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Fraud in Government Benefit Programs: Suggested State/Local Prevention Strategies

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Fraud in Government Benefit Programs:
Suggested State/Local Prevention Strategies

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PREFACE AND ACKNOWLEDGMENTS

Fraud in government benefit programs is now widely viewed to be a serious national problem. Estimates by the Government Accounting Office (GAO) suggest the problem may cost the public anywhere from $2.5 billion to $25 billion per year. While much has been done in government to detect fraud by way of financial audits or investigations, surprisingly little attention has been paid to preventing fraud and no comprehensive fraud prevention strategy has emerged. This monograph has been prepared on the theory that proactive fraud prevention makes eminently more sense than reactive approaches relying on investigation, detection, and recovery of funds.

The monograph is intended for those at county, state, and Federal levels who are planning an effective fraud prevention effort. The intended audience may include program directors, regional program officers, commissioners and their staff, or analysts for legislative committees. Because the field is so new, it is not possible for this to be a detailed "how-to-do-it" report. However, it can make a contribution to program design by identifying approaches likely to be efficacious.

Based largely on the practices of a handful of Federal, state, and local anti-fraud specialists, this document reports on a variety of discrete, often fledgling efforts designed to prevent fraud. Special techniques of analysis geared toward identifying vulnerable aspects of benefit programs were examined as were training programs that focus on the costs, consequences, and controllability of fraud. These were found, however to be largely disconnected efforts operating within agencies but without benefit of a conceptual model. In the report's final section, a potential model is proposed and examined.

Many individuals and organizations contributed to the preparation of the report. Six agencies, in particular, were helpful and served as sites for our field studies:

- California Auditor General
- Massachusetts Ethics Commission
- New York Office of the Welfare Inspector General
- San Diego County Auditor Controller
- South Carolina Department of Social Services, Division of Investigations
- Texas Department of Social Services, Division of Investigation

In addition, the following Federal agencies, among others, were very helpful:

Department of Agriculture, Office of the Inspector General

Department of Labor, Office of the Inspector General

Department of the Interior, Office of the Inspector General

Department of Health and Human Resources, Office of the Inspector General

Department of Housing and Urban Development, Office of the Inspector General

Law Enforcement Assistance Administration, Office of Audit and Investigation

Veterans Administration, Office of the Inspector General

General Accounting Office, Fraud Task Force

To provide guidance during the course of the work and to review and comment on the draft final report, an Advisory Committee was assembled and the authors are grateful to its members:

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I THE PROBLEM OF FRAUD AND ABUSE IN GOVERNMENT BENEFIT PROGRAMS

> Essentially, it is necessary to come to grips with the hitherto unshakeable malaise that has always infected all government programs, local and state, as well as Federal, of non-review of the operation (except in time of scandal), non-enforcement of their standards, and non-prosecution of those who fraudulently profit from them. Quite simply, there persists a national climate of irresponsibility about government money. Those who receive it and those who administer it have a shared a common perception that government money costs nothing; that it may be used in any manner whatsoever and forever; and, that its users are entitled to all they can get and then some. Fraud, abuse, waste, and mismanagement have been the inevitable result.
>
> Charles J. Hynes
> Deputy Attorney General for
> Medicaid Fraud Control,
> State of New York[1]

A. The Problem of Fraud and Abuse

For as long as governments have operated benefit programs to combat social problems, some people have sought, and often found, ways to divert program funds for their own benefit. Frauds can range from a few dollars to millions of dollars, can involve simple misrepresentations or complex patterns of concealment, and can occur almost anywhere:[2]

- A Medicaid doctor bills the government for unnecessary or duplicate services, for services never provided to patients, or for services provided to ineligible patients.
- A nursing home submits bills for drugs, tests, or services not authorized by government regulations, or conceals unauthorized cost components in requests for reimbursement.
- A pharmacy alters doctors' prescriptions, substituting higher priced drugs, or bills Medicaid twice for the same prescription, altering numbers or amounts to disguise the duplication.
- A farming couple receives two crop loss loans at low interest for the same crop by submitting one application in the husband's name and another application in the wife's maiden name for the same property which they both own.
- An applicant makes several applications for welfare under different names claiming nonexistent dependents.
- A store accepts food stamps for purchase of liquor, cigarettes, or even a television set.

- The operator of a school lunch program overstates the number of children fed and the cost of their meals, or provides meals for ineligible children and adults.
- A government-subsidized training program claims reimbursement for ineligible students, enrolls eligible students in ineligible courses, or overstates the costs of training.

No one really knows how widespread the problem of fraud in government benefit programs is. Estimating the extent of fraud is also complicated by problems of definition--agency "errors" (benefits paid out in violation of agency guidelines) can include mistakes made by agency staff members and unintentional omissions or misrepresentations by clients and service providers as well as deliberate misstatements. While it is often difficult to sort out in a specific case exactly what is involved, and categories frequently overlap, the following definitions illustrate the basic distinctions which are made:

Fraud involves intentional deception or illegal manipulation of government programs for personal benefit.

Waste involves unnecessary or unproductive expenditures.

Abuse involves an improper use of program resources for personal benefit, but without the criminal intent essential to proving fraud.

Corruption involves officials receiving money or other goods in return for special treatment.

Most frauds go undetected, few agencies keep reliable statistics, and each agency uses different program requirements and terminology. However, if we can accept rough and uneven definitions and measures, several recent estimates by Federal officials illustrate the magnitude of the problem:

- In 1978, the Inspector General of the Department of Health, Education, and Welfare estimated that fraud, abuse, and waste in HEW's 1977 programs totalled $6.3 billion, but later revised that downward to $5.5 billion, and finally withdrew the estimate.[4] In AFDC alone, about $265 million was estimated by the HEW Audit Agency as being lost to fraud and abuse. Former HEW Secretary Califano estimated that fraud in the Medicaid program totalled $750 million per year. As of June 30, 1975, 36,000 complaints of health insurance program abuse had been received, about half alleging fraud.[5] In five states, the GAO found that at least $222.6 million in substantiated or potential Medicaid overpayments (not all representing fraud) had been identified but not collected.[6]
- A Labor Department survey concluded that of $119 million in 1976 overpayments under the unemployment insurance program, $38 million involved fraud.[7] (Overpayments directly affect company costs and contribute to the inflated costs of goods and services.) In 1979, when 206 audit reports had been completed (only a small portion of the number to be done) $78.9 million in costs were found to be questionable.[8]

- In 1979, the Veterans Administration estimated $350 million in overpayments of educational benefits. Of 831 potentially criminal loan guaranty cases referred to the Department of Justice by the Veteran's Administration in FY 1979, 374 involved possible fraud.[9]
- A 1977 study of the Food Stamp Program found over $500 million lost through overissuances due to agency errors, client misrepresentations, and fraud.[10] Local officials estimated one-half of their overissuances involved suspected fraud. After the 1977 Food Stamp Amendments, the GAO disclosed that overissuances accounted for about $12 of every $100 of the more than $5 billion in annual benefits in 1978, and that only about $0.12 of the $12 is ever recovered.[11] In 1980, the Director of the Division of Public Assistance Fraud in the Florida Auditor General's Office estimated that in November of 1979, fraud in Food Stamp cases reached 15.8% in the state.[11]
- In a letter from the GAO to HEW Secretary Patricia Harris, dated October 16, 1979, Gregory Ahart of GAO said that payment errors to SSI recipients as a result of inaccurate or incomplete information from recipients totaled $257.4 million in 1978.
- In 1978, of the 2,237 investigations opened by the HUD Inspector General's Office, 60% involved some type of suspected false statements. One project alone, in which HUD had invested $4.3 million in construction costs, was completed in 1972 and torn down in 1976, as a result of a number of problems, of which fraud was one.[12]
- The Department of Commerce (according to the GAO) estimates that fraud in the former Office of Minority Business Enterprise amounted to about 10% of the program.[3]
- In Puerto Rico, FmHA loans have been made to companies that had already filed for bankruptcy. In Texas, 21 of 313 FmHA borrowers did not meet loan criteria but received loans anyway while it is estimated by the Inspector General's Office of the Department of Agriculture that crop loss loans exceeded crop losses in the state by $6.4 million. In Missouri, 45 of 160 crop loss loans checked were in excess of the actual loss.[13]
- In Virginia, the Joint State Legislative Audit and Review Commission reported that 24% of Virginia's general assistance recipients were either ineligible or were paid erroneously.[11]

The GAO further says: "From experience, Justice officials estimate that the incidence of fraud in Federal programs ranges anywhere from 1 to 10 percent of the programs' expenditures. These fragmented estimates, while serious in themselves, indicate a problem of critical proportions when considering that Federal financial assistance in fiscal year 1978 is estimated at $250 billion."[3] Even if the 1% estimate is the closest to reality, $2.5 billion per year is not a negligible amount of taxpayer's money. (Individual Federal income taxes brought in $131.6 billion in 1976.) If the 10% figure is the closest to reality, then more than 15% of individual income taxes may finance fraud and abuse in Federal financial assistance programs.

Perhaps the most alarming finding comes in a report by the General Accounting Office: "Justice officials have pointed out that in every instance where they have looked for fraud in Federal programs, they have found it. . . . If, as is believed, much crime is not reported, and reported fraud reflects only 'the tip of the iceberg,' then it appears that the actual extent of fraud is tremendous."[3]

On December 13, 1978, speaking to the National Conference on Fraud, Abuse, and Error, President Carter said: "Of course most of the funds we spend in Federal programs benefit the people for whom they are intended. As a known or suspected part of the total Federal budget, losses through fraud, abuse, and error may be small. But as part of their tax bill to the average American, these losses are huge, and they are demoralizing. The real damage of fraud and abuse cannot be measured just in dollars and cents, for the value of people's trust and faith in their institutions of self-government are priceless."

B. Addressing the Problem of Fraud and Abuse

The above findings and their implications suggest the breadth and depth of the fraud and abuse problem, but they do not indicate what is to be done about it. For many years, agencies have given assurance that they go after every violator they find out about, and prosecute them or at least try to get the money back. They also claim that publicizing the prosecutions has a deterrent effect. For a number of reasons, however, Federal, state, and local agencies have started to say that this traditional reactive approach is no longer sufficient. The study reported here found that:

1. Recent investigations have shown that whether one accepts high, (e.g., 10%) or low (e.g., 1%) estimates of the frequency of fraud in benefit programs, fraud consumes billions of public dollars at the Federal level, and millions of dollars for state and local agencies. Eliminating the individual cases uncovered accidentally without plugging the holes in the system does little to stop the drain on public resources and the erosion of public confidence.

2. There is every indication that the 1980s will be a period of substantial cutbacks in public programs. Inflation, recession, and taxpayer revolts have already started to cut into the funds available to support benefit programs. Federal officials who have been talking to agencies for years about improving management systems to reduce fraud find that agencies are beginning to realize that funding won't be as free as it has been in the past and they are starting to listen.

3. Exposure of high levels of fraud can jeopardize future funding of benefit programs. Citizens and legislators are starting to say, "If 10% of your budget is going to people who are not supposed to get it, that's 10% you don't need!" Recent public opinion surveys suggest that the public supports a stronger attack on corruption, fraud, and program abuse.[14] Speaking before the National Conference on Fraud, Abuse, and Error in 1978, former HEW Secretary Joseph Califano cited a Gallup poll in which nearly half the respondents believed that 48 cents of every Federal tax dollar is wasted, and concluded, "It may not be long before the public seeks to cut back social programs in an undiscriminating way."[15]

4. Preventive approaches to fraud problems are likely to have much higher returns than reactive approaches. This is a point made throughout this report. By actively trying to identify fraud problems, agencies can not only uncover a higher proportion of existing fraud cases but also locate and correct problems in program design and implementation which facilitate frauds in the first place.

5. Perhaps because the prevention of fraud and abuse is a relatively new policy initiative, no agency or government was found that has a comprehensive prevention program in place, or has all of the elements needed for a prevention program. Only a very few agencies were found that appeared to carry one prevention element through all agency benefit programs (e.g., Office of the Inspector General of the Department of Housing and Urban Development).

C. Objectives and Methodological Basis

This monograph has been prepared as a result of a request from the National Institute of Justice to examine fraud prevention efforts currently addressing the fraud problem in government benefit programs. The focus has not been on any particular level of government or on any particular benefit program. Instead, a wide variety of programs were used as the basis for the ideas and theories contained herein, regardless of the level or type of the benefit program. Because it was felt at the outset that no truly comprehensive fraud prevention program was operating anywhere in the country, the overall objective of the research was to pull together the bits and pieces of programs found either in the literature or in practice and merge these into a single concept for developing a prevention strategy. While tailoring will be required to adapt the program alternatives discussed to individual agencies or jurisdictions, the purpose has been to present a variety of tools that could be implemented by city, county, state, or even Federal agencies for programs ranging from the provision of local employment incentives to Federal education benefits.

Government benefit programs were construed broadly, to include not only the usual welfare programs (AFDC and Food Stamps) but any program that confers a benefit on an eligible person whether that benefit is a low-interest loan, medical care, or flight training. The government benefit programs examined were those in which there was a history of attention to fraud and abuse, because fraud prevention efforts were most likely to be found there.* Most were programs that had been in effect for a number of years. While evidences of problems appeared in newer programs, such as the Education for All Handicapped Program established by Public Law 94-142, since the study was looking at the <u>prevention</u> of fraud and abuse rather than at fraud and abuse per se, those problems encountered in new programs were noted only as they tended to indicate another possible area for prevention efforts.

It must be stressed that the nobility of intention underlying a government benefit program has no relation to its potential for fraud and abuse. The Cost of Good Intentions[16] provides clear documentation of the dismay felt by the government of New York City when they realized that hospitals, in order to maximize their revenue, were altering their operations to take advantage of the reimbursement scheme the city had set up--and were doing so without regard to the quality of patient care. Similarly, the value of government benefit programs is not in question except to the extent that unrealistically low benefit levels may encourage fraud because the program cannot accomplish its designed effect in any other way. (For example, a Medicaid program that provides a top payment of $200 for any procedure is likely to encourage collusive fraud between a hospital, a doctor, and the patient who needs a much more expensive procedure to save life. Similarly, an AFDC program that provides an unliveably small monthly benefit for a mother and three children is likely to encourage eligibility workers to overlook small amounts of other income.)

Therefore, the study monograph emphasizes concerted efforts to prevent fraud and abuse, rather than describing government benefit programs, examines prevention rather than fraud and abuse themselves and ignores the nobility of the program and the extent of need of recipients except as need affects prevention efforts. In addition, although fieldwork and documentation revealed a variety of prevention efforts in a variety of programs, no fully exemplary efforts were found, nor were they expected. The field of fraud prevention is new, and no state or county approaches it with the resources and information necessary for truly effective prevention; the approach is still by trial and error. Thus this monograph attempts to make a contribution to understanding the importance of a prevention approach to fraud and abuse in government benefit programs.

The research underpinning this report was of two types, literature review and field study. As with most projects a literature search was initiated early in the effort but, because the subject is both narrow and relatively new, little commercially published work was found. Instead, a major source of written material was found within certain government agencies and these reports became the project's documentary base. The Inspector

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*Not all government benefit programs have such efforts. For example, a recent GAO report (FGMSD-81-1) pointed out that, even though CETA grantees spent over $26 billion between 1974 and 1978, and even though an audit was required every two years, some had not yet (as of March 1980) been audited at all.

General offices in the so-called mission agencies were found to be rich in reports relating to the topic, in view of the requirement of The Inspector General Act of 1978 that each I.G. submit semi-annual reports to Congress. The GAO was also a valuable source of material; GAO has published a wide variety of reports focusing on their findings of fraud, abuse, and waste in government benefit programs. GAO has also reported extensively on their own anti-fraud work, such as the nationwide hotline that has received much media attention. All literature received was read, annotated, and organized to support subsequent site visits.

Six site visits provided the most useful insights regarding fraud prevention. As a starting point, the Inspectors General of The Department of Health and Human Services (formerly HEW), Housing and Urban Development, Department of Labor, United States Department of Agriculture, Department of the Interior, and the Veterans' Administration were contacted and in-person interviews held with key officials, usually Assistant Inspectors General having fraud prevention responsibilities. In addition to learning as much as possible about their own anti-fraud operations, each Federal official was asked "who at the state and local level is doing innovative, important work in fraud prevention." Although the response was not quantitatively overwhelming, more than a dozen sites were nominated as candidates for subsequent contact. Telephone discussions with officials at each of these nominated sites served to identify the prevention approach being used and to describe the local environment.

An advisory committee (see Acknowledgments) was formed comprised of individuals from academe, law enforcement, and public administration to assist in finalizing the research design and to review draft materials. This committee was convened early in the project to comment and advise on the candidate sites for field visits and on the site selection criteria used. These criteria, developed by the research team, included:

- Amount of documentation available
- Extent of cost and effectiveness data available
- Relevance of organizational mission
- Innovativeness
- Potential for transfer
- Feasibility of prevention approaches used.

The advisors agreed that the candidate sites nominated by the Federal officials, with supplements by the advisors themselves were nearly exhaustive of the innovators. Agreement was then reached regarding the site selection criteria above. A careful application of these criteria narrowed the list to six. The following sites were then visited for up to three days each by a member of the research team:

- San Diego County Auditor-Controller.

- South Carolina Department of Social Services, Division of Investigation.
- New York State Welfare Inspector General.
- Massachusetts State Ethics Commission.
- Texas Department of Human Resources, Division of Investigation.
- California Auditor General.

At each site, a number of key individuals were interviewed (see Appendix A for interview guide) in an attempt to elicit information regarding:

- Overall characteristics of the jurisdiction and/or organization
- History of prevention activities
- Organization/administration/management
- Details of operations
- Future directions
- Effectiveness
- Barriers to transfer.

Following the site visits, interview notes were organized, the documentation retrieved on-site was reviewed, and site summaries prepared. Preparation of this report followed immediately.

D. About the Report

The process of preventing fraud in government benefit programs in the United States is shaped by many factors. These include (though are not limited to) the fragmented character of the American governmental system, concerns for protecting the civil liberties of individuals, and theoretical issues regarding criminal sanctions and their relevance for helping set policy intended to prevent fraud in government benefit programs.

The American governmental system is structured in two major ways that influence the extent and intensity of efforts to prevent fraud in government benefit programs. The first is that the administrative agencies and legislative committees statutorily authorized to prescribe policy and operations for government benefit programs have tended to view their mission vis-a-vis these programs as one of assisting needy individuals enhance their lives through the transfer of public wealth. The focus in these agencies and committees has not been to try to eliminate policy design flaws that create opportunities and incentives for defrauding benefit programs, but rather to try to facilitate the transfer of public funds. Indeed, the kinds of individuals interested in preventing fraud are generally associated with criminal justice agencies and committees which would have little understanding of and no legislative authority for actually administering benefit programs. Thus, the context is such that in order to prevent fraud via correcting design flaws, a knowledge of benefit program administration and operations is crucial. But the individuals with this knowledge are often

ignorant of the skills required for effective fraud prevention such as fraud impact assessments of legislation and procedures and vulnerability assessments of program operations.

The second major feature of the American governmental system that is pertinent to this discussion involves the ways in which government benefit program policies are applied. Many benefit programs are federal-state partnerships. Some involve counties as well (e.g., the AFDC State supervised programs) and the participation of four or five bureaucratic tiers is not uncommon. Combined with this decentralized approach to program operations are the unique demographic conditions and historical experiences of the various regions of the United States. In sum, government benefit programs are administered differently within and between states.

For fraud prevention, this means that what constitutes fraudulent behavior in one place may not in another. In some states, welfare clients are viewed as basically law abiding and errors are assumed to be the result of innocent mistakes. In other states, the administrators of benefit programs may assume that all benefit program clients and vendors are untrustworthy. (Of course, these general perceptions vary within states as well.)

For some, eliminating the regional differences and paring down the ambit of individual discretion are considered prerequisites for designing potentially effective fraud prevention strategies and tactics. (The notion of "crosscutting" inspectors general has been advanced (and, in some cases, implemented) as a means of breaking down organizational barriers to fraud control). However, it is important to understand the broader functions that regional differences and individual discretion play in shaping the overall character of American society before blithely announcing that standardization is a panacea for what ails, in general, our government benefit programs. It seems more likely, in fact, that fraud prevention efforts will be more effective when they are tailored by or in conjunction with individuals who are knowledgeable of program operations and local conditions than when such individuals are left out of the design phases of prescribing fraud prevention policies and procedures.

Another major factor that influences the nature of efforts to prevent fraud in government benefit programs is the concern for protecting the civil liberties of the individuals who participate in the programs. For example, while a national computerized file of all program beneficiaries might make it easier to accurately determine initial eligibility and to redetermine ongoing eligibility, such a system has massive potential for misuse (assuming that statewide, regional, and local administrators would use the system at all). To illustrate this, consider a potential employer who views all welfare clients as basically lazy people who do not want to work. If a computerized system existed and if the data were made available to employers who held this perspective, some employers might not hire individuals who had justly and fairly participated in a benefit program simply because the employer might think of the benefit program record as a criminal record, i.e., basically as an indictment of the job applicant's character.

A different example of how a fraud prevention technique could be misused involves so-called "sting operations" or "scams." In these activities, which are generally directed against vendors to government benefit programs such as pharmacists and physicians, an investigator will pose as a benefit program client and, as a result, witness first hand the actions of the vendor. The objective is to find out whether or not the vendor actually supplies the client with the goods and/or services that the vendor eventually bills the program for. As long as these operations are used for investigating already suspicious vendors, there may be no problem. But if they are employed routinely and indiscriminately, it is possible that many honest vendors (especially those who do not depend on benefit program dollars for their business) might withdraw from participating in the program claiming--whether justified or not--that their understanding was that they were to supply goods and/or services and that having the possibiity of an undercover agent show up at any time is unnecessary harassment, an invasion of client-vendor privacy, and a clear and constant threat to the smooth and peaceful functioning of their place of work.

Of course, the merits of these examples are debatable; however, the point is that techniques which, in the abstract, seem to hold promise for preventing fraud in government benefit programs may generate more serious difficulties and, most likely, would meet intense opposition if actually prescribed and applied.

A final factor that significantly influences the efforts to prevent fraud in government benefit programs is the difficulty encountered by authorities when trying to apply traditional theories of crime prevention to the prevention of fraud in these programs. In general, "It is only through theories of punishment, rehabilitation, deterrence, and incapacitation that the criminal justice system holds the promise of preventing future crimes."[17]

The threat of criminal punishment and incapacitation for individuals defrauding government benefit programs has, in fact, no teeth. Given the perception of rising levels of violent crime, overcrowded prisons, and lengthy court delays, prosecuting and sentencing defrauders is simply (and perhaps by necessity) a low priority for most of the criminal justice community. The reasons for this range from the belief that such crimes are not serious, the victim is the public at-large (which is, in fact, very serious, but this makes it very difficult for a specific plaintiff to press charges), to the suspicion that severely punishing and/or incarcerating a program beneficiary may cost the public more than the amount originally defrauded. For whatever reasons, program clients--whether they be rational calculators of the costs and benefits of defrauding the program or not--are not likely to be prevented from defrauding the program when prevention policies are based on theories of criminal punishment and incapacitation.

Vendors to government benefit programs may be more likely to be prevented from defrauding the programs when prevention policies are based on punishment and incapacitation (particularly for those vendors dependent on government business). However, to be credible such sanctions need to be applied; and given the current concerns of the criminal justice community,

it seems unlikely that prosecuting and sentencing vendor fraud would ever occur with any regularity or severity.

Prevention policies based on theories of deterrence encounter similar difficulties. Although there is debate regarding whether the severity of punishment or the certainty of punishment is the more effective deterrent or preventer of future crimes, neither approach is likely to be applied in government benefit program fraud cases for the previously discussed reasons. As for rehabilitation, to the extent that this theory focuses on changing the criminal and not on the societal factors that produce crime, its uses for designing effective fraud prevention policies are minimal.

Given this analysis that fraud prevention policies based on traditional crime prevention theories will not be effective, what theoretical or conceptual alternatives are available for designing effective policy? It seems that the development of a theory of crime prevention, per se, may be in order. This would be a theory based less on trying to understand how to deal with crimes once they have occurred and more with attempting to understand the opportunities and incentives for committing crime and with the various policies and measures that can be taken to try to deal with such opportunities and incentives.

In the following pages, an attempt to clarify an approach (as opposed to a theory) to preventing fraud in government benefit programs is developed. Hopefully, the approach is both comprehensive and sensitive to the character of the American context.

Sections II-V present a description of the conditions that permit fraud and abuse and techniques and practices drawn from interviews, site visits, and the literature. Many new approaches are being planned and developed, ranging from great expansions of traditional audit and investigation approaches to sophisticated systems for identifying areas of vulnerability and revisions in the basic structures and requirements of benefit programs.

Section VI suggests a format for putting together the various techniques that seem to be effective. Although the emphasis is on preventing fraud and abuse, the authors also considered the issue of prevention of waste and mismanagement. Because most of the techniques described are too new to have been evaluated in depth, no guarantees of efficacy can be provided. However, we feel that the suggestions presented in Section VI deserve careful consideration for application to the problems of individual programs and locations. In any case, the price paid for fraud and abuse is too great to allow either complacency or fatalism to permit inaction.

The Appendix shows the questions that were asked of persons interviewed on site visits. Because the project team found far less fraud prevention practiced than was first anticipated, much of the information noted in the interview guide was not available and thus could not be reported on in this report. A Bibliography is also included.

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II THE ROLE OF PREVENTION IN REDUCING FRAUD

> Important as the detection of fraud, abuse, and error is, detection should not be our primary concern as government managers. Our primary concern should be directed toward constructing systems of management control that will prevent fraud and abuse, make it more difficult, and decrease the likelihood of error and waste.
>
> --Elmer B. Staats
> Comptroller General of the United States[1]

> It takes a long time to prosecute offenders, and if we don't design systems to discourage abuse, we'll continue to pile up multibillion-dollar losses every year.
>
> --Allan Reynolds
> Inspector-General,
> Veterans Administration[1]

A. Analyzing Fraud: Prosecution Goals vs. Prevention Goals

It has been pointed out that fraud in government benefit programs may take many forms, and may involve simple misrepresentations or complex patterns of concealment. While each benefit program will have its own opportunities for fraud, two basic patterns are common to virtually every program.* There is misrepresentation of eligibility, whether by beneficiaries who claim aid to which they are not entitled, by service providers who claim reimbursement for services never provided, or by agency personnel who set up "ghost" recipients. There is also misrepresentation on claims by beneficiaries, services providers, and agency personnel.

Identifying frauds and abuses is the primary task confronting an auditor or investigator. Finding out who acted to perpetrate the fraud or abuse and how it was done is the next step. With that information, the prosecutor can deal appropriately with that particular fraud and the manager with that particular abuse. However, no step taken so far deals with the problem of preventing a recurrence of that fraud or abuse. In order to tell an agency how to prevent recurrence, it is necessary to identify the factors within the system or the operation of the system that permitted the fraud or abuse to occur, and that requires a very different type of analysis.

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*For a more elaborate typology and description of types of fraud problems, see Chapter Two of Lange and Bowers.

In analyzing a program for fraud prevention purposes,* it is important to know whether certain aspects of a program's design or implementation increase the probability of fraud or decrease an agency's ability to respond to fraud once it has occurred. It is also important to determine whether persons involved with the program are given any incentive or support in trying to reduce frauds and abuses. This chapter introduces each of the components of fraud prevention analysis. The following chapters show how government agencies are using them to reduce fraud in their benefit programs.

B. Program Design

The structure of a benefit program is established in the statute or ordinance which creates it and in the regulations, rules, procedures manuals, and instructions under which it is operated. Frequently, Federal, state, and local policies contribute to the design of a single program, as Federal funds are allocated to state agencies which in turn call upon county or municipal bodies for day-to-day program administration. In some cases, program designs are further modified by actions of the judicial system. Several issues arise from the design of a program which can increase or decrease the frequency of fraud and abuse:

- Specification of eligibility and intended effect--Where there is a vague definition of eligibility, it is up to the individual eligibility worker (or loan officer, or program administrator) to determine whether or not any particular applicant is eligible. Although the use of personal discretion is not a wrong in itself, it can be wrongly applied. The administration of a program is much simpler if the beneficiaries and the conditions that make them eligible are specified ("persons over the age of 65" for example) in a way that makes it unambiguously clear who is and who is not eligible.
- Design that permits clear identification of improper awards--Several elements go into a design that permit clear identification of improper awards: verifiable evidence of eligibility, declaration that the information submitted is true, verifiable evidence of service provided, and clear physical audit trail.
- Realistic program design--Where too much money must be dispensed to beneficiaries in too short a time or with too few staff, abuse may be encouraged. Where benefits are too small to permit achieving the intended objective, the effect may also be to encourage fraud and abuse.

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*A number of terms are used to describe the type of analysis suggested here--loss prevention analysis, risk analysis, vulnerability assessment, etc. In later chapters, we will describe these approaches in more detail, and show how they are being used by Federal, state, and local agencies to identify their fraud problems.

An example of a government benefit program with inadequate definition of beneficiary eligibility was the Food Stamp program. Initially it had a definition of a household that permitted groups of college students sharing a house or apartment to qualify without regard to the extent of the family resources they had access to. While many college students are poor, others are not; the result was that food stamps could be (and were) used by students who drove expensive cars (registered to their parents for insurance purposes), had use of the family charge accounts and gasoline credit cards, and could at any time have substituted parental resources for public funds. This example cannot be construed as fraud, since for the most part, what the students did was perfectly legal. The design of the program--for good reason--left considerable latitude, and the students merely took advantage of it. But this example can be construed as an abuse of the Congressional intent underlying the Food Stamp program and an unethical exploitation of legality that diverted public funds from the truly needy. The proof is that Congress recognized an abuse and acted to stop it.

An example of a design that does not permit clear identification of improper awards is seen in Medicaid/Medicare, where all too often the ability to specify the services to be reimbursed rests with a person who could profit as a result of the provision of service, whether those services consist of unnecessary surgery or the use of tests performed by a laboratory in which the prescribing physician has a financial interest. An example of a design that does permit clear identification of improper awards is the child care feeding program, in which beneficiaries must be identified by name, so that investigators can later check to see that a particular child did indeed receive a hot lunch on the days on which his/her name appears.

An example of an unrealistic program design is, again, the early Medicaid/Medicare system, in which no appropriation was made for investigative staff. Current Medicaid programs in some states are so slow in reimbursing providers that they actually raise the cost of doing business above the level of reimbursement, so that providers face the interesting choice of losing money or cheating.

Indicators that a program design is vulnerable to fraud and abuse include these:

- Requirement that the program start up quickly from nothing to full operation. Fraud and abuse become particularly likely when the program reaches the point where previous delays must be compensated for by greater haste in order to come out "on time, on budget." Examples are Medicare/Medicaid start-up, some disaster assistance programs, summer job programs for youth, and some early urban rehabilitation programs.[3]

- Requirement that a program spend all of its funds by a certain date. A program that must spend all of its funds by the end of the fiscal year or lose the unspent portion from next year's budget is extremely vulnerable to abuse. Examples are some minority business aid programs, some housing rehabilitation loan funds, and some categorical grant programs in earlier years.[3]

- Inadequate staffing allowance or inadequate program design. A program designed so that staff have no time to carry out program controls is as vulnerable to fraud and abuse as one designed without program controls. Examples are the initial version of Title I of the Early Childhood Education Act, the initial version of Medicare/Medicaid, SBA disaster loans in some regions, and early rent subsidy programs.

1. Benefit program management

> An effective management control system has the following characteristics: 1) It does not inhibit individual discretion or make people afraid to take responsibility for a decision; 2) It provides standards for performance that are realistic and provides feedback to determine whether standards are being met; 3) It employs modern techniques such as performance budgeting, management by exception; and 4) It is evaluated at regular intervals to make certain that management controls are still effective.
>
> --Gerald S. Lonergan
> Auditor and Controller,
> County of San Diego[4]

As this statement suggests, when looking to see if the implementation of a benefit program facilitates or hinders fraud prevention efforts, the first questions to ask are those one would use to evaluate the management of any organization. That is, one seeks to find out whether or not the agency recruits competent staff members, trains them to perform their duties, and assigns them properly. One looks to see whether staff and budget levels are sufficient to carry out basic agency functions, and whether the duties of each employee are sufficiently clear that he/she can be held accountable for his/her performance. Program requirements should be communicated to outsiders (e.g., potential beneficiaries and service providers) so that they can interact appropriately with agency personnel. Supervisors should supervise, and should provide regular feedback to their employees. There should be a regular system to evaluate the efficiency and effectiveness of agency programs. All of these generic management practices will affect both the agency's exposure to attempted fraud and its ability to combat the frauds which are committed.[5] As the Auditor and Controller of San Diego County put it, "Management controls exist to insure that employees give efficient, economical, and ethical performance; to provide a balance between effective decisions with accountability and resulting red tape; and to prevent irregularities and to provide for reasonable assurance of detection if problems do occur."[6]

2. Benefit program implementation

Indicators that a program's implementation is vulnerable to fraud and abuse include these:

2.1. Organization and personnel

- Agency has no clear set of organization charts that show who reports to whom, or the charts have long since ceased to reflect the reality.
- Agency has no clear written personnel policies, job descriptions, hiring and dismissal procedures, or promotion and demotion procedures.
- Agency does not check the background of applicants for decision-making positions.
- Agency does not check on people who do not complete their work within scheduled working hours even when they are in positions where they can affect a financial transaction and does not insist that staff take scheduled vacations.

2.2. Operations

- Agency guidelines do not specify all requirements for eligibility.
- Agency guidelines do not spell out procedures to be used in making awards.
- Applicants are not required to provide documents for all information needed to establish eligibility.
- Clients receiving benefits over time are not required to prove at intervals that they are still eligible.
- Service providers are not required to document the use made of funds.
- Agency guidelines do not specify eligible expenditure categories.
- Agency guidelines do not provide safeguards for or circumscribe awards to persons related to decision-makers or to corporations in which decision-makers have a financial interest.
- Contracts are not subjected to competitive bidding, with eligibility open to all qualified firms or, alternatively, are always let to the lowest bidder with no control on reimbursements for costs beyond the amount in the contract.
- There are no systems to compare payments made with payments authorized by eligibility determinations, or payments made with vouchers or invoices submitted.
- There is constant pressure upon eligibility workers, loan officers, those who authorize provider payments, so that they do not have time to examine the records for possible flaws.
- Access to files, to computer systems, and to blank forms or authorizing stamps is neither restricted nor recorded.
- Award and review procedures are goals rather than routines.
- Case files have missing documents without any record of what happened to the document, or show alterations that are not explained.

2.3. Fraud and abuse control systems

- Agency has neither audit nor investigative capabilities, or has one but not the other.
- Awards and payments are not routinely reviewed by supervisors, auditors, investigators.
- There is no routine check on whether or not providers did indeed provide the service to the beneficiary, or there are checks but they are neither routine and comprehensive nor based on a random sample large enough to be indicative of problems.
- The agency does not keep data on clients in a retrievable fashion (so that, for example, a second application for benefits can be checked against the earlier one).
- The agency does not keep data on improper payments or analyze data to find system flaws, but uses such information only for prosecution purposes (or administrative sanctions) and then discards them.
- Agency and staff members are not required to cooperate with auditors and investigators, but are led to understand by management that nothing must be found wrong in the unit.

C. The Organization of Fraud Control Activities

Responsibilities for fraud control have been assigned in different ways. In some states and agencies, line agency personnel and regular criminal justice agencies are expected to handle fraud problems along with their other assignments. In other areas, specialized units have been established both within program agencies and in the criminal justice system solely to deal with fraud prevention and fraud enforcement. The merits of each approach will be analyzed further on; at this point, it is enough to enumerate the major issues.

Staff awareness of fraud and the latest fraud schemes fulfills two purposes. First, if the agency is willing to put in the effort required to inform all staff members of the latest fraud scheme, that in itself is a communication that the agency really cares about stopping fraud. Second, it is not the agency managers who are in the best position to identify fraud, but the agency staff who are determining eligibility, processing benefits, processing provider invoices and payments, and carrying out the routine tasks that are affected by fraud or abuse. These are the people who need to be most keenly aware of indicators of fraud and of the latest type of fraud uncovered.

Staff involvement in suggesting and implementing ways of preventing fraud and abuse also has more than one purpose. The employee who identifies a fraud or abuse needs to be aware of how it is dealt with. Being unaware that something has been done to prevent the recurrence of a fraud may be indistinguishable from perceiving that nothing is being done. Including the employee in the formulation of a prevention response is not only assurance that something is being done, it also is an effective use of the knowledge that the employees close to the process have about how the process works.

The Department of Housing and Urban Development created a Committee made up of both specialists from the Inspector General's Office and line personnel from headquarters and regional offices to coordinate its fraud, waste, and mismanagement prevention efforts. As its chairman explained, "there's no way the IG's office can handle this alone--we've got to rely on management to carry the ball." While this is a centralized, broadbrush approach, it could be implemented at levels closer to the actual processing of client or provider claims. In Michigan, groups called Quality Circles have been formed to examine and improve local operations; although the emphasis is on error prevention, such a system has application for preventing fraud as well as errors (the distinction between fraud and abuse or between fraud and error has to do with the intent of the actor who committed the offense, not the way it appears on the records in the system).

Assignment of one unit to the task of looking for and finding remedies for fraud and abuse makes sure that the task is not easily abandoned because of a shift in priorities or a cut in staff across the entire agency. Where the eligibility workers, loan officers, or other employees whose primary task is to provide benefits, process invoices, or process payments are expected to be the main bulwark against fraud and abuse, it is likely that any increase in pressure (as from a cut in staff) will force them to spend more of their efforts on their primary task and less on looking for problems.

Some agencies have given their assignment to existing audit or investigations offices while others have created an Inspector General to centralize all fraud-related functions. In 1979, the Inspector General of the U.S. Department of Housing and Urban Development created an Office of Fraud Control and Management Operations solely to analyze potential fraud problems and develop appropriate management or internal controls.[7] In its 1978 survey of the fraud control programs of Federal agencies, the General Accounting Office concluded: "Each agency, in addition to having strong internal controls and balanced audit coverage, needs to at least establish separate and distinct units ... whose sole responsibility is fraud detection and prevention."[8]

Routine scrutiny by an external unit, rather than scrutiny that occurs only after a scandal, plays an important role in reassuring the agency staff as well as the public and the other agencies that preventing fraud, abuse, and mismanagement remains an important priority of the agency. As a New York State Deputy Attorney General said, "The agencies who administer public funds cannot be left with the sole responsibility for safeguarding their use. With the best intentions in the world, there is an inherent conflict of interest between administrative agencies, who are tied to their personal decisions and vested constituencies, and the public interest in the agency's decisions about the use of public money."[9]

A number of states have independently elected auditors or controllers with authority to review agency operations. Some state legislatures have sufficient staff resources to maintain regular oversight roles. Federal agencies can review state and local implementation of their programs. However, in each case it is important not only that external bodies can check on agency performance, but that they actually do check.

Routine prosecution and administrative sanctions are essential to any scheme for the control of fraud and abuse. Law enforcement and criminal justice agencies may tend to assign a lower priority to fraud cases than to other property crime or violence. Furthermore, many prosecutors evaluate a case according to the dollar amount of the fraud weighed against the cost of prosecution. Few situations are more dispiriting to an employee than to uncover a fraud that has been going on for months only to have the prosecutor refuse to take it because it amounts to less than $500 dollars, to have no administrative sanctions in place for cases that cannot be prosecuted, and to have the final outcome be that absolutely nothing happens--the beneficiary or provider goes on receiving benefits (although not at the same level as the fraud permitted). In such a situation, it must be a rare employee indeed who does not conclude that the system doesn't care about fraud and abuse. And if the system doesn't care, there is no reason the employee should care.

Some states have set up special prosecutors or fraud units within the Attorney General's Office to deal with fraud in government benefit programs, and some cities and counties have set up special police units. However, fraud is not the only possibility that needs prompt and dependable action; there must be some system to deal with client and provider abuses as well as with abuses arising within the system that (for whatever reason) cannot be prosecuted as fraud.

D. Finding the Proper Targets: The Role of Information

> Prerequisites to controlling fraud in agency operations are knowing 1) the types of methods used to defraud the Government, and 2) where fraud has occurred and its extent.[10]

In any well-run organization, managers establish systems to collect information about the implementation of agency activities. Individual workers report on their activities; supervisors summarize progress on program efforts; auditors report on the finances of the agency and fund recipients; and controllers monitor fund flows. The fundamental purpose of an information system is to tell management if the organization is accomplishing its goals, whether the goal is to manufacture cars for a profit or to increase the food purchasing power of the needy. For purposes of fraud prevention, however, the agency must collect information relevant to fraud problems, and it must analyze this information to identify program deficiencies that may contribute to fraud problems. The General Accounting Office has described the basic goal as follows:

- As a minimum, a viable management information system should include data on
  - locations where agency programs are being carried out;

- dollars spent in each program and location;
- groups and individuals involved as recipients or deliverers of goods and services;
- 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.[11]

A management information system can support a concerted effort to prevent fraud and abuse if:

- Agencies train staff to use their routine sources of information to identify instances of probable fraud or abuse.
- Agencies add to their regular management information systems information-gathering mechanisms that will reveal problem areas.
- The agency systematically analyzes not only the problems identified by staff but the overall information patterns and trends.
- The agency periodically evaluates the effectiveness of its fraud and abuse prevention efforts, not just in terms of cost effectiveness, but also in terms of staff perceptions, public perceptions, and legislative perceptions of how well the agency is doing.

In addition, however, agencies can benefit greatly from talking to each other, sharing information not only on new techniques of detection and prevention, but on new types of abuses and frauds identified, and perhaps even more important, on ways programs can share substantive information.

Personnel who should receive training in the use of routine sources of information to identify instances of probable fraud or abuse should include:

- Employees whose regular duties include the preparation of reports and aggregation of statistics
- Auditors, even those assigned to routine financial program audits
- Supervisors who receive regular reports of caseloads and decisions
- Data entry clerks, including those who enter data on program clients and those who enter data on providers and the payments authorized for them.

Training in ways of detecting fraud is often resisted because it is also training in ways of committing fraud, but there are other ways of approaching deterrence than ignorance.

Information-gathering mechanisms may include hotlines, the recording of discrepancies, and random checks. For example, where the number of adult meals served in a child-care lunch program is larger than a benchmark percentage programmed into a computer system, the computer can generate an exception listing by the name of the provider. Where the maiden name of an applicant's wife is the same as the name of another applicant, the person reviewing the applications can note it down on a special list and flag the two applications for a closer check. Since 1972, the Inspector General of the U.S. Department of Housing and Urban Development has combined the skills of auditors and investigators in team efforts called Operational Surveys. The surveys search out "indicators of fraud and abuse, as well as determine the need for full-scale audits and investigations. The indicators, when identified, are used to identify the possible presence of fraud, bribery, kickbacks, favoritism, or administrative irregularities by HUD personnel or by firms or persons doing business with HUD."[12]

Systematic analysis of records, operations, and identified incidents of fraud and abuse permits change to be planned. Usually an incident is uncovered only accidentally; a supervisor then sends down a memo that says, in essence, "I want this situation corrected," and in response a new form is drafted to be filled in at 25 minutes to 5 on Friday, with all the others. With systematic analysis, the incident is reviewed in the context of the entire operational system, and an appropriate change is suggested, perhaps as simple as reversing the order in which two operations are performed, or checking a specific file when certain situations arise.

As Allan L. Reynolds, the Inspector General in the Veterans' Administration, points out, the goal of systematic analysis is: "To analyze major existing systems and programs, based on the results of investigations, audits, and other studies, to determine primary weaknesses permitting fraud and abuse, or impacting on efficiency, economy, or effectiveness, and to obtain preventive measures and improvements."[13]

Periodic evaluation of the system and how well it it working in the eyes of staff, the public, and other agencies--along with how well it is working in terms of the agency's own goals--gives the same kind of "bottom line" information as a corporation's profit and loss statement. For example, the public may feel that the agency, in eliminating opportunities for abuse, has excluded legitimate beneficiaries. Staff may have identified opportunities for abuses that have not been foreclosed, indicating that the fraud and abuse prevention system can be improved. Or an agency may recognize that the fraud and abuse prevention effort has unjustifiably increased its costs, because available information is not being used appropriately.

There is a temptation to evaluate fraud and abuse prevention systems in cost benefit terms.[14] This is very difficult and can be misleading, since no cost can be assigned to undiscovered frauds nor to loss of confidence in the ability of government to carry out the tasks and the fiduciary trusts assigned to it. Although some Federally sponsored research to develop cost models is underway, these efforts are in their initial stages. Considerable testing and refinement will be necessary before they are available for general use.

E. The Use of Sanctions in Fraud Control Programs

Once an agency has identified the problems which it wishes to correct, it must decide what sanctions it wishes to apply, and when. Sanctions can be used both to correct immediate problems such as recovery of overpayments or screening out of potential or past violators, and to deter future violators.[15] While many sanctioning decisions are made by criminal justice rather than program agencies, there are a number of basic decisions which the program agencies must make:

Ranking sanctioning priorities. An agency may be primarily interested in changing conditions--in a nursing home, in schools, or in nutrition programs; in maximizing the recovery of improper awards; or in preventing participation of certain individuals or organizations in a program. At times, these goals may conflict: If there is a shortage of nursing homes in a community, the welfare department may be reluctant to suspend a home even though it has been defrauding the Medicaid program. If there is a high unemployment rate, the labor department may be reluctant to close a fraudulent CETA program which is training hundreds of local residents. If a corporation stays in business, it may become sufficiently solvent to allow recovery of excessive charges, or allow recovery through ensuing bankruptcy proceedings. The dilemmas are obvious, but the agency must rank its sanctioning priorities.

Historically, agencies could only turn to the courts for civil judgments, criminal fines, or jail sentences. Where prosecutors declined to prosecute, or courts continued cases interminably, sanctions ceased to exist.

The difficulty of relying solely on criminal prosecution sanctions as a deterrent is indicated by the HUD Inspector General's report for the period October 1, 1978 to March 31, 1979, which points out that, "During FY 1978, United States Attorneys declined prosecution in 1,042 HUD-related cases referred to them" (2,036 cases were investigated by HUD's Office of the Inspector General in 1978). "Of these cases, 811 were analyzed . . . and the following were found to be the primary reasons for declining prosecution:

"- The matter lacked jury appeal.

"- There was no evidence of a Federal crime.

"- A technical violation may have existed, but there was no evidence of real harm to the Government or the public.

"- The particular matter was not part of a pattern and when viewed as an isolated incident would not warrant Federal prosecution."

"- Statute of limitations had expired."[18]

Agency auditors and investigators need to understand the evidentiary and procedural requirements of the prosecutors who will handle fraud cases. Difficulties arise when the agency is anxious to initiate civil recovery or debarment proceedings while prosecutors counsel delay in order to guarantee that they have enough evidence for conviction. The agency and the local prosecutor should agree on the types of cases that will be accepted for

prosecution, and on when law enforcement agencies and prosecutors will be brought into an investigation. The agency should establish regular liaison mechanisms to discuss tactical and policy issues with criminal justice agencies.[17]

Some agencies in keeping with legislative intent have established their own internal administrative sanctioning systems, using administrative hearings to establish the amount of overpayments or to suspend or debar service providers. Agencies should fully utilize the range of sanctions and sanctioning mechanisms available to them to correct fraud problems,[16] using prosecution in only the most extreme cases or where the evidentiary requirements can be met. Had there been no administrative alternative to criminal justice prosecution as a sanction in the HUD-related cases described above, many cases sufficiently serious to be referred for prosecution would have been without a remedy.

F. Mobilizing Support for Fraud Prevention Programs: The Use of Incentives

Sanctions are used to compel compliance with agency requirements; incentives can be used to encourage compliance. Both approaches reflect a basic issue which is central to the success of a fraud prevention program: no system will work unless people want to make it work. Agency personnel will not want to take on new responsibilities that are seen as producing "more headaches," a greater risk of trouble, or harassment of trusted beneficiaries or service providers.[19] Agency heads may be willing to take on fraud control duties if additional administrative funds are allocated to absorb the costs or additional staff is authorized. For example, if the legislature recaptures recovered overpayments without regard to agency expenses related to recoupment, agency incentives to find overpayments will be reduced. Service providers will be more likely to invest time and effort in tasks that will increase profits, or increase the chances for contract renewals. Legislatures and the public will be willing to tighten program requirements or provide funds for fraud control if they are convinced that savings will result, or that inequities will be reduced.

This would suggest that a basic task in the design and implementation of fraud prevention programs will be to offer incentives to staff members and contractors who will carry out the program; to build networks of professional associations, legislators and their staffs, and citizen groups who share their concern for the integrity of the program; and to educate insiders and outsiders who share their perception that fraud prevention is important. Building an incentives program for these varying constituencies is time-consuming and requires careful planning, but is essential to long-term success.

* * *

In the following chapters, we will discuss each of these issues in depth, showing how Federal, state, and local officials are dealing with them. Finally, we will show how a variety of approaches can be integrated into a comprehensive fraud prevention program.

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III DESIGN APPROACHES TO THE PREVENTION OF FRAUD AND ABUSE IN GOVERNMENT BENEFIT PROGRAMS

A. Introduction

Stopping fraud and abuse in state and county welfare programs or in the local administration of Federal programs has a payoff that goes far beyond the number of dollars involved. For one thing, it provides the public with a visible and appropriate response to their anger. For another thing, it supports, rather than contradicting, the growing drive to increase productivity in government. Finally, it provides an opportunity to rebuild some needed confidence in the ability of government to handle competently the tasks the public requires of it.

Stopping fraud and abuse, however, requires closing off opportunities and making certain that any attempt at fraud will be discovered and corrected. This means discovering design flaws and correcting or compensating for them, improving system management, providing training, putting in safeguards that do not violate client or third party rights but do protect the integrity of the system, and providing incentives that will mobilize the public to report violations that they observe. Whereas Federal fiscal incentives and sanctions are important to this effort, those directly involved with administration of state and local programs must be firmly committed to providing the additional staff and financial support required for an effective prevention effort.

B. Program Design Problems

Program design generally has two aspects: one is the legislation, which is extremely difficult to change and the other is the body of regulations established to implement the legislation, which tends to change often. Design flaws are not the same as design disagreements, where legislation or regulation is aimed at implementing incompatible goals (Exhibit 1). However, either one can result in an opportunity for fraud or abuse. A design flaw in the legislation can be compensated for (or bypassed) in the body of regulations either permanently or until the time comes when it can be legislatively corrected. A design disagreement is more difficult to address.

1. Legislated design flaws. Perhaps the most obvious legislated design flaw is that pointed out by Charles J. Hynes, New York State Deputy Attorney General for Medicaid Fraud Control:[3]

> "We can never again afford to repeat the monumental miscalculation of the Medicaid/Medicare program, wherein millions of dollars were appropriated to fund a noble and needed program, and not five cents was allocated to the prosecutive agencies of this country to safeguard the moral and fiscal integrity of that very program."

Exhibit 1

DISTINGUISHING DESIGN FLAWS FROM DESIGN DISAGREEMENTS

Design Flaw[2]

The New York State Department of Audit and Control maintains an Office of Welfare Inspector General that, in 1979, reviewed three free-standing psychiatric clinics in New York City that receive Medicaid funds. The Office found that "deficiencies in regulations issued by the State Office of Mental Health allowed clinics to receive a full reimbursement fee of $28 per visit for counseling sessions that, according to one administrator, were as brief as 30 seconds." The Office recommended that the State Office of Mental Health "specify minimum time requirements for reimbursable psychiatric sessions and specify those types of services and classes of providers that properly qualify for Medicaid reimbursement." Following the issuance of the report in November 1979, the New York State Office of Mental Health drafted a new regulation "intended to address many of the problems highlighted in OWIG's report."

Design Disagreement[4]

The expedited issuance of food stamps "within three working days" is an example of a design problem that reflects a disagreement between two groups: those who feel that if the purpose of Food Stamps is to alleviate hunger, then prompt issuance for the destitute is urgent and delays of several weeks spent in processing the application are intolerable; and those who believe that expedited issuance with restrictions on the information to be used in determining eligibility allows too many ineligible persons to receive stamps, thus injuring the ability of the program to serve all of those in need with the dollars appropriated. New York City attempted to remedy this by offering emergency funds to the destitute to last them until the food stamp application could be processed on a routine basis. However, a court has ruled that remedy to be illegal, so that the disagreement continues.

a. Oversights in design. In the case of the design flaw, it seems likely that no Medicaid legislation ever contemplated paying full reimbursement for a 30-second conseling session, and that the absence of definition of what constitutes a counseling session is an oversight. In the example of the design disagreement, the legislators and those drawing up the expedited food stamps regulations appear to be setting up a double-bind situation, since they also established penalties for excess error at the same time they increased the likelihood of error by reducing the safeguards that could be applied. In either case, the result is a design problem that must be dealt with until it can be corrected.

One example of a legislated design flaw resulting from an oversight can be found in the Department of Agriculture's emergency loan program. The Consolidated Farm and Rural Development Act does not prescribe a loan limit; this allowed one rancher to multiply a half-million-dollar crop loss into $16 million of FmHA loans, while another turned a loss of $3,490 into loans of over $7 million. The Inspector General's 1979 report recommends compensating for that obvious design flaw by imposing loan limits, and the FmHA has responded by proposing a $250,000 ceiling for actual losses per disaster, $500,000 for major adjustment loans, and $500,000 for annual operating loans. The proposed FmHA loan regulations "would also limit the emergency loans to actual dollar loss or actual need for continuation of a producer's normal operation, whichever is less. This would better prevent loan funds from being used for investments now permitted by the regulations or meeting unauthorized expenditures."[5] While the use of loans for investment was not fraudulent and not illegal, Congress obviously had not intended a disaster relief program to serve that purpose, since a Business and Industrial Loan Program also exists within FmHA.

A flaw in the legislation also surfaced in the VA educational benefit program.[6] The VA was required by statute to offer payment at least one month before the beginning of classes, so that large numbers of students received benefits and could pay for their classes in advance as many schools require. Since the size of the benefit related at least in part to the number of units of classwork taken, many students received benefits for classes that they subsequently had to drop, or classes that were cancelled. The VA requested that Congress amend the advance payment requirement, and is currently operating a more limited advance payment program.

b. Worst case design. A second type of design problem occurs where a program is designed as though the worst case were typical of all cases. For example, the system for expedited Food Stamps was initially designed as though all applicants were not only destitute but had lost their personal identification; only later was proof of identity required. The substitution of emergency funds (from charity, for example) or food supplies for food stamps for persons unable to prove their identity would have taken care of the problem, as in New York City, but was precluded by the legislation. The FmHA loan program assumed that all farmers with crop losses due to disaster needed several years to shift to a different crop. The Department of Agriculture Inspector General has recommended that the FmHA loan program may be better off with time limits (two years) than with money limits in a time of high inflation.

c. Inappropriate remedy. This design problem usually occurs when no remedies for errors are spelled out or suggested in the legislation or regulations.

In South Carolina, the Application for Food Stamps includes the following penalty warning: "If your household receives food stamps, it must follow the rules listed below. Any member of your household who breaks any of these rules on purpose can be barred from the food stamp program for 3 months to 2 years; fined up to $10,000, imprisoned up to 5 years, or both; and subject to prosecution under other applicable federal laws." The

applicant must sign under a paragraph that says "I understand the questions on this application and the penalty for hiding or giving false information or breaking any of the rules listed in the Penalty Warning. My answers are correct and complete to best of my knowledge." An immediate and appropriate remedy for a fraud and abuse might be a notarized agreement stating "I understand that if any of the information I have provided is later shown to have been false, my benefits will be cut back or suspended immediately and I will have to pay back all money wrongfully received, and I agree to this."

d. Reliance on professional judgment. Reliance on the professional judgment of service providers such as doctors, professional social workers, and clinical psychologists creates potential conflict of interest. Who is to say that the doctor ordered too many tests, the school district's diagnostician or social worker failed to suggest needed psychiatric care for a handicapped child, or the rehabilitation worker was wrong in asserting that vocational education would make a disabled worker employable?

Where the exercise of professional judgment is the basis for expenditures, safeguards should either be specified in the legislation itself or their development legislatively required in the regulations. In Michigan, peer review is used for Medicaid irregularities, and is defined as "a review, by practicing professionals from a provider's profession, of the medical evaluation of a provider's practice prepared and presented by a Bureau of Health Services physician."[9] Gradually, professional services review organizations (PSRO's) are becoming more widely utilized for review of medical benefit programs although they are resisted and often accused of being ineffective. But no safeguard system exists for crop damage or property loss appraisals, for business loss appraisals for Trade Adjustment benefits, or for reviewing the suitability of assignment to various vocational training programs.

C. Compensating for Legislative Design Problems

Because it is so difficult to change legislation, legislative design problems are more easily remedied in the body of regulations or in the implementation of those regulations. For example, Medicaid allows reimbursement for the cost of buildings. The incentive for fraudulently inflated "lease-back" schemes can be removed by imposing in the state reimbursement system a regulation that all building costs will be paid for at the rate for an owned building with a life of 40 years.[10] The expedited food stamp design problem could be compensated for by requiring the issuing agency to immediately check the applicant's identity against lists of applicants for food stamps in that month from other offices in the state and surrounding states. Or the apparent design flaw could be bypassed, for example, by direct provision of food from an emergency food bank for the period of time needed to make sure that the application is not fraudulent. (These methods would tend to reduce the opportunities for fraud.)

Correcting legislative design problems. When audits in six states compared applicants' Social Security numbers with data on wages, disclosing that a large number of applicants were understating income, the 1979 Food Stamp Act was amended to include a requirement for the applicant's Social Security number and for state access to certain SSA wage data.[7]

Need for controls. The most common type of design flaw that needs correction in future legislation is the omission of controls to prevent fraud and abuse. The dependence instead on detection and increasingly harsher penalties seems to have had little deterrent effect, especially where the crime has been routinely undetectable. Similarly, allowing states to retain increasing amounts of recouped funds has made very little difference in those situations in which overpayments can be recouped only by means of costly criminal proceedings, and not fully even then. In a 1978 examination of recoupment of monies from those convicted of welfare fraud, the Office of Welfare Inspector General of the New York State Department of Audit and Control pointed out that in one case, where the court had ordered the return of $35,000 fraudulently obtained, "the recipient's current rate of payment of $1.27 a week will effect full restitution in about 600 years."[8] The insertion of controls requiring proof of identity, verification of information, and routine audits to prevent fraud and abuse, although increasing administrative costs, seems more likely to result in savings.

D. Regulatory Design Flaws

A regulatory design flaw is one which inadvertently contradicts the letter or intent of the legislation, fails to reflect it through omission, or fails to correct identified flaws.

Regulatory design flaws may be corrected more easily than legislated design flaws. However, even so, reviewing proposed regulations and correcting them before they are officially promulgated has advantages over revision once they have been implemented.

An example of the kind of regulatory design problem that agencies have to correct is shown in a letter from Jerome Chapman, Commissioner of the Texas Department of Human Resources to the Texas Congressional delegation (11 April 1977), concerning regulations to implement the Food Stamp Program of 1977:

> "This is another area where USDA has, by regulation, contradicted Congressional intent with regard to preventing fraud and abuse in the Program. For instance, 7 CFR 273.18(e)(2), dealing with fraud claims, states in part:
>
> > '...the State agency shall not deny, terminate, or reduce a household's benefits for failure to repay a claim, to agree to a repayment schedule, or to make agreed upon payments. Nor shall the State agency threaten the household with a denial, termination, or reduction in benefits or other wise infer that it has the power to do so...'

> Such stipulations greatly impair State agency ability to pursue collection action aggressively. Other Programs, such as the Aid to Families with Dependent Children (AFDC) Program, do allow recoupment of certain overpayments through reduction of grant amounts for a period of time necessary to cover the amount lost to the Program. Not only are administrators of the Food Stamp Program forbidden from taking such action, they are prohibited from discussing the possible ramifications of a person's fraudulent action in terms of the potential for disqualification. The procedures for collecting fraud and non-fraud claims are extremely detailed and complicated, but their effect in terms of efficiency is negligible since there are no teeth in their enforcement."

The final regulations do not contain the wording complained of.

Another example of a regulatory design problem that inhibits the discovery of fraud and abuse is reported by a newsletter put out by the Eastern Regional Council on Welfare Fraud and its September 1980 issue. This newsletter, drawing on a comprehensive report on the Food Stamp program in Florida, says:

> The report cited regulations adopted as a result of the Food Stamp Act of 1977 as hampering any fraud detection. For example, the eligibility worker is required to verify only reported income, alien status, and utility expense that exceeds an established standard. Any other data in the application can only be verified if it is questionable. Complete records must be maintained in every case as to why the information was questioned.

In Texas, this was also reported as a severe problem, since unreported income could not be questioned unless existing records already in the office indicated a discrepancy. In Texas, this has been interpreted to mean that an eligibility worker may have a strong indication that an applicant is not poor or unemployed but be unable to check that suspicion because the applicant does not report receiving any income and the office has no immediate access to records of unemployment insurance deductions on site.

1. Correcting regulatory design problems. Again, there are difficulties in correcting a design problem in regulations that have already been promulgated. To prevent too much change, agencies tend not to act on a single request for improvement but to wait until the more general existence of a problem is demonstrated. In that respect, New York confirmed that "There is no provision for recoupment of fraudulently obtained benefits where client fraud has been established" in their 1979 report on the Food Stamp program,[11] but did not confirm the Texas complaint that a severe problem resulted.

To obtain a change in regulations that will correct a design problem, it may be necessary for the implementing units at the local, state and regional levels to get together and identify design problems serious enough to all groups to warrant correction in the regulations as opposed to those which can be dealt with by compensatory efforts in the particular unit they affect.

The Texas Investigation unit used to clear many of its cases by obtaining a repayment agreement in return for a decision not to prosecute for theft. However, the 1977 Food Stamp regulations require that fraud be proved in court or in an administrative hearing, and the only penalty is suspension of benefits for three or six months for the one household member who committed the fraud. Under Texas law, theft is more easily proved than fraud, where intent to deceive must be shown. The State does have the option to emphasize the verification powers left to it by the new regulations to close off some opportunities for fraud. Texas does still prosecute for theft where that can be proven, but prosecution for theft must then be accompanied by an administrative fraud hearing.

Regulatory design problems, such as the food stamp regulations that only "questionable information" may be verified, and that to be questionable, information must be inconsistent with documents, with applicant's written statements, or with "information already in the possession of the issuing agency" can be compensated for by increasing the amount of up-to-date information available at the issuing office.

E. Circumventing Design Flaws or Disagreements

The effect of regulatory design flaws such as the provision in the 1977 Food Stamp Program that precludes recoupment of monies equal to the cost of food stamps obtained by fraud can be diminished by making approval of fraudulent applications more difficult. Genessee County, Michigan, for example, uses a magnetically encoded card, like a bank credit card, along with an on-line information system, to reduce the opportunity to obtain food stamps fraudulently by going to a different center, since the card must be presented, and the previous attempt is encoded there.

F. Design Remedies

1. Design aspects affecting incentive. At present, the provision of FmHA, SBA, or educational loans at interest rates far below market interest rates provides an obvious incentive for abuse, particularly for loans of substantial size, as does the provision of guarantees for loans at close to the market rate but for a longer term than is usual in the market.

However, an incentive for abuse is also set up when the program design includes a benefit level too low to accomplish the program objective. What happens then is that there is an incentive to treat an average or most frequent case as though it were a worst case, in order to achieve the program objective. A similar incentive for abuse is set up by program designs that do not include a sufficient allowance for administrative costs, so that, for example, too few staff are available to process provider claims promptly, so that a provider must borrow money to survive until the payment arrives.

2. Design aspects affecting opportunity. A design that delivers benefits based on the professional judgment of the provider of the services entailed in the benefit provides an obvious opportunity for abuse, whether the program delivers medical services, loans, or education. That does not mean that such a design must necessarily result in abuses, however.

A design that delivers benefits based on self-declaration also provides an obvious opportunity for abuse, particularly when verification is prevented by a lack of staff, or by prohibition or restriction.

3. Design aspects affecting likelihood of detection. A design that omits controls entails an obvious risk that abuse will not be detected; a design requiring controls but not providing sufficient staff has the same effect.

A design that entails a very large number of relatively small transactions has an inherent low likelihood that fraud will be discovered by inspecting individual transactions themselves.

4. Incentive-risk balance. Some programs have problems because the incentive is relatively small but the opportunity is unlimited, or the opportunity is limited but the risk is almost nil. The opportunity to understate unrecorded cash wages is almost unlimited, as is the opportunity to misuse the minority contractor provisions of the SBA 8-a program. The risk of detection for a lease on a nursing home actually owned by the operator is practically nil in Illinois, where state law permits concealment of the true property ownership in a blind trust. These situations require extra design safeguards, because although individual cases might result in only small losses the aggregate amount lost to fraud in these situations can be very high.

G. The Suggested Process for Addressing Design Problems

The suggested process for preventing or correcting design flaws is to subject all proposed benefits legislation and regulations to close scrutiny not only by lawyers but also by persons skilled in the patterns of fraud and abuse.

The fact that design disagreements usually reflect political compromises that attempt to reconcile conflicting goals makes them difficult to address. For one thing, the political conflict underlying design disagreements tends to be reflected not only in the legislation but also in regulation and litigation.

Those responsible for preventing the abuse of benefit programs do not see attempts to close loopholes as attempts to harass poor people, but as attempts to prevent the system from being looted by the dishonest willing to pose as destitute or by racketeers willing to exploit the redemption system. The methods of addressing this problem used to date are to inform the Congressional delegation of the problem (Texas) and to attempt to circumvent the problem in administrative ways (Texas, Michigan, New York, South Carolina).

Although the underlying disagreement often cannot be resolved, this is not always the case; in relation to the Medicare/Medicaid system, professional journals such as The New England Journal of Medicine are reflecting a recognition that physician ownership of laboratories that exploit third-party providers may be unethical.

Prior review will help to head off some of these problems by at least pointing out in the record that the wording of a particular piece of legislation or of a regulation may make it vulnerable to fraud or abuse.

H. Vulnerability Review of Proposed Legislation and Regulations

1. Using prior vulnerability review to prevent fraud and abuse. Systematic prior review of legislation or regulations may be deliberately avoided by some because review can "raise ghosts"--suggest risks that are unlikely or even unrealistic--and in that way add to the complications and difficulties of getting legislation passed or a regulation adopted. The only problem is that it is not possible to tell beforehand which are the real risks and which the "ghosts."

Systematic review of renewal legislation or regulations for an existing program is likely to be the easiest because those concerned are already known. For most national programs there are Inspectors General; programs without Inspectors General can take advantage of auditors. For large-scale programs such as AFDC, Medicaid/Medicare, or Food Stamps, state investigation units, quality control units, and corrective action committees can also be consulted.

For new programs, both the enabling legislation and the subsequent proposed regulations can be submitted to criminal intelligence and fraud experts, auditors with some experience in government programs as well as business auditors and bank security experts. The results of these reviews can then be submitted to the legislators or top agency management to see whether the recommendations conform to the intent of the legislature and can be implemented within the constraints of budget and other factors.

2. Justification for prior vulnerability review. The primary cost of prior vulnerability review lies in the administrative cost of staff time that must be spent in responding to the results of a review and negotiating the revised version with the various interest groups that have a stake in the legislation. It would be unrealistic to play down the costs in staff time taken away from other work or the possible loss of political support as a result of revisions.

At the same time, the rewards of prior vulnerability analysis for proposed legislation can be greater likelihood of winning support from those who oppose benefit programs because of the potential for fraud and abuse, less likelihood of adverse public reaction, particularly from those just outside the eligibility limits who may be put at a disadvantage in relation to those receiving benefits, and less likelihood of attack by the media. For proposed regulatory changes, prior vulnerability analysis can have a direct effect on funding needs since it can reduce the frequency with which

regulatory and administrative amendments or "patches" have to be made to correct flaws. For a large, national program, the cost of regulatory and administrative changes can be immense, as it reaches each successive level of the operational system.

3. Methods and programs. No national program or agency was found to have systematic and comprehensive prior vulnerability review. Where it existed at all, vulnerability review of proposed legislation appeared to depend on the personal contacts between legislators and their staff with persons knowledgeable in the field. In some cases, the vulnerability assessment is done by the opponents of the legislation, and is thus done to provide support for killing the bill rather than revising it.

In Texas, as soon as proposed regulations that affect AFDC or Food Stamps programs are printed in the Federal Register, the Division of Investigation of the Department of Human Resources examines them from the point of view of potential loopholes for fraud and abuse. (Some members of the Investigation Division came originally from the Criminal Intelligence section of the state police.) In the case of the Food Stamp Amendment and regulations of 1977, the Division made its report to the Commissioner of Human Resources, who in turn forwarded the statements of problems identified to the members of the Texas Congressional delegation. Although the impact of this effort is not yet clear, it did provide a written record of the problems uncovered, and thus an incentive to legislators to address them.

At our research sites, vulnerability reviews of proposed regulations for existing programs tended to occur by chance rather than routinely. We concluded that the practice of publishing proposed Federal regulations in the Federal Register and submitting state regulations to widespread review for the purpose of surfacing objections and obtaining ratification and support does not appear to ensure that the proposed text will be reviewed in terms of the potential for fraud.

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IV SPECIAL-PURPOSE APPROACHES TO THE PREVENTION OF FRAUD AND ABUSE

> "We found some agencies with no control systems, we found some with none but human systems where the risk of fraud and abuse was very low because of good management, and we found some with very elaborate systems that didn't work."
>
> Speech by Alfred D. Ulvog, Jr. at the 1979 Colloquium on Detection and Prevention of Fraud and Abuse of the Association of Government Accountants.

A. The Context for Prevention Activities

In theory, it is the job of every staff member, service provider, or benefit recipient to prevent/detect/report fraud and abuse in Government benefit programs. In practice, program staff have other tasks and providers and benefit recipients have other goals. Thus existing programs must develop expertise in identifying fraud and abuse, determining appropriate remedies, implementing the remedies, and assessing the success of the remedies in place. Financial support at the operating level is required not only because the problems arise at that level, but also because, as we have seen, the more complex solutions required at the State and Federal levels often simply generate a new set of problems at the operating level.

Some existing systems have established Management Control units which assist in curtailing fraud and abuse, although this is usually not their main mission. Quality control units or monitoring units have as their task the identification of errors, some of which result from fraud and abuse, or waste and mismanagement. However, these units usually focus on program performance where the strongest incentive is to address routine procedural errors rather than the ones that most affect the fiduciary trust. Quality control units have accountability for suggesting workable remedies to correct errors, but not necessarily to prevent fraud and abuse; thus, their effectiveness in preventing fraud and abuse is limited.

Audit units have as their main mission the examination of transactions and procedures from the point of view of correctness and compliance. Although audit units often uncover frauds and abuses, they may not notice a ghost recipient or ghost provider that has been established in compliance with all required procedures. They may not report as an abuse a service that was provided within the constraints of the program, but is unnecessary, ineffective, or even harmful. Indeed, the significance of a transaction or procedure that is procedurally in compliance with program requirements but not with prudent business or professional practice may not be apparent to an auditor not specially trained in detection of fraud and abuse.

Investigation units have as their purpose investigation of complaints, from program staff or the public, in sufficient detail to allow criminal prosecution, or administrative sanctions where those remedies are appropriate. An investigation unit may suggest a remedy to a systemic problem, but that is not their mission and they are not usually held accountable for suggesting such remedies.

Having investigation, quality control, and audit units in place can generate a false confidence that fraud and abuse are under control. The assumption from above is that, if anything were wrong, the existing systems would reveal it, a supervisor would know it and would have done something about it. For these reasons, prevention of fraud and abuse must be an assigned mission separate from investigation, quality control, and audit if it is to occur reliably and not just as the result of chance or a scandal.

B. Investigation, Quality Control, and Corrective Action Units

The remedy mandated by the AFDC and the Food Stamp Program to integrate these functions is exemplified in the Texas and South Carolina Programs. Both states have established a Corrective Action Committee that includes representatives of Investigation, Quality Control, the Training Division, and other units. All these units operate within the Department of Human Resources.

The Investigation Division of the Texas Department of Human Resources (DHR) reports directly to the Commissioner of Human Resources. It is responsible for investigating complaints arising from Quality Control checks of AFDC and Food Stamp cases, for investigating child abuse cases, and for investigating any allegations of employee misconduct in the 12 DHR regions in the state. By Federal law, it cannot investigate fraud and abuse of Medicare/Medicaid. It also reviews proposed laws and regulations that will affect its missions.

The Division has a staff of 170, down from a peak of 225 in 1976. It was established in 1974, and from the beginning included persons who had been members of the Criminal Intelligence Division of the Texas Department of Public Safety (the state police). Under the current Commissioner of Human Resources it has a budget (separately appropriated every two years by the Legislature) of $4 million.

In addition to investigating complaints and reviewing proposed legislation, the Division carries out research (for example, a study to see if undocumented Mexican aliens were receiving food stamps or AFDC in border counties, and a recently begun study of disaster relief). Also, four persons are assigned part-time to prepare training materials, such as a handbook on child abuse investigations for local case workers, and materials for submission to the Continuing Education Branch (the DHR training unit).

The Investigation Division provides one member of the Corrective Action Committee and also submits information to that committee and to the Policy Review section of DHR which puts out procedure manuals.

Quality control, using a random selection process, is carried out separately in each region within Texas. Where a problem is found that may entail fraud or abuse, the Regional Director refers the problem to the Investigation Division. Other problems that appear to need resolution may be referred to the Regional Corrective Action Committee, which may in turn refer them to the Policy Review section, may request a training course from the Continuing Education Branch, or may deal with them administratively. No budget is available.

The DHR Corrective Action Committee includes members from various DHR sections and meets monthly. It reviews the reports from the Regional Corrective Action Committee to identify statewide patterns, and considers recommendations from the Investigation Division. It can request Policy Review to provide clarification of procedures or it can request a Continuing Education Branch to develop a new training course. No budget is available.

In South Carolina, the Corrective Action Committee includes county representatives to ensure that remedies are feasible and that the implications of the change are considered. Training may be needed; field supervisors may have to spend extra time to ensure that the change is being properly implemented; several time-consuming meetings may have to be held, old forms thrown away, or schedules rearranged.

The three key units involved in this process are still separate; thus a separate effort needs to be made at a higher level to see that each one operates effectively. In general, assuring that identified problems are corrected is the most difficult task facing the three. However, it is important where units are separate to carefully define the mission and authority of each as well as the scope of the corrective action committee's responsibility. For example, in systems where the emphasis is on the recovery of funds to justify the existence of the investigation unit, rather than on the prevention of fraud and abuse, the investigation unit could be trapped into a role of only seeking evidence for the prosecution of crimes. An additional problem could arise in systems where the unit reports to a person with too little authority to force change, and thus cannot correct wrongdoing.

C. The Inspector General

Inspectors General were established in a number of Federal agencies by law, and the position has been instituted at other levels as well (Exhibit 2). The Inspector General, who usually reports to the federal or state agency head, the county agency head or the county or state chief elected official, is charged with providing a coordinated effort for the prevention of fraud and abuse. Whether the establishment of an inspector general position effectively prevents fraud or not depends on the extent to which the emphasis of the Inspector General is on ensuring the integrity of benefit programs.

The office of Inspector General--which can include the functions of quality control, audit, investigation, and the corrective action committee--can be very effective. Not limited to responding to complaints as is the

Exhibit 2

EXAMPLES OF THE OFFICE OF INSPECTOR GENERAL

New York State (Single Agency)

The Office of the Welfare Inspector General (OWIG) in New York was legislatively established within the Executive department in 1971. In 1975, the office was transferred to the Department of Audit and Control under the independently elected State Comptroller. The OWIG has four statutory functions:

- To receive and investigate complaints of alleged abuses, suspected frauds, and other violations of the welfare system.
- To receive and investigate complaints of alleged failures to enforce the State's laws regarding the employment of welfare recipients.
- To investigate complaints of alleged failures of local officials to comply with State laws and regulations regarding welfare administration.
- To conduct any investigations of the operations of the State Department of Social Services and local social services districts to ensure the proper expenditure of welfare funds.

Budgeted at $500,000 in 1971, the OWIG's budget is now approximately $2,000,000. Since FY 1976-77, the Federal government has reimbursed the State by providing more than 50% of the office's budget.*

Massachusetts (Many Agencies, Limited Focus)

In Massachusetts, the function of Inspector General has been legislatively established very recently, and only after serious political conflict among various groups were resolved through compromise. The IG's jurisdiction will be limited to construction (procurement of goods and services for State and County building programs); the IG will be appointed by the unanimous vote of the Governor, Auditor, and Attorney General; and, lastly, subpoena powers will be subject to approval by a multi-member council.

*1977-78 Annual Report, Office of the Welfare Inspector General, State of New York.

Exhibit 2 (Concluded)

However, the Massachusetts IG will presumably work closely with the two-year old, five-member State Ethics Commission (SEC), from which the IG bill received a great deal of support. Similar in many ways to California's Fair Political Practices Commission, the SEC has a mission related to monitoring the reporting requirements of public officials. There are four specific functions:

- Administration of conflict-of-interest statutes
- Administration of the financial disclosure law.
- Investigation of alleged violations of the above laws.
- Review and evaluation of the impact and effectiveness of financial disclosure and conflict-of-interest statutes.

Institutionalization of such mechanisms as the IG and SEC, coupled with Massachusetts' active and vocal good-government constituency is expected to pressure both the Legislature and Executive branch to control fraud both within and outside government.

investigation unit, the Office of Inspector General can carry out such functions as vulnerability assessment and "live testing"* as well as management and fiscal integrity audits. However, organizational separation from the implementation of remedies can cause problems if no clear link is established between the Inspector General mandate to provide effective reform and the operational authority to make changes.

An Inspector General who reports to the accountable elected official, for example to a county executive or Attorney General, can look at several benefit programs at once to see where their field application may allow interactions that can be abused or used to perpetrate fraud. For example, many agencies providing benefits to individuals use the individual social security number as an identifier. If the Social Security Administration responds to each agency request for verification of a number individually, then the burden grows very large very swiftly, and the chance that someone will notice a duplicate request shrinks. If the Inspectors General can solve the problem through random verification and audit procedures, all of the state's agencies as well as the SSA would benefit.

Inspectors General in similar agencies in different states can also create an information network to speed the communication of information about new types of fraud and abuse or new remedies.

*Live testing is discussed on pp. 47 to 48.

D. Peer Review Units

In many government benefit programs, the provision of some service rests on professional judgment rather than on conformance to objective criteria. Because objective criteria have not, and perhaps cannot be developed for such services, and because efficacy cannot be measured except after the fact (the patient recovered, the disabled person is now successfully employed), peer review is the only alternative. A group of physicians, social workers, or loan officers may not be more efficacious in prescribing or predicting than the one whose work they are reviewing, but together they can construct a consensus that maps the boundaries of standard practice.

Peer review is of special concern in terms of containment of medical costs reimbursed by Medicare/Medicaid, or other third-party insurers. For example, the doctor who puts down a suspected malady and orders a seemingly unrelated test to confirm his diagnosis may or may not be an incompetent doctor. He may be overly cautious or he may own the laboratory that performs the test and Medicare or Medicaid pays for it, thus enriching himself rather than helping the patient.

The necessity for peer review in the Medicaid/Medicare program is indicated by the fact that states are increasingly requiring a second opinion where certain types of surgery are to be paid for under Medicaid. Professional Service Review Organizations (PSRO's), although not constituting true peer review, are a positive step forward until the problems within the Medicare/Medicaid system are given full recognition by the American Medical Association and other professional associations and journals, and ways are found to incorporate the findings of peer review into effective reform of the Medicare/Medicaid system.

Peer review has been discussed for other programs but not yet implemented. The problems of peer review in the provision of social services and types of benefits for--say--the aging or disabled have yet to be addressed, although the need is increasingly being recognized (see Exhibit 3).

E. Vulnerability Assessment Programs

1. The power of vulnerability assessment. A vulnerability assessment is an examination of a program in operation to find weak spots. HUD says that a vulnerability assessment entails "an in-depth analysis of such features as goals and objectives, method(s) ..., beneficiary and eligibility criteria," and should "contain suggested management controls and minimum staffing levels."[1] Vulnerability assessment can also point out areas where problems could occur so that corrective action can be taken to head off a loss or scandal arising from fraud or abuse.

Vulnerability assessments can be carried out from records, including audit records, or from records plus observation. For example, an auditor examining the "Authorization to Purchase" distribution system in New York City noted that in some cases the authorizations were kept in a room whose access was not limited or restricted to those persons directly involved in

Exhibit 3

EXAMPLE OF THE POSSIBLE UTILITY OF PEER REVIEW

For good reason, no definition of a handicapped child was included in Public Law 94-142 (Education for All Handicapped Law). Thus, the decision as to whether a child is handicapped or not may rest on judgment if the handicap is not an obvious one such as blindness, deafness, or cerebral palsy.

A few school districts, to avoid becoming legally liable for the costs of psychotherapy, are refusing to allow it to be recommended in individual educational plans and are avoiding classifying children as emotionally disturbed since psychotherapy might be an implicit response to such a classification. Peer review might prevent the withholding of benefits that standard practice would include. (The problem of whether or not school districts can afford to provide a free and appropriate education to every handicapped person over 3 and under 21 is a separate problem from implementation of the program free of abuse.)

In one school district, when 57% of the eleventh graders failed a proficiency test required for graduation from twelfth grade, those failing were declared to be handicapped and in need of special education. Students so classified are excused from taking a proficiency test to graduate and special funds are made available for their education under P.L. 94-142. Peer review might indicate that at least some of those classified as in need of special education did indeed not fit any definition of a handicapping condition such as emotional disturbance, learning disability, or mental retardation.

Source: SRI International, research in progress.

the processing of the authorizations. The auditor also noticed that because weighing equipment was inaccurate, the count by the post office of the number of authorizations processed through the mail was routinely different from the number recorded as being sent out, making it impossible to tell if a shortage had occurred in transit. It was not clear that authorizations were being stolen from the storage room, or that they were being stolen between weighing and mailing, only that they could have been.

1. Using vulnerability assessments to prevent fraud and abuse. The HUD Inspector General's Office carried out an "operational survey" of the Section 8 Leased Housing Program in 514 of the 8,100 projects. This 1979 survey identified "management irregularities" in 72 projects and "tenant irregularities" in 61--some of the "irregularities" qualifying as fraud and all of them as abuses. However, rather than contenting themselves with turning over the cases for prosecution, the Office staff went on to identify

the operational aspects of the system that had allowed the "irregularities" to occur, and to recommend corrective action to prevent recurrences.[3]

A Department of Agriculture Inspector General's vulnerability assessment of the summer feeding program in 1979 indicated that many of the opportunities for abuse identified in 1977 audits in one large city had been eliminated, for an estimated saving of $30 million.[4]

2. Justification for vulnerability assessments. The cost of a vulnerability assessment is primarily the cost of sufficient skilled staff to carry out the assessment, such as auditors or trained investigators. (Auditors in private business, for example, start at $14.60-15.84 per hour in California).

The need for skilled staff implies the need for staff who are experienced at recognizing problems, but are sufficiently removed from the situation they are investigating that they do not assume they know how the system operates. Furthermore, the skills must extend beyond identifying problems to identifying or developing feasible corrective actions. A large county or city agency might be able to devote the necessary funds for a vulnerability assessment staff. For smaller jurisdictions, however, state-level or regional staff would probably be the most cost effective alternative.

Vulnerability assessment, whatever it may be called in a particular state, is not amenable to precise cost-benefit analysis; many of its benefits are unknowable. HUD's method of extrapolating from a sample to the whole does not provide a reliable estimate of the money to be saved by foreclosing a specific opportunity to cheat, although it does suggest a possible minimum. In any case, measuring the benefits only in terms of funds to be recouped would be logically indefensible. Prevention of fraud and abuse means that unidentified frauds are prevented as well as those that are caught, and that money does not have to be spent in pursuing perpetrators or collecting the repayments.

3. Methods and programs of vulnerability assessment. In HUD, the Office of the Inspector General carries out vulnerability assessments; the same happens in the Department of Agriculture, the Veterans' Administration, the Department of the Interior and HHS. For programs administered by SBA and several other agencies, vulnerability assessments are conducted by GAO. San Diego and Los Angeles counties have sophisticated vulnerability assessment programs for welfare.

Although many states and counties investigate only complaints and do not make any organized or formal effort to examine the operational system, some federal agencies have developed extensive procedures for the performance of risk or vulnerability assessments; as illustrated by the following example from the Veterans Administration Office of Inspector General.

Exhibit 4 is an example of an assessment methodology used by a Federal Inspector General.

Exhibit 4

METHODOLOGY USED TO PERFORM RISK ANALYSIS

I. Purpose

To revise the methodology used to perform risk analysis to more effectively analyze existing systems and programs, to determine primary weaknesses permitting fraud, abuse and error or impacting on efficiency, economy or effectiveness, and; to obtain preventive measures and improvements.

II. Methodology

A. Focus. Previously, the focus had been on the macroreviews of VA programs and operations assuming that reports and data were available to provide the basis for in-depth analytical reviews to identify those areas vulnerable to fraud, waste, and abuse. While such information is available for some programs--most notably medical--it varies in depth and scope making macroreviews only occasionally possible. Therefore, we are planning the following options to use in assessing VA programs and operations.

1. Program or Operation Overview. The concentration will be on an entire program or operation to identify general or broad vulnerabilities. Independent validation may be used to establish information for recommendations for policy or procedure changes, or application of audit or investigative resources. (The Loan Guaranty Program and all its aspects could be an example of a program overview.)

2. Functional or Activity Review. The concentration will be on one or more principal parts of a program function or activity. In some cases, these may be better categorized as sub-programs. While available information from reports will be analyzed, independent verification will be usually necessary. (Statistical quality control could be an example of a functional review.)

3. Specific Control Assessment. Known or suspected weaknesses will be explored to determine the potential scope of the problem, causes, and policy or procedural gaps. Knowledge of these weaknesses (real or potential) may develop from audit or investigation reports, hotline trends, or our awareness of "outside" control breakdowns (IG Semi-Annual Reports, or media). The "outside" examples will be explored to determine whether such deficiencies exist in similar VA programs or operations. (The

Exhibit 4 (Continued)

recent accountability of transportation tokens is an example of an area for specific control assessment.)

B. Guidelines. The Risk Analysis Methodology addresses the manner in which the staff can: (1) identify vulnerable areas for fraud, waste and abuse in VA programs, (2) identify vulnerable areas in benefit of health care services for beneficiaries; and (3) extend the identification process to examination of alternatives which will improve the efficiency and economy of VA programs. The following four steps maintain a logical chronological sequence; however, this does not prohibit sections of one step being performed before a prior step, given limited staff and program constraints. The extent or degree to which the steps will be performed will vary depending on the focus of the risk analysis.

Step 1. Define the mandate, objectives and mission of the program or activity. This step will provide an overview of legislative and regulatory dictums for a given activity and will assist in determining the degree of managerial flexibility in programmatic direction and organization.

Step 1 can be either a background preliminary step or a fully integrated analytic exercise. The analysis may find the program in compliance with a statute or regulation which is operationally outdated; thus, contributing to wasteful practices. The major recommendation would focus on a change in law or regulation, thereby permitting the program to function in a more efficient manner.

Step 2. Describe and assess the present structure and operation or activity. This step will demand a concise description of the program or activity's operation, utilizing VA manuals and interviews with appropriate officials. Areas of evaluation include:

a. Planning

b. Organization

(1) Assignment of program responsibilities

(2) Segregation of duties

(3) Managerial controls over program performance

Descriptive analysis and a comparison of program guidance to actual procedures, in light of program goals, may lead to a recognition of a vulnerability in the management or a lack of management controls over a program function.

Exhibit 4 (Concluded)

Step 2 starts the formal risk analysis process. Portions of the program structure or process, including vulnerabilities, may be derived from reviews of existing reports (audit, investigation, GAO, etc.) and information available from the departments or staff offices. An indication of the magnitude of the vulnerability is an essential result of Step 2.

Step 3. Assess viability of change. Once a vulnerability has been identified, review the variety of alternatives that might eliminate or weaken the risk potential. The number of possible alternatives appear to depend in part on the type of VA program; some programs, notably in income security, have counterparts in other federal departments, while some health care activities are less likely to have counterparts, often because of the sheer size of VA's mandate. Thus, in the former case, alternatives may evolve more readily from an analysis of similar systems. The outreach effort to identify similar systems in other governmental agencies or in the private sector is essential to increase our awareness of and the reasons for successes and failures in these like processes.

Step 4. Integration of Steps No. 2 and No. 3. This final step develops recommendations by weighing alternatives against the present structure. Cost-effectiveness considerations are a keystone to this process. In other words, alternatives must be sensitive to increases in the Agency's resources (i.e.: labor, expenditures and capital purchases) to avoid recommendations of enhanced accountability that are cost-prohibitive. The purpose of cost-effectiveness is to provide, at whatever level of sophistication, some sense of the price of improvement.

At this point in the analysis, the reiterative process is initiated. Step 1, a review of the program's mandate, re-enters the evaluation to ascertain possible legislative or regulatory change needed to improve program accountability.

Source: Veterans Administration Office of Inspector General

A variant of the vulnerability assessment is the Service Delivery Assessment (SDA) approach used by the Inspector General of HHS. SDA's are an integral part of the on-going program evaluation effort; they are intended to provide top department officials with a "snapshot" of how Federal programs actually operate at the local level. To carry out such an assessment, clients and/or providers of services under HEW benefit programs are systematically surveyed regarding program intent and operations. The reports from these assessments, made directly to the Secretary, provide "field level" insights and an early warning of problems such as inadequate eligibility requirements or requirements for unreasonable certifications. Once the reports have been reviewed by the Secretary, recommendations are made as to procedural improvements, staff training, or changes in program focus and plans are established for implementation. The SDA is not as likely as other types of vulnerability assessment to uncover collusive fraud between employees and service providers.

F. Vulnerability Assessment Using Live Testing

Live testing is similar to undercover police work or the various FBI "scam" programs, with the exception that its purpose is to uncover vulnerabilities in the operational system so that they can be corrected, not to gather evidence for legal prosecution of a crime. One incident may be sufficient to prove that the system is vulnerable. The need for a test is indicated by a vulnerability analysis whose results have been ignored, by a recognition during audit of the absence of effective internal controls, or by an observation that controls are not being enforced.

Live testing has the power to prove to a manager that "it can happen here." Live testing is particularly powerful in those situations where managers refuse to believe that their own people could be vulnerable, where the situation has deteriorated to the point where dramatic action is needed, or where it is necessary to demonstrate that the system abuses the client.

On the one hand, if live testing results in corrupt or careless system employees being replaced, weak procedures strengthened, and holes plugged, the very drama of the testing and the resulting discoveries can heighten the perception of employees and clients alike that important improvements have been made. On the other hand, live testing can be extremely destructive to morale if it is revealed but is not followed immediately by corrective action. Often, the results of live testing--particularly in those cases where the evidence is not sufficient to permit criminal prosecutions--are revealed only to management.

If the system is tested and found to be sound, or its integrity intact in spite of the identified vulnerability, nothing has been lost. If the system is tested and found to be conducive for fraud or abuse then it is incumbent on management to correct or amend it. The corrective action justified by the live testing is virtually unavoidable because the information provided by the test is available to levels in the system above the level where the wrong has been revealed. However, the fact that action is unavoidable does not mean that effective action will be taken; managers

can still take refuge in the "bad apple" theory, and fire an employee without altering the system.

2. Using live testing to prevent fraud and abuse. A journalistic example of live testing was 60 Minutes expose of a medicaid-abusing medical office in Los Angeles. Two young people posed as patients, one on Medicaid and one not. The patient claiming no third-party reimbursement was charged $23 dollars and the patient claiming Medicaid was given tests and care billed at $278.

In a California county, live testing disproved the assumption that a scandal resulted solely from the dishonesty of a former employee. Those conducting the test entered several fictitious providers into the system. These entries went undetected, showing that the system had no dependable way to screen out or detect invalid vendors/providers between audits.

3. Justification for Live Testing. In one of our project sites, the cost of live testing was estimated at about 50-60 hours of mid-level auditor time for the test itself, plus the time needed for writing the reports involved. This is a relatively small amount and, where the test is expected to show vulnerability to fraud that could total tens of thousands of dollars, can easily be justified. Consider that where the possibility of introducing a fictitious vendor into the service provider system of a large program exists, the maximum that could be lost would be the average monthly bill for a fictitious vendor multiplied by the number of months between audits and multiplied again by the number of fictitious vendors that might be introduced.

4. Methods and programs. In one county, the Division of Audit and Control carries out confidential live testing of internal controls and procedures to demonstrate the need for corrective action.

Before the test, a formal test plan is written up, with a clear statement of the objective of the test. The District Attorney's office is notified that the test will be carried out, and what is proposed. For example, in one test fictitious vendors were successfully introduced into the payment system and payment was made to them on the basis of fictitious vouchers, in an experiment that could have resulted in five counts of grand theft. Only one of the fictitious payments was identified as irregular by the agency being tested, and then not until more than three weeks after the fact. The test showed clearly that mandated controls were not being enforced and that more controls were needed; the results of the test were reported to the appropriate management in confidence.

G. Hotlines

1. The power of the hotline. Hotlines provide a way of linking the public directly to the system. An employee for example, can bypass a manager who has refused to act. Management can find out about problems that don't show up in management information systems or monthly meetings with staff. Although they are often started as a public relations gesture and not expected to provide much help, some hotlines such as those installed for the welfare programs in the State of Washington and by the Department of Social

Services in South Carolina, can be of great utility, in that the particular information provided can be gathered in no other way, and they provide an opportunity for correcting public misunderstandings about government benefit programs.

Hotlines also provide an opportunity for the public to take responsibility for correcting fraud and abuse. To convince the public of their role in preventing fraud or abuse, fraud prevention specialists in the State of Washington prepared a wide variety of TV and radio public service announcements. One state senator agreed to tape the following message:

> Most people who receive welfare in a time of need are honest. The few who try to get money or food stamps illegally are committing fraud, a felony offense. If you suspect a case of welfare fraud, you may report it anytime, day or night. Call the DSHS toll-free Fraud Hotline: 1-800-562-6906. All reports will be investigated promptly and information kept confidential. You may remain anonymous if you prefer.

Another senator told the public:

> Public assistance is intended for honest people in a time of need . . . not for cheaters. You can help stop people who abuse the welfare system. Report any situation where you believe someone is lying about their income in order to claim welfare funds or food stamps. Call the Welfare Fraud Hotline, toll free 1-800-562-6209. All reports will be investigated promptly and information kept confidential.

These 30-second spots were widely distributed throughout the state and broadcast at no cost under the Public Service Announcement provisions of the Television Licensing Act.

2. Using hotlines to prevent fraud and abuse. Washington State's welfare hotline is staffed during normal working hours and records messages during evenings and weekends. Each complaint is checked for validity, and is then passed to the Office of Special Investigations for action; an exaplanation of what action has been taken, or of the regulations where no violation has occurred is offered to each complainant willing to identify himself or herself.

Usually no more than two out of five complaints that come in over hotlines will have sufficient substance to even permit investigation. However, approximately 80% of the complaints made to the GAO hotline involved allegations serious enough to warrant investigation. Elmer Staats reported that 30% involved allegations of impropriety on the part of a Federal employee, 13% alleged impropriety involving a Federal employee and others, 22% alleged improprieties by a contractor, provider, or grantee, 19.2%

alleged impropriety by an individual recipient, and the rest alleged improprieties (including tax cheating) by other individuals or corporate entities.[6]

3. Methods and procedures. Washington state officials stress the importance of pre-operation planning, pre-operation publicity and cooperation among citizen groups, prosecutors, audit and investigative staff and other interested parties prior to implementing a hotline. Continuing publicity, especially as related to costs and results of the hotline, is also very important. The public and the legislative body must continually know that the system is in operation and is cost-effective.

The California state hotline is primarily designed for state employees who want to disclose improper government actions. However, it is also available to all citizens wanting to report perceived wrong-doing. Created by legislative action in 1979, the hotline is staffed by the Joint Legislative Audit Committee, Office of the Auditor General. As in Washington, calls are taken in person during working hours and by recorder on nights and weekends. Although calls were originally answered by auditors this job is now being taken over by retired senior citizens who are hired part time at the minimum wage. Calls are logged (see Exhibit 5 for an example of a hotline log form) and referrals made to either the Auditor General's own audit staff or to the appropriate agency auditors. If a case is referred outside of the Auditor General's office, follow-up is made in 30 days to check on the agency's response. Reports on dispositions of all cases are made to the legislature.

4. Cost. The most recent statistics in Washington indicate the following for a three-year period:

Total calls received	8,949
Calls summarily verified and sent to local office for verification	3,528
Referrals to Office of Special Investigations recommending follow-up	826
Total overpayment amount established	$438,956
Total cost of hotline	$ 37,419
Cost ratio	$1.00:$11.72

California's hotline will cost the public approximately $100,000 a year, all but $1,200 for personnel. The hotline has been in full operation only a few months so no analysis has been made of the cost-effectiveness of the line. However, officials stress that cost-effectiveness will be judged as

Exhibit 5

CONTROL NO. ____

OFFICE OF INSPECTOR GENERAL
FRAUD CONTROL AND MANAGEMENT OPERATIONS

Hotline Complaint Record

Date: ________________ Time: ________________

Caller's Name: ________________

Location: ________________

Telephone Number: ________________

Synopsis of Problem: ________________

Who is causing problem? (Subject): ________________

Address or location and title: ________________

Complaint Details: ________________

Fraud Control Officer's Comments: ________________

Disposition: ________________

Signatures: ________________ ________________
Fraud Control Officer Director, Fraud Control Div.

much on the value reflected in increased public confidence in state government as on dollar cost effectiveness. Hotline officials encourage others who are planning hotlines to consider staffing the phones with outsiders, such as retired, skilled volunteers rather than tie up investigative or audit resources.

H. Fraud Alert Bulletins and Newsletters

1. The power of bulletins and newsletters. Linking jurisdictions together by means of a fraud alert bulletin or a fraud and abuse newsletter--or even a newsletter put out by the Investigation Division (as in Texas) or a regional anti-fraud organization (like the Eastern Regional Council on Welfare Fraud)--allows information to be made quickly available on a wide scale. The literature provides several instances where an investigation was started or a procedure was changed because an alert staff member had read a particular fraud alert bulletin and noticed a suspicious circumstance as a result--something that would have passed unnoticed otherwise.

2. The use of bulletins and newsletters. Fraud alert bulletins are issued for several welfare programs, but they are aimed almost exclusively against client fraud. However, the U.S. Department of Agriculture IG periodically issues fraud alert bulletins that go beyond client fraud only. In a 1979 bulletin on the Food Stamp Program, typical employee and provider frauds such as falsifying records and using fictitious names were discussed in detail. In a printed message to the reader at the end of the document, the bulletin states:

> You have an opportunity to play a part by considering the information on the preceding pages and being alert for the indicators of fraud... If you think "something is wrong"--and that is how it usually begins--see to it that your suspicions and whatever facts you can present get to the attention of supervisory investigative personnel.

The bulletin is widely distributed throughout the Food Stamp program.

GAO reports on abuses in Federal programs act to some degree as fraud alert bulletins for program implementation systems, but they seldom provide the detailed information necessary for prevention of the frauds and abuses identified. Nevertheless, they sometimes provide recommendations or helpful hints, such as the use of portion ladles in school lunch and child care feeding programs to standardize serving sizes, or the suggestion that bills be checked for reasonableness before payment, to avoid discrepancies such as 2000 servings of milk purchased, but over 5000 meals claimed.

One of the most impressive examples of a monthly newsletter is that of the Eastern Regional Council on Welfare Fraud. In addition to routine reports on meetings and conferences, each issue has a review of current legislative activity and a discussion of the implications of new, revised, or proposed legislation or regulations on the fraud and abuse problem. Special studies done by members of the council are often reported or summarized and an assessment made as to the use other members might make of the study.

I. Summary of Specific-Purpose Approaches

No specific-purpose approach will protect the integrity of a government benefits system unless:

- It has strong support from the top, including staff and budget.
- It has the proper emphasis--preventing fraud and abuse rather than "paying for itself in funds recovered" or "prosecuting welfare cheaters."
- It has across the board support for its recommendations.

Adding a special-purpose organization or function to a system adds cost but the absence of an organizational feature whose mission is to prevent fraud and abuse has been shown to cause long-term damage that extends far beyond program costs. It must be remembered that the GAO found fraud and abuse in every government benefits program it investigated, and that it did not claim to have found all of the fraud and abuse in any of them. If the cost of a dedicated fraud prevention unit or program is not supported, then the message is clear that "cheating is okay."

Special-purpose organizations by themselves will not prevent fraud and abuse; any organization can be hamstrung by lack of staff, can be badly directed, can be given a mission such as the recovery of funds that is almost irrelevant to prevention. However, vulnerability assessments, live testing, hotlines, fraud alert bulletins and newsletters do have some inherent value to preventing fraud and abuse, and to the extent that they are carried to completion have the power to correct flaws, uncover fraudulent or abusive practices, and keep the public continually aware of both the dollar and moral cost of fraud and abuse to society.

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V USING ROUTINE ACTIVITIES TO PREVENT FRAUD AND ABUSE

In addition to the special-purpose units and activities described in Section IV, routine activities such as periodic audits, training, verification of information from service providers and clients, and public education efforts can be useful in the prevention of fraud and abuse.

A. Periodic Auditing

1. Government auditors. Although auditing has long been required for most government benefit programs, it is often scanted, as recorded in the GAO studies of a variety of benefit programs, including CETA, CSA, child-care feeding programs, and others. In New York's Medicaid program, part of the problem of recovering overpayments was a result of the audit backlog and the disparity between the size of the audit burden and the number of auditors available; thus, in-house auditing, although potentially of great value in preventing fraud and abuse, is not always adequate. In some cases, the kind of detailed reconstruction of transactions that the conventional auditing model requires is so labor-intensive as to be inappropriate as the main tool for the prevention of fraud and abuse in government benefit programs, although the information as to types of transactions that have been abused remains essential.

2. Contract auditors. Contracting for an outside program audit can be very useful if the audit looks at program management as well as accounting controls and correctness of information, if the entity conducting the audit understands the operation of government benefit programs, and if there is strong support from the top to prevent fraud and abuse. In addition, contracted auditing costs less than maintainining an auditing staff in house. Some accounting firms have specialized staff and procedures for auditing government benefits programs. Others have training programs geared specifically to fraud problems, and still others publish specialized materials such as guides, handbooks, and texts.[1]

B. Training

1. The power of training. Training is potentially the most powerful tool in preventing fraud and abuse because it has the greatest likelihood of being able to produce changes in individual actions. In addition to routine training in how to carry out the tasks assigned, training should also address policy issues affecting fraud and abuse, the costs and consequences of fraud, and problems of fraud detection.

All training has a philosophic base and rests on assumptions that may be either explicit or implicit. Usually the uniform philosophical base of a program is addressed in employee orientation training. This training often assumes that the worker shares the official position as to the purpose of determining eligibility and the moral rightness of penalties for falsification. However, according to many of the groups we visited in Texas, South Carolina, and California, there is a perceived conflict between the

mission of providing service and benefits and the mission of preventing fraud and abuse. Many administrators and legislators believe that striking the balance between unwarranted intrusions into personal life or interventions that might violate civil rights and fraud prevention is, if not impossible, extremely difficult, and thus that a minimum amount of fraud is inevitable.

However, benefits programs are in effect fiduciary trusts: Training in fraud and abuse prevention should therefore reflect a philosophy that depends on safeguarding the integrity of the system.

2. Methods and programs. In the New York and South Carolina Medicaid programs, auditors are given specialized training for the auditing of third-party providers to detect the fraudulent use of Medicaid by persons who have other forms of health insurance. In addition, some states are giving training involving organizational improvement activities called "quality circles." In one Michigan welfare agency groups of employees meet regularly, on a voluntary basis, to identify, analyze, and solve problems. Primary emphasis is on productivity, and concerns fraud and abuse only in terms of error rate, but this type of participatory system is capable of considerable power. Investigators in Texas received on the job training specifically aimed at preventing fraud and abuse through pairing trainee investigators from a criminal justice background with experienced social service personnel, trainees from a social work background with experienced investigators.

Because eligibility determination is the point at which most recipient fraud and abuse occurs, and in many cases the eligibility worker has enough information on the application to permit identifying the possibility of false information or fraud, training programs established for eligibility workers do tend to focus on some simple ways of heading off problems. For example, AFDC workers in rural Texas are instructed by trainers to examine the application information in the light of what they themselves know about the area (Does that employer really pay that little? Would the applicant really pay that much rent for living accommodations at that address?). Workers in South Carolina, where AFDC applicants must bring documents to back up their eligibility information, are instructed to examine the records in terms of whether one document supports another--for example, does the utilities bill suggest the same size house as the rent receipt?

In no state visited was there statewide training and curriculum devoted specifically to preserving system integrity and preventing fraud and abuse throughout the system. In no Federal benefits program was there programwide training with the same goal. However, in South Carolina, uniform training is provided by the state through a videotaped training package that permits small-group training in the field, rather than bringing field personnel in for centralized training sessions. Investigators in South Carolina are trained at a Federal school in Glynco, Georgia.

In San Diego County an interesting seminar was found that focused on informing managers of the costs and consequences of fraud. Given by staff from the County's Auditor-Controller Department, the seminar has the following objectives:

- To increase manager's awareness of the growing exposure to fraud and misuse of public funds.
- To provide information on the public's increasing concerns with fiscal integrity and the overall integrity of government operations and officials.
- To define the manager's and auditor's role in identifying and preventing fraud.
- To provide resource materials, checklists, and other guidelines for use by managers in evaluating their internal controls.
- To provide managers with more effective methods of identifying and preventing fraud.

Trainers focus on definitional issues (what fraud is and is not), the scope and magnitude of the problem, indicators of potential fraud (Exhibit 6), and what managers should do if they feel they have a problem. Case studies are used to place different types of fraud in the local context, and a multi-media approach involving taped presentation of material and slides provides background information. At the completion of the formal session, a question and answer period allows candid discussion of potential fraud problems and their solutions.

This seminar program has been very successful in San Diego, owing in large measure to the high level of interest the county's Chief Administrative Officer has shown. It was at his direction that the seminar was prepared and at his urging that department heads and others have participated. One secondary result is that a polished training package is available for use by officials from throughout the government service.*

C. Education

People (employees, clients, service providers, voters) learn about government benefit programs in many ways outside of the formal mechanisms put in place by program administrators or Federal agency policy. To mobilize support for the prevention of fraud and abuse in government benefits programs, it is possible to carry out a variety of educational efforts.

The extent of lack of information among potential clients is often underestimated. In many cases, people apply for Government benefits because they have an acquaintance who has done so. They may be unfamiliar with actual eligibility requirements and they may be unaware of the complexities of the program or of the difference that, for example, the value of their automobile makes to AFDC eligibility or being able to get a loan elsewhere makes to some FmHA loan programs. Public education programs through schools, through the media, through wide dissemination of bulletins and newsletters can alleviate this knowledge gap and alert those who are eligible that benefits are

*The entire package is available through the National Criminal Justice Reference Service.

Exhibit 6

CHECKLIST OF FRAUD SYMPTOMS USED IN SAN DIEGO SEMINAR

A. Recognizing Fraud Symptoms

1. Sample Checklist

The purpose of this checklist is to help you evaluate the potential for fraud in your area. This is not an all-encompassing list and does not "positively" identify staff who have or will commit fraud. Only by diligence and perception can management recognize what should command their attention. Remember, fraud cannot be prevented by any system of internal controls, audit surveillance, or managerial alertness, but awareness and deterrents can be devised to make it more difficult for wrongdoers to accomplish their acts, minimize their magnitude, or prevent long-term continuing frauds.

2. Diagnostic Checklist

	Yes	No	Don't Know
a. In considering candidates for positions (especially sensitive positions), is information gathered about their background, and is that information verified?			
b. Have you identified your sensitive positions?			
c. Are your rules regarding incompatible activities current, and are employees' activities reviewed to ensure they are not inconsistent or incompatible with their duties as County employees?			
d. Is there an orientation/training program for new employees that sets forth what is expected of them in terms of integrity and what the penalties are for abuse?			
e. Are the actions of employees regularly reviewed by supervisors, and are the actions of supervisors and managers regularly reviewed by top management?			
f. Are employees with decision-making powers required to record their decisions in writing, and to justify any deviation from existing policy?			
g. Are conflict-of-interest statements closely reviewed for completeness and potential areas of conflict, and are they filed in a timely fashion?			
h. Do you have a mechanism to take complaints from the public, record and investigate them and dispositions?			

Exhibit 6 (continued)

i. Are the complainants informed of the results of your investigation?

j. Are promotions, transfers, and dismissals properly documented and reviewed?

k. Are pieces of equipment where the records say they should be?

l. Do you have adequate safeguards to prevent employees from engaging in private business on County time or using County materials or equipment for private purposes?

m. Do you forbid outside employment that conflicts with County duties?

	Yes	No	Don't Know

n. Are cash overages reviewed to ensure the fund is not being manipulated and balanced with false vouchers?

o. Are cash shortages reviewed for trends that may represent unauthorized borrowings?

p. Do you pay attention to staff who make vague references to something wrong?

Often people are torn between their moral standards and their reluctance to get involved.

q. Are you aware that supervisors with personal problems frequently result in "poor housekeeping," failure to adhere to internal control procedures which, in turn, provide opportunities for employee theft - either by themselves or others?

r. Are you adhering to basic internal control procedures which require job rotation and separation of responsibilities?

Protection from fraud demands that work be subdivided so that no employee has complete control over any record or transaction.

s. Are your policies and procedures in writing to facilitate employee review, change, and checks for compliance, and are they clear and easy to follow?

Exhibit 6 (Concluded)

t. Do you have good communication links between management and staff? Good communication is essential if employees are to be aware of their responsibilities in the drive against malpractices and internal dishonesty.

u. Do you have good internal control procedures over the generation and flow of transactions?

In most big fraud cases, perpetrators have been able to insert bogus transactions without question or review.

v. Do you have a system of authorization and recordkeeping procedures adequate to provide reasonable accounting control over assets, liabilities, revenues and expenses?

w. Do you, personally, review budget status reports and resolve deviations from plan?

Is control exercised over forms which are used in the generation of cash, or potential cash transactions?

A "no" or "don't know" answer to any of these questions indicates a deficiency; you may not have the tools necessary to detect and/or control corruption.

x. Do you often find yourself referring certain problems to certain individuals because they are the only ones who know a particular system?

If they are the only ones who know the system, they probably also know that no one knows enough to be able to check up on them.

A "yes" answer to this question indicates a deficiency.

available. Publication of what is and is not fraud or cheating, and how much illegal practices cost the taxpayer can also be effective in creating a climate that will reduce fraud and abuse.

An example of the power of a news item is shown by a speech given by Inspector General Thomas F. McBride at the Regional Directors meeting of the USDA on June 9, 1978, in which he said:

"The publicity given the South Dakota Hay Transportation cases had an immediate result. At 9 A.M. the next morning, farmers were lined up fifty deep in ASCS County Offices, waiting to pay back the money they had over-charged the Government. That is impact!"

A number of agencies (Department of Agriculture, Division of Investigation in the Texas Department of Human Resources) put out formal press releases when a criminal trial verdict is issued in a fraud case, because there is no other way of routinely ensuring that the press is aware of such cases, some of which may have little human interest value. In addition, the Texas Division of Investigation also routinely issues a press release when indictments for fraud are returned, and tries to include in the press release information about how the loophole that allowed the fraud has been closed.

Stories by investigative reporters are one way of informing the public about incidents of fraud and abuse in government benefit programs, but since the stories are written to emphasize the scandalous ("welfare queen") aspect of the incident rather than to prevent further occurrences, they most often result only in increasing public disgust for the whole program (sometimes for government itself). A useful technique in such cases may be to have the agency's public information officer, as is the case in New York's Office of Welfare Inspector General, answer such an investigative reporting story by pointing out that in any such case, there are likely to have been members of the public who were aware of the fraud or of the abuse but did not report it (and may not even have protested it to the person involved).

An example of what education of clients can do is shown by the experience in Kent County, Michigan. Beginning in 1975, the Welfare Department began to deal with failure to report outside income as perjury, where only falsehood need be shown--not intent to defraud or actual theft. Publicity about the new approach resulted in the establishment of a hotline and in an increase in calls to indicate that jobs had been found and that welfare should either be reduced or discontinued. The error attributable to failure to report income in Kent County (usually one of the greatest sources of welfare program error) has declined to 0.3%.

South Carolina campaigns against welfare recipient fraud by relying mostly on envelope "stuffers," pamphlets, and posters. The welfare client is informed what constitutes fraud, what happens to those convicted of fraud, and what can be done to protect against fraud. Exhibit 7 is a checklist of questions that Welfare recipients are encouraged to ask themselves.

Exhibit 7

WELFARE RECIPIENT CHECKLIST

1. Have you told your worker about all the people living in your home?

	yes	no
a. a husband	( )	( )
b. a wife	( )	( )
c. a child	( )	( )
d. a friend	( )	( )
e. any other relative	( )	( )
f. any other person	( )	( )

2. Have you told your local eligibility worker about all the money you receive for yourself or your children from all these sources?

	yes	no
a. your job, full-time or part-time	( )	( )
b. your child's job	( )	( )
c. your family	( )	( )
d. your friends	( )	( )
e. child's father	( )	( )
f. rent	( )	( )
g. social security	( )	( )
h. workman's compensation	( )	( )
i. military allotment	( )	( )
j. V.A. benefits	( )	( )
k. disability	( )	( )
l. unemployment	( )	( )
m. savings, checking account	( )	( )
n. lump sum payments from social security or any other source	( )	( )
o. any other source	( )	( )

3. Have you told your worker about all all the property you own, have transferred; property you have sold; or property you are buying or selling?

	yes	no
a. a home	( )	( )
b. life-time rights to property	( )	( )
c. all cars	( )	( )
d. furniture	( )	( )
e. stocks, bonds	( )	( )
f. appliances	( )	( )
g. farmland/woodland	( )	( )
h. any other property	( )	( )

4. Have you told your worker about all insurance policies?

	yes	no
a. life	( )	( )
b. pre-burial contract	( )	( )
c. hospital	( )	( )
d. accident	( )	( )
e. any other type	( )	( )

5. Have you moved recently or plan to move? If so, have you given your new address?

yes ( ) no ( )

6. If you have a child over 16 who does not go to school, have you reported this to your worker?

yes ( ) no ( )

If the answer to any of the above questions is "no" visit or call your local worker immediately for your own protection.

Source: South Carolina Department of Social Services

One useful approach being used by some medical cost experts and medical economists emphasize to medical service providers that if fraud and abuse can be eliminated from Medicare and Medicaid, then fewer onerous and costly regulatory requirements will be imposed. Reimbursement systems in use in such countries as Holland and Sweden are held out as examples of the problems American medicine could face if costs keep rising so swiftly.

D. Summary

As we have seen in this section, fraud prevention requires affirmative, proactive measures. Fraud prevention can be effected using routine procedures such as audit, streamlining of the procedure under which a program operates, and education of employees and the public to raise awareness and to reinforce the concept of public responsibility for fraud prevention. And finally, it must be recognized that the large constituency interested in easing the plight of the needy must be balanced by a strong commitment to preventing the ineligible from cheating. Legislative bodies, agency directors, program staff, and the public must bond together in this constituency and pressure their peers to aid in controlling the problem.

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VI A GENERAL FRAMEWORK FOR ORGANIZING FRAUD PREVENTION ACTIVITIES

> "I . . . find essentially inexplicable the fact that we have not until relatively recently attempted to address these problems in a more sustained and systematic fashion, particularly since . . . it is beyond our capacity to prosecute each and every allegation of fraud . . . the only way to cut down on this problem is through the institution of procedures and systems which can go a long way toward preventing the fraud from taking place in the first place."
>
> Steven J. Solarz, Chairman
> House Task Force on
> Government Efficiency
> October 1979

While Sections III, IV, and V discussed fraud prevention activities, it should be clear that most of the examples are fledgling, fragmented efforts. In late 1979, the House Task Force on Government Efficiency reacted with surprise when those testifying on the fraud problem painted this picture of uneven attention to fraud prevention. Yet, what else could be shown? The very reason benefit programs are vulnerable to fraud makes the prevention of fraud exceedingly difficult. Benefit program operations often span two, three, even four, levels of government, their missions are staggering, and the seemingly infinite roles and responsibilities of jurisdictions and individuals are split and confused. With only a few exceptions, systematic inquiries into the "how" of prevention have been shallow and no comprehensive strategies have emerged to prevent fraud. The anti-fraud initiatives discussed have also been implemented without broad consideration of the causes of fraud.

This final section attempts to pull the variety of techniques together such that a "program" of fraud prevention emerges. Although we would like to bend to our emotional desire to term the prevention program a systematic, comprehensive strategy, we must not; there is much more to include if prevention includes such matters as changing the philosophical basis on which legislators, their staffs, and benefit program officials pursue their routine. Suffice it to say that what is presented here is a general framework for organizing discrete fraud prevention activities. Because our objective is to devise a programmatic approach that could be implemented, at least theoretically, at any level of government focusing on any or all benefit programs, more attention has been paid to the breadth and overall dynamics of the approach than to the details of any single activity. Once the framework is in place in a jurisdiction choosing to implement the approach proposed here, the details of each prevention activity could be tailored to the implementing jurisdiction's need by drawing on discussion in the foregoing sections.

A. Elements of a Comprehensive Fraud Prevention Program

Deciding to direct the always scarce resources of an agency or jurisdiction to the prevention of a potential problem when surrounded by actual problems may well take the wisdom of a philosopher and the strength and daring of an alligator wrestler. Furthermore, as with any endeavor within complex organizations, overall success depends largely on successful politics, strategy, and tactics. But perhaps more than anything else success depends on commitment--the commitment of the individual assigned to achieve a goal and the commitment of those establishing the goal and making the assignment. These qualities of wisdom, strength, and commitment exist in the public service and the need to prevent rather than react to fraud in government programs is as sensible as ever. Clearly, redirecting resources to combat fraud will mean challenging the status quo by mobilizing support, fighting for money through the budget process, and making organizational and personnel moves--all difficult, at best. In short, leaders in the anti-fraud movement are going to have to accept the cost of implementing change--their rewards, should they be successful, will be the satisfaction in knowing that they have upheld the trust placed in them by the public.

1. Elements of organization

> Each agency, in addition to having strong internal controls and balanced audit coverage needs to at least establish separate and distinct units in its Office of Inspector General, Office of Special Investigations, and/or Offices of Audits and Investigations.... Otherwise, nothing more than an organizational shift of responsibilities has occurred in the establishment of these...groups, and the effort may remain passive and reactive.
>
> Comptroller of the United States
> (op. cit., pg. 45)

a. The dedicated unit. Preventing fraud by implementing a strategy will require the establishment of separate and distinct organizational units having fraud prevention as a primary mission. Nothing short of a major commitment to fraud prevention will overcome the inertia that always seems to draw bureaucracies into passive and reactive roles.

b. Organizational options. A wide variety of formal organizations having missions related to fraud and abuse have been established throughout the government service. At the Federal level, the 1978 Inspector General Act mandated the formation of 14 new Offices of Inspector General. Implementation of the Act commonly brought heretofore separate audit and investigation functions together under a single organizational umbrella. Offices of Program Integrity charged with internal review of agency operation also exist in the Federal service, notably in the Department of Health and Human Resources. Of course, Federal law also requires establishment of program-specific investigative activities at the state level. Yet these efforts are not necessarily geared to fraud prevention.

Without the force of law, some states have gone ahead to form their own state-level Inspector General offices. As mentioned earlier, New York has had an Office of Welfare Inspector General (OWIG) since 1971. Organizationally housed within the Department of Audit and Control, the office has recently turned to systemwide reviews and preventive activities and away from the exposure of individual welfare scandals. New York also has agencies performing traditional audits and investigations as do most states and the OWIG is working well to complement these other activities.

In Massachusetts, a statewide Inspector General function has recently been established by state law. As in New York, the Massachusetts IG is widely viewed as a watchdog to ensure that government operations are running smoothly and honestly. The office is staffed by specialists in government, finance, and law. The IG reviews all state agencies periodically and makes legislative proposals to remove abuse or inefficiency from the system. It is a smaller version of the Federal concept, designed specifically for analyzing complex state programs and for taking a careful look at fraudulent practices affecting them. Massachusetts also has an interesting State Ethics Commission that has at least a related function--public information and education related to the ethics of officials, administration of the state's financial disclosure requirements, and provision of legal rulings on conflict of interest issues.

In most other states the audit and investigation of benefit programs falls under the purview of the Department of Social Services, Division of Investigations, the Auditor General, or the Attorney General.

The point here is that there are a number of options open for the organizational placement of a comprehensive, systematic, anti-fraud office (see Exhibit 8). Wherever it is placed the unit should have the status and "organizational power" necessary to ensure that it will be given complete access to programs, and that its recommendations will be taken seriously.

An example may prove useful: in 1979 HUD established a new office within the Office of the OIG. Known as the Office of Fraud Control and Management Operations and headed by an Assistant Inspector General, the mission of the new office is, specifically, to address fraud, waste, and mismanagement in the Department. With respect to fraud prevention, the new office is responsible for:

- Reviewing and analyzing Department programs, activities or functions to identify and isolate those areas considered sensitive to fraud and abuse.
- Developing and maintaining a listing of the management or internal controls for all HUD programs, activities, and functions which may be susceptible to fraud.
- Developing and implementing strategies that minimize the opportunities for the occurrence of fraud and waste.
- Providing leadership, and coordinating and participating in a Departmental committee and other Departmental activities dealing with fraud detection and prevention activities including planning, monitoring and resource requirements.

Exhibit 8

CHARACTERISTICS OF THREE TYPES OF FRAUD PREVENTION ORGANIZATIONS

Government-Specific Organization (e.g., an Inspector General Office)

- Supported at cabinet, commissioner, or agency level, reporting to chief elected official, or with access to chief elected official.
- Budgeted by way of a separate appropriation, or as agreed-on portion of umbrella-agency budget (e.g., where it is part of the Auditor or Controller function).
- May have fraud and abuse prevention functions for other than benefit programs (e.g., procurement), but is separate from audit function, investigation function, or prosecution function.
- Does not respond to complaints (referred to investigative units) but carries out routine, systematic review of new programs and program changes, and responds to executive initiatives.
- Maintains links with agency counterparts at various levels of government, with professional associations, with advocacy groups, including tax reform groups.
- Uses wide range of communication mechanisms, including those intended for agency functions, as sources of information; provides a needed feedback link by looking at programs in combination, rather than agency by agency.

Agency-Specific Organization (e.g., a Fraud Prevention Unit)

- Supported at highest level of agency, reporting to agency head.
- Budgeted either by way of a contribution from each agency program overseen or by a separate appropriation, but budgeted.
- Separate from investigation or quality control unit, but routinely receives copies of all of their reports.
- May or may not be linked to auditing function, but is not responsible for routine auditing although routinely receiving audit reports.
- Systematically reviews proposed legislation and regulations for possible increased vulnerability to fraud.

Exhibit 8 (Concluded)

- Systematically reviews the existing system to start with (that is, does not wait for complaints) then re-reviews when conditions change or in response to indications of difficulty (hotline, reports from audit, investigation, or quality control).
- Is small enough to require participation from other units as needed for a particular system review or test, but maintains a steady size relationship to the number of programs and units to be overseen.
- Has routine channels to check on whether or not fraud-prevention recommendations are being implemented, and support from above in making sure that implementation takes place.
- Has links to similar organizations in other agencies and at other levels of government, as well as links to professional associations.

Task-Specific Organization (e.g., a Fraud Prevention Task Force)

- Usually temporary, but should still report to highest level of management (often on a task force basis).
- Should have one-time appropriation or clear budget allocation.
- Director must have strong leadership skills, clear mission understanding, and knowledge of fraud and abuse prevention--may be borrowed from other agency.
- Team members--usually borrowed from program or from supporting services (audit, investigation, quality control)--need clear direction and structure.
- Clear understanding should be established that deadline can be adjusted if task is not complete, although not indefinitely postponed; emphasis must be on establishing program integrity within system assigned as task, not on carrying out prevention activities for specified length of time.
- Reporting relationship must be clear and periodic in-depth reports required.
- At completion of task, clear understanding must be achieved as to who is responsible for following up task force recommendations to see that they are indeed implemented, since task-specific organization will be disbanded.

- Researching, developing, and testing innovative techniques and systems for the detection of fraud. In developing such techniques, the Division considers existing or proposed regulations and procedures of HUD and other governmental agencies or private firms for the control of fraud.
- Disseminating information concerning fraud detection and prevention to appropriate disciplines with HUD and coordinating implementation of the techniques by appropriate staff including auditors, investigators, and program evaluation groups.
- Identifying the management or internal controls best suited for detecting and preventing fraud in the Department's programs and functions.
- Reviewing the results of audits, investigations and Headquarters and regional management reviews to determine the effectiveness of fraud preventive measures.
- Coordinating and participating with other HUD offices, in the development and implementation of fraud impact statements for all existing, new or substantially revised Departmental programs.
- Operating as principal liaison with HUD and other government agencies on fraud control matters other than those in which the OIG's Office of Audit or Office of Investigation are involved from an operational standpoint.
- Developing and implementing methods to educate, instruct and train appropriate HUD personnel in fraud detection and prevention activities.
- Reviewing proposed legislation and regulations for their impact on the control of fraud and abuse within HUD programs and operations.
- Maintaining a "hotline" for the receipt, screening, and disposition of employee complaints concerning the possible existence of an activity constituting a violation of law, rules, or regulations or mismanagement, gross misuse of funds, or fraud.*

Figure 1 indicates the way this office is integrated into the HUD IG office. By virtue of its organizatonal "home" under the IG, the fraud prevention unit has a close working relationship with the other two principal related activities, namely audit and investigation. Clearly, the mission of the HUD office could be used as a general mission statement for any new such organization formed. Many of the other Federal Inspectors General are moving toward the establishment of identifiable units with a prevention mission.

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*U.S. Department of Housing and Urban Development, Offices of Inspector General, Report to Congress for the Six Month Period, October 1, 1978 to March 31, 1979.

DEPARTMENT OF HOUSING
AND URBAN DEVELOPMENT

OFFICE OF
INSPECTOR GENERAL

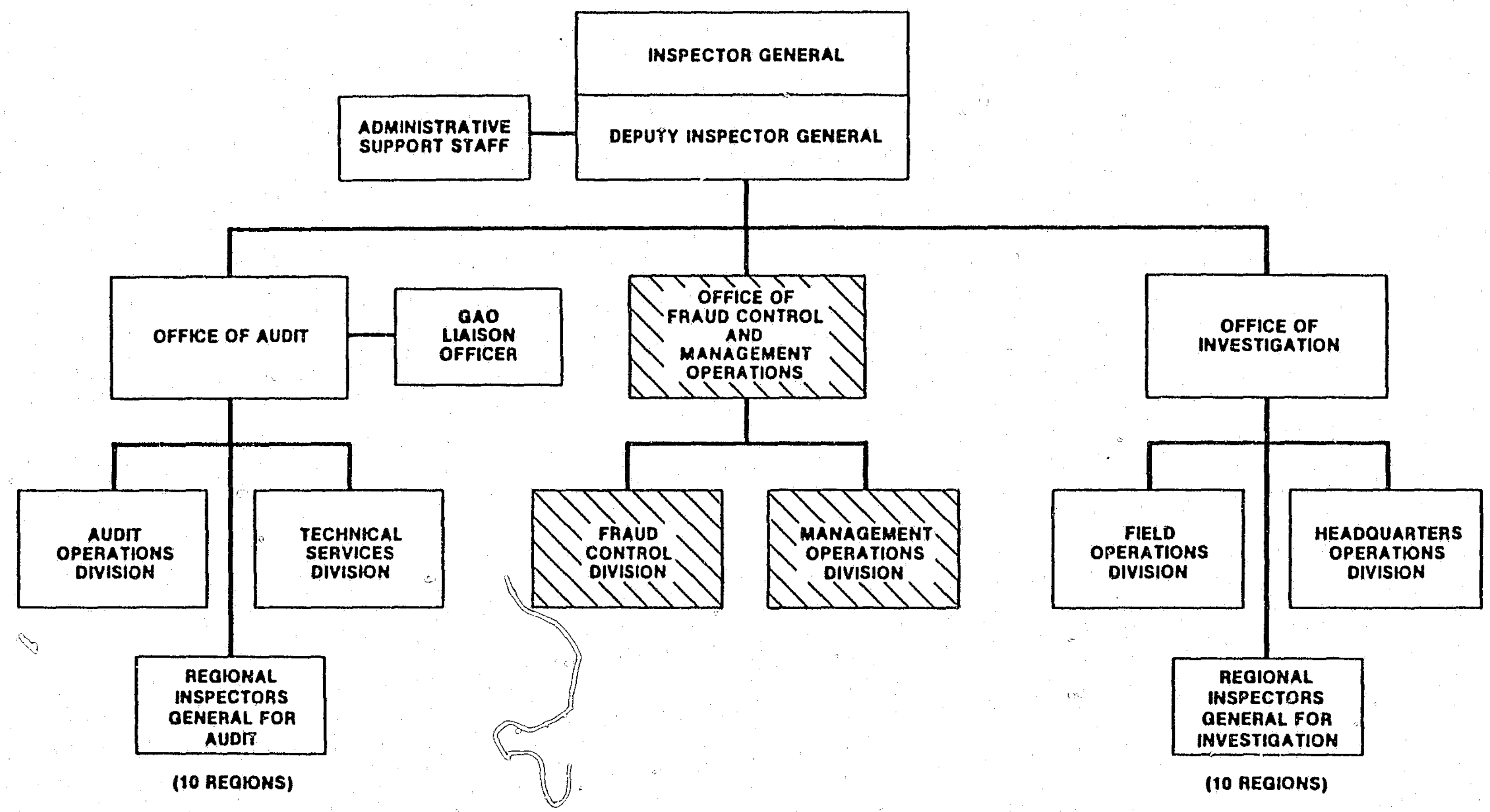

FIGURE 1 EXAMPLE OF FRAUD PREVENTION ORGANIZATION

May 1979

c. Staffing and costs. The staffing of a fraud prevention unit is as important as the commitment to the idea of preventing rather than reacting to fraud. The staff must, itself, be truly committed because their job will be extraordinarily difficult. They will be challenging the status quo, showing top program officials where weaknesses lie, lobbying for changes in law or regulations, and educating the public and citizens alike as to the costs, consequences, and controllability of fraud. Staff will have to be energetic and well educated.

2. Leadership. Directing such a vibrant, highly competent staff will, obviously, require enthusiasm, dedication, management skill, and a high degree of professional maturity. The unit director will have to deal with top program officials, legislators and leaders of citizen groups, will have to be able to gain access to program operations, and once vulnerabilities are identified and remedies conceptualized, will have to recommend feasible and acceptable changes. Leadership skills will also be important--proactive fraud prevention is not an established field. Staff will require guidance if the program is to evolve successfully.

Ideally, the program director will be experienced in public administration, as well as some combination of benefit program management, audit, and/or investigation.

a. Skills needed. Staff for a fraud prevention program would come from a variety of disciplines:*

- Analysis--Here an accounting, audit, business or public education background is suggested. Broadly, the requirement is for program analysts much like the staff the GAO relies on for their activities. Staff analysts would be mostly involved with vulnerability assessment, risk analyses, reviews of past audits and investigations, conceptualization of remedies, and monitoring the implementation of programs of improvements.
- Training--While it can be argued that training should be discipline based, the kind of training discussed as necessary in preceding chapters is more general. The requirement is for a professional training capability. Responsibilities would include identification of training needs, development of appropriate curricula, and preparation of training materials in addition to the actual provision of training. If a professional trainer can be found with experience in public administration or auditing, all the better.
- Information Sharing--Public education, fraud alert bulletins, hotlines, public speaking, and networking require communications skill. Staff for this function could be drawn from the fields of

*The reader will see how these skills fit into the likely activities of a fraud prevention unit in the following section on elements of a prevention strategy.

public affairs, writing/editing, or other such areas. The job descriptions found in various offices of public information now commonly found throughout the Government serve here as examples of the duties and skills required.

- Corrective Action--Again, the skills of public or business administration are called for. The capabilities needed here are implementation skills and the ability to solve problems. Once a program of improvement is conceptualized, it may be necessary for the fraud prevention unit to consult with or provide technical assistance to benefit program staff over a relatively long period to achieve implementation of recommendations.
- Legislative and Regulation Review--In this case as above, analytical skills are required. Proposed statutes or regulations, when possible, need to be systematically analyzed for their fraud potential. Where changes in language, provisions, or other aspects of the bill or proposed regulation can be made to minimize the potential for fraud, these need to be drafted and sent on to legislative or executive staff. Follow-up contact may be necessary to lobby for changes.

3. Elements of strategy. A comprehensive fraud prevention strategy, by definition, should include as many prevention activities as can be feasibly managed. However, it must be recognized that "old fashioned" good management is the best single preventive measure. Yet our purpose is not to rewrite the public administration textbooks. Instead, we are focusing here on the systematic use of otherwise discrete techniques known to be important ingredients in fraud prevention. Five elements of a comprehensive program will be discussed. In addition, relationships between the elements of a fraud prevention program and other programs, such as audit and investigation programs, are also discussed.

a. Analysis. There is need for study, examination, and inquiry regarding fraud cases, audit findings, error patterns, and other pertinent data that can point to specific measures for preventing fraud. The analytical approaches being taken by many progressive agencies have different labels, but largely a single purpose. Vulnerability assessments, service delivery assessments, risk analyses are all terms used to imply systematic study of programs so that opportunities, incentives, and other factors leading to fraud are identified.

The operating aspects of benefit programs are complex and seemingly impervious to systematic scrutiny. In many programs there are thousands of pages of regulations--hundreds of pages on eligibility criteria alone. Responsibility for different aspects of administration are spread from the Federal level through state, county, and city levels. Monitoring operations is most difficult, though not impossible. Audits are performed for three broad purposes: to ensure financial propriety, to determine compliance with regulations, and--in the most progressive agencies--to measure agency performance against goals. Although audits are seldom made for the explicit purpose of uncovering areas vulnerable to fraud or assessing risks, the data they contain can be used for those purposes by a specialized unit structured specifically for examining the fraud and abuse potential of the narrower aspects of benefit program operation.

As with regular investigative and audit findings, recommendations based on anti-fraud analysis must be transmitted to those responsible for program integrity by someone in a high enough position to ensure that change will occur. Ideally, the conclusions and recommendations for improvement would then be passed on to program officials for their review and action. Follow-up procedures would ensure that corrective action did, indeed, occur, and in this follow-up action is the strength of any interactive, comprehensive strategy.

b. Training. Somewhat like the difficulty in shifting money from solving actual problems to addressing potential problems is the difficulty that attends shifting money from operations to training. Training is too often viewed as a luxury. Yet training is vitally important for solving small problems before they become large ones. It is also vitally important if one rightly assumes that the role of management is more than that of just reacting to problems when they become large enough to demand attention.

In the context of a comprehensive fraud prevention strategy, training is intended to pass on knowledge as to the costs, consequences of, and remedies for fraud in government benefit programs. To a large extent, the initial purpose of the training discussed here is to swing perceptions from a sense that fraud is an inherent price attached to benefit programs to a feeling that it is a problem controllable by legislative attention, management, and public concern. Training programs can range from narrow, specifically tailored seminars on verification of provider claims or on the proper supervision of case workers to broader-based sessions on integrity and ethics, the purpose of benefit programs, the role of the public as watchdogs, and so forth. The fraud prevention unit should have a close working relationship with the training unit.

All employees should be given training on the agency's mission, their role, and ethics in the public service as one module of their orientation training. Periodic training updates on preventing fraud should be given to all staff along with training that focuses on updated procedures for their jobs. Where the audience is from the front ranks (e.g., case workers, provider-claim processors, loan officers), specialized training on fraud prevention techniques should be given. When managers are assembled for training, a module should focus on the magnitude, costs, and consequences of fraud, on the roles and responsibilities of managers in preventing fraud, and on specific management tools available to them.

Training staff can be drawn from many quarters, established within a single unit, or acquired by contract.

c. Information sharing. Training is but one way of transmitting a message. Newsletters, fraud alert bulletins, networks of anti-fraud professionals, hotlines, and media programs are potentially all useful

devices for communicating messages regarding the seriousness but controllability of government benefit program fraud.

Fraud alert bulletins passed among those responsible for preventing fraud bring anti-fraud professionals "up to speed" and help create the systematic attack on fraud that is necessary. Associations such as the National Welfare Fraud Association, the various regional councils on welfare fraud, and the national and regional intergovernmental audit forums have annual conferences and newsletters that communicate a wide variety of relevant information.

At the Federal level, the Inspectors General meet as the Executive Group to Combat Fraud, Waste, and Abuse. At the state and sometimes county level corrective action committees meet to discuss how to improve program operations. The activities of these organizations tend to create networks useful for coordination and communication.

Although hotlines may not necessarily be viewed as a traditional form of communication, for the information sharing purposes proposed here, hotlines are critical. They should be a part either of the investigative unit or of the fraud prevention unit. Operation of a hotline provides a mechanism for two-way communication. Depending on how it is structured, a hotline allows citizens or officials to report perceived or actual wrong-doing. The promotion and advertisement of a hotline tells all that an anti-fraud campaign is under way. Finally, the analyzed results of hotline calls provide material for communication networks to digest. Like training, an information sharing capability begins to systematically mobilize support by way of explanation to, and education of those in positions important to a successful attack on fraud.

Education of clients as to their rights, their responsibilities, and the penalties they may incur for falsely claiming eligibility for benefits should be extended systematically to all government benefit programs, whether the benefit conferred is income (AFDC), a low-interest loan (SBA disaster loans), medical treatment (Medicare/Medicaid), or employment training (CETA). Similarly, provider education should be systematic and comprehensive.

Indictments for fraud, court rulings that refine the definition of a particular type of fraud, and verdicts in fraud cases should be publicized by the agency. The purpose is not only to make clear that the advertised penalties are indeed applied, but also to provide information as to what acts are unacceptable.

Education of the public should extend further, however, to the extent of taking every feasible opportunity to address a public gathering (on television or in person) on the public responsibility to report any instance of client, provider, or employee fraud and abuse.

d. Policy review. Having a communications capability as just discussed makes the notion of Federal agency, state or local review of pending legislation or regulations as established in law or in regulations more sensible than if no such network were available. While one would expect that drafters of legislation or regulations would actively and systematically solicit the "fraud impact" review input of program operators or anti-fraud staff throughout the drafting/review process, this kind of a review, if done at all, is often spotty and uninspired.

Clearly, professionals engaged in preventing fraud in government are likely to have a sound appreciation of the fraud impact suggested by new or revised authority or procedures. The fraud prevention unit, therefore, should review pending legislation and regulations.

Studies of fraud impact by these anti-fraud specialists would have to be forwarded to legislative staff to see if recommended changes would conform with the legislative intent and to see if they could be included within cost and other constraints. Even if the proposed changes were clearly within the intent of the legislation and if they could be included at no additional cost, their implementation may have to be "sold" to legislators not aware of the fraud problem or not flexible enough to accept changes recommended from "the outside." This would require a lobbying effort. Perhaps drawing on the capabilities and resources represented on corrective action committees, or using investigation staff or quality control staff, or their own staff, operators of a fraud prevention program could activate their various communication networks (e.g., national or regional associations or the informal links existing between anti-fraud professionals) and more effectively lobby the drafters of legislation or regulations for changes to reduce the likelihood of fraud in new or revised programs.

e. <u>Corrective action</u>. The likelihood of having impact or achieving change is dependent on numerous factors, not the least of which is having authority to force implementation of change. Assuming that either the hierarchical location of a fraud prevention program or the commitment of those at the very top of the jurisdiction is such that the question of authority is moot, the next most necessary factor is a capability to conceptualize solutions, remedies, or recommendations and set a program of improvements into operation.

Synthesizing specific recommendations from previous analysis or by way of program improvements learned of through communication with others, staff of the fraud prevention unit would work directly with program officials in changing or streamlining systems and procedures, tailoring a training program so that known problems are specifically addressed, or preparing program executives with the facts and supporting materials necessary for successful lobbying or testimony geared toward preventing bad programs or regulations from being mandated.

Involvement of a corrective action staff could be either direct, actually implementing recommendations, or indirect by assisting agency officials in making the necessary changes. Monitoring the implementation is also important. Some process must be established to ensure that recommendations are seriously addressed. The key here is having the resources and authority to take fraud prevention knowledge, conceptualize recommendations, and implement improvements in benefit programs.

f. <u>Related fraud prevention activities</u>. To a large measure the activities just discussed are nontraditional approaches to fraud prevention, at least when they are contrasted with the more conventional, reactive activities of audit and investigation and as such are dissimilar in many ways. For example, audit and investigation are highly labor intensive efforts: in Federal Inspector General offices both the audit and investigation function may each be staffed with 100 or more people. The fraud prevention activities discussed in this report are not as labor intensive. Because of such fundamental differences, reactive audit and investigation are not viewed as an integral part of what is conceived here as a relatively small scale fraud prevention activity. However, a relatively close relationship between proactive and reactive programs must still exist, for obvious reasons; audit findings and investigative reports provide grist for the analysts or trainers in a fraud prevention program; systematic reviews of audit findings and investigative reports could very well enable patterns of fraud, or mismanagement leading to waste and abuse, to emerge--this too, providing grist for analysts and trainers; and finally, a relationship with the audit staff, in particular, would be useful in monitoring the extent to which recommended improvements are being implemented by program operators.

Other activities than audit and investigation are also secondary ingredients of a comprehensive fraud prevention strategy. Agencies performing efficiency and effectiveness studies such as say, a Department of Management Improvements, Program Evaluation, or System and Procedures all would look at operations with respect to problems and solutions. Budget offices also have an interest in procedures. Offices of Public Information perform both an information and education function. All of these functions are important to a fraud prevention activity; thus it is recommended that audit and investigation in particular, but the other activities also, be viewed as functions with which a close working relationship should exist.

B. Dynamics of a Fraud Prevention Program

Figure 2 shows the elements of a five point fraud prevention program as an interactive "wheel" with relationships to support activities shown. As mentioned earlier, it is in the interaction of the elements of the strategy that the real strength of the program exists. Analysts can potentially ferret out problems in benefit program operations to which training should be addressed. Trainers, by working with operations staff in different training modes, will likely learn of problem areas, perhaps manifested as frustrations by operations people, that would suggest some sort of analytical treatment. Similarly, those involved in the information sharing and public education activities provide ideas for those involved in all other activities.

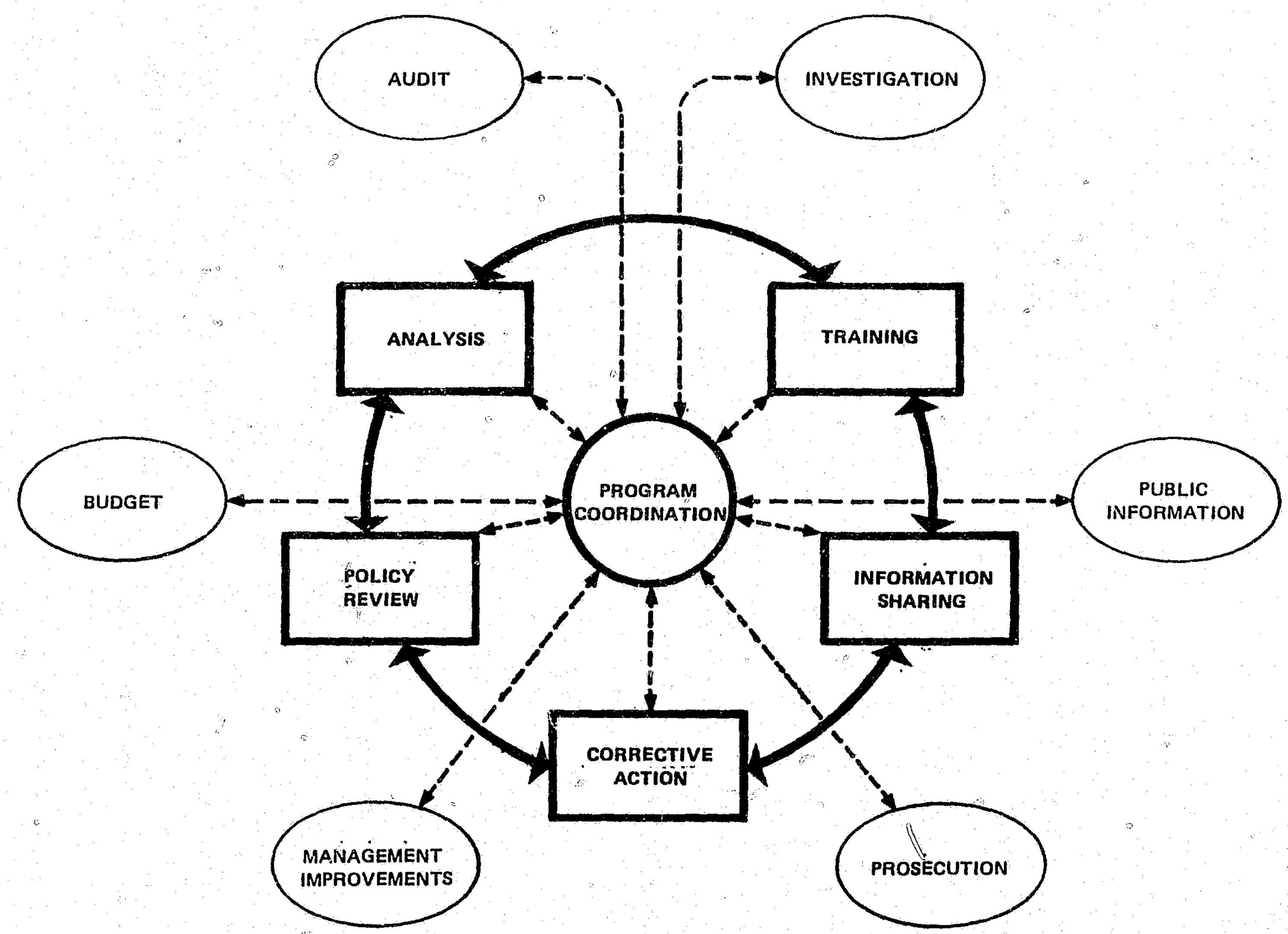

FIGURE 2 ELEMENTS OF A COMPREHENSIVE FRAUD PREVENTION PROGRAM

C. Issues Affecting Implementation

1. Type of assignment. An important issue related to staffing a comprehensive fraud prevention program is whether to assemble a permanent staff, a temporary or borrowed staff, or some mix of permanent and temporary staff. Obviously this will have much to do with the size of the jurisdiction. A smaller jurisdiction probably could not afford the expense of a permanent, well-rounded prevention staff. The degree of top-level commitment to the prevention effort and the organizational relationships in place are also important. A fraud prevention unit located in a wide-ranging Department of Social Services, say, conceivably could borrow staff from throughout the organization as tasks at hand would warrant.

Borrowing staff is an option that should be given serious attention. A fraud prevention unit would be closely aligned with audit and investigation units and would be working closely with benefit program staff. Depending on the nature and complexity of the particular task at hand, staff could be conceivably assembled from all of these units for special assignments. If training, communications or other elements of the strategy are simply too much of a luxury, special arrangements could be made to work with other training or public information units in the jurisdiction. For example, if a multipurpose county-wide training capability exists, it may be more cost-effective to work up a fraud prevention training module for implementation by the multipurpose training unit than to establish a second capability dedicated solely to fraud prevention training. What is important, at a minimum, is that a training capability exist and that the training be systematically given to the officials and employees alike.

2. Total staff size. In the Federal service, the audit and investigation staff can be ten times or more that of a prevention staff. In San Diego County, where fraud prevention is actively pursued, no more than two of a 29 person audit staff are engaged in prevention activities. Yet, these are examples of prevention programs not as comprehensive as that discussed here. As only the broadest of estimates the prevention staff should be no less than one-tenth the size of the audit and investigation staff. Where implemented at the state level, the prevention unit would probably range in size from three to five for the least populated states to ten or fifteen for the most populated; large cities or counties might need a staff in the range of four to six persons.

3. Cost. Since the prevention activity is labor-intensive, the cost of units of this size would be largely that of personnel. Assuming average costs of experienced professional level prevention staff to be \$25,000-\$35,000 (including support costs); units on the small end of the scale would cost say, \$75,000 to \$100,000 annually; at the large end, the cost could be \$250,000 to \$500,000 annually. Unlike the costs of much larger existing audit and investigation staffs who examine situations where the fraud has already been alleged, the cost of prevention staff would be theoretically offset by the costly frauds that were prevented. Quite clearly, the cost of such a unit could easily be offset by a hundred times or so, given the magnitude of dollars lost to fraud.

D. Barriers to Implementation

Earlier it was suggested that directing scarce resources from reactive to proactive efforts would take wisdom, courage and commitment. While implementing change of any kind is difficult, some changes are harder to make than others. Some of the most common and significant barriers to fraud prevention can be described as follows:

"Fraud prevention is the job of managers, not specialists."--Good management and good public administration practices are always the job of first line managers and will control blatant problems, but what is needed is a fraud prevention strategy and somewhat specialized tools and techniques for managers. Fraud often occurs because of institutional and systemic problems (or perhaps because of flaws in legislation, or lack of public support to control fraud), not only because there has been a breakdown in administrative procedures.

"We already have auditors and investigators, why do we need other specialists?"--Auditors and investigators look for fraud that has already occurred. It is eminently sensible to spend a little to prevent large costs due to fraud. Auditors and investigators don't have all the skills necessary for a fraud prevention program to be successful. Other specialists are necessary.

"There isn't enough fraud in our program to warrant a prevention staff."--The various GAO reports referred to in Section I and the existence of 14 new Federal Inspectors General clearly indicate that fraud in government benefit programs is a problem of considerable proportions. In any jurisdiction where program auditors and investigators are gainfully employed, it can be argued that there is a need for a prevention program, even if no more than a training module makes up the prevention activity.

"How can we tell if the cost of prevention is truly offset by reduced levels of fraud?"--Obviously, there are no easy measures of the effectiveness of a preventive activity. However, it is not hard to comprehend the likely cost-effectiveness of systematic attention to preventing fraud (Exhibit 9). Legislation or regulations that are written partially with respect to controlling fraud will probably mean less fraud. Many of the Food Stamp Program's very serious fraud problems have been attributed to a single set of problems in the program's design. Vulnerability analyses are specifically intended to spotlight weaknesses that are susceptible to fraud: correct them and fraud should be controlled. Training educates people as to how much fraud exists, where it can be controlled, and what steps are necessary. It is not expected that this problem will be eliminated; it is too complex a matter to ever permit full control. But even if fraud can only be cut by half, the savings could be in the neighborhood of $1 to $2 billion annually.

Certainly there are other barriers to implementation. Always scarce resources will have to be shifted from one program to another. Organizational battles will be fought as will fights over personnel and even office space. But these are problems that usually come up when new initiatives are

CONTINUED

1 OF 2

Exhibit 9

THE COST-BENEFIT CONTRAST BETWEEN INVESTIGATION PLUS RECOUPMENT AND PREVENTION

Cost-Benefits of Investigation and Recoupment

Cost $ = Cost of staff time to identify case for investigation (seconds or minutes)

+ Cost of investigator time to investigate case for possible fraud or theft (hours or days)

+ Cost of prosecutor time to decide whether case can be prosecuted or heard (minutes or hours)

+ Cost of investigator time to fill gaps in evidence (hours or days)

+ Cost of staff time and investigator time in trial or administrative proceedings and appeals (days)

+ Cost of collection if recoupment is ordered (minutes per collection letter, hours per collection visit)

+ Cost of replacing staff while answering investigator's questions or appearing at trial or administrative hearing (or appeal)

x The total number or cases of this kind, whether identified or not.

Benefit $ = The actual amount recouped

- The amount of interest that could have been earned by depositing the sum to be recouped over the period of recoupment.

Cost-Benefits of Fraud and Abuse Prevention

Cost $ = Cost of a small unit dedicated to prevention (person-years)

+ The cost of training of managers and program staff in reasons for and ways of preventing fraud and abuse (person-weeks)

+ The cost of newsletters, hotlines, client information sheets (dollars)

+ The cost of changes in assignment, staff changes, and extra work entailed in implementing recommended prevention efforts (person-days to person-years)

Benefit $ = All of the dollars not paid out as a result of preventing cases of fraud and abuse that would not have been identified and investigated, tried or heard, appealed, and recoupment made.

+ (All of the dollars not paid out as a result of preventing cases that would have been identified and investigated but not brought to trial or hearing because the sum was too small, the evidence not adequate, or intent not provable + The costs incurred in reaching the point of deciding not to prosecute)

+ (All of the dollars not paid out as a result of preventing cases that would otherwise have been identified, investigated, tried or heard, and some funds recouped + The costs of the process)

x The number of years over which the fraud prevention effort was effective and the program in force.

launched. The best defense is commitment and resolve--logic is already on the side of the proponent.

E. Criteria For Measuring Success

To summarize, a successful strategy:

- Makes a measureable difference in occurrence of fraud or vulnerability to fraud without hindering attainment of program objectives.
- Can be implemented with existing workforce (e.g., investigators and auditors) and resources, or with only slight increases.
- Focuses on minimizing incentives or opportunities and/or on maximizing the possibility of discovery and corrective action.
- Saves more than it costs.

A successful strategy also has these features:

- Includes some way of remedying design defects (may be difficult in the case of problems embodied in legislation, since reintroducing the law may result in many changes requiring a whole new fraud prevention effort).
- Includes ways of preventing internal fraud and abuse.
- Includes ways of closing off opportunities for client fraud and abuse, rather than merely detecting and halting occurrences.
- Includes ways of closing off opportunities for third-party fraud and abuse (care provider, grocery store, landlord, foster home, medical laboratory).
- Includes safeguards for clients and providers.
- Includes ways of mobilizing support among the public and providing a credible confidence in the system.

Because there will always be a risk that the mission of fraud prevention will simply be driven out by the many pressures to react to problems as they come up, it is strongly recommended that a formal organization or unit be established that is dedicated to fraud prevention as its sole mission. Staff must be drawn from a variety of disciplines necessary to implement a comprehensive, multifaceted prevention strategy. The size of the staff need not be large--only large enough to ensure that the primary prevention elements such as analysis and training can be addressed.

Appendix A

FRAUD AND ABUSE PREVENTION PROJECT

INTERVIEW GUIDE

A. <u>General Information</u> (Interviewer should secure this information at the completion of the visit)

1. Date of Visit
2. Place of Visit
3. Office Visited
4. People Interviewed
5. Relevant Addresses, Telephone numbers, etc.
6. Other Administrative Information

B. <u>Jurisdiction Information</u>

1. Describe size and nature of jurisdiction.
2. Other relevant information about the jurisdiction important to an understanding of how or why the fraud and abuse program was designed, is operating, or its successes or shortcomings.

C. <u>History of Prevention Activities</u>

1. What is the nature of current and past fraud problems?
2. What has been the traditional approach to dealing with these fraud and abuse problems in this jurisdiction?
3. What were the recognized shortcomings?
4. Who decided new approaches were necessary?
5. Was there a single event that caused change to happen (e.g., a seminar on fraud, a major scandal)?
6. Was there a formal planning process? Describe.
7. Who had to be convinced to change your approach to the problem?
8. How was the current Director and key staff chosen?
9. What arguments for change seemed the most powerful?

10. How did the change process occur?

11. How long did the process take? What delays occurred and why?

12. What were the barriers to implementing your new programs?

13. What, or whose, programs were used as models?

14. What lessons were learned during the problem identification, design, and implementation phases that are important for others about to embark on new approaches?

D. Organization/Administration/Management

1. Where does the unit being examined reside in the overall organization?

2. What is the mission of the relevant organization? Detail the mission and goals of the unit being examined.

3. What are the administrative reporting relationships?

4. What are the sources of funds? If numerous sources, describe funding mechanism.

5. Break out sources and uses of funds and funding trends, to degree most practicable.

6. What is the staff complement?

7. What are the various principal job descriptions?

8. Briefly describe duties of principal staff.

9. What qualifications/disciplines are represented on the staff? Why these?

10. Describe any relevant problems in recruiting or retaining staff.

11. What special training is, or should be, required?

12. What are the important strengths and weaknesses in the organization, sources and uses of funds and staffing?

13. What means of management control are used?

14. How are staff chosen and/or screened?

E. Operations

1. Describe each identifiable fraud and abuse prevention tool in use.

2. (This section will be tailored to the site as determined prior to a visit.)

F. Future Directions

1. In what way should the program expand?

2. Given the constraints (discuss), in what way will the program actually expand?

3. What are the eventual goals of the organization?

G. Evaluative Information

1. Has a formal process or impact evaluation been undertaken? If so, summarize results.

2. What are the apparent strengths of the overall program? Strengths of identifiable activities?

3. What are the apparent weaknesses of the overall program? Weaknesses of identifiable activities?

4. What can be said about the ultimate impact of the program? Is it making a difference? If so, what is the key to success? If not, what in particular seems to be lacking?

5. What techniques are used to monitor the program?

6. What criteria are important for determining success?

H. Possible Barriers to Transfer

1. What unique characteristics of the site might be key factors contributing to strengths, weaknesses, successes or shortcomings?

2. Is there a unique legislative authority?

3. Is the "great man" theory at work?

4. Is an expensive (or simply unique) environment in existence (i.e., sophisticated computing capability?

I. Other

1. Who can corroborate the success of the program? Who else should be interviewed?

2. Have there been letters of endorsement or awards given due to the program's excellence?

3. What are community and official's perceptions regarding problem and the approach being examined?

4. If you had it to do over again, what would you do differently?

5. What advice would you give to others about to embark on a similar program?

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