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STATEMENT OF  
ELMER B. STAATS  
COMPTROLLER GENERAL OF THE UNITED STATES  
BEFORE THE  
COMMITTEE ON BUDGET  
UNITED STATES SENATE  
ON  
[GAO EFFORTS RELATED TO  
FRAUD, ABUSE AND MISMANAGEMENT  
IN FEDERAL PROGRAMS]

Mr. Chairman and Members of the Committee, we appreciate the opportunity to appear here today to discuss GAO's efforts to prevent fraud in Government programs.

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 very different things. Depending on one's perspective an entire program can be viewed as a waste of Government funds, whereas another person might view the same program as extremely important. Even where there is general agreement that a given program is necessary, waste results from a number of factors. For example, mismanagement of a well designed program can result not only in waste, but 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.

As I discussed in September before Senator Chiles Subcommittee on Federal Spending Practices and Open Government, our current efforts in combating fraud began in mid-1976 when we initiated some exploratory work aimed at ascertaining whether Federal agencies had instituted effective policies and procedures for combating the fraud that might exist in their programs. It seemed to us that the essential elements of such an effort would include:

--a set of procedures to assess the vulnerability of the programs in question to see if the agencies were aware of the susceptibility of their programs to fraudulent schemes.

- the comprehensive collection and analysis of information on known incidents of fraud to determine patterns and trends, and
- an aggressive effort to followup on instances of fraud which would involve 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 Small Business Administration) to confirm or deny the existence of the problem.

Although some bright spots existed here and there with respect to individual agency's anti-fraud activities, overall the existence of a serious 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, it 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. The low priority assigned led to passiveness regarding potentially fraudulent situations. In addition, agency investigators often have not had the background, experience, and training needed to effectively detect 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. Although several agencies have begun an effort to provide better training, the absence of a financial background is detrimental to effective fraud investigations. This serves to highlight the requirement for coordination between the accountant/auditor and the investigator.

#### GAO Fraud Task Force

On October 11, 1978, I wrote to Senator Lawton M. Chiles, Chairman, Subcommittee on Federal Spending Practices and Open Government, informing him that, as a followup to our report, I was establishing a Special Task Force for the Prevention of Fraud.

The major responsibility of this group is twofold (1) to evaluate the adequacy of the management control systems in Federal agencies that are necessary for the prevention of fraud, and (2) to assess the adequacy of followup 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.

The Task Force will concentrate on agency controls over cash and receivables, inventories and supplies, and anything else 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 the 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. With the Task Force acting as the central focal point in GAO, all our work on fraud and abuse will be brought under its umbrella.

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 in our work, we will be looking for patterns that can be explored in other agencies.

In many instances concerned citizens nationwide have knowledge of specific examples of fraud or abuse which may or may not be known to agency administration. The details of these problems are invaluable in our examination of agency ability to combat fraud. In order to provide a means for utilizing this source of information, Senator Sasser, Chairman of the Subcommittee on Legislative, Senate Appropriations Committee, and I jointly announced a tollfree telephone number (800-424-5454) on January 18, 1979. This allows any concerned citizen nationwide an opportunity to report instances of fraud to the Task Force for investigation and possible prosecution.

This concludes my prepared comments. We will be happy to respond to the specific questions raised in your letter inviting me to appear before the Committee.

QUESTION

How much is lost each year from waste, fraud, and abuse in Federal programs? What are the bases for your estimate? For purposes of this question as well as all the subsequent questions, take into account, to the maximum extent possible, those programs enacted as part of the Internal Revenue Code which are classified as "tax expenditures."

ANSWER

This is a very difficult question to answer. The American system of income security and social services is comprised of over 115 programs with estimated FY 79 outlays of over \$234 billion, or 46.8 percent of the total Federal budget. As we have often stated, no one knows the full extent of waste, fraud, and abuse in Federal programs. It is doubtful that we, or anyone else, will ever be able to measure waste with any precision. However, because of the vast amount of Government expenditures, the complexity of Government programs, the millions of transactions involved, and the many ways fraud can be perpetrated, indications are that waste, fraud and abuse are of mammoth proportions.

Justice Department officials have pointed out that generally where they have looked for fraud in Federal programs, they have found it. Also, dollar losses are only one aspect of the harm resulting from fraud in Federal programs. When waste, fraud, and abuse exist in Government programs, it diminishes public support for the programs, deprives

beneficiaries of benefits, and lowers the level of services and benefits provided. In effect, fraud in Federal programs can seriously undermine public trust in our Government.

Tax expenditures are defined in the Congressional Budget Act of 1974 as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special tax credit, a preferential rate of tax, or a deferral of tax liability affecting individual or corporate income tax liability." Tax expenditures are one means by which the Federal Government pursues public policy objectives and are similar in that respect to direct Federal outlays. Since changes in individual categories of tax expenditures can affect and interrelate to each other, they cannot simply be added to establish a total. However, the revenue loss from itemized deductions alone are estimated to total over \$30 billion in 1980. We have received a number of calls over our "hotline" relating to alleged fraud involving tax matters. They are as susceptible to fraud and abuse as well as any other expenditure. Therefore, those allegations will be screened and followed up as vigorously as fraud allegations relating to direct expenditures.

QUESTION

What are the principal causes of Federal waste, fraud and abuse?

ANSWER

There are many reasons for Federal waste, fraud, and abuse; probably the main reason being simply the enormous size and complexity of Government programs. As we stated in our September 1978 report there are a number of specific causes which we can work on immediately to correct:

1. Agencies do not have adequate management information systems to determine the extent of fraud detected and the ways it is committed.
2. Agencies have not given fraud detection a sufficiently high priority.
3. Agencies have not fixed responsibility for identifying fraud. (This will be corrected to some extent by the appointment of the remaining Inspectors General in the agencies covered by the Inspector General Act of 1978 (PL 95-452).
4. Many suspected frauds are not referred for investigation.
5. Agency investigators do not have adequate background and expertise to effectively identify and investigate fraud.

QUESTION

In which Federal programs do waste, fraud, and abuse seem the most prevalent?

ANSWER

Our Special Task Force for the Prevention of Fraud is studying this area and determining which Federal programs are the most vulnerable to waste, fraud, and abuse. Some of the programs that would seem to be particularly susceptible to fraud are those involving a significant amount of contracting and procurement such as those in the General Services Administration and the Defense Department. In addition, programs involving loans, grants and benefit payments appear to be particularly vulnerable. This of course, includes many programs, such as, food stamps administered by the Agriculture Department, comprehensive employment and other programs administered by the Labor Department, the housing programs in the Department of Housing and Urban Development and other agencies; and, of course, the many benefit programs administered by the Department of Health, Education, and Welfare and the Veterans Administration.

Eliminating the dollar loss from waste, fraud, and abuse in the programs is only part of the picture. We must do more to restore public confidence in the integrity of all programs supported by tax dollars thru improved management of programs, better design of programs, improved accounting and information systems, and better oversight of Government programs.

QUESTION

How much loss of Federal dollars do you attribute to program mismanagement? How much to criminal activity, on the part of program managers or beneficiaries? How much to program design? How much to private sector practices which raise the cost of otherwise well constructed programs (such as unnecessary surgery prescribed by doctors, which raises medicaid and medicare costs)?

ANSWER

Again this is a difficult, if not impossible, question to answer because the definition of mismanagement is highly subjective. As you know, there is a potential for waste in any large organization. Consequently there is a need for continuous management attention to finding ways to reduce waste and increase savings.

We in GAO track the results of our work and quantify them to the extent possible. As stated in my annual reports to the Congress, there are many ways to bring about savings in Government programs. For example, we identified approximately \$8.2 billion in measurable savings attributable to our work in Fiscal Years 1977 and 1978. In addition, there are many other savings of billions of dollars resulting from our audit activities which are not measurable. There are certainly other losses due to mismanagement, poor program design, and operating practices which either have not been identified or are not measurable.

A further area that offers opportunities for waste reduction is productivity improvement. Productivity improvement focuses on reducing waste through better utilization of the Federal work force. Much has been learned within the agencies on how to improve work-force effectiveness through better systems and procedures and through using equipment to expand worker's capabilities. Even more can be done by transferring this knowledge and technology among the agencies. Another key aspect of productivity improvement activities is the attention paid to measuring the costs of outputs. Such measurements look at the amount of resources used per unit of output. Using this information, similar organizations can be compared in order to find the best methods. Productivity measures also provide a means of tracking the results of productivity improvements within an organization. Without measuring the impact of improvement actions, there is no way of knowing if management is effectively pursuing this goal. For these reasons I have established productivity as a major issue area for GAO's attention.

QUESTION

What actions have been taken to date by the Administration to eliminate waste, fraud, and abuse? How successful have these actions been?

ANSWER

On December 13, 1978, the President directed the Heads of Agencies to take certain steps to eliminate waste, fraud, and error in Government programs. They were to:

1. develop a comprehensive plan designating a single official to oversee preparation of the plan setting the course of action for the agency and monitoring its implementation;
2. review and respond to major allegations of waste, fraud, and error by the Comptroller General; and
3. suggest Government-wide action to reduce waste, fraud, and error.

I would like to defer to the Administration for a response on the question of its success.

QUESTION

What actions has GAO taken, as the Federal Government's chief audit agency, to eliminate or reduce losses due to waste, fraud and abuse?

ANSWER

Our annual report cites numerous examples of financial savings and other benefits from our work, as well as open legislative recommendations. The legislative recommendations include those developed during the fiscal year covered by the report as well as carry over recommendations which we still recommend to the attention of the Congress.

Currently approximately 40 percent of our effort is directed to reviews of the economy and efficiency of agency program operations, and 50 percent is directed to evaluating programs to determine if they are operating as intended.

Because of my concern that more needs to be done to combat fraud and abuse, I have established the Special Task Force for the Prevention of Fraud which has as its overall objective an evaluation of agency control systems to insure that they are adequate, in place, and working. To accomplish this objective the Task Force has mounted three major efforts

--the establishment of a hotline telephone to give citizens anywhere in the Nation an opportunity to assist us in eliminating fraud and abuse in Federal programs,

--a series of vulnerability assessments to determine whether agencies audited have adequate internal accounting or management controls to prevent or discourage fraud in the future. In essence these assessments will result in a risk profile of the agency or program, and

--an overall effort to determine the extent of fraud in Federal agencies and programs and its causes.

Because of the importance which I attach to this area I have diverted 57 staff years of effort in each of fiscal years 1979 and 1980 to accomplish these objectives. We think that the work of the Task Force, which will supplement other related work done throughout GAO, will enable us to effectively respond to Committee and member interest in the area.

QUESTION

Mr. Staats could you discuss the Task Force efforts in more detail and give us some of the characteristics of allegations received on the hotline?

ANSWER

I might say at the outset that the response to the hotline has been beyond any expectations and we view this as a positive reaction by the public to our efforts.

Volume of Calls and Geographic Area

We announced the hotline telephone number on January 18th and after the first 6 weeks of operation, had written up well over 3,000 allegations which require classification as to materiality, agency and program involved, and geographic location. Computer analysis of the first group of calls 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 48 states, the District of Columbia and overseas locations.

A geographic breakdown based on the allegations believed to be substantive in our initial screening of 2,401 cases is as follows:

Location of Reported Activity

<u>74</u> Washington, D.C.	<u>23</u> Arizona
<u>30</u> Alabama	<u>23</u> Arkansas
<u>2</u> Alaska	<u>156</u> California

<u>27</u>	Colorado	<u>67</u>	New York
<u>11</u>	Connecticut	<u>27</u>	North Carolina
<u>2</u>	Delaware	<u>3</u>	North Dakota
<u>68</u>	Florida	<u>72</u>	Ohio
<u>37</u>	Georgia	<u>14</u>	Oklahoma
<u>3</u>	Hawaii	<u>9</u>	Oregon
<u>9</u>	Idaho	<u>91</u>	Pennsylvania
<u>37</u>	Illinois	<u>8</u>	Rhode Island
<u>23</u>	Indiana	<u>7</u>	South Carolina
<u>17</u>	Iowa	<u>6</u>	South Dakota
<u>8</u>	Kansas	<u>52</u>	Tennessee
<u>20</u>	Kentucky	<u>46</u>	Texas
<u>16</u>	Louisiana	<u>9</u>	Utah
<u>8</u>	Maine	--	Vermont
<u>46</u>	Maryland	<u>57</u>	Virginia
<u>26</u>	Massachusetts	<u>34</u>	Washington
<u>59</u>	Michigan	<u>15</u>	West Virginia
<u>13</u>	Minnesota	<u>12</u>	Wisconsin
<u>28</u>	Mississippi	--	Wyoming
<u>60</u>	Missouri	<u>6</u>	Overseas
<u>12</u>	Montana	<u>62</u>	Missing State Codes
<u>3</u>	Nebraska		
<u>4</u>	Nevada		
<u>6</u>	New Hampshire		
<u>34</u>	New Jersey		
<u>6</u>	New Mexico		

Affected Government Entity

Executive Branch

- 58 Department of Agriculture
- 14 Department of Commerce
- 43 Department of Defense (other than Air Force, Army, Navy)
- 48 Department of the Air Force
- 60 Department of the Army
- 86 Department of the Navy
- 16 Department of Energy
- 108 Department of Health, Education and Welfare  
(other than SSA, OE, NIH, FDA)
- 167 Social Security Administration (Welfare, SSI)
- 22 Office of Education
- 6 National Institutes of Health
- Food and Drug Administration
- 122 Department of Housing and Urban Development
- 40 Department of the Interior
- 33 Department of Justice (other than FBI)
- 4 Federal Bureau of Investigation
- 153 Department of Labor
- 3 Department of State
- 36 Department of Transportation
- 15 Department of the Treasury (other than IRS)
- 102 Internal Revenue Service
- 3 ACTION
- Civil Aeronautics Board
- 17 Community Services Administration

-- Consumer Product Safety Commission  
21 Environmental Protection Agency  
4 Equal Employment Opportunity Commission  
-- Export-Import Bank of the United States  
1 Farm Credit Administration  
7 Federal Communications Commission  
2 Federal Deposit Insurance Corporation  
-- Federal Election Commission  
1 Federal Home Loan Bank Board  
2 Federal Reserve System  
4 Federal Trade Commission  
59 General Services Administration  
2 Interstate Commerce Commission  
9 National Aeronautics and Space Administration  
1 National Science Foundation  
-- National Transportation Safety Board  
2 Securities and Exchange Commission  
-- Selective Service System  
10 Small Business Administration  
10 Tennessee Valley Authority  
8 United States Civil Service Commission  
-- United States Information Agency  
50 United States Postal Service  
82 Veterans Administration  
1 The President of the United States  
1 The White House Office

- 1 Office of Management and Budget
- 1 National Security Council
- Central Intelligence Agency
- Council on Environmental Quality
- Council on Wage and Price Stability
- Office of the Vice President of the United States

Legislative Branch

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

Other

- 1 The Supreme Court of the United States
- 31 Other
- 15 Missing Agency Codes

### Mix of Calls -- Substantive vs. Non-substantive

Approximately 62 percent of the calls appear to have some substance for audit or investigation. Approximately 40 percent involve allegations of wrongdoing. For example, of 2,401 allegations that have received an initial screening, 1,488 appear to have some substance for investigation or audit. Of the 1,488, about one-third are in the "mismanagement" category, while the remaining two-thirds (957 allegations) appear to involve intentional wrongdoing.

### Types of Allegations Received

Other than those of a nonsubstantive 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 957 allegations of wrongdoing, the highest proportion, 30 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	291	30.4
2. Federal employees in conjunction with others	125	13.1
3. Federal contractors or grantee organizations	211	22.1
4. Corporate recipients of Federal financial assistance	6	0.6
5. Individual recipients of Federal financial assistance	184	19.2
6. Other individuals or corporate entities	<u>140</u>	14.6
	957	

Looking first at the "Federal employees only" category we found that there were 27 allegations of theft, 22 allegations of private use of government property, 72 reports of employee working hour abuses, 91 reports of improper financial transactions, and 79 reports of other improper activities.

In the second category, that of "Federal employees in conjunction with others" there were 66 allegations of a bribe or kickback having been paid, 2 allegations of extortion and 57 miscellaneous other allegations.

In the "Federal contractor/grantee" category there were 82 allegations of improper expenditure of Government grant funds, 24 allegations of contract non-performance, 21 reports of the theft of Government funds or property and 84 other allegations of various natures.

The 6 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 57 allegations of welfare cheating, 32 of cheating on social security benefit eligibility, 23 of collecting inappropriate disability benefits, 12 of cheating on veterans benefits, 12 instances of food stamp cheating, 13 of medicare/medicaid cheating and 35 miscellaneous allegations.

The sixth and final category, "Other individuals or corporate entities" included 87 allegations of personal and corporate income tax cheating, and 53 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 48 of the 50 states.

In 57 percent of the cases the informant was anonymous. Twenty six percent of the informants were Federal employees.

Examples of Fraud Task Force  
Actions on "Hotline" Allegations

1. Case 10000

An allegation was received that land values were being significantly overstated in a get rich scheme related to an application for urban renewal housing. The Inspector General was contacted, the application located, and marked to require special care in the land appraisal process. GAO and the Agency Inspector General will continue to monitor the case.

2. Case 1017

A call was received on the hotline that documents required by HEW auditors in connection with an audit at a site funded by HEW's Rehabilitation Services Administration were being altered prior to being turned over to the auditors. The HEW Inspector General's office was contacted and the agency auditors at the site were alerted.

3. Case 1528

An allegation that the holder of a GSA motor pool credit card is supporting his drug habit by falsifying automobile fuel charges. The activity is alleged to have been going on for 2 years with substantial illegal charges accumulated to date. Verification of the validity of the allegation and the collection of supporting evidence is currently underway and appears to support the allegation.

4. Case 2267

The informant who identified herself, alleges an ongoing conspiracy to defraud the Government through the submission of invalid claims for disability income. The lady stated that these individuals were not disabled, had outside sources of income, and were living in the same house in a cult-like society. They had all been certified as schizophrenic by the same physician.

Staff from the regional office discussed the case with officials from the Social Security Administration (SSA). They were informed by an SSA District Director that he too was suspicious and several months earlier had requested that their Office of Program Integrity conduct an investigation. To his knowledge an investigation has yet to be initiated.

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The informant is the mother of one of the members of the cult.

Procedures for Recording  
"Hotline" Allegations

Each caller on the hotline discusses his/her allegation with a member of the Fraud Task Force. The staff answering hotline phones are all professional auditors and attempt to ask questions which establish the materiality of the alleged wrongdoing and establish that Federal funds are involved. Each call is written up on a controlled form and assigned an individual control number. The type of information we attempt to obtain is:

- Does the caller wish to remain anonymous?
- Nature of the allegation
- Location of reported activity
- Frequency of occurrence (on-going or one time)
- Affected government entity
- Characterization of allegation (intentional wrongdoing or mismanagement)

If the caller is willing to submit the allegation in writing, we provide the caller with the control number and request they put it on the correspondence as a means of matching it to the call. The original of all allegations written up based on "hotline" calls are considered confidential data for investigation and are retained in the GAO Fraud Task Force files.

## Follow Up on Complaints or Tips Received

Following initial screening by Task Force personnel to eliminate those allegations which relate to local or non-substantive matters, the allegations are jointly reviewed by GAO Task Force personnel and the applicable agency Inspector General. Follow up is scheduled on a case by case basis. Follow up on all cases will be either:

### Referral to Agency Inspector General

(GAO Fraud Task Force to monitor status.)

--Allegation of criminal nature which requires investigation to determine if meritorious for referral to Justice Department.

--Allegation of a non-criminal nature which involves possible mismanagement.

### Referral to GAO Regional Office

(GAO Fraud Task Force to monitor status.)

--Allegations which involve an agency without an Inspector General and which require determination of substance prior to referral to Department of Justice.

### Referral to GAO Audit Division

(GAO Fraud Task Force to monitor status.)

--Allegations of a non-criminal nature which involve possible mismanagement. These will be the same "audit type" allegations referred to agency

Inspectors General for correction by the program managers. GAO plans to follow up on these in its normal audit of the programs involved.

#### Vulnerability Assessments

Our objective in making the vulnerability assessments is to determine whether agencies selected for audit by the Task Force have adequate internal accounting and operational or management controls to prevent or discourage future fraud, abuse and error.

Vulnerability assessments are what we call our efforts to determine the vulnerability of agencies and their programs to fraud and abuse. In other words, it is a risk profile of agency operations.

We will be making these assessments of Labor's Comprehensive Employment and Training program, the Community Services Administration, the Small Business Administration and the Naval Material Command.

#### Expected Accomplishments from the Vulnerability Assessments

- The recovery of Federal funds resulting from intentional misuse of Federal assets.
- A risk profile on agencies audited which will identify internal accounting or operational (management) control weaknesses that when corrected, can result in greater assurance to agency heads that agency assets are safeguarded, agency accounting data is accurate

and reliable; agency operations are efficient; and that Federal and agency management policies are being followed.

--The development of a standard audit package for evaluating internal accounting and operational (management) controls that, when modified slightly to consider unique agency characteristics, could be used by internal audit groups of all Federal agencies in developing their own risk profiles for the heads of their agencies.

#### Overview of Fraud 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 most likely occurring. Our overview effort will focus on 21 major Federal departments and agencies including Defense. We will have some 26 fulltime staff members devoted to this effort.

Drawing on known 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 (1) kinds of fraud that is occurring and its cost, (2) resources needed to combat

it, (3) whether trends indicate that the weaknesses allowing fraud to occur show up in the delivery systems, the enabling legislation, or the management systems controls, (4) how agencies handle fraud cases and the actions needed to prevent fraud from occurring including what they are doing to detect it.

We believe that management and internal controls are the key elements in effective prevention of fraud. We expect also 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.

In addition to these efforts by the Fraud Task Force, GAO will continue its normal examinations of Federal programs and will be assessing other systems of management and internal control. Those efforts which identify fraud will be coordinated with the Task Force and included in our overall assessment.

Agencies to be Reviewed

Department of Health, Education and Welfare

Department of Labor

Community Services Agency

Veteran's Administration

Social Security Administration

Justice Department

Law Enforcement Assistance Administration  
Department of the Treasury  
Department of Agriculture  
Department of Commerce  
Department of Housing and Urban Development  
Small Business Administration  
Department of the Interior  
Environmental Protection Agency  
Department of Transportation  
General Services Administration  
Department of Energy  
Department of State  
Agency for International Development  
National Science Foundation  
Department of Defense (all)

Reasons Agencies Selected

Prior experience indicates that the programs most susceptible to fraud are social programs of the 13 major grant agencies (HEW, Labor, HUD, etc.), personal service contracting, 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 and LEAA were selected because of the role they play in the

investigation and prosecution of white collar crime. In these agencies, our prior reviews indicate that the interface between Justice and Federal agencies responsible for administering programs needs improvement, and may in fact be affecting the prosecution of white collar crime. In turn, agencies may be contributing to the problem by failing to utilize all administrative remedies open to them, thereby clogging the system with unnecessary referrals or in some cases inadequately prepared cases.

QUESTION

How many Federal employees have been discharged for activities involving fraud, waste and abuse?

ANSWER

We have no figures on which to base our answer. The Office of Personnel Management indicates there is no existing system to accumulate this type of data.

In early 1978, in discussions related to the Civil Service Reform Act, the Office of Personnel Management indicated that in calendar year 1976, there were 17,157 Federal employees dismissed for a variety of reasons as tabulated below.

226 - inefficiency (unsatisfactory performance)

2,287 - resigned in lieu of adverse action

4,261 - terminated during probation period

240 - removed because of pre-existing condition

3,164 - dismissed for some form of misconduct

418 - separated for "suitability" reasons

4 - dismissed from Foreign Service

6,557 - dismissed for "a variety of additional reasons"

17,157

It appears that the number of employees discharged for activities involving fraud and abuse would be a small number scattered throughout each category, however, we have no specific data at this time.

QUESTION

Do you think that the estimates in the President's budget for savings to be achieved through administrative actions to reduce waste, fraud, and abuse, such as the \$0.5 billion savings estimated for the medicaid program are realistic and achievable? What assumptions should the Congress make in its FY 1980 budget as to these savings?

QUESTION

What actions can the Congress take to eliminate waste, fraud, and abuse? What is the efficacy of amendments to appropriations bills which reduce appropriations by an amount corresponding to anticipated waste, fraud, and abuse (such as the Michel amendment, which reduced the FY 1979 Labor/HEW appropriations by \$1 billion)? Are reductions in the spending targets in Congressional budget resolutions which correspond to estimated amounts misspent due to waste, fraud, and abuse (such as the amendment to the First Budget Resolution for FY 1979 offered by Senator Harry Byrd) useful tools for bringing about a reduction of such misspending? What can Committees with jurisdiction over such programs as medicare, medicaid, general revenue sharing and welfare do that they are not doing now to exercise better oversight over these programs? What should the Budget Committees do?

ANSWER

At this time, Mr. Chairman, I would like to answer both questions together. I believe it is necessary to discuss the

issues raised in the latter question before we talk about the President's proposals for reducing "waste, fraud, and abuse." I believe it is necessary to lay out a general framework of what actions Congress can take to eliminate "waste, fraud, and abuse". Within this framework, I believe the Congress should act with precision to the maximum extent possible. Cutting out "waste, fraud, and abuse" should be done with a scapel and not a meat ax since our objective is to make the patient well. This can best be done on Congress' part by oversight and legislative action on (1) individual programs and (2) administrative functions, such as the creation of the Inspector General functions, increased emphasis on collection of receivables, prosecution of fraud cases, and implementation of the new personnel management functions.

At the individual program level, it can be determined when, and how much the funding level should be changed to correspond with actual reductions in "waste, fraud, and abuse" in the particular program. It is only at that level that Congress can assess the balance between administrative and program costs and to address the underlying problems--poor management, poor program design, poor organizational arrangement, or actual fraud and abuse by individuals.

Across the board budget cuts--either in lump sum or as a percentage--get the message across that Congress wants the program costs lowered, but they give to the executive the control over the allocation decisions at the individual program

level. Congress cannot be sure that the reductions will be taken where and how they are needed to result in and correspond with actual reductions in "waste, fraud, and abuse."

I do not believe it is realistic for the budget committees to lower the aggregate funding levels based on estimated "savings", unless it is done in cooperation with the authorizing and appropriating committees. They can take the legislative actions needed at the program level to make the reduction happen, such as changing eligibility requirements where needed, strengthening administrative functions, etc.

In addition, the Congress needs to develop some type of oversight reform legislation. A major effort was made last year when the Senate considered S.2. However, this measure was not enacted. I hope the 96th Congress will give priority to this important and needed reform. I believe that it is time that we recognize that our society and economy and the world social and economic order are constantly changing. Our laws must be periodically reviewed and modified to keep our programs and administrative functions up-to-date and responsive to current needs. We agree that the Congress cannot review all laws every year, but it can and should make sure that all laws are looked at periodically. One very useful tool currently available to the Senate in controlling the growth of Federal regulatory

and paperwork burdens is Senate rule 29.5. This rule requires an impact evaluation of public bills or joint resolutions coming to the Senate floor. I believe that this statement, if made early enough in the legislative process, can be of extremely valuable assistance to both legislative committees and agencies in studying the adverse impacts of proposed legislation.

Mr. Chairman, you asked what the Budget Committees should do? As I have said, the basic action is at the program level with the authorization and appropriations committees. I believe the Budget Committees are in a good position to encourage and keep score on the implementation of this Government-wide effort to reduce "waste, fraud, and abuse." I believe much progress will be made in the next few years, but some one will have to assess the budget implications of the results--the budget committees are good candidates to perform this function.

The President has proposed a number of actions to reduce program costs. There is no one place in the budget where these are tabulated. However, as an example, we have developed a summary of the major savings items from the FY 1980 budget and supplementary material furnished us by HEW (see attached schedule). To aid your committee in assessing the President's proposals, we have categorized the savings according to the nature of the problem or cause as follows:

1. "Fraud and abuse" by individual Federal employees and program participants.
2. Poor management which allows sloppy work, slow service, overstaffing, buying too much, losing things, etc.; which result in waste.
3. Poor organizational alignment resulting in people in several organizations dealing with the same people in the private sector on the same or closely related subject, sometimes referred to as overlap and duplication.
4. Changes in programs (program design) needed because circumstances have changed, we have learned more, other programs are now involved, funding level is different than expected, etc.
5. Policy and priority choices expressed as proposals to cut back on a service or assistance to all or some program participants.

For major Presidential proposals for cost reductions highlighted in the budget documents and for major administrative actions proposed by HEW to reduce program costs, we have (1) determined the total amount of savings, (2) determined the major actions to be taken to bring about the proposed savings, (3) developed questions about the basic assumptions and estimates, and (4) identified the related GAO work performed in the area.

The analysis suggests that fraud and abuse may account for as little as 3 percent of the overall potential savings while poor management or changes in circumstances appears to account for the majority of savings. However, I must reemphasize that no one knows the total savings that can be achieved by reducing fraud and abuse.

We believe the Congress should address each of the major proposals listed on our schedule when they are developing the FY 1980 budget. There is no one easy way to deal with the range of problems involved. It is probable that achieving actual changes in administrative practice, which lead to greater effectiveness and efficiency in the longer run, may increase short run costs. For example, establishment of the Inspector General functions will require immediate funding, but any resulting "savings" may not show up immediately. Even then they will be in terms of slower program growth, rather than a lower level of total funding for the program.

Similarly, reorganizations such as those being considered for paperwork, regulations and statistical programs are intended to strengthen management and reduce costs in the Government and private sector; but there are usually additional one-time administrative costs incurred during reorganizations, such as redesigning data systems, moving, and rewriting regulations.

In short, Mr. Chairman we believe the Congress, in developing the budget for FY 1980, should question closely

the "savings" and "cost reduction" estimates of the President. The Senate and House Budget Committees might well want to have discussions with the Director of the Office of Management and Budget about the probability of realizing these savings, prior to setting budget targets in the First Concurrent Resolution. The Congress should also look closely at the actions the President is proposing to make sure they are appropriate for the problems. It should guard against organizational solutions (new organizations or reorganizations) to problems caused by poor management or poor program design.

We hope the schedule we prepared will be useful in pursuing this matter further.

FY 1980 Savings from Proposals to Reduce Waste, Fraud, and Abuse in the Federal Government

(dollars in millions)

Nature of problem	Total Estimated savings	Major proposals with cost reductions	Proposal estimated savings	(1) Action Required (2) Visibility in Budget (3) Likelihood of implementation	Related GAO Work Source: GAO Open Recommendation Summary 1/77
1. <u>Fraud and Abuse</u>	\$ 218.3	<u>Medicaid State Fraud and Abuse Units</u> HEW - Health Care  No detail provided to explain program activities	\$ 92	(1) Regulatory action (2) Visible in the State and local administration program activity of the account, Grants to States for Medicaid (Budget Appendix, pp. 436-437 and in Budget, p. 236) (3) Initiated in 1979--will continue in 1980	(1) "Supplemental Security Income Overpayment to Medicaid Nursing Home Residents Can be Eliminated" (HRD-77-131, 8-23-77)
2. <u>Poor Management</u>	2,974	<u>Purchase of goods &amp; services</u> (a) increased competitive bidding (b) tighter control on contractor overhead when competition not feasible (c) better techniques for determining when to buy, distribution of supplies and delivery of services (d) improvement in management and control of inventories  <u>Medicaid Quality Control Program</u> HEW - Health Care  No detail provided to explain program activities	1,000	(1) Legislative action (2) Breakdown of savings not clearly identified at program level (3) Likelihood of implementation unknown	(1) "Development of a National Make-or-Buy Strategy" (PSAD-78-118, 9-25-78) (2) "Savings Available by Contracting for Medicaid Supplies and Services" (HRD-78-60, 7-6-78) (3) "GSA Can Improve Traffic Management Practices" (LCD-77-240, 7-28-78) (4) "Federal Agencies Should be Given General Multiyear Contracting Authority for Supplies and Services" (PSAD-78-54, 1-10-78)
		<u>Reimbursement Standards for Inefficient Health Care Providers</u> HEW-Health Care Financing Admin.  No detail provided to explain program activities	524	(1) Regulatory action (2) Savings increased by HEW from \$500 billion figure in Budget p. 236. Costs appear as part of the State and local administration program activity in the account, grants to states for Medicaid (Budget Appendix, p. 436-7) (3) Initiated in 1979--will continue in 1980	(1) "Attainable Benefits of the Medicaid Management Information System Are Not Being Realized" (HRD-78-151, 9-26-78) (2) "Are Neighborhood Health Centers Providing Service Efficiently to the Most Needy?" (HRD-77-124, 6-20-78)
		<u>Reimbursement to VA from health insurers for treatment of insured veterans, non-service-connected disabilities (and other proposals)</u> Veterans Administration	105	(1) Administrative action (2) Recommended by HEW on 3/3/79 Inspector General's Second Annual Report (3) Likelihood of implementation unknown	(1) "Attainable Benefits of the Medicaid Management Information System Are Not Being Realized" (HRD-78-151, 9-26-78) (2) "Progress and Problems in Improving the Availability of Primary Care Providers in Underserved Areas" (HRD-77-135, 8-22-78) (3) "Are Neighborhood Health Centers Providing Service Efficiently to the Most Needy?" (HRD-77-124, 6-20-78) (4) "Developing State Automated Information Systems to Support Federal Assistance Programs: Problems and Opportunities" (FGMSD-78-31, 5-26-78).
3. <u>Overlap and Duplication with Private Sector</u>	515	<u>Reimbursement to VA from health insurers for treatment of insured veterans, non-service-connected disabilities (and other proposals)</u> Veterans Administration	315	(1) Legislative action (2) Savings described (Budget, pp.23 and 271). Visible in the Medical Care Account by program activity, (Budget Appendix, p.860) (3) Proposed for later transmittal	None
		<u>Make health insurance supplemental to private insurance for working aged - Medicare</u> HEW - Health Care Financing Administration	200	(1) Legislative action (2) A program activity of the Federal Hospital Insurance Trust Fund account (Budget Appendix, p. 493), described in Budget on pp. 236-7. (3) Proposed for later transmittal	None
4. <u>Change in Circumstances</u>	2,994	<u>Hospital Cost Containment Medicare Medicaid</u> HEW-Health Care Financing Administration --To combat inflation in health care services by limiting inpatient-care revenue as consistent with the President's 1979 anti-inflation guidelines	1,550 225	(1) Legislative action (2) Savings described by program activity in the accounts, Grants to the States for Medicaid and Federal Hospital Insurance Trust Fund. Program costs are \$345 thousand. (Budget Appendix, pp. 491-3) (3) Proposed for later transmittal. Industry rejected guidelines saying the quality of services would be seriously reduced. Likelihood of implementation poor.	(1) "Attainable Benefits of the Medicaid Management Information System Are Not Being Realized" (HRD-78-151, 9-26-78)
		<u>Social Security System and Related Retirement Program Changes eliminate unnecessary and windfall benefits</u> HEW-Social Security Administration (1) Limit work years disregarded in computing benefits	600	(1) Legislative action (2) Described at the program level in the accounts, Supplemental Security Income Program, Assistance Payments Program, and Federal Old Age and Survivors Insurance Trust Fund (Budget Appendix, pp.493-6) and in the Budget (pp. 252-3).	(1) "Improvements Needed In AFDC's program for Recovering Overpayments" (HRD-77-151, 5-25-78)

4. Changes in Circumstances  
cont'd

- (2) Phase out post-secondary school benefits
- (3) Modify parent's benefits
- (4) Offset worker's benefit for Federal civilian pension
- (5) Simplify rules
- (6) Eliminate minimum benefits for new recipients
- (7) Replace lump-sum death benefits
- (8) Reform disability insurance program

(3) Proposed for later transmittal

- (2) "Review of Social Security's Activities Related to Assessing the Continued Medical Eligibility of Disabled Supplemental Security Income Recipients" (HRD-78-97, 4-18-78).
- (3) "Supplemental Security Income Quality Assurance System: An Assessment of Its Problems and Potential For Reducing Erroneous Payments" (HRD-77-126, 5-23-78).
- (4) "Supplemental Security Income Over Payments to Medicaid Nursing Home Recipients Can Be Reduced" (HRD-77-131, 8-23-77).

Public Service Employment Program \$ 592

Department of Labor - Employment and Training Administration  
1. Decreased emphasis on counter-cyclical program because of projected drop in unemployment in Fiscal Year 1980.  
2. Increased emphasis on employment for those in need (Structural Unemployment)

- (1) Legislative action
- (2) Savings visible as a shift in emphasis (Budget, pp.22 and 222-3 ) but savings are not clearly defined at the program/account level in the Employment and Training Assistance Account (Budget Appendix, pp. 664-5 and 1105).

(1) "Questionable Need For Some Department of Labor Training Programs" (HRD-78-4, 4-10-78)

(3) Likelihood of implementation unknown

5. Change in Policy or Priority Choices

\$ 537 Summer Youth Employment Program 302

Department of Labor - Employment and Training Administration  
1. Reduce jobs from 1 million to 750,000  
2. Remove 14-year-olds from eligibility

- (1) Legislative action reduces eligible participants and jobs
- (2) Savings described in Budget (pp 222 and 223). - Savings not clearly defined at the program/account level, Budget Appendix, pp. 644-5 and 1105)

(1) "Questionable Need For Some Department of Labor Training Programs" (HRD-78-4, 4-10-78)

(3) Likelihood of implementation unknown

Federal payments to school districts affected by the presence of Federal facilities in the district 200  
HEW-Office of Education  
Eliminate impact aid in school districts where parents work, but do not live on Federal property

- (1) Legislative action
- (2) Savings are a reduction in outlays from 1979 level (Budget, pp. 22 and 213) visible at the program level in the account, School Assistance in Federally Affected Areas, (Budget Appendix, pp. 445)
- (3) Likelihood of implementation poor - prior proposals for outlay reductions were not successful

None

Total - all areas \$ 7,238.3