutrition Service make better use of computer records to identify vendors who prepare food for the Summer Feeding Program. Federal Highway Administration (FHWA) representatives said that as a result of FHWA investigations, a procedure was revised to require that consultant agreements be postaudited. Usually, however, these were isolated instances and did not indicate a routine, systematic process that took preventive actions as a result of investigations.

Attempting to combat fraud without a management information system can be likened to navigating unfamiliar waters

without the benefit of oceanographic charts. As the Chief of Justice's Criminal Division's Fraud Section has stated:

"\* \* \* effective data collection is one of our weakest points in our attempts to effectively combat the problems of program abuse. Historically, data collection in this area has been weak and open to serious challenge in terms of reliability and meaningfulness. \* \* \* There is limited opportunity, on a national level, to assess precisely the level of abuse, the trends, the nature of the offender, and what have you." 1/

We believe that a management information system is the foundation for building an effective antifraud program. The lack of such a system seriously handicaps the ability of Federal agencies to actively combat fraud.

NEED TO AGGRESSIVELY  
LOOK FOR FRAUD

Shortcomings in the structure and policies of Federal agencies hinder the search for, and effective identification of, fraud. Such shortcomings are:

- Agencies generally give a low priority to identifying fraud.
- Responsibility for seeking out fraud has not been pinpointed in any organizational group or unit.
- Agencies have not established controls adequate to see that all suspected frauds are referred to appropriate investigative groups for disposition.

Because of these deficiencies, probably a good deal of fraud, perhaps most, goes undetected or, if detected, is not acted upon.

Agencies have not given fraud  
identification a high priority

None of the Federal agencies at the time we completed our review gave fraud identification a sufficiently high

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1/Hearings on H.R. 2819 before a Subcommittee of the House Committee on Government Operations, 95th Cong., 1st Sess., p. 419 (1977).

priority to encourage employees to be aware of it. The overriding concern of agencies is to carry out their primary mission of providing Federal assistance to solve national problems. Indeed, their performance is often measured, at least in general terms, by how much and how rapidly they spend. However, the very fact that agencies distribute large amounts of public funds carries with it a priority responsibility of protecting the funds they spend against fraud.

Pressures to provide service and to spend rather than protect Federal funds can foster an unawareness of the possibility of fraud. For example, some VA regional representatives told us that their top priority is service and that devoting their personnel to this priority precluded them from making sufficient efforts to detect fraud in processing loans. A regional USDA official said that opportunities to abuse programs are built into them. According to him, pressure upon USDA to provide assistance to those who need it precludes the opportunity for USDA to ensure that everyone who gets assistance deserves it. SBA district offices are given monthly targets as to how much they should spend. For example, one SBA office in New York had a target of \$7 million per month in loans. Pressure on SBA to spend becomes heavy when disasters occur and SBA must provide immediate emergency loans. Under circumstances such as these, it is easy to see that primary agency attention is devoted to getting out the funds, and looking for the possibility of fraud takes a back seat.

Some agency officials do not believe that fraud detection should have a high priority because, based on the number of fraud cases which have surfaced in the past, they do not consider fraud to be a significant problem. This view overlooks the fact that when dealing with fraud, past activity does not necessarily indicate current activity. Similarly, since fraud usually involves deception, and since Federal agencies have not actively looked for fraud in the past, not much fraud has surfaced.

One example of how misleading experience can be is an incident involving a particular HUD insuring office which had never indicated the existence of any problems or referred any matters for investigation. However, when HUD investigators and auditors made an operational survey at the office, they found 30 instances involving false statements. As a result of a later investigation at this office, coordinated by the U.S. attorney, 30 defendants were indicted and 24 convictions obtained.

Because of the low priority agencies give to fraud detection, they are not always alert to fraud and situations appearing to be fraudulent. This results in agencies giving possible defrauders the benefit of the doubt. For instance:

- Veterans may receive more VA educational benefits than they are entitled to, but VA generally considers the overpayment as accounts receivable rather than possible fraudulent receipts.
- A regional official of the Department of Labor stated that employees of Labor's Employment and Training Administration regard questionable program costs submitted to Labor by prime sponsors simply as funds to be recovered and not as suspected frauds.
- FHWA generally views contract violations as honest mistakes with no consideration of the underlying reasons for the violations or potential frauds.
- A regional HUD official said that some HUD employees reject housing loan applications for minor infractions when, in fact, the application may contain false statements which may constitute fraud.

Although these situations may be caused by the agency's urgency to accomplish program objectives, they show a serious neglect--in some cases bordering on tolerance--of possible wrongdoing. Practices like these are obviously not conducive to the effective identification of fraud.

#### Agencies have not fixed responsibility for identifying fraud

At the time our review was completed, none of the agencies had designated a group or unit as a focal point for seeking out and identifying fraud. As a result, agencies take a reactive rather than an active approach to fraud detection.

Most crimes involve an overt occurrence and an obvious victim, such as in armed robbery, assault, or arson. The task of law enforcement in such instances is to identify and apprehend the perpetrator. Fraud, however, is somewhat unique because the act may not be obvious, and the victim may be unaware that he or she has been taken advantage of. The primary task of those charged with controlling fraud, then, is to determine that an apparent fraud has taken place. Clearly, a reactive posture is inadequate to accomplish this initial detection since there is often no obvious occurrence



to react to. In general, the only frauds which surface are those which result from a complaint or which are discovered accidentally.

No group or unit in the agencies we reviewed, with the exception of HUD, specifically and systematically looks for fraud. Thus, while the investigative function is present in the agencies, the policing function is not.

Agency investigative groups investigate suspected fraud once it has surfaced. Generally, they do not take the initiative in searching for fraud, nor do they carry out any routine, systematic activities to identify it. Agency auditors, in their reviews of agency internal controls and procedures or audits of contractors and grantees, may sometimes come in contact with situations indicating fraud. However, their audits are not specifically geared toward identifying fraud. One field audit director, for example, said that fraud cannot be detected by performing standard audit steps.

Agencies have made occasional attempts to take an active, rather than reactive, role to combat fraud. When agencies have made serious attempts to systematically identify fraud, they have usually found it. Unfortunately, these efforts have been few and far between.

Among the agencies we reviewed, HUD's operational surveys are the most ambitious systematic mechanism aimed at actively seeking out and identifying fraud. The operational survey combines HUD investigators and auditors in a team which concentrates its efforts on a single HUD office. The surveys are aimed at uncovering deficiencies in program management and identifying specific irregularities, which indicate possible fraud, for investigation.

Results of various operational surveys indicate that they are useful for identifying fraud. For example, surveys made in 1974, 1975, and 1976 at five HUD insuring offices in one HUD region resulted in 154 cases of fraudulent activity being pinpointed for further investigation. These included such alleged criminal activity as

--conspiracy to defraud with the use of a dummy corporation;

--false certifications by sponsor/builder, mortgagee, and architect;

- land valuation irregularities; and
- undisclosed identities of interest.

In addition, the surveys consistently uncovered administrative deficiencies which could lead to program abuse. For example, two of the offices did not make required verification of credit information. Two other offices lacked controls over certain activities, which resulted in payment for work not performed or in duplicated services.

Despite the apparent merit of operational surveys, enough effort is not being devoted to them. HUD's policy is to survey at least one office per year in each region. Since each HUD region contains from 5 to 12 area and insuring offices, an office will probably be surveyed only once in many years. Staffpower devoted to operational surveys does not appear to be substantial. In one region, for instance, in about a 1-year period, auditors devoted only 7 percent of their time to the surveys, and investigators only about 8 percent.

In other isolated instances where agencies have actively sought out fraud, the results have been worthwhile. For example:

- An SBA office examined newly licensed small business investment companies over a 2-year period, which reportedly disclosed numerous schemes involving false statements and misrepresentations.
- A joint USDA investigative and audit team surveyed a Farmers Home Administration office to detect home loan frauds and uncovered 19 cases for investigation. No similar projects are planned for the future.
- A regional VA fraud squad, composed of temporary compliance investigators, identified four lenders suspected of fraudulent practices. Forty applications submitted by the lenders were reviewed, and minor to substantial irregularities were detected in more than 30 percent of the applications.

The operations of a Justice task force show how an active approach can be taken to detect fraud. At one U.S. attorney's office, task force investigators implemented a number of techniques to identify targets for investigation in

HUD's area management broker program. <sup>1/</sup> Task force investigators used the following techniques:

- Assembling available HUD data to prepare computer printouts identifying properties with extensive amounts of repairs, and brokers who used certain contractors frequently.
- Reviewing appropriate HUD records to identify false or altered contractor bid forms, irregularities in bidding, and duplicate billings for repair work.
- Sending questionnaires to residents of the HUD properties to verify that claimed repairs were actually made, or to determine if the purchaser was a speculator.

Through these means, suspicious brokers and contractors were identified for investigation of such possible practices as (1) broker receiving kickbacks from contractors, (2) contractors inflating bids for repair work and splitting fees with brokers, and (3) HUD employees being involved in such activities. As of May 1977, these and related investigations had resulted in the conviction of 54 individuals and companies.

These instances show the beneficial results of actively looking for fraud. These illegal activities had apparently been going on for a long time; they were fairly widespread, involved numerous individuals and companies and large sums of money; and much of the data used to pinpoint suspicious activities and persons was available at HUD. Yet, it was not until someone took the initiative to look for fraud and implemented certain detection techniques that the fraudulent activity came to light.

In those instances where agencies have actively looked for fraud, they have been successful in finding it. The results obtained from these sporadic efforts indicate that greater benefits could be derived by implementing a systematic, active approach toward detecting fraud.

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<sup>1/</sup>HUD contracts with brokers to manage, operate, and rehabilitate properties of which HUD becomes an owner through foreclosure. Brokers solicit bids from contractors and award HUD contracts for repairs.

Agencies have no assurance that all suspected frauds are referred for investigation

Because Federal agencies have not specifically delegated responsibility to look for fraud, they have no assurance that all suspected fraud is being referred. Other factors contributing to this problem are: lack of controls, heavy workloads, and the delegation of administrative responsibility to non-Federal entities.

In the agencies we reviewed, program administrative personnel did not always refer apparent irregularities for investigation. In HUD, for example, six operational surveys showed that all appropriate matters were not being referred by HUD administrative personnel. In one instance, a management review made by a HUD insuring office identified 11 cases where mortgagees submitted incorrect or false mortgage credit information that was not referred for investigation. SBA management reviews also disclosed irregularities which had not been reported. For example, one irregularity concerned a delinquent \$50,000 loan guaranty. The SBA review noted that the company apparently provided false financial data to obtain the loan guaranty. Although SBA personnel were not aware of this information when they approved the loan in July 1975, the information came to light in April 1976, 1 year before the SBA review. However, no referral for investigation was made at that time.

Agencies have no controls or procedures to see that suspicious matters are referred for investigation. Generally, agencies rely on employee integrity and adherence to codes of conduct to report irregularities. Sometimes agency employees are required to attend occasional briefings at which their responsibilities are discussed or are required to periodically review the agency's code of conduct. SBA also pointed out that it requires its auditors, investigators, and portfolio review personnel to evaluate employees' compliance with their procedures during field visits.

Frequently, the large workload in Federal agencies hinders the effective identification of fraud by personnel who administer agency programs. For example:

--A Department of Labor regional official indicated that \$104 million of CETA funds were expected to be spent in one city but only three program representatives were available to monitor these expenditures.

--FHWA regional officials said that lack of time and personnel impeded the detection of fraud. (Workloads at FHWA prevent personnel from evaluating at the contract level; staff can only evaluate a sample of the State agencies' procedures and controls.)

--A regional USDA official responsible for administering the child nutrition program complained of being too understaffed to exert adequate controls over fraud.

--Similarly, GSA personnel told us that lack of personnel to properly administer contracts was a problem.

SBA provides one of the more critical examples of how workloads detract from detection of fraud. In one SBA district office, loan officers handled a caseload of 400 loans each. A district office representative indicated that this was too much for loan officers to properly oversee and that 200 cases per officer would be a more appropriate level. In another district office, four loan officers handle a portfolio of 2,431 loans totaling \$155 million, an average of more than 600 loans per officer. The district director stated that this workload precludes other than the most cursory safeguards against fraud.

Sometimes suspected frauds are not reported because personnel become indifferent. Agency representatives indicated that employees lose interest in reporting fraud because they fail to see worthwhile results from referring irregularities. Results are hindered by lengthy delays in the criminal investigative process; another factor is that often there is either (1) little possibility for prosecution or (2) outright declination of cases for prosecution.

Another difficulty in ensuring that all suspected frauds are reported arises when Federal programs are administered by non-Federal entities, such as State and local agencies or private-sector institutions. Many of the Government's economic assistance activities--such as child nutrition, highway construction, health care assistance, and employment and training--are administered, in part, by institutions outside the Federal structure. The involvement of so many administrative layers increases both the opportunity for fraud and the problems in detecting it. As USDA has stated:

"The need for a mechanism to detect fraud is, of course, present in each program which involves the administration of public funds. The problems

increase in those programs where Federal controls are diluted by State and local governmental involvement and contractual relationships involving the private sector." 1/

Often, when a Federal agency delegates all or part of the administrative responsibility for a program, much of the burden for detecting fraud goes with it. For instance, USDA relies upon State program representatives to identify fraud in some programs. In Labor, employees of the Employment and Training Administration regard fraud detection as the responsibility of grantees rather than the Federal Government. However, it is doubtful whether relying on non-Federal entities to identify and report fraud is justified in the absence of any Federal controls. For example, a regional investigative official of USDA indicated that USDA has little coordination with State and local administering agencies in detecting frauds. Some FHWA regional officials told us they were not aware of any specific individual State efforts or lack of efforts to detect fraud.

Regarding the general inadequacy of State antifraud efforts, an official of the Law Enforcement Assistance Administration has observed:

"\* \* \* the States are hampered by one large factor of resources, trained resources. They do not have the economic investigative manpower to get involved in all areas of fraud. The one that is closest to State involvement is commercial fraud, fraud against businesses where the pressure becomes the greatest, I believe. This is the area they have been directing most of their resources toward." 2/

An additional factor is that in many of the programs administered by non-Federal entities, the entity invests relatively few, if any, funds. Since most of the funding is Federal, non-Federal entities have little incentive to look for fraud. Additionally, since Federal agencies

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1/Hearings on H.R. 2819 before a Subcommittee of the House Committee on Government Operations, 95th Cong., 1st Sess., p. 500 (1977).

2/Ibid., p. 420 (1977).

cannot always depend on their own employees to identify and report all frauds, it is questionable whether they can rely on non-Federal employees.

AGENCY INVESTIGATORS MAY NOT HAVE EXPERTISE  
TO EFFECTIVELY INVESTIGATE FRAUD

When suspected frauds are identified, either by auditors, complaints, or other means, agency investigators usually make at least a limited investigation to establish whether there is reasonable evidence that a crime has been committed. Frequently, agency investigators make lengthier investigations to present a case to Justice for possible prosecution. While we did not evaluate the effectiveness of agency investigative activities, we noted a basic shortcoming which may hinder the investigators from making skilled fraud investigations. This problem is that many investigators lack the background, experience, and training in areas needed to effectively investigate fraud.

The qualifying requirements for the GS-1811 criminal investigator position generally include a bachelor's degree or several years of responsible experience or an equivalent combination of education and experience. None of these educational or other qualifying criteria require experience or training in investigating fraud or knowledge of subject matter often necessary to investigate fraud, such as finance and accounting.

In the agencies we reviewed, most investigators had several years of investigative or law enforcement experience, but they generally did not have the background, experience, and training for fraud investigations. While some of this previous experience may have involved fraud investigation, most did not. A few investigators, for example, previously had positions, such as Internal Revenue Service agents or local welfare fraud investigators, where fraud investigations were frequent. About 20 percent of the investigators we sampled had investigative experience in one of the military departments and had some experience in investigating at least one type of fraud (procurement fraud). However, nearly 70 percent of the investigators had prior experience in positions where Federal fraud situations were not generally encountered (such as local police, sheriff, or national park police positions) or had no previous experience at all before being employed by their respective agencies.

Although agency investigators have usually received training in various investigative or law enforcement matters

and techniques, they have not been trained to handle fraud or fraud investigations. The most frequently attended training program for investigators is at the Department of the Treasury's Federal Law Enforcement Training Center. This is a 7-week program covering such basic investigative techniques as sources of information, effective writing for investigations, and conduct and testifying in court. However, most of the subject areas such as dignitary protection, civil disturbances, arrest techniques, and fingerprinting, are only remotely, if at all, relevant to the duties which agency investigators typically perform. The entire training program does not provide agency investigators with specific training to help them investigate fraud more effectively. In May 1978, the Center planned to substantially add to its curriculum, by including courses dealing with white-collar crime and fraud.

Many investigative officials and investigators told us they could use more training in fraud and fraud investigative techniques. They indicated a need for training in such specific areas as (1) the elements of fraud, (2) what fraud is, (3) where and how it occurs, and (4) the types and extent of evidence needed to prove fraud.

At the time of our review, GSA and HUD were planning to send selected investigators to an FBI-sponsored training course on white-collar crime. The course involved 2 weeks of training in residence at the FBI Academy and included training with computers and methods of accounting. Additionally, we were told that USDA was developing a training course on investigating frauds which new recruits, and possibly experienced investigators, would attend.

Aside from experience and training in fraud, agency investigators generally lacked an education in finance or accounting-related subjects. This could be detrimental to effective fraud investigations.

By its nature, fraud against the Government often involves extensively reviewing financial documents, forms, books, and records. For instance, the major means of embezzlement from federally assisted community action programs is through interfund transfers, misapplication of insurance proceeds, fraudulent rentals, and kickbacks. These actions may involve detailed and complicated financial and accounting transactions. The indispensable tool for investigating fraud is skillfully analyzing the documents involved in these cases.



Representatives of various U.S. attorneys' offices and the FBI told us that because fraud against the Government usually involves financial matters, it is essential that investigators have a background attuned to financial and accounting matters. One U.S. attorney, for instance, stated that highly skilled investigators with accounting backgrounds are needed to analyze books and records. Although the attorney has agency investigators assigned to his task force, he considers them to be useful mainly for their knowledge of agency program operations rather than for investigative expertise. Officials of some agency investigative offices believed that investigators needed more expertise in financial matters to do quality fraud investigations.

In the agencies we reviewed, most investigators lacked an educational background in finance, accounting, or related subjects. In one USDA regional office of investigation, for example, only 6 of 32 investigators had at least 3 semester hours of accounting or finance; in another office, none of the 34 investigators had any such background. In a HUD office, one investigator had a degree in business administration, but the other six investigators had no similar background. In two GSA offices, none of the 28 investigators had any background in accounting or finance. SBA appears to be an exception to the above pattern. SBA informed us that 10 of its 15 investigators have had formal training in accounting.

## CONCLUSIONS

Despite the scarcity of information on the extent of fraud against the Government, the problem is probably great because of the large amount of Federal expenditures susceptible to fraud. This being the case, the present low-priority efforts of most Federal agencies to identify fraud in their programs are grossly inadequate. In addition to strong internal controls and effective audit coverage, it is also essential that Federal agencies establish investigative units within their Offices of Inspector General or comparable units to specifically identify fraud in Government programs.

There is little probability that fraud against the Government can be significantly reduced through the current policies and practices of Federal agencies. Fraud cannot be combated unless it is first identified. And it will not be identified if agencies continue to take a passive approach toward it.

As with other goals Federal agencies strive to achieve, identification of fraud calls for a systematic strategy. This strategy will require a commitment on the part of each agency to identify fraud by elevating fraud detection to a high priority. It will require that agencies fix responsibility to actively look for fraud. And it will require as much knowledge as possible about how, where, and why fraud can occur within an agency's operations.

We believe there are simply too many Federal dollars "up for grabs" for agencies to stand by and wait for fraud to happen before acting. The policies and practices which foster this passive attitude will have to be substantially revised if Federal agencies are to make progress in reducing fraud.

### RECOMMENDATIONS

Current national media coverage of the alleged frauds in building construction and maintenance contracting at the General Services Administration highlights Federal vulnerability to white-collar crime and the consequent need for an effective strategy to combat it. We recommend that the Secretaries of Agriculture, Labor, Transportation, and Housing and Urban Development; and the Administrators of Veterans Affairs, General Services, and the Small Business Administration, should institute a more organized, systematic approach to identifying fraud by

- developing management information systems aimed at providing information on the most likely types and methods of fraud, including the development of techniques for estimating the magnitude of fraud in agency programs;
- elevating fraud identification to a high agency priority;
- taking steps to make employees more aware of the potential for fraud and establishing controls to see that all irregularities are promptly referred to appropriate personnel;
- fixing organizational responsibility for identifying fraud; and
- providing agency investigators with appropriate fraud training; in future hirings, concentrating on recruitment

of personnel with backgrounds and education more suited to the financial complexities of fraud.

These 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.

## CHAPTER 4

### DEPARTMENT OF JUSTICE HAS NOT BEEN AGGRESSIVE IN ASSISTING AGENCIES TO COMBAT FRAUD

Although the Department of Justice is the primary Federal agency concerned with law enforcement and the coordinator of Federal crime prevention programs, it has been slow in taking an active role in assisting Federal agencies to combat fraud. Justice has only recently provided some type of leadership in this area, but apparently, present efforts are too informal and too limited to be very effective.

As the Government's chief law enforcement agency, Justice not only prosecutes frauds against the Government but is responsible for coordinating all of the Government's antifraud activities. Executive Order 11396, dated February 7, 1968, authorizes the Attorney General to facilitate and coordinate the criminal law enforcement activities and crime prevention programs of all Federal departments and agencies. It also directs each Federal agency to cooperate with the Attorney General and furnish any needed information and assistance. But Justice has not effectively discharged this responsibility. A 1976 report by the American Bar Association stated that "the total Federal effort against economic crime is underfunded, undirected, and uncoordinated, and is in need of the development of priorities." <sup>1/</sup>

#### JUSTICE HAS NOT PROVIDED SUFFICIENT DIRECTION TO AGENCIES

Because of its Government-wide law enforcement authority and its expertise, Justice is in a unique position to provide oversight, guidance, and assistance to Federal agencies on the best ways to pinpoint, detect, and reduce fraud in their programs. This coordination can be done by (1) supplying each agency with data on how fraud has occurred and can occur and (2) developing guidelines on how agencies should handle fraud matters to increase the likelihood of successful prosecution. Unfortunately, Justice has done little to accomplish these ends.

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<sup>1/</sup>"Final Report of the American Bar Association Section of Criminal Justice--Committee on Economic Offenses," Dec. 30, 1976 (p. 12).

Justice is unable to provide agencies with this information because it lacks such information itself. Justice does not maintain statistics showing the proportion of staff time spent on particular programs. It does not maintain overall data on the specific source (agency and program) of fraud matters referred or their disposition; Justice has had to ask agencies for information about the cases the agencies have referred to Justice, to compensate for its own lack of a meaningful management information system in this area.

The available data is too general to be useful to agency executives who must pinpoint the source of their fraud problems. For example, Justice may know how many indictments and convictions have resulted from Federal investigations and prosecutions. This information, however, discloses nothing about weaknesses in the structure of agency programs, regulations, procedures, and management that provided the opportunities for such frauds to occur. Instead, information must be derived from a case-by-case analysis of the fraud schemes prosecuted in any given Federal program; it cannot be developed by simply collecting gross statistics, such as the number of cases opened and the number of indictments obtained.

In the few instances where Justice has made an effort in this direction, it has not made effective use of the information available. For example, Justice has prepared detailed documents which thoroughly analyzed the fraud problem in Federal housing programs. The documents (1) provide detailed background information on each of HUD's major housing programs, (2) explore aspects of the programs which have proven susceptible to fraud, (3) provide suggestions for developing cases, and (4) offer ideas for possible prosecution strategies. The documents, however, have only been prepared for Federal housing matters and have only been distributed to U.S. attorneys. There is a great deal of valuable information in these documents which could be used profitably by agency investigators. Also, by expanding this concept to other programs and distributing these documents to agency personnel, Justice could do much to redress the problems of guidance and coordination.

Justice is hampered in several ways by the absence of meaningful information about fraud in Government programs and the nature of the fraud cases referred by agencies administering those programs. This absence limits feedback and other forms of assistance which Justice could provide to Federal agencies. Without such data, it is virtually impossible for Justice to accurately assess

the effectiveness of its own enforcement efforts or the enforcement efforts of any other Federal agency. This weakness, in turn, handicaps Justice's effort to devise a comprehensive law enforcement strategy to prevent, detect, investigate, prosecute, and punish Government program fraud.

Justice does not provide Federal agencies with specific, formal, uniform guidelines on what types of cases will be accepted by U.S. attorneys and how those cases should be developed to increase the likelihood of successful prosecution. The existing procedures governing referral of cases to Justice arose in a piecemeal manner and vary not only from agency to agency, but among the different types of programs. Justice officials said that the only formal "guidelines" currently in effect are memorandums of understanding between Justice and some of the agencies reviewed. However, these vary by agency and provide only general guidance on the respective responsibilities of Justice and Federal program agencies in handling suspected fraud.

U.S. attorneys' offices also do not provide any formal guidelines to the agencies. Sometimes they even fail to communicate the specific reasons for declining cases to the agencies which referred them. Criteria used by U.S. attorneys to evaluate the prosecutive merit of suspected fraud cases vary from district to district. As a result, agencies with centralized responsibility for referring fraud must try to determine from experience which cases will be prosecuted by which U.S. attorneys.

A prosecutive problem, common not only to fraud against the Government but to Federal crimes in general, is the lack of remedies short of prosecution. In a previous report, we pointed out that for a variety of reasons, U.S. attorneys choose not to prosecute the vast majority of alleged violations of Federal criminal law. <sup>1/</sup> One of the major reasons for not prosecuting certain violations is the relatively small size of the crime--a factor typical of many cases of fraud against the Government. As a result of this prosecutive selectivity, many suspected defrauders are not prosecuted and, since other remedies are often lacking, an accused defrauder, if guilty, may never be penalized at all.

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<sup>1/</sup>"U.S. Attorneys Do Not Prosecute Many Suspected Violators of Federal Laws," GGD-77-86 (Feb. 27, 1978).

Justice officials have said that criminal prosecution is too harsh for some types of cases, especially those involving small sums of money where there is no evidence of a scheme or pattern to defraud the Government. Along these lines, Justice officials suggest greater use of administrative penalties, such as suspension from a program. While this technique might prove useful in certain circumstances, more viable and comprehensive alternatives to prosecution are urgently needed.

More than 40,000 criminal cases are filed annually in U.S. district courts, but only a fraction undergo a full trial. The need for action on this problem becomes apparent when one considers the fact that many matters are not detected and, if detected, may not be referred to Justice for prosecution.

#### RECENT JUSTICE EFFORTS FALL SHORT OF WHAT IS NEEDED

Most of Justice's recent innovative efforts to coordinate the fraud enforcement activities of Federal agencies are implemented through the Criminal Division's Fraud Section and the Attorney General's White-Collar Crime Committee. Attorneys in the Fraud Section are assigned duties such as

- reviewing investigations;
- assisting, on an as-needed basis, U.S. attorneys in the prosecution of fraud cases;
- prosecuting fraud cases;
- reviewing relevant Federal legislation; and
- assisting the agencies in detecting and referring allegations of fraud.

The White-Collar Crime Committee was established in the spring of 1975. It has succeeded to some degree in focusing attention on fraud against the Government, alerting Federal agencies to its severity, and uncovering some basic problems. However, its effectiveness has been hindered by several factors.

The Committee was established to provide a focal point within Justice to coordinate its own antifraud activities

and provide guidance to Federal program agencies. Although the Committee was originally formed on a temporary basis, the Attorney General authorized it to continue its work, in accordance with his elevating white-collar crime as a Justice priority. The Committee's basic procedure is to meet with top officials of Federal agencies, discuss their problems, and devise test strategies for improving the prevention, detection, and prosecution of fraud in their programs.

Through meetings with agency officials and general experience in prosecuting cases, the Committee has uncovered numerous agency weaknesses which provide opportunities for fraud. These problems generally coincide with the deficiencies discussed in chapter 3 and include the following:

- More pressure on agencies to spend program funds than to account for them.
- Understaffed and undertrained investigative and audit groups.
- Absence of worthwhile data collection systems.
- Excessive levels of review before potential fraud cases are referred to Justice.

One type of assistance which the Committee has provided Federal agencies is via special or pilot projects designed to detect fraud in particular programs. Justice's orientation toward special projects rather than programmatic solutions evolves from its lack of the necessary personnel to implement solutions. Basically problem oriented, these special projects experiment with innovative ways to detect and prosecute fraud in Government programs. In one U.S. attorney district, a project has led to identifying over 1,000 cases of welfare fraud involving public employees. In a June 22, 1977, letter to the Governor of Illinois announcing the indictment of 92 Government workers on welfare frauds (both past and present), a U.S. attorney remarked:

"\* \* \* In my almost nine years as a prosecutor, I have never seen extensive criminal conduct such as that involved here. \* \* \* It appears that in addition to those identified already, thousands of additional residents of Illinois are fraudulently obtaining welfare benefits while employed full-time. I should hasten to add that this problem is not isolated to government employees alone."



The Chicago Sun-Times also quoted him as saying:

"\* \* \* The problem with health care delivery in particular and the whole range of federal programs generally breaks down into two parts.

"First, a lack of respect for government by the beneficiaries of these programs. \* \* \* They (persons receiving public aid, veteran's benefits, FHA loans, unemployment compensation, Medicaid, etc.) don't feel that anything will be done to them if they lie or misrepresent their work status or abuse the system. \* \* \*

"Second, there is a callous disregard for public money by levels of the bureaucracy, particularly the federal level. There are no performance criteria, no monitoring of programs. Instead, the idea is not to rock the boat, a form of tunnel vision in which the bureaucrats avoid facing problems, exposing them to the public, lathering their superiors."

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Justice officials also cited another project which tested unemployment benefits paid during a 3-month period. They said this project yielded 8,000 potential cases of employed individuals who may be fraudulently receiving benefits totaling \$2.3 million.

Another form of assistance is an agreement by Justice's Criminal Fraud Section to prosecute cases which agencies cannot get the U.S. attorney to prosecute. Some agencies have complained that U.S. attorneys sometimes decline cases which the agencies would like to see prosecuted.

By assisting agencies in this manner, Justice also builds closer working relationships with them. The Committee has also urged U.S. attorneys to communicate their findings on program weaknesses, uncovered during the course of criminal investigations, back to the top executives of Federal program agencies.

Another result of the Committee's work has been the development of a Program Fraud Referral form, currently awaiting approval by the Office of Management and Budget. The FBI sends information copies of all referrals it is asked to investigate to Justice's Criminal Fraud Section. However, since some agencies bypass the FBI and refer cases

directly to U.S. attorneys, the Criminal Fraud Section cannot monitor all fraud referrals sent to Justice for prosecution. Furthermore, some U.S. attorneys are reluctant to analyze their fraud cases and report their findings to the Criminal Fraud Section, and Justice officials admit that coordination between the two entities is sometimes lacking. Attorneys submitting a referral form to the Criminal Fraud Section on each case of program fraud referred to any Justice unit should help the Criminal Fraud Section be aware of trends in fraud referrals. This procedure would facilitate better coordination between program agencies and the U.S. attorneys who must prosecute their cases.

Justice also has provided training to agency personnel. During 1977, these efforts included:

- A special seminar at the FBI Academy on fraud in Federal housing programs, attended by 30 assistant U.S. attorneys, FBI agents, staff from Justice's Criminal and Civil Divisions, and top audit and investigative personnel from HUD, USDA, and VA.
- Training for GSA auditors in Dallas and Washington, D.C., with the focus on such issues as how to "get behind" financial data and other information to detect fraud, how to develop a case, and what evidence to look for. A similar training session was being developed for Defense Contract Audit Agency auditors.
- A 4-day FBI seminar on program fraud was planned for over 100 of its agents assigned to investigate fraud in SBA, HEW, and USDA programs.

The Air Force's Office of Special Investigation is the only agency we found with anything approaching a comprehensive fraud training program. The Office has had a fraud training program since 1950, and in 1974 the program was expanded to 12 weeks as part of its increased emphasis on fraud investigations. In 1977 the Office entered into a contract to produce a movie entitled "Violations of Public Trust," to provide Defense personnel with an awareness of fraud and its symptoms, what to look for, and what to do when they find it.

We believe these actions indicate a growing awareness of an as yet unmet need. Much remains to be done in educating and training agency personnel in fraud matters.

Justice officials believe, and we agree, that the first step toward reducing the opportunity for fraud in Federal programs is learning to recognize the symptoms of typical fraud schemes.

Justice officials suggest the need for "enforcement impact statements" as a part of new social legislation. These statements would show how much a given program or activity will cost in terms of security, periodic audits, and other measures to protect Government funds.

While the actions of the White-Collar Crime Committee are positive, it is questionable whether the committee can be an effective vehicle for all that needs to be done because the Committee relies primarily on persuasion and encouragement. Its efforts have also been handicapped by Justice's inability to devote substantial resources to coordinating the Government's antifraud efforts. (The Fraud Section of the Criminal Division has 33 attorneys, but only 9 devote their time specifically to fraud against the Government and only 2 to actually coordinating and assisting agency efforts.)

Other Justice components, such as the Public Integrity Section and the Civil Division's Frauds Section, are involved in stopping fraud against the Government, but their efforts are mainly directed toward prosecuting specific cases. The Department of Justice, in commenting on this report, did say that its Civil Frauds Section's initiative in HUD's mortgage insurance programs and VA's mortgage guaranty programs highlighted significant deficiencies in these programs. Justice said that it advised the agencies of these perceived deficiencies; however, it is unaware of any steps taken to deal with these problems. Locally, about 25 U.S. attorneys have established formal or informal units for prosecuting certain economic crimes, but their major thrust is prosecution rather than assistance to program agencies.

Justice is the only Federal agency in a position to lead an across-the-board attack on fraud against the Government. While we are not certain what level of resources is needed for this mission, we believe that protecting a \$250-billion investment from fraud warrants more attention than can be devoted by a handful of personnel.

## CONCLUSIONS

Justice is the logical focal point for the Government's antifraud activities. It is the chief Federal law enforcement agency and, since it is ultimately responsible for prosecuting cases involving frauds against the Government, it has a vested interest in ensuring that agencies submit quality cases for prosecution. Since Federal agencies have not shown the ability to effectively deal with fraud, Justice must play a more active role in helping agencies identify and reduce opportunities for fraud in their programs.

Although Justice recognizes the severity of fraud against the Government, its informal efforts and limited resources devoted to this task greatly limit its effectiveness in dealing with this very serious problem.

Justice officials believe, and we agree, that the best solution to the fraud problem is prevention: that is, tightening-up program controls to reduce the possibilities for abuse or fraudulent activities. Justice has advocated that agencies demonstrate that program controls exist and are workable before funds are authorized for their programs. Justice officials also suggest a need for "enforcement impact statements" as part of new social legislation to show how much a given program or activity will cost in terms of security, periodic audits, and other measures to protect the integrity of Government funds.

While these preventive measures should certainly be considered for future programs, there is a current and pressing need to control fraud in existing economic assistance programs. Delays by Justice and other Federal agencies in taking effective action can only worsen an already serious situation.

## RECOMMENDATIONS

We recommend that the Attorney General direct appropriate Justice representatives to establish a formal plan for assisting Federal agencies in combating fraud in their programs. As a minimum, the plan should spell out detailed procedures for

--working with Federal agencies to develop information on the nature of potential fraud in their programs,

--consulting with agencies to devise systems to identify and investigate fraud,

- advising agencies of the types of cases which will receive priority for prosecution and working with agencies to devise alternative solutions for those which will not, and
- providing feedback to Federal agency officials on program and administrative weaknesses developed by Federal prosecutors during the course of various prosecutions.

## CHAPTER 5

### AGENCY COMMENTS AND OUR EVALUATION

The various Federal program agencies commenting on this report agreed that more needs to be done to effectively cope with fraud and abuse in Government programs and generally agreed with the basic message of our report and its recommendations. Most of these agencies have identified various actions they have taken or plan to take to bolster their fraud efforts. (See app. I to VII.) VA, HUD, USDA, Labor, SBA, and GSA also believe that some of their actions presently meet the spirit of some of our recommendations. The Department of Justice also agreed that more needs to be done and identified certain actions it has taken to increase its effectiveness. (See app. VIII.)

This chapter discusses these agency comments as they relate to some of the specific recommendations--such as (1) elevating fraud identification to a high agency priority, (2) fixing organizational responsibilities for identifying fraud, and (3) taking steps to see that all irregularities are referred for investigation--and also discusses certain issues raised by some of the agencies over the way the report characterized their fraud detection activities. The chapter also discusses the Department of Justice's specific concerns and disagreements with this report.

#### ELEVATING FRAUD IDENTIFICATION TO A HIGH AGENCY PRIORITY

VA, HUD, USDA, Labor, SBA, and GSA all commented that the detection and investigation of fraud is one of their highest priorities. VA said that the detection and investigation of fraud was implemented through the creation of its Office of Inspector General in January 1978. VA also said that it gives priority to identifying fraud in its loan guaranty programs because (1) all loan examiners are constantly looking for evidence of improperly packaged loan submissions and (2) it has a system to randomly select cases for backup verification of credit reports, employment, and asset information.

USDA said that detection and investigation of fraud is the highest priority of its new Office of Inspector General, which was established in January 1978. Labor said that, by establishing its Office of Special Investigation, fraud identification was raised to a high

agency priority. GSA said that it requested the Congress to increase its audit and investigative staff and that the Office of Audit and Investigation is now required to report each week directly to the Administrator. In addition, the Administrator has appointed a special counsel, on an interim basis, to have oversight of GSA inspection audits and investigative programs.

HUD presented detailed comments on the status and evolution of its fraud detection efforts. (See app. III.) It said the fact that these initiatives are being carried out by the highest Department officials demonstrates that the problem of fraud/program abuse has received priority consideration. It also discussed several management systems to

- force action on outstanding audit findings,
- ensure that timely actions are taken on future disclosures of management weaknesses, and
- focus attention on the disposition of audit and investigation matters by HUD's managers.

SBA said that fraud identification is one of its highest priorities and emphasized that (1) fraud detection is stressed to all auditors and investigators and (2) the Office of Audits and Investigations is in the Office of the Administrator. SBA did not believe that this report sufficiently recognized its activities to monitor program integrity, which it states is directly tied to combating fraud.

The actions taken by the agencies to more aggressively deal with program fraud should improve the situation. We would like to caution, however, that their initiatives should be analyzed to determine their true relationship to any stepped-up effort to combat fraud. VA, USDA, Labor, and GSA said that their new organizational changes and realignment of responsibilities, which occurred after the completion of our review, is their present response to establishing fraud as a priority. Efforts to assess the results of these units' new long-term initiatives in relation to improving the overall fraud efforts would, at this time, be premature. But their actions are certainly in the right direction.

We do not agree that fraud detection is a high priority in VA's loan guaranty program. We recognize that the practices and procedures cited by VA on page 41 are helpful for

identifying irregularities. These practices and procedures, however, are too limited for zeroing in on program fraud. For one thing, VA regional staff who use these procedures told us that their top priority is service, and that devoting their time to this priority precludes them from making adequate efforts to detect fraud in processing loans.

As pointed out on page 7, fraud activity is usually hidden or disguised within the framework of an apparently legitimate undertaking. By its very nature, fraud against the Government often involves extensively reviewing financial documents, forms, books, and records. And program employees often do not have the time or experience to accomplish this task. VA's current efforts of asking employees to look out for improperly packaged loan submissions, obtaining background checks on credit, etc., are helpful; however, they fall short of what we believe constitutes adequate attempts to systematically identify this type of crime.

We believe that this report adequately recognizes HUD's efforts as a forerunner in dealing with program fraud and believe HUD's efforts are noteworthy. We also believe, however, as demonstrated on page 21 (limited operational surveys), that much more can be done to make fraud detection a high priority. The implementation of our recommendations would definitely improve its effectiveness to comprehensively address the fraud and abuse problems in its programs. HUD, for example, can (1) establish a group whose sole function is to specifically look for fraud, (2) increase the frequency of operational surveys, (3) establish a system to monitor efforts to combat fraud, and (4) provide training in fraud detection.

SBA cites the activities of its various audit and investigative groups as evidence of its efforts to maintain program integrity. We realize that the activities of these elements are worthwhile and that their efforts are often successful in surfacing actual frauds. However, we want to emphasize the shortcoming common to all of the agencies included in our review--the absence of a systematic, ongoing, active approach to looking for fraud. In fact, SBA officials responsible for audit and investigative activities said that, with the given resources, it was impossible to be anything except reactive to fraud in SBA programs.

As pointed out on page 7, fraud detection is difficult and, therefore, a special effort is needed to identify



such activities. This effort should not be commingled with other duties and responsibilities of day-to-day operations. In summary, we believe that priority for fraud detection is best indicated by establishing day-to-day procedures and activities aimed at specifically identifying fraud and not by the mere altering of the organizational structure and/or encouraging employees to be on the alert.

#### FIXING ORGANIZATIONAL RESPONSIBILITY FOR IDENTIFYING FRAUD

In commenting on this report, VA, HUD, SBA, USDA, GSA, and Labor indicated that they had fixed organizational responsibility in their agencies to detect and prevent fraud and abuse in their programs. SBA said that its Office of Audits and Investigations and Labor said its new Office of Special Investigations were their focal points for fraud identification. GSA said its newly appointed special counsel has oversight responsibility for GSA's inspection audit and investigative program. The other agencies related that they have established Offices of Inspector General from previously separate organizational components--Offices of Audits and Offices of Investigation. Most believed that the organizational change will facilitate coordination and improve their ability to deal with fraud problems. Each agency also highlighted that the frontline of defense for fraud prevention is alert personnel who can spot and report irregularities in performing day-to-day jobs. Additionally, HUD said that by highlighting the isolated actions taken by agencies to identify program fraud, we were being either contradictory or inconsistent with the purpose of this section (agencies had not designated organizational responsibility to detect fraud) since organizational responsibility would have to be established to carry out such activities.

The message of this report is that the fight against fraud in Federal programs lacks leadership, guidance, and commitment. We presented the isolated agency fraud detection actions on page 21 to show that when aggressive actions have been taken, fraudulent activity has been found. These isolated efforts, however, did not depict, with the possible exception of HUD's operational surveys, any type of systematic effort to identify fraud. Rather, they appear in our view to be reactionary, piecemeal, and sporadic initiatives. Therefore, we do not believe we are contradicting ourselves regarding these agencies' lack of overall designated organizational responsibility to fight fraud.

We agree that each agency has an organizational entity responsible for handling fraud matters when they arise. We also believe that the agencies' newly formed organizational units are positive steps to deal more aggressively with the fraud and abuse problem. Nevertheless, we still believe each agency, in addition to having strong internal controls and balanced audit coverage needs to at least establish separate and distinct units in its Office of Inspector General, Office of Special Investigations, and/or Offices of Audits and Investigations comprised of qualified investigators, whose sole responsibility is fraud detection and prevention. Otherwise, nothing more than an organizational shift of responsibilities has occurred in the establishment of these agency groups, and the fraud detection effort may remain passive and reactive.

We believe separate and distinct units are needed because fraud is complex and difficult to uncover, and requires considerable expertise and experience to detect. We do not believe it is beneficial to commingle the fraud detection responsibilities with many other functions such as investigating equal employment opportunity complaints, employee misconduct matters, and internal audit operations as was the situation at the time of our review.

TAKING STEPS TO SEE THAT ALL IRREGULARITIES  
ARE REFERRED FOR INVESTIGATION

HUD, USDA, and VA said they have regulations requiring employees to report suspicious matters and to cooperate with their investigative groups.

HUD noted that it reminds its employees annually of this detection responsibility during standards of conduct briefings. Also, its Office of Inspector General personnel are visible at all levels of Department operations, and HUD managers are told of their failures to report suspicious matters through operational surveys or other operations. HUD noted that no foolproof methods exist for assuring that employees fulfill this vital responsibility. HUD believes further efforts would be viewed by its employees as harassment and would be counterproductive.

USDA added that its officials are aware of their fraud referral responsibilities and requirements. Each USDA program agency has a senior staff member appointed to be a liaison with its Office of Inspector General. The liaison facilitates the referral of investigative matters and sees that reports are properly handled and acted upon by program agency officials.

VA said that its departmental heads have responsibility for assuring that appropriate controls to prevent and detect fraud, abuse, and error are built into programs they administer. Existing VA procedures require that all cases involving prima facie evidence of criminal violations be referred to the Justice Department and that matters which appear suspicious be referred to its regional district counsels for investigation.

We do not dispute the fact that each of these agencies has procedures and practices for alerting and requiring its employees to refer suspicious matters for investigation. The point is that Federal agencies lack controls and procedures to query employees about potential fraud matters that may have occurred. Such matters may not be referred because the employees were unsure that a violation took place, or could not correlate something that seemed wrong to a fraudulent activity. One must remember that employees are not investigators and may know very little of what constitutes a criminal violation. Agency program employees need help from trained investigators who can correlate a so-called innocent mistake to a fraudulent scheme.

We agree with HUD that no foolproof methods exist for assuring that employees will refer suspected wrongdoings. We do believe, however, more must be done. We agree that operational surveys can serve as a mechanism to identify employees' failure to report suspected irregularities. Efforts could be taken to query employees about daily operations, giving examples of prior fraudulent activities and relating these examples to their operations. HUD questions its employees during operational surveys; however, these surveys are limited. We also believe that efforts similar to SBA's evaluation of the implementation of existing referral procedures by its various audit and investigative groups is a needed step to achieve this goal. (See p. 23.)

#### CHARACTERIZATION OF AGENCY EFFORTS TO DETECT FRAUD

VA expressed concern over the way our report characterized its efforts to combat fraud. VA said our information was dated or incomplete and, therefore, misleading in its discussions of VA's efforts. VA also said that our report overstated the effect of fraud in its loan guaranty and educational benefits program.

The information on VA activities presented throughout this report was obtained from various VA records and from interviews with many headquarters and regional office officials. This information was obtained during the period June to August 1977, and in our view, reflected an agency making a minimal effort toward the identification of fraud in its programs. We disagree that the information contained in the report distorts VA's commitment to the fraud problem at the time of our review.

Prior to establishing the Office of Inspector General, in January 1978, VA lacked a solid commitment to deal with fraud and abuse in its programs. VA's efforts were limited and sporadic and were never the result of any systematic approach for identifying fraud and abuse. As pointed out on page 3, VA had only 9 investigators in the field and 16 in headquarters. Considering their other duties, how much effort could they have spent in the fraud area?

VA regional representatives consider service as their top priority, and this effort precluded them from making sufficient efforts to detect fraud. Also, many VA regional officials that we contacted during June and August 1977 believed that fraud was not a problem. For example, five VA regional office directors visited during our review believed that, for the most part, fraud was not a significant problem. In addition, the majority of the top management officials in each of these regions shared the same view.

We believe that the current efforts by VA are a step in the right direction, especially with regard to implementing our recommendations and tightening program controls over various VA programs. This should be the beginning of a continuing effort to measure and deal with the existence and severity of fraud in VA programs.

VA also said that our report contained statements that overstated the effect of fraud in its loan guaranty and educational benefit program and understated its efforts to address the problem. For example, VA said that fraud discovery in its loan guaranty program was not the result of a complaint or accidental discovery as suggested by our report, but is generally a result of a systematic review of all cases throughout the entire procedure of loan processing, construction evaluation, loan servicing, and claims and property management. VA said that its 49 regional loan guaranty offices and their staff have regulatory and procedural manual instructions requiring constant

alertness to and prompt actions in all cases wherein some schemes may appear to indicate a fraudulent transaction.

Regarding its education benefits programs, VA said that few overpayments involve an application for benefits where the veteran intends to defraud the Government. VA said that for the most part, veterans have properly, and without criminal intent, established their entitlement at the beginning of a course of study. The overpayment results when veterans terminate their studies or reduce their course load without notifying VA, or the school fails to certify attendance. VA says that this type of action hardly contains the elements a prosecutor desires before proceeding with a case.

VA also said that it was required by statute to offer at least a month's advance in education benefits payments, resulting in large numbers of students receiving checks before attending any classes. The situation resulted in a large increase in improper payments. VA requested the Congress to amend the advance payment requirement, and currently a more limited program is in effect. VA believes this establishes that it does react to evidence of widespread program abuse and amends its programs consistent with its obligations to correct the defects leading to abuse.

VA cites its regulatory and procedural manual instructions of requiring alertness by loan officers and staff as its systematic effort to look for fraud. While we agree that these efforts help identify fraudulent activities, they are not the concentrated, systematic efforts envisioned in this report. Without a committed, aggressive effort to specifically look for fraud, most frauds only surface by employees' alertness or by complaint.

As mentioned previously, fraud detection is difficult. It requires more than an effort of notifying employees to be on constant alert when reviewing or processing cases. Furthermore, as stated on page 18, VA regional office officials told us that daily program operation precluded their personnel from making sufficient efforts to detect fraud in processing loans. Alertness is a step in the right direction, but it is not the aggressive approach we envision as needed to comprehensively address the fraud problem.

We commend VA's efforts for tightening-up controls in its educational benefit programs. We agree that most agencies will attempt to take necessary action to improve program effectiveness when the obvious occurs, but we observed that they do little to examine their routine operations to identify potential program fraud, abuse, and error. We believe that more could be done. Overpayments still constitute a large expenditure of Federal dollars (over \$396 million as of March 1978); the least VA should do is spot check the reasons for such overpayments. Without a special effort to look behind the intent of those receiving overpayments, they will always be considered honest mistakes and classified as accounts receivable. It is not much of a deterrent for individuals to stay honest when restitution is the only punishment, and then only if caught.

SBA commented that it agrees that more can and should be done to combat fraud in Federal programs. SBA noted, however, that it is very difficult to determine the amount of resources to devote to this effort.

We agree that the question of resources needed to identify fraud is an important consideration. However, agencies will not even be able to start adequately addressing this question until they devise information systems on the extent and nature of fraud in their programs. We believe that agencies themselves must make these determinations, utilizing their knowledge and experience, and whatever organized data collection and innovative estimating techniques they can devise. As SBA indicates, this is a subjective problem, and there is no means of totally eliminating subjectivity from such an exercise. We believe, however, that objective information, properly collected, organized, and analyzed, can greatly minimize the subjectivity surrounding resources decisions.

#### DEPARTMENT OF JUSTICE COMMENTS AND OUR EVALUATION

The Department of Justice generally agrees with the theme of our report, viz., that there is substantial room for improvement in the performance of agency enforcement to combat fraud in Government programs. It does take exception, however, with (1) our conclusion that Justice has failed to come to grips with the problem and (2) certain statements, conclusions, and recommendations we made. (See app. VIII.)

Justice has failed to come to grips with the problem

This report is not intended to slight the various projects Justice has undertaken to root out fraud in Government programs. On the contrary, chapter 4 identifies specific efforts Justice made over the years and credits it for this initiative. We realize that Justice has made a commitment to deal with the white-collar crime problem--including program fraud. We commend such a commitment and hope that the current efforts are only the beginning of a comprehensive attempt to address this nationwide problem.

Our review of Justice's current efforts to deal with program fraud, however, showed that although beneficial, these efforts have been sporadic and limited and fall short of any systematic effort to deal with this particular problem. To date, efforts are dependent on the initiatives of certain individuals, available resources (nine attorneys assigned to the program fraud area in the Criminal Division, Fraud Section), and the willingness of Federal program agency representatives to cooperate.

In essence, Justice lacks an overall strategy laying out long-term initiatives which are needed to reduce fraud and abuse in the various Government programs. The Department of Justice has recognized that a very serious problem exists in program fraud, and we believe its current initiatives are well intended. We also believe, however, that these current efforts are reactive and do not reflect any comprehensive attempt of coming to grips with the problem.

Justice Department's disagreement with certain statements, conclusions, and recommendations contained in our report

Justice said that chapter 3--Problems Precluding Effective Identification of Fraud by Federal Agencies--suggests that the agencies are unable to estimate the extent of fraud, primarily because they do not afford enforcement a high priority and because they have not fixed responsibility for identifying fraud, lack information on fraud, and have not assured themselves that all suspected frauds are referred for investigation. Justice said that because each agency has the equivalent of an office of investigations and audits with specific responsibilities to detect fraud, it takes exception to our comments which suggest that the failure to fix responsibility on an identifiable group or unit within the agency is a major cause of the problem.

Justice also pointed out that the reliance on management information systems will not give rise to the type of data necessary for enforcement planning because management information systems designed to disclose purported fraud can be developed only through actual investigation.

Our review showed that each Federal agency had an equivalent to an office of investigations and audits that handled alleged fraud matters. These units, however, did not have a group to systematically look for fraud activities. Investigators handled fraud matters along with other duties, such as investigating employee misconduct matters.

As pointed out on page 45, we believe that each agency needs to establish separate and distinct units whose sole responsibility is fraud detection and prevention. Without such a unit, fraud detection will be shared with other activities and continue to be largely reactive.

Our review has also shown that Federal agencies have experienced fraudulent activity yet had no idea of its extent or impact on program operations. Agencies lacked management information systems that, if designed properly, (1) could provide this data and (2) would be useful in combating fraud. The least an agency should know is how much identified fraudulent activity has occurred and the reasons for its occurrence. Data compiled by agencies on fraudulent activity may not be conducive to enforcement planning by Justice, but data collected and analyzed on fraudulent activity will certainly provide agencies with insight about how, when, and where fraud and abuse have occurred in their programs. With such insights, the agencies can begin to identify problem areas, and make the necessary corrective actions for deterring fraudulent activity in the future.

Justice, in commenting on chapter 4--Department of Justice Has Not Been Aggressive in Assisting Agencies to Combat Fraud--said that it does not have the resources to undertake the advisory role which is suggested in this report. Justice said that the Criminal Division has attempted to address the fraud problem through the development of appropriate priorities to ensure that resources are devoted to cases that have the greatest impact and deterrent effect.

The Department also said that the chapter conveys the mistaken impression that Justice's fraud enforcement activities are centered in the Fraud Section of the Criminal



Division and the Attorney General's White-Collar Crime Committee. It stated that the pursuit of civil remedies is an integral part of Justice's fraud enforcement activities.

As the report points out, the Department of Justice is the primary Federal agency concerned with law enforcement and is the coordinator of Federal crime prevention programs. We believe one function it should carry out as a coordinator is an advisory role to assist program agencies in coping with fraudulent activity. We recognize that resources are always a problem and the Criminal Division's Fraud Section is attempting to do what it can with existing and very limited resources. However, more has to be done, even if it takes additional resources to do it.

Justice should at least identify the long-term initiatives needed to assist program agencies in dealing with the fraud problem, the amount of resources needed to carry out their initiatives, and the expected timeframes to accomplish this overall effort. After drafting this plan, decisions on the amount of resources needed can then be related to Justice's other priorities and modified accordingly. Until Justice comprehensively assesses the actions needed to address the current fraud problem, efforts will remain sporadic and limited, and excuses will prevail rather than needed actions.

We also realize that the pursuit of civil remedies is an integral part of Justice's fraud enforcement activities; so is the effectiveness of various U.S. attorney offices and the Criminal Division's Public Integrity Section.

Our review showed, however, that the Criminal Division's Fraud Section and the White-Collar Crime Committee have been the forerunners in fraud prevention and identification, and these groups have been the most aggressive departmental entities in the fraud area. This was even recognized in Justice's response to Congressman L. H. Fountain's inquiry about its overall criminal and civil enforcement effort in the area of fraud.

Justice said that the Fraud Section within the Criminal Division has responsibility for monitoring all Federal prosecutions in the area of fraud. Also, the Attorney General's White-Collar Crime Committee has made several significant achievements in the area of program fraud. In addition to meetings between a former Deputy Attorney General and his counterpart in the program agencies, the staff of the committee had met regularly with the investigative and audit

personnel in the program agencies to improve their ability to respond to the fraud problem. The Civil Frauds Section, on the other hand, has not taken a similar aggressive detection posture. Its efforts, although important, are mainly directed toward prosecuting existing cases.

Justice said that the report suggests that, in performing its role, it should develop formal guidelines on what types of cases will be prosecuted. It said that such a proposal is unrealistic and reflects a belief in uniformity among cases and districts which, in reality, does not exist. While it recognizes that it is desirable to increase the rate of detection, referral, and prosecution, the publishing of priorities or case-by-case standards for the exercise of prosecutive discretion could constitute an invitation to commit crime in nonprioritized areas. It would also discourage agencies from reporting many cases of "non-priority" fraud cases. Such standards would necessarily be available to the public under the Freedom of Information Act and thus could not be made very specific without harming its law enforcement efforts.

Our review showed that Federal program agencies need assistance on how fraud matters can be handled to increase the likelihood of successful prosecution. Agencies have expended scarce resources on handling alleged fraud cases, only to find out that Justice will not accept the case for prosecution in the criminal justice system. Agency officials told us that they do not even know the disposition of all cases referred for prosecution because of inadequate feedback from Justice.

We realize that guidelines to spell out a step-by-step process in handling fraud matters may be difficult to develop, but we believe that more agency guidance is necessary in the area. Justice and program agencies should be able to get together, analyze the various Government programs, and decide on the type of case that would generate the most impact. Alternatives could then be identified as to what to do with the remaining cases. With efforts such as these, program agencies will then know what to expect and can direct efforts in the fraud area accordingly. As it is now, they react and hope Justice will dispose of the case properly without really knowing how well they did or what more needs to be done.

U.S. DEPARTMENT OF LABOR  
OFFICE OF THE SECRETARY  
OFFICE OF SPECIAL INVESTIGATIONS  
WASHINGTON, D.C. 20210



May 23 1978

Mr. Gregory J. Ahart  
Director, Human Resources Division  
U. S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Ahart:

This is in reply to your April 20, 1978, letter to the Secretary of Labor transmitting for comment, the draft report, "Federal Agencies Can Do More To Combat Fraud In Government Programs."

DOL concurs with the recommendations directed to Heads of Federal Agencies. Our comments on these recommendations are included as Enclosure 1.

The Department of Labor (DOL) has taken additional action to prevent program abuse and fraud by establishing an Office of Special Investigations, within the Office of the Secretary. An April 13, 1978, news release announced this significant development, and is being submitted as Enclosure 2.

We appreciate the opportunity to comment on this draft report.

Sincerely,

A handwritten signature in cursive script that reads "R. C. DeMarco".

R. C. DeMarco  
Director

Enclosures

Recommendation No. 1: Develop management information systems aimed at providing information on the most likely types and methods of fraud, including the development of techniques for estimating the magnitude of fraud in agency programs.

Concur: The Department of Labor does have management information systems that identify potential problems. For example, one system is in the Unemployment Insurance (UI) area. A bi-annual report is completed by all state unemployment insurance agencies covering the volume and nature of fraud, overpayment and recovery activities.

In addition, the Department is developing an audit tracking system which will provide information on the types of audit findings.

With the establishment of the Office of Special Investigations, the Department will be taking a new look at the information needs for tracking and estimating the magnitude of fraud.

Recommendation No. 2: Elevate fraud identification to a high agency priority.

Concur: By establishment of the Office of Special Investigations, the Department considers fraud identification a high agency priority.

Recommendation No. 3: Take steps to make employees more aware of the potential for fraud and establish controls to see that irregularities are promptly referred to appropriate personnel.

Concur: The Department has been aware of these problems, and has taken steps to make employees more aware of fraud. Additional controls are being established to see that irregularities are promptly referred to appropriate personnel. In the Comprehensive Employment and Training Act (CETA) program, we are instituting a goal to:

- a. Establish continuous in-depth assessment of CETA Prime sponsors' practices covering a minimum of 50 prime sponsors per year. (Start with review of at least 24 in FY 1979).
- b. Provide training to prime sponsors to increase their capability to detect fraud or mismanagement in subcontractor performance.
- c. Coordinate and link assessments and investigations between regional and national office components.
- d. Provide guidance and increase report validation activities in State Employment Security Agencies (SESA's) and CETA sponsors.

Page 2 to Enclosure 1

e. Improve assessment criteria and technical assistance to develop management capability to anticipate and take early action in mismanagement cases.

In the UI area, the Secretary of Labor, on April 1, 1977, approved a joint Department of Labor/Department of Justice Unemployment Insurance Prosecution Project. This Project is designed to reduce the fraudulent payment of unemployment benefits by cooperating with the U. S. Attorney and local prosecuting officials in clustering UI fraud cases for prosecution.

Also in the UI area, the Department allocates positions to the State UI agencies specifically for the prevention, detection and recovery of improper UI payments. The State agencies now have about 2,200 people dedicated to this purpose. Consequently, all States have systematic, on-going programs for fraud detection. The Employment and Training Administration's national office has also designated staff members to direct Federal efforts in this area.

Recommendation No. 4: Fix organizational responsibility for identifying fraud.

Concur: Within the Department of Labor, the Office of Special Investigations, Office of the Secretary, has overall responsibility for fraud identification.

Recommendation No. 5: Provide agency investigators with appropriate fraud training; in future hirings, concentrate on recruitment of personnel with backgrounds and educations more suited to the financial complexities of fraud.

Concur: The Department is aware of the need for trained investigators. Since December 1976, the Employment and Training Administration has sponsored six training programs for State UI fraud investigators. An additional session is already scheduled and future sessions are being planned. The University-conducted programs cover such areas as administrative law, evidence concepts, interviewing skills and investigative techniques.

With the creation of the Office of Special Investigations, new training needs will have to be identified once the background and education of the assigned staff have been assessed. Once this assessment is made, the Department will be in the position of determining what training should be provided those investigators.

# News

United States  
Department  
of Labor

Enclosure 2

Office of Information

Washington, D.C. 20210

USDL--78-364

CONTACT : Alice Danner  
OFFICE : (202) 523-7323  
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FOR RELEASE: 10 a.m. (EST)  
Thursday, April 13, 1978

## MARSHALL TAKES ACTION TO PREVENT PROGRAM ABUSES AND FRAUD

I have called today's news conference to announce a series of important steps to make sure that Labor Department programs are free of corruption, mismanagement and financial abuses.

This Administration has made a pledge to the American people to run the Federal Government honestly, equitably and efficiently. It is my personal goal to make sure that all Labor Department programs live up to this high standard.

The stakes are too important to do otherwise. Every dollar that is wasted in the CECA program is a dollar taken out of the pockets of the jobless. Equally serious is a fraudulent Federal workers compensation or black lung claim.

Today's actions are largely designed to be preventive. Our programs are generally successful and well administered. The scattered instances of fraud and mismanagement involve only a tiny percentage of our \$25.4 billion budget.

The problems of fraud and abuse within Labor Department programs are manageable. Vigilant action will maintain and strengthen the integrity of our programs. It will also underline to those who administer our programs that we will not tolerate waste and corruption in any form. Strong measures taken

today can avoid painful problems tomorrow.

Therefore, I am announcing the following actions:

-- I am establishing a permanent Office of Special Investigations which will carry out the audit and investigative functions of the Department. This Office will be run by R. C. DeMarco and report directly to me. Mr. DeMarco will have an independent staff of over 200 people and will have full authority to pursue his investigations free from political or bureaucratic pressures.

The new Office of Special Investigations is an out-growth of the temporary investigative unit now headed by Mr. DeMarco that was established last summer. The success of that operation in taking aggressive action against CETA abuses in Chicago and other cities has triggered the formation of this permanent unit. The mandate of this Office of Special Investigations will not be limited to our jobs programs. Rather, it will encompass all the activities of the Labor Department, including OSHA, black lung and Federal Employee Compensation programs.

The relevant program agencies will continue to monitor and review the operations of their own programs. We believe, however, that it is inappropriate to expect a program agency to investigate and audit its own programs. This is why we have consolidated investigative activities in the Office of Special Investigations and created it as an independent entity outside the normal chain of command.

-- The new Office of Special Investigations will also be responsible for administering the Labor Department's participation in the Organized Crime Strike Force program. In recent weeks, we have had a number of discussions with the Justice Department about our participation in this important program. I am pleased to announce that we are very close to a final agreement with the Justice Department on the extent and the nature of our participation in the strike forces.

The Labor Department will be assigning a permanent representative to each of the 15 strike forces. In addition, we will provide other personnel to the strike forces on an as needed basis. Because we recognize the importance of these strike forces, we will shortly be petitioning OMB for a sizeable increase in personnel for Fiscal Year 1979 to be available for assignment to these strike forces. The Justice Department will be supporting our request to OMB for this increase in staffing.

-- Working in close cooperation with the Congress, we are developing a series of proposed amendments to the CETA reauthorization bill that will give



us new weapons in our effort to guarantee that this vital program is free from abuse. These amendments will underline the responsibility of the 450 prime sponsors to abide by CETA regulations regarding the proper handling of funds and those outlawing any form of political patronage.

In the past, a major problem in our investigations of CETA has been in getting timely access to CETA records. For this reason, these amendments will make destruction of CETA records, in an effort to thwart an investigation, a criminal offense.

In developing these anti-fraud amendments we have worked very closely with Representatives Augustus Hawkins and Carl Perkins, as well as Senators Gaylord Nelson and Harrison Williams. In the days ahead, we will continue to work closely with those members of Congress and their staffs in our joint efforts to perfect the CETA Reauthorization bill.

-- I will shortly be sending a letter to the chief elected officials responsible for each of our 450 CETA prime sponsors alerting them to our renewed efforts to root out fraud and mismanagement. A similar letter will be sent to other major recipients of Labor Department funds. I have also conferred extensively with the various assistant secretaries and the other members of my executive staff prior to establishing this Office of Special Investigations. On April 25, here in Washington, I will be meeting with all our regional solicitors and all the regional administrators for ETA to explain the importance of this initiative to them.

Many of the investigations that will be carried out by the Office of Special Investigations will relate to the CETA program. Since the \$11.8 billion

CETA program is by far the largest activity of the Department, this investigative focus is far from surprising.

It is true that we are currently investigating allegations involving a number of CETA prime sponsors. Let me mention a few facts to put these investigations into perspective. The CETA system consists of 450 local prime sponsors and 2,800 local sub-grantees. In the past year, we received 203 allegations of improper activities involving the CETA system. Many of these allegations turned out not to be supported by facts. At a minimum, this indicates that well over 95 percent of the agencies that administer the CETA program are operating equitably and honestly.

It should be emphasized that most of the charges concerning specific CETA programs involve questions of management and financial accountability, not fraud or political patronage. Many of our current investigations involve a single small sub-grantee which represents only a tiny part of a multi-million dollar program. Many of the allegations about problems in specific CETA programs are merely that -- unsubstantiated allegations. Our investigations are designed not merely to identify the guilty, but also to clear the good name of the innocent.

Since May 1977, when the Economic Stimulus Package was signed into law, the CETA program has performed admirably. In a little more than nine months, we created over 450,000 public service jobs. The recipients of these jobs were the long-term unemployed and the impoverished. With a few isolated exceptions, these jobs were awarded totally free of political considerations. The creation of these CETA jobs has a large amount to do with the almost 1.0 percent drop in

the unemployment rate since May 1977.

The CETA program is one of the most important domestic initiatives of the Carter Administration. Yet the image of this program may be unfairly damaged by a few well-publicized allegations involving local CETA activities. Today's actions are designed to eliminate the problems of mismanagement and fraud and to assure the public of the basic soundness of the CETA approach. By focusing public attention on our enforcement efforts, we are also sending a message to every CETA prime sponsor and grantee that improper actions will not be tolerated in any shape or form.

The CETA Reauthorization bill will eliminate many of the administrative problems involved in running such a large and decentralized system. The reauthorization bill will mandate that available jobs will go to those most in need. It will also strengthen our ability to prevent the substitution of CETA workers for regular municipal employees. With the addition of these new anti-fraud amendments, the CETA Reauthorization bill will provide a secure framework for the effective management of this important program.

I believe in the Labor Department's programs. That's also why I believe in tough administration and will not tolerate abuse of these programs. I want and expect the Office of Special Investigations to be as tough and as relentless as necessary. I look at today's actions as a guarantee of the basic integrity of Labor Department programs.

Now I will be happy to answer your questions on today's announcement.



General  
Services  
Administration Washington, DC 20405

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**MAY 29 1978**

Honorable Elmer B. Staats  
Comptroller General of the United States  
General Accounting Office  
Washington, DC 20548

Dear Mr. Staats:

Thank you for the opportunity to review and comment on the draft of your report to the Congress entitled "Federal agencies can do more to combat fraud in Government programs," which was transmitted to me by Mr. Shafer's letter dated April 19, 1978.

I am in basic agreement with the findings of the report and have taken actions to implement the recommendations concerning this agency.

The following, excerpted from my press release of May 9, 1978, identifies some of the primary areas of concern and the actions being taken:

"First--There is a dangerous lack of clarity in delineating authorities and responsibilities in GSA. This is true at all levels and throughout the five services, both here in central headquarters and in the 10 regions across the country. In far too many instances, it is impossible to pinpoint precisely who should make the final decision, where the buck stops, and whose shoulders rests the burden of making certain that a job was done right.

"As a beginning step, I have strengthened the role of our Regional Administrators, putting more responsibility directly on them for GSA activities in their respective regions. And I have recently appointed high-qualified people of my own choice, directly accountable to me, to fill the sensitive Administrator positions in six of the regions.

"I also have ordered an agency-wide review of delegations of authority. This is necessary to assure that responsibility for decision-making and oversight of operations is vested in officials at appropriate levels of accountability. Over the years, authority for crucial management decisions has by default

[See GAO note 1, p. 107.]

slipped down to those not qualified by training or experience to handle it. As such weakness becomes apparent, we are moving quickly to make corrections.

"A second major area of concern is that our capability for audits, inspections and investigations is inadequate. I am now requiring the Office of Audits and Investigations to report directly to me on a weekly basis, and we have requested the Congress to allow us to strengthen this office by the addition of 25 more people.

"We have organized independent inspection units to oversee fulfillment of every contract over \$10,000, and are conducting frequent spot checks on those under that amount. Until recently, it was common practice to leave responsibility for inspection to the official who awarded the contract in the first place--a situation which permitted ready abuse. We have ordered the Public Buildings Service to create an independent inspection service.

"Third, charges of "favoritism" have been leveled at this agency on more than one occasion. GSA has taken several steps to eliminate opportunities for its managers to dispense work to their favorite contractors.

"We have expanded the membership on regional panels which advise and assist us in choosing architect-engineer firms for construction contracts. These panels now include representatives nominated by state associations of building managers and construction companies, as well as the societies of architects and engineers. In this way we will open opportunities for new architect--engineer firms to compete for contracts.

"We are refining our methods of procurement solicitation and improving sub-contractor listing procedures. This is being done to open up the process to many more firms, and to make it impossible for contracting and procurement officials to limit orders to the same few businesses.

"A comprehensive review of procurement management in our public buildings service has been launched under the direction of highly-qualified officials from outside this agency.

"Fourth, we are taking a hard look at other GSA operations which offer opportunities for fraudulent activity. Among these are:

--The self-service stores, operated by GSA for the convenience of Federal agencies in some 75 locations around the country. Over the past year or two, we have redefined the basic mission and

merchandizing methods of these facilities. We are putting strong controls on the handling of sensitive items, eliminating certain questionable products from the stock, and cancelling incentives for managers to increase annual sales. However, much remains to be done in this area.

"--Motor pools are another service function provided by GSA-- and here again I find dangerous opportunities for fraudulent activities. We are auditing the operation of our motor pools nationwide, and have instituted tough, new review procedures to guard against abuse. The procedures also encourage appropriate disciplinary action on the part of user agencies when irregularities in use of motor pool services on the part of their employees are reported to them.

"--Roofing projects are generating an inordinate number of problems with respect to GSA contracts for both new construction and repair and alteration. Too many replacements have been required. Accordingly, we now have roofing consultants reviewing the design of roofing jobs, carrying on frequent inspections during installation, and testing the completed installation for conformance with specifications.

"On a broader front, the President's Reorganization Project on Administrative Services offers considerable assurance that further, dramatic improvement of structures and systems is in sight. We have been working closely since October with the team assigned to study provision of services to the Federal Government. Their recommendations will be presented in early summer, and I am confident that better, more economical ways to accomplish the mission of this agency will be implemented.

"We are committed, as is President Carter, to the Inspector General concept for which implementing legislation is now before the Congress. We believe enactment of this legislation will have a salutary effect on resolving some of the problems which beset GSA--and indeed many other agencies.

"However, we have a responsibility to the taxpayers and the honest and hardworking people of this agency, to take extraordinary measures immediately to solve our long-standing problems. Therefore, I am today appointing a Special Counsel, on an interim basis, to exercise most of the authorities and responsibilities of an inspector general. He will have oversight of GSA inspections, audit and investigation programs.

"The Special Counsel will establish and direct a task force comprised of experienced government law enforcement officials, to conduct in-depth investigations of employees, private firms,

contractors and others doing business with the agency. The task force also will review and investigate areas of agency operations most susceptible to criminal abuse and recommend corrective actions.

"I am pleased to announce that Vincent R. Alto has agreed to accept this exacting assignment, beginning next Monday. We are fortunate to obtain the services of Mr. Alto, a senior prosecutor with extensive experience in the criminal justice field. Now engaged in private practice, he was a trial attorney in the Organized Crime and Racketeering Section, U.S. Department of Justice, from 1974 to 1977; served as Special Counsel to the Senate Rules Committee in 1973; and as Assistant U.S. Attorney, District of Columbia, 1969 to 1973, during which time he tried and prosecuted criminal cases in U.S. District Court.

"He is a graduate of Lafayette College, Easton, PA, and the Georgetown University Law Center, 1962.

"Mr. Alto will report directly to me on criminal investigations and actions. His findings and recommendations on procedural weaknesses and operating systems problems will be presented to a special committee of senior agency officials, which will be chaired by Mr. Griffin. The Assistant Administrator, Walter Kallaur, will be Vice Chairman.

"This agency has major challenges ahead. I want to quickly rid ourselves of the distraction and frustration of these problems of fraud and malfeasance. I look anxiously to the day I can call you all back to tell you that the guilty have been identified and dealt with appropriately.

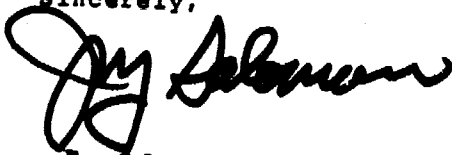
"I make this promise to the taxpayers in whose trust we operate this government: we in no way condone this activity and during my tenure here, we will move aggressively to prosecute any further wrong-doing and we will be looking at additional ways to discourage these kinds of activities."

I assure you, GSA has given fraud identification and prosecution the highest priority.

In addition to the above, I have enclosed a few comments relating to specific sections of your draft report for consideration.

If you have any questions concerning these comments, please do not hesitate to contact me or members of my staff.

Sincerely,

A handwritten signature in black ink, appearing to read "Jay Solomon". The signature is written in a cursive, flowing style with a large initial "J".

Jay Solomon  
Administrator  
Enclosure



General Services Administration  
Comments on GAO's draft report  
entitled "Federal agencies can do more to  
combat fraud in Government programs"

GSA comments on specific sections of the report are as follows:

Reference the cover summary and pages 1,1,8,12,15, etc. -

In the majority of agency operations surveyed by GAO (Agriculture, Labor, Federal Highway Administration, HUD, SBA, Veterans Administration, GSA, and Department of Justice), agency expenditures related to actual or suspected fraud are generally referred to as Federal assistance programs. This may be true for most of them but not for GSA whose main mission is to satisfy the supply, service, and construction needs of Federal agencies--not the sponsoring of Federal economic assistance or dollar assistance programs. We believe this point should be made clear in the GAO report.

Reference page 22, a generalization is made that performance of agencies is often measured by how much and how rapidly they spend money. While this would also probably be the case with assistance type programs, procurement programs are clearly not measured in this manner but are guided by the principle of buying at the lowest possible cost and only after a definite need for the goods or services can be established. Also, rather than distributing large amounts of public funds, this "distribution" in the procurement business should more properly be referred to as payments for supplies delivered or services rendered.

Reference page 31, the statement is made that proper administration of contracts was a problem for GSA because of a lack in manpower. We would like to amend this statement by adding that lack of manpower, in turn, is largely the direct result of budgetary constraints (as opposed, e.g., by ineffectiveness in hiring more people).

[See GAO note 2, p. 107.]

Reference page 50, while we consider the implementation of the recommendations in the report to be generally in the medium to long range category, efforts such as the Department of Defense's in producing a movie titled, "Violations of Public Trust" could be considered as a recommendation for short-term implementation.

It could be recommended that agencies outside of DOD share in showing this movie. We assume that this movie deals with procurement fraud which should be of value to agencies with substantial procurement programs.

Reference page 52. Reference the explanation of "enforcement impact statements" which are suggested as part of new social legislation. The impact statement is to show how much a given program will cost in terms of security, periodic audits and other measures to protect the integrity of Government funds. We believe that this description should be expanded by adding essentially the following language, "...and how these costs compare with the sums of money which can be estimated to be saved through fraud prevention or recovered from adjudicated fraud cases." We think it is necessary to establish certain parameters, as without them and the controls that go hand-in-hand, costs could possibly exceed savings which would be indefensible.



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
OFFICE OF INSPECTOR GENERAL  
WASHINGTON, D.C. 20410

MAY 26 1978

IN REPLY REFER TO:

Mr. Henry Eschwege  
Director, Community and Economic  
Development Division  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Eschwege:

I have been asked by Secretary Harris to comment on the draft of your proposed report titled: Federal Agencies Can Do More to Combat Fraud in Government Programs (4/24/78). While we are pleased that some of this Department's efforts to combat fraud have been favorably recognized, there are a number of things of concern to me and I will address them in this order: (1) matters in the report which appear to be inconsistent or in need of clarification, (2) the continuing efforts by HUD to improve its ability to combat fraud--some of which you may not have known about or which may have transpired since your staff members visited us, and (3) our reactions to your recommendations.

1. Need for Clarification. In both the summary and the body of the report, you state that none of the agencies reviewed had designated a group as being responsible for identifying and combating fraud. You then point out in both places that HUD performs Operational Surveys and other agencies, such as the SBA, USDA, and VA, have taken (in "isolated" instances) positive measures to identify fraud. Similarly, if it is to be reported that "Federal agencies have not" delegated responsibility to look for fraud, then the question which would seem to follow would be: Why has the HUD/OIG conducted Operational Surveys? The reporting in these instances appears contradictory and possibly inconsistent with the point that the GAO may actually be trying to convey.

A more precise definition of fraud, at least for report purposes, would be of assistance to the reader. As it now stands, criminal acts, program abuse, and waste and inefficiency all tend to be captured under the label of "fraud". Fraud, estimated fraud, suspected fraud, and alleged fraud are not all the same, and we believe you should more precisely establish your interpretation of the term "fraud".

[See GAO note 2, p. 107.]

2. HUD's Efforts to Combat Fraud. We are not in a position to know what all other Federal agencies are doing to combat fraud. However, we would not want anyone to draw the conclusion that HUD has not been aggressively working to combat fraud and program abuse. The evolution of HUD's efforts are, in part, explained by the following items:
- a. Attention to fraud was first necessitated by housing scandals of the 1950's which served as cause for the creation of a permanent investigation unit. This unit, composed of trained criminal investigators from other agencies (e.g. FBI and IRS), served management by responding to complaints and requests for investigation.
  - b. In 1972 the Office of Investigation and the HUD Office of Audit were brought together to form the Office of Inspector General (OIG). The Secretary of HUD delegated responsibility to the Inspector General for all audit and investigation functions, and established the OIG as the focal point for assuring the integrity of the Department's programs.
  - c. The establishment of the OIG caused or directly brought about:
    - (1) HUD issuances requiring employees to report indications of wrongdoing and to fully assist in matters being investigated;
    - (2) annual standards of conduct presentations to HUD personnel by members of the OIG;
    - (3) Operational Surveys of HUD offices to detect indications of wrongdoing in HUD's programs;
    - (4) implementation of the Target Cities Program to combat fraud and corruption in HUD programs and to improve internal controls to discourage and prevent future violations. (The Target Cities Program is a continuing program which has been patterned after the Organized Crime Strike forces, and which would not be viable were it not for the effort and cooperation rendered by the Department of Justice.)

- (5) the implementation and design of ADP programs for existing automated systems in use by HUD management, to identify possible targets for investigation; and
- (6) involvement with both the FBI Academy and the Federal Law Enforcement Training Center on matters concerned with
  - (a) basic investigator training;
  - (b) program fraud and abuse seminars; and
  - (c) participation in and design of a course to deal with White Collar Crime.
- d. HUD management has sought to develop sanctions to complement and/or serve as alternatives to criminal or civil court actions. The most notable of these involve processes to (1) control participation in development of multifamily projects for which HUD insures the mortgage, (2) control the participation in and the activities of HUD approved mortgage companies, and (3) suspend and debar, for cause, contractors, grantees, and others who participate in HUD programs (e.g. at May 1, 1978, 1,273 individuals and companies were suspended and debarred from doing business with HUD).

As can be seen from the above, the approach to the handling of fraud and abuse in HUD's program has moved from an almost totally reactive posture (i. . . investigate when asked) to one in which affirmative methods are used to surface indication of fraud. Important in this particular aspect of fraud detection/prevention is the need for recognition of and attention to the program by top management. Proper recognition and involvement by top HUD management is evidenced by:

- required biweekly briefings of the HUD Under Secretary on investigations involving HUD employees and other significant items;
- an antifraud controls review, directed by the Under Secretary, and carried out by the Assistant Secretary for Administration in cooperation with the Inspector General and Assistant Secretaries responsible for major programs being administered by the Department; and

- initiation of the first in a proposed series of fraud/program abuse identification seminars (e.g. whereas the antifraud controls review concerned internal controls, the fraud seminars are to identify ways in which programs may be abused/defrauded).

We would not want to suggest that we think HUD has all the answers when it comes to dealing with fraud in Federal programs. We do hope the above demonstrates though, that we are on the right track, and that our actions, although taken independently of your study, are essentially along the same lines as the actions proposed by your report.

3. Response to Recommendations for Federal Agencies. We believe that your basic recommendation that agency heads need to "...institute a more organized, systematic approach to identifying fraud..." is sound and that most everyone would agree that improvement in this area is possible. With this in mind we would like to offer the following comments on the proposals you have made to accomplish this end.

Recommendation No. 1

"developing management information systems aimed at providing information on the most likely types and methods of fraud, including the development of techniques for estimating the magnitude of fraud in agency programs;"

While this proposal has some merit, there are too many unknowns for us to make a thorough assessment within the time allowed for this response. We are purposely cautious because: (a) the number of varied programs being administered by HUD makes systems design complicated, and (b) systems design is best accomplished in a deliberate rather than hurried fashion. You may be assured that the proposal will receive proper consideration and that, if feasible, such a system will be implemented.

Recommendation No. 2

"--elevating fraud identification to a high agency priority;"

The initiatives being carried out by the highest officials of the Department demonstrate that the problem of fraud/program abuse has received priority consideration.

As recent as December 22, 1977 Secretary Harris announced the implementation of the Audits Management System (AMS), the purpose of which is to (a) force action on outstanding audit findings, and (b) ensure that timely action is taken on future disclosures of management weaknesses. The Department has also implemented an information system for top managers, known as the Executive Management Report (EMR). One of the things the EMR focuses attention on is the disposition of audit and investigation matters by HUD's managers. These two systems, AMS and EMR, give recognition to the fact that agencies which lack effective internal controls are susceptible to fraud and abuse. We believe the previously explained actions by the Under Secretary (e.g. the antifraud controls review, and the fraud identification seminars) are also illustrative of this Department's having recognized and taken steps to combat fraud and abuse in its programs.

Recommendation No. 3

"--taking steps to make employees more aware of the potential for fraud and establishing controls to see that all irregularities are promptly referred to appropriate personnel;"

HUD's internal controls and procedures are considered adequate. For example, (a) HUD regulations require employees to report indications of wrongdoing to the Office of Inspector General and to cooperate with the OIG to assure the timely completion of audits and investigations, (b) OIG personnel are visible at all levels within the Department's operations, (c) the failure to report wrongdoing is brought to the attention of HUD managers, when discovered through an Operational Survey or other OIG operations, and (d) employees are reminded of their responsibilities annually during standards of conduct briefings presented by the OIG. There are no foolproof methods to assure that employees fulfill this vital responsibility, and we believe any additional efforts within HUD would be (a) viewed as harassment by the Department's employees, and (b) counterproductive.

Recommendation No. 4

"--fixing organizational responsibility for identifying fraud;"

This was accomplished in 1972 when the Office of Inspector General was created and delegated authority to perform audits and investigations for the purpose of ensuring the

integrity of the Department's programs. In today's environment, the role of the Office of Inspector General and its interaction with program elements in the Department are constantly changing. We are now studying these relationships and while we do not anticipate that the "...fixing of organizational responsibility..." will be changed, it is most likely that the involvement of the various program elements will be increased.

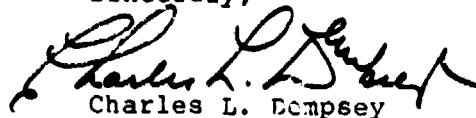
Recommendation No. 5

"--providing agency investigators with appropriate fraud training; in future hirings, concentrating on recruitment of personnel with backgrounds and education more suited to the financial complexities of fraud."

We concur and as previously mentioned, efforts have been made to cooperate in the development and use of fraud training -- "White Collar Crime" -- courses at the FBI Academy and the Federal Law Enforcement Training Center. In addition, the OIG conducted two one-week courses to tune and reinforce the skills of its experienced investigators, and is looking forward to the initiation of (a) mini-seminars of six to ten people to "brainstorm" and identify ways in which programs might be defrauded, and, (b) follow-on work group sessions to deal with investigation techniques and reporting methods applicable to one or even a portion of a specific program (e.g. the rental subsidy program known as Section 8). Finally, during the past year to 18 months, experience or training in business, finance and accounting, have been included as part of the selection criteria and quality ranking factors in job announcements for investigators of the Office of Inspector General.

Again, we are pleased that some of this Department's efforts to combat fraud have been favorably recognized. We trust that you will not hesitate to call upon us if we may be of further service.

Sincerely,

  
Charles L. Dempsey  
Acting Inspector General





ASSISTANT SECRETARY  
FOR ADMINISTRATION

OFFICE OF THE SECRETARY OF TRANSPORTATION  
WASHINGTON, D.C. 20590

May 31, 1978

Mr. Henry Eschwege  
Director  
Community and Economic  
Development Division  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Eschwege:

In response to your letter of April 24, 1978, we are enclosing two copies of the Department's reply to the General Accounting Office (GAO) report "Federal Agencies Can Do More to Combat Fraud in Government Programs."

We concur generally with your findings and recommendations. However, in view of the pending legislation creating an Inspector General Office in several Federal agencies including the Department of Transportation, we will withhold comments on implementing the recommendations. We believe this legislation, if passed, will provide the framework for implementation.

If we can assist you further, please let us know.

Sincerely,

  
Edward W. Scott, Jr.

Enclosure

DEPARTMENT OF TRANSPORTATION REPLY  
TO  
GAO DRAFT REPORT OF APRIL 24, 1978  
ON  
"FEDERAL AGENCIES CAN DO MORE TO COMBAT FRAUD IN GOVERNMENT"

SUMMARY OF GAO FINDINGS AND RECOMMENDATIONS

FINDINGS

GAO asserts that various Federal agencies:

Lack management information on the extent, nature and occurrence of fraud.

Have not given fraud detection a high priority.

Have not fixed responsibility for detecting fraud.

Have no assurance that employees are reporting all suspected frauds.

Lack investigators with background, experience and training suited to fraud investigation.

Department of Justice efforts in the area of fraud in assisting Federal agencies are slow and inadequate.

RECOMMENDATIONS

GAO recommends that the heads of Federal agencies institute a more organized, systematic approach to identifying fraud by:

developing management information systems aimed at providing information on the most likely types and methods of fraud, including the development of techniques for estimating the magnitude of fraud in agency programs;

elevating fraud identification to a high agency priority;

taking steps to make employees more aware of the potential for fraud and establishing controls to see that all irregularities are promptly referred to appropriate personnel;

fixing organizational responsibility for identifying fraud; and

providing agency investigators with appropriate fraud training; in future hirings, concentrating on recruitment of personnel with backgrounds and education more suited to the financial complexities of fraud.

#### SUMMARY OF DEPARTMENT OF TRANSPORTATION (DOT) POSITION

The GAO findings and recommendations relate to various Federal agencies. DOT concurs generally with these basic findings and recommendations. We are withholding any specific comments regarding the Department's implementation of GAO's recommendations pending the outcome of the Inspector General legislation, which has been passed by the House of Representatives and is now in the Senate for action. This legislation would centralize the investigative and audit function within the Department and provide the framework for implementing the GAO recommendations. We disagree, however, with certain statements and conclusions in the report which apply specifically to DOT. Further, based on our experience with the Department of Justice with respect to prosecution of fraud, we believe some of the criticism directed to that Department is misleading.

#### POSITION STATEMENT

[See GAO note 2, p. 107.]

The Department of Transportation concurs that investigators assigned to fraud cases should be experienced and well trained in this type investigative activity. We believe, however, the report places undue stress on a financial and accounting background as a prerequisite for investigator qualifications. The potential for fraud emanating from the Department of Transportation's programs is of such a nature that thorough and successful investigations can be conducted without a financial and accounting background. Qualifications for agency investigators should be tailored to that agency's programs and the type of fraud investigation likely to be encountered.

Concerning the statement relative to Department of Justice efforts in assisting Federal agencies in the area of fraud as being slow and inadequate, it has been the Department's experience that the prosecutorial arm of the Department of Justice has demonstrated a willingness to be responsive to the Department of Transportation's investigative efforts.



VETERANS ADMINISTRATION  
OFFICE OF THE ADMINISTRATOR OF VETERANS AFFAIRS  
WASHINGTON, D.C. 20420

June 1, 1978

[See GAO note 1, p. 107.]

Mr. Gregory J. Ahart  
Director, Human Resources Division  
U. S. General Accounting Office  
441 G Street, NW  
Washington, DC 20548

Dear Mr. Ahart:

The General Accounting Office (GAO) April 20, 1978 draft report, "Federal Agencies Can Do More to Combat Fraud in Government Programs," has been reviewed. Within the Veterans Administration (VA), the report concerns detection efforts to reduce fraud in education, loan guaranty, and disability programs.

While we are in general agreement with the recommendations contained in this draft report, the characterization of the VA as being unconcerned about fraud is invalid. Further, because of dated or incomplete information, the report is quite misleading in its account of the VA's efforts to prevent and detect fraud, abuse and errors. Finally, we believe it is a mistake to address fraud separately. Abuse and errors are subjects of equal concern and many of the procedures used to detect and prevent these occurrences are the same as for fraud. Equal in importance to the detection and follow-up of fraud are preventive measures integrated into programs and procedures and the related testing and oversight of the adequacy of such programs and procedures.

The general tenor of the report is that the VA is unconcerned about program fraud.

[See GAO note 2, p. 107.]

Certainly, Justice Department officials have been well aware of our concerns about VA program fraud, as reflected in the enclosed correspondence with these officials. Also, in our March 21, 1977 written response to the House Committee on Government Operations questionnaire in connection with the Inspector General legislation, and in subsequent hearings before the Committee, our concern about fraud was clearly expressed.

Immediately upon taking office over a year ago, I committed myself to creating an Office of Inspector General to have as one of its major objectives combatting fraud and abuse in VA programs. On January 1, 1978, an Office of Inspector General was established with two components, an Office of Audit and an Office of Investigation. The Inspector General

Mr. Gregory J. Ahart  
 Director, Human Resources Division

reports directly to me. Because of my particular concerns in these areas, the reorganization was accomplished even though the Inspector General legislation was still pending. The Inspector General has been directed to carry out an expanded plan of audits and investigations for promoting economy and efficiency and for detecting and preventing fraud and abuse.

Staffing in the audit and investigative areas has been considerably increased and the responsibilities and priorities of these activities have received greater emphasis. The staffing information on page 4 of the draft report is historical. Excluding administrative support and clerical positions, the number of personnel conducting audits and investigations as of May 10, 1978, and the projected strength at the end of Fiscal Year 1978 are as follows:

	<u>Total</u>	<u>Central Office</u>	<u>Field</u>
<u>Office of Audit</u>			
May 10, 1978	154	37	117
End of FY 78	256	74	182
<u>Office of Investigation</u>			
May 10, 1978	41	15	26
End of FY 78	52	15	37

Even before the creation of the Office of Inspector General, significant efforts were being directed at the detection of program fraud. In this respect, since 1973 we have been engaged in task force activity to seek out fraud in the VA's Loan Guaranty Program. We have had major investigative efforts in two cities and, in recent months, such efforts have been initiated in three other locations. In addition, the VA has engaged in extensive fraud investigations in our Educational Benefits Program. Both of these efforts have been closely coordinated with the Department of Justice.

Besides the individual responsibilities assigned to the Office of Inspector General, VA department heads have the responsibility for assuring that appropriate controls to prevent and detect fraud, abuse and error are built into the programs they administer. With respect to the several VA programs mentioned in the GAO report, all of which come under our Department of Veterans Benefits, a number of steps have been taken to establish built-in mechanisms. Such mechanisms consist of detailed regulatory and procedural manual instructions to operating officials, compliance surveys, special programs or computer processing runs

Mr. Gregory J. Ahart  
Director, Human Resources Division

to identify potential fraud, and other appropriate measures. The Inspector General monitors these efforts and identifies needed improvements to maximize the prevention and detection of fraud, abuse and error.

The report contains certain misinterpretations and inaccuracies which overstate the effect of fraud in the loan guaranty and education benefits programs and understate the VA's efforts to address these problems. These are listed on Enclosure 3.

As stated before, we find the recommendations in this draft report appropriate and in most instances, have already taken action to implement them.

RECOMMENDATIONS: We recommend that the heads of Federal agencies institute a more organized, systematic approach to identifying fraud by

a--developing management information systems aimed at providing information on the most likely types and methods of fraud, including the development of techniques for estimating the magnitude of fraud in agency programs,

COMMENT: Some of the information requirements cited on page 18 of the report, such as locations where agency programs are being carried out, dollars spent in each program and location, and groups and individuals involved as recipients or deliverers of goods and services, are already in place. Some steps have been taken to provide part of the other information elements.

For example, the VA's Office of the General Counsel has recently centralized a reporting format for referrals of apparent criminal violations of law. These are forwarded to the District Counsel in whose jurisdiction the possibly illegal act occurred. The responsibility for referral to the appropriate U. S. Attorney or the Federal Bureau of Investigation rests with the District Counsel. Beginning with this fiscal year, the District Counsels must report to the General Counsel the number of cases referred, their disposition to determine the number in which prosecution is undertaken or declined, and the number resulting in conviction or financial restitution. The reporting format identifies referrals by program and by category of offender. While it is too early to draw conclusions or provide feedback to program officials or to the Inspector

Mr. Gregory J. Ahart  
 Director, Human Resources Division

General, it is our hope the report will ultimately reveal areas of weakness and potential for abuse which will result in administrative program improvements or proposals to the Congress for legislative amendments.

As a further example, our Department of Veterans Benefits is conducting an extensive survey, Pension Benefits Accuracy Study, to determine the accuracy of monthly payments to individuals under the VA's non-service connected pension and parents' dependency and indemnity compensation programs. Both are income maintenance programs based on the income, net worth and dependency status of the beneficiary. The survey is designed to supply dependable data for accurate appraisal of program operations and to enable management's identification of misreporting problems.

Additional information elements will be developed as an integral part of program management and some will be developed by the Inspector General. A major objective of the Office of Inspector General is to analyze and integrate all of these information elements to determine the primary weaknesses permitting fraud, abuse and error.

RECOMMENDATION:

b--elevating fraud identification to a high agency priority;

COMMENT: This was accomplished with the establishment of the Office of Inspector General, January 1, 1978.

RECOMMENDATION:

c--taking steps to make employees more aware of the potential for fraud and establishing controls to see that all irregularities are promptly referred to appropriate personnel;

COMMENT: This will be accomplished by the Office of Inspector General.

RECOMMENDATION:

d--fixing organizational responsibility for identifying fraud;

COMMENT: This responsibility rests with the Office of Inspector General.

Mr. Gregory J. Ahart  
Director, Human Resources Division

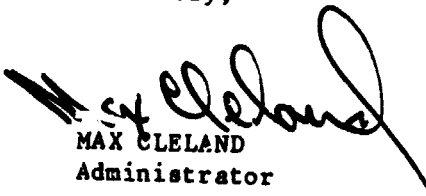
RECOMMENDATION:

e--and providing agency investigators with appropriate fraud training; in future hirings, concentrating on recruitment of personnel with backgrounds and education more suited to the financial complexities of fraud.

COMMENT: With respect to fraud training, we will seek worthwhile and suitable training for the Inspector General staff. While we feel that hiring investigators with backgrounds and education suited to the financial complexities of fraud is desirable, there are many other types of experience and education appropriate for fraud investigations and there should not be undue concentration of recruiting in a single area. Further, we have a significant number of accountants available in our Office of Audit who do assist our investigators in fraud investigations.

I wish to reiterate that the VA is well aware of the potential for fraud, error and abuse in our programs and is emphasizing preventive and corrective measures that include identifying fraud, and maintaining a skilled, well-trained staff to combat this problem.

Sincerely,

  
MAX CLELAND  
Administrator



ENCLOSURE 1



VETERANS ADMINISTRATION  
OFFICE OF THE ADMINISTRATOR OF VETERANS AFFAIRS  
WASHINGTON, D.C. 20420



JULY 20 1977

The Honorable  
Peter F. Flaherty  
Deputy Attorney General  
Department of Justice  
Washington, D.C. 20530

Dear Mr. Flaherty:

This is in reply to your letter of July 8, 1977, in which you request designation of individuals to attend a multi-agency coordinating meeting on prevention of white collar crime.

I would like to designate Neal C. Lawson, Deputy Assistant General Counsel and William L. Rettew, Director, Investigation and Security Service as the representatives of this agency.

Some programs of this agency dispense large sums of money annually in benefits to eligible recipients. As such, these programs are enticing targets for the white collar criminal. I am personally committed to the reduction of fraud against this agency and fully support the President's objective. You may be assured of the full cooperation of this agency.

Sincerely,

MAX CLELAND  
Administrator

✓cc: William L. Rettew  
I&S Service (071)

ENCLOSURE 2

OCT 28 1977

024

Mr. Mark M. Richard  
Chief, Fraud Section  
Criminal Division  
U.S. Department of Justice  
Washington, D.C. 20530

Dear Mr. Richard:

This is in reply to your letter of August 12, 1977, in which you generally outline the nature of the information requested by Mr. Peter Flaherty, Deputy Attorney General, during the July 19, 1977, meeting of the several agencies.

There are several areas of interest which we would like to bring to your attention. First, we have no continuing problems with U.S. Attorney disposition of cases referred by this agency. Educational overpayment cases, which involve fraudulent acceptance of educational benefits, in the past, were not traditionally prosecuted because they involved a veteran who had served his country, and hence, generally were viewed as lacking prosecutive appeal. In the past 18 months, however, these cases have been more frequently prosecuted, and we are generally satisfied with U.S. Attorney actions. These cases fit into the de minimus category outlined at the July 19th meeting, in which individual cases are perhaps not appropriate for prosecution, while a pattern of such cases would warrant action.

In other cases involving systematic fraud, the U.S. Attorneys appear to be responding properly to agency submissions. There have been prosecutions of proprietors of educational institutions for fraud and, when appropriate in loan guaranty cases, efforts at prosecution have been made. As stated earlier, we have no specific complaints as to the general disposition of cases referred by this agency.

With respect to some of the proposed actions expressed by Mr. Flaherty at the July meeting, we welcome the training which the Department will sponsor. At the present time, the Administrator of Veterans Affairs is internally structuring an Inspector General function which not only would investigate actual fraud and abuse, but also would perform a preventive function as well. The agency has been authorized additional manpower with which to strengthen audit and investigation functions. It is our intention to utilize some of these individuals in a purely preventive capacity, as suggested in the July meeting. We are interested in providing to VA employees the preventive training outlined by you at the meeting so that this aspect of the Inspector General function will be better served.

We are also very interested in cultivating further cooperation with other Federal agencies so that we might be better able to discern potential or actual vulnerabilities to systematic fraud in VA programs. An example of such cooperation was the proposed pilot program involving our loan guaranty program in Los Angeles. It had been proposed by the Department at one time to act in a joint task force. We would welcome such a venture. At the present time, we have an ongoing investigation into allegations of systematic fraud in the Los Angeles area. We are initiating steps with other agencies as well to facilitate the exchange of information which might be helpful to all parties in the prevention of fraud against the government.

In short, we are enthusiastic about the proposed program of your Department and intend to participate to the maximum extent possible. If we may be of assistance in any way, please advise.

Sincerely yours,

NEAL C. LAWSON  
Deputy Assistant  
General Counsel

Enclosure 3

Reference: U. S. General Accounting Office April 20, 1978 draft report, "Federal Agencies Can do More to Combat Fraud in Government Programs."

[See GAO note 2, p. 107.]

As to the priority afforded loan submissions in VA regional offices, all loan examiners are constantly looking for any evidence that the loan submission was improperly packaged. In addition, the VA system provides for a regular random selection of cases for backup verification of credit reports, employment and asset information.

[See GAO note 2, p. 107.]

The last sentence on page 25 and the first on page 26 are not true as applied to VA loan guaranty. Fraud discovery in this program is not a result of a complaint or of accidental discovery but generally a result of our systematic review of all cases throughout the entire procedure of loan processing, construction evaluation, loan servicing and claims, and property management. Our 49 regional Loan Guaranty Officers and their staffs have regulatory and procedural manual instructions requiring constant alertness to and prompt action in all cases wherein some scheme may appear indicating a fraudulent transaction. We believe that the vast majority of all discovered fraud in this program is found by our loan guaranty staff as a result of specific and systematic procedures established for that purpose.

Contrary to the implication in the last paragraph on page 29 that agencies can find the fraud if they actively look for it, the VA does have a continuing systematic approach for detecting abuses in the loan guaranty program.

The last paragraph on page 30 is inaccurate as to the VA loan guaranty program. Our procedure requires that all cases in which prima facie evidence of criminal violations appear must be referred to the Justice Department. Matters which appear suspicious are referred to our regional District Counsels for investigation. District Counsels have some investigative facilities which may also be supplemented by Field Attorneys/Examiners assigned to Veterans Services Divisions in regional offices.

In regard to the Education Benefits program, on page 24, GAO notes that VA generally considers the veteran's receipt of more educational benefits than he is entitled to receive as an overpayment, rather than a possible incidence of fraud. We think this is a misrepresentation of the situation. Very few overpayments involve an application for benefits for which there was never any intent on the part of the veteran to attend school. For the most part, a veteran has properly, and without criminal intent, established his entitlement at the beginning of a course of study. The overpayment results when the veteran terminates his studies or reduces his course load without notifying the VA, or a failure on the part of the school to certify attendance occurs. This type of situation hardly contains the elements a prosecutor desires before proceeding with a case.

In the past, the VA was required by statute to offer at least a month's advance education benefits payments, resulting in large numbers of students receiving checks before attending any classes. The situation resulted in a large increase in improper payments. VA requested Congress to amend the advance payment requirement, and currently a more limited program is in effect. We believe this establishes that VA does react to evidence of wide-spread program abuse and amends its programs consistent with its obligations to correct the defects leading to abuse.

UNITED STATES DEPARTMENT OF AGRICULTURE  
OFFICE OF THE INSPECTOR GENERAL  
WASHINGTON, D.C. 20250

OFFICE OF AUDIT

OFFICE OF INVESTIGATION

JUN 6 1978

Henry Eschwege, Director  
Community and Economic Development Division  
United States General Accounting Office  
Room 6146  
Fifth and G Streets  
Washington, D.C. 20548

Dear Mr. Eschwege:

We appreciate the opportunity to review and comment upon your draft report entitled "Federal Agencies Can Do More To Combat Fraud In Government Programs." We agree there is a need for Federal agencies to give a higher priority to detecting and combating fraud in their programs. The recent reestablishment of the Office of the Inspector General (OIG) in this Department combined the audit and investigation functions into one organization. This change will facilitate coordination of these activities and enable the Department of Agriculture to improve its ability to deal effectively with the fraud problem. Our comments on the recommendations are as follows:

Agencies lack management information on fraud

Recommendation

*. . . that the Federal agencies institute a more organized, systematic approach to identifying fraud by*

- developing management information systems aimed at providing information on the most likely types and methods of fraud, including the development of techniques for estimating the magnitude of fraud in agency programs;*

Comments

We agree that properly designed management information systems will enhance the effectiveness of fraud detection efforts. While we do not have a single integrated system, as the report seems to contemplate, we

[See GAO note 1, p. 107.]

use many sources of information in carrying out our fraud detection efforts. These sources include our audit/investigation referral system; close liaison with the USDA program agencies and access to their management information systems; the automated systems operated by the audit and investigation units within the OIG; our audit and investigation reports; and the vast storehouse of knowledge possessed by our experienced auditors and special agents. All of these sources are drawn on as part of the OIG audit/investigation planning and priority-setting process.

Also, on May 1, the Inspector General directed the development of a "Fraud Information Bulletin." The bulletin will alert key OIG officials about trends, newly discovered fraud schemes, program weaknesses susceptible to fraud, new techniques for detecting fraud and developing evidence, and other pertinent data.

We recognize that our information system can be improved and we are moving in that direction. Consideration is being given to a computerized system, and the Inspector General has directed a study to assess the feasibility and cost/benefit factors of such a system.

There are some questions about the feasibility of developing estimates of fraud in a Department as large and complex as USDA, and whether such estimates would be accurate enough to serve as the basis for management decisions. However, the Inspector General has established a task force whose mandate includes developing a procedure to estimate levels of fraud, waste, and abuse in USDA programs. The task force report is due in August.

#### Need to aggressively look for fraud

##### Recommendation

*. . . that the Federal agencies institute a more organized, systematic approach to identifying fraud by*

- elevating fraud identification to a high agency priority;*
- taking steps to make employees more aware of the potential for fraud and establishing controls to see that all irregularities are promptly referred to appropriate personnel;*
- fixing organizational responsibility for identifying fraud.*

##### Comments

We agree with the thrust of these recommendations, but feel compelled to point out that some statements in this part of the draft are not accurate

insofar as this Department is concerned. This is partly due to changes that have taken place since the audit was completed and following the re-establishment of the Office of Inspector General and the appointment of an Inspector General.

The detection and investigation of fraud is the highest priority of the Office of Inspector General (page 22 of draft). Delegations of authority by the Secretary and the nature of our functions place primary responsibility for fraud detection and investigation in USDA with OIG (page 25).

We are taking an active approach to fraud detection. The Inspector General has placed strong emphasis on the use of operational surveys, including joint audit/investigation efforts, as a tool to detect fraud. Surveys now underway include (1) the Business and Industry Loan Program, (2) the Emergency Livestock Guaranteed Loan Program, and (3) the activities of certain Rural Rental Housing Program builders. Such surveys will be a permanent and very important part of the operations of OIG. The current situation affects statements contained in the Digest and on pages 25, 26, and 28 of the draft.

The statement at the bottom of page 30 about the absence of controls or procedures to see that suspicious matters are referred for investigation does not apply in USDA. The USDA Administrative Regulations clearly require agency officials and employees to report bribery, fraud, and other irregularities to OIG. Also, we have investigation jurisdiction agreements with some program agencies, which specifically require referral of suspected fraud to OIG for investigation. We believe most USDA officials are aware of these responsibilities and requirements. Each program agency in this Department has a senior staff member appointed as the agency liaison officer with OIG. The liaison officers help facilitate the referral of investigative matters to OIG, and see that our reports are properly handled and acted upon within the program agency. We help assure compliance with the referral requirements by continuing liaison and monitoring.

Agency investigators may not have expertise to effectively investigate fraud

#### Recommendation

- . . . that the Federal agencies institute a more organized, systematic approach to identifying fraud by*
  - providing agency investigators with appropriate fraud training; in future hirings, concentrating on recruitment of personnel with backgrounds and education more suited to the financial complexities of fraud.*



Comments

We agree with this recommendation. A substantial number of auditors and investigators have recently received fraud training, including courses given by the FBI, IRS, and OSI, as well as in-house training. In addition, we have initiated the planning for a very sophisticated white collar crime training course. The Inspectors General of HEW and HUD are working with us in developing this program. We expect the first training sessions to be held in October 1978.

Also, since appointment of the Inspector General, there has been increased emphasis on recruiting agents with accounting and financial backgrounds and on cross-training of auditors to provide them with fraud investigation skills.

All in all, we think this is an excellent report that will certainly provide needed support and encouragement to Federal agencies in combating fraud.

We look forward to receiving your final report.

Sincerely,



THOMAS F. McBRIDE  
Inspector General



U.S. GOVERNMENT  
 SMALL BUSINESS ADMINISTRATION  
 WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

JUN 8 1978

Mr. Henry Eschwege  
 Director, Community and Economic  
 Development Division  
 United States General Accounting Office  
 Washington, D. C. 20548

Dear Mr. Eschwege:

This is in response to your letter of April 24, 1978, requesting our comments with regard to your draft report entitled, "Federal Agencies Can Do More to Combat Fraud in Government Programs."

We reviewed the report with interest and the following are our comments with regard to each of the recommendations and our overall comments.

Overall, we believe that the report, in general, is idealistic in content and is not balanced with a practical assessment of the real problem in implementing the substance of the report. We agree that more can be done, that is a truism no matter what subject is selected. The real question is then how much resources can be and should be expended on this effort. The report does not address this and we can appreciate why it did not. It is a subjective problem and there are great difficulties in obtaining the necessary information on which an objective judgement can be made. Even the amount of fraud against the government estimated in the report, i.e., 1 to 10% or 2.5 to 25 billion dollars, is not based on facts.

We further believe that the report did not sufficiently recognize the activities of this agency to maintain program integrity which is directly tied to combating fraud. The report did not disclose such matters as our Field Office Inspection Program by our Security and Investigations Division; the work done by our Compliance Audit Division on 7(a) Loan,

[See GAO note 1, p. 107.]

Surety Bond Guarantee and SBIC programs. Nor did it fully show the work of our External Audit and Internal Audit Divisions and the Office of Portfolio Review. All this work is directly and indirectly done, among other matters, to detect and to combat fraud. The record will show numerous white collar crime cases disclosed by these activities.

With regard to each of your recommendations, the following are our comments:

---"developing management information systems aimed at providing information on the most likely types and methods of fraud, including the development of techniques for estimating the magnitude of fraud in agency programs;"

We will take this under advisement and consider what information can be feasibly obtained and what techniques can be used for estimating fraud.

---"elevating fraud identification to a high agency priority;"

This is one of the high priorities in this agency as indicated by the fact that the Office of Audits and Investigations is in my office and reports directly to me and has complete access to me at any time. Further, one of their primary responsibilities is the identification of fraudulent activities. This is stressed to all our auditors and investigators of the Office of Audits and Investigations.

---"taking steps to make employees more aware of the potential for fraud and establishing controls to see that all irregularities are promptly referred to appropriate personnel;"

Our Standard Operating Procedures and SBA's Rules and Regulations thoroughly cover this subject. Further, we have recently increased our Security and Investigations Division by four positions so that our Field Office Inspection Program could be expanded and so that more offices could be visited. During these inspections, field personnel are briefed on matters such as fraud. Further, these briefings stress the responsibility to report all suspected frauds and that failure to report such irregularities are grounds for dismissal. In addition, in

January of this year, I personally sent a memorandum to all employees reminding them of their responsibility to report irregularities and to whom they should report them to. Further to control this, all of our auditors, investigators and Portfolio Review personnel are required to evaluate the implementation of these procedures during their field visits.

---"fixing organizational responsibility for identifying fraud;"

As was mentioned before, the Office of Audits and Investigations is the focal point for fraud identification; however, we also believe that the front line of defense in the prevention and detection of fraud is the personnel processing the federal assistance. We do agree with the report that the heavy case load of the loan officer in SBA does detract from fraud prevention and detection.

---"providing agency investigators with appropriate fraud training; in future hirings, concentrating on recruitment of personnel with backgrounds and education more suited to the financial complexities of fraud."

With regard to this recommendation, it has been the policy of this agency to have investigators with background and education suited to financial matters. This is imperative because of the nature of SBA's mission which is exclusively business oriented. Therefore, out of 15 investigators in our Security and Investigations Division, 10 have had formal training in accounting; in fact, one of our most recent hires is a Certified Public Accountant. Further, in our External Audit Division all personnel of that staff would qualify in the 510 occupational series.

Therefore, both the Security and Investigations Division and the External Audit Division have highly qualified and well trained personnel who have a business administration/accounting background with considerable experience in making financial and related fraud investigations. In fact, on a number of occasions, personnel of these divisions have worked with and have been assigned to Department of Justice personnel to work fraud cases. In a number of these cases, letters of commendation have been received.

With regard to training, this is a weak area since the availability of worthwhile training is limited. We do take advantage of the seminars and symposiums sponsored by the Association of Federal Investigators which is an excellent training resource. We also hold annual (in house) training seminars which we believe provide excellent training in the area of fraud. Other meaningful training, such as that sponsored by the Treasury and the Justice Departments are not generally available to other executive agencies. However, we are participating with the faculty at the Federal Law Enforcement Training Center at Glynn, Georgia in devising a training course on White Collar Crime. This training is to be offered in the future to auditors, investigators and attorneys.

The following are some items in the report which are either in error or should be clarified.

Page 16, second paragraph, last sentence -- We believe that this statement does not indicate anything except different opinions, neither of which are based on facts. As we stated previously, to gather such data is difficult.

[See GAO note 2, p. 107.]

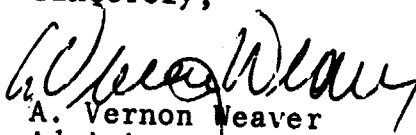
Page 17, second sentence -- This sentence does not apply to SBA since we do not have "regional offices of investigations."

[See GAO note 2, p. 107.]

[See GAO note 2, p. 107.]

In conclusion, we appreciate the opportunity to comment on this report and if you need any additional information, we would be pleased to furnish it.

Sincerely,

  
A. Vernon Weaver  
Administrator



## UNITED STATES DEPARTMENT OF JUSTICE

WASHINGTON, D.C. 20530

Address Reply to the  
Division Indicated  
and Refer to Initials and Number

AUG 28 1978

Mr. Victor L. Lowe  
Director  
General Government Division  
United States General Accounting Office  
Washington, D.C. 20548

Dear Mr. Lowe:

We appreciate the opportunity given the Department to review and comment on the draft of your proposed report to the Congress entitled "Federal Agencies Can Do More To Combat Fraud in Government Programs."

The Department agrees with the general theme of the report that agency enforcement efforts in combatting fraud in Federal programs can be substantially improved. Historically, agencies have not made a concerted effort to deal with fraud in their programs. We believe that one of the primary obstacles in securing adequate agency commitment to vigorous enforcement efforts in the past has been the failure of agencies to recognize that vigorous enforcement efforts are directly related to effective attainment of program objectives. Until recently, agencies were program oriented and were generally of the philosophical view that vigorous enforcement hampered their programs. Such enforcement was associated with increased red tape and was considered incompatible with the attainment of congressionally mandated program objectives. Fortunately, this attitude has been dissipated over the past several months, largely through the educational efforts of this Department, so that today most agencies readily accept the need for vigorous enforcement programs.

The report summarizes some of the recent achievements of the White-Collar Crime Committee and the Criminal Division but indicates that the Department "relies primarily on persuasion and encouragement" to accomplish enforcement goals. To

[See GAO note 1, p. 107.]



to the extent the agencies have responsibilities other than law enforcement, directing their enforcement efforts will necessarily depend on persuasion. Under the leadership of the Attorney General, the priority status of enforcement and the integrity of Federal programs have been enhanced in all the agencies. Even those agencies mentioned in the report who maintain that fraud is not a problem in their programs have responded. The Veterans Administration (VA) has appointed an Inspector General to coordinate its enforcement efforts. The General Services Administration has recently appointed an Inspector General and has increased its enforcement efforts in several important areas which are already leading to important referrals and FBI investigations. The Department of Labor has created a similar position. As you know, we are working with each of the agencies to develop a plan of action which will be tailored to fit the specific needs of each and which takes into account the nature of the programs, available agency resources and the types of fraud schemes being encountered.

In view of the above, we are somewhat surprised by the tone of the draft report which suggests in a variety of ways that the Department is indifferent, unaware of, or unwilling to address any of the issues that plague our social benefit programs. We believe the record amply reflects that it was the Department that first recognized the magnitude of the problem confronting our nation in this area and assumed a leadership role on its own initiative in publicly exposing the problem and devising new approaches for dealing with this highly complex enforcement area. We take exception to your conclusion that Justice has failed to take the lead in mobilizing the available Federal resources to come to grips with the problem.

Upon assuming office, one of the first issues that the Attorney General personally addressed was the problem of fraud and abuse in our social welfare programs. Repeatedly, he has emphasized to congressional committees, all U.S. attorneys, and Federal investigative and program agencies, the high priority that must be afforded to the problem of fraud and abuse in our social benefit programs. The Attorney General's actions affirm that the Department of



Justice fully recognizes its responsibility to play a leadership role among the Federal agencies in combatting the problems of program fraud.

Although we generally agree that there is room for improvement in combatting fraud in government programs, we do not agree with some of the statements, conclusions, and recommendations made in the report.

In Chapter 3, the report suggests that the agencies are unable to estimate in a meaningful fashion the extent of fraud primarily because they do not afford enforcement a high priority, have not fixed responsibility for identifying fraud, lack information on fraud, and have not assured themselves that suspected frauds are referred for investigation. As you know, each agency already has the equivalent of an Office of Investigation and an Office of Audit with specific responsibilities to detect fraud. Experience has shown that because of the limited resources available to these groups, they have been forced to focus all of their resources on specific situations that arise rather than developing affirmative long-range programs to detect fraud. Accordingly, we must take exception to your comments which suggest that the failure to fix responsibility on an identifiable group or unit within the agency is a major cause of the problem.

Your report also suggests the development of management information systems and the use of operational surveys as methods for identifying potential fraud. We would like to point out that reliance on management information systems will not give rise to the type of data necessary for enforcement planning because management information designed to disclose purported fraud can be developed only through actual investigation. For example, the information systems developed in the Housing and Urban Development (HUD) programs, which you cite in your report, were accomplished only after actual investigations in the Philadelphia and Brooklyn areas. Naturally, to accomplish such investigations and to develop meaningful management information requires the availability of sufficient personnel resources. The use of operational surveys, as described in your report, appears to be an effective means for disclosing the possibility of fraud, but likewise requires sufficient personnel resources. Experience has shown that lack of personnel is a serious

barrier to effective enforcement and a major reason why agencies have not been able to give enforcement activity the priority it deserves.

The draft report also takes issue with the training level of agency investigators. The Department of Health, Education, and Welfare (HEW), in attempting to dramatically increase its staff, has come to realize what we have known for a long time--there is no large pool of available investigators trained in government fraud investigations. Even in the established investigative agencies such as the Federal Bureau of Investigation (FBI), Postal Service, and Internal Revenue Service, the training and experience of the investigators is less than ideal. As public and governmental interest in fraud increases, our shortage of experienced personnel becomes magnified. It is our hope that the Mini-Course, the new Treasury course, and the joint training initiatives for FBI agents and assistant U.S. attorneys, which are described later in this response, will improve Federal efforts to combat fraud. On-the-job experience is the most essential ingredient in developing a young college graduate with financial training into an experienced and sophisticated fraud investigator. We do not believe extensive accounting training of these investigators is required, as you suggest, as much as general financial experience and training. Accounting experts can always be drawn into investigations from the respective office of audit as the situations require. Based on our experience, in 99 out of 100 government fraud investigations, formal and extensive accounting backgrounds of the investigators are not prerequisites to successful investigations.

Chapter 4 of the report appears to contemplate an advisory and managerial role for the Department, which the Department simply does not have the resources to undertake. The Criminal Division has attempted to address this problem through the development of appropriate priorities so as to ensure that existing resources are devoted to cases which will have the greatest impact and deterrent effect. Chapter 4 also conveys the mistaken impression that the Department's fraud enforcement activities are centered in the Fraud Section of the Criminal Division and the Attorney General's White-Collar Crime Committee. In fact, the pursuit of civil remedies is also an integral part of the Department's fraud enforcement activities.

The primary responsibility of the Frauds Section of the Civil Division is the enforcement of the False Claims Act, 31 U.S.C. §§231-235, and its other major area of responsibility lies in seeking civil redress at common law in actions against corrupt Federal officials. The Section's caseload is comprised of actions which are uncommonly complex and protracted, and accordingly demand an extraordinary amount of attorney time. The Section has 18 attorneys who were assigned to handle approximately 1,173 open civil fraud matters as of December 31, 1977. If a substantial portion of the Section's efforts and resources were diverted to the advisory and managerial tasks contemplated in Chapter 4, many of the meritorious civil fraud cases would either be seriously underlitigated, or would not be brought at all.

We also believe that the advisory and managerial role prescribed in Chapter 4 is based on an erroneous premise. The criticisms in Chapter 4 presuppose that agency officials are uniformly interested in ferreting out fraudulent abuses of Federal programs. Our experience indicates, however, that this premise is unfounded for two reasons. First, in a substantial number of cases that come to our attention, agency officials are themselves deeply involved in the fraudulent conduct at issue, either because they accept bribes, are engaged in conflicts of interest, or are actively participating in secret partnerships with fraud doers engaged in business dealings with the Government. Second, some agencies refuse to admit openly that fraudulent abuses occur in their programs out of a concern that appropriations will be adversely affected. Given this attitude, we perceive substantial obstacles to the advisory role envisioned in Chapter 4.

Insofar as Chapter 4 addresses the efforts of the Civil Division to work with client agencies, it contains a number of inaccurate comments. For example, while it criticizes the Department for failing to advise agencies on how fraud can occur, it ignores the Civil Division's past efforts to apply litigative expertise to program reform. For example, during the early 1970's, a disproportionate percentage of

the Frauds Section's caseload resulted from the widespread fraudulent abuses of the Federal Housing Administration (FHA) mortgage insurance programs, and the VA mortgage guaranty programs. In a number of cases, the Civil Division sought to expand the Government's possibilities for civil redress by seeking to hold mortgage lenders accountable under the False Claims Act for the accuracy of the credit information which they certified to FHA and VA. While these efforts initially met with success and attracted widespread attention, the Civil Division suffered an adverse Court of Appeals decision in a major test case. This decision was based largely upon the Court's construction of the language of the certifications which HUD and VA require from participating mortgage lenders. We believed that the outcome of the case highlighted a significant deficiency in the mortgage insurance and guaranty programs of both FHA and VA, because the certifications were not sufficiently clear, and because the regulations did not clearly impose sufficiently stringent duties upon mortgage lenders to investigate credit information on applicants and thereby reduce the possibilities for fraudulent conduct. Accordingly, we advised both HUD and VA of these perceived deficiencies in a series of letters. We have not found either agency to be responsive to our efforts to pinpoint this source of fraudulent conduct, and we are unaware of what steps, if any, have been taken to deal with the problem. We do not, however, believe it accurate to state or imply that the Civil Division has failed to take steps to advise agencies of how fraud has occurred and can occur.

[See GAO note 2, p. 107.]

The report also suggests that in performing our leadership role we should develop formal guidelines on what types of cases will be prosecuted. We believe that such

a proposal is unrealistic and reflects a belief of uniformity among cases and districts which in reality does not exist. While we recognize that it is desirable to increase the rate of detection, referral and prosecution, the publishing of priorities or case-by-case standards for the exercise of prosecutive discretion could constitute an invitation to commit crime in non-prioritized areas. It would also discourage agencies from reporting many cases of "non-priority" fraud cases. Such standards would necessarily be available to the public under the Freedom of Information Act and thus could not be made very specific without harming our law enforcement efforts.

We also question the wisdom of GAO's suggestion on page 43 that the Civil Division's Handbook For Civil Litigation In Housing Fraud Matters be disseminated to agency personnel "to redress the problems of guidance and coordination." The Handbook was prepared by the Frauds Section for the sole purpose of providing assistance to attorneys in the preparation and trial of housing fraud cases. We believe the development of treatises giving guidance to agency executives and investigators on fraud matters in specific programs, whether housing, health, agriculture or other Federal programs, should be accomplished by the respective agency personnel. While the Civil Division's responsibilities are primarily litigative, the staff is nonetheless prepared, to the extent that its personnel resources permit, to coordinate with the agencies and impart the lessons which they have learned from their litigative efforts in the same manner as they have in the past.

[See GAO note 2, p. 107.]

In conclusion, we agree that there is room for substantially improving efforts to deal with fraud by both the agency enforcement groups and the Department of Justice. We also believe that efforts already underway, when fully implemented, will upgrade our effectiveness.

In a concerted effort to deal with fraud in agency programs, the Department has already assumed a leadership role in the following areas:

A variety of specialized fraud training programs and seminars are available through both the Attorney General's Advocacy Institute and other divisions of the Department of Justice. The Attorney General's Advocacy Institute and the Criminal Division jointly sponsor a series of seminars for assistant U.S. attorneys on white-collar crime, including one on fraud in government programs which is held three to four times a year. In order to detect more cases of government program fraud, a new training program in investigative techniques and prosecution in government fraud and corruption is now given by the Attorney General's Advocacy Institute and the Department's Public Integrity Section to FBI and U.S. attorney personnel. This course has been completed for the eastern half of the United States, including 60 representatives of U.S. attorneys' offices and 25 FBI representatives. The course is now being given for the western half of the United States and is scheduled for completion by October 31, 1978.

2. We have recently concluded a specialized training session for assistant U.S. attorneys focusing exclusively on program fraud prosecutions. In addition, the Department has devised a "Mini-Course" in fraud investigations for program agency investigators. This course will be conducted by two experienced Justice prosecutors and is intended to be included in the overall agency training program provided to agency personnel. A similar course is being prepared by agency auditors, and we hope to be able to implement such a program by the fall of this year.

3. We are cooperating with the Treasury Department's Federal Law Enforcement Training Center in developing a 2-week course on government fraud investigations.
4. The Fraud Section of the Criminal Division has expanded its commitment to program fraud to the point that approximately 1/3 of the Section's attorneys are now committed to program fraud cases and problems. In this connection, the Fraud Section has begun assigning specific attorneys to work in a liaison capacity with designated agencies to insure continuity and effective liaison between the agency and the Department of Justice.
5. We have publicly endorsed the principles reflected in the Inspector General's bill because of our belief that the approach reflected therein will enhance the overall effectiveness of any fraud enforcement efforts.
6. We have developed the concept of an enforcement impact statement which we have publicly urged the Congress to consider prior to enacting new social welfare programs. As envisioned, the statement will compel both the legislators and agency personnel to focus on enforcement issues prior to enactment of new legislation and thereby avoid having such issues considered for the first time many years after program enactment following revelations of widespread scandal and abuse.
7. To address the problem of data collection, we have devised, in conjunction with program agencies, a referral form which, when fully implemented, will provide us with a more comprehensive data base than the one currently available.

8. In conjunction with various program agencies, we have developed sophisticated computer screens designed to detect program abuse and fraud. In this connection, the technique is already being utilized by HEW and offers great promise for minimizing any impact of fraud and abuse by affording a rapid means for early detection.
9. U.S. attorneys have created special fraud prosecution units which are staffed by assistant U.S. attorneys who have extensive fraud prosecution experience and have received special training in fraud investigation and prosecution.
10. As mentioned in the GAO report, we have prepared and distributed a handbook to U.S. attorneys to assist them in the civil litigation of HUD fraud matters. We would like to develop and distribute similar handbooks to U.S. attorneys on other programs with major identifiable fraud problems, but such an effort will require additional funding and personnel.

These are but a few examples of ongoing activities which are designed to address the problems you have identified in your draft report.

Should you desire any additional information, please feel free to contact us.

Sincerely,

*acting* *for* *Kevin D. Van Stavern*  
 Kevin D. Rooney  
 Assistant Attorney General  
 for Administration

GAO note 1: Page references in this appendix refer to the draft report and do not necessarily agree with the page numbers in the final report.

GAO note 2: Deleted comments refer to material in our draft report which has not been included in the final report.

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