

# **GAO's Role in Ferreting Out Fraud Waste and Abuse In the Federal Government**

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# Agenda

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- Who is FSI and What Do We Do?
  - Proactive Approach to Testing Internal Controls
  - Video: Examples of What Can Happen When Internal Controls Break Down
  - Case Study Discussion
  - Summary of Key Points and Questions
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# FSI Mission

- GAO has had a long history of conducting economy and efficiency reviews and fraud investigations.
- Until recently GAO did not designate any unit with the specific responsibility of looking for fraud waste and abuse
- In May 2005 GAO established FSI to focus on fraud waste and abuse by:
  - providing the Congress with high quality forensic audits and investigations of fraud, waste, and abuse, and evaluations of security vulnerabilities and other requested investigative services;
  - supporting the other GAO mission teams in connection with investigative activities; and
  - monitoring and managing fraud, waste, and abuse tips received through the FraudNet hotline.

# FSI Mission

- To accomplish our goals, FSI
  - systematically tests the design and effectiveness of federal systems, processes, or controls;
  - uses innovative and proactive methodologies;
  - develops practical solutions (recommendations or matters for the Congress) for the problems that we identify; and
  - if appropriate, refers criminal matters or ethical issues to the Department of Justice or agency Inspectors General.

# FSI Staffing

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FSI's staff is diverse and composed of

- auditors with forensic audit experience,
- attorneys with financial experience,
- entry level staff,
- criminal investigators (federal agents) with substantial prior federal law enforcement experience, and
- communications analysts.

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# Types of Work

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- FSI has three lines of business:
  - forensic audits,
  - security and vulnerability assessments, and
  - special investigations.
- FSI also relies on FraudNet resources to detect and investigate allegations of fraud, waste, and abuse.

# Proactive Approach to Testing Internal Controls

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Management is responsible for establishing:

- Effective internal controls over;
  - financial statement preparation,
  - fraud prevention, and
  - security.
- Tone at the top and supportive culture is critical to success.
- Strong internal audit function.

Effective systems of internal control include elements of

- Human capital,
  - Policies and processes, and
  - Automated and integrated systems.
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# Proactive Approach to Testing Internal Controls

- We gain an understand of management's system of internal controls and how they relate to the 5 internal control standards:
  - control environment,
  - risk assessment,
  - control activities,
  - information and communications, and
  - monitoring.
- We assess financial systems and internal controls to identify vulnerabilities.
- We conduct forensic audits to identify whether improper payments have been made.

# Proactive Approach to Testing Internal Controls

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Forensic audits include:

- Sampling transactions to test the effectiveness of key controls
- Data mining files to identify unusual transactions
- Analyzing supporting documentation
- Consulting with investigators and lawyers
- Verifying existence of property

# Proactive Approach to Testing Internal Controls

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## Data mining

- Analyzes large amounts of data, and
  - Can find unusual activity such as
    - Excessive payments to a single address
    - Payments to dead or non-existent people, or not-existent locations
    - Activity on weekends, or holidays
    - Activity with odd vendors
    - Correlation between buyers and sellers, or vendors and amounts
    - Validating tax identification numbers of vendors
    - Other anomalies
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## Video: Examples of What Can Happen When Internal Controls Break Down

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- Video highlights of press and Congressional hearing coverage of FSI work related to testing of systems of internal controls

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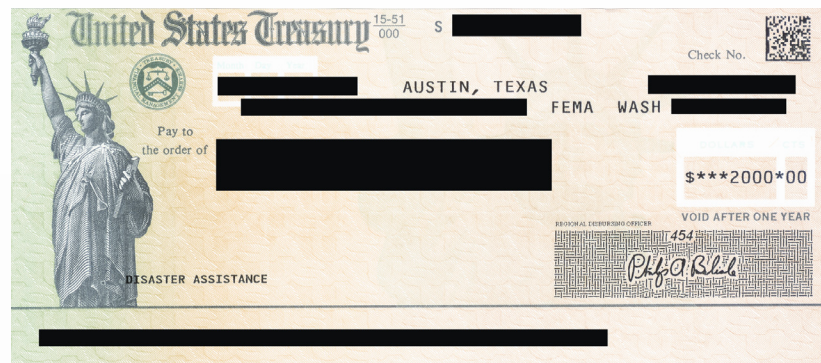
## Case Study Discussion: FEMA Individual Disaster Assistance Payments

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- Weak or non-existent controls leave the government vulnerable to substantial fraud and abuse.
- Causes
  - Culture and tone at the top
  - No validation of identities for telephone applications
  - No validation of hurricane-damaged property addresses for internet and telephone applications
  - Ineffective pre-payment system edits

# Case Study Discussion: FEMA Individual Disaster Assistance Payments

- Investigations showed social security fraud, bank fraud, false statements to the government, and mail fraud.
- GAO tested the application process using falsified identities, bogus addresses, and fabricated disaster stories. As a result, FEMA made payments such as this Treasury check to GAO.



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# Case Study Discussion: FEMA Individual Disaster Assistance Payments

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## Case Study Discussion: State Department First Class and Business Class Travel

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- Tens of millions of dollars of waste on improper first class and business class travel and unused airline tickets
- Causes
  - Ineffective management oversight and control
    - No information to manage premium travel
    - Blanket authorizations allowed
  - Culture (Tone at the Top)
    - Executives as frequent flyers
    - Subordinates authorizing executive travel

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## Case Study Discussion: Military Pay and Travel Reimbursements

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- Significant military pay and travel reimbursement problems for Army National Guard and Reserve soldiers mobilized for the global war on terrorism.
  - Causes
    - Human capital (turnover, training, etc.)
    - Processes
    - Lack of integrated pay, personnel and medical systems
    - Paper intensive travel reimbursement process
  - Significant progress on human capital and process improvements
  - System development efforts to date not effective
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# Case Study Discussion: Sales of Excess Property

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- Hundreds of millions of dollars of waste related to the sale of new, unused inventory for pennies on the dollar for items continuing to be purchased and in demand by the military services
- Causes
  - Lack of integrated excess property and procurement systems
  - Problems with human capital and processes
    - Significant errors in coding of property condition result in loss of confidence in system
    - Property stored outside through several hurricanes

# Case Study Discussion: Sales of Excess Property



Source: GAO.

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## Case Study Discussion: Sales of Military Meals Ready to Eat (MRE) on EBay

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- Case study examples of MREs purchased by DOD that are being sold on EBay represent a waste of taxpayer dollars and possible theft of government property
- Potential causes (note this was a limited scope investigation)
  - Military personnel not following policies and returning unused MREs to inventory
  - Accountability challenges over MREs

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# Summary of Key Points

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- Management is responsible for establishing effective internal controls.
- Understand and utilize as appropriate all elements of the five standards for internal control.
- Tone at the top and culture are critical to success.
- Effective systems of control include elements of
  - human capital,
  - processes, and
  - automated and integrated systems.

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# Question and Answer Period

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Questions?