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WORKSHOP

PREVENTION AND DETECTION
OF FRAUD, WASTE, AND
ABUSE OF PUBLIC FUNDS

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PREFACE

"If there was ever an idea whose time has come, it's an idea to devise a strategy aimed at fraud, waste and abuse in government programs. Nationally, the dimensions and the subject dealing with - The Prevention and Detection of Fraud, Waste and Abuse of Public Funds - is probably incalculable. A recent study funded by the Law Enforcement Assistance Administration estimated annual bribe payoffs to building inspectors, zoning board members and municipal employees to amount to somewhere between three and five billion dollars. The United States Attorney for the Southern District of Ohio recently delivered a statement in which he pointed out that, nationally, over seven hundred million dollars have been defaulted from selected government sponsored student loan programs. According to Department officials, fraud against the government ranks either third or fourth among all criminal cases that have been filed by the Department of Justice, and that is only the tip of the iceberg. It is a kind of substantive area that is certainly not as dramatic as bank robbery or major crimes in most of our cities, but it is insidious and it destroys confidence in our institutions. It is so significant that it can be labeled as a devastating national cancer, and it is a problem that crosses all governmental boundaries. Every kind of conceivable government program is a target for abuse and has, in some way, been manipulated or been exploited by individuals. Accordingly, all of us, at all levels of government, share the responsibility to attack this problem. It is a responsibility that the Federal Government, the states, the counties and the cities must address in a cooperative way."

Henry S. Dogin, Administrator
Law Enforcement Assistance Administration
Introductory Comments
Special National Workshop on
Prevention and Detection of Fraud,
Waste and Abuse of Public Funds

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I. INTRODUCTION

The Law Enforcement Assistance Administration (LEAA) hosted a three-day workshop on the subject of Prevention and Detection of Fraud, Waste and Abuse of Public Funds on November 14, 15 and 16, 1979, at the Department of Justice, Washington, D.C.

The workshop evolved as a response to an LEAA need for information on current anti-fraud activities of Federal, State and local officials and by the private sector. Thus, persons with experience in, or job responsibility related to, the prevention and detection of fraud, waste and abuse of public funds were invited to participate in the workshop to identify and discuss: (1) problems and needs in prevention and detection; (2) prevention and detection activities considered most effective in combating fraud, waste and abuse of public funds; and (3) types of activities which could be developed and implemented for the greatest impact on a national fraud, waste and abuse effort. Also, the groups discussed the various processes that Federal Inspectors General and the Office of Management and Budget are currently using to perform vulnerability studies or risk analyses of their Department's respective programs. This was to determine whether these types of processes could or would be utilized by state and local officials to analyze their programs/responsibilities for the potential for fraud, waste and abuse.

The Workshop participants (Appendix A) were limited to sixty persons. Twenty-six were state officials representing seventeen states, thirteen participants were city or county officials representing twelve local governments, twelve participants were Federal officials (United States Attorneys, representatives from various Federal Inspectors General offices and Department of Justice

personnel, and nine participants were non-government researchers, educators, etc. In addition, staff from two Committees of the Congress of the United States attended.

Brief introductory remarks by Mr. Dogin set the tone for the Workshop. Mr. Dogin noted that the workshop provides an opportunity to discuss and find solutions to current problems that exist in preserving the integrity of public officials responsible for public funds. The public, Mr. Dogin stated, sees the frequent reports concerning abuse in government programs and begins to lose faith in the individual program and in the institution of government as a whole. The time has come, he said, to design a strategy to attack the problems of fraud, waste and abuse at all levels of government.

Mr. Dogin explained the Workshop format in which Federal officials would be talking with the state and local officials and non-government representatives in order to determine what they, as participants, see as the problem and the solution.

He asked the participants to openly discuss the state-of-the-art and how they go about preventing and detecting fraud. He stated that we want to know what they believe should be done, what their frustrations are, and what kinds of remedies should be initiated. He emphasized the need for examining the problems of coordination and looking at the problems in preventing and detecting fraud, waste and abuse as a whole, rather than in a piecemeal, unconsolidated manner. Mr. Dogin said he believed that the fruition of this collective effort will tell us what the problems are in fraud, waste and abuse at the state, county and local levels and

what all of us together - states, cities, counties and the Federal Government - can do about combating the problem.

As can be seen from an examination of the Agenda (Appendix B), the Workshop, for the most part, consisted of small group sessions. (See Appendix C for group assignments).

Except for introductory comments by Mr. Dogin, only two speakers formally addressed the Workshop in plenary session -- John Lordan, Chief, Financial and Management Branch, Office of Management and Budget, and Charles Ruff, who at the time was the Acting Deputy Attorney General of the Department of Justice (now the United States Attorney for the District of Columbia). Because of the magnitude of the subject matter, time limitations at the workshop prevented in-depth discussions of many activities presented by the participants. After meeting for two days, the participants presented only their priority recommendations in a final plenary session.

Workshop discussions, research, reports and other documents were utilized by LEAA staff to compile a report to the LEAA Administration. The portion of this report which suggests a framework for a National Strategy to Prevent and Detect Fraud, Waste and Abuse of Public Funds is included in the Proceedings as Appendix E.

II. SUMMARY

As depicted in Appendix D, Summary: Special National Workshop Results, the workshop participants identified many needs and problems. These fell into twelve strategy components which were derived, in part, from a recently released publication, Fraud and Abuse in Government Benefit Programs, funded by the National Institute of Law Enforcement and Criminal Justice. The problems and needs which appear to have the greatest concern are in areas which fall under components identified as: (1) legislative support; (2) quality and management controls; (3) program design; (4) organizational redesign; and (5) education and training.

Although the workshop focused on both prevention and detection, the participants indicated that the major emphasis for combating fraud and abuse should be in the prevention area, addressing the need to improve detection capabilities and techniques as an integral part to the prevention effort.

At the conclusion of the workshop, the participants recommended activities which could be initiated as responses to their concerns and which they believed could achieve the greatest impact on a national scale. In summary, their priorities are to:

- (1) strengthen commitment, cooperation and coordination among all levels of government -- horizontally and vertically;
- (2) initiate a public education (consciousness raising) campaign;

- (3) develop and test program models and model programs on prevention and detection activities for use by state and local governments;
- (4) develop models for uniform legislation and regulations for grant-in-aid and public assistance programs; and
- (5) improve and increase training courses on prevention and detection techniques and on sensitizing government managers and employees on the consequences and control of fraud, waste and abuse of public funds.

Many of the needs identified and activities discussed at the Workshop do not lend themselves to independent action by the Department of Justice or State and local units of government. But it was thought that these types of activities could be accomplished best through coordination, cooperation and information exchange. Therefore, participants stressed the need for both horizontal and vertical liaison and coordination throughout government to ensure successful planning, development of programs and activities, and implementation. In addition, they believed there was a need for interaction with public and private organizations, including community and citizen groups, media and professional groups to support and supplement government, anti-fraud efforts. An exchange of information concerning available educational materials, training programs, case studies, standards, reports, etc., among all levels of government and private industry, was seen to be essential in developing a prevention and detection initiative.

Education of the public and government personnel via a public awareness campaign was identified as a priority. The workshop participants emphasized that such a campaign should include not only the negatives of fraud, waste and abuse, but should address the steps being taken by governments to combat the problem. The campaign should also emphasize the role of the citizen, community groups, and the public employee in assisting the fight against fraud, waste and abuse. The participants believed that citizen and community groups would be effective on a nationwide scale to: (1) detect and prevent corruption of elected officials; (2) demand appropriate penalties for convictions; (3) demand accountability of public administrators; (4) initiate campaigns for legislative and regulatory reform; (5) ensure that peers properly use benefit programs; and (6) provide enforcement agencies with information to detect and prevent fraud and abuse.

The need for continuing and improved training for all types of government employees was also identified as an integral part of any fraud and abuse initiative. Auditors and investigators expressed a need for increased training and the development of new working tools because of the complexity of most fraud cases. Participants indicated that there was a need for training program administrators, managers and on-line employees to clarify program intent, eligibility, delivery procedures and compliance issues. In addition, it was believed that there was a need for training for program administrators and prosecutors in alternatives to criminal prosecution such as administrative remedies and civil prosecution. Workshop participants stated there was a need for a

comprehensive listing of training courses applicable to fraud and abuse and a mechanism for continuous updating and dissemination of this information.

The workshop participants agreed that a strong commitment on the part of legislators and public officials to combat fraud and abuse was a requirement to the success of any prevention and detection effort. They indicated that in the development of program legislation, proportionate consideration be given to accountability and enforcement measures, including resources, as that given to program delivery. Workshop participants suggested that a fraud enforcement impact statement, modeled on the experiences with environmental and judicial impact statements, accompany all program legislation. In addition, the participants stated that privacy and security regulations limit enforcement necessary to prevent and detect incidents of fraud.

It was stressed that one of the primary causes for waste, abuse and error, and consequently dollar loss, is poorly designed programs including effective accountability measures. Workshop participants continually emphasized the need for: (1) clearer program definitions and terminology; (2) the elimination of ambiguous program objectives; and (3) uniform procedures or guidelines to direct financial and administrative actions. Without these, it is difficult for program managers to hold persons accountable and it is difficult for prosecutors to prove criminal intent. Thus, there is a need to develop model programs and guidelines for financial and program administration to ensure that accountability can be established and enforced.

Workshop participants believed that effective procedures be in place prior to receipt of funds and that audits be performed as appropriate to check for procedural compliance and capability.

Throughout the workshop sessions, accountability, monitoring, feedback, management controls and techniques, etc., continued to be emphasized. Participants indicated that if acceptable practices and standards in these areas were followed and enforced, and if on-going management procedures were reviewed and tightened, the opportunity for fraud and abuse would be reduced.

Workshop participants did not agree when discussing the need for a massive effort to compile statistical data, especially considering the expense and time involved. However, they did agree that some data would be beneficial, such as information for fraud profiles, which would identify programs or operational characteristics susceptible to fraud or abuse, or for conducting vulnerability assessments of programs and operations. The use of computers to detect and prevent fraud was emphasized primarily by enforcement personnel, prosecutors and auditors. The participants indicated that administrative procedures and remedies are not being used or consistently followed to resolve non-criminal incidents of abuse, waste, error and mismanagement. In addition, they stated that business and professional associations (medical, accounting, legal, etc.) should ensure that their rules, regulations, and standards mesh with criminal and civil law and that unethical conduct on the part of a member of any profession be subjected to vigorous disciplinary action.

There was discussion on the question of whether fraud cases should be pursued through the criminal or civil process and the problems inherent (varying statutes of limitation; legal barriers, i.e., grand jury testimony) to coordinating criminal/civil prosecution simultaneously. It was interesting to note that the U. S. Attorney from New Jersey has experienced success in simultaneous prosecution and it was suggested that this experience be documented and disseminated. Prosecutors and investigators expressed frustrations in their evidence gathering efforts because of destruction of records by suspects, poor bookkeeping practices, and the lack of incentive or fear of testifying by potential witnesses. The enforcement of appropriate penalties upon conviction is believed to provide incentives to potential witnesses to testify.

Most participants saw a need for the establishment of a multi-disciplinary operational group (i.e., auditors, prosecutors, investigators, program personnel) as a focus for any fraud and abuse effort. It was believed that these groups could be temporary, such as Special Task Forces or Strike Forces, or permanent entities based on models developed from concepts such as the Federal Inspectors General and the Economic Crime Units.

The participants saw vulnerability assessments such as those now being used by some of the Federal agencies as effective tools by which to prioritize prevention and detection efforts and to allocate resources. The various vulnerability techniques are worthy of examination for documentation for possible replication by other government entities.

III. THE NEEDS OF STATE AND LOCAL GOVERNMENTS TO PREVENT AND DETECT FRAUD, WASTE AND ABUSE

The Workshop participants were divided into four small groups for this session. (Throughout the remainder of the Workshop, the groups remained the same when group sessions were held). The groups were told by a group leader that by the end of this session, the group would have to develop a list of prioritized needs as the first phase of the Workshop. The generation of the four group lists was by means of the Delphi Process. The three factors that distinguish the Delphi Process from the usual methods of group interaction are: (1) anonymity, (2) interaction with controlled feedback; and (3) statistical group response.

The Delphi Process was selected to generate the broadest possible base of identified needs and to prioritize them, using time most economically.

The participants were asked to list up to ten needs or problems which they believed impacted on their ability to prevent and detect fraud, waste and abuse of public funds. In a series of rounds, each group prioritized the needs and problems identified by their group members resulting in the following lists. The needs and problems in the final lists are in order of priority.

A. GROUP I

1. Allocate resources for sufficient investigators, auditors, and attorneys to combat fraud, waste and abuse.
2. Educate the public to the tax dollar loss (from fraud, waste, and abuse) in order to create a demand for public/official action.

3. Create comprehensive data base -- including frequency, type, scope, size -- of fraud, waste and abuse problems in order to produce objective definition of problem.
- 4a. Independent/experienced investigator and auditor personnel.
- b. Lack of commitment by funding agencies to account for use of dollars.
- c. Standardize and simplify laws, rules, and procedures for obtaining, managing, disposing of, and auditing public funds.
- 5a. Standardize terms and definitions of fraud, waste, and abuse.
- b. Identification of conflicts of interest: Who is representing whom in contract awards, negotiations, etc?
- c. Address the problem of the attitude of government employees who administer programs and contracts.
- 6a. Federal support for state and local government adherence to existing standards in reference to accounting, auditing, and internal control.
- b. Change prevailing public attitude toward government.

B. GROUP II

1. Make agencies demonstrate good management and controls, before any dollars are given to state/local program agencies.
- 2a. Congressional consideration of potential problem areas before enacting legislation.
- b. Increased funding, more investigators and auditors for fraud, waste and abuse programs.
- c. Properly designed programs with effective administrative controls.

- 3a. Establish broad based strategy for dealing with the problem.
- b. Clear regulations for operating programs.
- c. Establish program objectives in order to evaluate properly these objectives at a later date.
- d. Citizen awareness and cooperation in fighting problem.
- 4a. Laws and regulations tightly written in order to minimize fraud, waste and abuse.
- b. Proactive investigating programs to identify violators and develop strategy for prosecution and for interagency cooperation.
5. Clear legislation and audit procedures to detect and prosecute fraud, waste and abuse.
6. Clear statutory coverage of issues.

C. GROUP III

1. Inspector General entity at the state level.
2. Cooperation between investigators, auditors, and prosecutors.
3. Public education.
- 4a. Total commitment from legislature.
- b. Administrative accountability for internal control.
- c. Open access to records.
- d. Improved internal control.
- e. State special prosecution unit.
5. New legislation to control fraud, waste and abuse.
6. Specify authority and accountability.

D. GROUP IV

- 1a. Develop adequate enforcement mechanisms when program starts.
- b. Adequate funding for investigation and staff.
2. Improve and increase staff training.
3. Clearly define statutory powers and responsibilities.
4. Identification of elements and characteristics (of programs) most susceptible to fraud, waste and abuse.
- 5a. Management improvement.
- b. Checks and balances at program inception.
- 6a. Responsibility of accounting and budget process.
- b. Administrative concealment.
- 7a. Necessity to insure government unit receives what it pays for.
- b. Lack of national uniform definition of fraud, waste and abuse.
8. Hot line systems to receive reports of fraud, waste and abuse.

E. ADDITIONAL COMMENTS

Despite the fact that there was no interaction among the groups or the group leaders during the development of the listed priorities, the similarities between the lists are startling. For example, the overriding themes in each of the groups were: (1) the need to develop coordination and cooperation among the various Federal, state and local governments; (2) the need to increase public awareness of the problems and of the roles the public can play in combating the problem; and (3) the need for commitment, especially at the legislative and executive levels of government.

Throughout the discussions, the need for training of all staff -- auditors, investigators, prosecutors and administrative, financial, and program personnel -- was stressed as essential to insuring the effectiveness and success of an anti-fraud effort.

Interestingly, workshop participants also indicated that tightening up administrative and financial systems already in place could drastically reduce the potential for fraud, waste, and mismanagement.

Other issues of significance discussed in each of the groups that were not specifically identified on the final needs list include: enforcement of standards developed by professional organizations and insurance that these standards mesh with criminal law; the need to transfer expertise and information among all levels of government, public and private organizations and citizen groups; and the use of the single audit concept and effective follow-up to audit reports.

IV. VULNERABILITY ASSESSMENT

The morning of the second day began with a plenary session at which Mr. John Lordan, Chief, Financial and Management Branch, Office of Management and Budget, described the method of financial analysis used by OMB, to determine what programs of theirs would be more susceptible to fraud, waste and abuse. Mr. Lordan also stated that this technique could also be useful to State and local governments. Following Mr. Lordan's presentation, each of the small groups was provided with an individual experienced in the field of program vulnerability assessment. Following an introduction on the subject, the groups discussed vulnerability and other issues of program design. Except for Group I, the vulnerability experts were from Inspector General offices in selected Federal Agencies. (In Group I, conference coordinator David Austern, experienced in the use of vulnerability assessment, lead the discussion).

A. Presentation by John Lordan: "Analysis of Financial Assistance Programs in the Catalog of Federal Domestic Assistance"

Mr. Lordan began by commenting on the Administration's commitment to accountability which was reflected in Presidential statements on the subject, reflected in support for Inspector General legislation, and reinforced by the Financial Priorities Program. This latter reference is a coordinated effort on the part of the Director of the Office of Management and Budget and the Comptroller General to identify and address the major issues associated with federally assisted

programs to state and local governments. The coordinated effort, Mr. Lordan said, would employ the audit process of the General Accounting Office and the budget review process of the Office of Management and Budget to determine the major issues for improving accountability in the Federal government.

The Financial Priorities Program included meetings between the Director of the Office of Management and Budget and virtually all Presidential Cabinet Officers. The priorities identified in the Financial Priorities Program include:

- Accounting systems -- getting General Accounting Office approval of all Federal agency accounting systems;
- internal controls -- upgrading the control systems to reduce the risk of fraud, waste and abuse, and to increase efficiency;
- cash management -- bringing the private sector technology of cash management techniques to the Federal government.
- audit follow-up -- encouraging management to resolve audit findings promptly and properly;
- outlay estimating -- improving control of fund flow by management;
- grant financing and grant accountability -- improving the processes and controls in each;

single audit approach -- using a system whereby an audit will be made of an organization as a whole as opposed to a grant-by-grant audit. (This is supported by a recent revision to OMB Circular A-102); and
- debt collection -- speeding up the collection of debts.

"The Federal government writes off about three billion dollars a year in bad debts -- an incredibly large amount of money. There is another unrecorded amount, the total of which we do not yet know, of bad debts we do not write off, but where we probably should, because the prospects of recovery have dimmed as a result of very slow action on the part of agencies."

The cash management technology changes and benefits are characterized, Mr. Lordan noted, by an anticipated saving to the Federal government over the next three years of interest expenses in excess of one billion dollars. Mr. Lordan reiterated a finding of a General Accounting Office study, stating that although Federal audit staffs were disclosing a lot of problems in their agencies, management was not promptly and properly resolving audit findings. Mr. Lordan concluded by reviewing certain statistics based on the Catalog of Federal Domestic Assistance. He noted that although there are 1,078 domestic assistance programs, only 815 are financial assistance programs, and only 514 of these are project grant programs -- that is, categorical grants where there is a relationship between the quality of the application/proposal and the award of funds. However, these 514 programs, Mr. Lordan said, represent only seven percent of the Federal dollars spent on domestic assistance. Nearly forty percent of all Federal domestic assistance

dollars are direct payments for unrestricted use -- welfare payments, veteran benefits, etc., where the individual recipient can spend the money as he or she sees fit. Project grants to state and local governments, which represent only sixteen percent of the total Federal dollars given to the states, constitute nearly all of the complaints that are heard about fraud, waste and abuse.

Even more startling, Mr. Lordan reported, is that 56 of the nearly 500 programs for which state and local governments are eligible receive ninety percent of the available Federal dollars. Based on these dollar proportions, Mr. Lordan believed that the greatest attention should be directed to the larger Federal assistance programs rather than the smaller ones.

B. Small Group Sessions

1. GROUP I

"Although it definitely appears that agencies with the most waste and mismanagement are the most vulnerable to crime, it usually happens that the crime comes first to the prosecutor's attention or the public's attention, but in jurisdictions with an Inspector General, mismanagement often can be detected before the crime happens."

Philip Michael, First Deputy Commissioner,
New York City Department of Investigation

Mr. Austern began the discussion by noting that almost inevitably the number of investigators, auditors, attorneys and other personnel available to monitor and/or investigate programs is insufficient based on the size and complexity of the programs. Therefore, it is required that the investigations and monitoring functions, in addition to being responsive to complaints, must be proactive: the investigators must determine where the problem areas are and must then seek them out. One obvious way of doing this is to follow the lead of the last speaker, John Lordan, and concentrate resources in those programs which have the most funds. Mr. Austern noted that the Program Model, "Prevention, Detection, and Correction of Corruption in Local Government" presented another alternative, namely, examining the triad of opportunity (to steal), incentive (the amount of the theft), and risk (of being detected).

The use of profiles was another tactic of vulnerability assessment discussed. Extensive discussion on this topic centered on the application and usefulness of profiles in assessing vulnerability, and there was substantial disagreement among the participants on the focus profiles should take. Basically, the use of profiles can involve a determination of the characteristics of prior offenders and the conditions or circumstances under which the offense took place. Using a computer or other models, patterns, trends and weaknesses can be identified. Data can also be used to develop model fraud schemes.

For example, Terry Brunner, Executive Director, Better Government Association, explained how a model was developed for a fraud scheme involving kickbacks to medical laboratories and used to detect over a dozen similar cases.

Charles Casey, Chief of California's Bureau of Organized Crime and Criminal Intelligence, suggested that trying to look at fraud and waste from the same angle was like trying to compare apples and oranges; he stated that the priority should be placed on management of programs and how management fosters waste. Attacking the problem from this perspective first will eventually lead back to active criminal acts and the criminal.

James Cissell, United States Attorney for the Southern District of Ohio, stated that he thought the use of profiles was appropriate and perhaps essential. He added that a profile of program managers might be a useful exercise as well. Philip Michael, First Deputy Commissioner, New York City Department of Investigation, said he considered profiles to be useful in two principal areas -- to make suggestions about pending legislation and to redraft existing contracts. Mr. Michael explained that his office is involved with the prevention of fraud, waste and abuse as well as detection.

Mr. Austern noted that feedback on problems detected to the appropriate administrators and elected officials was also a part of vulnerability assessment. Mr. Michael explained that investigators

in his office analyze program deficiencies and prepare reports for the Inspectors General. Fred DeVesa, a Deputy Attorney General from New Jersey, agreed that feedback would be beneficial, but stated that prosecutors and investigators are presently neither trained, nor given the opportunity to perform such a function. Mr. Michael added that clout from top officials was essential to his office's ability to effect change.

2. GROUP II

"When our program managers heard about our vulnerability assessment efforts, they said to us, you show us abuses and we'll correct the abuses."

Richard Staufenberger, Special Assistant to the Inspector General, U. S. Department of Agriculture

Richard Staufenberger, Special Assistant to the Inspector General, Department of Agriculture, described what the Department has done to analyze its programs for vulnerability. The Inspector General's office analyzed all investigations and audits dating back to 1963, and created a task force to review that information and other data and then assess program vulnerability. The historical analysis identified certain factors which appear to affect vulnerability:

- . Program size -- the more money in the program, the more acute the losses appear to be;
- . Kinds of payments -- direct payments have a higher chance of abuse versus guaranteed loans which have a lower chance for abuse;

- . Number of beneficiaries -- the greater the number of recipients, the greater the likelihood for abuse;
- . Special pressures -- the more rapidly program delivery is required, the more likely fraud, waste and abuse are likely to occur; and
- . Management -- a lack of records, personnel controls, or other management control systems leads to abuse.

In addition, Mr. Staufenberger noted that the assessment suggested that some programs in certain sections of the country appear to be more susceptible to fraud, waste and abuse than in other sections. Carl Chase, Director of the Division of Investigation, South Carolina Department of Social Services, stated that he has seen different philosophies, based on political realities, among the Inspectors General with respect to program operations. It appears to him that the intent of Congress in this area is not being matched by all cabinet officers. He added that the Federal government should offer states inducements -- financial and otherwise -- to add to their staffs.

Michael Ferrara, Assistant Supervisor, Bureau of Budget, New Jersey, stated that it was more important for the Federal government to provide the states with funds to combat fraud, waste and abuse than it is to provide the states with techniques such as vulnerability assessment. He added that the states are paid up to seventy-five percent to combat fraud, waste and abuse, but with the Proposition 13 mentality and shrinking resources, it may be necessary for the Federal government to give the states one hundred percent of the funds.

3. GROUP III

"The best fraud, abuse and waste indicator is the intimate and in-depth knowledge possessed by program managers and Inspector General Auditors and agents who have a feel for soft spots and problem areas. The best safeguard against fraud, waste and abuse is good program management."

Alfred Ulvog, Jr., Assistant Inspector General
U. S. Department of Agriculture
Quoting a Department Vulnerability Assessment

Alfred Ulvog, Jr., Assistant Inspector General, Office of the Inspector General, Department of Agriculture, explained the vulnerability assessment program of the Department. (See description by Mr. Staufenberger under the Group II heading). Mr. Ulvog emphasized that a vulnerability or risk assessment is a logical step in a good management process which sets priorities and allocates resources. In addition to the goals of preventing and detecting fraud, and preventing and recovering dollar losses, the Department's goal was to promote employee integrity.

Mr. Ulvog explained that as a result of a vulnerability assessment program, the Department's approach to fraud, waste and abuse has changed. Now, when allegations of wrongdoing are received, instead of pursuing a case through to the point of prosecution, only four or five days are spent in preliminary work; then, the United States

Attorney is asked if the case is prosecutable. If it is, the investigation continues; if not, an administrative approach is utilized with an emphasis on prevention. Indictments have increased dramatically in the past few years because the Department pursues the cases involving greater dollars to the exclusion of matters that can be handled administratively. The results of a vulnerability assessment can be used as a part of both the audit and investigation process, as well as a basis for discussion and interaction with the program managers to resolve the problems disclosed by the assessment. Following Mr. Ulvog's presentation, he was asked whether vulnerability assessment was different depending on the program being assessed (it was not), and whether different criteria were used to assess a program's vulnerability to fraud, waste and abuse versus other problems (the assessments were the same).

Gene S. Anderson, Chief Deputy Prosecutor, King County (Seattle, Washington) Prosecutor's Office, described a program in his county in which investigative emphasis which had been traditionally focused on recipient fraud, was expanded to include vendor fraud following an assessment that greater amounts of money were being lost in that direction through fraud. Jewel Lansing, Multnomah County Auditor, Portland, Oregon, reported how a group of citizens and certified public accountants helped set criteria for selecting and scheduling program and operational audits based on (a) dollars involved, (b) potential for risk and cost savings, and (c) degree of public interest. In short, the assessment for her county was aided by a private sector group. This prompted John Gregrich, Law Enforcement Assistance

Administration, to ask whether there was a consensus as to who has the responsibility for generating vulnerability assessments. Ms. Lansing responded that the consensus of a Pacific Northwest Intergovernmental Audit Forum meeting in the Spring of 1979 was that the legislative branch of government is best suited to take the lead in this area. The General Accounting Office model works well, many Forum members believe, and is emulated by both Multnomah County, Oregon, and King County, Washington. The discussion turned to whether the concept of an Inspector General is a good one. The participants agreed that an independent Inspector General is very important -- and without independence, the Office of Inspector General would be a disaster. The independence of the office should be assured through legislation. The participants also concluded that an Inspector General's office is not a panacea; vulnerability assessments and general watchfulness on the part of all officials are important whether or not there is such an office.

4. GROUP IV

Robert Hudak, Assistant Inspector General of the Department of Housing and Urban Development, led the vulnerability assessment discussion in this group. He noted that almost since its inception the Department has been the subject of widespread publicity arising from fraud, waste, and abuse scandals. Because of these scandals, the Office of Inspector General was created in 1972, and was directed almost immediately to develop a process to identify programs with the greatest potential for fraud, waste and abuse. This vulnerability assessment was performed by collecting all of the available information concerning investigations done by staff, program evaluations, and administrative office performance and field operations reviews. From this data, the following factors were considered:

- . how the program is delivered and who are the parties involved;
- . the extent and type of third-party transactions;
- . incentive and risk sharing between the government and industry; and
- . the ability to monitor effectively within the Department.

The analysis revealed that of the approximately one hundred programs, the Housing Assistance Programs and Community Planning and Development Programs had the greatest potential for fraud, waste and abuse. In addition, the most frequently encountered abuses (eligibility and procurement) were identified.

The Department of Housing and Urban Development has also created an in-house committee to combat fraud and mismanagement. The committee is chaired by the Inspector General and includes representatives of each Assistant Secretary of the Department and other lay staff members. He stressed the need to involve management in prevention and detection activities and felt that success in this endeavor would necessitate a joint effort between the I.G.s and management.

A number of group participants asked Mr. Hudak about the extent to which the Inspector General undertook criminal investigations in cases where fraud was previously indicated. Mr. Hudak reported that the OIG conducts operational surveys utilizing auditors and investigators as a team in visits to HUD area offices looking for fraud indicators. He also reported that the Department has had difficulty convincing local prosecutors to bring criminal complaints where Department investigators have uncovered fraud.

Edwin H. Stier, Director, Division of Criminal Justice, Department of Law and Public Safety, New Jersey, questioned whether any local prosecutor would accept a case which had been rejected by the local United States Attorney. Several other participants seconded this opinion. Mr. Stier described a program in New Jersey whereby the state and the Department of Agriculture are developing centralized training, funding, and coordination for local prosecutors to handle criminal complaints in the Food Stamp Program. Special units will be created within the local prosecutors' offices to handle food stamp complaints on a large scale.

Arthur Del Negro, Jr., Project Director, National District Attorneys' Association Economic Crime Project, said that his organization has explored the possibilities of creating incentives for local prosecutors whereby they would be reimbursed with Federal funds for the Federal programs criminal complaints they prosecute.

R. Thomas Parker, Executive Director, National Criminal Justice Association, noted that the flow of public funds are increasingly going to non-profit organizations and associations and thus funding sources are becoming even further removed from government based direct services delivery and known accountability systems. This "distancing" between source of funds and recipients has resulted in less control over the funds.

"Throughout much of this session the discussion has been concentrated on fraud and mismanagement found in public programs; however, another major concern is the fraud and abuse in procurement...More attention should be devoted to establishing sound procurement practices. We must find new ways to improve performance in this area with further exploration such as that represented by the American Bar Association Model Procurement Code."

Herbert Edelhertz, Director
Battelle Law and Justice Study Center

V. PREVENTION AND DETECTION STRATEGIES

The afternoon of the second day of the Workshop, the four groups formulated strategies for the prevention and detection of fraud, waste and abuse. Group facilitators from the Law Enforcement Assistance Administration assisted in the process development. However, each group, without consultation or comparison with the other groups, developed its own prevention and detection strategies and components. A spokesperson for each group was selected to present a group report at the morning session on day three. A summary of each group report follows:

A. GROUP I

Reporter: J. Terrence Brunner

It is necessary that there be a very strong Federal commitment, preferably from the President and by means of an Executive Order, to create an organization or interagency task force to do something about fraud, waste and abuse in government programs. Cooperation between Federal agencies is a must. It is not just the fact that so much money comes from the Federal government; but, more importantly, it takes cooperation among all Federal agencies to cut through and across the jurisdictional lines which sometimes operate as a barrier to prevention and detection techniques.

The organization or task force would have a number of goals:

- . Public education -- through mass media campaigns, the public must be made aware of the problems of fraud, waste and abuse in government. This education process would include recipients of program dollars.
- . The development -- with the Department of Justice -- of legislative programs which can be used by the states whereby the management controls, which are a prerequisite to prevention, will exist in every agency and department.
- . The development of uniform accounting and auditing standards for all programs which involve the use of federal funds.
- . The establishment of standards of conduct and accountability for people who administer benefit programs and other programs which involve the use of public funds.

In addition, Group I recommended the establishment of Federal technical assistance and training support staffs for local fraud, waste and abuse enforcement agencies. Some of the support in this area would come from the states, i.e., if a particular agency in a state was involved in a selected type of work, agency personnel would train personnel in other states.

The Group also recommended the establishment of interdisciplinary fraud units at the state and local level. These units would have responsibility for both the detection and the prevention of fraud, waste and abuse. Finally, some modification of Federal privacy laws was recommended.

Investigators, prosecutors, and managers frequently find their anti-fraud efforts frustrated by (1) Federal privacy laws, and (2) the difference between Federal privacy standards and state privacy standards. The Group concluded that some resolution of the differences between the laws at the state and federal level was required.

B. GROUP II

Reporter: Thomas E. Kelly

This Group divided its recommendations into short-range and long-range objectives. The short-range objectives included program user education whereby recipients of benefit programs would be instructed as to what they could and could not expect from the program. Further "user" short-range objectives included publishing the names of recipients charged with abuse, and some method of developing identification or profile criteria as to the type of recipient who is most likely to commit fraud, waste, and abuse. In addition to the recipient education programs, a broader public education program should be undertaken with a view that if the general public learns that program abuses cost them millions of dollars a year, the public will be more likely to report such abuses.

The use of hotlines -- similar to the General Accounting Office Model -- whereby citizens can anonymously report fraud, waste and abuse, should be commenced at least on a developmental basis.

Another short-term recommendation is integrity training for managers and employees of provider agencies. Only if these employees and managers understand the importance of integrity can we realistically expect fraud, waste and abuse to be curtailed at the one place where the greatest impact will be felt -- the source of funds. A positive management approach, including management controls for accountability and codes of ethics and standards for employees is an essential element in the entire prevention scheme.

For long-term development, more funding for multi-disciplined fraud, waste and abuse task forces would be productive. Although costly, a team concept -- investigators, accountants, program experts, and prosecutors -- is one model that has proven successful.

More emphasis should be placed on the use of civil action or administrative adjudication when criminal prosecution is deemed inappropriate or not attainable. Awareness and use of these alternatives to criminal prosecution can be increased through training, development of enforcement standards, and establishment of referral/feedback systems.

Finally, as part of the team concept, the Group recommended the establishment of a function in each state which could be modeled after the Federal Inspector General concept. The Group recommended that both Federal and state privacy laws be reviewed to determine whether legislative changes are needed to facilitate fraud, waste and abuse investigations while, at the same time, respecting the legitimate privacy considerations of benefit program users.

C. GROUP III

Reporter: Jewel Lansing

This Group divided its recommendations into three parts. First, the Group recommended the establishment of offices at the state and local level modeled after the Federal Inspector General concept. These offices, which should be established after representatives from the public and private sector in each state meet to structure the rules, regulations, and procedures of the offices, should be as flexible as possible so that local rules and statutes can be taken into account. In many instances, existing agencies might be able to assume the leadership and coordinating function. It is especially important that these offices undertake vulnerability assessments. Initial financial aid and technical assistance to these offices should be provided by the Law Enforcement Assistance Administration. Long term Federal funding should be considered when Federal dollars are being utilized for state-level programs.

Second, the Group recommended a program to increase public awareness of the problems associated with fraud, waste and abuse. This program would include a nationwide campaign to inform the public of the dollar loss, the enlistment of public interest groups to take an active role in the campaign, the establishment of hotlines to report fraud, waste and abuse, and an information collection effort by the Law Enforcement Assistance Administration to get sufficient data as to the incidence of fraud, waste and abuse at the state and local level. As a corollary to this program, the Group recommended that auditors at the state and local level publish reports in simple English -- reports that can be understood by everyone and do not include excessive, technical jargon.

Third, the Group recommended an increase in the cooperation between agencies with responsibility to monitor, audit, and investigate incidents of fraud, waste and abuse. A principal component of the cooperation would be increased communication between such agencies. Frequently, the Group stated, enforcement agencies compete with one another in their pursuit of violations of applicable statutes. The establishment of vertical and horizontal forums in which to share information and discuss the state-of-the-art is a necessary prerequisite to effective management.

D. GROUP IV

Reporter: Thomas Hayes

This Group devoted extensive time to the prevention of fraud, waste and abuse. Five elements were identified as essential to a prevention program:

- . The establishment of internal controls at the time a program is funded;
- . Adequate funding for audit and investigatory personnel at the time a program is developed;
- . A program to improve staff training, particularly of the audit, investigatory, and prosecution personnel, as well as staff with program responsibilities;
- . A program to clarify and to define the statutory powers and responsibilities of program managers and their relationship to prosecutors, auditors, and investigators. Accountability must be clearly articulated.

- . The commencement of a vulnerability assessment whereby the elements and characteristics of programs most susceptible to fraud, waste and abuse can be identified.

The Group also recommended the establishment of a clearinghouse for the exchange of information among agencies with enforcement responsibilities. Finally, the Group recommended the establishment of a hotline to which incidents of fraud, waste and abuse could be reported. This hotline should include a mechanism whereby the characteristics and elements of incidents of fraud, waste and abuse could be systematically identified, and these characteristics forwarded to those persons who are conducting (on an on-going basis) the vulnerability assessments noted above.

VI. CONCLUDING REMARKS BY CHARLES RUFF, ACTING DEPUTY ATTORNEY GENERAL,
UNITED STATES DEPARTMENT OF JUSTICE

Mr. Ruff (who, at the time of the workshop, was the Acting Deputy Attorney General, but who now is the United States Attorney for the District of Columbia) stated that he believed that each and every one of the proposals that have been laid out during the workshop ought to be pursued and pursued actively, whether it be through Federal encouragement, federal funding, state encouragement or state funding.

However, he cautioned the workshop attendees that systemic changes of the kind necessary to affect problems of fraud, waste and abuse are very difficult to implement. Mr. Ruff pointed out that it is unlikely that over the course of the next two years, or five years, or fifteen years, truly systemic changes will occur which will make a major difference in the extent of fraud, abuse and waste in government programs. Nevertheless, he added, we need not be pessimistic about the value of attending these meetings or attempting to achieve some of the results which the group reporters have talked about.

According to Mr. Ruff, the purpose of conferences like this is to provide a forum in which some of the approaches and some of the solutions already developed can be shared, as well as the creation of relationships that will assist you in the future. Mr. Ruff stated that although each of the broad ranging ideas which have been discussed during the workshop is crucial - public education, public awareness, legislative reform and regulatory reform - it is most important to begin with a few smaller building blocks. Mr. Ruff further indicated that, for him, the

goal of this kind of a workshop is really to achieve only some modest incremental progress, to work on ways of achieving financial and other support, to identify those models which have worked and those models which have not, and attempt to replicate the former.

Mr. Ruff stated that the development of models should attempt to achieve a balance of Federal and state cooperation. Such models could range from specific proposals, whether they be computer detection or undercover operations, store-front operations, which have been tried successfully by others, to the broader and, he thought, quite important, new techniques in vulnerability assessment.

Expanded information sharing about plans for attacking fraud, waste and abuse schemes was an area that Mr. Ruff strongly supported. He indicated that such information sharing should include data concerning the identity of talented investigators, auditors and prosecutors, as well as data about plans for attacking fraud, waste and abuse -- those things which have worked and those which have not.

Mr. Ruff also pointed out that public education is a crucial element of any approach to the problem of combating fraud, waste and abuse and thought whether it be through LEAA or on the state and local level, that the suggestions offered during the workshop concerning improved public awareness were quite good ones.

Mr. Ruff pointed out that it is only realistic to note that the Federal government cannot be looked at as the ultimate and continuing source of all resources. According to Mr. Ruff, the states have, at least, an equal and probably a greater obligation to make the commitment to provide funds and staff. He stated that if the state is willing to make

the money available, that demonstration of commitment can make the system work better. This is not to say that the Federal government ought not to be involved. He stated that there really has to be commitment at the state legislative level and the state executive level in order to make the system work; both on the start-up issue which the Federal government specializes in, and in the continuing funding, which must be the principal responsibility of the state.

Mr. Ruff concluded that despite his pessimism, the Department of Justice is prepared to be of assistance to the states and other units of local government to combat fraud, waste and abuse. This commitment is not only reflected in the Workshop itself, but will be reflected in the recommendations of the Workshop participants to which the Department will give special attention. Further, he stated the problem of fraud, waste and abuse of public funds is an issue which the Justice Department is concerned about and is at the very top of the Attorney General's list of priority concerns. We will spend money on it, and we will spend manpower on it. But, he suggested the crucial element is what the states and the local governments are really prepared to do in the way of budgetary and manpower commitments to make the system work.

SPECIAL NATIONAL WORKSHOP
 PREVENTION AND DETECTION OF FRAUD, WASTE AND ABUSE OF PUBLIC FUNDS
 NOVEMBER 14-16, 1979
 WASHINGTON, D. C.

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Special National Workshop
Prevention and Detection of Fraud, Waste and
Abuse of Public Funds

November 14-16, 1979
Washington, DC

WORKSHOP AGENDA

November 14, 1979

- 1:00 p.m. Welcome and Overview of the Workshop
Henry S. Dogin, Administrator, Law
Enforcement Assistance Administration
- 1:30 p.m. Workshop Instructions and Overview
David T. Austern, Workshop Substantive
Coordinator
- 2:00 p.m. - 2:30 p.m. VIDEO PRESENTATION -- "Introduction to the
Problem." Videotaped Segments from
CBS' "60 Minutes" Program on Fraud.
- 2:30 p.m. - 2:45 p.m. Coffee Break
- 2:45 p.m. - 5:30 p.m. SMALL GROUP SESSIONS -- "Needs of State/
Local Governments."

November 15, Thursday

- 9:00 a.m. - 9:10 a.m. PLENARY SESSION -- Presentation on Group
Consenses of Priorities
David T. Austern
- 9:10 a.m. - 9:30 a.m. PLENARY SESSION -- "Analysis of Financial
Assistance Programs in the Catalog of
Federal Domestic Assistance"
John Lordan, Chief, Financial
Management Branch, Office of
Management and Budget
- 9:30 a.m. - 10:30 a.m. SMALL GROUP SESSIONS -- "Vulnerability
Assessment".
- 10:30 a.m. - 10:45 a.m. Coffee Break
- 10:45 a.m. - 11:30 a.m. SMALL GROUP SESSION -- Continuation
of "Vulnerability Assessment".

APPENDIX B

11:30 a.m. - 1:00 p.m. Lunch Break

1:00 p.m. - 2:15 p.m. SMALL GROUP SESSION -- "Other Strategies:
Prevention of Fraud, Waste and
Abuse of Public Funds."

2:15 p.m. - 2:30 p.m. Coffee Break

2:30 p.m. - 3:45 p.m. SMALL GROUP SESSIONS -- "Other Strategies:
Detection of Fraud, Waste and Abuse of
Public Funds".

3:45 p.m. - 5:30 p.m. SMALL GROUP SESSIONS -- "Model
Development".

November 16, Friday

9:00 a.m. - 10:45 a.m. SMALL GROUP SESSIONS -- "Reassessment
of Models and Need/Problems".

10:45 a.m. - 11:00 a.m. Coffee Break

11:00 a.m. - 11:45 a.m. PLENARY SESSION -- Group Session Reports
on "Model Program Development".

11:45 a.m. - 12:00 p.m. CONCLUDING REMARKS -- Charles Ruff,
Acting Deputy Attorney General,
Department of Justice

SMALL DISCUSSION GROUP ASSIGNMENTS

Group I

J. Terrence Brunner
Charles Casey
James Cissell
Paul Clemente
Fred DeVesa
James Graham
Charles Hyder
Andrea Lange
Terry Lenzner
Philip Michael
Benjamin Renshaw
Philip Snyderburn
Eldon Stoehr
Richard Ulrich
Denny Weller

Group III

Gene Anderson
Eugene Barnhardt
Carl Cimino
Robert Ciolek
Thomas Dwyer
John Franke
John Gregrich
Thomas Holland
Jewel Lansing
Austin McGuigan
William Powers
Dean Robinson
Richard Robinson
Harold Spedding
Joseph Spinnato
Lawrence Sullivan
Alfred Ulvog

Group II

Ernest Allen
James Cobler
Carl Chase
Richard Dalton
Billy Davis
Robert Del Tufo
Michael Ferrara
Robert Goffus
Chuck Hayes
Steven Heins
Thomas Kelly
Ted Lyman
Philip MacDonnell
Charles Rinkevich
Peter Starrett
Dick Staufenberger
Joseph Vengrin
Daniel Whittemore
John Wright

Group IV

Arthur Del Negro
Herbert Edelhertz
J. Price Foster
Daniel Goslicki
Thomas Hayes
Robert Hudak
Chris Martin
Frank Meyers
Gordan Miller
R. Thomas Parker
Frank Sefton
Manfred Seiden
Robert Sheehan
Richard Speranza
Edwin Stier
Eugene Sullivan
Danny Valdivia

ACTIVITY TYPE	NEEDS/PROBLEMS	RECOMMENDED ACTIVITIES/REMLDIES
LEGISLATIVE SUPPORT	<ul style="list-style-type: none"> . Standardize and simplify laws, rules, and procedures for obtaining, managing, disposing of, and auditing public funds. . Standardize terms and definitions of fraud, waste and abuse. . Congressional consideration of potential problem areas before enacting legislation. . Laws and regulation tightly written in order to minimize fraud, waste and abuse. . Clear legislation and audit procedures to detect and prosecute fraud, waste and abuse. . Clear statutory coverage of issues. . Total commitment from legislature. . New legislation to control fraud, waste and abuse. . Specify authority and accountability. . Clearly define statutory powers and responsibilities. . Clarify and redefine privacy and security laws and regulations to increase program administrators and enforcement units ability to detect fraud. 	<ul style="list-style-type: none"> . Build controls into program at its inception. . Require fraud impact statement on new legislation. . Establish Interagency/Governmental Task Force. . Clearly define statutory powers and responsibilities: <ul style="list-style-type: none"> --simplify language of all legislation and implementing regulations. --design legislation so as to fix accountability more clearly at governmental and agency levels. --design statutes to clarify responsibility for inter-agency coordination, referrals, and reporting to appropriate investigative or prosecuting agency. --attempt to develop language to clarify definitions associated with fraud, waste and abuse. . Require commitment from State Executive and legislative branches for combating fraud, waste and abuse: <ul style="list-style-type: none"> --develop model state fraud statutes. . Develop standard language to be included in appropriate legislation: <ul style="list-style-type: none"> --requiring administrative regulations be developed prior to implementation (these regulations would be reviewed by a designated Federal agency (OMB, GAO). --stating "these funds will not be stolen."
ORGANIZATIONAL REDESIGN	<ul style="list-style-type: none"> . Independent/experienced investigator and auditor personnel. . Proactive investigating programs to identify violators and develop strategy for prosecution and for interagency cooperation. . Inspector General entity at the state level. . Cooperation between investigators, auditors, and prosecutors. . Management improvement. . Responsibility of accounting and budget process. 	<ul style="list-style-type: none"> . Perform vulnerability/risk analysis for weaknesses in organizational structure. . Establish fraud, waste and abuse units (comparable to Economic Crime Units) to solely investigate and prosecute fraud, waste and abuse cases. . Implement Inspector General concept at the state-level, test and evaluate. . Establish special commissions to study programs and operations for potential fraud, waste and abuse.
EDUCATION AND TRAINING	<ul style="list-style-type: none"> . Educate the public to the tax dollar loss (from fraud, waste and abuse) in order to create a demand for public/official action. . Independent/experienced investigator and auditor personnel. . Public education. . Improve and increase staff training. 	<ul style="list-style-type: none"> . Support a balanced public awareness campaign using media, brochures, citizen groups and provide information on: <ul style="list-style-type: none"> --dollar loss --program intent and eligibility. --penalties for fraud, waste and abuse. --actions taken by government agencies, etc. to combat fraud, waste and abuse. . Improve and increase staff training: <ul style="list-style-type: none"> --direct training to wide array of staff: technical, management, fiscal. --identify and disseminate courses available; assess training available.

ACTIVITY TYPE	NEEDS/PROBLEMS	RECOMMENDED ACTIVITIES/REMEDIES
EDUCATION AND TRAINING CON'T		<ul style="list-style-type: none"> --develop training programs to familiarize staff with new programs: <ul style="list-style-type: none"> --compliance requirements --appropriate program intention of funds(objectives, goals of grant) --increase technical expertise for technical and management staff) --inter-disciplinary training to improve common understanding of roles and responsibilities/and mutual needs. --identify programs in existence/available and develop catalog of required programs. --funding agency should provide funds for training staff of recipient agency. --training programs should be made available on regional/local level. --agency should develop criteria for certification of staff competence and/or provide training programs to meet this need. --private/public joint training task force. . Educate prosecutors on alternatives to criminal prosecution, i.e. civil prosecution and administrative remedies. . Design training programs that address techniques for preventing and detecting fraud for auditors, investigators, managers. . Establish a clearinghouse to gather and disseminate information.
DATA COLLECTION, STATIS- TICAL ANALYSES, AND RESEARCH	<ul style="list-style-type: none"> . Create comprehensive data base--including frequency, type, scope, size--of fraud, waste and abuse problems in order to produce objective definition of problem. . Standardize terms and definitions of fraud, waste and abuse. . Identification of elements and characteristics (of programs) most susceptible to fraud, waste and abuse. . Lack of national uniform definition of fraud, waste and abuse. 	<ul style="list-style-type: none"> . Identify and develop models for replication at the state or local level. Build in evaluation component and test for impact on fraud, waste and abuse. . Identify and evaluate ongoing programs related to fraud, waste and abuse(i.e., training program for detecting local corruption, white collar crime). . Determine statistical data needed to measure fraud, waste and abuse; including characteristics, scope, and programs susceptible to fraud. . Standardize terms and definitions for fraud, waste and abuse. . Develop models for use of computers in the detection and prevention of fraud, waste and abuse.

ACTIVITY TYPE	NEEDS/PROBLEMS	RECOMMENDED ACTIVITIES/REMEDIES
INVESTIGATION	<ul style="list-style-type: none"> . Demand audits of entire agencies; not programs/project specific. . Allocate resources for sufficient investigators, auditors, and attorneys to combat fraud, waste and abuse. . Effective follow-up to audits. . Increased funding, more investigators and auditors for fraud, waste and abuse programs. . Government unit should ensure that it receives what it pays for. 	<ul style="list-style-type: none"> . Develop and provide interdisciplinary (auditor, investigator, prosecutor) training to improve common understanding of roles, responsibilities, and mutual needs. . Develop or identify training programs for managers, auditors, investigators that illustrate detection techniques, i.e. warning signals in procurement practices, fund flow, recordkeeping, case studies, evidence gathering, etc. . Perform single agency audits. . Implement timely audits. . Audit priority areas (based on vulnerability analysis) . Perform preaward surveys for management and financial accountability. . Develop standards for handling conflict of interest, financial disclosure. . Obtain commitment from State Executive and Legislative branches; develop model budget request and justification for adequate allocation of resources for staff. . Funding agency should allocate adequate program funds for audit/investigation (i.e. medicaid fraud units).
QUALITY AND MANAGEMENT CONTROL	<ul style="list-style-type: none"> . Lack of commitment by funding agencies to account for use of dollars. . Identification of conflicts of interest: Who is representing whom in contract awards, negotiations, etc.? . Address the problem of the attitude of government employees who administer programs and contracts. . Federal support for state and local government adherence to existing standards in reference to accounting, auditing, and internal control. . Make agencies demonstrate good management and controls, before any dollars are given to state/local program agencies. . Properly designed programs with effective administrative controls. . Administrative accountability for internal control. . Open access to records. . Improved internal control. . Management improvement. . Checks and balances at program inception. 	<ul style="list-style-type: none"> . Develop models identifying elements and characteristics of programs most susceptible to fraud, waste and abuse. Update and refine warning signals of fraud, waste and abuse. . Develop standards and model for management control systems. Identify agencies responsible for detecting/preventing fraud. . Provide training to administrators/managers on techniques to prevent and detect fraud, waste and abuse. . Develop model code of ethics and performance and accountability standards for employees; also model orientation program. . Develop model procurement standards and provide training in their use. . Require use of auditing/accounting standards as a prerequisite to funding. . Establish incentives for preventing and detecting fraud, waste and abuse; i.e., reimbursement, joint funding, recoupage of funds. . Development of standards of conduct and accountability for program administrators and managers. . Develop uniform accounting/auditing standards; use as a prerequisite to funding.

ACTIVITY TYPE	NEEDS/PROBLEMS	RECOMMENDED ACTIVITIES/REMEDIES
FINANCIAL AUDITING	<ul style="list-style-type: none"> . Demand audits of entire agencies; not programs/project specific. . Allocate resources for sufficient investigators, auditors, and attorneys to combat fraud, waste and abuse. . Effective follow-up to audits. . Increased funding, more investigators and auditors for fraud, waste and abuse programs. . Government unit should ensure that it receives what it pays for. 	<ul style="list-style-type: none"> . Develop and provide interdisciplinary (auditor, investigator, prosecutor) training to improve common understanding of roles, responsibilities, and mutual needs. . Develop or identify training programs for managers, auditors, investigators that illustrate detection techniques, i.e. warning signals in procurement practices, fund flow, recordkeeping, case studies, evidence gathering, etc. . Perform single agency audits. . Implement timely audits. . Audit priority areas (based on vulnerability analysis) . Perform preaward surveys for management and financial accountability. . Develop standards for handling conflict of interest, financial disclosure. . Obtain commitment from State Executive and Legislative branches; develop model budget request and justification for adequate allocation of resources for staff. . Funding agency should allocate adequate program funds for audit/investigation (i.e., medicaid fraud units). . Clearly define role of the auditor and investigator in detecting and preventing fraud, waste and abuse.
ADMINISTRATIVE ADJUDICATION AND REMEDIES	<ul style="list-style-type: none"> . Develop adequate enforcement mechanisms when program starts. . Administrative concealment. . Underutilization of alternatives, i.e. administrative/civil remedies, disbarment, revocation of licenses, suspension. 	<ul style="list-style-type: none"> . Develop training program (for prosecutors) identifying alternatives to criminal prosecution such as civil or administrative remedies. . Build compliance and internal controls into program.
CRIMINAL AND CIVIL PROSECUTION	<ul style="list-style-type: none"> . State special prosecution unit. . Develop adequate enforcement mechanisms when program starts. 	<ul style="list-style-type: none"> . Establish a Fraud Unit (comparable to the Economic Crime Unit); pilot test and evaluate. . Build compliance/internal controls into program. . Ensure compliance staff access to agency heads. . Develop standards for guiding choice of prosecution (civil or criminal).
PROGRAM DESIGN	<ul style="list-style-type: none"> . Properly designed programs with effective administrative controls. . Clear regulations for operating programs. . Establish program objectives in order to evaluate properly these objectives at a later date. (Improved grantsmanship) . Specific authority and accountability. . Develop adequate enforcement mechanisms when program starts. 	<ul style="list-style-type: none"> . Conduct vulnerability assessment of program prior to implementation. . Develop standard accountability checks. . Make organizations demonstrate good management and accounting techniques prior to funding. . Funding agency should mandate adequate program funds be allocated standards (model) for program design. . Build compliance/internal controls into program.

ACTIVITY TYPE	NEEDS/PROBLEMS	RECOMMENDED ACTIVITIES/REMEDIES
PROGRAM DESIGN CON'T	<ul style="list-style-type: none"> . Checks and balances at program inception. . Responsibility of accounting and budget process. . Uniform accounting procedures built into grant. 	<ul style="list-style-type: none"> . Funding agency should require recipient agency to disclose complete budget. . Prior to funding, program objectives should be clearly defined.
COMMUNITY INVOLVEMENT	<ul style="list-style-type: none"> . Change prevailing public attitude toward government. . Citizen awareness and cooperation in fighting problem. . Hotline systems to receive reports of fraud, waste and abuse. 	<ul style="list-style-type: none"> . Public awareness campaign. . Install hotlines to receive reports of fraud, waste and abuse. . Prepare model press release package for use by state agencies, prosecutors, enforcement, groups, etc.
ENFORCEMENT OF PENALTIES	<ul style="list-style-type: none"> . Enforcement of professional organizations standards; ensure standards mesh with criminal laws. . Methodology for restitution. . Enforce appropriate penalties for conviction. . Tough timely sentencing. . Increase penalties for fraud, waste and abuse to deter potential abuses or crimes. 	<ul style="list-style-type: none"> . Develop model state fraud statutes. . Standardize sentencing including use of restitution, loss of licenses, disbarment, confinement, incarceration, fines, ineligibility, etc.
LIAISON/COORDINATION	<ul style="list-style-type: none"> . Transfer of expertise, information among all levels of government. . Coordinate activities of OJARS, LEAA, NIJ, BJS. 	<ul style="list-style-type: none"> . Establish Federal interagency task force with state, local and public and private interest group representation. . Establish a Fraud Unit at the OJARS level to: <ul style="list-style-type: none"> --coordinate agency activities(OJARS, LEAA, BJS, NIJ). --remain current on Federal level initiatives. --to disseminate information and oversee clearinghouse activities.
ESTABLISH CLEARINGHOUSE	<ul style="list-style-type: none"> . Mechanism to gather and disseminate information. 	<ul style="list-style-type: none"> . Establish clearinghouse that will gather and disseminate information on fraud, waste and abuse.

PORTION OF STAFF REPORT ON THE
PREVENTION AND DETECTION OF FRAUD, WASTE AND ABUSE
PREPARED FOR THE LEAA ADMINISTRATION

Problem Statement

Two essential and ultimate responsibilities of government are stewardship of public resources and providing economical and efficient public, educational and social services. In an era of public resistance to government spending and public skepticism about government's ability to carry out these responsibilities effectively, efficiently and honestly, officials at all levels of government must diligently pursue efforts to ensure that the taxpayers' dollars are not misused through fraud, waste and abuse or diverted from their specified intent.

Because of a lack of valid data, the full extent of fraud, waste and abuse of public funds is unknown but government officials do admit that this loss is serious and widespread. A recent General Accounting Office report stated "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...indicate a problem of critical proportions when considering that Federal financial assistance in Fiscal Year 1978 is estimated at \$250 billion (excluding defense outlays)." In comparison, when you consider total public fund expenditures of nearly \$833 billion at the Federal, state and local levels of government, as determined by the U. S. Bureau of the Census for FY 1977, and then consider the potential dollar loss of 1 to 10 percent through fraud, waste and abuse, you realize the possible magnitude of the problem. Less obvious than the dollar loss, but as alarming, is that fraud, waste and abuse of public funds is insidious, destroying confidence in government and government programs and corroding the effectiveness of our governmental system and the positive effects of our programs.

In response to increasing public pressure for accountability and credibility of government officials and program administrators at all levels of government, some steps have been taken to initiate activities to combat fraud, waste and abuse. Unfortunately, most of these activities are either directed to a specific program, reactive to known problems or somewhat piecemeal and inconsistent. Little, to date, has been undertaken to address the problems of fraud, waste and abuse in a coordinated, comprehensive fashion.

On December 13, 1978, President Carter issued a "Memorandum for the Heads of Executive Departments and Agencies" setting forth steps to eliminate waste, fraud and error in Federal programs. To monitor and implement these activities, President Carter, on May 3, 1979, established an Executive Group to Combat Fraud and Waste in Government. Individual state and local governments have also taken steps to combat the problem of fraud, waste and abuse; however, many of these efforts are program specific and are in conjunction with Federal program support.

Because of the magnitude of the problem and its impact on all public funds, systematic, coordinated and cooperative efforts among Federal, state and local governments must be pursued.

Assumptions

The primary assumption that government officials will endorse and pursue a coordinated and cooperative, strong and aggressive commitment to reduce the potential for fraud, waste and abuse of public funds, is supported by the many activities being initiated and the interest shown in the subject by government officials. In addition, in today's climate of inflation, public spending and public lack of confidence, the economical consequences of ignoring the potential dollar savings will not be tolerated by the general public. This has been evidenced through publicly supported activities throughout the nation, such as California's Proposition 13. Funds are not available for every government entity to address many activities on their own. Only through coordination and cooperation can various activities be attempted, evaluated and compared to achieve the best possible solutions to the problems of fraud, waste and abuse. Additionally, a concerted, cooperative effort would have a greater impact on the attitudes of government employees and the public than efforts initiated in isolation or program specifics.

A second assumption, that government officials will provide resources for and implement programs to reduce the potential of fraud, waste and abuse, is supported by responses from Federal departments and agencies to the President's December 13, 1978, memorandum in which he requested suggestions for government-wide action which could be initiated to reduce fraud, waste and error. It is also supported by recommendations made by Federal, state and local government and non-government participants at our recent Special National Workshop on the Prevention and Detection of Fraud, Waste and Abuse of Public Funds. A comparison of both responses showed that the following seven needs were similar for Federal, state and local efforts: (a) improved coordination and cooperation; (b) improved training; (c) improved employee awareness; (d) establishment of mechanisms for information exchange (clearinghouse, conferences, data bases, case studies); (e) widespread use of vulnerability assessments; (f) improved management; and (g) improved program designs.

Based on the above assumptions, the framework for a comprehensive strategy was developed and is outlined below.

Comprehensive Strategy for the Prevention and Detection of Fraud, Waste and Abuse of Public Funds

A. Introduction

The comprehensive strategy outlined below is based primarily on the results of the Special National Workshop. (See Appendix D, Summary: Special National Workshop Results). However, the problems, needs and activities identified herein are also supported by conclusions of other studies, research and reports, including the Federal agencies' responses to the President's December 13, 1978, memorandum.

At the Special National Workshop, participants systematically identified their major problems in their efforts to combat fraud and abuse; they subsequently made recommendations to remedy these problems. These fell into twelve strategy components which were derived from the components identified in the recently released publication, Fraud and Abuse in Government Benefit Programs, funded by the Institute. Some of the needs and recommendations overlap with and/or impact on other components; reference is made as appropriate. Workshop participants indicated, in sum, that the major emphasis for combating fraud and abuse should be in the prevention area, addressing the need to improve detection capabilities and techniques as integral to the prevention effort. Improvements in deterrence measures, such as prosecution and administrative adjudication, were seen as essential to an effective prevention and detection strategy.

Our immediate emphasis is to identify those techniques that support and improve prevention and detection activities. If the scope of the comprehensive strategy is expanded, increased emphasis could be placed in prosecutorial and judicial activities, such as stiff sentencing, case screening, increased penalties, and the relative effectiveness and severity of penalties available as deterrent measures.

Further refinement of the proposed strategy and activities is anticipated as additional research, testing and evaluation efforts are performed and as coordination among the various governmental jurisdictions increase.

The comprehensive strategy presented below includes the primary needs, problems and recommendations that are believed to be essential to combating fraud and abuse.

B. Strategy Components

1. Legislative Support. Most studies show and the workshop participants indicated that legislation is not written to assist in the detection and prevention of fraud, waste and abuse. Research findings suggest that legislative design has been primarily concerned with program or service delivery rather than with mechanisms for accountability and compliance enforcement. There are varying views as to the political probability of achieving a balance of the diverse objectives--program or service intent and accountability and compliance--but efforts to improve the design of legislation should not be ignored. It is true that the U. S. Congress is concerned over fraud, waste and abuse and has taken specific action such as the Medicare-Medicaid Anti-Fraud and Abuse Amendment Act and the 1979 Food Stamp Act. Both provide for Federal funding to establish state level investigative and fraud units. However, these activities are usually thought of after some big expose' of fraud, rather than at the time of the original legislation.

Lobbyists are currently addressing enforcement and program administrative needs which include tightening the meaning of program definitions and terminology, eliminating ambiguous program objectives, and providing funds for enforcement manpower, resources and technology.

The Department of Justice intends to draft legislation for a uniform statute allowing for the collection of Federal fraud judgements without regard to presently differing state laws. In addition, some states have enacted fraud statutes which specify penalties for program offenses and form the basis for developing state fraud investigation/prosecution units. Various prosecutors at the workshop indicated that such statutes aid in the enforcement and prosecution of fraud cases.

Workshop participants also stated that privacy and security regulations limit enforcement personnel in obtaining information to detect and prevent incidents of fraud.

Workshop participants also agreed that a fraud enforcement impact statement, modeled on the experiences with environmental and judicial impact statements, should accompany all benefit program legislation.

2. Program Design. One of the primary causes for waste, abuse and error, and consequently dollar loss, is poorly designed programs. Workshop participants believed that most programs do not have clearly defined objectives nor do they have procedures or guidelines developed to direct financial and administrative actions. Prosecutors expressed that criminal intent cannot be proven without the above. Nor can program administrators hold persons accountable for mismanagement and error.

Workshop participants stressed the need for guidelines that delineate and require financial and administrative procedures be in place prior to funding. If appropriate, pre-audits should be performed to check for compliance and adherence to these guidelines prior to funding.

Workshop participants believed model guidelines for financial and administrative procedures should be developed. The guidelines should include procedures for review of program activities for compliance and accountability.

3. Management and Quality Control. Workshop participants, research, studies and reports all indicate that the lack of management and quality control can provide opportunities for fraud, waste and abuse. By failing to provide adequate guidance as to what level of performance is desired and exactly what responsibilities are involved, management leaves it to each employee to decide for himself. Management and quality controls entail establishing accountability, monitoring performance, and providing feedback. The purpose of establishing controls is to ensure that the functions and purposes of the program and organization are being carried out in an efficient, effective and ethical manner and also to serve as a detection tool to spot instabilities and problems in programs and operations. Furthermore, management techniques are ineffective and even futile without managerial responsibility, interest and leadership. Integrity should start at the top to create an atmosphere supportive of honest and effective management and conduct.

Throughout workshop discussions, the need for management and quality controls prevailed as one of the primary and central issues of preventing and detecting fraud, mismanagement and abuse.

The Law Enforcement Assistance Administration, the General Accounting Office, the Office of Management and Budget, professional organizations and other Federal, state and local agencies have developed standards and guidelines for efficient and effective management and accounting practices such as the Model Procurement Codes for State and Local Governments, Model Employee Code of Ethics, standard accounting practices and standards for professional (legal, medical) conduct. Participants indicated that if these practices and standards were followed and enforced, and if ongoing management procedures were tightened up, the opportunity for fraud and abuse would be reduced.

Beyond utilizing standards and practices that are already developed, workshop participants identified several other areas, some very specific, that should be explored. These include:

- . development of model programs and program models for positive management to prevent and detect fraud and abuse;
- . dissemination of information on management and accountability techniques;
- . the need for improved training in management practices for preventing and detecting fraud;
- . encouraging the development of management information systems to prevent and detect fraud and abuse;
- . the use of vulnerability assessments at the state and local level to identify potential weaknesses in programs, operations and procedures and to assist managers with direct available investigative, monitoring and auditing resources. Also, train officials in the use of this technique;

- development of models that identify areas where programs are most susceptible; and
- development of uniform standards. For example, special interest groups such as ethics commissions, special investigation commissions, etc., indicated that standards and regulations for financial disclosure and conflict of interest situations do not exist on a nationwide level. Differences exist across jurisdictional boundaries on enforcement of professional standards and rules.

Good management and quality controls are influenced by program design. Procedures and guidelines for enforcement should be built into the program, allowing for the determination and enforcement of noncompliance, criminal acts and mismanagement. Again, workshop participants stressed the need for checks and balances and controls to be built into program design at its inception.

4. Organizational Redesign. In the prevention and detection of fraud, waste and abuse effort, changes in organizational structures have been made:
- to provide for more program control;
 - to consolidate enforcement resources for improved cooperation and coordination, to increase utilization of available resources, target hardening, and to enhance enforcement effectiveness;
 - to eliminate weaknesses in the structure perceived to provide opportunity for fraud and abuse;
 - to increase supervisory, managerial and financial control for improved accountability and improved operational procedures; and
 - to comply with legislation, rules and regulations.

Examples of organizational redesign perceived to be effective in combating fraud and abuse include:

- establishment of state-level fraud units comparable to, or sub-units of, Economic Crime Units to solely investigate and prosecute fraud;
- appointment of a Special Prosecutor for fraud cases;
- establishment of Special Fraud and Abuse Commissions or Task Forces to assess state programs and operations for vulnerability, make recommendations for change, and plan for state-wide enforcement;

- establishment of Strike Forces, comprised of auditors, investigators, management analysts and prosecutors to identify potential fraud and abuse; and
- establishment of a state level organization based on the Federal Inspector General concept. Based on the Federal experience, several states have pursued the establishment of a state-level Inspector General unit. The State of Massachusetts was identified by workshop participants as an example of a state that has analyzed the Federal Inspector General legislation and translated this concept for possible implementation at the state level.

At the Special National Workshop, participants discussed many programs operating at the state and local levels of government, some of which are financed in part by Federal agencies and some which were developed and financed by the state and local entities. Participants, especially the state and local officials, expressed the need for some of these programs to be assessed and documented for replication.

5. Education/Training. The need for training for all types of staff-- professional, technical, managerial and fiscal--and education of the public and government personnel was identified as an integral part of developing an effective prevention and detection of fraud and abuse initiative.

Examples of types of training needed include:

- training for program administrators, managers and on-line workers to clarify program intent, eligibility, delivery procedures and compliance issues. Also, staff should be informed of their responsibilities in reporting problems or wrongdoing;
- training for auditors and investigators to improve or enhance their skills and capabilities and develop areas of speciality, e.g., computer auditing;
- training for prosecutors in alternatives to criminal prosecution, such as civil prosecution or administrative remedies; and in procedures for referral to administrative offices;
- interdisciplinary training for auditors, prosecutors, and investigator to improve common understanding of roles, responsibilities and mutual needs; and
- training for improved grantsmanship, procurement, management and accountability practices.

Of special interest to state and local officials was the need for a comprehensive listing of training courses offered, plus a mechanism for continuous updating and dissemination of this listing. There was general concurrence that the effectiveness of present training had not been assessed. Subjects such as the use and applicability of vulnerability assessment to state and local operations and programs, positive management approaches to detect and prevent fraud, and training for special needs, such as computer auditing, detecting fraud in procurement processes, and establishing audit priorities, were important to many of the state and local officials present at the workshop.

Also recommended was the development of training programs needed, identification of alternative sources of training funds and development of techniques to assist managers in identifying training needed by staff to combat fraud and abuse.

Education of the public and government personnel via a public awareness campaign was a primary recommendation of workshop participants. Such programs as the shoplifting campaign and CBS' TV program "60 Minutes" have shown to be effective in impacting public awareness on a national scale. They believed that the Federal government should launch a similar but balanced campaign through the development of brochures and initially be implemented through citizen groups (i.e., the League of Women Voters). Issues should include:

- . dollar loss to fraud, waste and abuse;
- . steps government agencies are taking to remedy the problem;
- . role of the citizen in fighting fraud, waste and abuse;
- . penalties for fraud and abuse;
- . role of public employees in preventing and detecting fraud, waste and abuse; and
- . descriptions of program eligibility, intent and delivery procedures.

Business, private interest groups, non-profit institutions, professional organizations, and media personnel should be approached to determine their contribution and commitment to preventing and detecting fraud and abuse activities in coordination with the governmental efforts. Their areas of expertise, specialized strategies and nationwide contacts would be invaluable to any comprehensive effort.

6. Community Involvement. Workshop participants agreed that private citizens can greatly assist in the effort to combat fraud and abuse. They believe that citizens and community groups would be effective on a nationwide scale to: (a) detect and prevent corruption of elected officials; (b) demand penalties for convictions; (c) demand accountability of public administrators; (d) initiate campaigns for legislative and regulatory reform; (e) ensure that peers properly use benefit programs; and (f) provide enforcement agencies with information to detect and prevent fraud and abuse.

The Office of Community Anti-Crime Programs has demonstrated that citizens' groups can be effective in combating crime. The Institute has sponsored the development of training programs and a program model for citizen involvement which are closely related to fraud and abuse. These include:

- Prevention, Detection and Correction of Corruption in Local Government;
- Establishing a Citizens' Watchdog Group;
- An Anti-Corruption Model for Local Governments; and
- Maintaining Municipal Integrity training package.

As part of a comprehensive anti-fraud effort, all citizens should be urged to report any incidents or suspected activity involving the misuse of funds or position. Citizens should be provided guidance in reporting the misuse of funds or suspected wrongdoing. Programs involving citizens as partners in the anti-fraud initiative should be utilized as well as programs to keep citizens informed for ongoing activities.

Establishment of hotlines or complaint centers would provide citizens with an avenue for reporting suspected wrongdoings and provide enforcement agencies with information to investigate crimes, waste and misuse.

Research and experience have shown that a significant proportion of fraud investigations are initiated by anonymous tips. In response to this finding, hotline telephones have been installed by some Federal and state agencies to systematically collect and evaluate allegations of wrongdoings. Judging by the number of calls reportedly received on the GAO hotline alone, the technique has been successful in encouraging citizen involvement.

7. Data Collection, Statistical Analysis and Research. Most research and other studies conclude that there is an absence of good quality and quantity of data on the amounts and types of fraud and abuse occurrences.

Workshop participants did not agree when discussing the need for a massive effort to compile statistical data, especially considering the expense and time involved. They did agree, however, that some data would be beneficial, such as information for fraud profiles, which would identify programs or operational characteristics susceptible to fraud or abuse or for conducting vulnerability assessment of programs and operations. The need for computers to detect and prevent fraud was emphasized primarily by enforcement personnel, prosecutors and program administrators. Suggestions include:

- . computer programs to check applications for inconsistency.
- . computer verification of eligibility (computer match programs);
- . evidence-tracking (compilation of possible wrongdoings); and
- . case tracking, referral and follow-up.

Closely related to the need for data collection is the development of standard definitions for fraud, waste, abuse and related terms. Research in this effort has indicated that finding similarities in definitions across the various program jurisdictions, as well as government jurisdictions, has complicated the task. In addition, it appears difficult to distinguish sharply among fraud, abuse and waste since frequently all three are involved in one problem. Therefore, agreement on definitions to be used will need to be reached prior to data collection, statistical analysis or evaluation.

As research has succinctly pointed out and generally agreed to by workshop participants, little has been done to determine the effectiveness of prevention and detection techniques currently being used. Little also can be said about the cost/benefit relationship of the various enforcement techniques. Without this knowledge, the ability of enforcement agencies, program administrators and managers to (a) implement anti-fraud and abuse programs; (b) justify increases in compliance personnel; and (c) increase ability to select the program or technique most effective is hampered.

State and local officials stressed the need specifically for development and/or documentation of programs applicable to the prevention and detection of fraud and abuse for replication. Through dissemination, mutual assistance and information exchange, effective techniques and programs can be implemented at the state and local levels of government.

8. Investigation. The role of the investigator in the prevention and detection of fraud and abuse is to investigate offenses and gather sufficient factual evidence for case development. More broadly, investigators should also report to the appropriate officials any managerial or program deficiencies that may allow for fraud or abuse. If this broader role is to be met, coordination between investigators and program officials must be established.

As in financial auditing, special skills must be developed to detect and gather evidence for fraud and abuse offenses. Preparing sufficient and useable evidence for prosecution and/or administrative adjudication is imperative for successful case hearings and effective decision-making and to serve as a basis for refinement of programs.

Recommendations for best utilizing the investigator and his skills were to:

- establish auditor/investigator/prosecutor teams to prepare a case from beginning to end;
 - provide training to auditors, investigators and prosecutors to improve cooperation and expertise in gathering and preparing evidence for prosecution;
 - prepare case study packages of various fraud schemes as a training tool;
 - establish mechanisms for coordination of auditors, investigators and program officials;
 - provide investigators with appropriate financial management skills to aid in their investigations; and
 - evaluate tools and techniques presently being used.
9. Financial Auditing. The objective of most financial auditing is the analysis of financial documents and records for accuracy and completeness. It is assumed to play a significant role in the detection of financial irregularities and in the collection of evidence for alleged offenses.

Auditors, however, have expressed the need for training and the development of new tools because of the complexity of such cases. Auditors must be familiar with different techniques and have a broader range of skills than those used in traditional financial auditing. Some of the new tools and procedures that will increase auditor effectiveness are:

- utilization of the single audit concept;
- development of interdisciplinary training to improve common understanding;

- . development or identification of training programs specifically for computer auditing, warning signals in procurement and other financial transactions;
 - . performance of pre-award audits;
 - . development of guidelines for handling conflict of interest and financial disclosure regulations;
 - . use of vulnerability assessments to better allocate available resources and to identify potential areas of fraud and abuse;
 - . implementation of procedures to ensure appropriate action on audit findings rather than administrative forgiveness;
 - . implementation of procedures to ensure timely audits and follow-up; and
 - . evaluation of tools and techniques presently being used.
10. Administrative Adjudication and Remedies. Workshop participants and research results show that administrative procedures and remedies for enforcement of fraud and non-criminal (mismanagement, etc.) actions are not being used or consistently followed.

In addition, business and professional associations (medical, accounting, legal, etc.) should ensure their rules, regulations and standards mesh with criminal and civil law and that unethical conduct of a member of any profession be subjected to vigorous disciplinary action. Unfortunately, jurisdictional differences impact on the enforcement and effectiveness of these standards. These groups should also provide adequate investigative and administrative staffs to provide uniform and speedy disposition of all allegations of professional impropriety. Equally important, they should inform appropriate law enforcement agencies of any reported or discovered criminal violations.

The most significant contributions administrative adjudication makes to enforcement are its capacity to correct program deficiencies and misuse without the involvement of criminal justice agencies, and is more cost effective than prosecution. With the absence of prosecution priority and lack of resources, administrative remedies for enforcement are viable alternatives. Administrative remedies and adjudication can be used against recipients, administrative agency staff, third party and auxiliary providers through suspension of funds, revocation of licenses and restitution of funds defrauded. These remedies are believed to be a significant deterrent for fraud and abuse.

Training for and coordination among administrators, program managers and prosecutors should increase the use of administrative remedies if the case cannot be handled through civil or criminal prosecution.

The problem of legislation and program design not clearly defining enforcement authority and alternatives impacts on the use of administrative adjudication as well as other prosecution alternatives. Compliance controls should be addressed in the program development stage.

11. Civil and Criminal Prosecution. As part of the prevention and detection of fraud, waste and abuse strategy, the need for enforcement and the use of appropriate penalties is perceived by most experts in the area as vital to a successful effort. The objective of civil and criminal prosecution is not only to successfully develop and present a court case against offenders, but also to impress upon all program participant, the general public and public officials, that those who defraud or abuse the system will be pursued and held accountable.

The issues surrounding this strategy component are complex and problems discussed in research and at the workshop are vast. Some of the problems are:

- . the lack of adequate legislation and laws under which to prosecute;
- . the prosecution of fraud is not a priority of prosecutors either because the return is not judged to warrant the expense of the investigation/prosecution, or the case will not gain public recognition;
- . inadequate resources and manpower to handle the number of cases;
- . cases not heard in a timely manner;
- . penalties are not enforced or consistently meted out;
- . convictions not upheld with strict, consistent and swift sentencing; and
- . the absence of evidence tracking systems.

The question regarding whether cases should be pursued criminally or civilly raised other problems:

- . varying statutes of limitations;
- . legal barriers to coordinating criminal/civil prosecution simultaneously, i.e., grand jury testimony;
- . recovery of funds, fines, etc. vs. criminal sanctions; and
- . absence of guidelines for ensuring a coordinated approach to criminal and civil fraud remedies.

DOJ intends to develop model guidelines for the U. S. Attorneys to coordinate civil/criminal prosecutions based on the successful New Jersey U. S. Attorney's experience. Replication of these guidelines for use by state and local prosecution units should be pursued as model programs or program models. Again, prosecutors expressed the need to have clearly defined programs and grant objectives and internal controls built into programs at their inception.

Prosecutors and investigators expressed frustrations in their evidence gathering efforts because of the destruction of records by suspects, poor bookkeeping practices and lack of incentive or fear of testifying by potential witnesses. The enforcement of appropriate penalties upon conviction is believed to provide incentives to potential witnesses to testify.

12. Liaison and Coordination. Workshop participants stressed the need for both horizontal and vertical liaison and coordination to ensure successful planning, development of programs and activities and implementation of any strategy pursued. Research shows that there is an absence of systematic and system-wide enforcement planning at all levels of government. Workshop participants also identified needs that cannot be directly impacted on by OJARS, LEAA, BJS and NIJ, but would be imperative to any strategy implemented and which could be enhanced through continued liaison and support.

Workshop participants also indicated that the workshop provided, for the first time, a forum for information exchange among the various disciplinary and professional interests from all governmental levels concerned with a common problem--the prevention and detection of fraud and abuse of public funds. Many wish to continue this type of interaction and information exchange at both an intra- and inter-state level. Information of special interest identified includes: (a) case studies on types of fraudulent schemes detected; (b) detection and prevention measures being implemented; (c) identification of resources and expertise for mutual assistance; and (d) coordination of legislative and regulatory reform. In addition, interaction with public and private organizations, such as community and citizen groups, media personnel, and professional organizations, to support their anti-fraud efforts, would be pursued. Participants recommended that a task force be established to guide and facilitate these activities.

Another need identified was the necessity for an exchange of information, such as educational materials, training programs, case studies, standards, reports, program models and other grant programs, etc., which would be essential in assisting state and local governments enhance and develop an anti-fraud and abuse capability. This need has been addressed through the establishment of a clearinghouse within the National Criminal Justice

Reference Service (NCJRS). A special fraud and abuse desk is operational and outreach efforts have begun. One of their initial efforts is the collection of information on all training courses related to the prevention and detection of fraud, waste and abuse currently available. An assessment of this information should follow to determine inclusiveness of training and course curriculums, duplication, additional training needs and transferrability to state and local government. NCJRS will continually update and refine their library, outreach efforts and mailing list to ensure that current information is available on a national scale.

CONTRIBUTIONS

Many people contributed to the success of the Special National Workshop on the Prevention and Detection of Fraud, Waste and Abuse of Public Funds. By far, the largest and most valuable contributions were made by the participants in their discussions of various ideas and activities which could be initiated as solutions to the problems of fraud, waste and abuse.

In addition, John Lordan, Office of Management and Budget, and Charles Puff, Department of Justice, provided insights as to the Federal Government's commitment in activities toward combatting fraud, waste and abuse.

Others, many behind the scene, contributed in various ways to the Special National Workshop. Those that provided specific input into this effort are listed below:

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