

Fraud Risk Management: Agencies Should Continue Efforts to Implement Leading Practices

GAO-24-106565

Q&A Report to Congressional Committees

November 1, 2023

Why This Matters

Fraud poses a significant risk to the integrity of federal programs and erodes public trust in government.¹ It contributes to financial and nonfinancial risks that waste taxpayer dollars, threaten national security, or put consumers at risk. Additionally, fraud—which involves obtaining something of value through willful misrepresentation—continues to add to the improper payments made by the government.² The public health crisis, economic instability, and increased flow of federal funds associated with the COVID-19 pandemic have expanded opportunities for fraud. The extent of fraud associated with COVID-19 programs has not yet been fully determined. However, available measures and estimates indicate substantial levels of fraud occurred. For example, in September 2023, we estimated that the fraud in the Department of Labor’s Unemployment Insurance programs during the pandemic—from April 2020 through May 2023—was likely between \$100 billion and \$135 billion.³

In February 2023, the Comptroller General of the United States testified before the Committee on Oversight and Accountability of the U.S. House of Representatives that federal agencies’ lag in implementing fraud risk management was a major factor that contributed to the substantial levels of fraud in pandemic relief programs.⁴ Specifically, he testified that two of the major factors contributing to agencies’ exposure to fraud in COVID-19 relief programs were that they (1) did not strategically manage fraud risks; and (2) lacked appropriate internal controls to prevent, detect, and recover fraudulent and other improper payments.

In this report, we are providing information on federal agencies’ current fraud risk management status, including reported agency challenges and incentives to managing fraud risks. To conduct this work, GAO analyzed results from a survey. GAO also reviewed narrative responses to select illustrative examples provided by the agencies to support their responses, as well as relevant prior work, including the status of related GAO recommendations made from July 28, 2015, through August 31, 2023. We prepared this report under the authority of the Comptroller General to conduct work to assist Congress with its oversight responsibilities.

Key Takeaways

- We surveyed the 24 Chief Financial Officers Act of 1990 (CFO Act)⁵ agencies on the reported steps taken to manage fraud risks.⁶ For example, 20 agencies reported designating an entity to be responsible for fraud risk management.
- Agencies described challenges that could impede their efforts to manage fraud risks. For instance, agencies reported the availability of resources (such

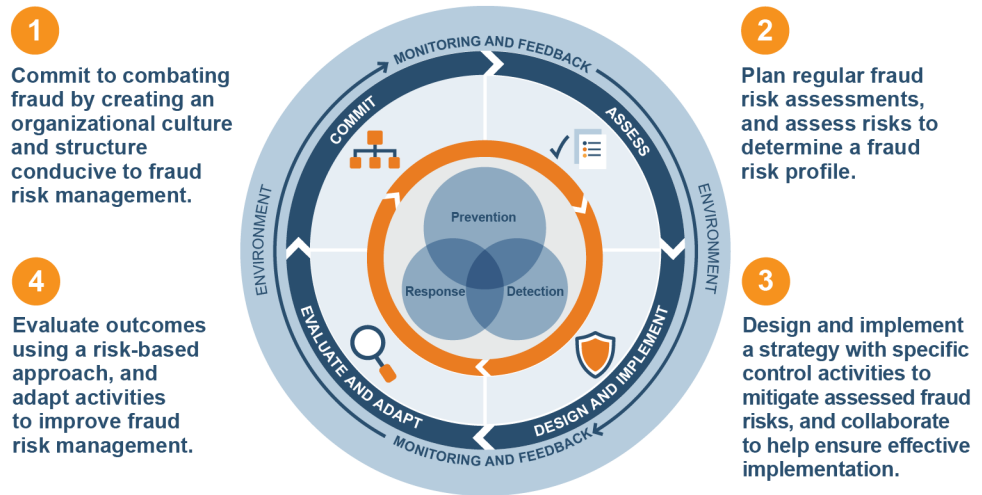
as staff and funding) and tools for data analytics as being great or moderate challenges.

- Agencies described factors that could motivate them to manage fraud risk. For example, agencies cited the ability to counter reputational impacts as a factor that would motivate their efforts a lot or somewhat.
- From July 2015 through August 2023, we made 173 recommendations to over 40 agency or program offices related to certain areas aligned with leading practices from GAO’s *A Framework for Managing Fraud Risks in Federal Programs* (Fraud Risk Framework).⁷ As of August 2023, agencies needed to take additional action to fully address 95 of these recommendations.
- Our prior work also identified two congressional actions that could strengthen oversight of federal agencies’ fraud risk management efforts: (1) reinstating the requirement for agencies to report on their antifraud controls and fraud risk management efforts in agency financial reports and (2) establishing a permanent analytics center of excellence to aid the oversight community in identifying improper payments and fraud.

What resources and recommendations has GAO issued to help agencies manage fraud risks?

To help agencies and federal program managers strategically manage their fraud risks—both during normal operations and in emergencies—GAO published the Fraud Risk Framework in July 2015. The Fraud Risk Framework provides a comprehensive set of leading practices—organized into four components—to guide agency managers when developing efforts to combat fraud (see fig.1).

Figure 1: The Fraud Risk Management Framework



Source: GAO (information and icons). | GAO-24-106565

Additionally, the Fraud Reduction and Data Analytics Act of 2015 (FRDAA) required the Office of Management and Budget (OMB) to incorporate the leading practices from the Fraud Risk Framework into guidelines for federal agencies.⁸ In March 2020, the Payment Integrity Information Act of 2019 (PIIA) replaced FRDAA but maintained the requirements for OMB to provide guidance to agencies in implementing controls that incorporate the Fraud Risk Framework.⁹

In January 2022, we issued our antifraud resource—an online interactive tool that can help inform federal officials, Congress, the media, and the public about key characteristics of fraud schemes and provide resources for combating them.¹⁰

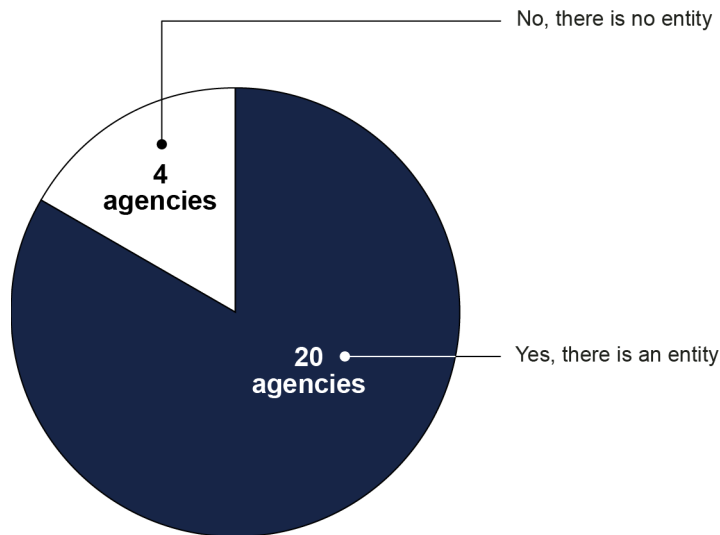
Our prior work has highlighted areas in which federal agencies need to take additional actions to help ensure they are effectively managing fraud risks consistent with leading practices, such as by designating an entity to lead fraud risk management activities. Specifically, from July 2015 through August 2023, we made 20 recommendations to federal agencies in this area. These include recommendations to dedicate an entity to oversee fraud risk management activities or to document the fraud risk management responsibilities of the antifraud entity. Of the 20 recommendations, 18 had not been implemented as of August 2023.

In addition, our prior work has included recommendations for agencies to use data analytics to better manage fraud risk. Specifically, from July 2015 through August 2023, we made 47 recommendations to federal agencies in this area. These include recommendations to design and implement data-analytics activities to prevent and detect fraud, such as using data matching to verify self-reported information. Of the 47 recommendations, 25 had not been implemented as of August 2023.

How many agencies have designated an entity that is responsible for managing fraud risks?

Twenty of the 24 CFO Act agencies stated that they have an entity that is responsible for fraud risk management activities (see fig. 2).

Figure 2: Chief Financial Officers Act Agencies That Reported Designating an Entity to Be Responsible for Fraud Risk Management Activities



Source: GAO analysis of survey data as of June 2023. | GAO-24-106565

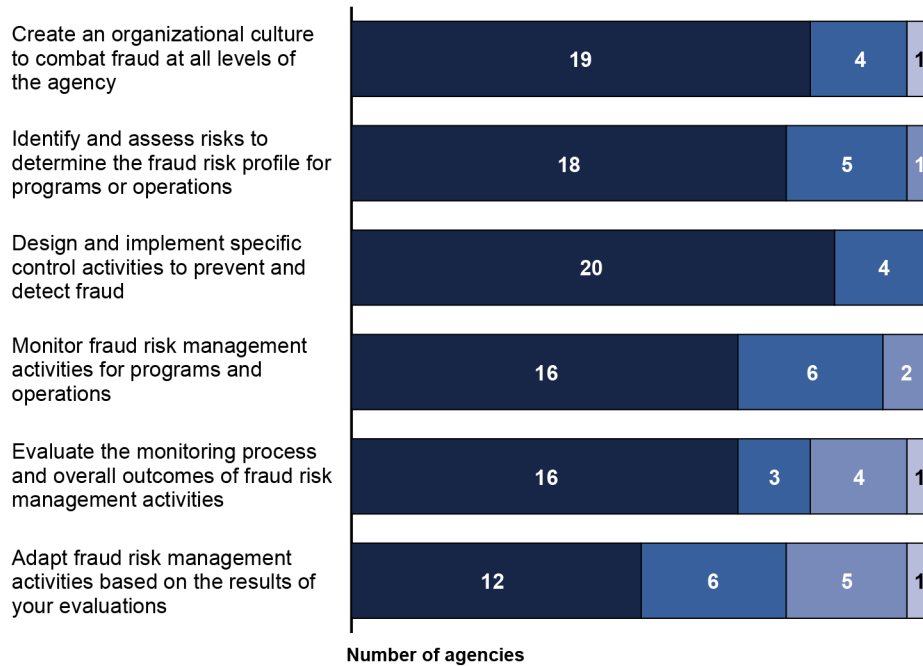
Of the four CFO Act agencies that responded that there is no entity responsible for fraud risk management activities within their agency, one reported plans to designate such an entity in the future.

As discussed in GAO's Fraud Risk Framework, when agencies formally designate an entity to design and oversee fraud risk management activities, their efforts can be more visible across the agency, particularly to executive leadership. Such an entity can demonstrate a senior-level commitment to integrity and combating fraud.

What steps have agencies taken to implement other leading practices from GAO's Fraud Risk Framework?

CFO Act agencies reported their status in implementing other leading practices from GAO's Fraud Risk Framework, such as identifying and assessing risks to determine a fraud risk profile (see fig. 3).

Figure 3: Chief Financial Officers Act Agencies' Reported Status in Implementing Other Leading Practices from GAO's Fraud Risk Framework



Agencies' reported status

- We have regular and ongoing activities to do this
- We do this on an ad-hoc basis
- We are planning to do this in the future
- We are not doing this and do not plan to
- Do not know

Source: GAO analysis of survey data as of June 2023. | GAO-24-106565

Twenty of the 24 CFO Act agencies reported that they design and implement specific control activities to prevent and detect fraud on a regular and ongoing basis. For example, in response to our survey, the Department of Energy reported that it has a Data Analytics Working Group that is implementing a data analytics program to enhance the detection of fraud, payment integrity, and data-driven decision-making. The Fraud Risk Framework cites data matching, data mining, and other data analytics as examples of control activities that can help to prevent and detect fraud. Such techniques also can enable agencies to identify improper payments that have already been awarded, thus assisting agencies in recovering these dollars.

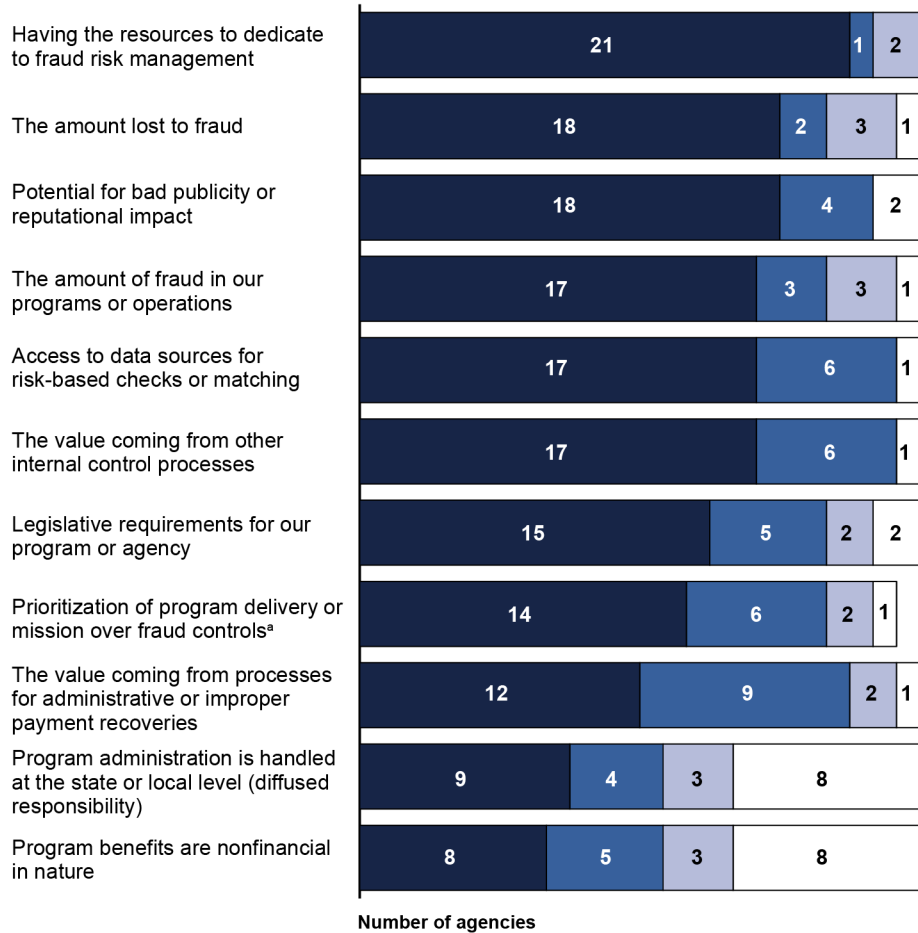
What factors are important to agencies when managing fraud risks?

CFO Act agencies' survey responses indicated the following factors to be extremely or very important when managing fraud risks:

- Resources to dedicate to fraud risk management
- The amount lost to fraud
- Potential for bad publicity or reputational impact

Figure 4 shows additional information from CFO Act agencies about the importance of various factors to the maturity of their fraud risk management efforts.

Figure 4: Factors Chief Financial Officers (CFO) Act Agencies Reported as Important to the Maturity of their Fraud Risk Management Efforts



Response options

- Extremely important or very important
- Somewhat important
- A little important or not at all important
- Not applicable

Source: GAO analysis of survey data as of June 2023. | GAO-24-106565

^aOne of the 24 CFO Act agencies did not provide a response for this factor within the survey.

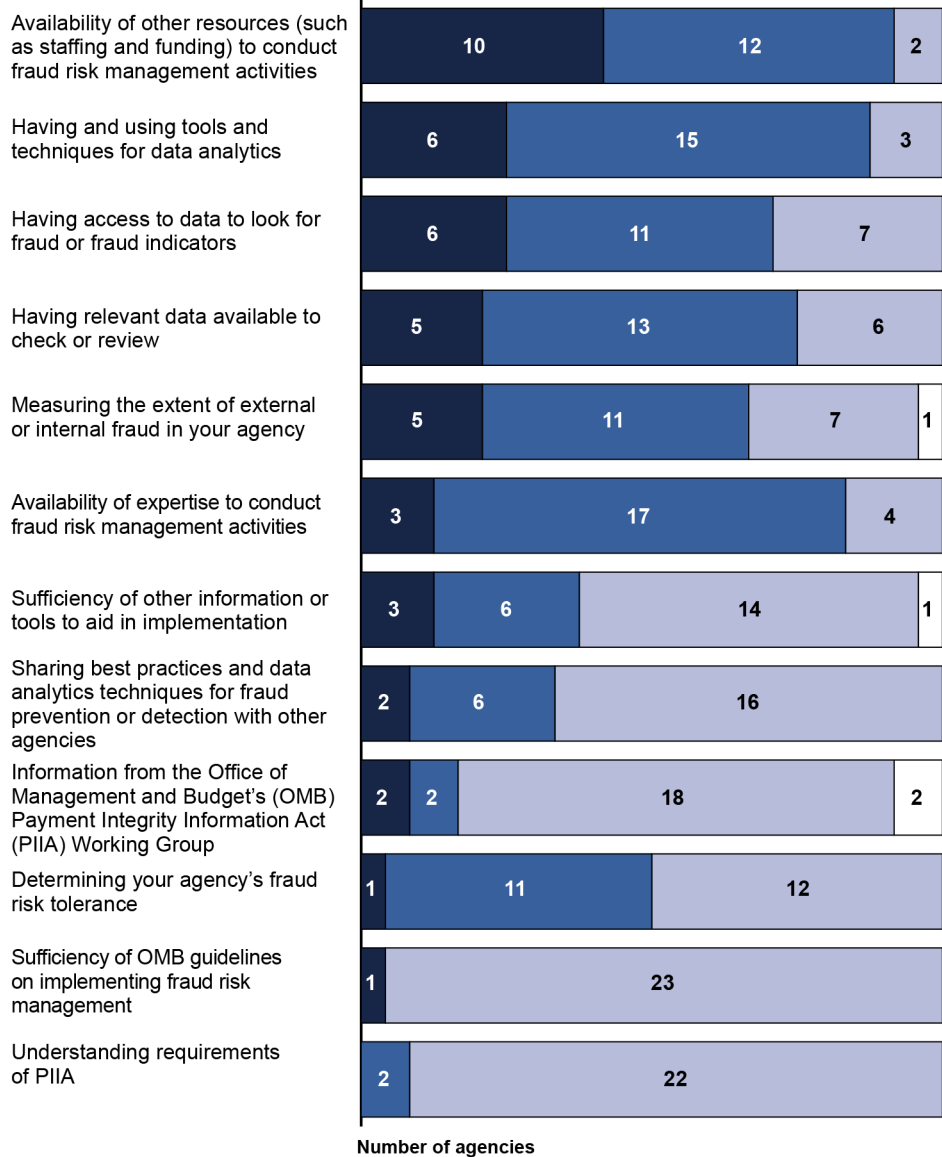
What challenges do agencies face in managing fraud risks?

CFO Act agencies' survey responses indicated the following factors as a great or moderate challenge to their fraud risk management efforts:

- Having available staffing, funding, or other resources to conduct fraud risk management activities
- Having and using tools and techniques for data analytics
- Having available expertise to conduct fraud risk management activities

Figure 5 shows additional information from CFO Act agencies about reported challenges to their fraud risk management efforts.

Figure 5: Reported Challenges to Chief Financial Officers Act Agencies' Fraud Risk Management Efforts



Response options

- A great challenge
- A moderate challenge
- A minor challenge or not a challenge
- Not applicable

Source: GAO analysis of survey data as of June 2023. | GAO-24-106565

As shown in figure 5, 21 of the 24 CFO Act agencies considered the factor “having and using tools and techniques for data analytics” a great or moderate challenge to managing fraud risks. For example, the National Aeronautics and Space Administration stated it could benefit from investments in data analytics tools and capabilities to identify current fraud schemes.

When we surveyed federal agencies in 2018, including the 24 CFO Act agencies, the top challenges they reported generally related to staffing and resources. Specifically, those agencies most frequently indicated the following factors as a great or moderate challenge: (1) availability of resources, (2) limited tools and techniques for data analytics, and (3) lack of available expertise.¹¹

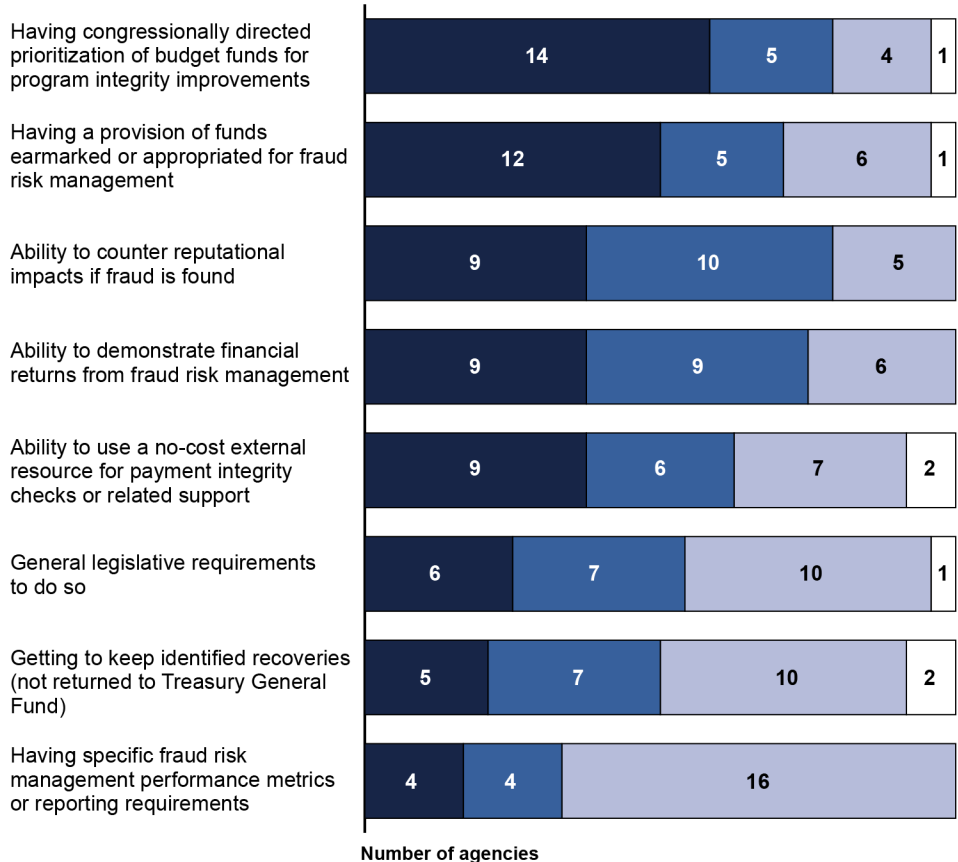
What factors could strengthen an agency's efforts to manage fraud risks?

CFO Act agencies' survey responses indicated the following factors as highly or somewhat motivating to their fraud risk management efforts:

- Congressionally directed prioritization of budget funds for program integrity improvements
- Ability to counter reputational impacts if fraud is found
- Ability to demonstrate financial returns from fraud risk management

Figure 6 shows additional information about factors that the agencies reported.

Figure 6: Factors Chief Financial Officers Act Agencies Reported as Motivating to Increasing the Maturity of Their Fraud Risk Management Efforts



Response options

- A lot
- Somewhat
- A little or not at all
- Do not know

Source: GAO analysis of survey data as of June 2023. | GAO-24-106565

As shown in figure 6, 19 of the 24 CFO Act agencies reported that the “ability to counter reputational impacts if fraud is found” could motivate an agency’s fraud risk management efforts a lot or somewhat. For example, the Department of Homeland Security told us that it is driven to keep fraud to a minimum because fraud, waste, and abuse would reduce the public’s confidence in the department.

Our prior work has also identified actions that Congress can take to strengthen fraud risk management practices across the government.¹² The first would be to reinstate the requirement for agencies to report on their antifraud controls and fraud risk management efforts in agency financial reports. This can help facilitate

congressional oversight and focus agency attention on strategic fraud risk management—both during normal operations and in emergencies—and help align their efforts with leading practices.¹³ The second would be to establish a permanent analytics center of excellence to aid the oversight community in identifying improper payments and fraud. Establishing such capability would further aid the oversight community’s efforts to assess and identify fraud, as well as to help agencies identify areas of potential fraud risks so that they can implement preventive and detective controls or evaluate existing controls for opportunities for improvement. Creating a permanent government-wide analytics capability could also yield future financial benefits, both through identifying potentially improper and fraudulent payments that the government could seek to recover and by identifying vulnerabilities that the government could address to prevent similar future payments.

Agency Comments

We provided a draft of this report to OMB for review and comment. OMB did not have any comments on the report.

How GAO Did This Study

We surveyed the 24 CFO Act agencies for information on their fraud risk management efforts, directing the survey to the CFO of each agency. We asked that the CFOs, or their designee(s), answer the questionnaire at the agency-wide level, relying on their perspective, as well as coordinating their responses with appropriate agency staff. To develop the questionnaire, we reviewed the leading practices from GAO’s Fraud Risk Framework and our 2018 survey on agencies’ status in implementing fraud risk management requirements. We incorporated comments from internal and external reviewers, including our survey specialist and OMB officials. We then pretested the questionnaire with five agencies, using cognitive interviewing techniques, and modified the survey instrument based on the comments we received.

We fielded the survey from April 25, 2023, through June 8, 2023. We received questionnaire responses from all 24 agencies, for a response rate of 100 percent. Our survey results reflect the information provided by and the opinions of the agency officials who participated in our survey. Our survey asked questions at the departmental level. However, responses may reflect activities at the program or operation level or for multiple programs or operations. Responses do not necessarily reflect that CFO Act agencies are in alignment with leading practices from GAO’s Fraud Risk Framework.

We also analyzed closed-end responses and reviewed narrative responses to select illustrative examples provided by the agencies to support their responses.

In addition, we reviewed relevant GAO reports for (1) the status of related GAO recommendations made from July 28, 2015, which coincides with the issuance of the Fraud Risk Framework, through August 31, 2023; and (2) examples of steps agencies have taken to implement fraud risk management activities, including challenges and incentives to preventing, detecting, and responding to fraud. We also interviewed OMB officials about these activities.

We conducted this performance audit from January 2023 to November 2023 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

List of Addressees

The Honorable Gary C. Peters
Chairman
The Honorable Rand Paul, M.D.
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable James Comer
Chairman
The Honorable Jamie Raskin
Ranking Member
Committee on Oversight and Accountability
House of Representatives

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Endnotes

¹Whether an act is fraudulent is determined through the judicial or other adjudicative system and is beyond management's professional responsibility for assessing risk. GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).

²An improper payment is defined as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts. 31 U.S.C. § 3351(4). While not all improper payments are the result of fraud, all payments made as a result of fraudulent activities are considered to be improper payments. GAO, *Fraud Risk Management: Key Areas for Federal Agency and Congressional Action*, [GAO-23-106567](#) (Washington, D.C.: Apr. 13, 2023).

³GAO, *Unemployment Insurance: Estimated Amount of Fraud during Pandemic Likely Between \$100 Billion and \$135 Billion*, [GAO-23-106696](#) (Washington, D.C.: Sept. 12, 2023).

⁴GAO, *Emergency Relief Funds: Significant Improvements Are Needed to Address Fraud and Improper Payments*, [GAO-23-106556](#) (Washington, D.C.: Feb. 1, 2023).

⁵The 24 agencies listed in the Chief Financial Officers Act of 1990 (CFO Act), as amended, are the Departments of Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Homeland Security, Housing and Urban Development, the Interior, Justice, Labor, State,

Transportation, the Treasury, and Veterans Affairs, as well as the Agency for International Development, Environmental Protection Agency, General Services Administration, National Aeronautics and Space Administration, National Science Foundation, Nuclear Regulatory Commission, Office of Personnel Management, Small Business Administration, and Social Security Administration. Pub. L. No. 101-576, § 205, 104 Stat. 2838 (1990), codified as amended at 31 U.S.C. § 901(b). The CFO Act also established the CFO Council and designated the CFOs in the act, as well as senior officials of the Office of Management and Budget (OMB) and the Department of the Treasury, to work on such matters as consolidation and modernization of financial systems. 31 U.S.C. § 901 note.

⁶Survey Questions: Does your agency have a designated entity (or entities) that is responsible for fraud risk management activities? What is your agency's status in (a) creating an organizational culture to combat fraud at all levels of the agency, (b) identifying and assessing risks to determine the fraud risk profile for programs or operations, (c) designing and implementing specific control activities to prevent and detect fraud, (d) monitoring fraud risk management activities for programs and operations, (e) evaluating the monitoring process and overall outcomes of fraud risk management activities, and (f) adapting fraud risk management activities based on the results of your evaluations? How important, if at all, are the following to your agency's fraud risk management maturity level that you reported in the prior section? The "prior section" refers to the preceding survey questions on the steps agencies have taken to implement leading practices from GAO's Fraud Risk Framework. How much of a challenge, if at all, does each factor pose to your agency's fraud risk management efforts? How much, if at all, would the following factors motivate your agency to increase its maturity in fraud risk management efforts?

⁷GAO, *A Framework for Managing Fraud Risks in Federal Programs*, [GAO-15-593SP](#) (Washington, D.C.: July 28, 2015).

⁸Pub. L. No. 114-186, 130 Stat. 546 (2016).

⁹The Office of Management and Budget (OMB) incorporated guidelines to meet the requirements of the Fraud Reduction and Data Analytics Act of 2015 into its July 2016 update of Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. OMB, *Management's Responsibility for Enterprise Risk Management and Internal Control*, OMB Circular A-123 (Washington, D.C.: July 15, 2016). The Payment Integrity Information Act of 2019 requires these guidelines to remain in effect, subject to modification by OMB as necessary and in consultation with GAO. Pub. L. No. 116-117, § 2(a), 134 Stat. 113, 131-132 (2020), codified at 31 U.S.C. § 3357.

¹⁰GAO, "GAO Antifraud Resource" (Washington, D.C.: Jan. 10, 2022), accessed September 2023, https://gaoinnovations.gov/antifraud_resource/. We developed GAO's Antifraud Resource to help federal officials and the public better understand and help combat federal fraud. The resource includes GAO's Conceptual Fraud Model, which was developed to determine the nature of known fraud, both financial and nonfinancial, that affects federal programs and operations. The primary intended users of GAO's Antifraud Resource are managers in the U.S. federal government; however, it may also be applicable to state, local, and foreign government agencies, as well as nonprofit entities and others responsible for fraud risk management.

¹¹In 2018, we found that agencies identified challenges with the Office of Management and Budget's (OMB) Fraud Reduction and Data Analytics Act of 2015 implementation guidelines, which are incorporated into OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. GAO recommended that OMB enhance its agency guidelines for establishing internal controls, and OMB did so. For this report, CFO Act agencies indicated within their survey responses that the factor "sufficiency of OMB guidelines on implementing fraud risk management" is less of a challenge when conducting their fraud risk management activities. GAO, *Fraud Risk Management: OMB Should Improve Guidelines and Working-Group Efforts to Support Agencies' Implementation of the Fraud Reduction and Data Analytics Act*, [GAO-19-34](#) (Washington, D.C.: Dec. 4, 2018).

¹²GAO, *Emergency Relief Funds: Significant Improvements Are Needed to Ensure Transparency and Accountability for COVID-19 and Beyond*, [GAO-22-105715](#) (Washington, D.C.: Mar. 17, 2022).

¹³The Fraud Reduction and Data Analytics Act of 2015 and the Payment Integrity Information Act of 2019 required agencies to report on their antifraud controls and fraud risk management efforts in their annual financial reports. However, the requirement to report such information ended with the fiscal year 2020 annual financial report and, since then, there has been no similar requirement for agencies to report on their efforts to manage fraud risks. [GAO-22-105715](#).