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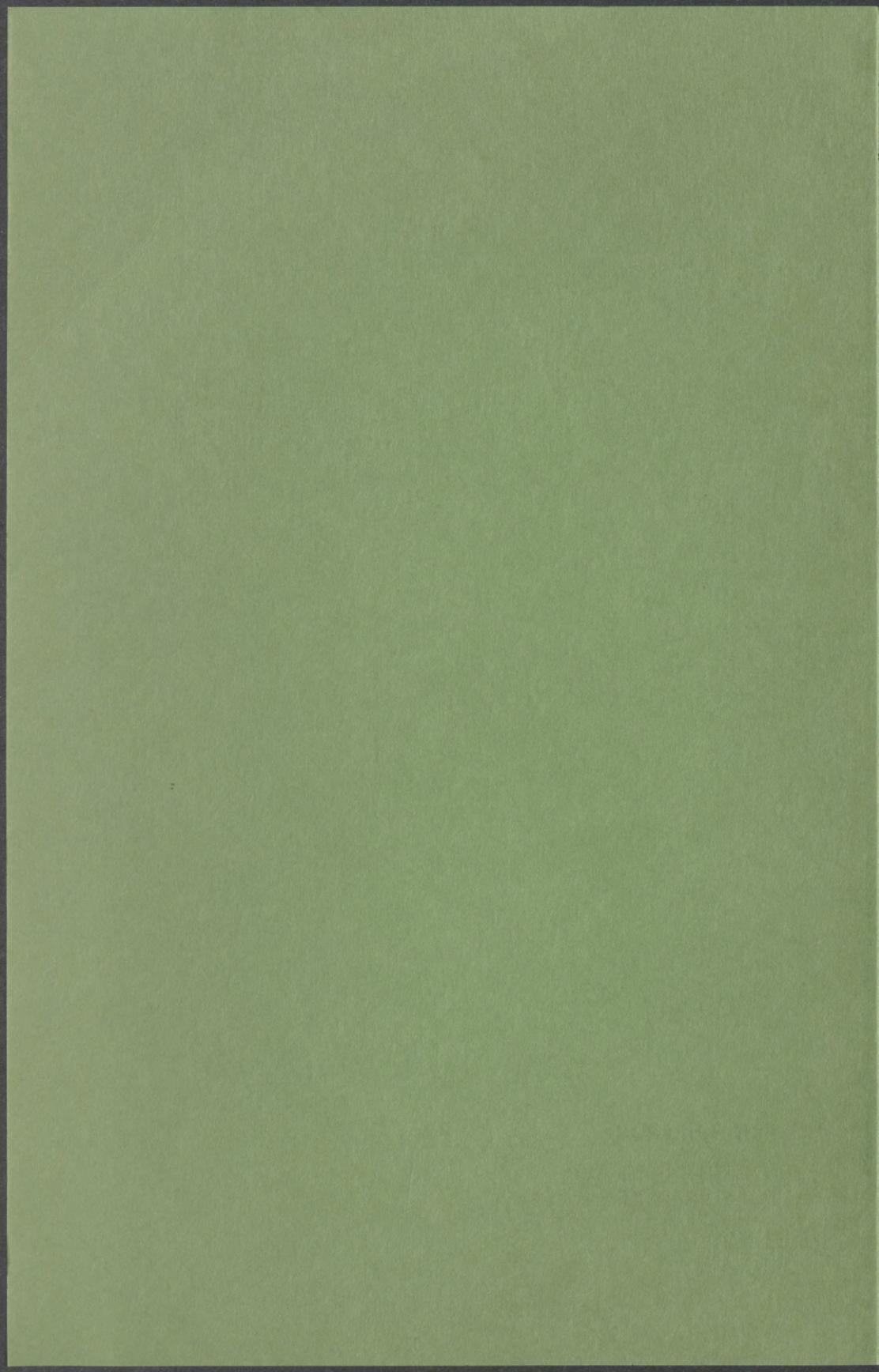


95th CONGRESS, SECOND SESSION

SPECIAL HEARING

Legislative Branch

General Accounting Office



FRAUD IN GOVERNMENT

HEARING
BEFORE A
SUBCOMMITTEE OF THE
COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE
NINETY-FIFTH CONGRESS
SECOND SESSION

Printed for the use of the Committee on Appropriations

SPECIAL HEARING
Legislative Branch—General Accounting Office



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FRAUD IN GOVERNMENT

MONDAY, DECEMBER 4, 1978

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 11:05 a.m., in room 1114, Everett McKinley Dirksen Office Building, Hon. Jim Sasser (chairman) presiding.
Present: Senators Sasser and Schweiker.

U.S. GENERAL ACCOUNTING OFFICE

STATEMENT OF ELMER B. STAATS, COMPTROLLER GENERAL
OF THE UNITED STATES

ACCOMPANIED BY:

HAROLD L. STUGART, DEPUTY DIRECTOR, FINANCIAL AND
GENERAL MANAGEMENT STUDIES DIVISION

JOSEPH L. BOYD, ASSISTANT DIRECTOR, FINANCIAL AND
GENERAL MANAGEMENT STUDIES DIVISION

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ROBERT IFFERT, ASSISTANT DIRECTOR, HUMAN RESOURCES
DIVISION

GEORGE EGAN, ASSISTANT DIRECTOR, FINANCIAL AND
GENERAL MANAGEMENT STUDIES DIVISION

SPECIAL TASK FORCE FOR THE PREVENTION OF FRAUD

Senator SASSER. Good morning. The subcommittee will come to order.

We are pleased to have before us today the Comptroller General of the United States, Mr. Elmer Staats.

Mr. Staats will testify today on the progress being made in establishing the Special Task Force for the Prevention of Fraud, which will operate under his direction. This matter is of special interest to this subcommittee inasmuch as we have the responsibility for recommending the appropriate level of funding for the General Accounting Office.

Mr. Staats, I want to say this morning I support your initiative in establishing this task force which grew to fruition as a result of hearings conducted by the Subcommittee on Federal Spending Practices and Open Government, a subcommittee of the parent committee, the Committee on Governmental Affairs.

This subcommittee is chaired by our distinguished colleague, the senior Senator from Florida, Lawton Chiles. Senator Chiles and his

colleagues on that subcommittee have provided strong leadership in attacking fraud and abuse at the General Services Administration and elsewhere.

Mr. Jay Solomon, the Administrator of the General Services Administration, and his colleagues there also deserve credit for their efforts to root out fraud and abuse at GSA, which is alleged to have existed for many, many years.

I am pleased that the GAO has taken the lead in setting up this special task force to detect and prevent fraud and abuse in the Government. Frankly, I have been greatly disturbed with recent reports that fraud, abuse, and waste in the Federal Government could amount to a staggering \$25 billion a year.

We all know that we must make every effort to reduce fraud, waste, and abuse in the Federal Establishment. The people of the country are fed up. They want us to clean out the illegal activities reported in a number of Government agencies. Frankly, if we are to restore the confidence of the American people in their Government, we must rid the Government of crime. And we must rid it of corruption.

Again, Mr. Staats, I want to welcome you to this subcommittee. I will ask you, if you would, to introduce your colleagues.

First, I think the ranking minority member, Senator Schweiker, has a statement to make.

Senator Schweiker?

Senator SCHWEIKER. Thank you, Mr. Chairman. I thank you for calling this hearing this morning because of, first, the timeliness of it in the country and, second, because of the special problem we have in Pennsylvania.

I, too, want to compliment Comptroller General Staats for his leadership and initiative in this area, and I welcome you and your assistants here today to discuss the formation of your Special Task Force for the Prevention of Fraud and Abuse.

FRAUDULENT ACTIVITIES IN GSA

In light of extensive public exposure which has been given to proven and alleged fraudulent activities in the General Services Administration and the Small Business Administration, it is clearly evident close monitoring of all Federal agencies activities is seriously lacking. Closer scrutiny of most Federal programs is essential.

Of the more than \$250 billion in this year's budget for Federal payments to contractors and to the public for assistance programs, the Justice Department has estimated that anywhere from \$2.5 to \$25 billion is possibly skimmed off the top through fraudulent claims and out and out theft.

To put this theft level in a better perspective, when I first came to Congress in 1961, this level of thievery would have amounted anywhere from 10 to 25 percent of the entire Federal budget.

Last March, the Inspector General of the Department of Health, Education, and Welfare published a finding that over \$7 billion a year of HEW funds are wasted due to fraud and abuse. Of this amount, the largest share belongs to the medicaid program, which

wasted over \$2.6 billion a year. That is 27 percent of its total program for 1977.

After making that finding, the report goes on to say that the figure is low because "additional sources of fraud and abuse are missing, particularly by pharmacists, physicians, home health agencies and other providers."

As a member of the Human Resources Committee and the Labor-HEW Appropriations Subcommittee, I am particularly concerned with fraud in the health and welfare programs of that magnitude and that impact.

The enormity of theft is astounding, and the taxpayers are justifiably outraged. Furthermore, ripoffs in the health and welfare programs deprive some of the most needy individuals and families of deserved benefits. The ripoffs also sour public opinion against any welfare and health programs, because they feel that fraud and abuse are rampant.

I am certainly hopeful that through your efforts, with the cooperation of the various agencies, their inspector generals, and the Justice Department, the guilty parties can be identified and rooted out.

I want to pledge you my support as a member of this subcommittee to give your task force the funding and the staffing it needs to do this job. We need success to restore the taxpayers' confidence in our Federal Government and its programs.

Thank you, Mr. Chairman.

Senator SASSER. Thank you, Senator Schweiker.

Mr. Staats, if you would go forward now and introduce your colleagues for the record, and then proceed to bring us up to date on the special task force and also give us your plans for the future.

INTRODUCTION OF ASSOCIATES

Mr. STAATS. Thank you very much, Mr. Chairman.

To my immediate right is Mr. Harold Stugart, Deputy Director of the Financial and General Management Studies Division. To his right is Mr. Boyd, who is going to be heading up this task force. To my immediate left, Mr. Ols from our General Government Division. He had a major part in developing the report which is entitled "Federal Agencies Can, and Should, Do More To Combat Fraud in Government Programs." Mr. Egan is also here working in this area.

I have a statement, Mr. Chairman. With your permission, I would like to read the statement and then be prepared to answer questions.

Senator SASSER. Yes; we would like very much to hear the statement.

SPECIAL TASK FORCE FOR THE PREVENTION OF FRAUD AND ABUSE

Mr. STAATS. I am particularly pleased to be here today to discuss the Special Task Force for the Prevention of Fraud and Abuse that we recently established in the General Accounting Office. Our recent report entitled "Federal Agencies Can, and Should, Do More To Combat Fraud in Government Programs," which I discussed in September before Senator Chiles Subcommittee on Federal Spend-

ing Practices and Open Government, emphasizes the need for Federal agencies to prevent and detect fraud in their programs.

I think you will agree that because of the press of legislative responsibilities, the Congress generally does not approach the oversight of Federal programs in methodical fashion. One of GAO's major functions is to cover this shortfall—to systematically examine the major operations of Federal agencies and programs. Obviously in doing this, we are often not addressing the concerns of the moment but by the same token, these efforts can and often do disclose major weaknesses deserving of congressional consideration.

1976 GAO AUDIT

Let me explain the genesis of this particular GAO audit to illustrate the point I just made. In mid-1976, which, incidentally, was prior to all the General Services Administration publicity, we started some exploratory work aimed at ascertaining whether Federal agencies had instituted effective policies and procedures for combating the fraud that might exist in their programs.

ESSENTIAL ELEMENTS OF ANTIFRAUD EFFORT

In doing this, we had to formulate criteria regarding the composition of an effective antifraud effort. It seemed to us that the essential elements of such an effort would include:

A set of procedures to assess the vulnerability of the programs in question. We wanted to learn if agencies had thought through the type of fraudulent schemes to which their programs were susceptible.

The comprehensive collection and analysis of information on known incidents of fraud. The question here was whether the agencies were alert to identifying patterns or trends in the types of frauds being perpetrated.

An aggressive effort to follow up on instances of fraud that may have surfaced, not only to react but also actively seek out fraudulent schemes. We wanted to know whether the agencies were policing as well as investigating.

Strong leadership on the part of the Department of Justice in bringing its expertise to bear on the overall problem. Our intent here was to find out if the Department of Justice was doing what it could in assisting the agencies to combat fraud.

Our next step—an arduous and time-consuming one—was to identify and gather the evidence needed to confirm or deny the existence of the postulated problems. As discussed in the report, we reviewed activities at the Departments of Agriculture, Labor, Transportation, Housing and Urban Development, the Veterans' Administration, General Services Administration, and Small Business Administration.

We examined these agencies policies, procedures, and records and held discussions with their officials at headquarters and field offices of five States. We also performed work at the Department of Justice's Civil and Criminal Divisions and at various U.S. attorneys offices. We believed this kind of coverage was necessary if we were to draw broad conclusions about the matters being reviewed.

Although bright spots existed here and there with respect to an individual agency's antifraud activities, the existence of problems in the Government's ability to fight fraud was established. Mr. Chairman, I think some of our findings bear repeating to illustrate the magnitude of the problem.

FINANCIAL ASSISTANCE PROGRAMS

The Government's financial assistance programs are vulnerable targets of fraud and related white-collar crimes. Identifying the extent, nature, and frequency of these illegal acts, together with strong internal controls and effective audit coverage, are essential first steps to combating and preventing them. Yet the agencies we reviewed were not doing nearly enough to identify fraud.

Federal programs involving grants, contracts, and loan guarantees are exploited through such means as false claims for benefits or services, false statements to induce contracts or secure goods or services, bribery or corruption of public employees and officials, false payment claims for goods and services not delivered, and, collusion involving contractors.

No one knows the magnitude of fraud against the Government. Hidden within apparently legitimate undertakings, it usually is unreported and/or undetected. The opportunities for fraud are tremendous when you consider the magnitude of some Government disbursements.

For example, the Veterans' Administration has annual outlays of approximately \$18 billion in support of veterans benefits; the Department of Health, Education, and Welfare has annual outlays of approximately \$109 billion in Federal and trust funds in support of the Social Security System, \$10.5 billion in welfare payments, \$10 billion in grants to States for medicaid, and \$3 billion for student assistance. Federal procurements in fiscal year 1977 were almost \$80 billion including GSA procurements for supplies and services, and DOD procurements of major weapons systems.

CURRENT AGENCY EFFORTS TO DEAL WITH FRAUD

In our review, we found that agencies had not established management information systems to deal with the fraud problem. As a result, they do not know the amount of identified fraud in their programs, nor can they estimate the potential amount of unknown fraud.

We noted, however, that individual case data was kept which could be used as a basis to formulate such a system. Without such data, agencies have no basis for establishing the level of resources needed to combat fraud, map antifraud strategies, and evaluate the scope and effectiveness of antifraud activities.

Until recently, agencies have not made fraud detection a high priority. Because their overriding concern is program execution, emphasis is on such program objectives as providing loan assistance. The low priority given to fraud detection leads to passiveness regarding potentially fraudulent situations.

None of the agencies reviewed has, until recently, designated a focal point responsible for seeking out and identifying fraud. Conse-

quently, they generally take a reactive, rather than active approach to fraud detection.

However, a reactive approach is inadequate for detecting fraud, since there is often no specific incident to react to.

Agencies have no assurance that those personnel administering programs are referring all suspected frauds for investigation because:

There are no controls to see that suspicious matters are reported.

Large workloads hinder identifying suspected fraud by program personnel.

Employees lose interest in reporting suspected frauds when followup actions, such as investigations and prosecutions, are not promptly taken.

Many Federal programs are administered by State, local, or private sector institutions, and Federal agencies often unjustifiably rely on those non-Federal entities to identify and report frauds.

ADDITIONAL TRAINING REQUIRED

Agency investigators often do not have the background, experience, and training needed to effectively detect and identify fraud. About 70 percent of the staff involved in agencies we reviewed—that is the seven agencies that I mentioned—had no prior experience in fraud investigations, and about 80 percent had no formal training in investigating fraud.

Where investigators have such training, it was generally limited to procurement fraud. Most investigators have also lacked the education in finance and accounting related subjects often needed to identify fraud. Since fraud against the Government often involves examining financial documents, absence of a financial background could be detrimental to effective fraud investigations.

In our report, we also pointed out that the Department of Justice needs to provide stronger leadership. They have been slow to assist, coordinate, and monitor the antifraud efforts of Federal agencies.

In 1975, Justice, recognizing the need to deal with white-collar crime, established a White-Collar Crime Committee. One activity of this committee was to provide guidance to agencies on combating fraud. It has met extensively with agency officials and has assisted agencies in carrying out several successful projects demonstrating the existence of fraud in their programs.

However, this effort's effectiveness relies on the receptivity of the agencies to Justice's encouragement and the availability of resources Justice can devote to it. From a recent conversation with the Deputy Attorney General, I believe the Department is receptive to our recommendations.

Overall, we believe a more active, systematic approach to identifying fraud is needed. Our report contains specific recommendations to assist Federal agencies in their efforts to comprehensively address the fraud and abuse problem.

I am hopeful that agencies will respond to our report by taking a more active and systematic approach to identifying fraud and by following up on reports of the General Accounting Office and internal auditors.

I can report, Mr. Chairman, that some aggressive action has been taken. Some examples are:

Before passage of legislation establishing inspector generals, several agencies such as Agriculture, HUD, VA, and Labor, administratively set up an inspector general type operation.

Secretary Califano has now called a National Conference On Fraud, Abuse, and Error, which is scheduled for December 13 and 14 here in Washington.

A white-collar crime seminar is being sponsored by inspector generals from the Departments of HEW, HUD, and Agriculture.

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

SPECIAL TASK FORCE FOR THE PREVENTION OF FRAUD

As a followup on our report, I have established a Special Task Force for the Prevention of Fraud and have allocated substantial staff resources to assist the task force. The major responsibility of this group will be to: Evaluate the adequacy of the management control systems in Federal agencies that are necessary for the prevention of fraud, and assess the adequacy of the followup and corrective actions taken on reports of auditors and investigators.

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

I intend to have the task force concentrate on agency controls over cash and receivables, inventories and supplies, and anything else of value that might be stolen or misappropriated if controls are weak.

Since computer systems offer many possibilities for fraud, we will identify weaknesses in computer controls over payrolls, payments to vendors, and cash disbursements for other purposes. We will also be looking at the controls in effect to insure that the Government gets what it pays for, and that work set out in contracts is actually performed.

The task force will analyze the reports of internal auditors in each agency it reviews, giving particular attention to indications of fraud or error the auditors have uncovered.

Where these reports or our own reviews show that controls are weak, we will search for potentially fraudulent situations, using our own computerized data retrieval and analysis packages where practicable.

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

In our Financial and General Management Studies Division, we have assigned eight staff to work on a continuing basis. This core staff is expected to be in place and operating by early January 1979.

We have also reallocated a large number of people from our other divisions—the equivalent of 35 staff years. Based on our findings to date, we are assigning the highest priority to fraud and abuse reviews. In fact, we will pull people off other high priority work, and as our work progresses, we may find it necessary to allocate even more staff.

With the task force acting as the central or focal point, all our work on fraud and abuse will be brought under the umbrella of the task force. This procedure permits us to develop an operational capability very quickly.

Task force members are already working to coordinate fraud and abuse type reviews planned or ongoing within all our divisions. By mid-January, we expect to have an initial listing of specific reviews.

PREVENTION WILL MERIT TOP PRIORITY

Since prevention will merit top priority in the fight against fraud at GAO, our work will concentrate on fixing or strengthening control weaknesses found in agency systems that permit fraud to occur. One of the best ways to prevent fraud and abuse is a series of checks and balances called internal controls.

For example, when these controls operate effectively, one employee's work is usually checked by another in such a way that no one employee can abscond with agency assets without detection. The system also tends to identify error.

Although no system is entirely foolproof, an effective series of checks and balances greatly decreases the likelihood that fraud and abuse will occur.

ACTIONS TO BE TAKEN WHEN FRAUD IS UNCOVERED

As we uncover potential fraud and abuse in our work, we will be looking for patterns that can be explored in other agencies. As individual cases of potential fraud and abuse are disclosed, we plan to work closely with the staff of the newly established inspector generals, and the Department of Justice to assist in conducting investigations necessary for prosecution. We are still working out detailed procedures that will provide GAO with periodic status reports on all cases referred to the inspector general or Justice. Generally, we view our role as one of prevention rather than criminal investigation and prosecution.

Mr. Chairman, this summarizes our activities to date in setting up a Special Task Force for the Prevention of Fraud. The digest of our report on fraud in Government is included as attachment I. Our letter to Senator Chiles that announced our Special Task Force on Prevention of Fraud is included as attachment II.

[The information follows:]

FEDERAL AGENCIES CAN, AND SHOULD, DO MORE IN GOVERNMENT PROGRAMS

The Government's economic assistance programs, amounting to about \$250 billion annually, are vulnerable targets of fraud and related white-collar crimes. Identifying the extent, nature, and frequency of these illegal acts, together with strong internal controls and effective audit coverage, are essential first steps to combating and preventing them. Yet the agencies GAO reviewed--the Departments of Agriculture, Labor, Transportation, and Housing and Urban Development; and the Veterans, General Services, and Small Business Administrations--are not doing nearly enough to identify fraud.

Federal programs involving grants, contracts, and loan guarantees are exploited through such means as

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

No one knows the magnitude of fraud against the Government. Hidden within apparently legitimate undertakings, it usually is unreported and/or undetected. However, all indications are that fraud is a problem of critical proportion. Department of Justice officials believe that the incidence of fraud in Federal programs ranges anywhere from 1 to 10 percent of the programs' expendi-

tures. A former Secretary of the Department of Health, Education, and Welfare estimated that losses under the Medicaid program alone total \$750 million annually from fraud and abuse.

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

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

PASSIVE APPROACH TO DETECTION OF FRAUD

Federal agencies have not acted aggressively to detect fraud in their programs, and their practices are generally inadequate to identify potential fraud.

Agencies have not established management information systems on fraud. As a result, they do not know the amount of identified fraud in their programs, nor can they estimate the potential amount of unknown fraud.

Without such data, agencies have no basis for establishing the level of resources needed to combat fraud, map antifraud strategies, and evaluate the scope and effectiveness of antifraud activities. The absence of management information systems also precludes agencies from taking affirmative actions aimed at identifying and anticipating fraudulent activity, such as

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

Until recently, agencies have not made fraud detection a high priority. Because their overriding concern is program execution, emphasis is on such things as providing loan assistance. The low priority given to fraud detection leads to passiveness regarding potentially fraudulent situations. The Federal Highway Administration, for instance, generally views contract violations as honest mistakes, with no consideration of the underlying reasons for the violations or potential fraud. The Department of Labor regards questionable personnel and training cost reports submitted by prime sponsors as possible funds to be recovered rather than possible fraud. (See pp. 17 to 19.)

None of the agencies reviewed have, until recently, designated a focal point responsible for seeking out and identifying fraud. Consequently, they generally

take a reactive, rather than active, approach to fraud detection. However, a reactive approach is inadequate for detecting fraud, since there is often no obvious incident to react to. The only ongoing, systematic mechanism to actively look for fraud in those agencies reviewed is the Department of Housing and Urban Development's operational survey--a concentrated effort by joint teams of investigators and auditors to detect fraud and program weaknesses. The surveys have consistently uncovered numerous occurrences of suspected fraud. In other isolated instances where agencies have actively sought fraud, they also identified suspected fraud cases. (See pp. 19 to 22.)

Agencies have no assurance that those personnel administering programs are referring all suspected frauds for investigation because:

- There are no controls to see that suspicious matters are reported.
- Large workloads hinder identifying suspected fraud by program personnel. For example, only three employees were responsible for administering \$104 million in one Department of Labor program.
- Employees lose interest in reporting suspected frauds when followup actions, such as investigations and prosecutions, are not promptly taken.
- Many Federal programs are administered by State, local, or private sector institutions, and Federal agencies often unjustifiably rely on these non-Federal entities to identify and report frauds. (See pp. 23 to 26.)

Agency investigators often do not have the background, experience, and training needed to effectively detect and identify fraud. About 70 percent of them have had no prior experience in fraud investigations, and about 80 percent have had no formal training in investigating fraud. Where investigators have had such training, it was generally limited to procurement fraud. Most investigators have also lacked the education in finance and accounting-related subjects often needed to identify fraud. Since fraud against the Government often involves examining financial documents, absence of a financial background could be detrimental to effective fraud investigations. (See pp. 26 to 28.)

JUSTICE NEEDS TO PROVIDE STRONGER LEADERSHIP

The Department of Justice has been slow to assist, coordinate, and monitor the anti-fraud efforts of Federal agencies. Justice has not provided agencies with

- overall management information on how fraud has occurred and can occur in their programs and
- specific, formal guidelines on which types of fraud cases will be accepted for prosecution and how they should be developed to increase the likelihood of successful prosecution.

In 1975 Justice, recognizing the need to deal with white-collar crime, established a white-collar crime committee. One activity of this committee was to provide guidance to agencies on combating fraud. It has met extensively with agency officials and has assisted agencies in carrying out several successful projects demonstrating the existence of fraud in their programs. However,

this effort's effectiveness relies on persuasion and encouragement and the availability of resources Justice can devote to it. (See ch. 4.)

ACTIONS NEEDED TO ENHANCE
THE FEDERAL EFFORT

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

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

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

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

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

AGENCIES' COMMENTS AND RECENT ACTIONS
TAKEN OR TO BE TAKEN

The various Federal program agencies agree that more needs to be done to effectively cope with fraud and abuse in Government programs. Most of the program agencies have said that they have recently made fraud identification a high priority and have fixed organizational responsibility for fraud detection. These agencies have also identified certain other actions they have taken or plan to take to further bolster the fraud detection effort. (See apps. I to VII.)

The Department of Justice also agrees that there is substantial room for improvement in its efforts and those of agency enforcement groups. It believes that efforts already underway such as expanding resources

committed to program fraud, training investigators in fraud detection, and establishing special fraud units in U.S. attorney offices, will upgrade the Department's effectiveness. (See app. VIII.)

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

LETTER FROM COMPTROLLER GENERAL ELMER B. STAATS

October 11, 1978

The Honorable Lawton M. Chiles
 Chairman, Subcommittee on Federal Spending
 Practices and Open Government
 Committee on Governmental Affairs
 United States Senate

Dear Mr. Chairman:

Our recent report entitled "Federal Agencies Can, And Should, Do More To Combat Fraud In Government Programs," which I discussed before your Subcommittee last month, emphasizes the need for Federal agencies to prevent and detect fraud in their programs. I am hopeful that agencies will respond to our report by taking a more active and systematic approach to identifying fraud and by following up on reports of the General Accounting Office and internal auditors.

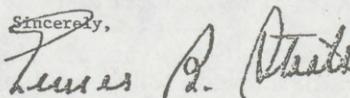
As a followup on our report, I have established a Special Task Force for the Prevention of Fraud and have allocated substantial staff resources to assist the Task Force over the next several months. The major responsibility of this group will be to evaluate the adequacy of the management control systems in Federal agencies that are necessary for the prevention of fraud, and to assess the adequacy of followup and corrective actions taken on reports of auditors and investigators. Where these systems have been properly developed and are functioning as planned, the possibility for fraud, theft, or error is greatly diminished. Where the systems do not exist, or are not being used properly, the opportunities to defraud the Government and the possibilities of error increase dramatically.

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

The Task Force will analyze the reports of internal auditors in each agency it reviews, giving particular attention to indications of fraud or error the auditors have uncovered. Where these reports or our own reviews show that controls are weak, we will search for potentially fraudulent situations, using our own computerized data retrieval and analysis packages where practicable. At the conclusion of our work at each agency, we will prepare a report to the Congress and the agency involved on our work, with particular emphasis on any weaknesses in management controls that would permit fraud, theft, or error to occur. Because of the interest of your Subcommittee in this area, I will make certain that you receive copies of our reports.

A copy of this letter is being sent to the Director, Office of Management and Budget; the Chairman, House Committee on Government Operations and Senate Committee on Governmental Affairs; the Chairman, Subcommittee on Governmental Efficiency and the District of Columbia, Senate Committee on Governmental Affairs; the Attorney General; and the Administrator of General Services.

Sincerely,



Comptroller General
 of the United States

HOT-LINE TELEPHONE ESTABLISHED

Mr. STAATS. I think hearings like this one are very helpful. They bring problems into proper focus for management attention, and just as important, they also show the public that their Government is not only expressing concern about fraud and abuse, but is doing something about it.

Your committee is to be commended for its interest in helping curb fraud and abuse in Government programs. We will be glad to respond to any questions you may have and any followup work which you think might be useful in this area.

Senator SASSER. Thank you, Mr. Staats, for your very fine presentation on the recently established Special Task Force for the Prevention of Fraud and Abuse.

I might say that I am encouraged today by your testimony. It is high time that something like this is initiated. In fact, it is overdue.

You and the General Accounting Office deserve a lot of credit, both for the fact that you took the initiative and the fact that you are accomplishing this task by a reallocation of existing resources rather than setting up a new Federal bureaucracy.

I am advised, Mr. Staats, that you have established a local hot-line telephone number that was publicized, I believe, in the November 15 Mike Causey column in the Washington Post. This is a local number. This allows concerned citizens to call with tips to the General Accounting Office about suspected fraud or suspected abuse.

For the record, what is this local telephone number?

Mr. STAATS. You are correct, Mr. Chairman. We have established such a number. It is 275-5401. We have to date been receiving quite a number of responses since that has been made public.

Senator SASSER. You say you have been receiving responses. I take it these are in the form of complaints or reports of alleged fraud or abuse?

Mr. STAATS. As you might suspect, Mr. Chairman, some of these seem to be worth following up and seem to be very substantial in nature. Others are somewhat more doubtful. But I think this is something we would have expected and anticipated in a line of this type.

Senator SASSER. Some of the complaints that you get are worthwhile and some are not. I would presume that is to be expected in a situation like this.

Mr. STAATS. That is to be expected. We just have to sort them out.

Senator SASSER. Could you, Mr. Staats, within existing resources, establish a nationwide toll-free telephone number, an 800 number, so that citizens all over the country could phone in tips of fraud or abuse—citizens in Atlanta or Nashville or Harrisburg, Pa., for example?

Mr. STAATS. I think this is a good idea, Mr. Chairman. We would obviously want to give it some publicity to make it effective.

Senator SASSER. I hope that is what we are doing today.

Mr. STAATS. I think that would be the whole point of it. But it occurs to me, also, that if we did this, we might want to give publicity to the telephone numbers and locations for our regional offices.

We have, as you know, quite a large number of regional offices. People within those cities could call without cost to our regional office and supply the same information.

I think some people might feel a little more comfortable about calling the Philadelphia office or the Cincinnati office, Chicago office, right in their own city because they might feel more identification with that office.

FOLLOWUP OF COMPLAINTS

Senator SASSER. In the event that a national telephone number is established or that, in the alternative, a local number so that citizens can call regional offices, how would the General Accounting Office follow up on complaints or tips that are received?

Mr. STAATS. We have had a practice long established which says that when any of our staff has an allegation or runs into a possibility of a violation of criminal statutes, of which fraud, of course, is a part, we are to refer that to the Justice Department.

The reason for our leaving it there has been that the Justice Department traditionally does not like other agencies to get into the investigative business if they have to pick up the case.

What has actually happened, though, in practice, is that a great many of these referrals have not been followed up. We have not had a systematic way to get a feedback as to what actions the Justice Department did or did not take with respect to those referrals.

We intend to establish such a feedback system. I have discussed this with the Deputy Attorney General only a couple of weeks ago.

I believe that we can find that useful.

Second, we want to go into the agency control system, to find out whether there might be things that the agency itself needs to do or should have done with cases like that to prevent the possibility of fraud.

Senator SASSER. Let me say, Mr. Staats, that I would strongly urge—and I believe I have Senator Schweiker's full support in this matter—the establishment of an 800 telephone number, at least on a pilot experimental basis.

Could you assure us that if such a toll-free number were established, that the benefits would exceed the cost of it?

Mr. STAATS. I believe we both are in a situation where we cannot be certain what the result would be or what the cost would be. I would not think it would be a substantial cost.

And if it did produce the kind of referrals and information which we need, then a single case might well more than pay for the entire cost of the whole system.

I think well of the idea.

UNRESOLVED AGENCY INTERNAL AUDIT REPORTS

Senator SASSER. Mr. Staats, appendix 9 of the General Accounting Office report to the Congress dated October 25, 1978 and enti-

ted, and I quote, "More Effective Action Is Needed on Auditors' Findings—Millions Can Be Collected or Saved," points out that there are 16,305 unresolved internal agency audit reports which question 4.3 billion dollars' worth of costs.

Without objection, at this point, this appendix will be placed in the record.

[The appendix follows:]

MAGNITUDE OF OUTSTANDING AUDIT FINDINGS
AMONG 34 FEDERAL DEPARTMENTS AND AGENCIES
AS OF MARCH 31, 1977*

<u>Department or agency</u>	<u>Number of Unresolved Audit Reports</u>	<u>Amount of questioned costs outstanding</u>
Department of Health, Education and Welfare (note b)	2,030	\$ 193,384,000
Department of Labor (note b)	2,028	165,405,000
Environmental Protection Agency (note b)	457	43,061,000
Department of Housing and Urban Development (note b)	2,680 (note f)	200,189,000
Department of Commerce (note b)	585	23,722,000
Defense Contract Audit Agency (note e)	3,354	1,525,335,000
Department of Interior	133	11,351,000
Department of Agriculture (note b)	736	103,445,000
Civil Service Commission (note b)	92	18,224,000
National Science Foundation	47	4,268,000
Action	115	1,125,000
Central Intelligence Agency	133	279,000

*Although the amounts are primarily as of March 31, 1977, some agency totals may be as of other dates in fiscal year 1977. Also, we did not verify the accuracy of the above figures, which were compiled primarily by the individual agencies.

<u>Department or agency</u>	<u>Number of Unresolved Audit Reports</u>	<u>Amount of questioned costs outstanding</u>
Defense Audit Service	none	\$ none
Deputy Assistant Secretary of Defense (note a)	85	26,405,000
Department of the Air Force (notes b and d)	19	none
Department of the Army (note b)	none	none
Department of the Navy (note b)	37	none
Defense Logistics Agency (note b)	2	Not known
National Aeronautics and Space Administration (note b)	10	none
Small Business Administration	Not known	Not known
Department of Justice	340	25,169,000
Federal Bureau of Investigation (note a)	9	none
Law Enforcement Assistance Administration	5	1,000
Internal Audit Staff	47	none
Federal Communications Commission	298	78,456,000
Federal Deposit Insurance Corporation		
General Services Administration		

<u>Department or agency</u>	<u>Number of Unresolved Audit Reports</u>	<u>Amount of questioned costs outstanding</u>
Department of Transportation		
Office of Audits	317	\$ none
Federal Aviation Administration (note a)	Not known	Not known
Federal Highway Administration	80	53,938,000
Urban Mass Transportation Agency	121	25,693,000
Department of the Treasury	487	49,971,000
Community Services Administration	617	30,292,000
Department of Energy		
Federal Energy Administration	1,172	1,762,000,000
Energy Research and Development Administration (notes b and c)	58	1,890,000
Nuclear Regulatory Commission	1	none
Veterans Administration	50	362,000
Department of State		
Foreign Service	16	181,000
Foreign Assistance Agency for International Development	9	none
Agency for International Development	107	Not known
U.S. Information Agency (note b)	16	none
Federal Home Loan Bank Board (note a)	2	none

<u>Department or agency</u>	<u>Number of Unresolved Audit Reports</u>	<u>Amount of questioned costs outstanding</u>
Government of District of Columbia (note b)	none	\$ none
Smithsonian Institution	10	none
<u>Totals</u>	<u>16,305</u>	<u>\$4,344,146,000</u>

a/Agency does not track outstanding audit reports. This table includes four such agencies.

b/Agency excludes certain audit reports from its tracking system, such as reports issued by public accountants or State, local, and other Federal agencies. This table includes 15 such agencies.

c/The Energy Research and Development Administration did not provide statistics on an agencywide basis because it does not have a centralized tracking system. Statistics include only 1 of 10 field offices.

d/Department of Air Force statistics include headquarters tracked audit reports plus 3 of 87 Air Force installations. Audit reports issued at Air Force installations are normally tracked only at the installation level.

e/DCAA does contract audits for all defense and some civil agencies. DCAA statistics are overstated, therefore, to the extent some civil agencies are tracking DCAA reports on their contracts. DCAA's tracking system partially compensates for the lack of any tracking of external audits by the defense agencies.

f/Number of audit findings rather than number of audit reports

COST OF AUDIT FINDINGS

Senator SASSER. Mr. Staats, these are not new reports. All of these reports were prepared prior to March 31, 1977. They were over 1½ years old when you published your report on October 25, 1978.

I would gather that the cost of preparation of these reports run into the tens of millions of dollars, would it not?

Mr. STAATS. I would like to defer to my colleagues here, since they are more directly involved in that.

Mr. EGAN. Senator, the cost of the reports are very difficult to measure. You are talking about the 16,000 audit reports. We are talking in terms of roughly 10,000 or so Federal auditors.

We would assume that these 10,000 or so Federal auditors worked on these particular audit findings, as well as CPA firms. These are unresolved audit reports. It would be difficult to say how much man-hours or man-days are expended in developing these findings. They are rather substantial, though.

Senator SASSER. I would gather that you think that development of these reports is a good investment.

Mr. EGAN. No question about that.

Senator SASSER. Except that it appears that these 16,305 reports appear to be gathering dust in a warehouse somewhere; at least until the General Accounting Office put a spotlight on this situation in your report of October 22, 1978. Is that a correct statement?

Mr. EGAN. Let's say they were gathering dust somewhere; I don't know if it was a warehouse. But it is true, I think the situation in our report clearly demonstrates that management has given a lack of attention to audit findings.

I think OMB is taking rather aggressive action at this point to insure that these Federal agencies are getting their act together in terms of resolving findings.

Senator SASSER. Prior to the publishing of your report of October 22, 1978, no aggressive action had been taken and these reports were just laying around.

Mr. EGAN. I think this kind of information had just not been brought together and presented in a way that we have.

Even worse than the loss of money is the fact that, if nothing ever happens, it discourages people from making these findings.

Some of these programs expire. The statute of limitations runs. So that the failure to followup on this could mean a very substantial loss in revenues for the Federal Government.

In a conference that the President called on inflation, providing that the agencies be present at, he referred to this report of ours and the need for the agencies to followup on it.

The OMB has issued a letter to all of the agencies asking them to take some action.

So we are encouraged that something is going to happen now as a result of this report.

Senator SASSER. Of course, if we can spot enough of this waste and abuse and mismanagement to cut out what some have estimated to have been as high as \$25 billion of waste, abuse and mismanagement, I think we have gone a long way in aiding the President and everybody else in the fight against inflation.

GOA TO MONITOR DISPOSITION OF AGENCY AUDIT REPORTS

I want to commend the General Accounting Office for taking the lead on this. I ask you this, Mr. Staats, will you be monitoring the various agency inspectors general and the Justice Department in their disposition of the 16,000 reports that we alluded to earlier?

Mr. STAATS. Yes. Our plans on this haven't been completely formulated, but we will be monitoring it. I would think either on an overall basis, or a spot-check basis, we will be going back in after the agencies have had a chance to respond to the President's and the OMB's directive.

Senator SASSER. I would like to ask you today to prepare periodic status reports on the disposition of the 16,305 audit reports. Could you do that for the committee? Could the General Accounting Office undertake that?

Mr. STAATS. Yes, we could do that. We would like to keep the focus on the OMB directly here because they are the ones that are acting in behalf of the President. But suppose we consult with them as to what kind of a system of reporting feedback they plan to retain, and then if we can work with them on the report we would be happy to do that.

Senator SASSER. You indicated in your testimony that 70 percent of the agency investigators had no prior experience in fraud investigations, and that about 80 percent have had no formal training in investigating fraud.

My question is, how are the agencies possibly going to be able to build cases for successful Justice Department prosecution under these circumstances? What would be the suggestions of your office to remedy this situation?

Mr. STAATS. This was one of the things I discussed with Mr. Civiletti in the meeting that I had with him, which, incidentally, was at his invitation to discuss this problem. I wanted to stress that point.

The need to establish, by the Department of Justice, how to help the agencies in setting up the kind of training programs they need to upgrade the skills of their people, and to establish, generally, guidelines on how do you fix priorities.

In other words, how can you sort out the wheat from the chaff in the kind of complaints and allegations that are made with respect to fraud. All of these, I think, are part of what is needed by way of a training program to upgrade the skills of these people.

I would personally like to see the emphasis on the training of existing staff rather than going out with the large scale recruiting program. I think you are better off to do what you can in a shorter time frame with the people that you have already on the payroll.

FBI ASSISTANCE TO AGENCY HEADS

Senator SASSER. Of course, with the new hiring freeze I am not sure we could be recruiting new personnel for this task. But what do you think about agency heads requesting FBI assistance early in investigations while the trail is still hot? And why couldn't a limited number of FBI agents be assigned to executive branch agencies on a full-time basis? These FBI agents could be in residence in much the same way that the General Accounting Office

personnel are now in residence at some of the larger Federal agencies.

What is your reaction to this? Do you think it would be cost effective?

Mr. STAATS. I hadn't really thought about this very much. I would certainly be willing to have our associates here respond to it. Mr. Ols works very extensively with the Department of Justice and might have some response to it.

Mr. OLS. It probably would be appropriate to assign the agents to work with the agencies which they do now. They assign them to work on fraud against the Government cases. The Director has made a priority effort out of this.

In the last year their effort in this area has probably doubled, as well as gathering 800 accountants that deal with fraudulent activity. However, the Director would lose some control over his people if they were assigned out to the agencies strictly to work on the agencies activities.

I think they have to weigh all the priorities of the cases which are brought to them, as to which they would go into; is a major scheme involved or not?

If they were assigned to each agency, they would look at that one agency's efforts. I think you have to look across the board in Government.

Mr. STAATS. I don't think you had in mind they would be placed under the agency administrator's control, but rather be in residence to have access to the information and work day-to-day with the investigators in the agencies.

We certainly do in our case; those people we assign are fully under our control. They are there because it is helpful to us to have them have easy access to the people and the record information that we need to work with.

Senator SASSER. The agency heads could indeed make a request for FBI agents to come to the agency and be in residence, there, say, for a period of time. That is correct, isn't it?

Mr. STAATS. What you may have in mind here is, there has been, I believe, a kind of attitudinal problem here on the part of the FBI that they make the decisions and you "send us your information and we will decide whether it is important or not to deal with." That may be overstated a bit, but I don't think too much so.

The way I described it to Mr. Civiletti is that we would like to see the Department have more of what we call an outreach function. By that we mean to work cooperatively with the agencies, more ostensibly in their training programs, in setting priorities, in helping them to identify areas that they think would be most useful based on the experience of other agencies.

These are the kinds of things that the Justice Department could take leadership on with a minimal increase in staff. I think they probably would need some additional staff.

But by doing it that way, they can build on the existing capability already in the agencies in these inspectors general's offices.

STATUS OF UNRESOLVED AUDIT REPORTS

Senator SASSER. Mr. Staats, calling your attention to the first item in Appendix 3 related to 2,030 unresolved HEW audit reports, the questioned costs are in excess of \$193 million.

The Department of Health, Education, and Welfare now has an inspector general. Has the Office of the Inspector General at HEW taken steps to resolve the 2,030 internal audit reports which have been outstanding for over 1½ years?

Mr. STUGART. Mr. Chairman, HEW is the one agency that has not yet responded to that report. As you may know, we issued it in kind of a hurry when OMB had a press release on it, and we weren't able to wait for agency responses to include them in the report. So we do not have their final reaction to the report.

Senator SCHWEIKER. Have they told you when you are going to get it?

Mr. STUGART. Momentarily, I am told. But we do not have it yet.

Senator SASSER. What is the situation involving the 2,680 unresolved audit reports involving over \$200 million at the Department of Housing and Urban Development?

Mr. STUGART. Again, we are in the process now of evaluating all of the agency comments that we received on that report. Now that it is an issued report, we are getting comments from all of the agencies that were involved with unresolved findings; not just the six that we looked in detail at.

We are putting together a report on our evaluation of those comments. That work is not yet completed, sir.

Mr. STAATS. We would be glad to make that available to you as it becomes available.

Senator SASSER. With regard to the Defense Department, there are 3,354 unresolved audits there, covering over \$1.5 billion. Would you give us a report on these?

Mr. STAATS. That will be included along with the others.

HANDLING OF AUDIT REPORTS

Senator SASSER. Mr. Staats, your testimony as I interpret it has been critical of the efforts of the Justice Department. You say they have been slow to assist, to coordinate, and to monitor the anti-fraud efforts of the various Federal agencies.

Do you see any improvement coming up there and will your task force have the full cooperation of the Justice Department in its scorekeeping efforts on the disposition of the 16,000-plus audit reports?

Mr. STAATS. Of course, a great many of those audit reports can be resolved in the agencies themselves without litigation being involved.

I wouldn't know how many of those could be handled without the Justice Department's involvement, but I would think a very substantial number of them. I have no reason to believe that Justice will not be fully cooperative in whatever part it plays in an effort to resolve these unresolved audit findings.

I would assume that they will be reporting back to the President and the OMB in much the same way the other agencies will be reporting.

Senator SASSER. Thank you, Mr. Staats.
 Senator Schweiker?

FRAUD AND ABUSE IN THE PENNSYLVANIA MEDICAID PROGRAM

Senator SCHWEIKER. Thank you, Mr. Chairman.

I would like at this time, Mr. Staats, to ask your indulgence. I have a letter that I am going to present to you today, and depart from procedure and read the letter, because it ties into what you and this subcommittee are doing:

Dear Elmer: During the last year there have been an increasing number of reports citing widespread fraud and abuse in the Pennsylvania medicaid program. Most recently, a Deputy Secretary of the Pennsylvania Department of Welfare has been accused of paying a Philadelphia health care management firm for consulting work which was never done. Earlier this year, the Philadelphia Daily News did a shocking exposé on the ease with which some medicaid recipients and health care providers were ripping off the medicaid system. Among the many examples of fraud cited in the series were that of a doctor writing 10,000 prescriptions a month, and a pharmacy filling hundreds of prescriptions for mood-altering drugs each day. Neither of these cases, or many others like them, were considered unusual or excessive by program administrators. It is clear that little effort has been made by the Pennsylvania Welfare Department to conduct significant oversight of the medicaid program. Perhaps the greatest problem is the lack of adequate recordkeeping, but I fear that mismanagement of the system goes far deeper than that.

I would like the General Accounting Office to study the Pennsylvania medicaid system and report back to the Congress on the condition of the system and the changes needed to make it run efficiently. Specifically, I would like GAO to investigate the charges of widespread State employee fraud and abuse. The attached newspaper articles detail criminal allegations involving various levels of State employees, and range from the selling of medicaid recipient cards to kickbacks for contract awards. I would also like an analysis of present management techniques and conditions. For the past year, HEW has been working with the Pennsylvania Department of Welfare to establish a medicaid fraud and abuse detection unit. How is this unit functioning? Has it been picking up where the investigative reporters have left off?

Finally, I would like to have GAO's recommendations for cleaning up the mess that is presently our medicaid management program. The financial incentives offered by the Congress to States which will set up mechanized recordkeeping systems or fraud and detection units, have clearly not been enough. Pennsylvania still has no mechanized system on which to keep records.

The American taxpayer has indicated that he is tired of carrying a heavy tax burden for programs which are mismanaged and wasteful. He justifiably wants to know that his tax dollar is not being stolen by those who prey upon our social service programs, or at least that some headway is being made in cracking down on those who abuse the system. I want to be able to report an accurate picture of the condition of the medicaid system in Pennsylvania. If it is operating as poorly as I believe it is, then I will attempt to correct the situation with remedial legislation.

As a member of the Senate Human Resources Committee and the Labor-HEW Appropriations Subcommittee, I intend to keep a very close watch on this problem, and look forward to seeing the results of your study as soon as possible.

General, I know that you have done this kind of work before. Your department made available to us a similar study on medicaid that was done on fraud and abuse in Illinois.

In looking through that, it seems like an excellent prototype. I do think you will find that rather thick list of publications I gave you to be extremely valuable because in the investigative services series, a reporter went underground and came up with some very revealing facts. So I am sure you will be able to target very quickly where you will followup on this investigation.

I wondered if you would like to respond.

MEDICAID FRAUD PROBLEMS

Mr. STAATS. Yes, I would, Senator Schweiker. I might just state a bit of background here. We have been concerned about the medicaid fraud problem for quite sometime. We have done a number of studies which we submitted to the Congress with our recommendations. And largely as a result of our recommendations, Congress did enact Public Law 95-142, which provides for 90-percent Federal funding to establish units within the States to deal with fraud and abuse problems.

A minor correction, perhaps, in your letter is that these units must be independent of the Welfare Department. They have to either be in the Attorney General's Office or they have to be in some office that has statewide jurisdiction within that government. That is a minor point.

But there are some number of States now that have established these units in response to the Public Law 95-142. The statute also provides for a medicaid management information system to provide the financial incentives to the States to develop an automated system for paying medicaid claims and controlling fraud and abuse.

Our information on this is as of the 1st of June. But as of the 1st of June, I believe that Pennsylvania had not established such a system. Is that right, Mr. Iffert?

Mr. IFFERT. That is correct.

Mr. STAATS. But 17 States, I believe, have established systems as of that time.

Mr. IFFERT. That is correct.

Mr. STAATS. I guess our response to your letter is that I believe we can be helpful to you in making an appraisal as to adequacy of the system in Pennsylvania.

Pennsylvania, I believe, going back several years, was one of the first States we looked at. But that is several years ago.

We would be happy to respond to your request in whatever way we possibly can.

Senator SCHWEIKER. I appreciate it, because I think a cursory reading of the investigative articles will show there is a wealth of material for a fraud abuse system. I was shocked at the flagrancy and openness of the way business is being conducted.

Mr. STAATS. If it would be helpful to you, we could insert for the record a list of reports we have done in the State of Pennsylvania over the last 1½ years and a similar list of reports on fraud and abuse in medicaid and medicare programs in general.

Senator SCHWEIKER. That would be most helpful.

[The information follows:]

GENERAL ACCOUNTING OFFICE REPORTS PERTAINING TO PENNSYLVANIA'S WELFARE
OR MEDICAID PROGRAMS SINCE JANUARY 1975

<i>Title</i>	<i>Date</i>
Hospital Reimbursement Under Medicaid (MWD-75-78) (Report to Secretary, HEW).....	5/9/75
New Child Support Legislation, Its Potential and How to Improve it (MWD-76-63).....	4/5/76
Possible Misuse of Federal Funds by Pennsylvania's Department of Public Welfare (HRD-77-10) (Report to Secretary, HEW).....	2/11/77
Children in Foster Care Institutions—Steps Government Can Take To Improve Their Care (HRD-77-40).....	2/22/77
Lack of Coordination Between Medicaid and Medicare at John J. Kane Hospital (HRD-77-44).....	5/6/77
Medicaid Insurance Contracts—Problems in Procuring, Administering, and Monitoring (HRD-77-106).....	1/23/78
Alleged Duplicate Benefit Payments by Obtaining Replacement Checks Under AFDC in Pennsylvania (HRD-79-2).....	10/20/78

GENERAL ACCOUNTING OFFICE REPORTS PERTAINING TO FRAUD AND ABUSE IN THE
MEDICARE AND MEDICAID PROGRAMS SINCE JANUARY 1975

<i>Title</i>	<i>Date</i>
Improvement Needed in Medicaid Program Management Including Investigation of Suspected Fraud and Abuse (MWD-75-74).....	4/14/75
A Proposal for Disclosing Contractual and Financial Arrangement Between Hospitals and Members of Their Governing Boards and Hospitals and New Medical Specialists (MWD-75-73).....	4/30/75
Improvement Needed in Managing and Monitoring Patients' Funds Maintained by Skilled Nursing Facilities and Intermediate Care Facilities (MWD-76-102).....	3/18/76
Tighter Controls Needed Over Payments for Laboratory Services Under Medical and Medicaid (HRD-76-12).....	8/4/76
Relationships Between Nonprofit Prepaid Health Plans With California Medicaid Contracts and For-Profit Entities Affiliated With Them (HRD-77-4).....	11/1/76
State Audits To Identify Medicaid Overpayments to Nursing Homes (HRD-77-29).....	1/24/77
Comments on H.R. 3, the Medicare and Medicaid Anti-Fraud and Abuse Act (HRD-77-65).....	3/10/77
Lack of Coordination Between Medicaid and Medicare at John K. Kane Hospital (HRD-77-44).....	5/6/77
Investigation of Medicare and Medicaid Fraud and Abuse—Improvement Needed (HRD-77-19).....	5/23/77
Review of Required Contributions by Relatives of Medicare Nursing Home Patients (HRD-77-90).....	5/26/77
Further Improvements Needed in Investigations of Medicaid Fraud and Abuse in Illinois (HRD-78-46).....	3/10/78
Review of Medicare Cost Reimbursement System for Home Health Care (Testimony before Oversight Subcommittee of House Committee on Ways and Means).....	8/10/78
Attainable Benefits of the Medicaid Management Information System Are Not Being Realized (HRD-78-151).....	9/26/78

TOLLFREE LINE

Mr. STAATS. We have made since May of 1977, some seven different reports involving the State of Pennsylvania and we have a much longer list of reports which involve the nationwide program.

Senator SCHWEIKER. I would like to strongly support the chairman's point on the telephone tollfree line. I think it is obvious that a test has to be made to see how productive it is and what the expense is. But I certainly support the chairman's concept and I want to assure you of my funding support for it, at least until we

are able to determine whether it is a worthwhile information gathering tool.

A new area I would like to pursue—do you have any suggestions that the authorizing committees might keep in mind when we write legislation or review legislation that is already on the books that might be helpful to you?

GAO SUGGESTIONS RELATED TO AUTHORIZING LEGISLATION

Mr. STAATS. A couple of comments. One, under the new inspector general legislation, the inspectors general in each of the 12 agencies which were established in that legislation, must make a report every 6 months to the Congress with respect to their activities.

Then, if they find a case where there is a serious abuse, they are supposed to make a report along with the Secretary's statement within something like 7 days, I believe. These presumably would go not only to the Government Operations Committees but to the Appropriations and the legislative committees involved.

Second, under our plans as we go into agencies to look at their system to detect and to prevent fraud and abuse, we will make reports to the Congress. Under the Legislative Reorganization Act of 1970, the agency involved would be required to report to the Appropriations Committee and the Government Operations Committees within 30 days as to what they plan to do in response to our report.

I would think that both these arrangements would provide a pretty good feedback to the committees having responsibilities as to what is being found in the way of needed improvement.

Senator SCHWEIKER. Is there anything that the new inspector general bill of 1978 overlooked or left out, in terms of either departments, agencies, or requirements that you would wish had been in or that we might look at in terms of including when some changes go through?

Mr. STAATS. There were a number of agencies left out of the bill, as you may well know. They left out the Defense Department, the State Department, the Treasury Department, and the Justice Department.

These all present somewhat unusual problems. But the law did provide that there would be a followup report which we would review and comment on with respect to the need for such an office in the Defense Department.

I don't believe there is any similar followup requirement with respect to the other two agencies.

Second, the statute provides that we will issue the standards for agency auditing in the 12 agencies involved. There is no similar provision with respect to the Energy Department or with respect to HEW, which were included in earlier legislation. Nor is there anything which covers the other agencies not included at all in the legislation.

We may well want to ask the Congress to broaden that statutory responsibility.

At the moment the OMB has issued a directive to all the agencies saying they should comply with our auditing standards. But

we would feel a bit more comfortable, I think, if they were clearly covered by the statute which gives us the responsibility.

UNRESOLVED AUDIT FINDINGS

Senator SCHWEIKER. Another area that I would like to follow up on is the chairman's question on the audit reports.

I am not quite clear from hearing all those figures as to what the status of those figures mean. My question to you is are these audit reports that may eventually become available to Congress, or are they strictly left at the individual agency or department's right to disclose. Can we somehow set up a mechanism that will give us benefit of those reports?

Mr. STAATS. Are you referring to the unresolved auditors findings?

Senator SCHWEIKER. Yes.

Mr. STAATS. We will be making a report at some point when we have had a little more time for the agencies to respond to the President's directive. That will, of course, be made available to the Congress.

Senator SCHWEIKER. What is the reason for the large number of unresolved audit reports?

QUESTIONING THE UNRESOLVED AUDIT REPORTS

Mr. STUGART. I think the primary reaction that we got was that the grantmaking agencies, for instance, are busy taking care of day-to-day business and getting the checks out into the grantee's hands. Audit followup was a very low priority on their schedule.

Senator SCHWEIKER. Is there any mechanism that we might use here to feed back to the committees, to the authorizing and Appropriations Committees, that might spur their priority a little further up the ladder?

Mr. STAATS. I would make a suggestion here that perhaps when each of the Appropriations Subcommittees hold their hearings on the agencies' budget next year, they would find this a very useful question. Any of those unresolved findings that can be determined is going to add that much more into the Treasury of the United States. We are going to need that money.

A great deal of this would come in the form of revenues to the Treasury. I think that is one of the reasons the OMB has so much interest in our report.

Senator SCHWEIKER. I think that is a very good suggestion. In fact, I am going to suggest to our chairman that he and I send a letter out to each of the subcommittee chairmen on appropriations. I think that is a very fruitful question. I think that is something we can make clear.

It is our top priority, and they are going to have to come up and justify why they want more money when they have not resolved the unresolved audit reports. I think that is a very worthwhile suggestion.

I gather from your interchange with the chairman, you will be sending us an analysis of this situation when you have completed it, is that right?

Mr. STAATS. Yes. We assume that the OMB will need to get some kind of report from the agencies. They sent out a directive to give us a higher priority. So we will work with them at an appropriate point. We will coordinate with them and get a report to the Congress.

Senator SCHWEIKER. What is the general nature—this is a hard question to answer, I know, but could you generalize a bit—of the 16,305 unresolved audit reports? What in a nutshell is the general nature of those? Do they relate to fraud, abuse, poor management practices?

Could you categorize those in some way? There are a lot of them, I realize.

Mr. EGAN. I don't categorize them in terms of fraud and abuse. I categorize them more as mismanagement and abuse rather than the fraud aspect of it.

Senator SCHWEIKER. Would the mismanagement, per se, lead to possible fraud and abuse?

Mr. EGAN. No question about that. But I think basically we are dealing with a good percentage of these audit reports which are strictly just unresolved management-type control problems.

BUDGET IDENTIFICATION OF FRAUD AND ABUSE WORK

Senator SCHWEIKER. You mentioned that you had a hard core staff of eight people. Roughly, what do you estimate it will cost?

Mr. STAATS. We haven't really translated this—

Senator SCHWEIKER. I know it is hard because you are just setting up a new unit. I would like to suggest for our purposes it would be useful for the chairman and I both to have a figure, because I think he and I both want to be supportive of it.

I think if you can break it down on some kind of specific item for the coming year, it would be helpful to us, because I think here is an area where a good investment will show a good return.

What do you mean by 35 staff years that you are going to allocate?

Mr. STAATS. This would be the equivalent of 35 professional people full time.

Senator SCHWEIKER. In addition or including the eight?

Mr. STAATS. That is in addition to the eight.

Senator SCHWEIKER. That really means 35 people on top of the 8, is that what you are saying?

Mr. STAATS. That is correct.

On the budget information which we will supply you, we will want to also calculate travel costs and other associated costs.

As you will note, we have had a very difficult problem within the GAO this year because of the 5-percent reduction. We are having to reallocate against—

Senator SCHWEIKER. That is why I suggested this special line item which I think might get a little differential treatment.

Mr. STAATS. We are having to reallocate against the fact that we are having to reduce by attrition our staff by over 250 people this year in order to live within that.

Senator SCHWEIKER. I recognize that. I think the chairman and I both feel there is a priority here worthwhile pursuing.

Mr. STAATS. We have in addition received a large number of new statutory responsibilities just last year. In the last week of the session, some 16 different bills went through Congress, mandating special work on the General Accounting Office. So we are having a difficult problem.

Senator SCHWEIKER. I want to say that is all the questions I have. In closing, I want to commend the chairman for this hearing. I think it is an excellent one and I also commend the Comptroller General for his leadership in the area. You certainly will have my full support and obviously the chairman's, too.

CONCLUSION OF HEARING

Senator SASSER. Thank you very much, Senator Schweiker, for your help and cooperation.

Mr. Staats, I want to thank you and your colleagues for your presentation here today.

I think I can speak for the entire subcommittee when I say that we not only support, but encourage and applaud your efforts. We will expect to review these matters again with you in the very near future.

Thank you very much.

Mr. STAATS. Thank you for your help.

[Whereupon, at 12:10 p.m., Monday, December 4, the hearing was concluded and the subcommittee was recessed, to reconvene at the call of the Chair.]

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