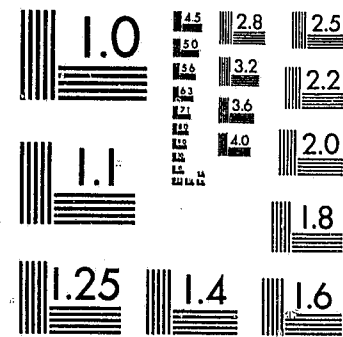




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The Prevention and Control of Fraud: An Overview of Federal Efforts

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The Prevention and Control of Fraud: An Overview of Federal Efforts

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ABSTRACT

The prevention and control of fraud requires the analysis of comprehensive, reliable, and timely information. Consequently, MITRE has undertaken a study sponsored by the Bureau of Justice Statistics to determine what information is currently available about the nature and scope of fraud in government programs. Specifically, this study examines information describing the nature and scope of detected fraud as well as undetected fraud. This report provides: (1) an overview of the backgrounds and pivotal roles of major federal agencies involved in the prevention and control of fraud; (2) a compilation of preliminary findings based on discussions with staff of these agencies and an extensive literature review; and (3) a discussion of the major issues confronting federal agencies in the development of comprehensive, reliable, and accurate information for the control and prevention of fraud.

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EXECUTIVE SUMMARY

A. INTRODUCTION

More and more, the problem of fraud in government programs and operations become the concern of federal, state, and local agency administrators and policymakers. To date, most anti-fraud strategies have been largely reactive-in-nature; however, attempts are now being made to move toward the development of more proactive fraud prevention strategies which are designed to identify and correct program weaknesses as well as detect the occurrence of fraud. Efforts to develop proactive strategies have included vulnerability assessments (i.e., the identification of the susceptibility of agency programs to fraud), telephone "hotlines", and computer-aided detection techniques. However, a major obstacle has been the lack of timely, accurate, and comprehensive data needed by government agencies to:

- specify the nature and extent of fraud in government programs and, thereby,
- facilitate the systematic development, implementation, operation, and evaluation of proactive strategies and techniques for the prevention and control of fraud.

B. PURPOSE OF STUDY

Recognizing that accurate and reliable information is required to develop effective and efficient anti-fraud strategies, MITRE has undertaken a study sponsored by the Department of Justice's (DOJ) Bureau of Justice Statistics (BJS) to determine:

- what information is currently available about the nature and scope of fraud in government programs;
- what data bases and information systems have been developed to define the nature and extent of fraud; and
- what issues must be resolved in order to improve current knowledge regarding fraud.

Specifically, this study will examine information describing the nature and scope of (1) detected fraud as well as (2) undetected fraud.

In order to analyze and interpret data regarding fraud in government operations and programs, it is necessary to understand the total systems context or environment of these operations and programs including such factors as the nature of the benefit programs themselves; the organization and operation of the agencies administering those programs; the organization and operation of those agencies responsible for the prevention and control of fraud; the interaction between and among fraud control agencies and program agencies; and the applicable laws. Consequently, MITRE sought information on a wide variety of organizational and legal variables including those mentioned above.

Moreover, any effort to understand the systems context or environment must take into consideration the interaction of various levels of government. The development and implementation of government programs almost invariably involves complex interrelationships between the federal government and state governments not only in terms of administering large-scale programs (e.g., Aid to Families with Dependent Children, Food Stamps, and Medicaid), but also in controlling and preventing the occurrence of fraud. Consequently, the research strategy underlying this project involves two, interrelated phases:

- The first phase provides a broad overview of the nature and scope of fraud from the perspective of a wide range of federal agencies involved in the prevention and control of fraud; and
- The second phase provides an "in-depth" study of Medicaid fraud focusing on the activities of State Medicaid fraud control units and State Medicaid agencies employing Medicaid Management Information Systems.

This report presents the results of the first phase of this project and includes:

- a brief overview of the backgrounds and pivotal roles of major federal agencies involved in the prevention and control of fraud;
- a compilation of preliminary findings based on discussions with staff of these agencies and an extensive review of the literature; and

- a discussion of the major issues confronting federal agencies in the development of comprehensive, accurate, and reliable information for the prevention and control of fraud.

C. FINDINGS

The findings of the first phase of this study are based on an extensive literature review and discussions with staff of ten Offices of the Inspectors General, the Executive Group to Combat Fraud and Waste in Government, the General Accounting Office, the Economic Crime Enforcement Program, and the Office of Management and Budget. Both methods (i.e., the literature review and the agency interviews) were helpful in developing the findings of this report.

The findings of this phase of the study are summarized below.

- Existing estimates of fraud are unreliable.
- Uniform IG reports would assist in the development of a government-wide index of detected fraud.
- Information collected by the Economic Crime Enforcement Program could provide the basis for a central repository of fraud-related data.
- GAO's forthcoming study represents a useful beginning at obtaining accurate assessments of known fraud.
- The IGs are seeking to emphasize the employment of proactive strategies to control and prevent fraud.
- The IGs continue to stress the use of vulnerability assessments.
- Hotlines may be an effective tool for fraud detection and control.
- Computer-aided detection techniques are potentially useful for identifying suspected cases of fraud.
- The prevention of fraud requires the systematic and comprehensive analysis of laws and regulations.
- Continued efforts are needed to develop management information systems to support the Offices of the Inspectors General.

Existing estimates of fraud are unreliable.

Existing estimates of the nature and extent of fraud are inaccurate and unreliable. For example, the most often cited fraud estimate--1 to 10 percent of federal expenditures for social programs--has been labelled as unfounded and misleading by a number of high ranking government officials (e.g., former

Attorney General Benjamin Civiletti and former Comptroller General Elmer Staats). Interviewees at the Executive Group, GAO, OMB, ECEP, and the various OIGs all concur that estimates, wherever they have been found in print, are generally imprecise, inaccurate, and unreliable. In their opinion, this situation is attributable to the fact that there is no valid methodology currently available for estimating the nature and scope of fraud in government. Consequently, none of the Offices of the Inspectors General visited are presently producing such estimates.

Information regarding known or detected fraud might be used to estimate the nature and extent of unknown or undetected fraud. However, there are some serious problems which limit the usefulness of such data for this purpose. For example, known fraud may be just the "tip of the iceberg", that is, the extent of unknown or undetected fraud is probably much larger than that of detected fraud. Moreover, the nature of unknown fraud may be far different from the nature of detected fraud for a number of reasons. For example, some forms of fraud may be easier to detect than others. The kinds of fraud detected may also represent a policy decision to concentrate detection and investigation resources in certain areas of fraud. Thus, estimates of the nature and extent of fraud based on cases of detected fraud may be biased and unreliable.

Uniform Inspector General reports would provide the basis for a government-wide index of detected fraud.

Staff at the Executive Group, GAO and OMB have indicated that there is a need to develop a government-wide perspective on the nature and extent of fraud detected in government programs. Such information would be useful at the national level for a variety of purposes including developing needed legislation and administrative regulations; implementing joint IG operations; and establishing government-wide policy for the control and prevention of fraud. The first step in the development of such a perspective would be the implementation of some form of uniform reporting system.

Information collected by the Economic Crime Enforcement Program could provide the basis for a central repository of fraud-related data.

Staff at OMB, GAO, and the Executive Group have suggested that the collection, collation, analysis, and dissemination of uniform information regarding fraud from all the IGs could be useful for a variety of purposes. For example, policymakers could use these data to specify the level of resources needed to control fraud; researchers, to examine the nature of the problem; and investigators, to identify individuals involved in multiple cases of fraud across different programs and/or agencies. At the present time, there is no one source or central repository of such standardized data detailing the nature and scope of fraud in government. The information being collected by the Office of Economic Crime Enforcement could be viewed as the first step in the development of a central repository of uniform data on fraud. However, the current database does have a number of serious limitations.

GAO's forthcoming study represents a useful beginning at obtaining accurate assessments of known fraud.

GAO's current study of fraud in government programs represents the most ambitious evaluation of the problem to date and should serve as a useful beginning for other research in the area. GAO's current study employs a fairly rigorous evaluation design and contains an adjusted sample of 3,227 cases of detected fraud drawn from a population of 77,000 cases extracted from data in the files of 21 federal agencies.

The IGs are seeking to emphasize the employment of proactive strategies to control and prevent fraud.

Staff of all the agencies visited emphasized that to effectively and efficiently combat fraud the IGs must do more than merely react to complaints--they have to develop proactive strategies for the control and prevention of fraud. Such strategies involve several key elements, including: (1) the identification of government programs where fraud is occurring; (2) the specification of programmatic weaknesses; (3) the development of profiles of offender characteristics and their modus operandi; (4) the establishment of priorities for program investigation and audits; and (5) the design of methods to prevent as well as detect fraud. In seeking to implement such strategies, GAO, OMB, and the 10 IGs surveyed are emphasizing the use of vulnerability assessments, "hotlines", computer-aided detection

techniques, and management information systems. Perhaps the most important proactive technique available to the IGs is their mandate to review existing and proposed legislation and regulations and recommend changes to enhance program integrity. However, IG attempts to become more proactive have been hampered by a number of difficulties such as administrative problems encountered in beginning operations, the sheer size of their workload, shortages in staff, and the lack of timely and reliable information.

The IGs continue to stress the use of vulnerability assessments.

The systematic conduct of vulnerability assessments (i.e., the identification and specification of the susceptibility of agency programs to fraud and other illegal activities) was initiated at the request of President Carter. Upon passage of the IG Act of 1978, each of the 12 agencies was asked to submit to OMB plans for eliminating fraud, waste, and abuse including assessments of the vulnerability of their programs to fraud. After completion of the IG Implementation Plans, the IGs continued to conduct vulnerability assessments. The implementation of these assessments enables IG staff to prioritize the employment of scarce resources in terms of such factors as (1) the extent to which a programmatic area may be vulnerable to fraud; (2) the amount of money obligated to that program; and (3) the amount of financial losses suffered. In addition, such assessments can provide direction to auditors and investigators in seeking out fraud as well as giving feedback to program managers regarding improvements needed in internal controls. Consequently, the staff of the 10 IGs surveyed, OMB, and GAO regard vulnerability assessments as integral to the development of proactive strategies for the control and prevention of fraud.

Hotlines may be an effective tool for fraud detection and control.

During 1979, "whistleblower hotlines" were established at GAO and at the Offices of Inspectors General in 14 departments and agencies of the federal government. In the first year following hotline implementation, GAO reported receiving approximately 14,000 calls on its nationwide hotline from the public at large, alleging fraud against the government. The results, to date, from GAO's data have been mixed but tend to generally provide support for the effectiveness of hotlines as a tool for fraud detection and control. Although agency hotlines were set up primarily for use of employees, calls are also accepted from the general public. While it is still too early to accurately

assess their effectiveness, hotlines could be potentially an excellent fraud detection tool because of the anonymity they allow employees who might otherwise ignore or overlook blatant wrong doing if it meant direct confrontation with alleged offenders.

Computer-aided detection techniques are potentially useful for identifying suspected cases of fraud.

Staff of the ten OIGs surveyed are of the opinion that computer-aided detection techniques (CADT) represent a potentially valuable tool for identifying cases of suspected fraud. In this regard, computer-aided detection techniques have been employed in efforts to identify suspected cases of fraud among recipients, employees, and third party providers. Thus far, two basic techniques have been developed:

- computer-aided matching which involves the comparison of two or more databases; and
- computer-aided screening which involves an internal examination of a single database.

For example, computer-aided matching techniques have been used to identify suspected cases of fraud in the Aid to Families with Dependent Children (AFDC) Program. Computer-aided screening techniques have been applied to the Medicaid Program in efforts to identify suspected cases of third party provider fraud. However, efforts such as these have been marked by a high percentage of "hits", that is, cases identified as possibly involving fraud. Many of these cases were "false positives", that is, they had been erroneously identified as involving fraud. Consequently, additional time and effort have to be expended in order to verify these "hits". The successful utilization of such computer-aided techniques requires the development of methodologies to reduce the rate of false positives and prioritize targets for investigation.

The prevention of fraud requires the systematic and comprehensive analysis of laws and regulations.

It is generally agreed that the main focus of anti-fraud efforts at all levels of government should be the prevention of fraud in government programs. In this regard, it has been recognized that the very legislation establishing government programs and the regulations governing their administration often create weaknesses which can be exploited in the commission of fraud.

Recognizing the need to improve the impact of laws and regulations on program integrity, Congress required that the Offices of the Inspectors General review current and proposed legislation and regulations to (1) determine their impact on efforts to control and prevent fraud and (2) recommend changes needed to ensure program integrity and efficiency. To one extent or another, all IG reports reviewed during this study present recommendations regarding the laws and regulations affecting government programs. However, a major problem confronting the IGs as well as other agencies interested in the analysis of the legislative and regulatory processes is the sheer volume and complexity of the laws and regulations which may impact on the integrity of government programs.

Continued efforts are needed to develop management information systems to support the Offices of the Inspectors General.

The staff of the Offices of the Inspectors General, OMB, and GAO visited during this study agree that the development of effective and efficient strategies to combat fraud requires accurate and reliable knowledge (or intelligence) regarding the nature and scope of this complex problem. Consequently, management information systems (MIS) are seen as having the potential to provide the IGs with the capability of collecting, collating, and analyzing data describing such critical factors as the type of fraud committed, the characteristics of the perpetrators, their modus operandi, the dollar amount lost, and program weaknesses. With increasing emphasis on proactive strategies, it is expected that information systems will become even more critical to IG operations. In addition, the development and implementation of information systems would improve the ability of IGs to accomplish a wide range of management tasks including (1) the tracking of cases of fraud to final disposition, (2) the analysis of workloads, and (3) the allocation of limited audit and investigative resources.

D. POLICY ISSUES

An analysis of MITRE's discussions with the staff of 10 IGs, the Executive Group, OMB, ECEP, and GAO as well as an extensive review of the literature indicates that there are many similarities between the problems confronting the IGs in fraud control and prevention and those faced by traditional criminal justice agencies in their efforts to control crime in general. In this regard, the need to collect, analyze, and disseminate reliable, timely, and comprehensive information is a concern common to both the IGs and criminal justice agencies.

Obviously, the problems confronting the IGs are extremely diverse and complex involving not only detection, investigation, and prevention, but also various aspects of the programmatic areas themselves. However, given the similarities noted between fraud control problems faced by the IGs and those of traditional criminal justice agencies, the IGs could facilitate their efforts to control and prevent fraud by drawing on the relevant experience of the criminal justice system at large in collecting, analyzing, disseminating, exchanging, and using information. Moreover, there may be other areas where the experience gained by criminal justice agencies is transferrable to the operations of the IGs. Such areas as statistical analysis; the development of intelligence indicators; planning, and evaluation; and information systems come most readily to mind.

The first phase of this study identified six areas of policy issues confronting the IGs as well as other government agencies in their efforts to control and prevent fraud in government. These issues were developed on the basis of MITRE's analysis of discussions with IG staff, members of other federal agencies (i.e., GAO, OMB, the Executive Group, and ECEP), a literature review, and MITRE's experience with various aspects of the criminal justice system.

These issues focus on:

- the need for information,
- the standardization of data,
- the measurement of fraud,
- the need for a central repository of fraud-related data,
- the development of proactive strategies for the control and prevention of fraud, and
- the need for greater emphasis in management information systems.

The Need for Information

The need for information on which to base efforts to control and prevent fraud is clear. The issue remains, however what specific information is needed by whom, and for what purposes. A related issue focuses on how to obtain, process, and manage the needed information. Each of these issues may be examined on two levels: the intra-IG level and the inter-IG level.

At the intra-IG level, these issues involve an examination of the needs of each of the Offices of the Inspectors General for information. This analysis would identify the items of information required by the IGs for:

- operational purposes, for example, the validation and updating of vulnerability assessments, the improvement of internal controls, and the identification of suspected cases of fraud; and
- administrative purposes, for example, internal reporting, case tracking, workload analysis, and deployment of resources.

On the inter-IG level, the information needs of Congress, the Executive Branch (e.g., the Council on Integrity and Efficiency), the general public, and researchers should be examined. This analysis would focus on the compatibility of current IG reporting and identify needed improvements. Among other topics, this analysis might examine current definitions of fraud used by the IGs, the extent of uniformity in data presented in IG reports, and privacy and security requirements. In addition, such a study might explore how to facilitate the exchange of data among IGs for conducting joint operations; tracking offenders committing fraud in more than one agency; and identifying individuals or organizations involved in duplicate billing.

Standardization of Data

There was little uniformity in the IG reports reviewed during this phase of the study in terms of the types of information presented or the methods of presentation. The development of standardized reporting formats and uniform data elements would provide an important contribution to Congress, OMB, and the IGs in their efforts to control and prevent fraud. For example, uniform IG reports could provide the basis for determining the exact nature and extent of detected fraud on a government-wide basis. Such information could be used to determine the need for new legislation, to prioritize the deployment of existing resources, to allocate additional resources, and to compare the effectiveness of various strategies for the control and prevention of fraud. Analysis of such data could also identify common fraud problems among agencies and indicate successful solutions which could be transferred from one IG to another.

The Measurement of Fraud

Experience and problems with the measurement of crime can offer some useful lessons. The question arises as to which data should be used to measure the nature and extent of fraud in government programs and operations. For example, should dollars lost be used as an indication of the amount of fraud or would a better measure be the number of cases of detected fraud? Should the amount of dollars saved be employed as an indicator of the IG's effectiveness? The selection of any of these indicators may be complicated by variations in definitions even within the same agency.

The Need for a Central Repository of Fraud-Related Data

Federal efforts to prevent and control fraud would be greatly enhanced by the establishment of a central repository of fraud-related data. In the first place, such a nationally implemented database would increase federal-level coordinative efforts by establishing a needed information exchange source for the use of all federal, state, and local agencies involved in fraud prevention and control. The establishment of a central repository of fraud-related data is an essential step toward the development of proactive strategies to prevent and control for fraud. In the second place, fraud-related information, in order to be of maximum usefulness to policymakers and administrators, should be complete and accurate.

Proactive Strategies Are in Need of Further Exploration

The IGs have employed to one extent or another a variety of techniques (e.g., vulnerability assessments, computer-aided detection techniques, and legislative analysis) in their efforts to develop and implement proactive strategies to control and prevent fraud. However, such factors as extraordinary large workloads coupled with inadequate staff resources have impeded the IGs' efforts to move more rapidly in the development of proactive strategies. Consequently, although the employment of such techniques represents a good, initial approach toward the development of proactive strategies, additional efforts are needed to further the development and implementation of such strategies and, thereby, decrease dependence on reactive methods. As a first step in this process, each of the proactive techniques listed above as well as others discussed in the body

of this report should be examined to determine their current effectiveness and efficiency and how they might be improved. Moreover, the contribution of each to an overall proactive approach to the control and prevention of fraud should be studied.

The Need for Greater Emphasis on the Development of Management Information Systems (MIS)

For a better part of two decades now, there has been widespread recognition, on the part of criminal justice decisionmakers, of the important role of management information systems (i.e., computer technology), in the provision of timely, complete, and accurate data needed for purposes of policymaking, planning, management, and evaluation. Although the Offices of the Inspectors General surveyed each verbalized an interest in becoming more proactive in their approaches to fraud prevention and control, it is not clear that, in all cases, the level of commitment required for MIS development is being demonstrated. For example, only two of the 10 OIGs visited have made measurable progress toward full MIS implementation, yet MIS development is absolutely critical to the accomplishment of any number of tasks (e.g., the tracking of cases from entry-to-disposition, resource allocations, etc.) essential to the development of proactive strategies. Doubtless, much of the delay in MIS development can be attributed to the relatively short time span between IG Act enactment and the present, a time when most OIGs have been integrally involved with the special tasks associated with start-up and early implementation. From a policy perspective, and because of the importance of MIS to obtaining more complete and accurate data needed to understand the nature and extent of fraud, MIS development should be an important priority for each IG, particularly in the review of current and proposed legislation and regulation and their impact on program integrity, and the analysis of information regarding detected fraud.

E. CONCLUSION

The foregoing section identified six major policy issues focusing on the need for information which impact on the management and operations of the Inspectors General. In addition, these issues as well as the findings discussed previously are of relevance to other audiences. For example, the Council on Integrity and Efficiency may be concerned with data needs at both the intra- and inter-IG level, with the concept of a central repository of data, and with coordination

among IGs. OMB may be interested in the standardization of data and reporting requirements as well as the effectiveness of computer-aided detection techniques. Given its mandate under the Justice Systems Improvement Act, the Bureau of Justice Statistics may be interested in the development of a methodology for measuring fraud; the exchange of data among agencies; the implications of privacy requirements; and the development of transactional statistics regarding cases of fraud.

1. INTRODUCTION

More and more, the problems of fraud, waste, and abuse in government have become the concern of federal, state, and local agency administrators and policymakers. This concern has been fueled by a number of factors such as rapidly rising program expenditures; large budget deficits and their contribution to inflation; and continuing reports of widespread corruption on the part of government officials, third-party providers, and some recipients. As former Health, Education, and Welfare (HEW) Secretary Joseph A. Califano, Jr. stated:

In an era when budgets are expanding, when the public is resistant to new taxes and when there is skepticism about the ability of government to function effectively, public officials face a critical challenge--to demonstrate that social programs can be managed responsibly and effectively.

And, in a similar vein, former Assistant Deputy Attorney General Charles Ruff has stated the following:

Clearly, perceptions in the Congress, the Executive Branch, and in the public of the extent of fraud and abuse in federal expenditures has escalated greatly...Yet, our investigations...have confirmed that the problem has been with us a very long time. Moreover, the recent and continuing trends toward increased complexity in federal spending programs, attempts to reduce administrative red tape, and dispersed administration of federal funds all may contribute to an increased potential for fraud and abuse.

In the more than two years since the Califano and Ruff remarks were made, inflation rates continue to rise, and government spending for benefit programs has come under sharper attack as one factor which has continued to fuel the inflationary spiral. As a consequence, an aroused populace, required to bear the brunt of the increased costs through higher taxes and social security payments, has begun to demand a greater level of accountability on the part of government administrators, managers, and policymakers for the fiscal integrity and administrative efficiency of the benefit programs for which they are primarily responsible.

One proposed channel for achieving reductions in government spending advanced by policymakers and officials at all levels is the elimination of the fraud, waste, and abuse acknowledged to be rampant in the benefit programs administered by federal agencies. However, little in quantifiable terms is known of the nature and scope of fraud, and it is this absence of accurate, precise, and reliable data to assess the scope of the problems which has become a major policy concern of both the current and prior Administrations, as well as the relevant departments of government (e.g., the Offices of the Inspectors General, the Office of Management and Budget, and the General Accounting Office) with mandates to address the range of issues associated with the fraud problem.

1.1 The Need for Information

A fundamental requirement for the development of effective and efficient strategies for the control and prevention of fraud is the collection and analysis of comprehensive, accurate, and reliable information regarding the nature and extent of the problem itself.³ In testimony before the Senate on fraud, former Deputy Attorney General Charles Ruff emphasized that the development of effective strategies for controlling and preventing fraud must be based on an informed estimate of the problem stating: "...first and foremost...is the need for information."⁴ However, according to another high ranking Department of Justice (DOJ) official, "effective data collection is...our weakest point in our attempts to effectively combat the problems of program abuse."⁵ In order to meet this need for information, the General Accounting Office (GAO) has recommended the development and implementation of information systems to provide the required data. For example, following a recent survey and assessment of the capabilities of seven federal departments and agencies⁶ to combat fraud, waste, and abuse, the GAO cited as the number one priority the need to develop management information systems "aimed at providing information on the most likely types and methods of fraud, including the development of techniques for estimating the magnitude of fraud in agency programs."⁷ The recommended MIS would, at a minimum, contain data on (1) the location of all agency programs; (2) the actual dollar amounts expended per program area; (3) the groups and/or persons involved as recipients or providers of services; (4) past fraudulent activities, strategies employed by perpetrators, and methods of detection; (5) relevant detection and prevention experiences of other

agencies, departments, and enforcement officials; and (6) previously uncovered management weaknesses which represent prime sources of program vulnerability to fraud.

1.2 Purpose of This Study

Recognizing that accurate and reliable information is required to develop effective and efficient anti-fraud strategies, MITRE has undertaken a study sponsored by the Department of Justice's (DOJ) Bureau of Justice Statistics (BJS) to determine:

- what information is currently available about the nature and scope of fraud in government programs;
- what databases and information systems have been developed to define the nature and extent of fraud; and
- what issues must be resolved in order to improve current knowledge regarding fraud.

Specifically, this study will examine information describing the nature and scope of (1) detected fraud as well as (2) undetected fraud.

In order to analyze and interpret data regarding fraud in government operations and programs, it is necessary to understand the total systems context or environment of these operations and programs including such factors as the nature of the benefit programs themselves; the organization and operation of the agencies administering those programs; the organization and operation of those agencies responsible for the prevention and control of fraud; the interaction between and among fraud control agencies and program agencies; and the applicable laws. Consequently, MITRE sought information on a wide variety of organizational and legal variables including those mentioned above.

Moreover, any effort to understand the systems context or environment must take into consideration the interaction of various levels of government. The development and implementation of government programs almost invariably involves complex interrelationships between the federal government and state governments not only in terms of administering large-scale programs (e.g., Aid to Families with Dependent Children, Food Stamps, and Medicaid), but also in controlling and preventing

the occurrence of fraud. Consequently, the research strategy underlying this project involves two, interrelated phases:

- the first phase provides a broad overview of the nature and scope of fraud from the perspective of a wide range of federal agencies involved in the prevention and control of fraud; and
- the second phase provides an "in-depth" study of Medicaid fraud focusing on the activities of State Medicaid fraud control units and State Medicaid agencies employing Medicaid Management Information Systems.

This report presents the results of the first phase of this project and includes:

- a brief overview of the backgrounds and pivotal roles of major federal agencies involved in the prevention and control of fraud;
- a compilation of preliminary findings based on discussions with staff of these agencies and an extensive review of the literature; and
- a discussion of the major issues confronting federal agencies in the development of comprehensive, accurate, and reliable information for the prevention and control of fraud.

2. FEDERAL ORGANIZATION INVOLVED IN THE CONTROL AND PREVENTION OF FRAUD

Representatives of ten of the 16 Offices of the Inspectors General, and senior staff of the Executive Group to Combat Fraud and Waste in Government, the Office of Management and Budget (OMB), the Economic Crime Enforcement Program (ECEP), and the General Accounting Office (GAO), were interviewed by MITRE staff during the first phase of this project. This section, in particular, provides information on the context and background of the OIGs and the Executive Group. It also contains a brief description of key groups and agencies (i.e., OMB, GAO, and ECEP) that have been integrally involved in the implementation and evaluation of all federal efforts to combat fraud in government programs. In all appropriate cases, the roles and interrelationships, which have developed among and between these groups during the early implementation phase of the Inspector General Act, have been explored.

2.1 The Office of the Inspector General

The federal government's major strategy to combat the growing problem of fraud, waste, and abuse has been the establishment, by legislative mandate in 1978, of the Offices of the Inspectors General (OIG) to both administer and coordinate all audits, investigations, and policy initiatives designed to promote the efficiency, effectiveness, and integrity of government programs. However, the earliest recognition of the problem, and the possible magnitude of its scope, first came to national attention in the early part of the 1960s when the Billy Sol Estes' kickback and fraud scandal was investigated by the House Subcommittee on Intergovernmental Relations and Human Resources. In reaction to the Estes affair, then Secretary of Agriculture Orville Freeman created an office within the U.S. Department of Agriculture (USDA) with responsibility for all audit and investigatory activities of the Department. The OIG at Agriculture operated for 12 years until 1974 when then it was abolished by again splitting the audit and investigatory functions. In spite of the Office's demise, it proved to be an early prototype of OIGs established at the Department of Housing and Urban Development (HUD) in 1972, the Department of Health, Education, and Welfare (HEW) in 1976, the Department of Energy (DOE) in 1977, and the Veterans Administration (VA) in January 1978.

On October 12, 1978, President Carter signed the Inspector General Act into law. The new Inspector General Act served to

consolidate existing audit and investigative units under separately functioning entities within each of 12 departments and agencies of the federal government (i.e., the Departments of Agriculture, Commerce, Housing and Urban Development, Interior, Labor, and Transportation; the Environmental Protection Agency, the Community Services Administration, General Services Administration, National Aeronautics and Space Administration, Small Business Administration, and Veterans Administration).

Statutory Inspectors General (IG) previously established at the Departments of Health, Education, and Welfare (now Health and Human Services) and Energy, continued to function under the provisions of their own legislation. In addition, a statutory IG was established at the Department of Education (DOEd) when that agency was elevated to cabinet-level stature in May 1980, bringing to 15 the number of statutory OIGs at the federal level. This number was increased to 16 when an Inspector General was created at the State Department in the fall of 1980.

The IGs were to serve as the focal point for all federal efforts to combat fraud, waste, and abuse in government benefit programs. At the signing-in ceremonies for the Inspector General Act, President Carter emphasized this point when he said "...The Inspector General will be of prime importance...in our continuing, concerted effort to root out fraud, abuse and waste in agency programs."¹⁰ Moreover, to ensure that the Inspectors General would be able to perform their duties without undue pressures from agency and department heads, with their own agendas and special interests, the Act gave them full independence of the federal agencies to which they would be attached. This move, in the words of the legislation, assured that the Inspector General Act's audit and investigative functions would be administered by an "individual whose independence was clear."¹¹ In a review of the role of the Inspectors General, the relationship between agency heads and the Inspector General is explained thusly:

The Inspector General reports to and is under the general supervision of the head of the department/agency. Nevertheless, the agency head may not prohibit, prevent or limit the Inspector General from undertaking and completing any audits or investigations which the Inspector General deems necessary, or from issuing any subpoenas deemed necessary in the course of such audits and investigations.¹²

Interestingly, all 12 departments and agencies covered under the Inspector General Act had previously opposed the establishment of statutory Inspector General offices but their opposition was overridden by an aroused Congress that was, in large part, reacting to an angry constituency who had been made aware of countless examples of the waste and extravagance in benefit programs and was demanding greater accountability from its elected representatives.¹³

2.2 The Executive Group

On May 3, 1979, President Carter established by Presidential Memorandum¹⁴ the Executive Group on Combat Fraud and Waste in Government (the Executive Group).¹⁵ A major role for the Executive Group has been the provision of policy and operational guidance to the new Inspectors General in their efforts to perform the following activities:

- the development of detection and prevention programs;
- the improvement of investigative and audit procedures;
- the increase of cooperation among law enforcement agencies;
- the improvement of training in audit and investigation techniques;
- the allocation of audit and investigation resources to the most vulnerable areas;
- the coordination of fraud, waste, and abuse problems that cross departmental and agency boundaries; and
- the development of new legislative and regulatory proposals relative to fraud and abuse prevention and detection.

Thus, the Executive Group, with the aid of permanent staff supplied by various federal agencies was set up to assist the Inspectors General in fully implementing the powers and tools created by the 1978 Inspector General Act. In addition to providing policy and operational guidance to the Inspectors General and others in the Executive Branch with similar duties, the Executive Group was to give special attention to the refinement of detection techniques and approaches to the combating of fraud in government programs and procurement

activities. Among other things, this effort included the development of computer techniques for the detection and prevention of fraud.

2.3 The President's Council on Integrity and Efficiency

As of March 26, 1981, President Reagan effectively dissolved the Executive Group by virtue of the creation, by Executive Order, of the President's Council on Integrity and Efficiency. The membership of the Council remains essentially the same as that of the Executive Group.¹⁶ However, there are some very important differences between these two entities. For example, the Executive Group was established by Presidential memorandum whereas the Council was established by Executive Order. The Executive Group was chaired by a Deputy Attorney General of the Department of Justice; the Council, by the Deputy Director of the Office of Management and Budget. In comparison with the Executive Group (see Section 2.2), the Council on Integrity has a more comprehensive mandate. Its major responsibilities and functions are listed below:¹⁷

- to develop plans for coordinated government-wide activities which attack fraud and waste in government programs and operations;
- to ensure coordinated relationships between Federal, State and local government agencies, and nongovernment entities with respect to all matters relating to the promotion of economy and efficiency;
- to develop standards for management, operation, and conduct of the activities of the Inspectors General; and
- to develop interagency audit and investigation programs and projects to deal efficiently with those problems concerning fraud and waste which exceed the capability or jurisdiction of an individual agency.

In matters involving law enforcement and litigation, the Executive Order stipulates that the Council recognize the preeminent role of the Department of Justice. However, the most critical difference between the two entities is the fact that the Chairman of the Council has considerably more authority with respect to the activities of the Council and the IGs than did the Chairman of the Executive Group, as evidenced by the language in the Executive Order which authorizes the Chairman to maintain oversight of all Council procedural and administrative

activities and to have direct access to the President regarding all Council activities.¹⁸

2.4 The Office of Management and Budget

The Office of Management and Budget (OMB) was integrally involved in the implementation phase of the Inspector General Act. OMB has also provided much policy guidance to the various IGs as well as maintained oversight of the activities of the permanent staff to the Executive Group. Because of its liaison role and close association with the Offices of the Inspectors General since inception of the IG Act, OMB brings a unique and extremely useful perspective to what has occurred historically with respect to the developing relationships among the key actors involved.

MITRE met with senior staff of OMB to discuss that Office's role in federal efforts to control and prevent fraud in government programs. OMB staff provided useful insights regarding such topics as the role of the Executive Group and its permanent staff; the problems encountered in attempting to develop standardized data; and the application of computers to manage information for the IGs.

Although OMB has always been actively involved in the Federal government's efforts to combat fraud, recent developments indicate that OMB's role may be expanded considerably because of the shift in chairmanship of the new council from the Deputy Attorney General to the Deputy Director of OMB.

2.5 The Economic Crime Enforcement Program

The Economic Crime Enforcement Program (ECEP) was first established in February 1979 by order of the U.S. Attorney General. The program's major objective is to centrally direct investigative and prosecutorial resources against all fraud-related offenses. Within the Criminal Division, U.S. Department of Justice, the order created an oversight office to direct activities at both the federal and district levels. Besides direct investigative and prosecutorial involvement, the ECEP is involved in a number of activities encompassing coordination, training, information gathering and dissemination, planning, and evaluation that should increase DOJ's overall effectiveness in combating fraud in government programs. The Director, Office of Economic Crime Enforcement, was interviewed by MITRE staff and provided current insights, from DOJ's perspective, into the quality of federal agency efforts at fraud prevention and control.

2.6 The General Accounting Office

In January 1979, the Comptroller General of the United States established a special Task Force for the Prevention of Fraud with a trifurcated objective: (1) to perform overview assessments to establish the scope of the fraud problem in government programs and to pinpoint where existing fraud detection procedures are inadequate; (2) to perform vulnerability assessments to develop, on an agency-by-agency basis, risk profiles of the susceptibility of agency programs to fraud, and (3) to install a nationwide toll-free hotline to allow individual citizens to report instances of fraud in government programs.

In the federal sector, the General Accounting Office's (GAO) efforts at fraud prevention and control have been unparalleled. Its many publications comprise the major body of literature assessing past and current efforts to combat fraud in government programs. As a part of this assessment, approximately 20 GAO reports, addressing a range of fraud-related issues (e.g., the lack of appropriate internal controls; the need for improved management information systems, etc.), have been reviewed. In addition, three members of GAO's Accounting and Financial Management Division were interviewed by MITRE staff. In particular, these interviews bridged the knowledge gap between GAO's most recently disseminated publications and its current, and most ambitious fraud study to date, due for release in early 1981.

3. PRELIMINARY FINDINGS

This chapter presents the initial, tentative findings of the first phase of the study based on an extensive literature review and discussions with staff of ten Offices of the Inspectors General, the Executive Group to Combat Fraud and Waste in Government, the General Accounting Office, the Economic Crime Enforcement Program, and the Office of Management and Budget.

Both methods (i.e., the literature review and the agency interviews) were helpful to MITRE in developing the findings which comprise the body of this chapter. In the case of the literature review, it provided pertinent background information and a theoretical context for understanding current administration policy directions relative to fraud prevention and control. Much of the literature consisted of reports completed by GAO and the Offices of the Inspectors General and are written from those agencies' interest and perspective. In examining the literature, MITRE was careful to note the sources of all documentation and to pursue anomalies in reported information where these existed in an effort to develop as objective a picture as possible of what has occurred historically in federal efforts to prevent and control fraud in government programs.

Although the literature, was to a large extent, corroborative of our initial findings, these conclusions remain heavily dependent upon the results of our agency interviews. In general, we found the staff of the various Offices of the Inspectors General to be completely open and candid in their responses to our inquiries, often providing more information than questions directly solicited. This "across-the-board" openness on the part of IG staff members was a happy surprise for MITRE but may well be attributable to the independent charter under which the OIGs operate.

3.1 Existing Estimates of Fraud Are Unreliable

Existing estimates of the nature and extent of fraud are inaccurate and unreliable. For example, the most often cited fraud estimate--1 to 10 percent of federal expenditures for social programs--has been labelled as unfounded and misleading by a number of high ranking government officials (e.g., former Attorney General Benjamin Civiletti and former Comptroller

General Elmer Staats).¹⁹ Interviewees at the Executive Group, GAO, OMB, ECEP, and the various OIGs all concur that estimates, wherever they have been found in print, are generally imprecise, inaccurate, and unreliable. In their opinion, this situation is attributable to the fact that there is no valid methodology currently available for estimating the nature and scope of fraud in government. Consequently, none of the Offices of the Inspectors General visited are presently producing such estimates.

Information regarding known or detected fraud might be used to estimate the nature and extent of unknown or undetected fraud. However, there are some serious problems which limit the usefulness of such data for this purpose. For example, known fraud may be just the "tip of the iceberg", that is, the extent of known or undetected fraud is probably much larger than that of detected fraud. Moreover, the nature of unknown fraud may be far different from the nature of detected fraud for a number of reasons. For example, some forms of fraud may be easier to detect than others. The kinds of fraud detected may also represent a policy decision to concentrate detection and investigative resources in certain areas of fraud. Thus, estimates of the nature and extent of fraud based on cases of detected fraud may be biased and unreliable.

Were reliable estimates of fraud attainable, it is generally agreed that they would be useful for: (1) emphasizing the seriousness of the problem and the need for program integrity, (2) clarifying the true magnitude of the fraud problem, and (3) directing investigative and audit resources where they are most needed. In this regard, audits of random samples of cases or Quality Control (QC) Checks such as those employed in the USDA could provide a useful starting point for the development of accurate estimates. However, as acknowledged by OIG staff at USDA and VA, the use of such methods to estimate fraud is problematic. For example, there still would exist a need to develop a model of cases likely to involve fraud. This model would require periodic revisions because such factors as eligibility criteria undergo frequent revision. Moreover, IG staff speculated that, given the differences in programmatic areas, the model would have to be program specific and, additionally, would require further modifications to fit the needs of particular states.

3.2 Uniform IG Reports Would Assist in the Development of Government-Wide Index of Detected Fraud

Staff at the Executive Group, GAO and OMB have indicated that there is a need to develop a government-wide perspective on the nature and extent of fraud detected in government programs. Such information would be useful at the national level for a variety of purposes including developing needed legislation and administrative regulations; implementing joint IG operations; and establishing government-wide policy for the control and prevention of fraud. The first step in the development of such a perspective would be the implementation of some form of uniform reporting system.

In this regard, the Inspector General Act of 1978 does require that the IGs established by this law provide Congress with semi-annual reports describing their activities including "...a summary of matters referred to prosecutive authorities and prosecutions and convictions which have resulted."²⁰ However, this act does not require that the IGs develop an uniform reporting system providing standardized information regarding the nature and extent of known fraud across all the agencies concerned. An analysis of the reports produced by nine of the 10 OIGs surveyed found considerable differences in the types of data presented, the definitions of items of information, the classification of data, the analysis performed, and the methods of presentation. This lack of uniformity precludes the use of the IG reports as the basis for developing a government-wide estimate of the nature and extent of known fraud.

Moreover, each IG report reviewed had a number of shortcomings which may limit their usefulness to policymakers and researchers interested in examining such factors as the type and incidence of fraud detected within any one agency; the complete disposition of all cases of fraud; and the total amount of dollars lost.

3.3 Information Collected by the Economic Crime Enforcement Program Could Provide the Basis for a Central Repository of Fraud-Related Data

Staff at OMB, GAO, and the Executive Group have suggested that the collection, collation, analysis, and dissemination of uniform information regarding fraud from all the IGs could be useful for a variety of purposes. For example, policymakers

could use these data to specify the level of resources needed to control fraud; researchers, to examine the nature of the problem; and investigators, to identify individuals involved in multiple cases of fraud across different programs and/or agencies. At the present time, there is no one source or central repository of such standardized data detailing the nature and scope of fraud in government. The information being collected by the Office of Economic Crime Enforcement could be viewed as the first step in the development of a central repository of uniform data on fraud. However, the current database does have the following serious limitations: (1) it contains only those cases of fraud voluntarily reported to the ECEP by federal agencies, and according to the ECEP, some agencies are reporting none of their fraud cases to its database; (2) it contains none of the cases handled by state and local prosecutors; (3) there are variations in what agencies are reporting to the ECEP as fraud and no way to eliminate the inconsistencies at this time, and (4) cases now referred to the ECEP lack unique identifiers, making tracking a virtual impossibility.

3.4 GAO's Forthcoming Study Represents a Useful Beginning at Obtaining Accurate Assessments of Known Fraud

GAO's current study of fraud in government programs represents the most ambitious evaluation of the problem to date and should serve as a useful beginning for other research in the area. Scheduled for general release in April 1981, GAO's current study employs a fairly rigorous evaluation design and contains an adjusted sample of 3,227 cases of detected fraud drawn from a population of 77,000 cases extracted from data in the files of 21 federal agencies. The current study is GAO-initiated, represents a follow-up to its major 1978 report,²¹ covers the time period October 1976-March 1979, and uses only "known fraud" as the unit of analysis.

3.5 The IGs Are Seeking to Emphasize the Employment of Proactive Strategies to Control and Prevent Fraud

Staff of all the agencies visited emphasized that to effectively and efficiently combat fraud the IGs must do more than merely react to complaints--they have to develop proactive strategies for the control and prevention of fraud. Such strategies involve several key elements, including: (1) the identification of government programs where fraud is occurring; (2) the specification of programmatic weaknesses; (3) the development of profiles of offender characteristics and their

modus operandi; (4) the establishment of priorities for program investigation and audits; and (5) the design of methods to prevent as well as detect fraud. In seeking to implement such strategies, GAO, OMB, and the 10 IGs surveyed are emphasizing the use of vulnerability assessments, "hotlines," computer-aided detection techniques, and management information systems. Perhaps the most important proactive technique available to the IGs is their mandate to review existing and proposed legislation and regulations and recommend changes to enhance program integrity. However, IG attempts to become more proactive have been hampered by a number of difficulties such as administrative problems encountered in beginning operations, the sheer size of their workload, shortages in staff, and the lack of timely and reliable information. In spite of these obstacles, the IG staffs visited are of the opinion that their operations are becoming more proactive. This assessment has been, in large part, verified by the oversight agencies that have maintained close liaison with the IGs (e.g., OMB).

3.6 The IGs Continue to Stress the Use of Vulnerability Assessments

The systematic conduct of vulnerability assessments (i.e., the identification and specification of the susceptibility of agency programs to fraud and other illegal activities)²² was initiated at the request of President Carter. Upon passage of the IG Act, each of the 12 agencies was asked to submit to OMB plans for eliminating fraud, waste, and abuse including assessments of the vulnerability of their programs to fraud. Similar but more limited requests were made of the agencies not covered by the 1978 IG Act. Both OMB and the Department of Justice reviewed these plans and provided feedback regarding a number of topics including the adequacy of the vulnerability assessments. According to OMB,²³ the IGs "should give additional attention to agency vulnerability assessments to identify and array areas of vulnerability by priority. Many of the current vulnerability assessments can be strengthened by specifically identifying those programs that are most vulnerable, why they are vulnerable, and what should be done to correct the problem."

After completion of the IG Implementation Plans, the IGs continued to conduct vulnerability assessments. The implementation of these assessments enables IG staff to prioritize the employment of scarce resources in terms of such

factors as (1) the extent to which a programmatic area may be vulnerable to fraud; (2) the amount of money obligated to that program; and (3) the amount of financial losses suffered. In addition, such assessments can provide direction to auditors and investigators in seeking out fraud as well as giving feedback to program managers regarding improvements needed in internal controls. Consequently, the staff of the 10 IGs surveyed, OMB, and GAO regard vulnerability assessments as integral to the development of proactive strategies for the control and prevention of fraud.

3.7 Hotlines May Be An Effective Tool For Fraud Detection and Control

During 1979, "whistleblower hotlines" were established at GAO and at the Offices of the Inspectors General in 14 departments and agencies of the federal government. In the first year following hotline implementation, GAO reported receiving approximately 14,000 calls on its nationwide hotline from the public at large, alleging fraud against the government. The results, to date, from GAO's data have been mixed but tend to generally provide support for the effectiveness of hotlines as a tool for fraud detection and control. For example, of the 14,000 telephone calls received by GAO, some 3500 allegations were referred to a total of 29 different departments and agencies of government for investigation. Of the 3500 referrals, 840 have been closed (either administratively, civilly, or criminally) with a finding of "wrong doing" in 111 cases.

Fourteen of the 15 agencies and departments of the federal government with Offices of the Inspectors General had active, operating hotlines at the time these interviews were being conducted in early 1981. Although agency hotlines were set up primarily for use of employees, calls are also accepted from the general public. Of the 10 agencies interviewed as part of this analysis, only the Department of Education had no experience with hotline use. While it is still too early to accurately assess their effectiveness, hotlines could be potentially an excellent fraud detection tool because of the anonymity they allow employees who might otherwise ignore or overlook blatant wrong doing if it meant direct confrontation with alleged offenders.

3.8 Computer-Aided Detection Techniques Are Potentially Useful for Identifying Suspected Cases of Fraud

Staff of the Offices of Investigation (OI) of the ten OIGs surveyed are of the opinion that computer-aided detection techniques (CADT) represent a potentially valuable tool for identifying cases of suspected fraud. In this regard, computer-aided detection techniques have been employed in efforts to identify suspected cases of fraud among recipients, employees, and third party providers. Thus far, two basic techniques have been developed:²⁴

- computer-aided matching which involves the comparison of two or more databases; and
- computer-aided screening which involves an internal examination of a single database.

Computer-aided matching techniques have been employed by several agencies to identify cases suspected of involving fraud. For example, the Department of Health and Human Services has employed such techniques in efforts to identify cases involving recipient fraud. Efforts such as these have been marked by a high percentage of "hits," that is, cases identified as possibly involving fraud. Many of these cases were "false positives," that is, they had been erroneously identified as involving fraud. Consequently, additional time and effort had to be expended in order to verify these "hits."²⁵ Utilizing the assistance of the IG staff of HHS, the Risk Analysis Staff at VA has developed a matching project designed to identify government employees who have failed to repay benefit overpayments or loans from the VA.²⁶ The IG at USDA has also employed computer-aided matching techniques in the Food Stamp Program. The successful utilization of such computer-aided matching techniques requires the development of methodologies to reduce the rate of false positives and prioritize targets for investigation.

In terms of computer-aided screening, the Department of Health and Human Services has played a pioneering role by its support of the development of the Medicaid Management Information System (MMIS) which is intended to identify suspected cases of fraud for investigation by the State Medicaid fraud control units. The Office of Investigation, USDA, has also used an exception reporting system to analyze a single database and identify cases

of suspected fraud among the inspectors employed by USDA. In this instance, the OI was able to specify a critical unit of analysis and devise exception limits which enhanced the use of computers.²⁷ OI staff of all the agencies visited are interested in the feasibility of employing computer-aided detection techniques in programmatic areas. This is especially true for those programs involving vendors and third party providers where the potential for dollar loss is particularly great. However, as OI staff at USDA have pointed out, the very complexity and diversity of programs involving vendors and third party providers hinder the specifications of critical units of analysis and the development of fraud indicators which necessarily form the basis of any effective monitoring and detection system.

3.9 The Prevention of Fraud Requires the Systematic and Comprehensive Analysis of Laws and Regulations

It is generally agreed that the main focus of anti-fraud efforts at all levels of government should be the prevention of fraud in government programs.²⁸ In this regard, it has been recognized that the very legislation establishing government programs and the regulations governing their administration often create weaknesses which can be exploited in the commission of fraud.²⁹ For example, in a discussion of the factors contributing to fraud in the Aid to Families with Dependent Children Program, Fischel and Siegel pointed out that:³⁰

The complexity of rules and regulations is commonly seen as a factor contributing to fraud and abuse in the AFDC program. Criticisms appear to be focused in three main areas: (1) the welter of program rules and regulations makes them difficult to comprehend and apply; (2) the rules and regulations which define the program are constantly changing; and (3) the administration of the program is complicated by responsibilities connected with other related programs.

Recognizing the need to improve the impact of laws and regulations on program integrity, Congress³¹ required that the Offices of the Inspectors General review current and proposed legislation and regulations to (1) determine their impact on efforts to control and prevent fraud and (2) recommend changes needed to ensure program integrity and efficiency. For example, the Inspector General Act of 1978 required each Inspector General to:³²

...review existing and proposed legislation and regulations relating to programs and operations of such establishment and to make recommendations in the semiannual reports required by section 5(a) concerning the impact of such legislation or regulations on the economy and efficiency in the administration of programs and operations administered or financed by such establishment or the prevention and detection of fraud and abuse in such programs and operations,...

To one extent or another, all IG reports reviewed during this study present recommendations regarding the laws and regulations affecting government programs. Moreover, the IG at Health and Human Services has produced a report presenting summaries of the program recommendations made by the State Medicaid fraud control units to improve the integrity and efficiency of the Medicaid program at the state-level.³³ Of the nine IG reports reviewed during this study,³⁴ those produced by the Departments of Agriculture³⁵ and Housing and Urban Development³⁶ appear to provide the most comprehensive and systematic approach to the review of legislation and regulations affecting their programs. An analysis of the approach used by these agencies might very well yield a thorough framework to be used by other IGs in their attempts to better understand the full legislative and regulatory process. Such an analysis might also provide the basis for (1) a government-wide overview of legislation and regulations and (2) a conceptual model useful to both the executive and legislative branches for analyzing the potential impact of proposed legislation. However, a major problem confronting the IGs as well as other agencies interested in the analysis of the legislative and regulatory processes is the sheer volume and complexity of the laws and regulations which may impact on the integrity of government programs.

3.10 Continued Efforts Are Needed to Develop Management Information Systems to Support the Offices of the Inspectors General

The staff of the Offices of the Inspectors General, OMB, and GAO visited during this study agree that the development of effective and efficient strategies to combat fraud requires accurate and reliable knowledge (or intelligence) regarding the nature and scope of this complex problem. Consequently, management information systems (MIS) are seen as having the potential to provide the IGs with the capability of collecting,

collating, and analyzing data describing such key factors as the type of fraud committed, the characteristics of the perpetrators, their modus operandi, the dollar amount lost, and program weaknesses. With increasing emphasis on proactive strategies, it is expected that information systems will become even more critical to IG operations. In addition, the development and implementation of information systems would improve the ability of IGs to accomplish a wide range of management tasks including: (1) the tracking of cases of fraud to final disposition, (2) the analysis of workloads, and (3) the allocation of limited audit and investigative resources.

Seven of the ten IGs visited during this study (i.e., the OIGs at the Veterans Administration, the Department of Interior, the Small Business Administration, the General Services Administration, the Department of Health and Human Services, the Department of Labor, and the Community Services Administration) have plans for developing MIS to accomplish the functions described above. The newly created Department of Education has not yet examined its needs for a MIS. The IGs at the Departments of Agriculture and Housing and Urban Development have made some progress toward developing MIS to meet their information requirements.

For example, the MIS developed by the Office of Investigation, USDA, consists of three components: (1) a case control subsystem, (2) a statistical reports subsystem, and (3) a MIS report subsystem. The case control subsystem performs a number of functions including building and maintaining records of all OI cases, operational records of agents, and the results attained for all cases. This subsystem permits the user to update all records and analyze the data in a variety of ways (e.g., by region, agency, or case category). The statistical reports subsystem periodically produces reports on a wide range of topics including accomplishments, manpower, investigation results, and agency actions. The MIS report subsystem is capable of generating a host of reports including a listing of those cases declined by the U.S. Attorney.

Presently, HUD has some automated data processing capabilities (e.g., the Executive Management Reporting System and the Investigation Case Management System). In addition, regional HUD investigative units have basic information systems which provide some data to HUD Central relative to monthly fraud caseloads. However, these systems, and the data they produce,

are insufficient to adequately identify the nature and extent of detected fraud. The OIG is currently in the process of developing automated audit reports, findings analysis, and tracking system to (1) record all audit reports processed through the IG; (2) record the findings controlled under HUD's Audits Management System (AMS); (3) track the resolution of findings under revised AMS procedures; (4) record the recovery of write-off of questioned disallowed costs; and (5) record other supplemental information on audit reports and findings.

4. POLICY ISSUES

An analysis of MITRE's discussions with the staff of 10 IGs, the Executive Group, OMB, ECEP, and GAO as well as an extensive review of the literature indicates that there are many similarities between the problems confronting the IGs in fraud control and prevention and those faced by traditional criminal justice agencies in their efforts to control crime in general. In this regard, the need to collect, analyze, and disseminate reliable, timely, and comprehensive information is a concern common to both the IGs and criminal justice agencies. For example, in 1973, the National Advisory Commission on Criminal Justice Standards and Goals emphasized that:

(a)ll criminal justice agencies, those with operational responsibilities and those with planning or policy responsibilities, require substantial data to function properly as a part of the overall criminal justice system. In general, criminal justice agencies require information on the events that initiate and terminate criminal justice processes; on people (suspects, victims, offenders, etc.) who are relevant to the operation of the criminal justice system; on property (particularly when stolen or associated with a criminal event); and on the operation of the agencies themselves.

In 1978, the General Accounting Office (GAO) expressed a similar concern, stating that in order to combat fraud federal agencies should systematically collect and analyze a wide variety of data including "...summaries of past fraud schemes perpetrated, methods of perpetration, and means by which detected; experiences and findings of other agency offices and law enforcement agencies; and management weaknesses previously identified by investigators, auditors, or others which increase a program's vulnerability to fraud."

Obviously, the problems confronting the IGs are extremely diverse and complex involving not only detection, investigation, and prevention, but also various aspects of the programmatic areas themselves. However, given the similarities noted between fraud control problems faced by the IGs and those of traditional criminal justice agencies, the IGs could facilitate their efforts to control and prevent fraud by drawing on the relevant experience of the criminal justice system at large in collecting, analyzing, disseminating, exchanging, and using

information. Moreover, there may be other areas where the experience gained by criminal justice agencies is transferrable to the operations of the IGs. Such areas as statistical analysis, the development of intelligence indicators, planning, and evaluation, and information systems come most readily to mind.

The following sections discuss several issues focusing on the need for information confronting the IGs in their efforts to control and prevent fraud.

4.1 The Need for Information

The need for information on which to base efforts to control and prevent fraud is clear. The issue remains, however what specific information is needed by whom, and for what purposes. A related issue focuses on how to obtain, process, and manage the needed information. Each of these issues may be examined on two levels: the intra-IG level and the inter-IG level.

At the intra-IG level, these issues involve an examination of the needs of each of the Offices of the Inspectors General for information. This analysis would identify the items of information required by the IGs for:

- operational purposes, for example, the validation and updating of vulnerability assessments, the improvement of internal controls, and the identification of suspected cases of fraud; and
- administrative purposes, for example, internal reporting, case tracking, workload analysis, and deployment of resources.

The analysis should then identify which items of information are currently available to fulfill these needs; the quality of this information (e.g., definition, comprehensiveness, reliability, and timeliness); the sources of these data; and the process by which this information is obtained, managed, and used. Finally, this examination should suggest ways to meet the information needs of the IGs for both operational and administrative purposes.

On the inter-IG level, the information needs of Congress, the Executive Branch (e.g., the Council on Integrity and Efficiency), the general public, and researchers should be examined. This analysis would focus on the compatibility of current IG reporting and identify needed improvements. Among other topics, this analysis might examine current definitions of fraud used by the IGs, the extent of uniformity in data presented in IG reports, and privacy and security requirements. In addition, such a study might explore how to facilitate the exchange of data among IGs for conducting joint operations; tracking offenders committing fraud in more than one agency; and identifying individuals or organizations involved in duplicate billing.

4.2 The Standardization of Data

There was little uniformity in the 9 IG reports reviewed during this phase of the study in terms of the types of information presented or the methods of presentation. The development of standardized reporting formats and uniform data elements would provide an important contribution to Congress, OMB, and the IGs in their efforts to control and prevent fraud. For example, uniform IG reports could provide the basis for determining the exact nature and extent of detected fraud on a government-wide basis. Such information could be used to determine the need for new legislation, to prioritize the deployment of existing resources, to allocate additional resources, and to compare the effectiveness of various strategies for the control and prevention of fraud. Analysis of such data could also identify common fraud problems among agencies and indicate successful solutions which could be transferred from one IG to another. Additionally, uniform data would facilitate systematic research into the phenomenon of fraud, thus, contributing to our understanding of the problem itself and how to control it.

4.3 The Measurement of Fraud

Experience and problems with the measurement of crime can offer some useful lessons. Knowledge of the nature and extent of crime can be used by agencies to develop crime control strategies, allocate resources, and evaluate the effectiveness and efficiency of programs. However, the question arises as to which data should be used to develop this knowledge--crimes officially reported to the police or crimes reported during victimization surveys. In evaluating the criminal justice

system, should arrests or convictions be used as an indicator of the level of crime and the effectiveness of, for example, various strategies of policing? Moreover, the ability to measure the outcomes of processing offenders through the criminal justice system is frequently hindered because of the limited exchange of data among agencies.

Many of these same problems also confront the IGs in efforts to measure fraud. For example, should dollars lost be used as an indication of the amount of fraud or would a better measure be the number of cases of detected fraud? Should the amount of dollars saved be employed as an indicator of the IG's effectiveness? The selection of any of these indicators may be complicated by variations in definitions even within the same agency. The GAO study discussed earlier represents the first systematic, empirical study of the nature and scope of detected fraud in government. With appropriate modification, this study could be replicated in specific, individual programmatic areas. Thus, within each department or administration, a detailed picture of the nature and scope of fraud could be developed for each programmatic area. The resulting database could be examined to determine how best to aggregate the data in order to provide an agency-wide description of fraud. In turn, those figures could be analyzed to determine how to best provide a government-wide description. A first step in this process would be the conduct of a study of the nature and scope of detected fraud in at least one programmatic area. Such a study would provide a prototype for other studies and would suggest ways to improve the data currently available for the IGs.

However, the conduct of a complete series of studies encompassing all programmatic areas (although technically feasible) may be too expensive or time consuming. Thus, studies might be concentrated in the largest programs or those most vulnerable to fraud. Another approach might be to replicate a version of the GAO study on a regular basis. Finally, whatever approach might be adopted, there is an unfulfilled need to study the processing of perpetrators of fraud through the criminal justice system. Such a study would provide the first transaction statistics regarding fraud and would, therefore, be important from not only a research perspective, but also from the perspective of policymakers.

In addition to reporting data on detected fraud, the IGs could also provide estimates of the amount of undetected fraud.

Although several estimates of the amount of fraud in government have been produced, none of these are regarded as reliable. To date, no valid method of estimating the nature and scope of fraud in government has been developed. Attention could be focused on the development of a valid methodology. For example, a random sample of cases could be drawn from each programmatic area and examined to determine if provable fraud exists. The results could then be used to estimate the existence of fraud throughout the program. But, even this simple strategy may be too time consuming or expensive for practical purposes. However, the OIG/USDA is currently employing an approach similar to the one suggested by auditing a nationwide statistical sample of cases to determine how well particular programs are doing on the whole.

4.4 The Need for A Central Repository of Fraud-Related Data

Federal efforts to prevent and control fraud would be greatly enhanced by the establishment of a central repository of fraud-related data. In the first place, such a nationally implemented database would increase federal-level coordinative efforts by establishing a needed information exchange source for the use of all federal, state, and local agencies involved in fraud prevention and control. As discussed in Section 3.3 of this report, MITRE believes that the establishment of a central repository of fraud-related data is an essential step toward the development of proactive strategies to prevent and control fraud. In the second place, fraud-related information, in order to be of maximum usefulness to policymakers and administrators, should be complete and accurate.

The task of developing complete and accurate information requires the compilation of a comprehensive set of data relative to the processing of all fraud-related cases and the development of a system of checks to ensure the validity of that data.⁴⁰

In a study on the implementation of the privacy and security regulations governing criminal history record information,⁴¹ MITRE determined that states were hampered in their ability to collect complete and accurate data because of poor reporting systems from "feeder" agencies. Current federal efforts to collect fraud-related data are experiencing a similar problem. Although the Office of Economic Crime Enforcement now collects fraud data from some 26 federal agencies, these data are both incomplete and inaccurate and are submitted on a purely

voluntary basis. The development and implementation of appropriate reporting systems are complex and comprehensive tasks requiring coordination and commitment on the part of all contributors. Voluntary data submissions are not likely to achieve the desired results; rather, it would appear that the successful achievement of complete and accurate record systems lies with the implementation of a formal and mandatory process characterized by clearcut designations as to responsibility for participation in the system.

4.5 Proactive Strategies Are in Need of Further Exploration

As discussed in Sections 3.5 through 3.9 of this report, the IGs have employed to one extent or another a variety of techniques (e.g., vulnerability assessments, computer-aided detection techniques, and legislative analysis) in their efforts to develop and implement proactive strategies to control and prevent fraud. However, such factors as extraordinarily large workloads coupled with inadequate staff resources have impeded the OIGs' efforts to move more rapidly in the development of proactive strategies. Consequently, although the employment of such techniques represents a good, initial approach toward the development of proactive strategies, additional efforts are needed to further the development and implementation of such strategies and, thereby, decrease dependence on reactive methods. As a first step in this process, each of the proactive techniques described in Sections 3.6 through 3.9 should be examined to determine their current effectiveness and efficiency and how they might be improved. Moreover, the contribution of each to an overall proactive approach to the control and prevention of fraud should be studied.

4.5.1 Vulnerability Assessments

First, there is the case of vulnerability assessments. All statutory OIGs, following the passage of the IG Act, were required to perform an initial vulnerability assessment of their agencies' programs. Each IG did so and, subsequent to the performance of the mandatory assessment, has continued to perform them as one tool for determining agency susceptibility to fraud. Thus, on the face of it, and because of a number of legitimate uses to which agencies have put the instruments (see Section 3.6 above), vulnerability assessments appear to have substantial merit. However, a number of policy issues remain unanswered. For one thing, these assessments have remained very

much agency-specific and may not be comparable across agencies. There are also questions of the accuracy (i.e., how correctly does the assessment measure the fraud problem?), precision (i.e., how exactly does the assessment pinpoint areas of risk?), and reliability (i.e., does the assessment yield the same results, overtime, under the same conditions?) of vulnerability assessments. Finally, on a higher plane, there are questions of validity that must be addressed. Just how valid, using some reliable measure of validity, are vulnerability assessments anyway? Moreover, does the knowledge yield from such assessments, in terms of fraud identification and control, outweigh the costs associated with doing them? And, given the fact that each agency has thus far completed them in a manner unique to its own needs, what are the real costs associated with translating the data they contain into some format useful for purposes of establishing policy and performing research?

4.5.2 Hotlines

Next, there is the case of hotlines. Established in 1979 at GAO and most statutory IGs, "whistleblower hotlines" received favorable reports from most of the agencies surveyed. However, a note of caution seems warranted regarding their use: as is true of the other proactive strategies in use, the costs associated with the screening and investigation of literally thousands of cases to unearth the handful of valid ones may not be cost justifiable.

4.5.3 Computer-Aided Detection Techniques

Third, there is the case of computer-aided detection techniques. Two such techniques--computer-aided matching and computer-aided screening--are currently being used by the OIGs and, as was discussed in Section 3.8 above, have met with some success. However, there does not exist a large body of data in support of the effectiveness of these techniques, and in the absence of such data, very little can be truthfully stated about their cost effectiveness. In the computer-aided matching example discussed in Section 3.8, it can be readily seen that the use of the technique actually uncovers a relatively small number of cases in which fraud may be present. From a policy perspective, the issue revolves around whether or not the added time and effort expended by agencies to verify the relatively few valid cases of fraud from among a large number of invalid ones truly justifies the costs. Thus, with the use of

computer-aided techniques what needs to be remembered most importantly is that the delimiting factors have little to do with computer technology but rather, with a range of restrictions (e.g., the adequacy of administrative and managerial support, the adequacy of the databases employed, reliable cost data, reliable data on the effectiveness of various techniques, and any restrictions emanating from privacy law) with which policymakers, administrators, and researchers must cope.

4.5.4 Legislative and Regulation Analysis

The analysis of the impact of legislation and regulation on program integrity appears to be one of the most effective methods of preventing fraud. However, little is known about the actual employment of this technique in terms of such factors as the process involved, the frequency of occurrence, the recommendations made, and the outcome of implemented recommendations. Consequently, the effectiveness and efficiency of legislation and regulation reviews should be examined thoroughly. Particular emphasis should be placed on the use of data produced by vulnerability assessments, hotlines, and MIS to develop recommendations for legislation and regulation.

4.6 The Need for Greater Emphasis on MIS Development

For a better part of two decades now, there has been widespread recognition, on the part of criminal justice decisionmakers, of the important role of management information systems (i.e., computer technology) in the provision of timely, complete, and accurate data needed for purposes of policymaking, planning, management, and evaluation. In 1967, the President's Commission pointed out that agencies and organizations involved in the administration of justice "could benefit dramatically from computer-based information systems."⁴² In the span of years since the release of that report, criminal justice agencies have increasingly emphasized the implementation of management information systems to provide the data needed for operational and administrative decisionmaking.

Although the Offices of the Inspectors General surveyed each verbalized an interest in becoming more proactive in their approaches to fraud prevention and control, it is not clear that, in all cases, the level of commitment to MIS development is being demonstrated. For example, and as was discussed in

Section 3.10 above, only two of the 10 OIGs visited have made measurable progress toward full MIS implementation, yet MIS development is absolutely critical to the accomplishment of any number of tasks (e.g., the tracking of cases from entry-to-disposition, resource allocations, etc.) essential to the development of proactive strategies. Doubtless, much of the delay in MIS development can be attributed to the relatively short time span between IG Act enactment and the present, a time when most OIGs have been preoccupied with the special tasks associated with start-up and early implementation.

From a policy perspective, and because of the importance of MIS to obtaining complete and accurate data needed to understand the nature and extent of fraud, MIS development should be an important priority for each IG, particularly in the review of current and proposed legislation and regulation and their impact on program integrity, and the analysis of information regarding detected fraud. However, it should be remembered that MIS, historically, have taken a fairly long time period (i.e., three to five years) before becoming fully operational and the OIGs, with some notable exceptions, are just entering their third full year of operation. Nonetheless, it would seem reasonable to closely monitor MIS development to determine where it fits among each agency's list of priorities.

4.7 Conclusion

The foregoing sections identified six major policy issues focusing on the need for information which impact on the management and operations of the Inspectors General. In addition, these issues as well as the findings discussed in Chapter 3 may be of relevance to other audiences. For example, the Council on Integrity and Efficiency may be concerned with data needs at both the intra- and inter-IG level, with the concept of a central repository of data, and with coordination among IGs. OMB may be interested in the standardization of data and reporting requirements as well as the effectiveness of computer-aided detection techniques. Given its mandate under the Justice Systems Improvement Act, the Bureau of Justice Statistics may be interested in the development of a methodology for measuring fraud; the exchange of data among agencies; the implications of privacy requirements; and the development of transactional statistics regarding cases of fraud.

APPENDIX A
REFERENCES

REFERENCES

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- ⁴ Ruff, supra note 2, pp. 17-18.
- ⁵ Statement of the Chief, Criminal Division, Department of Justice, as cited in U.S. Congress, House, Committee on Government Operations, Hearings, before a subcommittee of the Senate Committee on Government Operations, on H.R.2819, 95th Congress, 1st Session, 1977, p. 419.
- ⁶ The Departments of Agriculture, Housing and Urban Development, Labor, and Transportation; as well as the General Services, Small Business, and Veterans Administrations.
- ⁷ Federal Agencies, supra note 3, p. 7.
- ⁸ The Offices of the Inspectors General at the Department of Health and Human Services, the Department of Housing and Urban Development, the Department of Agriculture, the Department of Education, the Department of Labor, the Department of the Interior, the Veterans Administration, the Small Business

Administration, the General Services Administration, and the Community Services Administration.

- ⁹ At the time this report was prepared, there were 16 OIGs: (1) Department of Agriculture; (2) Department of Commerce; (3) Department of Education; (4) Department of Energy; (5) Department of Health and Human Services; (6) Department of Housing and Urban Development; (7) Department of the Interior; (8) Department of Labor; (9) Department of Transportation; (10) Community Services Administration; (11) Environmental Protection Agency; (12) General Services Administration; (13) National Aeronautics and Space Administration; (14) Small Business Administration; (15) Veterans Administration; and (16) the Department of State.
- ¹⁰ Reprinted in Judy G. Kopff, "Inspectors General-on-the-Spot Watchdogs," GAO Review, Vol. 15, No. 2, Spring 1980, p. 51.
- ¹¹ Ibid., p. 53.
- ¹² Ibid.
- ¹³ Ibid., p. 51.
- ¹⁴ U.S. President (Jimmy Carter), Presidential Memorandum, Improving Management and Combating Fraud and Waste in Federal Programs, May 3, 1979.
- ¹⁵ The Executive Group was comprised of the following members: Deputy Attorney General, chairman; Deputy Director of OMB, vice chairman; the 15 statutory Inspectors General; the Deputy Director of the Office of Personnel Management; the Special Counsel to the Merit Systems Protection Board; and representatives of the Federal Bureau of Investigation, the Internal Revenue Service, the Postal Inspector Service, and the Departments of Defense, Treasury, and State.
- ¹⁶ U.S. President (Ronald Reagan), Executive Order 12301 of March 26, 1981, "Integrity and Efficiency in Government Programs" (hereinafter referred to as "Integrity and Efficiency"), Federal Register, Vol. 46, No. 60, Monday, March 30, 1981, pp. 19211-19213. The President's Council on Integrity and Efficiency is composed of the following members: the Deputy Director of the Office of Management and Budget who is Chairman of the Council; the Deputy Attorney General; the Director of the Office of Personnel Management; the Executive Assistant Director of

Investigations of the Federal Bureau of Investigation; and the 16 Inspectors General mentioned in note 9. The Council membership also includes designees of the Secretary of the Treasury, the Secretary of Defense, and the Director of the United States International Development Cooperation Agency. The Chairman may also invite the Comptroller General of the United States, and the Postmaster General of the United States to participate in the Council's meetings.

¹⁷ "Integrity and Efficiency", supra note 16, Section 2.

¹⁸ Ibid, Section 3.

¹⁹ Benjamin J. Civiletti, statement before the Committee on the Budget, March 15, 1979, p. 1; testimony of Elmer B. Staats, pp. 24-25, and Charles F.C. Ruff, pp. 16-19, cited in U.S. Congress, House, Committee on the Budget, Fraud in Government, Hearing, before the Task Force on Government of the Committee on the Budget, 96th Congress, 1st Session, October 30, 1979.

²⁰ Public Law 95-452, "An Act to Reorganize the Executive Branch of Government and Increase Its Economy and Efficiency by Establishing Offices of Inspector General" (The Inspector General Act of 1978), 95th Congress, October 12, 1978. As noted previously, the IG at the Department of Health and Human Services was established by separate legislation and reports on an annual basis (see Section 204[a] of Public Law 94-505 and generally Public Law 95-142).

²¹ Federal Agencies, supra note 3.

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²⁴ See generally, Michael B. Fischel and Lawrence G. Siegel, Computer-Aided Techniques Against Public Assistance Fraud: A Case Study of the Aid to Families with Dependent Children (AFDC) Program, the MITRE Corporation, McLean, VA, MTR-79W00384, 1980.

²⁵ Fischel and Siegel, supra note 24, pp. 7-1 to 7-76.

²⁶ Office of the Inspectors General, Veterans Administration, Semi-Annual Report #3 of the Inspector General, October 1, 1979-March 31, 1980, Washington, DC, April 30, 1980, pp. 6-1 to 6-2.

²⁷ For a detailed discussion of exception reporting see U.S. General Accounting Office, Attainable Benefits of the Medicaid Management Information System Are Not Being Realized, HRD-28-151, September 26, 1978.

²⁸ See generally Prevention and Detection, supra note 3, pp. 4, 7-8.

²⁹ See, for example, Thomas D. Morris, "The HEW Inspector General's First Year and a Look Ahead", The Prosecutor, Vol. 13, No. 6, July-August 1978, pp. 413-415; Fischel and Siegel, supra note 22, pp. 3-2 to 3-10; Lange, supra note 3, pp. 13-15.

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³¹ Public Law 94-505 and Public Law 95-452.

³² Public Law 94-452, Section 5, (a)(2).

³³ Department of Health, Education and Welfare, Quarterly Report of the Inspector General, July-September 1979, pp. 29-65.

³⁴ Department of Agriculture, Department of Health and Human Services, Department of Housing and Urban Development, Department of Interior, Department of Labor, Community Services Administration, General Services Administration, Small Business Administration, and Veterans Administration.

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- ³⁸ Federal Agencies, supra note 3, pp. 14-15.
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