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ADDRESS BY

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Speech

COMPTROLLER GENERAL OF THE UNITED STATES

TO THE

ASSOCIATION OF

address

FEDERAL INVESTIGATORS



ON

[GAO EFFORTS RELATED TO
FRAUD, ABUSE AND MISMANAGEMENT
IN FEDERAL PROGRAMS]

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MAY 23, 1979

I appreciate the invitation to be with you today to discuss GAO's efforts to prevent fraud in Government programs.

As many of you know, in a September 1978 report entitled, "Federal Agencies Can Do More to Combat Fraud in Government Programs," we pointed out that no one knows the magnitude of fraud and abuse against the Government. It is hidden within legitimate undertakings, and usually goes unreported and undetected. However, all indications are that fraud is a problem of critical proportions.

Order of magnitude data on waste in Government is even more difficult to develop. First of all, when people talk

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about "waste" in Government programs, they are often talking about different things. Depending on one's perspective, an entire program can be viewed as a waste of Government funds or as extremely important. Even if there is general agreement that a particular program is necessary, waste may result from a number of factors.

Mismanagement of a well designed program can cause not only waste, but result in fraud and abuse as well. Poorly designed programs without adequate safeguards and controls can lead to the occurrence of all of these problems. Waste also results from the continuation of programs after they have outlived their usefulness or accomplished their intended purposes. Suffice it to say that waste is a nebulous term that almost defies quantification.

Our current efforts in combating fraud began in mid-1976 as exploratory work aimed at ascertaining whether Federal agencies had instituted effective policies and procedures for combating fraud that might exist in their programs. It seemed to us that the essential elements of such an effort should include:

- procedures to assess the vulnerability of programs to fraudulent schemes to see if the agencies were aware of such susceptibility
- the comprehensive collection and analysis of information on known incidents of fraud to determine patterns and trends; and,

--an aggressive effort to follow-up on instances of fraud which would include not only reactions, but active policing to seek out fraudulent schemes.

As discussed in the report, we focused on the above activities in several agencies (Agriculture, Labor, Transportation, HUD, VA, GSA and the Small Business Administration) to confirm or refute the existence of the problem.

Although bright spots existed here and there with respect to individual agency's anti-fraud activities, the existence of a serious overall problem was confirmed.

An important aspect to stress in any discussion of fraud in Federal programs is that while stronger internal audit, inspection and criminal investigation capability is mandatory; this alone is not sufficient to solve the problems. A systematic approach to fraud prevention requires evaluation of the adequacy of management's internal control systems. Close coordination between investigators, auditors and those responsible for program design and execution is required if potentially fraudulent situations are to be examined in a systematic manner. Each has an important role to play, but not to the exclusion of the other.

Systematic efforts to identify and root out fraud could also yield agency management information systems which would be valuable in planning fraud prevention efforts. Without such data, agencies

have no basis for planning anti-fraud strategies or developing the resources required to combat fraud.

In the past, agencies have not made fraud detection a high priority. This inattention led to passiveness regarding potentially fraudulent situations. In addition, agency investigators often did not have the background, experience, and training needed to effectively detect fraud. About 70 percent of them had no prior experience in fraud investigations, and about 80 percent had no formal training in investigating fraud. Although several agencies have begun an effort to provide better training, the absence of a financial background can be detrimental to effective investigations of some types of fraud. This serves to highlight the requirement for coordination between the accountant/auditor and the investigator.

Now I would like to turn my attention to the GAO Fraud Task Force which I am sure many of you have heard about.

On October 11, 1978, I wrote to Senator Lawton Chiles, Chairman of the Subcommittee on Federal Spending Practices and Open Government, informing him that, as a follow-up to our report, I was establishing

a Special Task Force for the Prevention of Fraud.

The major responsibility of this group is twofold

--to evaluate the adequacy of the management control systems in Federal agencies that are necessary for the prevention of fraud, and

--to assess the adequacy of follow-up and corrective actions taken on reports of auditors and investigators.

Where these systems have been properly developed and are functioning as planned, the possibility for fraud, theft or error is greatly diminished. Where the systems do not exist or are not being used properly, the opportunities to defraud the Government and the possibilities of error increase dramatically.

A major part of our work will be the development of vulnerability assessments. The Task Force will concentrate on agency controls over cash and receivables, inventories and supplies....anything of value that might be stolen or misappropriated if controls are weak. Since computer systems offer many possibilities for fraud, we will identify weaknesses in computer controls over payrolls, payments to vendors, and cash disbursements for other purposes. We will also be looking at controls in effect to insure that the Government gets what it pays for, and that work set out in contracts is actually performed.

The Task Force will analyze the reports of internal auditors in each agency it reviews, giving particular attention to indications of fraud or error the auditors have uncovered. Where these reports or our own reviews show that controls are weak, we will search for potentially fraudulent situations, using our own computerized data retrieval and analysis packages where practicable.

The agencies and programs selected for these reviews are Department of Labor's Comprehensive Employment and Training Act programs, the Community Services Administration, the Small Business Administration and the Naval Material Command.

At the conclusion of our work at each agency, we will prepare a report to the Congress and the agency involved, with particular emphasis on any weaknesses in management controls that would permit fraud, theft, or error to occur.

The Task Force also will "overview" fraud and abuse and its causes in Federal programs. In order to do something about fraud that is occurring, we need to know how large the problem is and where it is occurring most often. Our overview will focus on 21 major Federal departments and agencies including Defense. Thus far we have identified a universe of 130,000 known fraud cases and will be drawing a sample of 4,000 for analysis.

Drawing on management and systems problems developed in the recent past and reported by GAO, we intend to identify known cases of fraud and trace them back into the agency management and financial systems. Our primary objective is to determine what management and internal control systems failed thus allowing fraud to occur. Based on our analyses, we expect to be able to get a better feel for

- the kind of fraud that is occurring and its cost,
- resources needed to combat it,
- whether trends indicate that the weaknesses allowing fraud to occur show up in the delivery systems, the enabling legislation, or the management systems controls, and

--how agencies handle fraud cases and the actions needed to prevent fraud from occurring.

As I said earlier, we believe that management and internal controls are the key elements in effective prevention of fraud. Therefore, we expect to look at traditional concepts of internal controls to determine whether, in light of the apparent large amount of fraud occurring, these concepts need revision or strengthening and whether new controls need to be established.

Our selection of agencies to be covered in the overview is based on prior experience which indicates that the programs most susceptible to fraud are social programs of the 13 major grant agencies (HEW, Labor, HUD, etc.), personal service contracting and procurement of equipment, supplies and other services regardless of the Federal agency involved. Preliminary reviews of over 100 recent GAO reports as well as our early experience with the hotline indicates that the agencies selected are those experiencing most of the known fraud today. Others such as the Department of Justice were selected because of the role they play in the investigation and prosecution of white collar crime.

The third area of the Task Force work is operation of the nationwide telephone "hotline", which was established in the belief that concerned citizens nationwide may have knowledge of fraud and abuse in agency programs which is not known to agency administration.

We announced the hotline telephone number on January 18 and after the first 4 months of operation, (May 18), had written up over 5000 allegations which required classification as to materiality, agency and program involved, and geographic location. In addition to the above, we have received numerous calls that were more appropriately the concern of other Federal agencies or State or local officials that were referred but not written up. Computer analysis of the first group of calls written up is complete and the follow-up process on these hotline leads has begun. Additional calls are being received daily, and will be handled by the same process.

Calls have been received from all 50 States, the District of Columbia and overseas locations.

A geographic breakdown based on the 2,587 allegations believed to be substantive in our initial screening of 4,054 cases is as follows:

Location of Reported Activities

143	Washington D C.	52	Colorado
47	Alabama	17	Connecticut
6	Alaska	3	Delaware
38	Arizona	121	Florida
39	Arkansas	68	Georgia
250	California (highest)	4	Hawaii

15	Idaho	124	New York
63	Illinois	43	North Carolina
41	Indiana	10	North Dakota
25	Iowa	132	Ohio
13	Kansas	32	Oklahoma
36	Kentucky	14	Oregon
45	Louisiana	141	Pennsylvania
15	Maine	12	Rhode Island
66	Maryland	12	South Carolina
38	Massachusetts	13	South Dakota
89	Michigan	121	Tennessee
24	Minnesota	99	Texas
38	Mississippi	12	Utah
92	Missouri	1	Vermont
17	Montana	105	Virginia
9	Nebraska	62	Washington
9	Nevada	21	West Virginia
11	New Hampshire	32	Wisconsin
52	New Jersey	1	Wyoming
14	New Mexico	15	Overseas
		85	Missing State Codes

Almost all Government entities are affected. For example the agencies with the highest incidence in the Executive Branch are:

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- 99 Department of Agriculture
 - 22 Department of Commerce
 - 73 Department of Defense (other than Air Force, Army, Navy)
 - 78 Department of the Air Force
 - 126 Department of the Army
 - 142 Department of the Navy
 - 27 Department of Energy
 - 201 Department of Health, Education and Welfare
(other than SSA, OE, NIH, FDA)
 - 307 Social Security Administration (Welfare, SSI)
 - 32 Office of Education
 - 9 National Institutes of Health
 - 2 Food and Drug Administration
 - 206 Department of Housing and Urban Development
 - 86 Department of the Interior
 - 62 Department of Justice (other than FBI)
 - 7 Federal Bureau of Investigation
 - 244 Department of Labor
 - 10 Department of State
 - 67 Department of Transportation
 - 33 Department of the Treasury (other than IRS)

172 Internal Revenue Service
6 ACTION
1 Civil Aeronautics Board
24 Community Services Administration
--- Consumer Product Safety Commission
40 Environmental Protection Agency
11 Equal Employment Opportunity Commission
--- Export-Import Bank of the United States
3 Farm Credit Administration
9 Federal Communications Commission
2 Federal Deposit Insurance Corporation
1 Federal Election Commission
1 Federal Home Loan Bank Board
6 Federal Reserve System
6 Federal Trade Commission
87 General Services Administration
3 Interstate Commerce Commission
13 National Aeronautics and Space Administration
1 National Science Foundation
--- National Transportation Safety Board
2 Securities and Exchange Commission
--- Selective Service System
19 Small Business Administration
16 Tennessee Valley Authority
16 United States Civil Service Commission
--- United States Information Agency

- 90 United States Postal Service
- 134 Veterans Administration
 - 1 The President of the United States
 - The White House Office
 - 1 Office of Management and Budget
 - 1 National Security Council
 - 2 Central Intelligence Agency
 - Council on Environmental Quality
 - Council on Wage and Price Stability
 - Office of the Vice President of the United States

Legislative Branch

- 2 Congress
- 4 General Accounting Office
- 4 Government Printing Office
- 5 Library of Congress
- Cost Accounting Standards Board
- Office of Technology Assessment
- Congressional Budget Office

Other

- The Supreme Court of the United States
- 55 Other
- .17 Missing Agency Codes

Mix of Calls -- Substantive vs. Non-substantive

We have received literally thousands of calls, with approximately 40 percent appearing to warrant further evaluation. After additional screening, about 64 percent of those passing the initial screening appear to have some substance for investigation or audit. For example, of 4054 allegations that passed the initial screening, 2,587 appear to have some substance for investigation or audit. Of the 2,587, about 39 percent are in the mismanagement category, while the remaining 61 percent (1,574 allegations) appear to involve intentional wrongdoing.

Types of Allegations Received

Other than those of a non-substantive nature and those that did not appear to involve the expenditure of Federal funds, hotline allegations fell into one of two categories.

- instances of apparent mismanagement, and
- instances of intentional wrongdoing

In summarizing the allegations of wrongdoing, we found it useful to categorize them according to the participants in the alleged improper activity. We established the following six activity participant categories.

1. Federal employees only
2. Federal employees in conjunction with others
3. Federal contractors or grantee organizations
4. Corporate recipients of Federal financial assistance
5. Individual recipients of Federal financial assistance
6. Other individuals or corporate entities

Of the 1,574 allegations of wrongdoing, the highest proportion, 31 percent, was in the participant category "Federal employees only". The table below shows the number and proportion of total wrongdoing allegations falling in each of the six participant categories:

<u>Participating Category</u>	<u>No. of Allegations</u>	<u>Percent of Total</u>
1. Federal Employees only	495	31.4
2. Federal employees in conjunction with others	165	10.5
3. Federal contractors or grantee organizations	359	22.8
4. Corporate recipients of Federal financial assistance	17	1.1
5. Individual recipients of Federal financial assistance	315	20.0
6. Other individuals or corporate entities	<u>223</u>	<u>14.2</u>
	<u>1,574</u>	<u>100.0</u>

Looking first at the "Federal employees only" category we found that there were 55 allegations of theft, 44 allegations of private use of government property, 132 reports of employee working hour abuses, 136 reports of improper financial transactions, and 128 reports of other improper activities.

In the second category, that of "Federal employees in conjunction with others" there were 86 allegations of a bribe or kickback having been paid, 3 allegations of extortion and 76 miscellaneous other allegations.

In the "Federal contractor/grantee" category there were 137 allegations of improper expenditure of Government grant funds, 39 allegations of contract non-performance, 35 reports of the theft of Government funds or property and 148 other allegations of various natures.

The 17 allegations that fell into the category "Corporate recipients of Federal financial assistance" generally involved the improper receipt of subsidy funds.

The fifth category, "Individual recipients of Government financial assistance" included 99 allegations of welfare cheating, 55 of cheating on social security benefit eligibility, 40 of collecting inappropriate disability benefits, 21 of cheating on veterans benefits, 16 instances of food stamp cheating, 25 of medicare/medicaid cheating and 59 miscellaneous allegations.

The sixth and final category, "Other individuals or corporate entities" included 136 allegations of personal and corporate income tax cheating, and 87 other allegations of improper activity.

The allegations of wrongdoing that were received to date involve the funds of every one of the 12 cabinet departments of the Federal Government and involve activity in Washington, D.C. and all 50 States.

In 60 percent of the cases, the informant was anonymous. Only 32 percent of the informants were Federal employees.

Since prevention will merit top priority in GAO's fight against fraud, our work will concentrate on fixing or strengthening control weaknesses in agency systems that permit fraud to occur. As we uncover potential fraud and abuse, we will be looking for patterns that can be explored in other agencies.

Cases Referred to Agency Inspectors General
as of 5/22/79

HEW	- 144	Interior	- 25
DOL	- 103	EPA	- 16
HUD	- 89	DOT	- 13
DOD	- 82	Justice	- 9
GSA	- 36	SBA	- 8
VA	- 31	NASA	- 7
IRS	- 28	Commerce	- 9
USDA	- 27	Treasury	- 8
Post Office	- 26	GAO	- 5

TOTAL REFERRED 666