



Presentation to Florida Government Finance Officers Association (FGFOA)

GAO Tools and Resources for Understanding and Combating Public Sector Fraud

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Agenda & Learning Objectives

- Rebecca 2:05 – 2:30 (GAO, fraud risk, & resources to combat fraud)
 - Mari 2:30 – 3:00 (Using analytics to detect fraud and improve prevention)
 - Heather 3:00 – 3:30 (Intersection of fraud, improper payments & financial audits)
 - Questions 3:30 -3:40
-
- Understand the nature of public sector fraud and leverage resources for combating it
 - Learn about analytic approaches and use of AI to prevent and detect fraud
 - Recognize the intersections between financial statement audits, single audit findings, improper payments, and fraud risk.

GAO and FAIS

The supreme audit institution (SAI) for the U.S. Set standards and audit executive branch agencies. Congressional Watchdog.



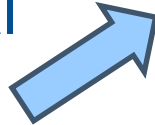
- **GOAL 1:** Address current and emerging challenges to the well-being and financial security of the American people.



- **GOAL 2:** Help the Congress respond to the changing security threats and challenges of global interdependence



- **GOAL 3:** Help transform the federal government to address national challenges



Poll #1

How familiar are you with fraud risk management concepts?

1. New to the topic
 2. Somewhat familiar
 3. Very familiar
 4. Expert
-

Fraud and Fraud Risk

Fraud

vs

Fraud Risk

Fraud is something that *has happened*

Fraud risk is something that *could happen*

Obtaining something of value through willful misrepresentation.

A broader concept that includes potential events and vulnerabilities.

Determined through the judicial or other adjudicative system.

Fraud risk is higher when any of the 3 elements of the fraud triangle are present

Opportunity

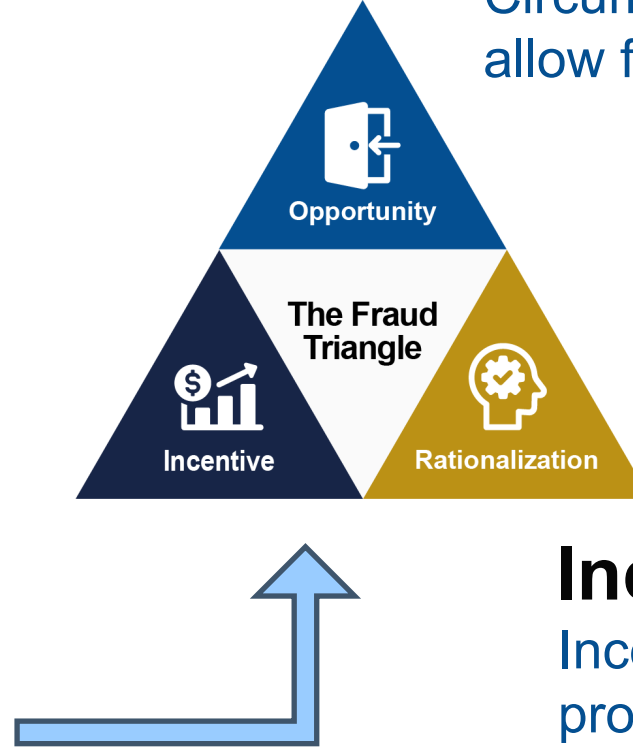
Circumstances that allow fraud to occur.

Rationalization

Attitudes, character, or ethical values that allow someone to justify committing fraud.














Incentive

Incentive, or pressure, provides a motive to commit fraud.



Who Commits Fraud and How Bad is It?

- Organized groups and opportunists from all walks of life commit fraud against the U.S. government.
- GAO estimates annual fraud losses between \$233 – 521 billion (3-7% of obligations).

Organized criminal enterprises	Groups organized around a program	Opportunistically organized groups				
<p>Established criminal syndicates that generally operate with corporate-like structures and may have other lines of illicit activity in addition to fraud</p>  <p><i>Fraud as a business</i></p>	<p>Groups of program participants or facilitators who defraud the program they are connected to</p>  <p><i>Fraud as a side business, sometimes mixed with legitimate business</i></p>	<p>Clusters of individuals that collaborate to exploit program vulnerabilities</p>  <p><i>Fraud as a one-off gig</i></p>	 <p>Business executives</p>	 <p>Restaurant owners</p>	 <p>Tax preparers</p>	
			 <p>Professional athletes</p>	 <p>Celebrities</p>	 <p>Government employees</p>	
			 <p>Military personnel</p>	 <p>Pastors</p>	 <p>Law enforcement officials</p>	 <p>Physicians</p>

- [Fraud Risk in Federal Programs: Continuing Threat from Organized Groups Since COVID-19](#)
- [COVID-19 Relief: Consequences of Fraud and Lessons for Prevention](#)
- [Fraud Risk Management: 2018-2022 Data Show Federal Government Loses an Estimated \\$233 Billion to \\$521 Billion Annually to Fraud, Based on Various Risk Environments](#)



Poll #2 What is GAO's Role in Fraud Risk Management?

1. Audit agencies' fraud risk management (FRM) activities
 2. Take reports of fraud, waste, abuse from public
 3. Set criteria/standards/guidance for FRM
 4. Create resources for FRM and share expertise
 5. Use "proof of concept" approaches for data analytics recommendations
 6. All of the above
-



Internal Control and Fraud Risk Management Standards & Requirements for U.S. Agencies

2014



Green Book update establishes **Principle 8:** manage fraud risk

2015



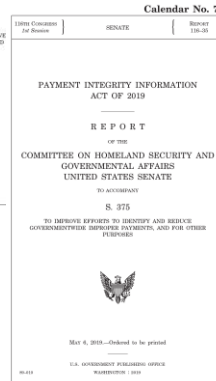
GAO's *Fraud Risk Framework* ([GAO-15-593SP](#)) Outlines **Leading practices** for strategically managing fraud risks

2016



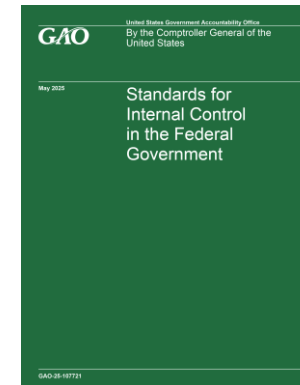
Fraud Reduction and Data Analytics Act

2020



Payment Integrity Information Act (PIIA) **Legislative requirements** for managing fraud risk

2025



Green Book update **adds improper payment and cyber security** risk to principle 8

2026



GAO's guide for **evaluating effectiveness** of fraud prevention & detection activities (supplement to the *Framework*)

[GAO-26-107609](#)

GAO's Fraud Risk Framework



*Effective fraud risk management helps to ensure that federal programs **fulfill their intended purpose, funds are spent effectively, and assets are safeguarded.***

Figure 8: The Four Components of Our Fraud Risk Framework

1

Commit to combating fraud by creating an organizational culture and structure conducive to fraud risk management.

4

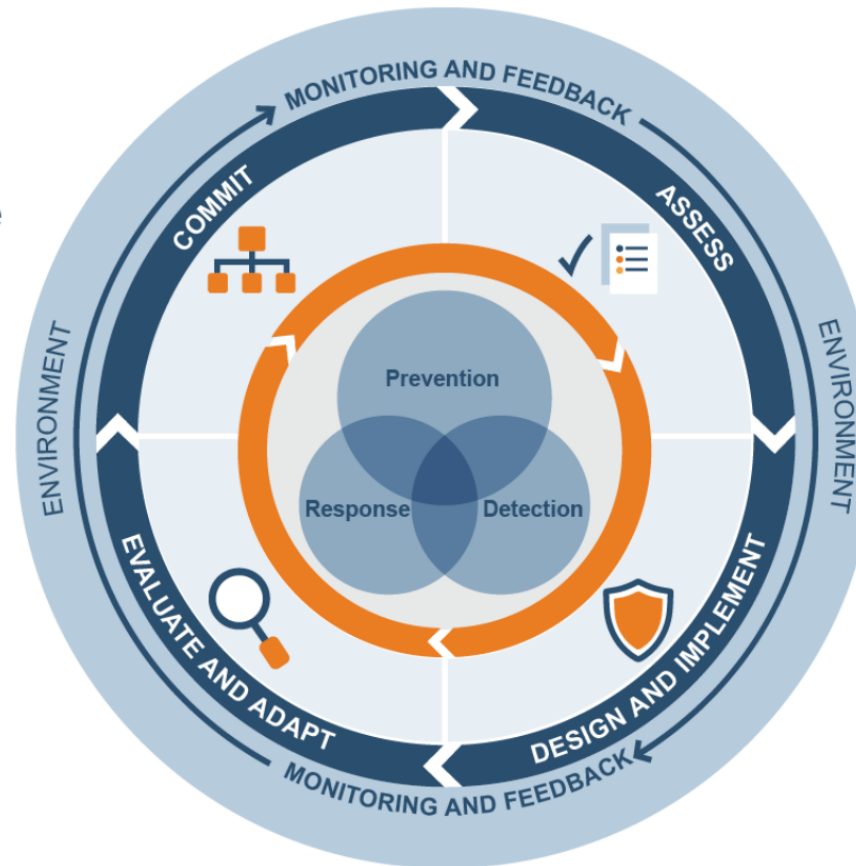
Evaluate outcomes using a risk-based approach, and adapt activities to improve fraud risk management.

2

Plan regular fraud risk assessments, and assess risks to determine a fraud risk profile.

3

Design and implement a strategy with specific control activities to mitigate assessed fraud risks, and collaborate to help ensure effective implementation.





GAO's Guide for Evaluating Fraud Prevention and Detection Actions



Being able to demonstrate the integrity of your programs to oversight entities, Congress, and the public is compelling and can help justify additional investments.

1. Identify **type of cost** and **enforcement action** to monitor.
2. Determine **time frame** to measure costs **before and after enforcement** occurs.
3. Review data to determine and **compare the preenforcement and postenforcement costs**.
4. Use preenforcement costs to **estimate the deterrence**.

Example from the Guide— Measuring the impact of enforcement actions on deterrence



Source: GAO hypothetical example created from Healthcare Fraud Prevention Partnership information. | GAO-26-107609



GAO's Antifraud Resource



A visually engaging, interactive website that provides an [overview](#) of fraud concepts and a glossary of terms. It also includes a [Conceptual Fraud Model](#), which is a rigorous classification of fraud schemes affecting federal programs and operations



https://gaoinnovations.gov/antifraud_resource/

Poll #3

How familiar are you with applying data analytics for fraud detection?

1. I've heard of it but haven't done this
 2. I have dabbled
 3. I regularly use analytics for fraud detection
 4. I use advanced analytics AI tools
-

Data analytics for fraud detection and prevention



What are you trying to find?

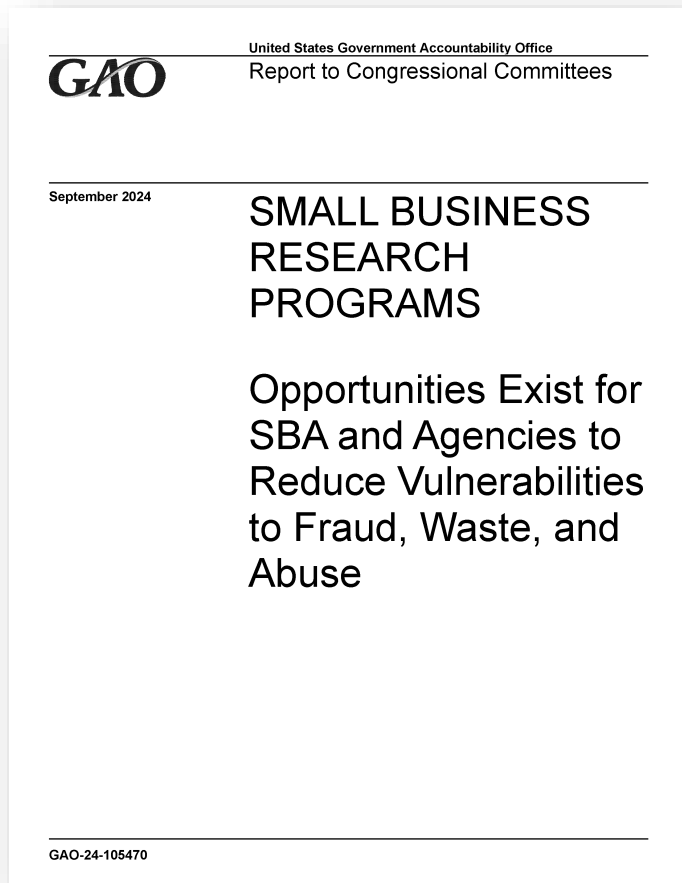


What data do you have to analyze?



What techniques can you use?

Testing for specific fraud indicators



- More than 3,859 Phase 1 awards
- More than \$4.73 billion awarded
- 11 Participating SBIR Agencies

[Source: SBA FY22 SBIR STTR Annual Report.pdf](#)

SBIR and STTR Fraud Indicators



Indicators of fraud in award and applicant data



SBIR/STTR application data and other federal data



Text analysis, data mining, and data matching



Participating Agencies Could Benefit from Improved Data Analytics and Data Quality to Identify Potentially Ineligible Applicants, Awardees, and Other Risks



We identified 38,206 awards associated with about 10,570 awardees



We designed 27 analytical tests to search for potential fraud, waste, and abuse



8 percent of awardees from fiscal years were identified in four or more tests indicating potential fraud, waste or abuse



Some awardees were identified on as many as 11 or 12 separate tests

Some Awardees Potentially Received Awards for Work Already Funded



Eligibility requirements: Applicant must not receive award funds for essentially equivalent work in the Small Business Innovation Research/Small Business Technology Transfer (SBIR/STTR) or other federal agency programs, unless an exception to this rule applies.

GAO analysis: We identified 280 out of the 10,570 awardees with potentially equivalent work based on text analysis that identified unique word duplication within 23,135 awardee abstracts.

Sources: GAO analysis of U.S. Small Business Administration data; Icon-Studio/stock.adobe.com (icons). | GAO-24-105470

Some Awardees May Have Potentially Invalid Facilities

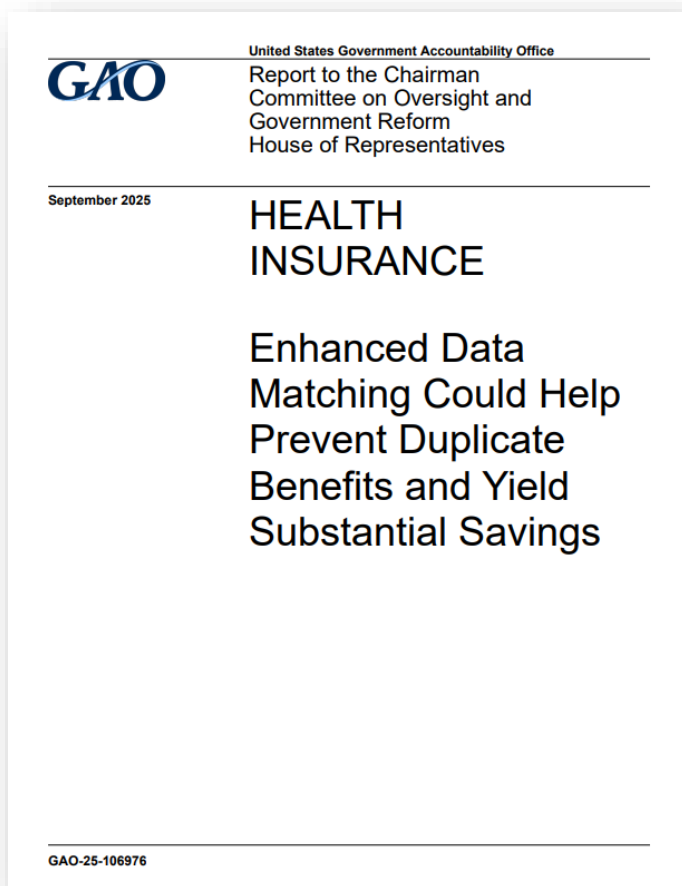


Eligibility requirements: Applicants are required to submit the physical facility location where the research is being conducted, as well as any other mailing and business address. Applicants are required to certify that they will, or did, perform the work on the award at their facilities with their employees, unless otherwise indicated.

GAO analysis: We found 78 awardees with vacant addresses and 79 awardees with invalid addresses, according to United States Postal Service data.

Sources: GAO analysis of U.S. Small Business Administration data; Icon-Studio/stock.adobe.com (icons). | GAO-24-105470

Demonstrating a problem exists



- Federal and state outlays for Medicaid, CHIP, and APTC totaled about \$1 trillion for fiscal year 2023
- Over 104 million enrollees

Sources: [GAO-25-106976, HEALTH INSURANCE: Enhanced Data Matching Could Help Prevent Duplicate Benefits and Yield Substantial Savings](#); [Early 2022 and Full Year 2021 Effectuated Enrollment Report](#); [September 2023 Medicaid and CHIP Enrollment Trends Snapshot](#)

Duplicate Healthcare Enrollments



Duplicate enrollees in Medicaid, CHIP, and ACA marketplaces



Medicaid/CHIP enrollment data for 6 states and nationwide marketplace enrollments



Data matching



Duplicate Health Care Coverage Resulted in Potential Overpayments or Fraud of at Least \$1.6 Billion in Fiscal Year 2023



We analyzed unique SSN identities across 6 selected states, the federally facilitated marketplace, and state-based marketplaces



We designed our tests to identify cross state and cross program enrollments

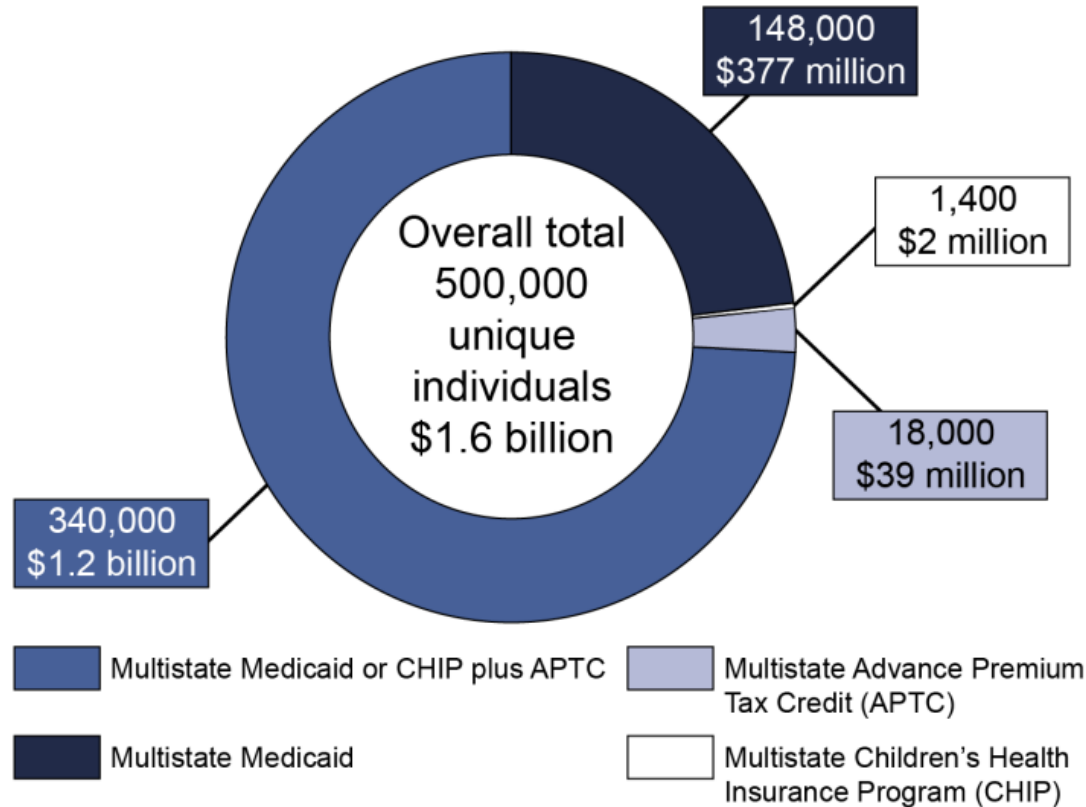


We found 148,000 individuals enrolled in Medicaid and over 1,400 enrolled in CHIP were simultaneously enrolled in at least 2 selected states



We found approximately 340,000 individuals who also had capitation payments made on their behalf for Medicaid or CHIP coverage in our 6 selected states

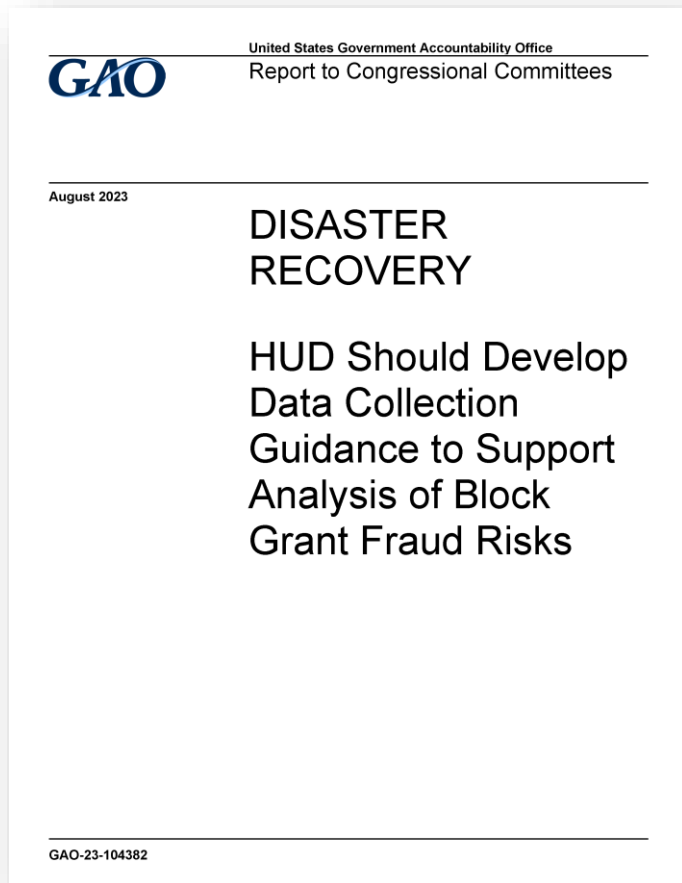
Figure 4: Duplicate Health Coverage Identified Using Medicaid and CHIP Enrollment Data for Six Selected States and Nationwide Advance Premium Tax Credit Data from October 1, 2022, through September 30, 2023



Source: GAO analysis of data from the Centers for Medicare & Medicaid Services and selected states. | GAO-25-106976

Note: Individual counts may overlap between categories. The overall total reflects aggregated values after removing duplicate individuals across programs and states. Due to rounding, individual counts and dollar amounts may vary slightly from the totals.

Developing a proof of concept



- \$39.5 billion in appropriated CDBG-DR grant funds from 2017 to 2019, primarily for Texas, Florida, Puerto Rico, and the U.S. Virgin Islands

Contractor Fraud Risks



Network analysis can help manage contractor fraud risks



Minimal prime contractor data and contract documents



Network analysis



Network and Other Analyses Can Help HUD Manage Risks Associated with the Contracting Environment, but Better Data are Needed



We analyzed contract documentation and award data from 4 CDBG-DR grantees and subrecipients (CDBG-DR contracting network) to build data for 257 prime contractors and 1,063 subcontractors



We mapped the relationships (defined as a contract transaction) between grantees and subrecipients, contractors, and subcontractors and the betweenness centrality scores

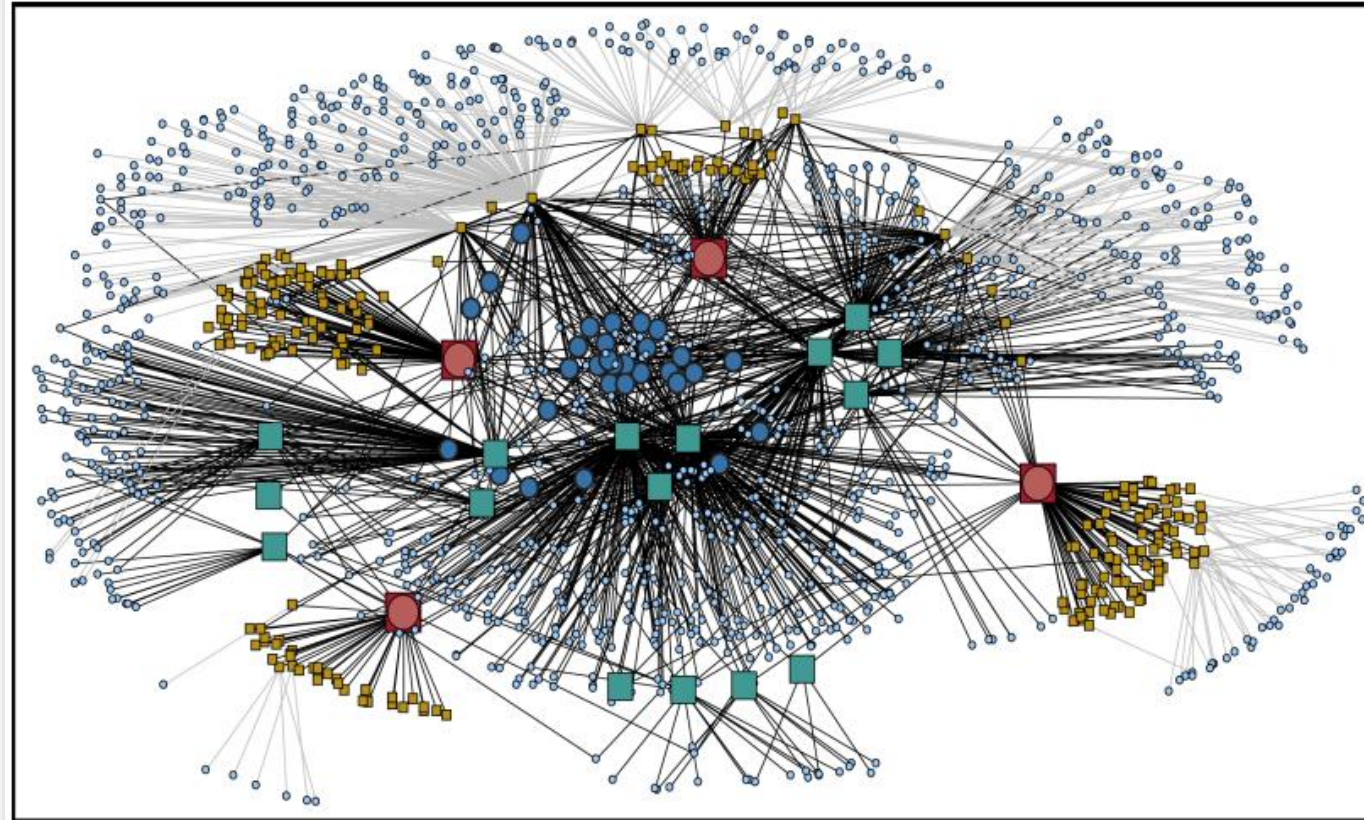


We identified 16 contractors and 30 subcontractors as “key players” in the CDBG-DR network



We identified 5 contractors that were under investigation for a fraud, waste or abuse allegations or had had an allegation of fraud, waste, or abuse remediated, 3 of which were key players

Figure 7: Map of Key Players in Selected Community Development Block Grant Disaster Recovery (CDBG-DR) Contract Network, 2017 and 2018 CDBG-DR Grant Funds



Entities

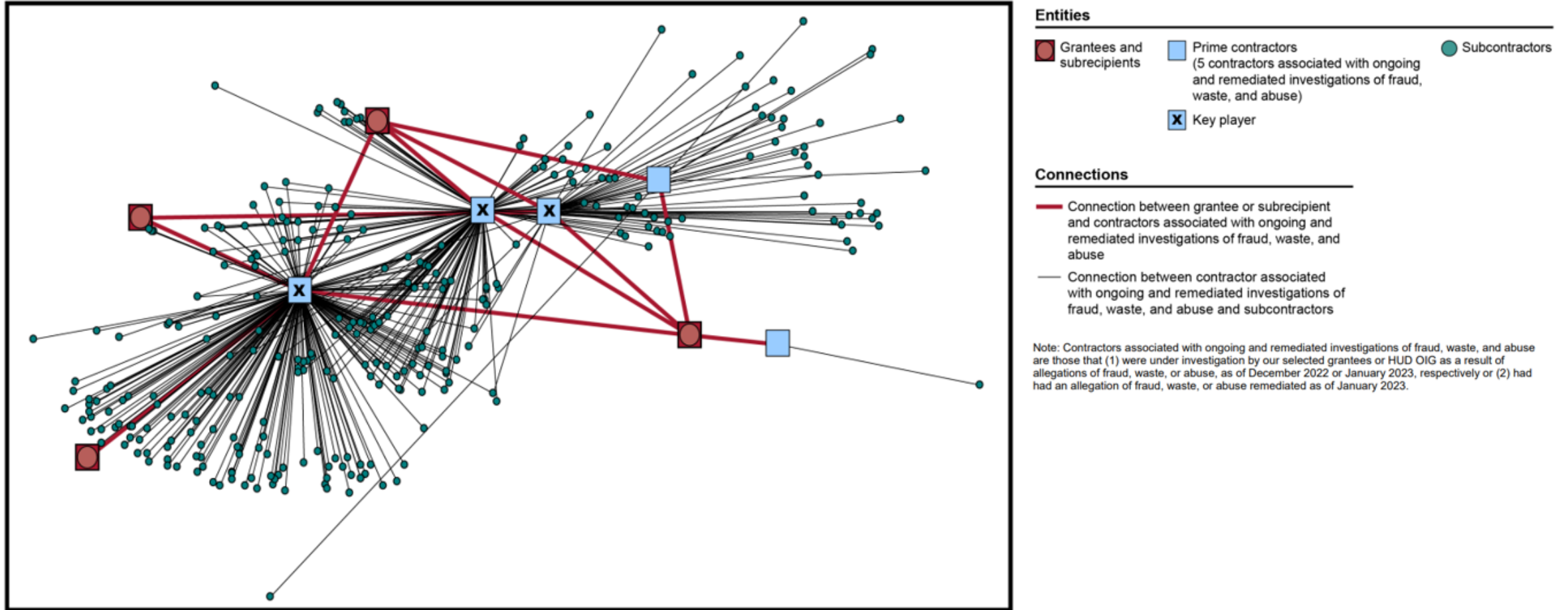
- Grantees and subrecipients
- Prime contractors (16 key players)
- Prime contractors (241)
- Subcontractors (30 key players)
- Subcontractors (1,033)

Connections

- Direct connections and first-degree indirect connections of the 16 key player contractors
- Second-degree indirect connections of the 16 key player contractors

Source: GAO analysis of selected grantees' and subrecipients' contractor and subcontractor data. | GAO-23-104382

Figure 8: Network Map of Contractors Associated with Ongoing and Remediated Investigations of Fraud, Waste, and Abuse from Selected Community Development Block Grant Disaster Recovery (CDBG-DR) Grantees and Subrecipients, 2017 and 2018 CDBG-DR Grant Funds



Poll #4

Have you tried to use generative AI before?

1. Yes
 2. No
-

Using Artificial Intelligence



- **Governance**—promote accountability by establishing processes to manage, operate, and oversee implementation
- **Data**—ensure quality, reliability, and representativeness of data sources and processing
- **Performance**—produce results that are consistent with program objectives
- **Monitoring**—ensure reliability and relevance over time

AI for fraud detection and prevention



Do you need AI to answer your question?



Do you have the right data?



Do you have the right AI tool?

AI-enabled tools require sufficient high-quality data, an understanding of risks, and staff with knowledge of how to use AI to combat fraud and improper payments



Machine learning algorithms might improve detection or prevention of fraud and improper payments by revealing anomalous patterns, behaviors, and relationships with a speed and scale that was not possible before



High-quality well-documented data is essential for training to reduce false results and other challenges



AI could be used to identify targets or opportunity to probe further into suspected fraud

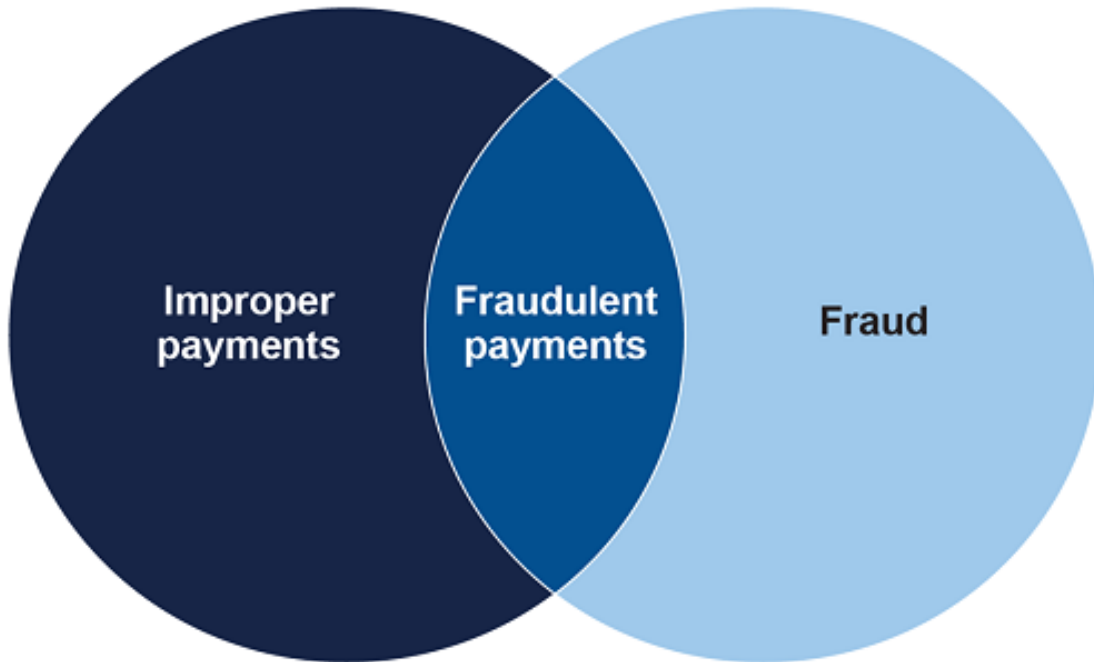


AI does not replace the professional judgment of experienced staff in detecting potentially fraudulent activities

Fraud & Improper Payment Risk – Audit Intersection



Q&A Product: [Improper Payments and Fraud: How They Are Related but Different | U.S. GAO](#)



Source: GAO. | GAO-24-106608

IMPROPER PAYMENTS

Payments that should not have been made or that were made in an incorrect amount – or even payments made to the right recipient in the right amount but not in strict adherence to agency policies and procedures. Improper payments stem from a variety of causes, including error and fraud. Agencies determine whether a payment is improper.

FRAUD

Involves obtaining something of value through willful misrepresentation. The item of value can include financial and nonfinancial benefits. While all payments resulting from fraudulent activity are considered improper, not all improper payments are the result of fraud.

Informational website: [Fraud & Improper Payments | U.S. GAO](#)

Poll #5

Do you work on or use Single Audits?

- Yes
 - No
-

Single Audits

Single Audit Findings and an Adjudicated Court Case That Reflect the Risk of Electronic Benefit Transfer (EBT) Card Fraud

EBT card fraud risk



An activity that includes a state employee's unauthorized use of EBT cards to fraudulently obtain TANF funds because of inadequate security of the EBT cards.



Single audit material weakness



From fiscal years 2022 through 2023, state single audits found inadequate security at a state Temporary Assistance for Needy Families (TANF) agency for its EBT cards and the devices used to create the cards. Additionally, the audits found that the state failed to properly document processes for EBT card handling and destruction of the cards. Similar to a debit card, the TANF program provides assistance funds to needy families primarily through these EBT cards.



Adjudicated court case example of EBT card fraud



In 2017, a federal court found that an employee of a TANF administering agency in another state conspired within the state agency to steal \$600,000 in EBT TANF assistance funds.



To implement the scheme, the individual used a computer system login of a former employee to issue approximately 800 fraudulent TANF payments to co-conspirators through EBT cards.



Financial Statement Audit Impacts – Material Weaknesses

United States Government Accountability Office

Testimony

Before the Subcommittee on
Government Operations, Committee on
Oversight and Government Reform,
House of Representatives

DOD FINANCIAL MANAGEMENT

Accelerated Timelines
Needed to Address Long-
standing Issues and Fraud
Risk

“The lack of a robust fraud risk management program, in addition to 28 agency-wide material weaknesses identified by the DOD Office of Inspector General (OIG), compounds DOD’s failure to establish a strong financial management internal control environment and increases opportunities for fraudulent actions against DOD’s vast resources.”

Poll #6

Have you ever needed to report a material impact of fraud in a financial statement audit opinion?

- Yes
 - No
-



Financial Statement Audit Impacts – Fraud & Improper Payments

Department of Labor

- Unprecedented fraud during pandemic.
- Auditors issued qualified opinion beginning in 2021.
- Ending 25 years of clean opinions.
- Cause: significant risks of fraud in pandemic unemployment programs and (more recently) accounting for these programs).

Small Business Administration

- Unprecedented fraud during pandemic.
 - Auditors issued disclaimer of opinion beginning in 2020.
 - Cause: control deficiencies and SBA's inability to support of significant number of transactions and account balances.
-



Financial Statement Audit Impacts – Fraud & Improper Payments

GAO identified numerous government-wide deficiencies in its audit of the Consolidated Financial Statements of the U.S. Government. This included two material weaknesses in internal control related to the government’s inability to:

- determine the full extent to which improper payments, including fraud, occur and reasonably assure that appropriate actions are taken to reduce them and
- identify and resolve information system control deficiencies and manage information security risks on an ongoing basis.”

“Until the federal government implements effective processes to determine the full extent to which improper payments, including fraud, occur and has taken appropriate actions across agencies, programs, and activities to effectively reduce improper payments, it will not have reasonable assurance that the use of federal funds is adequately safeguarded.”



What's Next...

