

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

OFFICE OF INSPECTOR GENERAL

# Annual Report

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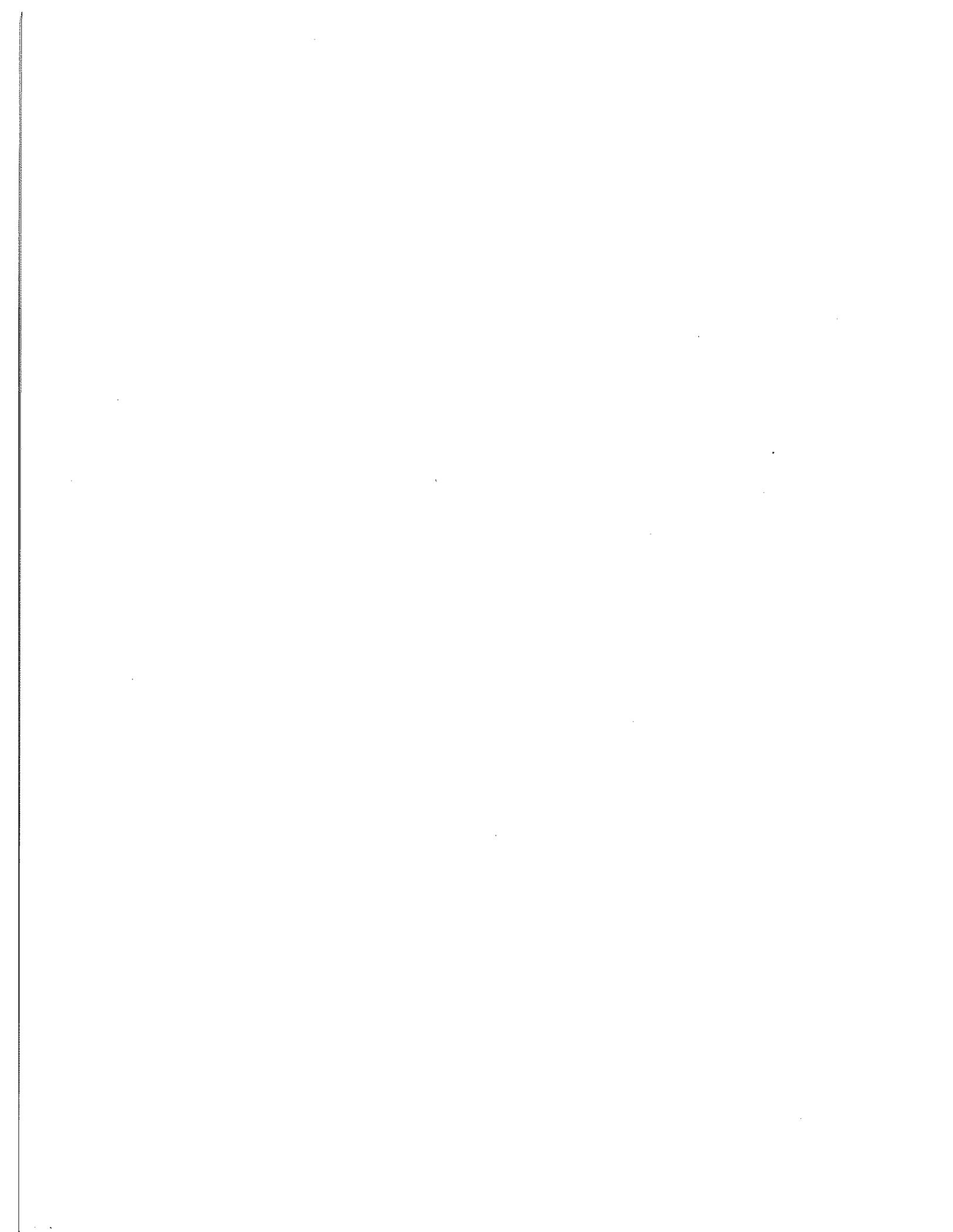
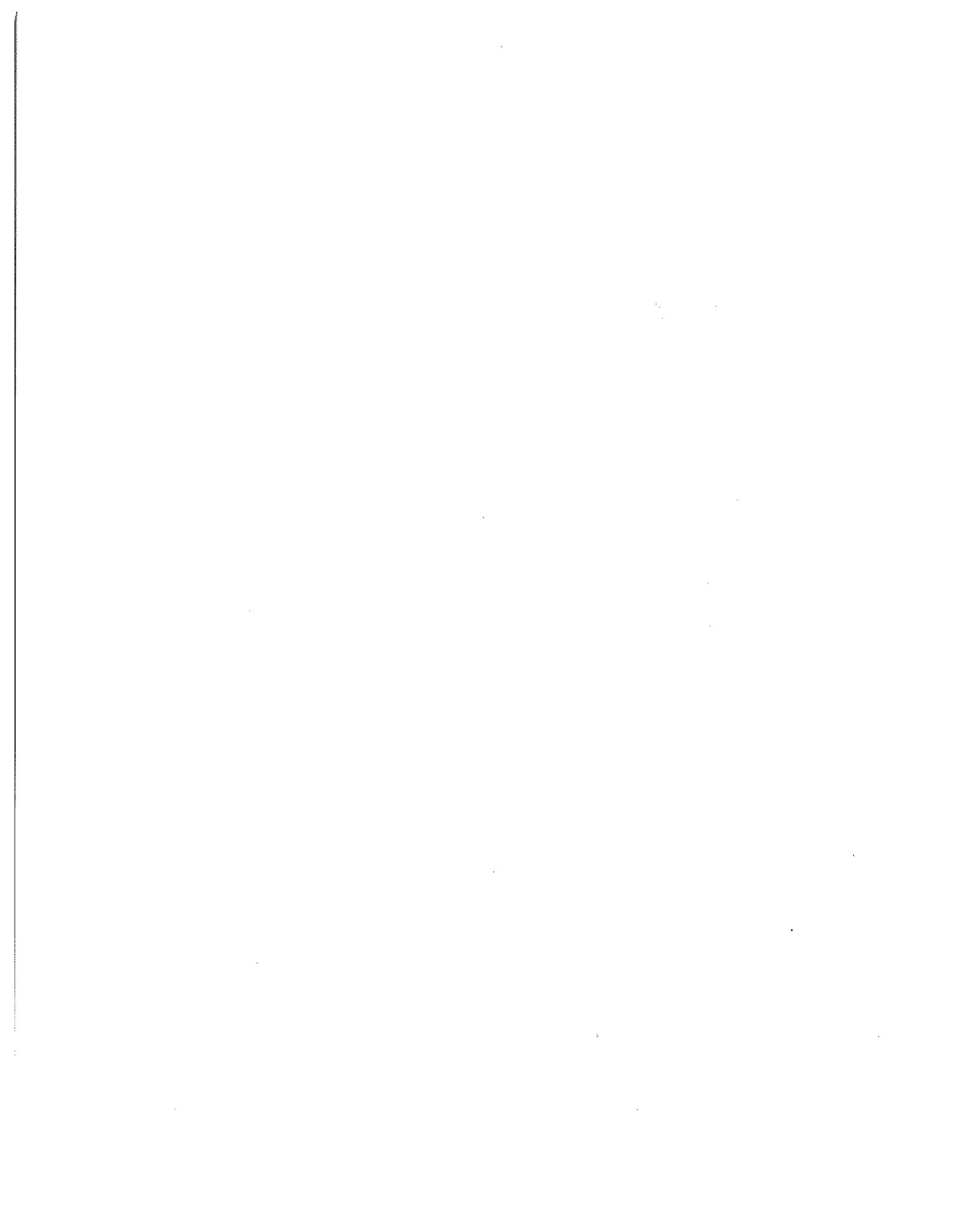


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## CHAPTER I

### OVERVIEW AND SUMMARY

This Chapter serves both as a summary of the report and an overview of those 1979 activities of the Office of the Inspector General (OIG) which we believe would be of most interest to the Secretary and the Congress. 1977 and 1978 represented start-up years for the Office of the Inspector General. We undertook large scale projects using available techniques to fill what were perceived as major gaps in high dollar programs. We intended our early efforts to provide parameters for cost avoidance opportunities in the Department. In 1979, we began to develop a longer range plan to identify important preventive measures and to target cost avoidance opportunities.

Purpose. This report responds to the directive set out in P.L. 94-505 for the Inspector General to report each year to the Secretary and the Congress summarizing the activities of the Office of the Inspector General during the preceding calendar year. Because the Department is so large and so diverse we have included a wide range of information together with our assessment of the state of the Department's efforts to improve efficiency and effectiveness and reduce fraud and error. We also have included a limited number of broad recommendations covering matters we consider of high importance.

Leadership. Thomas D. Morris, the first Inspector General of Health, Education, and Welfare (HEW), resigned on September 30, 1979. Richard B. Lowe III, Deputy Inspector General, became Acting Inspector General on October 1, 1979.

Organization of the Report. We used three important operational disciplines/techniques to present the 1979 report: audit, investigations and cross cutting--or multi-disciplinary. In addition, we have a separate portion (Chapter V) covering Educational Programs because 1979 is the last full year of our responsibility toward these programs. We wanted a self contained part to be useful to the new Department of Education, its Secretary and Inspector General.

#### Cost Reduction

In the first annual report (1977) issued in March 1978, the Inspector General included an inventory that he had compiled of estimated losses in FY 1977 in HEW programs. These estimates relied on the data from numerous studies conducted by the General Accounting Office (GAO), the Department, OIG's Audit Agency, and

selected Congressional Reports. The purpose in developing this inventory was to provide the Secretary with a framework for identifying areas of opportunity for savings in the Department's programs.

The Secretary together with the program managers, used this framework to immediately set in place a formal cost savings program with an initial target for reducing losses in 1979 by \$1.1 billion. The Inspector General stated in his next annual report, issued a year later in March 1979, that he judged the Department's response to his 1978 challenge to be "exceptional". The Department's results to date towards meeting its \$1.3 billion goal for FY 1979, (an increase over its original \$1.1 billion goal) total \$1.1 billion dollars in savings. However, the \$1.1 billion the Department has documented in savings to date is not based on complete data for the year. The Department has reported to Congress that it is confident the total \$1.3 billion goal will be achieved.

For fiscal year 1980 the Department has established an even higher goal of \$1.5 billion dollars and has included a cost reduction goal of \$2.2 billion dollars in FY 1981 for the smaller Department of Health and Human Services (HHS). Overall it is our view that the Department's response to cost reduction opportunities remains exceptional.

The Office of the Inspector General will continue to assist the Secretary and program managers and the Congress in identifying and isolating those areas that are prone to losses from program misuse or mismanagement inefficiencies. We will continue to provide them with details necessary to enable them to achieve even greater cost reductions. We also will continue to maintain oversight over agency corrective actions.

#### Audit Highlights

In statistical terms, the Audit Agency continued to produce a high number of reports on HEW's programs and grantees. During calendar year 1979, the Agency released 6,714 reports. An additional 1,334 reports were also released concerning audits performed for other Federal agencies under OMB's system of audit cognizance for colleges and universities.

The Agency's efforts to utilize the work of others--so as to supplement its own efforts--continued to payoff. Of the reports processed on HEW-financed programs: 1,504 were prepared by the Agency while 5,210 were by public accountants and State auditors. Calendar year 1979 reports identified some \$188 million in recommended financial adjustments. But, even more meaningful: Some \$109.5 million in audit recommended financial adjustments were concurred in by responsible program officials last year.

While the financial benefits from the Audit Agency's work are impressive, other less tangible, but equally important achievements were made. As examples, Audit:

- Identified situations where better safeguards are needed to insure that abortions/sterilizations procedures include mandated safeguards to protect the rights of the individual.
- Identified situations where nursing home residents were not being afforded proper protection against certain hazardous conditions; and instances where State agencies had improperly granted waivers of serious deficiencies.
- Identified problems that have prevented the most needy from receiving vocational educational training.
- Made a concerted effort to identify management and budgetary problems at financially troubled educational institutions since such problems have been shown to be a significant cause behind their financial difficulties.

The results of the audit effort are beginning to show the benefits of the gradual emphasis on assessing how well systems of control are currently working as well as examining past performance. Early identification of potential problem areas is thus assured, and corrective action can begin at an earlier stage.

This Report presents detail on the more significant financial and management audit findings. We believe that they illustrate the type and quality of audit service that can be expected from the Inspector General's function in this Department. We also discuss a very real problem with the adequacy of audit staffing. This situation will soon be seriously aggravated by the transfer of more than a fifth of our positions to the newly formed Department of Education. This loss--combined with our current and continuing staffing shortfall--will seriously impact on Audit's ability to provide the Department with the frequency and extent of audit service that our experience to date shows is vitally needed.

#### Investigative Highlights

The accomplishments of the Office of Investigations (OI) are more impressive for 1979 than for any previous year. With only a slight increase in the workforce, there were 153 convictions--about 50 percent increase over 1978. Funds identified for recoveries, fines and restitutions reached \$14 million--a record amount.

OI's workload is growing at a greater rate than its workforce. In preparation for the transfer of staff to the new Department of Education, we are taking a hard look at priorities to maximize limited resources for the greatest payoffs. Some allegations will have to be transferred to other agencies for investigations or assigned a low priority.

Inspector General Subpoenas are useful investigative and auditing tools. Twenty-four subpoenas were issued in 1979. Every subpoena that has been reviewed by the courts was upheld.

We are becoming concerned that the lack of full law enforcement authority (e.g., arrest authority, search and seizure authority) may limit our investigative performance. We plan to evaluate this matter during 1980 and make recommendation for any statutory changes we consider necessary.

CY-1979 was a banner year for OI's Division of Inspection, Training and Review. OI trained 65 special agents in a two-week in-service training course, and 24 field managers in an investigative manager's course. The periodic inspection program was initiated with two Field Offices being inspected. OI participated in the certification process of the 29 State Medicaid Fraud Control Units.

This was the first full year of operation for the Division of Special Assignments (DSA). A unique blend of talents is assigned to this division--attorney/investigators (experienced prosecutors) and senior criminal investigators augmented by investigators from the Office of Investigations (OI) and auditors from the Audit Agency. This division:

- Supplements OI by conducting criminal investigations of unusual complexity or which have national implications.
- Develops strategies, priorities and tactics for criminal cases.
- Following prosecution, pursues civil and administrative matters.
- Conducts sensitive non-criminal investigations.

The Division has several important projects underway now including home health care investigations in Florida.

The Division of State Fraud Control has a primary responsibility of working with the States to improve the detection and elimination of fraud against HEW programs. A major part of this

responsibility is acting as the OIG manager of the State Medicaid Fraud Control Unit (SMFCU) program transferred from the Health Care Financing Administration (HCFA) to OIG. In 1979 the number and quality of State Medicaid Fraud Control Units continued to increase. Based upon certifications and technical assistance that took place in 1979, there will be 29 certified State Medicaid Fraud Control Units by April 1, 1980. Many States have informed us that with the expiration of 90 percent funding authority on September 30, 1980 they will have great difficulty in continuing the State Units. We are concerned at the negative impact this would have on the elimination of fraud from Medicaid. The Administration's legislative proposal now before Congress seeks to provide 12 full quarters of 90 percent funding. This would help to alleviate this serious problem.

#### Cross Cutting

A number of the most interesting and productive developments within OIG resulted from efforts involving more than one of our organizations and in cooperation with staffs of the Office of the Secretary (OS) and Principal Operating Components (POCs). These multi-disciplined activities have demonstrated the utility of cooperative efforts to detect and prevent crime and inappropriate expenditures of taxpayer funds.

Some of these activities have involved innovative use of the computer for matching efforts and analyses of large data bases such as Project Match and Project Integrity which have resulted in a number of convictions and recovered funds. These two large, national initiatives have shown that such active initiatives aimed at fraud and abuse, require thoroughness and large quantities of time and resources. As a result, we have learned the benefits of targeting as opposed to national scope projects. Both have shown, however, that computer matching and analysis techniques can be useful in day-to-day program operations.

To illustrate the range of these cooperative projects we report on the following:

- Project Match conducted jointly by OIG with the Social Security Administration (SSA) and State agencies in cooperation with State and Federal investigative agencies. This title covers a series of related projects described in detail in Chapter IV, all using computer techniques to detect fraud and error in cash payment programs by matching Aid to Families with Dependent Children (AFDC) rolls and Supplemental Security Income (SSI) rolls against Federal employee rolls, and State AFDC rolls against other States AFDC rolls. The results to date have shown the techniques to be valuable-- we believe more valuable as a systems front end check than

as an after the fact check. We also endorse the conduct of such projects under strict guidelines to protect individual privacy. We plan to bring these projects to a point by mid-Summer 1980 where we can make better cost/benefit statements.

- Project Integrity I is a national project conducted by OIG and the Health Care Financing Administration (HCFA) with State agencies and State and Federal investigative organizations. This project used computers to analyze the very large data bases of payments to physicians and pharmacists under Medicaid in all States to detect fraud or error. The project showed that the techniques are valuable--more valuable we believe as a part of the front end of reimbursement systems rather than audit check. We plan to continue use of the techniques in selected audit efforts.
- Project Integrity II is a joint project by HCFA with OIG support and in cooperation with State agencies and State and Federal investigative agencies. Unlike Integrity I, this project was conducted in only those States that wished to participate. It sought to detect fraud, error and abuse in Medicaid providers such as dentists and laboratories by use of computer analyses of Medicaid payment data bases. The techniques proved successful and are now available for use by all States as well as HCFA and OIG in oversight operations.
- Contracts and Grants - We continued our joint efforts with the Assistant Secretary for Management and Budget (ASMB) and POCs' staffs to maintain close oversight over the procurement process. The Secretary had directed this effort--following work that OIG and ASMB staffs had completed in 1978--to improve the operation of the procurement system and to make recommendations for any needed changes. This activity will continue in 1980.
- Home Health Care is a major effort by HCFA and OIG with support by the Department of Justice to detect and prevent fraud and error in payments to Home Health Agencies (HHAs). It responds to directives from the Secretary and Congress. It will clear up long-standing allegations of fraud, result in improved methods of reimbursements and provide increased audit oversight of HHA's.
- Cosmetic Surgery was a joint effort of OIG and the Public Health Service (PHS) designed to correct abuses in elective cosmetic surgery in PHS hospitals. Improved controls have been instituted throughout the PHS hospital system. Both OIG and PHS will follow-up to evaluate the new procedures.

- Procurement - Year-End Spending - Approximately \$135 million was spent on the last three days (Friday, Saturday and Sunday) of FY 79 by HEW contract programs. This information resulted from a joint ASMB/OIG effort directed by the Secretary. As a result the Secretary's recent memorandum (February 19, 1980) set strict limits on last minute procurements for FY 80 and future years. The Secretary also directed OIG to make a detailed examination of those contracts awarded during the last three days of FY 79. That review is underway.
- Indochinese Refugee Assistance Program Audit and Reviews - Former Secretary Califano requested that OIG review grants and expenditures, program operations, management controls, and service delivery of the Indochinese Refugee Assistance Program (IRAP). OIG with support of program officials conducted three studies: a management review, a service delivery assessment, and audits of selected projects.

The management review analyzed program operations and management controls of the IRAP through a review of existing and proposed legislation, regulations, program directives, and reports; discussions with key officials in headquarters, five regions, and six States; and interviews with administrators at local project sites.

The service delivery assessment (SDA) focused on the current experiences of refugees and service providers at the local level. We found that most refugees included in this assessment live in marginal circumstances: they speak little English, are trapped in the secondary job market or on welfare, and live in overcrowded housing. Most voluntary agencies do not provide new refugees with the services essential to self-sufficiency. There is no uniform approach for resettlement services and there are significant State differences in the type and extent of services. The demand for English training far surpasses all other service needs. Health screening is rare, dental care spotty, and housing and transportation are major problems.

We did seven audits of selected IRAP projects in California, Texas and Pennsylvania concentrating on multiple funded providers. Some serious control problems were found. We made recommendations to the Office of Refugee Affairs (ORA) concerning technical assistance and monitoring of providers.

Actions taken by the Secretary to strengthen the program include: (a) an HEW Office of Refugee Affairs, with a significantly increased staff, has been created as the Department's focal point for all refugee matters, (b) HEW's

budget for FY 80 earmarks a minimum \$54 million for English language training--more than double the amount in FY 79, (c) Secretary Harris has assigned a team of Public Health Service physicians and medical technicians to strengthen the health screening of U.S. bound refugees, (d) special project funds are being devoted to the creation or strengthening of community-based organizations to help refugees by coordinating multi-agency programs and (e) the States are being required to prepare and submit to HEW an Annual Plan for providing services to refugees and obtain HEW approval for all contracts of \$10,000 or more. (The Secretary has moved ORA from SSA to OS; the Director, ORA now reports directly to the Secretary.)

- End Stage Renal Disease - OIG Audit staff recognized that an intended reimbursement system for renal dialysis costs would be faulty because of its dependence on using unaudited costs as the basis for setting such rates. Health Care Financing Administration staff, in turn, recognized the broad implications of the audit-identified problems and have been working closely with OIG to arrive at realistic and workable solutions to the problem.
  
- Public Assistance Administrative Cost - The accuracy of costs claimed by States for administering public assistance programs has been a pervasive problem. Audits continue to identify substantial amounts of incorrectly claimed costs. Working with the Office of the Assistant Secretary for Management and Budget, we have developed a technique for the early identification and prompt correction of these type situations.

#### Education

During 1979, the OIG continued to maintain with the Office of Education (OE) a significant effort to prevent and resolve problems within OE. Specifically, the Student Financial Assistance programs received the most attention, followed by the Developing Higher Education Institutions (commonly referred to as the Title III program) and the Indian Education programs.

Problems associated with these programs are long standing ones that do not lend themselves to quick or easy solutions. Special initiatives undertaken by the OIG - in concert with the Office of Education and other Departmental components - are discussed, and information and recommendations are presented for the use of the Secretary, Inspector General and program officials of the Department of Education.

The Student Financial Assistance programs captured the lion's share of the OIG's energies in OE, not only because of the magnitude of the dollars involved, but also due to the administrative complexities of the programs. The OIG Audit Agency and Office of Investigations continued efforts to reduce fraud, abuse and management inefficiencies through such activities as processing of audit reports; development of audit guides and training courses for their use; and the conduct of criminal investigations.

Special initiatives were implemented to detect fraud and abuse in this area. Examples are:

- o Computerized comparisons of Guaranteed Student Loan Program (GSL) default listings against the Federal government workforce to identify and follow up on loan defaulters. Over 16,500 defaulters were identified with indebtedness of some \$15.8 million.
- o An evaluation is underway to determine the cost effectiveness of OE's use of pilot private collection contractors to supplement or replace its own collection activities for the GSL program.
- o The need for a fair and equitable tuition refund policy in the GSL program was continued in 1979 - much as it has been since 1975. This need is seen as being critical for responsible Federal management of these program.
- o An Industry Study is underway in which the OIG is reviewing a group of high risk institutions participating in the Basic Grants program to develop systematic indicators of fraud and abuse. Nationwide audits, as well as criminal investigations are underway. This effort should produce successful results and be of continuing interest to the Department of Education (DEd).
- o Weaknesses in the Basic Grant application and payment systems were found during the Industry Study and specific concerns in this area are discussed. Additionally, the need for an adequate Quality Control system was highlighted and requires close attention by DEd.

The Indian Education Program received special attention by the OIG with respect to organizational and staffing problems in the program which appear to have impacted adversely on the grant and contract program operations. Recommendations are being submitted to DEd for their use in improving management of the program.

The Developing Higher Education Institutions program (Title III of the Higher Education Act) was identified as being in need of special attention. Weaknesses were found in the grant review and approval processes for earlier grant review cycles, and new efforts were initiated to improve the contract and grant review processes across OE in its entirety during 1979. Persistent problems have been noted - through a followup review by GAO, and a specialized audit effort is underway directed at "assisting agencies" which are to serve the developing institutions with specialized assistance.

#### Assessment

This past year has been successful for the Office of the Inspector General. This success can be measured not only in terms of convictions and money returned to the Treasury, but also in what we believe will be the long range effect of blending the three different disciplines and approaches of the major components of the OIG. We believe the value of this blending will be greater than the sum of the parts.

Investigations, staffed at the close of the year by 160 highly trained criminal investigators and attorneys experienced in criminal prosecutions brings a disciplined, law enforcement perspective to our efforts. Audit, staffed at the close of the year by 918 auditors and CPA's, brings a professional, highly systematic and precise approach to HEW programs. Health Care and Systems Review has 32 professionals skilled in systems analysis. This staff blends a number of different skills such as medicine, law, social work, public administration, business administration, finance and operations research.

It has been our intention that all three staffs would work together not only to detect criminal activities and unnecessary and inappropriate expenditures of taxpayer funds, but also to prevent these problems from occurring.

#### Management Considerations

A preliminary analysis of audit and investigative files makes it clear that there is a relationship between the amount of unwarranted expenditures, and some fraud, and management controls. To explain: the monies expended by the Department on its programs do not result in products which are easily assessed for quality and usefulness. To complicate this situation, most of the Department's funds are spent by others under contracts and grants. This situation has been long known and recognized.

As a result, our staffs together with those of the Assistant Secretary for Management and Budget (ASMB) and the Principal Operating Components (POC's) have been devoting increasing amounts of time to preventive activities--to help find ways to strengthen Department management. These stronger Department management methods, in turn, should dictate better programmatic and financial controls at the contractor and grantee level.

In our view these major efforts by the Department to cure recurring problems are significant improvements. Nevertheless, some areas will need continuing attention for the near future. Among these are:

Procurement -- Contracts and Grants

Among the common themes which run through the activities of all of our work is the need to continue to improve the way in which contracts and grants are awarded and monitored. Although recent actions taken by ASMB and some of the Principal Operating Components have resulted in marked improvements, our various activities have demonstrated the need for further concentrated effort in four areas until the results of management improvements implemented over the last three years can be evaluated.

- Contract terms -- The lack of clear definition of results expected from a contractor leads to poor contractor performance and waste of funds. Departmental actions which should significantly improve this area include: 1) independent review of work statements; 2) requirement for procurement plans; 3) dual monitoring by program and procurement officials; and 4) improved project officer training.
- Competitive bidding -- Program officials need to increase the use of competitive bidding. Progress is being made, e.g., FY 77 - 48 percent, FY 78 - 49 percent, FY 79 - 53 percent. We continue to believe that non-competitive sole source awards should be reserved for truly extraordinary circumstances. Actions such as the recent Public Health Service (PHS) elevation of approval authority should further improve the situation.
- Conflicts of interest -- We have found relatively few actual conflicts of interest, however, there is still some lack of sensitivity to the damaging effects on program integrity caused by apparent conflicts of interest. The Department has instituted with PHS an innovative project managed by Alcohol, Drug Abuse, and Mental Health Administration (ADAMHA) to conduct a one year trial of a new process designed to avoid real or apparent conflicts. The results will be used to develop Department-wide improvements.

--Monitoring of contracts and grants -- This is one of the Department's greatest challenges. Unneeded expenditures could be avoided by giving higher priority to close financial and performance monitoring. We share in this shortcoming through our inability to provide full audit coverage of contracts requested by program officials. We are working with ASMB and Office of General Counsel (OGC) and GAO on ways to improve this coverage. This coupled with improved training for program and procurement officials now in progress and Departmental monitoring should continue to reduce this problem.

State Agencies; Universities, non-profit and other agencies -- We have found that many recipients of Department funds suffer from similar problems:

--Cost allocation problems -- The complexities of Federal funding requirements and the multiple sources of funds have imposed burdens on recipient agencies to control and account for expenditures. These burdens are not always successfully met. The Department has made a major improvement by centralizing the oversight and monitoring of this function. This should lead to reducing the burden on grantees and improving performance.

--Financial management -- Most agencies receiving HEW funds put a high priority on delivering services. However, some have not placed sufficient priority on managing funds. This lack of accountability has led to abuses -- intentional and unintentional. Many problems could be avoided with greater sophistication in and attention to instituting accurate accounting systems. We are working with the Bureau of Community Health Services and three major universities to prototype improvements. In addition, the Department is revamping and modernizing its internal grants accounting and payment systems which should have a beneficial effect in enabling grantees and the Department to reconcile their financial records and improve accountability.

In addition to these problems, some State agencies have frequently demonstrated several other problems:

--State plans -- Many HEW programs require States to prepare and follow detailed plans. Frequently, State and Federal officials do not have fully satisfactory methods of monitoring compliance with these plans. Often this requires recovery from the State of large amounts of Federal funds. These problems occur primarily in Aid to Families with Dependent Children (AFDC), Medicaid and Title XX.

--Cash management -- The large amounts of Federal funds moving into State treasuries requires careful attention and management to see that the flow of funds is not greater or smaller than actually required. Management has initiated several major steps to overcome these shortcomings. For example, 1) the Department's central grants payment system is being redesigned to incorporate new payment controls and ADP techniques for monitoring grantee cash management, 2) the Department has initiated a program to use electronic funds transfer techniques to control grantee draws of Federal funds, and 3) The Department is implementing use of checks-paid and delay-of-drawdown letters of credit with the 50 States for financing the Public Assistance programs. It is too early to evaluate the impact of these actions.

Computer Security -- This is emerging in the Social Security Administration (SSA) as a major concern. SSA has placed heavy reliance on computer storage, retrieval and processing of sensitive data. Inattention to security requirements can allow potential invasion of individual privacy and opportunity for crime.

Providing management oriented technical assistance -- Since relatively few HEW programs actually deliver services to the ultimate beneficiaries, HEW programs need to do more in assisting others to improve the efficiency and effectiveness of service delivery. The revitalized Institute for Medicaid Management and the Welfare Management Institute recently established should provide major improvements. Consideration should be given to such a concept in PHS and Office of Human Development Services (OHDS).

#### Resolution of Audit Reports

The Department continues to have an unreasonably high backlog of audit reports that are not being resolved in a timely manner (i.e., within the six-month period that OMB recently determined should be the government-wide standard, and that has long been the Department's benchmark).

As of December 31, 1979, unresolved reports numbered 3,196 with audit exceptions valued at \$206.5 million. Of this number, 1,241 reports and \$135 million in exceptions were over six-months old. Units soon transferring to the new Department of Education account for a disproportionately large percentage of both the total number of reports and the value of unresolved exceptions.

In commenting on this problem in our previous annual report, we stated that the Secretary directed the Inspector General and the

Assistant Secretary for Management and Budget to review the audit resolution process and identify areas in need of improvement. This study has been completed and recommended actions developed.

It seems clear today that budget resources will be tight. Thus dollars saved by improved management is important. While in the past some programs did not perceive of financial and program monitoring as providing an opportunity for significant savings, we believe managers are now and will continue to choose to implement needed improvements. There is a growing understanding that many of the most significant problems cannot be solved after the fact, but only on a preventive basis. Many HEW program managers have worked with our staff and with the Assistant Secretary for Management and Budget to make significant management improvements in some of the most troubling areas. In some of these areas, the Department programs may be approaching their limits with current resources. We plan to examine this facet during the current year.

#### Recommendations

This year we have limited our recommendations to five which are broad and which we consider of paramount importance.

- Procurement. That the Department continue and intensify its efforts to improve the procurement process, i.e., awarding of grants and contracts.
- Grantee and Contractor Performance. That the Department continue and intensify its efforts to improve the performance of all its grantees and contractors by improved monitoring and technical assistance.
- Audit Resolution. That the Department continue and intensify its efforts to improve its performance in fairly and promptly resolving audit findings.
- Computer Security. That the Department and in particular, the Social Security Administration, devote additional attention and resources to improvement of the security of computer systems.
- State Medicaid Fraud Control Units (SMFCUs). That the Congress move quickly to enact legislation to assist the States in funding SMFCUs. (The Congress is now considering an Administration proposal to assure each SMFCU 12 full quarters of 90 percent matching fund).

## Future Directions

Impact of Establishment of Department of Education. This requires us to take apart the existing Office of Inspector General - never a pleasant task. There will be, of course, the normal impact on our efficiency caused by the transfer--and some geographic relocation--of our people and the uncertainties associated therewith. This we can handle and overcome by hard work. The more serious impact is on the reduced staff years we will have available to devote to programs of Health and Human Services.

Based on our data, the work load associated with programs being transferred to the Department of Education range from 185 to 205 positions. We are transferring 275 positions to Education. Thus, there will be a shortfall of between 70 - 90 staff years of audit and investigative efforts compared to what we would have expected to devote to Health and Human Services programs.

When this shortfall is coupled with the historical shortage of auditors and investigators that the prior Inspector General reported, it is easy to understand why we believe the situation is less than desirable.

The 70 to 90 staff years of shortfall will be allocated about 75 percent to audit effort and 25 percent to investigations, i.e., about 60 audit staff years and 20 investigative staff years. What it means is that we must reduce the priority we can assign to audits and investigations - i.e., work that we regard as priority work and had proposed to accomplish, we will not be able to do. (NOTE: FY 81 Budget Request contains provisions for 25 additional audit positions.) 1/

We expect to work closely with the new Inspector General of Education to insure the continuity of audits and investigations. Since most of the staff of that organization will come from our office, we are confident it will be a capable organization. We will cooperate to the best of our capability to assist in its successful implementation.

Resources. Most organizations believe they need additional resources. We are no exception. Our analysis of work load data indicates to us that to perform at an optimum level we would need to double our own audit staff and our investigative field staff. By optimum level we mean a capability to audit all entities for which we are responsible at least every two years and to be able to complete investigations within one year of receipt of all allegations. We plan to:

- o Refine our work load data collection and analysis methodology so that we can make

more convincing arguments for additional resources.

- o Develop a five-year projection of resource needs.
- o Submit a request to the Secretary with the FY 82 budget or sooner for the most critical additional resources.

How to Proceed. Although, as we indicated we believe additional resources are needed for our optimum performance, currently we have a capable organization. It is our intention to maximize our current capability.

The first line of defense against fraud and error are our traditional audit and investigative activities. We will continue these with priority to areas that will offer the most return for the effort expended. We will become more innovative in order to accomplish more with current resources.

Our second major thrust is toward prevention. It is our intention that all OIG staffs work together not only to detect criminal activities and unnecessary and inappropriate expenditures of taxpayer funds, but also to prevent these problems from occurring.

Although it is clear that gaps in legislation and regulations can allow waste of taxpayer dollars and inefficient program management, we have found that many inefficiencies result from poor management practices. Thus, we intend to devote greater efforts in the future to preventive, management improvement activities such as computer security, quality control systems, conflicts of interest, contract and discretionary grant awards and monitoring, use of consultants, and institutional providers of health care to provide recommendations for improvements to build on the management efforts already underway. We think this is where the taxpayer is best served and where a blending of the unique talents of OIG staff will be most productive.

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<sup>1/</sup> This information was prepared prior to the Administration's establishment of a limitation on Federal civilian hiring (OMB Bulletin 80-7, March 17, 1980). At this time, we do not know the full impact of that limitation or the impact of FY 81 budget revisions; however, it cannot but adversely impact on our capability.

## CHAPTER II

### AUDIT HIGHLIGHTS

The number of reports released by the Audit Agency continued at a high level this year. Most contained Audit's assessments of the financial accountability for some \$11.1 billion expended by HEW grantees and contractors.

These reports are beginning to show the results of a gradual emphasis being placed on assessing how grantee systems are currently working--as well as examining into past performance. These on-line appraisals make possible the early identification and correction of emerging problem areas well in advance of those found by traditional after-the-fact reviews.

Statistically, the Audit Agency issued 8,048 reports during CY 1979, 6,714 of which covered HEW-financed programs and activities. The remainder concerned audits performed for other Federal agencies under OMB's system of audit cognizance for colleges and universities. Of the reports on HEW-financed programs, 1,504 were prepared by the Audit Agency, while 5,210 were by public accountants and State auditors. These reports identified \$188 million in recommended financial adjustments; most also contained recommendations for improved management controls and operations. Some \$109.5 million in audit recommended financial adjustments were concurred in by responsible program officials last year, many stemming from matters discussed by reports issued in prior years.

The Audit Agency's reports covered a wide range of activities --literally thousands of diverse, geographically dispersed entities--carrying-out HEW's programs at State and local governments. . .educational institutions. . .nursing homes. . .insurance companies. . .many types of other non-profit organizations and. . .numerous Departmental headquarters and field installations.

The Audit Agency continues to strengthen and refine its program of internal auditing, paying particular attention to problems found at the grantee level appearing to have been caused by HEW management deficiencies. And, most importantly, audit staff time continued to be devoted to following up on the extent and adequacy of corrective actions taken to resolve previously reported deficiencies.

In the following parts of this Chapter, some of the more significant audit findings are highlighted under the general program categories of health, education, income maintenance and human development, and HEW administration.

## Health

### Medicare

During 1979, Medicare's 121 contractors processed approximately 173 million medical care claims totaling \$27.7 billion. In turn, these contractors were reimbursed about \$586 million for the administrative costs they incurred doing this work. We issued 56 reports on Medicare and recommended financial adjustments totaling \$7.2 million. The following are representative of areas audited this past year:

1. Contractor Administrative Costs: We continued to identify substantial costs which were improperly allocated...unallowable...excessive or unsupported. For example, one carrier overstated its administrative costs chargeable to Medicare by \$1.2 million during a five year period. This carrier: (i) improperly allocated costs of \$223,000; (ii) overstated a charge for investment in facilities and equipment by \$518,000; (iii) claimed reimbursement of \$276,000 for research studies which were not approved and for which Medicare received little or no benefit; (iv) claimed \$111,000 for the design and implementation of a claim processing/information system for the carrier's own (non-government) line of business; and (v) included other unallowable charges of \$79,000.

Problems continue to surface about the allowability of a State tax on gross insurance premiums collected from subscribers. Six audits this past year questioned some \$885,000 in costs claimed for such taxes. We believe the tax is actually on gross receipts and do not agree that it is allowable for reimbursement under Medicare cost principles. HCFA is attempting to resolve this matter on a case-by-case basis.

2. Malpractice Costs: A special audit of malpractice costs claimed by providers under common ownership found \$950,000 in charges for estimated future malpractice settlement costs. Only actual settlement costs are allowable, however, under Medicare cost principles.

3. Medicare Payment Systems: Audit of a carrier's automated claims processing disclosed system defects which permitted some 3,800 duplicate claims (totaling \$340,000) to pass without detection through computer edit routines. Problems were also noted with the automated coding of certain claims resulting in about 11,600 processing errors.

4. Renal Dialysis Facilities: During 1979 we initiated the Department's first audit of a free-standing renal dialysis

facility. Our tentative findings raise serious questions about the reasonableness and allowability of costs claimed by the facility and related reimbursement decisions made by HCFA staff. Costs claimed included such unallowable charges as: profits to related organizations; fees for treating non-Medicare patients; mark-ups of 35 to 100 percent for laboratory services; and significant other unallowable items.

Recently enacted Public Law 95-292 requires an incentive reimbursement system for renal dialysis. HCFA had initially proposed to set incentive rates based on unaudited costs. However, our audit showed unaudited cost data submitted by renal dialysis facilities to be an unreliable basis for establishing national reimbursement rates. Thus, we recommended that the incentive rates be based on audited cost data. HCFA concurred and is now planning audits of a statistical sample of these facilities --by intermediary audit staffs. We are assisting by reviewing sample selection, providing an audit guide for use during the audits, and furnishing necessary technical assistance to intermediary auditors.

5. Intermediary Procedures for Setting Interim Payment Rates: Audit of a large Medicare intermediary showed major weaknesses in that: (i) interim payments were not properly set or adjusted --resulting in substantial overpayments and underpayments to providers--and (ii) action had not been taken to obtain overdue cost reports from providers.

6. New Guide for Combined Audit of Nursing Homes: A guide for audit of long-term care facilities was developed by the Audit Agency during 1979 for use in audits of Medicare/Medicaid nursing homes. The guide is designed to familiarize State auditors and independent accountants with the significant provisions of HEW programs providing financial assistance to long-term care facilities (LTCF). The guide should assist them in performing examinations in accordance with Standards for Audit of Governmental Organizations, Programs, Activities, and Functions issued by the Comptroller General.

In addition to the customary audit procedures covering financial audits, the guide contains audit procedures and other techniques designed to detect possible fraud and abuse. There is also a section on home office and related organization transactions since we are finding this to be a most sensitive area. After issuance in early 1980 as a Health Insurance Manual, the guide will be required for use on Medicare program audits. The Audit Agency has recommended that HCFA mandate its use for Medicaid audits as well.

## Medicaid

During FY 1979, an estimated \$22.6 billion (Federal share \$12.4 billion) has been spent by States on medical care for low-income recipients. Audits concentrated on assessing the adequacy of controls over claims processing systems in 27 States. These systems should include checks and controls over eligibility...review of services...duplicate payments...reasonableness of costs and...third party liability and reimbursement.

We issued 59 reports which surfaced problems in each of these areas and recommended financial adjustments totaling some \$61.7 million. Examples of the more significant problems follow:

1. Claim Processing: Patient income in excess of basic maintenance needs must be applied to the cost of providing their medical care before billing the remainder of such costs to Medicaid. We found this requirement was not followed in several States. Audits resulted in recommended financial recoveries totaling \$18.4 million.

Poor procedures/controls for identifying costs eligible for Federal reimbursement resulted in erroneous claims being made for \$1.8 million in administrative costs that actually were associated with State funded programs. Reimbursement of this amount to the Federal Government was recommended.

Federal regulations require that State overpayments to providers be adjusted promptly and not remain outstanding while the State engages in lengthy appeals. But, we found several instances where this was not done. Some \$44 million in outstanding audit exceptions was identified in this category.

States may claim Federal financial participation for patients in "certified sections" of State mental institutions. One State improperly claimed some \$16.5 million in costs for patients in uncertified sections of such institutions.

2. Federal Restrictions on Abortions/Sterilizations Not Met: Federal funds may not be used to pay for abortions except when (i) the life of the mother is endangered, (ii) long-lasting physical health damage would result to the mother, or (iii) in cases of rape or incest reported to a law enforcement or public health agency. In the case of sterilizations, State agencies must make sure, and have documented, that individuals considering sterilizations are fully aware of the consequences and are advised about alternatives to sterilizations.

In our prior report we discussed special audits, that were beginning or planned, concerning sterilization and abortion programs funded by HEW appropriations. With respect to abortions, we completed audits in the 12 States planned, finding that procedures used by 10 of these States were ineffective in preventing claims for Federal reimbursement for abortions not complying with Federal restrictions. Two major factors caused this problem: (i) States did not have effective claims processing systems to detect improper abortion claims, and (ii) States paid claims without first having received certifications and documentation required by Federal regulations. We recommended financial adjustments totaling \$4 million in these States.

Audits of sterilization activities centered on determining whether the rights of the individual were protected, and whether required documentation was present before payment. Our field work was recently completed in 7 of the 11 States scheduled for review. Preliminary findings show that States have not maintained required patient consent forms and other documentation, or developed adequate review procedures to identify improperly completed consent forms. To date, auditors have identified unallowable payments for these procedures exceeding \$770,000.

3. Section 1864 and 1902 Audits: Under these sections of the Social Security Act, State agencies certify health care facilities for participation in Medicare and Medicaid and are reimbursed for the costs they incur in providing these services. Eight audit reports released during the past year identified problems with respect to the propriety of about \$2.5 million as well as certain deficiencies in States' certification activities.

The most significant costs questioned related to use of improper or unsubstantiated rates...charges solely applicable to inspections for State licensure, and other activities unrelated to Federal programs such as the costs of surveys at nonparticipating facilities.

We have also reported instances where State agencies improperly granted waivers of serious deficiencies at health care facilities. Our work also identified cases of inadequate or untimely State agency follow-up on previously reported deficiencies.

#### Community Drug Treatment Programs

The National Institute on Drug Abuse (NIDA) funds various community drug treatment programs to prevent and control narcotic addiction. A selected group of six drug abuse centers was

reviewed to assess how well they were operating and whether the programs provided services/treatment as required by NIDA guidelines.

Our work showed that these centers did not always make efficient use of treatment capabilities because many centers: were underutilized, provided treatment to non-compulsive drug abusers, including ineligible clients. We also found cases where clients were not provided sufficient counseling and supportive services. Successful discharges were overstated in some cases by about 27 percent.

We recommended that HEW program staff (1) validate utilization data by comparing reported data with the results of quarterly program reviews, (2) establish a clear, uniform admissions policy, (3) specifically require examination of utilization and admissions as part of on-site monitoring, and (4) consider revising funding policies to link funding levels to type of treatment provided. Program officials generally agreed with our findings and recommendations.

### Education

#### Institutions of Higher Education

1. Research and Training: The Federal Government awards about \$6.5 billion annually in grants and contracts to about 2500 colleges and universities. Of this, \$4.8 billion involves HEW awards mostly for research, training, and demonstration projects. The Audit Agency is responsible for audits of all Federal funds at about 94% of the schools. Our reviews covered some \$882 million in expenditures. Although \$13.5 million was identified as improperly charged and recovery recommended, the major problems noted dealt with inadequate accounting and workload distribution systems. As a result, auditors had to "set-aside" \$187 million or 21 percent of the amount audited for determination of allowability by program officials. Our recommendations also discussed how the schools could bring their accounting and other systems into line with Federal requirements.

For many years audits of colleges and universities consistently disclosed major problems caused by inadequate recordkeeping and cost controls over Federal funds. Poor or missing documentation to support salary and wage charges has been the most significant problem. For example, at one large university, auditors found about \$20.9 million in salaries and wages charged to Federal grants and contracts using time and effort reports --based on budget estimates--rather than actual activity.

Since budget estimates are based on planned effort which may or may not coincide with actual effort, program officials must now determine costs properly chargeable to the Federal Government.

To help resolve this problem, the Department established an "early review" approach. Under this concept, the Audit Agency and the Office of Grants and Procurement Management (OGPM) furnish advice and guidance to institutions on proposed changes in accounting systems--where such changes are necessary to comply with Federal standards. Since inception of this concept last April, the Audit Agency in collaboration with OGPM has reviewed and approved planned systems changes at a number of colleges and universities. Also, we have scheduled follow-up audits at 13 institutions for early calendar year 1980 to determine whether agreed upon system changes were implemented as planned. In the final analysis, however, this pervasive problem of inadequate recordkeeping can only be corrected through a series of measures or reforms, some of which are currently planned or underway. These include: (i) simpler Federal regulations without loss of safeguards; (ii) improved procedures for the prompt resolution of audit findings; (iii) early audit review service on proposed changes in institutions' accounting systems; and (iv) "sanctions" against institutions in situations where corrective actions are not taken within a reasonable time period.

Another significant audit area at higher educational institutions concerns their indirect cost rate proposals--which enable them to recover a fair and reasonable percent of their overhead expenses. For example, a review of proposed indirect cost rates at a large university disclosed significant errors. Auditors found the institution used incorrect and inequitable allocation procedures and included significant unallowable costs in setting rates. As a result of this audit effort, rates were adjusted downward, saving the Government an estimated \$100 million over a two-year period.

2. Financially Troubled Institutions: We are making a concerted effort to identify management and budgetary problems which may cause financial instability at these institutions. Reviews at four such schools have shown the lack of financial management systems capable of providing control over assets, revenues, and expenditures to be a significant cause of their financial difficulties.

3. Student Financial Assistance (SFA): Some 2,784 audit reports were issued on the student financial aid programs during calendar year 1979. Serious weaknesses in the administration

of these programs continue to be identified. The more major involve: questionable determinations of student eligibility, various inadequacies in the loan awarding and collection procedures, poor or inadequate refund practices, improper use of Federal funds, erroneous computations of interest billings in the Guaranteed Student Loan (GSL) program and the maintenance of excessive Federal cash balances. Over \$1.7 billion in Federal SFA program expenditures were audited in 1979; of this amount, financial adjustments totaling about \$13.2 million were recommended.

4. BEOG Alternate Disbursement System: During 1979 major audit effort was directed to evaluating OE's administration of the Basic Education Opportunity Grant Alternate Disbursement System (ADS). Under ADS, Basic Grant awards are paid directly to the student recipient with the institution having limited administrative responsibility.

Preliminary findings of recently completed audits show that 44 of 50 institutions reviewed were deficient in one or more aspects of their administrative responsibilities under the ADS program. Problems noted included submission of inaccurate data by institutions on costs and periods of attendance, length of students' courses, and enrollment status. Many of these problems could have been prevented by increased program monitoring and technical assistance.

#### State Administered Programs

1. Vocational Education: Under this program, grants are awarded to State Educational Agencies (SEAs) for vocational training programs designed for the disadvantaged. While State agencies are required to use these funds in areas having a youth unemployment rate of at least 12%--or school dropout rates in excess of a State-wide average, this is not always done. One of our audits in fact found that a State awarded \$647,000 to Local Education Agencies (LEAs) not meeting these funding restrictions. This State also lacked the capability to see that awards to LEAs were properly spent...expenditures reported to the Office of Education were accurate or that... claims for administrative costs were based on actual effort. The result? More than \$153,000 in improper expenditures.

Information furnished the Office of Education by this same State on the employment status of students completing a vocational education program was grossly inaccurate. Employment statistics reported for one year, in fact, represented student enrollment. The basic problem appeared to stem from the grantees' inability to obtain feedback from students/instructors on program completion and employment. Usable information was obtained in only

about 10% of the cases. The State agency had not performed required monitoring of local programs for over three years. If it had, this discrepancy would most likely have been revealed.

Another case--touched on in our prior annual report--has become more serious after being fully developed. Specifically, it involves a State which awarded grants totaling \$6.3 million to 12 LEAs to administer various vocational education activities. Auditors found serious problems with the LEAs financial and programmatic accountability over these funds. About \$4.9 million was determined to be improperly used and/or lacked proper documentation. Most of the problems centered around insufficient documentation to substantiate the propriety, reasonableness and allocability of personnel costs, consultant costs, fiscal agent fees and cost transfers.

2. Elementary and Secondary Education, Title I: Reviews in 20 States covering program expenditures of about \$432 million resulted in recommendations that about \$36.7 million be returned to the Federal Government. The crux of the problem: States were not providing their proportionate share of State and local services to Title I schools or used Title I funds for projects not designed to meet the special needs of educationally deprived children.

## Income Maintenance and Human Development

### Public Assistance

1. Administrative Costs: In 1979, as in prior years, our audits of administrative costs focused primarily on the propriety of costs claimed for Federal financial participation. (Federal sharing varies from 50 percent to 100 percent, depending on the program involved.) Audits continue to identify improper and incorrectly claimed costs. Fifteen reports were issued questioning \$15.1 million because States claimed duplicate charges; amounts that did not qualify for Federal financial participation; or used incorrect methods to allocate costs.

Due to the substantial sums involved and the repetitive type of audit findings reported in this and prior years, we are planning to implement an on-line audit approach in our future reviews of administrative costs--as contrasted to purely after-the-fact reviews. This approach will involve early front-end review of a States' proposed methodology for charging and allocating administrative costs to various Federal, State and local programs--and evaluate the adequacy of the States' accounting systems. Any necessary recommendations for changes in methods of accounting for and distributing costs will be made prior

to the States' claiming and reimbursement of such costs. We will also make periodic reviews during the year to verify that actual administrative costs are being claimed in accordance with approved methods. This approach should result in more accurate and proper claims by the States and allow for earlier detection and adjustments on any overclaims.

2. Income Maintenance Payments: Some \$20 million in income maintenance payments were questioned because States did not register AFDC recipients for the Work Incentive Program as required; did not require the Vendor Payment Program to be operated in accordance with Federal regulations; and claimed Federal funding for payments made to, or on behalf of, non-certified presumptive eligible cases.

#### Supplemental Security Income Program (SSI)

SSI, which provides minimum income for eligible persons using nationally uniform eligibility requirements and benefit criteria, replaced the former State-administered Old-Age Assistance, Aid to the Blind, and Aid to Permanently and Totally Disabled programs.

During CY 79 we made follow-up reviews of actions taken on prior Audit Agency reports on SSA District Office operations. We noted that although SSA had corrected some of the previously reported problems, additional improvements were needed in the areas of initial claims and post-eligibility actions, redeterminations and overpayment cases, refunds, and field initiated payments. Our reports also discussed the need to correct weaknesses found in documenting decisions made and actions taken ...internal operating controls...compliance with prescribed procedures... supervision...training...implementation of the Quality Control System and...security controls over data input equipment.

Our staff also looked into the allowability of approximately \$7.3 million in costs claimed by seven States for transferring aged, blind, and disabled records to Federal control and for providing other SSI administrative services. These audits resulted in recommended financial adjustments totaling \$1.5 million. Improper claims generally were attributable to a lack of controls to insure that amounts claimed were accurate and supportable by required documentation.

#### Vocational Rehabilitation Program (VR)

This program provides assistance to States in rehabilitating physically or mentally handicapped persons to prepare them for gainful employment. Federal grants are awarded to help meet the cost of providing assistance and services such as

counseling, physical restoration services, training, and job placement. Legislation (September 1973) requires that priority be given to individuals with the most severe disabilities, also, that each client receive an individualized written rehabilitation plan.

Audits of this program continue to turn-up problems in State administration. Involved were such areas as: (i) serving ineligible clients, (ii) reporting invalid "successful" rehabilitations, and (iii) improperly claiming third party expenditures as required matching funds. Case management practices were also found to be in need of improvement in that counselors were not providing post-employment services, maintaining close contact with their clients, and supervisory reviews were not made of counselors' cases. Also, States were not taking advantage of services and benefits available from other programs. In one case, as much as \$2.2 million could have been saved if the State had fully utilized benefits available from other agencies and organizations.

Recommendations were made to recoup improperly spent Federal funds and increase Federal monitoring of State agencies' performance.

#### Social Services (Title XX of the Social Security Act)

1. Training Costs: Title XX funds can be used for curriculum grants to State universities or for direct financial assistance to students to induce them to work for State social service agencies upon graduation. Based on the preliminary results of an ongoing nationwide review of training costs, the use of Title XX funds for this purpose appears questionable. Auditors found that very few of these graduates ended up working for the State. For example, although one State spent \$12.7 million for curriculum grants and \$1.4 million in direct financial assistance to 698 students, only 51 graduates were employed by the State. In another State, close to \$1.1 million was spent on 50 students but only 5 were hired. There were more graduates than jobs.

2. Indochinese Refugee Assistance Program (IRAP): Grants and contracts may be made under Title XX to provide special projects and programs to aid refugees in resettling, and gaining the skills and education needed to become self-reliant. These services are provided by State agencies or various organizations. At the Secretary's request, we checked into the financial and other correlated aspects of this program on a selected basis--choosing seven providers in States having high concentrations of Indochinese refugees. There were serious problems. Our summary report on these audits--now being developed--discusses

how deficiencies in financial controls resulted in erroneous costs being charged to the Government...problems with determining recipient eligibility and...instances where required services were not provided. Our report will note and make appropriate recommendations concerning \$852,000 (out of \$2.3 million in costs claimed by these seven providers) which we found to be either unallowable or not adequately supported.

3. Efforts to Improve Program Management: At the request of OHDS officials the Inspector General's staff is developing a training package on fraud/waste/and error to sensitize and alert them to the types of problems found in our reviews of their programs to date. This approach should enable these officials to provide improved technical assistance to the States.

#### Retirement and Survivors Insurance

Under this program, the Social Security Administration (SSA) usually receives notice of the death of a beneficiary when there is a request for a lump-sum death benefit. But benefit payments continue erroneously during this interim period--between the date of the beneficiaries' death and the date SSA is alerted and can stop payments. In fiscal year 1978, such erroneous payments amounted to above \$3.2 million.

We highlighted this fact in a report to SSA suggesting that date of death information could be obtained more quickly if it was submitted by State or local officials responsible for issuing death certificates.

#### Disability Determination Program

Purchases of medical services by State agencies--to assist them in administering SSA's disability program--cost more than \$90 million annually. We reviewed procedures used in making these purchases in six States and identified significant weaknesses involving the (1) methodologies followed in establishing and updating schedules of maximum authorized medical payments, (2) ability of States to acquire cost data needed to limit payments for specific medical services to amounts paid under other programs, (3) capabilities of States to acquire necessary medical services due to State budgetary restraints, and (4) level of SSA regional office assistance to State agencies involved in the disability program.

Our recommendations called for SSA to take a more active role in monitoring State agency purchases of medical services.

## Head Start

During calendar year 1979 1,250 audit reports were issued on Head Start grants. Some \$401 million was audited and adjustments of \$11.4 million were recommended. About 69 percent of the reports cited deficiencies in grantee administration with accounting, internal control, and recordkeeping weaknesses the most frequently reported deficiencies.

With respect to certain grantees, the need for a comprehensive single audit--of all Federal funds at a grantee receiving multiple-agency funding--became apparent from a GAO review of 19 community action agencies in 10 States. Although individual audits of their funds were made by the several funding agencies, major management weaknesses were not identified. The Audit Agency is firming-up an arrangement calling for a public accounting firm to perform a comprehensive single audit of all Federal funds at these agencies. One underway now is being monitored by this office; arrangements are being made for several others. Also, we are continuing our active program for familiarizing CPA firms (particularly the smaller firms) with the Department's audit requirements.

Assessment of Immunization Data: A special audit evaluated the validity of data on the immunization levels of Head Start children. Our recommendations called for: (1) better communicating program immunization requirements to grantees, (2) providing more explicit reporting instructions, and (3) revising report format to facilitate more accurate computations of immunization levels. Computer analyses of the immunization data have been completed and a final report is being prepared.

## HEW Administration

### Significant Computer Related Audits

1. SSA Controls Over Magnetic Tapes in Storage: Many thousands of computer (magnetic) tapes are used in maintaining and processing beneficiary data. In examining into the management of these tapes, auditors found that over 150,000--of about 500,000 tapes currently stored in SSA's library--were kept beyond a need for information or functional purposes. This occurred because: (1) tape retention standards are too general to be effective, (2) management data used to pinpoint problem areas is inadequate, and (3) responsibility for SSA's tape library is divided. This not only created storage problems but increased the need to purchase new tapes (estimated at about \$85,000 per year).

Recommendations call for: establishing more detailed tape retention standards for each class of tape...developing and implementing system improvements and controls to produce reports containing more meaningful data...placing the tape library and its administrative support and maintenance functions under the jurisdiction of a single manager.

2. SSA Procedures for Maintaining Magnetic Tapes: SSA's tape cleaning operations have not kept pace with the growth and use of magnetic tape in its data processing operations. We found that the equipment used to erase data from--and to clean (or if necessary to destroy) used tapes was inefficient, time-consuming, and cumbersome to operate. Almost 30 percent of the malfunctions in SSA's data processing operations, in fact, are caused by tape-related problems. This increased processing costs by about \$2.5 million annually.

Rather than upgrading the existing facility we recommended that SSA consider a more economical approach--establishing a contractor operated maintenance facility.

#### Accounting Operations

As mentioned in our prior annual report, HEW's Principal Operating Components (POCs) are now required to have formal procedures in place to control and monitor the collection of sustained audit-recommended disallowances. In reviewing this area we identified serious problems in the way one POC was accounting/monitoring sustained audit disallowances. Of some 211 disallowances totaling \$6 million, the POC did not record any as receivables in the accounting records. As a result, there was no effective basis for tracking and monitoring collections. Also, since neither the disallowances nor collections were recorded, quarterly status reports to top management were incomplete and unreliable.

#### Contract and Grant Activities

Audit effort needed to check out allegations of waste, improper practices, and/or other serious deficiencies, is often well utilized. Two such cases involved allegations that the product to be delivered by the grant (i.e. "deliverable") duplicated others already in existence. Continued grant support would be a waste of funds. In looking into these situations our audit staff found there was a strong possibility that the grant deliverables appeared to duplicate materials currently available. In one case, we noted that procedures were not in place in the awarding agency to screen for possible duplicates with other grant/contract awards. Further checking revealed that

weaknesses existed in the pre-award review processes. Our recommendations for corrective action were accepted and further funding is being deferred pending a thorough review by appropriate technical staff. Also, grant review procedures will be strengthened. In the other case, our staff found that the deliverables had, in fact, already been developed by the grantee and were being offered for sale at prices much lower than were being charged to the grant. It appeared that the sole purpose of the grant was to help the grantee through a financial crisis. Appropriate corrective actions were taken, and recoupment of a substantial part of the grant award is being sought.

Another type of situation surfaced from an allegation that a contractor had received unwarranted, favored treatment in the award--and in the terms of a contract--calling for the development of a particular drug substitute. While we did not find indications that the contractor had been favored in the manner alleged, we did conclude that the terms of the contract were not favorable to the Government. Since the contract was due for renewal, we recommended that it be reviewed at high levels within the Department to consider the matters we had noted. This was agreed to. Subsequently, when the contract did come up for renewal, attempts to implement modifications to correct this situation were unsuccessful and the contract was not renewed by the Department.

#### Other Significant Matters

##### Resolution of Audit Reports

The Department continues to have an unreasonably high backlog of audit reports that are not being resolved in a timely manner (i.e., within the six-month period that OMB recently determined should be the government-wide standard, and that has long been the Department's benchmark.)

As of December 31, 1979, unresolved reports numbered 3,196 with audit exceptions valued at \$206.5 million. Of this number, 1,241 reports and \$135 million in exceptions were over six-months old. As the table below indicates, units soon transferring to the new Department of Education account for a disproportionately large percentage of both the total number of reports and the value of unresolved exceptions.

Unresolved Audit Reports  
Over 6 Months Old  
December 31, 1979

<u>POC</u>	<u>Number</u>	<u>Amount</u> (in millions)
<u>HHS Units</u>		
SSA	31	\$ 12.1
HCFA	165	49.4
PHS	305	18.9
PHDS	<u>273</u>	<u>23.6</u>
Sub-total	774 (65.2%)	\$104.0 (77%)
<u>D. Ed. Units</u>		
OE	450	\$ 29.8
NIE	<u>17</u>	<u>1.2</u>
Sub-total	467 (36.8%)	\$ 31.0 (23%)
Total HEW	1,241	\$135.0

In commenting on this problem in our previous annual report, we stated that the Secretary directed the Inspector General and the Assistant Secretary for Management and Budget to review the audit resolution process and identify areas in need of improvement. This study has been completed and a report with recommended actions submitted to the Secretary.

Audit Agency Staffing

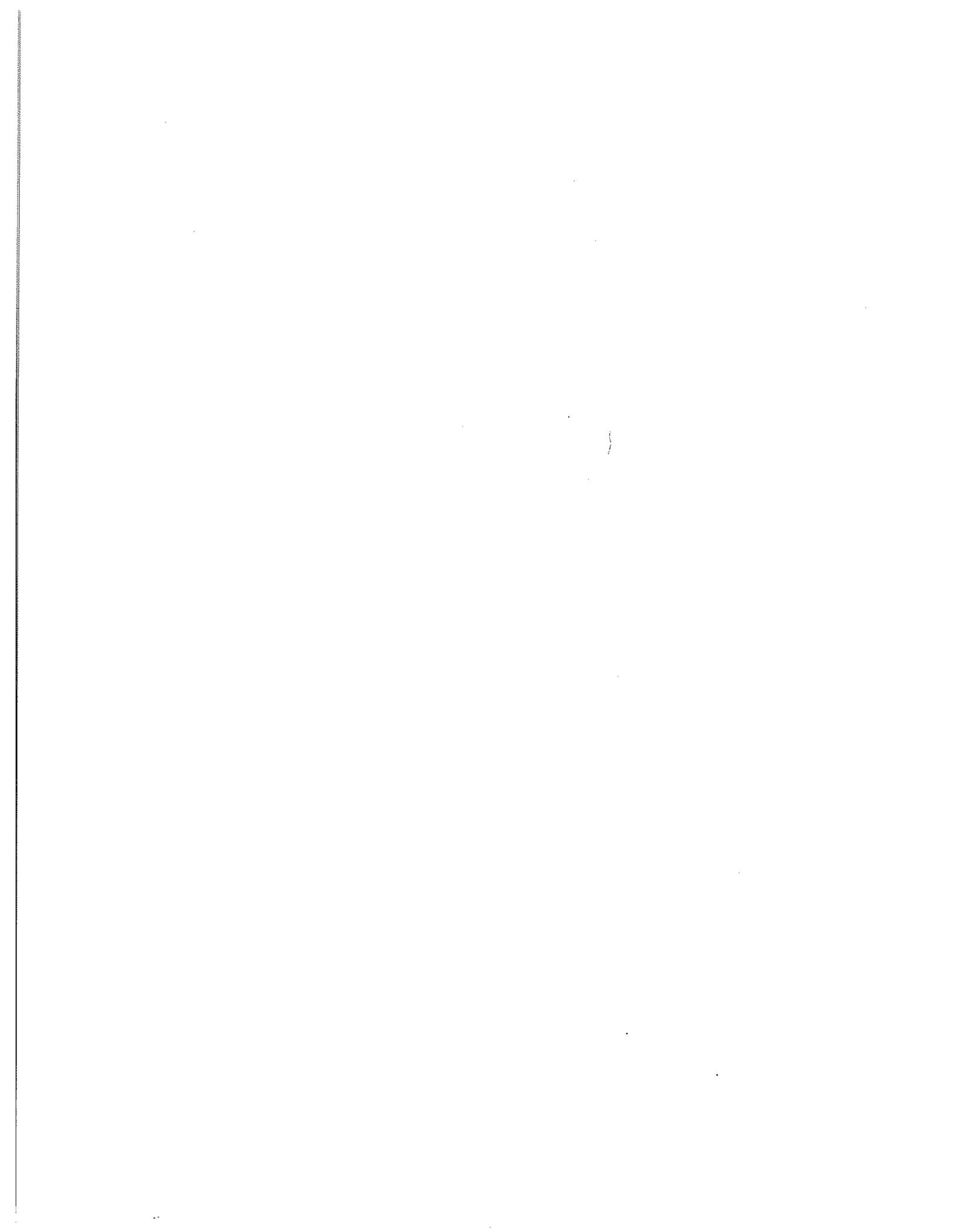
The disparity between available audit resources and audit workload continues to be an item of significant concern. Even with its full authorized strength of 950 positions, the OIG Audit Agency is severely understaffed. Currently, the Audit Agency's staffing situation is as follows:

	<u>In Staff-Years</u>
<u>Total Audit Workload</u>	4,554
Less: <u>Resources</u>	
Authorized in-house staff	950
Staff year equivalent of work performed by public accountants, States, etc.	<u>2,362</u>
	<u>3,312</u>
Unmet Audit Needs	<u><u>1,242</u></u>

This disparity is being further aggravated by the pending transfer of 220 audit positions to the new Department of Education, a number significantly in excess of that associated with audits of education programs during recent years. This pending reduction in audit positions on top of an already strained workload vs. resource situation will severely hamper our ability to audit even the high priority programs. Specifically:

- Our ability to perform timely audits of Medicaid and Public Assistance, both of which are highly susceptible to fraud and abuse, will be severely curtailed.
- Internal audits, particularly audits of grant and contracting operations both of which have been subject to Congressional and OMB criticism, will be reduced.
- Our already less than optimum oversight of SSA payment systems, where limited work has pointed out the need for more intensive audit effort, will not be expanded.

The budget now before the Congress proposes 25 additional audit positions. This increase is minimal. If we are to properly fulfill our statutory and regulatory responsibilities, we continue to believe such growth in succeeding years should average at least ten percent annually.



## CHAPTER III

### INVESTIGATIVE HIGHLIGHTS

This Chapter reports on our efforts related to investigations of fraud against HEW programs. It is organized around the three organizations whose interrelated and cooperative effort discharge the Office of the Inspector General's (OIG) responsibilities for criminal investigations. These three are:

Office of Investigations  
Division of Special Assignments  
Division of State Fraud Control and State Medicaid  
Fraud Control Units

#### Office of Investigations

##### Trends in the Office of Investigations (OI) Accomplishments

The Office of Investigations continued to show progress in its accomplishments. Calendar year 1979 was the best year so far with 151 convictions, and over \$13 million recovered.

This year there were 43 more convictions than the year before. As indicated below, the greatest increases in convictions were in the areas of welfare fraud--primarily from matching cases and manipulation of the Social Security System. Public corruption convictions, particularly involving Social Security employees were up considerably. Health care convictions were slightly greater than last year. It is important to note that this includes twice as many cases involving institutions as last year. Education convictions decreased somewhat, while grantee and contractor convictions decreased significantly.

The combined total amounts of recoveries, fines, restitutions and savings for 1979 were impressive. Over \$14 million was involved. This is almost ten times the amount recorded for the previous year. The bulk of these funds were due to two cases, where investigation revealed inappropriate performance on behalf of State Medicaid authorities.

## Convictions

### HEW Office of Investigations

<u>Type of Cases</u>	<u>Number of Convictions</u>		
	<u>CY-1977</u>	<u>CY-1978</u>	<u>CY-1979</u>
Employees	9	8	16
Grantees/Contractors	7	22	5
Education	4	34	27
Health Care Financing*	32	34	54
Other (AFDC/SSI/SSA)	-	10	49
Total	<u>52</u>	<u>108</u>	<u>151</u>

\*Includes Project Integrity I cases.

### Office of Investigations Staffing and Workload

At the end of 1978, OI had 421 open cases, not including special projects. By the end of 1979, this figure was 564. In addition, over 800 other matters were under preliminary investigation compared to 488 at the end of 1978. Conservative estimates indicate that this work load will require almost 300 agent-years to complete. This does not take into consideration additional new allegations, trial preparation, court time, appeals, and certification inspections of or technical assistance to State investigative agencies.

Due to the imposition of a government-wide employment ceiling, the personnel ceiling assigned by the Inspector General to OI was 193. This means that OI had authorization for 154 special agents in the field. When this workforce is compared to the work load described above, it is clear that some allegations have to be turned over to other agencies for resolution. Other cases are declined by prosecutors because of statute of limitation expiration, and still other cases remain unworked in the tremendous backlog.

Prior to the transfer of positions to the Department of Education, OI labored under difficult personnel constraints. The transfers will have a significant negative impact on this already difficult situation. Office of Investigations will be left with 102 investigators for 50 States; or roughly two investigators per State. It is obvious that it is impossible to develop any

meaningful anti-fraud program given this staff size. The Inspector General believes that the investigative field staff must be doubled to properly discharge its responsibilities. It is not good enough that because of inadequate staff, case priorities are set to investigate only a handful of the most egregious cases; but rather, staff must be adequate to investigate all significant allegations of criminal violations.

Inspector General Subpoena Power

The Inspector General subpoenas were issued 24 times in 1979. The following table shows the programs and components that utilized the subpoenas.

Inspector General Subpoenas Issued in 1979

<u>Program</u>	<u>Office of Investigation</u>	<u>Audit Agency</u>	<u>Division of Special Assignments</u>	<u>Total</u>
Health Care Financing	5	2	4	11
Education	1	-	11	12
Social Security	1	-	-	1
Total	<u>7</u>	<u>2</u>	<u>15</u>	<u>24</u>

In a few situations, the recipients of the IG subpoenas refused to comply initially. In every instance where the subpoenas have been taken to court, they have been upheld.

Law Enforcement Authority

We are concerned that OI's lack of normal law enforcement powers (e.g., arrest, search and seizure) hampers our ability to handle certain phases of investigations for which we are responsible. Because of this, some U.S. Attorneys assign HEW program investigations to other investigative agencies, thus OI loses control of the matter. Timely actions then must be delayed while enforcement personnel from other agencies are assigned and briefed. These non-HEW agents generally have less programmatic background than our agents. As a result, they are placed at a disadvantage because they may not recognize or seize important evidence. Further, during the course of an investigation it is sometimes advantageous to arrest a subject immediately--e.g., to prevent flight--and it also is advantageous to be able to seize evidence at the time of the arrest.

We will continue to document occurrences where we believe that full law enforcement authority would have improved our performance. We will evaluate these data during 1980 and develop appropriate recommendations. We will work with other Inspectors General and with the Department of Justice.

Analysis of Health Care Cases Referred to the Department of Justice

The Medicare-Medicaid Anti-Fraud and Abuse Amendments of 1977, Public Law 95-142 Section 4(c) require the Inspector General's annual report to include an analysis of Medicare and Medicaid cases referred to the Department of Justice.

In 1979, OI assumed sole responsibility for all health care referrals from HEW. It referred 65 health care cases to the Department of Justice (as compared to 38 cases in 1978 and 57 cases in 1977). On January 1, 1979 there were 17 referrals from 1978 and 30 from 1977 pending U.S. Attorney's decision or additional investigation. These cases are included in our 1979 analysis. The following table shows the Department of Justice's disposition of cases in 1979. (Data concerning all health care cases referred to the Department of Justice by HEW during calendar year 1979 including the nature of violation, the category of provider and the disposition or status of each case is available from OIG.)

Disposition of Referred Health Care Cases  
As of December 31, 1979  
(Includes Cases Referred in Previous Years)

Indictments Returned

Convictions	17*	
Pending Trial	1	
Nol Prossed	2	
Dismissed	1	
		21
Total Indictments		
Pending Decision		9
Pending Investigation		16
Prosecution Declined		64
OI generated cases		18
Cases developed by other agencies		12
Project Integrity		<u>34</u>
Total		<u>64</u>
Total Dispositions		<u>110</u>

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\*Represents 35 subjects convicted.

The response from the Department of Justice in 1979 was appropriate. For the second year in a row, Justice responded positively in 64 percent of the OI developed cases (as compared with 45 percent of our 1977 referrals. Only 18 percent of the 1979 referrals are still pending decision. This is consistent with the 16 percent registered in 1978. It should be noted that in 91 percent of the referrals resulting in declination, OI did not conduct extensive investigations but OI acted primarily as a conduit to the Department of Justice. These cases did not meet minimum criteria for prosecution. A combination of mitigating factors were involved; the dollar value of fraud in most situations was small and the cases did not otherwise have jury appeal (i.e. the witnesses died or had limitations; the defendants were aged; proving intent to defraud was difficult). The U.S. Attorneys in these cases felt that OI could spend its time much more productively with other cases rather than try to develop these cases further. The cases were returned to the originating agencies, and in many situations administrative recoveries were attained. There were no acquittals in health care cases in 1979, which indicates that the quality of investigations and prosecutions continue to be high.

Referrals during 1979 were handled as expeditiously as in the previous year. On the average, declinations came within the same month that the cases were presented, which is consistent with 1978 performance. The average lapse of time between referral and indictment was 3.7 months, compared with 3.2 months in 1978.

The relationship of the Office of Investigations with the Department of Justice is very positive. In most districts we are developing cases hand-in-hand with U.S. Attorneys. The Criminal Division of the Department of Justice has been extremely helpful by providing quality advice on complex issues and by taking a personal interest in HEW matters.

#### OI Inspection Training and Review

##### Training

The Office of Investigations has become a leader in providing advanced training to criminal investigators of government program fraud and to managers of investigative organizations. The Division of Inspection, Training and Review is directed by two Special Agents who are experienced criminal investigators

and former instructors at the Federal Law Enforcement Training Center. Under their guidance the Office of Investigations has developed training programs which include:

HEW Special Agent Course--The Division has developed a two-week course covering advanced legal principles applicable to investigating sophisticated fraud schemes. Sixty-five senior criminal investigators have completed this intensive training program. Significant portions of the program have been video taped and are now being used in regional training programs.

Training Transmittals--The Division regularly reviews legal journals and periodicals, and advises the Field Offices of recent developments in the law. New legislation affecting the conduct of investigations is also reviewed. These findings are briefed and disseminated monthly to the Field Offices in the form of training transmittals. Each region has a training officer who will conduct regional training seminars and assure that field personnel understand new investigative policies and any changes in the law. Office of Investigations also has made extensive use of outside training.

Management of Investigative Organizations--The Division has developed an innovative management training course. This program is designed to show the applicability of general management principles to an investigative organization. The course is based on the building of management models. Twenty-four key Office of Investigations personnel have successfully completed this program.

Training Assistance Program--The Division has provided expert instructor and program organization assistance to the Office of the Inspector General's Division of State Fraud Control. In October 1979, the Division coordinated and actively participated in a national training conference for 150 State investigative personnel assigned to the various State Medicaid Fraud Control Units. In addition, the Division has provided instruction expertise to the Social Security Administration (SSA) and Office of Education (OE).

### Inspection

The Office of Investigations has developed a unique program for management review of investigative organizations. The Division of Inspection, Training and Review has personnel experienced in management analysis. Most of the management

review activities have been conducted in response to the pressing need to review, certify and recertify State Medicaid Fraud Control Units under P.L. 95-142. In addition to participating in the review of the 29 States certified, and approximately 15 recertified, the Division has reviewed two Office of Investigations Field Offices in this period. These management reviews have resulted in numerous recommendations, many of which have already been implemented and resulted in a noted improvement in efficiency of operations. The Division projects a management review cycle of 2 to 2½ years for the 11 Office of Investigations Field Offices.

### Review

The Division has prepared a handbook for investigators which has subsequently been used as a model by several of the new Inspectors General and by State investigative organizations. The latest management policies and court decisions are reviewed and as necessary new revisions and corrections are disseminated to field personnel with instructions that they be included in the handbook.

The number of Freedom of Information Act and Privacy Act requests has approximately doubled in the past fiscal year. Good training and consolidation of resources have enabled the Division to be responsive and timely in handling these requests.

### Division of Special Assignments

In the latter part of 1978, the Division of Special Assignments (DSA) was created within the Office of the Inspector General. The mission of the Division transcends the traditional scope of criminal investigation. To be sure, the primary purpose of the Division of Special Assignments (DSA) is to have multi-region or national implications. But the responsibilities of the DSA encompass other than criminal areas. The Division is thus chargeable with conducting highly sensitive non-criminal investigations involving Department personnel, contractors and grantees. In addition, the responsibility of the DSA will not cease after the referral of criminal allegations to the U.S. Attorney. After the criminal charges are resolved, the Division will pursue the civil and administrative aspects encountered during the fact-finding process.

Because of the uniqueness of the unit, it will be responsible for the development of strategies, priorities and tactics for criminal cases within its investigative ambit, particularly those involving sophisticated and complex white collar fraud cases.

Since the responsibilities of the Division of Special Assignments are so wide-ranging, it reports directly to the Inspector General. The staff is quite unique, comprised of five senior attorneys, and six senior investigators. The attorneys are all experienced prosecutors familiar with the investigation and prosecution of complex white collar fraud; the investigators are likewise experienced. Although technically not part of the DSA, the auditor becomes an important character in DSA activity. Because so much of DSA responsibility lies in the area of fraud, the auditor/investigator naturally becomes the focal point of the investigation. These three components--attorney, investigator, auditor--operate under the team concept, each having a discrete but interlocking responsibility.

It must be recognized that the Division of Special Assignments is not intended to supplant the Office of Investigations, rather to supplement it. At present, the DSA and various regional offices of OI are engaged in cooperative efforts, employing personnel from DSA and OI. Some of these inquiries were initiated, and later referred, by OI; others, conceived by the Division, could only be successfully managed with OI cooperation.

The Division of Special Assignments is actively engaged in a number of far-reaching projects. One of the most important is an inquiry into the home health industry in Florida. These efforts are in conjunction to other investigative efforts being conducted by the Office of Investigations and the U.S. Attorney. The findings made here will serve as a model for possible future investigative efforts around the United States.

Other areas of inquiry include:

- o fraud within various student aid programs;
- o the decision making process which led to the funding of certain institutions; and
- o conflict of interest by Department personnel.

The Division of Special Assignments, although young, has recorded certain achievements during its infancy period. Among these accomplishments was the unification of various Federal agencies for the purpose of conducting an audit of an Indian reservation after preliminary audit work had

disclosed a number of irregularities. Since the reservation received funds from other Departments, as well as HEW, it was felt that a single, joint audit would be the most economical and beneficial. The DSA, with OI help, took the lead to make the project a reality.

As inquiries and investigations conclude, it is hoped that other measureable successes will emerge.

The Division of State Fraud Control

The Division of State Fraud Control has a primary responsibility of working with the states to detect and prevent fraud against joint HEW/state programs--e.g., Medicaid, AFDC. A major part of this responsibility is acting as the OIG manager of the State Medicaid Fraud Control Unit program transferred from HCFA to OIG during 1979.

State Medicaid Fraud Control Units

The growth of State Medicaid Fraud Control Units is gratifying. Currently there are 29 certified units with 803 investigators, auditors, and attorneys. The following changes were made due to 1979 efforts.

<u>New Certifica- tions in 1979</u>	<u>New Certifications as of 1/1/80</u>	<u>New Certifications as of 4/1/80</u>	<u>Decerti- fication</u>
Illinois	Montana	District of Columbia	Nebraska
Maine	Utah	Delaware	
West Virginia			

Seven new units were added since the last annual report and one was terminated.

During the period July 1, 1978 to June 30, 1979 the Fraud Control Units reported 125 convictions and a combined amount of \$13.8 million for overpayments receivable, fines and restitutions. We are issuing a separate report which provides more detail and summarizes the accomplishments of each of the Fraud Control Units.

The Medicaid Fraud Control Units are becoming the principal force which many State Medicaid programs have for fraud control. That is not to say they are all effective--some may never become so. For example, funding for the Nebraska unit has been terminated for continued failure to meet the standards for certification and to achieve positive results. We are working with several other States on needed improvements and recognize the possibility that some may lose 90 percent

Federal matching funds. The Inspector General intends to work intensively with all States that seek to meet the statutory or regulatory requirements to create an effective Unit. We are confident that most States can and will do so, and that these Units will be an effective force for the control of Medicaid fraud, and thus contribute importantly to the integrity and continued viability of the Medicaid program.

But the most serious problems hanging over the Units are matters for legislative attention. It is clear that legislative remedies for the finding limitations of Public Law 95-142 urgently needs to be addressed if the full potential of these Units is to be realized. There are two possible modifications to the Act that are worthy of consideration.

- a. Permit 90 percent Federal support of any Unit for a full three-year period from the date of initial certification of such Unit, provided that it earns annual recertification, and,
- b. Permit continued special Federal funding support of any Unit, subject to annual recertification, after its initial three-year period of operation is completed. This could be at:
  - o a Federal support rate of 90 percent or, alternatively,
  - o a Federal support rate of 75 percent.

## CHAPTER IV

### CROSS CUTTING

In this Chapter, we report on efforts that cut across the disciplinary lines of the personnel of the Office of the Inspector General (OIG) and from staffs of other Office of the Secretary (OS) units and Principal Operating Components (POCs). These ten efforts illustrate the range of cooperative endeavors. They are Project Match, Project Integrity (I and II), contracts and grants, home health care, year-end spending, cosmetic surgery, Indochinese Refugee Program, End Stage Renal Disease Program, and Aid to Families with Dependent Children (AFDC) Administrative Cost.

Project Match and Project Integrity were chosen because they are large national projects that were among the first initiatives of this office. These reports represent our wrap-up of several years of effort. One valuable lesson learned was that national projects such as these require a great deal of time to develop a concept, gather the data, and do the analysis and field verification and investigations. With the additional time required for indictment and trial, even a small-scale project becomes a major consumer of resources. Thus we have concluded that, in general, it is better to conduct future projects against carefully targetted areas rather than on a national scope.

All of the efforts described in this Chapter are examples of broad areas in which we have concentrated efforts in cooperation with management and program officials of the Department, officials of other Federal agencies, and of State and local governments to achieve efficiencies as well as eliminate fraud and abuse.

#### Project Match

In our prior reports, we discussed computer matching programs designed to detect fraud, abuse, and error in income maintenance programs which were referred to by the general title "Project Match." This Chapter summarizes the results to date and the lessons we have learned.

#### Methods and Results

We initiated Project Match in August 1977 after authorities in several areas of the country found cases where Federal employees had received welfare payments they were not entitled to. These cases were identified when matches of

selected public payrolls were made to welfare assistance rolls in Michigan, New York City, Chicago, and in the District of Columbia. In every locality, it was determined that some Federal employees were receiving more benefits than they were entitled to as a result of improperly reporting their income.

A. Project Match I - Aid to Families with Dependent Children (AFDC)

Project Match I matched the Federal military and civilian employees rolls against the AFDC rolls submitted by 52 States and jurisdictions. Of the 4.8 million Federal employees, we identified about 33,000 instances where an individual's social security number (SSN) appeared on both rolls. These matches were then sent to the Federal employing agencies for earnings data. On the basis of this data, we eliminated those cases with low earnings or where the individuals were no longer employed by the Federal Government. This reduced the number of matches warranting further eligibility reviews by the State welfare agencies to 19,713. As of January 31, 1980, the States had reported the following as a result of their reviews.

<u>Status</u>	<u>Number</u>	<u>Percentage</u>
Eligible	13,613	69%
Overpaid	3,071	16%
Ineligible	2,168	11%
In Process	861	4%
	<hr/>	<hr/>
Total	19,713	100%

Generally, the more serious cases were given to U.S. Attorneys for prosecution with investigative support from the FBI, Postal Service, and Internal Revenue Service. Prosecution of the remaining cases were to be handled at the local level.

As of January 31, 1980, the following number of court actions (indictments, State and county complaints, pretrial diversions) were reported:

<u>State</u>	<u>Actions</u>
California	47
Colorado	2
District of Columbia	22
Florida	1
Georgia	6
Illinois	8
Maryland	15
Massachusetts	18
Minnesota	1
Missouri	4
New Jersey	21
New York	35
Pennsylvania	34
Virginia	1
Postal Service	19
(States unidentified)	
TOTAL	<u>234*</u>

\*In addition, we assisted the FBI in Philadelphia in developing cases covering 38 county employees who were eventually indicted, and identified 23 other cases across the Nation that had been previously prosecuted for welfare fraud.

At this point, most States have completed their reviews and have taken appropriate action to adjust for the amounts of over-payment or remove from the rolls those not entitled to benefits. It is our understanding that many additional cases are currently being investigated or readied for criminal prosecution. Consequently, we anticipate more court actions in the future. We will continue to aid the States in any way possible to complete these cases.

B. Project Match II - Social Security Benefit Rolls

Project Match II was conducted in December 1978 after the initial results of Project Match I generated interest in extending the match of the Federal civilian employees to include the Supplemental Security Beneficiary file.

This match compared the names of 2.8 million Federal employees against the current SSI recipient rolls of 4.9 million, which resulted in a total of 10,105 raw matches. Data on these cases were supplied to the 52 Federal agencies who provided validated employment and earnings information. Next, the cases were given to SSA's Program Integrity staff and District Office staffs, who reviewed each case to determine eligibility. If fraud was suspected, the cases were referred to local U.S. Attorneys for investigation and prosecution. In cases involving errors, the records were corrected and adjusted in accordance with established SSA procedures.

We are happy to report that this match does not show a significant or widespread problem of Federal employees abusing SSI payments. Of the 8,875 cases examined to date, only 73 (less than 1%) involved overpayments. Of these, six were referred for prosecution, resulting in two convictions.

C. Project Match III

Our last planned review of Federal employees included only civilians hired since Project Match I. This match compared the welfare rolls used in Interjurisdictional Match III to the Federal employee rolls provided to us by the Office of Personnel Management. Of the approximately 322,000 new hires, we identified just over 6,000 cases that appeared on both rolls. We do not yet have results to report.

D. Interjurisdictional Matches (I and II)

As a byproduct of Project Match, we matched the welfare rolls furnished us by the participating States against each other, to determine whether individuals might be drawing grants from two or more jurisdictions. (This program covers all welfare recipients, not just Federal employees).

Conducted in two phases, the program identified a total of 17,000 individuals who may be receiving duplicate welfare payments and warranted further screening by the State welfare agencies. The 34,000 raw matches (two matches for each individual identified) are being reviewed by the States involved. The results reported by the 52 jurisdictions are as follows:

Eligible	11,116
Duplicate payments	2,278
	<hr/>
TOTAL	13,394

E. Interjurisdictional Match III

Because the earlier interjurisdictional matches proved to be effective, we offered to perform this match again in the Summer of 1979. We compared the welfare rolls submitted by States as of March 31, 1979, and made a preliminary identification of all those recipients appearing on more than one roll. In an effort to give the States only current cases, we eliminated those matches where legitimate payments were being made for the period of time when recipients had moved from one State to another. The elimination was made by comparing the potential matches to more recent State welfare rolls. With this more current data, we then made the match and identified 2,544 new matches and 820 prior matches.

Based on our earlier match experiences and on recommendations from the States, we found that a mechanism was needed that would allow for an easy method of accumulating welfare data and then communicating the results to the respective States. As a result, we developed a worksheet that was sent to the matching States to be completed with welfare case data and then exchanged. Complimentary remarks from the States show that the method is well received and working.

Because we are in the early stages of this match, we have only preliminary results to report. However, we are happy to note that the available statistics indicate that problem cases are being identified and removed from the welfare rolls. As of January 31, 1980, the States have reported the following:

	<u>New Matches*</u>	<u>Percentage</u>
No Duplication	84	66%
Duplication	43	34%
	<hr/>	<hr/>
TOTAL	127	100%

\*38 of 47 jurisdictions have reported.

Here are two examples that illustrate the magnitude of the problems being uncovered:

- A family (one adult, three children) now residing in Mississippi was collecting welfare benefits in both Michigan and Mississippi. A preliminary review showed that the payments - totalling \$17,682 in AFDC benefits and Food Stamps - overlapped from March 1976 to November 1979.
- A family (one adult, seven children) residing in Wisconsin was collecting payments in both California and Wisconsin for about three years. Total duplicate payments amounted to almost \$46,000.

#### F. Erroneous Social Security Numbers

During the matches, we noted that many erroneous numbers (blanks, all 9's, alpha characters, etc.) existed in the State welfare files. These errors resulted in mismatched names and created some problems with case reviews in the States. Despite this, State officials said that welfare workers were often able to utilize the data by correcting and updating their recipient information files.

To determine the extent of the problem, we reviewed the welfare rolls used in Interjurisdictional Match III and found 657,000 instances in the 8.1 million records submitted by the States where the SSNs were in apparent error. In an additional step,

we identified 2,666 cases where the SSNs matched but the names and birth dates did not. For these cases we asked SSA to verify who belonged to the SSNs. Recently, SSA provided us with the results which we will send to the appropriate States. With this information the States will be able to correct their files and also be alerted to individuals who may have supplied false data in order to collect benefits illegally.

In addition, we provided the States with lists of apparently invalid SSNs that we identified by screening the welfare rolls for SSNs that appeared correct (all numeric) but had not yet been issued, according to SSA. The screening identified about 33,000 such SSNs which we distributed to the States. We advised the States that the invalid SSNs could have been caused by clerical coding errors or by false information provided by recipients. If this effort proves worthwhile, we will do the screening again in future interjurisdictional matches.

#### Benefits of Project Match I

Combining the results to date of the Federal employee match and the interjurisdictional matches, we estimate that the Federal share of savings (i.e., overpayments eliminated) for the first 12 months after the welfare payments are reduced exceeds \$11.6 million. Since the AFDC program is funded jointly by the Federal Government and the States, States should realize savings. As shown below, savings are achieved not only in the direct welfare program payment, but in the Medicaid and food program payments as well:

<u>Program</u>	<u>Ineligibles</u>	<u>Overpaid</u>	<u>Total</u>
AFDC	\$ 6,222,397	\$1,232,982	\$ 7,455,379
Medicaid	<u>2,709,909</u>	_____	<u>2,709,909</u>
Subtotal	\$ 8,932,306	\$1,232,982	\$10,165,288
Food Stamps	<u>1,417,897</u>	_____	<u>1,417,897</u>
Total	\$10,350,203	\$1,232,982	\$11,583,185

When compared to the project costs to HEW (about \$2.2 million through December 1979), we can say that the effort has proved successful and has paid for itself several times over.

## Conclusions and Lessons Learned

Our conclusion and lessons learned based on Project Match I, some of which we reiterate from last year, are as follows:

1. Computer technology is an effective technique for monitoring public assistance programs for fraud and error.

Project Match has demonstrated that computers are an effective measure for monitoring public assistance programs for errors and abuse. Through carefully designed computer applications, we can deal with large volumes of cases and identify those individuals who would cheat in such programs. Further, we feel that frequent computer matches can locate these individuals in the early stages, thus minimizing the money lost.

2. The Interjurisdictional Match has high appeal to the States and significant savings potential.

Our experience shows that a periodic matching of all the jurisdictions' welfare rolls is needed to find individuals who purposely make claims for benefits in more than one locality. At present, the States as a whole do not have this capability; however, our position enables us to initiate and operate such a program.

As pointed out, the past matches showed high success in identifying duplicate payments and the current match promises even better results. In addition, we feel that the accompanying publicity has deterred and will continue to deter many individuals from making false claims.

We plan to extend this service to the interested States annually. Also, we will carefully monitor the program and will periodically evaluate the results to determine whether the program should be continued.

3. Periodic matching of Federal civilian rolls is desirable. Beginning in 1980, this should be conducted as a match against the SSA "Summary Earnings Record" (SER).

Beginning with earnings for Calendar Year 1978, all Federal employee earnings are now reported -- along with employee earnings from private employers

and from other public jurisdictions -- to the Social Security Administration. Thus, a central master file is available for an annual match against State AFDC records. This match has the advantage of showing full earnings for all employees -- public and private -- for the calendar year and may be the most effective method of accomplishing a computer matching program with Federal, State, and local public employees not included in State Employment Security Wage files.

In addition, SSA can now compare Federal employment rolls with the benefit program rolls. We will monitor this area to assure that SSA does periodically match SER data with Title II and Title XVI program files.

4. Prosecution of interjurisdictional welfare fraud needs Federal involvement.

As we reported last year, officials of the Department of Justice conclude -- and we concur -- that in cases involving welfare recipient fraud, the use of State or local investigators and prosecutors is highly desirable. However, the Department of Justice should assist in the investigation and prosecution of interjurisdictional cases which may be difficult to handle at the State or local levels.

We would like to comment that, during the past year, some U.S. Attorneys have declined accepting welfare fraud cases and have advised that prosecution be handled locally. Regarding interjurisdictional cases, this presents a problem to the States. Several States have said they would take no action other than removing the individuals from the rolls. They say that resources and funds are not available to conduct interstate investigations or to handle extradition proceedings. Further, the States maintain that only an organization with interstate capabilities, such as the FBI, can adequately investigate such cases on a routine basis.

We agree with the States and believe that interjurisdictional welfare fraud cases involving significant amounts of money should receive the attention of Federal agencies.

5. The other key lessons learned from Project Match are the characteristics of Federal employee abusers.

In our last report, we presented interim observations on the characteristics of Federal employee abusers. Those observations which continue to hold true, are repeated here with current statistics.

- a. Active duty military members pose only a minor problem of fraud and abuse with respect to the AFDC program. Out of the 5,127 military cases analyzed through January 31, 1980, only one in ten involved ineligibility or over-payments. In most cases, the military member was not the primary recipient in the welfare case but was a dependent before enlistment. The overpayment was typically caused by the slow reporting to the welfare agency of the enlistment of the former dependent.
- b. Among the Federal civilian employees, the incidence of welfare cheating encountered indicates that about 32 percent of the cases identified may involve improper payments. In general, the problem occurs where there are large concentrations of workers with relatively low income residing in large metropolitan areas. Thus, wherever selectivity is desired in running future matches in order to isolate the worst cases, we conclude that the kind of efforts earlier undertaken as a joint effort by the U.S. Attorneys and State Welfare Departments in Chicago, Michigan, New York City, and the District of Columbia will produce the most cost-effective results.

Further, only a small number of agencies (including some Federal, State, and local) need to be covered for maximum effectiveness. While the expanded SER System is being developed, we recommend that selective matches of this type be pursued with interested States.

### Privacy Considerations

We have taken every precaution to protect the individual's right of privacy in conducting our matching programs. Only the records of individuals who are identified as matches are disclosed, and only to the appropriate officials. All

records which do not warrant further investigation are eliminated and the source tapes received from the Office of Personnel Management and the States are returned or destroyed.

Over the last several years, we worked closely with the Office of Management and Budget in developing Federal guidelines for matching programs. These were issued during the past year (Federal Register, April 18, 1979, Guidelines for the Conduct of Matching Programs).

We believe that our matching programs have shown that protection of an individual's privacy rights can be combined with the effective and efficient application of modern computer processing in the administration of Federal benefit programs.

### Project Integrity I

Project Integrity I was initiated in 1977 by the Office of the Inspector General in cooperation with State authorities to determine the extent of fraud and abuse in Medicaid programs. This nationwide effort was directed at physicians and pharmacists to identify the most extreme cases of fraud and abuse. The OIG Audit Agency developed a series of computer screens to aid in the identification process. A computerized system was designed to achieve three major goals:

- (1) Ferret out likely cases of fraud by physicians and pharmacists and refer such cases for criminal investigation.
- (2) Identify cases of abuse in which the doctor or pharmacist might stop short of outright criminal culpability, but might deserve civil or administrative sanctions for improper practices.
- (3) Develop data for a careful overall examination of how the claims processing systems operate so that weaknesses, within the programs, which permit such fraud and abuse could be identified and remedied.

### Analysis of Results

Initially, some 47,000 cases were identified. However, in order to make this a "learning experience," only about 50 of the most blatant occurrences of fraud and abuse were selected from each State. This narrowed the list down to 2,468 -- 1,341 physicians and 1,127 pharmacists.

As of December 31, 1979, 2,161 cases have been closed, of which 1,691 have been closed with no action. The remaining 470 cases were closed as either non-criminal (abuse) or criminal (fraud). Thirty-two cases were closed in the criminal area accounting for over \$350,000 in fines, restitutions and recoveries. An additional six million dollars, in fines, restitutions and recoveries has been accounted for as a result of 438 closed cases classified as non-criminal. To date there have been 62 indictments, 40 convictions and 4 acquittals as a result of criminal prosecutions. There are also 165 active criminal investigations which will inevitably increase the number of indictments and convictions. Another 133 pending abuse cases will certainly yield more in recoveries and savings.

### Lessons Learned

We feel that Project Integrity yielded significant insights into both physician and pharmacy fraud and abuse problems.

Physicians. A wide range of problems were discovered in physician billing practices. Some of the most common are:

- (1) Billings using an inappropriate procedure code which pays more than the appropriate code.
- (2) Duplicate billings, in many cases were due to a claim payment system which failed to catch such errors. Poor bookkeeping by the provider, and allowing the physician to bill under more than one billing code were other causes.
- (3) Lack of documentation in the patient's medical history as to the day of the visit or nature of the service.
- (4) Charging for full office visits when not justified. This occurred most commonly when the patient received an injection from a nurse and never saw the physician or when the patient simply stopped in for a prescription renewal.
- (5) Billing for daily hospital visits when such visits were not performed.
- (6) In the nursing home area, physicians charging for multiple individual visits when seeing a number of recipients, rather than group visit rates required under State regulations.

- (7) Finally, a cluster of problems involving laboratories and their relationships to physicians, such as multiple instances where a physician and a laboratory would bill for the same services, or a physician would submit a larger bill than the laboratory billed him for the same service. Project Integrity II was developed to deal with such problems.

To remedy these irregularities in physician billing practices, there were a variety of corrective actions recommended. The most frequently mentioned improvement was better computer edits at the prepayment stage, supported by peer comparisons. An additional control would be on-site reviews of physician records and interviewing recipients to verify services rendered.

Pharmacies. The most frequent pharmacist abuse reported in Project Integrity I was "prescription splitting" --a problem reported by 20 jurisdictions. A list which would represent virtually all problems encountered when dealing with pharmacies would include:

- Services billed but not rendered.
- Billing for unauthorized refills.
- Prescription splitting (dispensing 10 pills 6 times rather than 60 pills initially in order to obtain additional dispensing fees).
- Billing for prescription drugs when over-the-counter items were prescribed and dispensed.
- Billing for services which are not documented.
- Billing for greater drug strength than prescribed.
- Failure to maintain patient profiles.
- Substituting a higher priced drug when a lower priced drug should have been used--causing excessive payments to be made.

Presently, the best possible method to curtail abuses related to prescription splitting is to institute a 30-day supply requirement for maintenance-type drugs. Recipient interviews and on-site surveys of pharmacists were also advocated as were regular audits.

### Significant Cases, Examples

1. Three individuals pled guilty to one count of first degree theft as a result of investigations uncovering 76 false claims, each in excess of \$750. Upon entering their plea, the defendants jointly and severally agreed to make restitution of \$20,000 and deposited \$500 with the court toward restitution.
2. A New Mexico physician, after being convicted of billing for services not rendered, voluntarily surrendered his license
3. A South Carolina Federal Grand Jury indicted a pharmacist and his pharmacy on 25 counts of false claims. Each count carries with it a maximum of 5 years imprisonment or \$10,000 or both.
4. A Federal Grand Jury in Kansas handed down a 105 count indictment alleging conspiracy to commit mail fraud and Medicare and Medicaid fraud. The principal defendant was convicted on 36 of 46 counts. The principal's associate was convicted of 16 of 26 counts. The principal's office manager was also convicted on 6 counts. The Government's case was based on a random sample of 52 claims, about half of which were false according to the Assistant United States Attorney.

### Project Integrity II

The purpose of Project Integrity II was to carry out in computerized analysis research of other health care program areas which had a high potential for fraud, abuse, and error. Each project included research in a specific program area and the development of computer detection screens in cooperation with States having a high degree of interest or expertise.

Why was a different approach used for Project Integrity II? We had concluded that a national mandatory effort on the scale of Project Integrity I had tremendous learning value but it could not be equally efficient in every State or in every area of health care. Such an effort assumes that each State has an equal need, interest, and staff capability to attack problems in a given health field. This, of course, is not a reasonable assumption.

### Method and Results

From our experience with Project Integrity I, we concluded that new techniques developed for fraud and abuse detection should be

tested by HEW, using a pilot State as a partner. Successful techniques would then be made available through HCFA on an optional basis to other States.

The development process began with systematic inquiry into a program area to discover its make-up, objectives, and operations. The research was first conducted at the Federal level. Then an affiliation with a State was established and a pilot project initiated. Research was completed at the State level. With the cooperation of the State, we developed criteria for computer screens or matches, tested them against the State's payment records, and validated the computer output. Once validation was completed, a summary of results was prepared and further tested. When necessary, the testing was extended to another State. The resulting product was a tested package of computer detection programs and methodology for probing segments of a State's health care program.

The packaged approaches based on this research and development can be used in various ways. Operational initiatives can be launched as joint State/Federal projects involving the cooperative efforts of the State Medicaid agency, the Office of Inspector General, and the Health Care Financing Administration as well as related State medical associations. Also, the test programs and results of operations can be made available to States for use in their regular monitoring activities, either to supplement a State's existing checking system or as a new detection tool.

The program areas covered to date under Project Integrity II are dental services, laboratories, physicians' billings for hospital inpatient services, physicians' procedures codes, outpatient hospital services, medical supplies and equipment, transportation, and services of health practitioners such as optometrists, podiatrists, and chiropractors.

#### Application Examples and Results

Thirty different computer applications have been designed. Projects are being conducted in 17 different States. Two of the projects--dental and laboratory services--have a total of 13 participating States. These efforts are being directly administered by HCFA's Office of Program Validation based upon the research and tests performed by the Office of Inspector General, which continues to support the HCFA operation.

Dental Services. Our review of dental services uses special computer applications to identify dentists whose utilization patterns warrant further analysis and evaluation. The applications are designed to compare individual dentists' practices for selected services against what should normally be expected. The

applications identify dentists and recipients who exceed parameters established for selected procedures. Full advantage is taken of the in-mouth review system already in use in some States. (This is a dental examination of a patient to determine if the services claimed have been rendered, i.e., are fillings present?) An in-mouth review on selected recipients will determine if the services were rendered as billed.

Massachusetts, Georgia, Illinois, Iowa, the District of Columbia, Minnesota, and Arkansas are participating in the Dental Project.

Some highlights of the Dental Project's accomplishments thus far are:

- In Massachusetts, \$1.6 million in overpayments was identified and is currently being recouped.
- In the District of Columbia a deficiency was identified in the area of automated duplicate claim detection controls which resulted in savings to the overall Medicaid program of a minimum of \$1 million.
- Georgia expects to recoup between \$4,000 and \$8,000 in over-payments (more important, billing weaknesses discovered in Georgia's Dental Program resulted in policy changes or clarifications which will save Medicaid additional dollars not yet estimated).
- The Illinois Dental program will be strengthened by incorporating certain aspects of the Dental Project computer program into the State's existing programs.
- Arkansas has benefited from the strengthening of relationships between their Division of Social Services and the Arkansas Dental Association.

Laboratories. This project centers on the identification of laboratories that exceeded parameters established for 26 selected procedures or groups of tests, or that were reimbursed more than \$75,000 during a one-year period. Our computer applications are designed to identify laboratories which:

- Bill for services not performed.
- Bill for individual tests when they were actually tests done as part of a panel and therefore eligible for lower reimbursement.
- Bill for tests not ordered by a physician.

Another application was designed to detect instances where both the laboratory and the ordering physician submitted claims for the same laboratory test.

Massachusetts, Georgia, Texas, Hawaii, New York, Michigan, California, and Washington are participating in the Laboratory Project. Highlights of the Project's accomplishments thus far are:

- In Massachusetts, \$12,402 in duplicate claims were identified.
- New York referred 18 cases for full-scale fraud investigation, estimated program savings on just three of these cases total \$1,220,000.
- Michigan expects to recover \$111,525 in overpayments, and projects--a savings of \$236,000 per year.
- California identified \$1,607,733 in overpayments, referred 20 cases to investigative organizations, and referred 15 cases for administrative action.
- Washington identified approximately \$150,000 in overpayments.

#### Contracts and Discretionary Grants

In 1979 we conducted or participated in several significant reviews of the manner in which Departmental agencies administered their grant and procurement activities. We feel that using a combination of both management and fiscal auditing techniques are enabling us to find ways of assuring integrity and efficiency in this important area.

#### Drug Development Contracting

Working with the HEW Office of Management and Budget and the Office of General Counsel, we examined closely the awarding of a contract to develop an effective heroin substitute for national drug treatment programs. In this National Institute on Drug Abuse (NIDA) program, we found serious flaws in the contract and inadequate attention to appearances in awarding the contract. We determined the problems were primarily the result of NIDA's lack of experience in contracting for drug development, and the absence of a Departmental policy for development of drugs of limited commercial application.

Following the presentation of our findings and recommendations, the contract was not renewed because the contractor would not

accept terms more favorable to the government. The project is now under NIDA's control.

The lessons learned from this examination extend beyond NIDA itself. All HEW contracting programs should pay greater attention to the manner in which the public's business is being conducted. They should be particularly careful to be sure that circumstances and events leading to the award of a contract are adequately documented.

#### Office of Education Grant and Procurement Management

The OIG devoted special attention to the problems of the Indian Education in the Office of Education (OE) programs. The major focus has been on organizational and staffing problems that seem to have adversely affected the efficiency of grant and contract program operations. Our recommendations to the new Department should make long-term improvements possible.

Throughout the year, the operation of the OE's Developing Higher Education Institutions program has received much Congressional and press attention. Working with staff of the Office of Grants and Procurement Management Division of the Office of Education, we identified weaknesses in the grant review and approval processes in earlier review cycles.

In 1979, the General Accounting Office reviewed the Developing Institutions program and recommended further audit by HEW, which was undertaken by the IG Audit Agency. Special Audit Agency emphasis is being placed on "assisting agencies," which lend their special skills and technical services to developing institutions. These audits will enable us to evaluate the effectiveness of the assisting agencies and the coordinating institutions in meeting program objectives. A report will be issued during calendar year 1980.

#### Runaway Youth Program

The primary objective of the Runaway Youth program of the Office of Human Development Services is to work with States and non-profit organizations to develop a nationwide coordinated information and services program. Grants and contracts awarded for this purpose were examined by the Office of Inspector General. Among the weaknesses found were inadequate attention to post-award administration by the contracting and program staff, and inadequate documentation of the grant and contracting files. The Office of Human Development Services management has agreed with our findings in concept and is now working out an approach to implementing improvements.

## National Cancer Institute Contracting

HEW's largest single program using contracts for major program support is administered by the National Cancer Institute (NCI) of the NIH. Earlier we had reviewed these contract program operations, which involve more than \$250 million yearly in contract awards (half of NIH's contracts). Our review identified several weaknesses in the contract program, and NCI set about making program changes.

In view of the large scale of NCI's contracting, we initiated a follow-up this year to see how these changes were working. This examination will assess the general status of contracting administration management in relation to our observations in the earlier review.

## Drug Addiction Programs

At the request of the National Institute on Drug Abuse, we reviewed selected drug treatment programs for possible contract management improvements. We also identified significant problems in admission practices, treatment services provided, medical examinations and testing, counseling adequacy, and overstatement of successful discharges from treatment. The Public Health Service has substantially agreed with the findings and recommendation of our report.

## Conflicts of Interest

Awarding grants and contracts to organizations employing former Federal employees leads to potential public policy problems. Depending on the level or position of former Federal employees, Federal law prohibits or restricts their involvement in matters in which they were directly involved during Federal employment.

In the grant and contracting process suspicion of special treatment easily arises if financial assistance is awarded to an employee by his former associates.

In cooperation with the HEW Office of Contract Analysis and Compliance, we reviewed selected awards NIH made to organizations employing former employees. Although most of the awards appeared reasonable, several raised questions. In general, the transactions records for the latter awards lacked convincing documentation showing that the awarding unit realized it was dealing with a former employee and that such arrangements were in the public interest.

As a result of our findings, program staff will be trained to be alert to the possibilities of conflicts of interest, both apparent and real. We hope these efforts will assure greater public confidence in our methods of doing business.

### Summary

Examination of HEW grant and procurement programs has revealed several opportunities for improvement in the overall quality of administration. Among these are the need for greater reliance on competition in contracts, and the need to better distribute the award of grants and contracts throughout the year. Competition will be enhanced with the development of more precise statement of Federal requirements, both at the time of advertisement and when drawing up the final contract. Precise work statements will also allow better post-award administration.

### Home Health Agencies

Some constructive regulatory actions to stem abuse and rapidly rising costs in the Medicare home health benefits were begun in 1979. In addition, fiscal and utilization audits were begun by the Health Care Financing Administration (HCFA) and audit overviews by the OIG Audit Agency. These audits will continue into 1980. Results of the audits should help us decide on long-term actions to improve the administration and possibly the legislative provisions, of the Medicare home health benefits.

### Cost Limits

One of the most important of the regulatory actions taken in 1979 was the setting of upper limits on home health costs reimbursable by Medicare.

The cost limits are being applied on an aggregate basis. Planned for 1980 are regulations requiring that the cost limits be applied separately for each type of service furnished by the home health agency. At the same time, single cost finding and cost apportionment methods will be mandated.

The application of the cost limits in the aggregate will produce a projected savings to the Medicare program of \$20 million in FY 80 and \$30 million in FY 81. Application of the cost limits by type of service will produce an additional \$4 million in savings in FY 81.

Current regulations permit home health agencies (HHAs) to use a number of different cost findings and cost apportionment methods to report their costs.

The uniform cost finding and apportionment, coupled with the application of cost limits by type of service, will make determination of costs more precise. Home health agencies' costs can be more easily compared for excessive costs, and auditing of cost reports will be easier.

#### Fiscal and Utilization Audits

Intensive fiscal and utilization audits of home health agencies began in 1979. Field audits of all "100 percenters" (those servicing Medicare patients exclusively) is already in progress. A great number of the 100 percenters are located in the State of Florida, where utilization auditing was recently initiated. Nurses are making home visits to verify that patients are home-bound and that the service billed for was medically required.

Validation reviews of sample agencies in selected States are also being conducted to assess the extent of abuses in the industry. Under special scrutiny are those abuses highlighted by recent Congressional hearings on Florida home health agencies. Significant resources of the OIG have been deployed on three cases in Florida. Two of the cases are currently before Federal Grand Juries, and the third is in an active investigative stage.

#### Intermediary Guidelines

During the year, HCFA issued several new guidelines to their fiscal intermediaries to assure appropriate home health reimbursement. One such guide gives directions for intermediary review of home health administrative and consultative contractual arrangements. Guidelines for evaluating appropriateness of employee fringe benefits in determining reimbursable costs were also issued. Another instruction reiterates pertinent rules on advertising costs associated with patient solicitation.

Two major revisions of instructions on intermediary determination of allowable costs have been drafted and are under final review. One contains an amendment which will require management firms contracting with home health agencies for full-scope management services--which gives the firms virtually full control over operation--be reimbursed on the cost of providing rather than their charges for those services. The second is a Provider Reimbursement Manual revision dealing with management contracts, which incorporates more guidance on specific problem areas.

#### Regional Intermediaries

Various options for instituting regional or area-wide fiscal intermediaries are currently being reviewed, and selection of the recommended approach is expected shortly. The implementing regulations will be promulgated in 1980.

HCFA's designation of a limited number of intermediaries for HHAs should result in greater uniformity in administration and greater vigor in determining reimbursable costs by the intermediaries. The consolidation will facilitate comparison of performance among providers. Improved expertise and economies of scale should also be realized.

#### Office of Inspector General Audit Agency

The Audit Agency work plan for 1980 was reprogrammed to give home health agencies priority attention. A special projects audit guide has been completed, and the field work has begun.

Plans call for selecting five Medicare intermediaries/Medicaid fiscal agents that handle HHAs to evaluate their procedures for settling HHA cost reports. This evaluation will cover desk review procedures, as well as the process for determining which cost reports should be audited and the scope of field audit. The auditors will select up to five HHAs handled by each intermediary/fiscal agent, and test the allowability of claimed costs or reaudit to test the quality of the intermediary/fiscal agent review. Special attention will be given to claimed costs associated with salaries and fringe benefits, consultants, accounting and computer services, space and management agreements.

Emphasis will be placed on proprietary and private non-profit HHAs where problem areas are known to exist. Also, the auditors will assess the adequacy of HCFA's cost reimbursement procedures.

#### Summary

Current indications are that the OIG and HCFA special field audits will uncover substantial waste and abuse. Instances of waste and abuse that have already been brought to light seem to be attributable to the combined result of home health agencies taking advantage of the system, HCFA not having had sufficient definitive policy or guidelines and the intermediaries not having focused audit attention to home health reimbursement.

The rapid growth in home health benefits, the ease with which HHAs can be established, and the evidence of abuse suggest that any significant expansion of present benefits should be accompanied by more efficient and uniform reimbursement policies, tighter conditions of participation for HHAs, and improved administration by Medicare intermediaries.

## Indochinese Refugee Assistance Program

The Indochinese Refugee Assistance Program (IRAP) was established under the Authority of the Indochina Migration and Refugee Assistance Act of 1975 (Public Law 94-23), as amended by Public Law 95-145 and Public Law 95-949. The Act authorizes appropriations to the Social Security Administration, within the Department of Health, Education, and Welfare (HEW) for the administration of special projects and programs by the State or private voluntary agencies serving Indochinese refugees. The purpose of these special projects and programs is to assist refugees in resettling and in gaining the skills and education necessary to become self-reliant. The Act also authorizes 100 percent reimbursement to States for the costs of providing financial and medical assistance, as well as social services. These social services may also be purchased by the State from voluntary agencies utilizing the Title XX funds if the services are permissible under the State's plan for providing services under Title XX of the Social Security Act, as amended.

The IRAP was administered by HEW's Office of Family Assistance (OFA) within the Social Security Administration. Responsibility was recently transferred from OFA to the Office of Refugee Affairs (ORA) within the Office of the Secretary. Title XX is administered at the Federal level by HEW's Administration for Public Services (APS) within the Office of Human Development Services. At the State level the program is administered by the single State agency designated in the approved Title XX State plan.

During the period October 1, 1975 through September 20, 1979 approximately \$505 million was appropriated or transferred to HEW for the IRAP. The Inspector General was asked to review grants and expenditures, program operations, management controls, and service delivery of the Indochinese Refugee Assistance Program (IRAP). In response to this request, the OIG conducted three studies:

- o A management review of the program operations and management controls of the IRAP with a brief assessment of the lessons learned from the Cuban Refugee Assistance Program and the Soviet Jewish Resettlement Program.
- o A service delivery assessment of the Department's programs in meeting the refugees' needs in becoming socially and economically self-sufficient.

- o Audits of IRAP special projects in California, Texas, and Pennsylvania with concentration on multiple funded providers.

### Management Review

An HCSR team analyzed the program operations and management controls of the IRAP through a review of existing and proposed legislation, regulations, program directives, and reports; discussions with key officials in headquarters, five regions (II, III, IV, VI, and IX), and six States (California, Florida, Louisiana, New York, Pennsylvania, and Texas); and interviews with administrators at several local project sites. The team conducted the field work during July and August and submitted its final report September 14, 1979. The report recommended major programmatic and managerial changes, some of which have been implemented through the Secretary's reorganization and relocation of the administering agency.

### Service Delivery Assessment

The Service Delivery Assessment (SDA) focused on the current experiences of refugees and service providers at the local level. Specifically, the SDA sought to answer the following questions:

- o How are refugees doing?
- o How useful are voluntary agency resettlement efforts?
- o How useful are HEW's current programs?
- o How well does the "system" work?
- o Can the current programs absorb large numbers of new refugees?

The SDA team, led by Region X, spoke with over 900 people, including 500 refugees and 335 service providers and voluntary agencies in 15 States. The field work was conducted during August, and the findings were compiled during September. The final SDA report was submitted in December.

We found that most refugees included in this assessment live in marginal circumstances: they speak little English, are trapped in the secondary job market or on welfare, and live

in overcrowded, ghetto-like housing. Most voluntary agencies do not provide new refugees with the vital services essential to self-sufficiency. Although refugees are a Federal responsibility, there is no uniform approach for resettlement services. Refugees have many needs which are not sufficiently met by the private sector or by HEW services, and there are significant State differences in the type and extent of services. The demand for English training far surpasses all other service needs. Health screening is rare, dental care spotty, and housing and transportation are major problems.

The lack of coordination among service providers and voluntary agencies at all levels of government results in fragmented services and poor interagency referral at the local level.

#### Audit

In addition to our management review and Service Delivery Assessment, we conducted seven sample audits in three States. Our audits of special projects and IRAP purchase of service providers were made in accordance with standards for governmental auditing. The objective of our audits was to determine whether costs claimed by providers under grant and contract awards were reasonable, allowable, allocable with applicable Federal laws and regulations. Our audit also included tests to determine whether refugees were eligible to receive the various services.

Many IRAP service providers did not properly account for expenditures under Federal grants and contracts because of a lack of experience in financial accounting and management practices. Our audits identified about \$165,000 in costs that were improperly charged to grants and contracts by IRAP providers. In addition, we were unable to express an opinion on the reasonableness, allowability and allocability of about \$687,000 in Federal funds. Further, the accounting records of the largest IRAP provider in the United States (about \$1.2 million in contracts) were not auditable.

More than half of the seven IRAP providers reviewed did not have an adequate payroll distribution system to account for personnel costs between multiple grants and contracts. Similarly, other costs incurred in providing services to IRAP recipients were not properly allocated to all grants on the basis of benefits received. Also, costs were claimed that were not eligible for Federal reimbursement under existing regulations and costs principles. Other problems included (i) costs claimed that exceeded the costs incurred, (ii) services provided to ineligible recipients, and (iii) recipient needs were not always met. Our individual reports contained recommendations intended to improve prospectively each provider's administration of Federal grants and contracts. Recommendations for related financial adjustments to the Federal government were also made.

We therefore recommended that ORA:

1. Provide technical assistance to IRAP providers in the areas of financial accounting and management practices.
2. Provide more effective monitoring and supervision of provider activities including review of provider reimbursement claims and periodic site visits.

The ORA generally concurred with our recommendations and indicated that corrective action was being taken. Numerous additional actions were taken by the Secretary to strengthen the program after our work was done, including: (a) an HEW Office of Refugee Affairs, with a significantly increased staff, has been created within the immediate Office of the Secretary, as the Department's focal point for all refugee matters, (b) HEW's proposed budget for FY 1980 earmarks a minimum \$54 million for English language training -- more than double the amount in fiscal year 1979, (c) Secretary Harris has assigned a team of Public Health Service physicians and medical technicians to strengthen the health screening of U.S. bound refugees, (d) special project funds are being devoted to the creation or strengthening of community-based organizations to help refugees by coordinating multi-agency programs and (e) the States are being required to prepare and submit to HEW an Annual Plan for providing services to refugees and obtain HEW approval for all contracts of \$10,000 or more.

#### Cosmetic Surgery in PHS Hospitals

Cosmetic surgery performed in Public Health Service (PHS) Hospitals was reviewed by a team of OIG auditors and a physician from Health Care and Systems Review. Large numbers of surgical operations were being performed at some hospitals for improvement of appearance for personal reasons rather than reasons of medical necessity. Individuals who were not the usual beneficiaries of health care from these hospitals were receiving many of these benefits. Such operations would have been quite costly to the patients if they obtained the services elsewhere. The PHS provided the services free or at nominal cost.

The reviewing team found that the provision of cosmetic surgery provided a potential for abuse. Hospital directors, up to the time of the study, had not insured that adequate controls existed over the provision of services. The staff and resident physicians controlled and directed the allocation of PHS hospital resources for purposes that did not meet the criteria of medical necessity. The justification for these procedures was that they provided adequate surgical training or maintenance of skills. We found that inadequate controls existed over the number and kinds of these procedures.

The study was carried out with the full cooperation and active participation of the top management of the Health Services Administration and the Bureau of Medical Services. On learning of the problems present, the affected agencies made significant changes by ordering that hospitals no longer provide non-therapeutic cosmetic surgery. A monitoring system was instituted so that hospital and agency management could know what services were being performed. It is estimated that a minimum of \$500,000 worth of resources was redirected to other (medically necessary) uses. There has been a significant reduction in certain operations performed in PHS hospitals since the new rules have been instituted.

#### Contracts - Year End Spending

On October 4, 1979, Secretary Harris requested a review of the scale, content, and characteristics of contract awards made during the final month of fiscal year 1979.

A team composed of staff from the Deputy Assistant Secretary for Grants and Procurement and from the Office of the Inspector General performed the review. We found that approximately \$135 million was spent on the last Friday, Saturday and Sunday of FY 79. Many of these contracts did not appear to meet Departmental requirements.

As a result of the negative findings of this review, on February 19, 1980, the Under Secretary issued a directive with the goal of improving the management and scheduling of contract awards. The directive is intended to avoid the historic pattern of disproportionately high and questionable year-end spending. Strict limits are now imposed on agency obligations in the fourth quarter, and advance and systematic procurement planning is mandated for all POCs.

At the Secretary's suggestion, the Inspector General has formed a team of auditors and systems analysts to examine in detail every contract awarded in the last three days of FY 79. We expect the principal result of our review to be further suggestions for building in additional safeguards into the Department's procurement processes.

## End-Stage Renal Disease

The End-Stage Renal Disease Program is a unique Federal Health Program providing coverage under Medicare for individuals who might not be otherwise eligible for such coverage. The costs of this program have rapidly escalated and are now running at about one billion dollars a year for approximately 50,000 patients. To help curb escalating costs, Congress recently enacted Public Law 95-242 which requires the Secretary to establish an incentive reimbursement system for renal dialysis treatment costs. This legislation is unique among the Department's major health programs in that it authorizes the Secretary to determine the rate of reimbursement.

In implementing this legislation, the Department's Health Care Financing Administration (HCFA) initially planned to set incentive reimbursement rates based on unaudited costs. However, an OIG audit of a free-standing renal dialysis facility raised serious questions about the advisability of using this approach.

We found that the costs claimed by this facility included unallowable charges which, if used for rate setting purposes, would have erroneously inflated the incentive reimbursement rate. Additional audits in process confirm this fact--audited costs provide a more reliable basis for rate setting. We recommended to HCFA that verified costs be obtained from additional facilities and considered prior to establishment of final national rates.

HCFA concurred with our recommendation, and we are now working closely with them to obtain a valid statistical sample of such facilities to arrange for verification of their cost data. This early identification of the problem and management's prompt reaction should result in more precise cost data for establishing realistic incentive reimbursement rates.

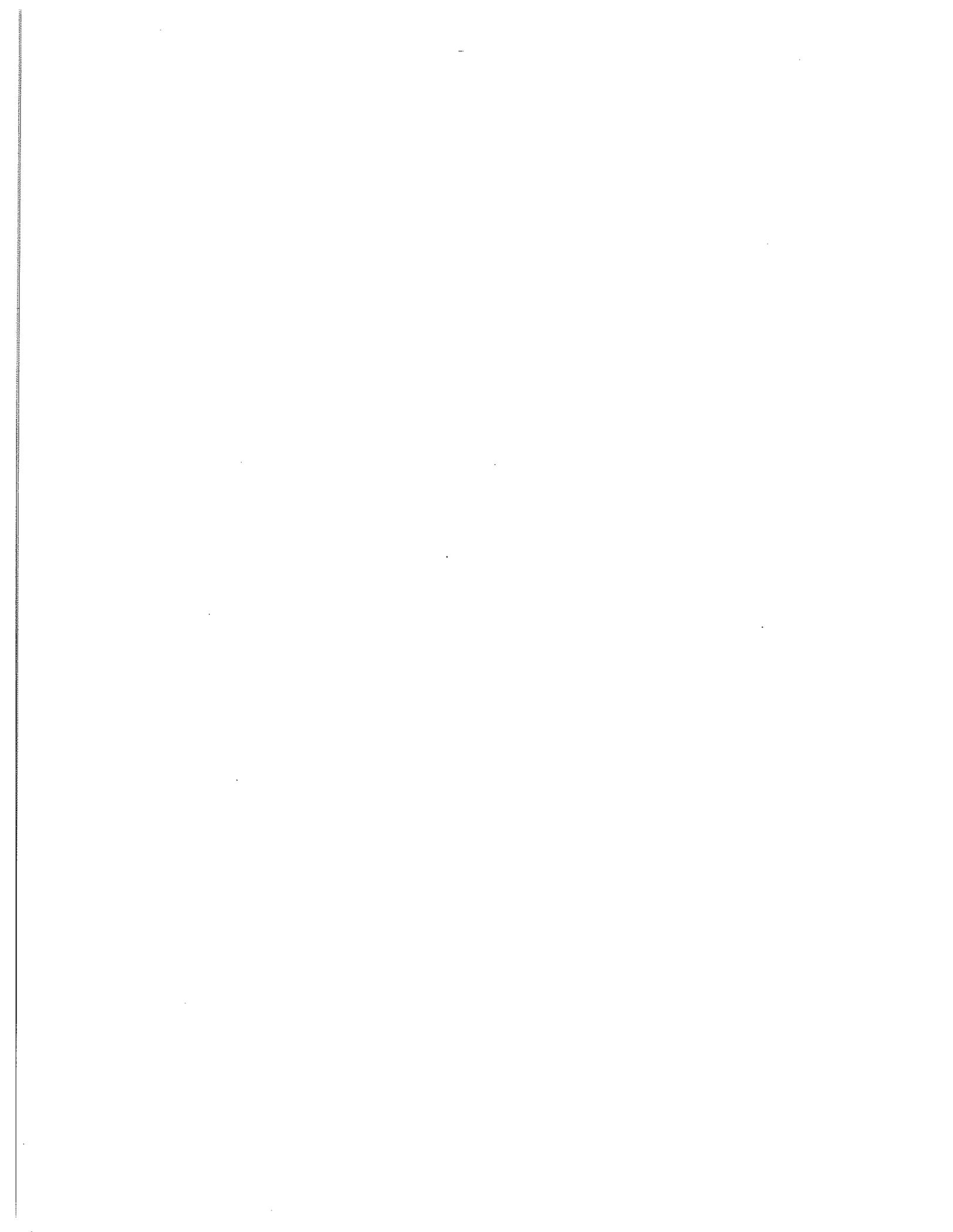
## Public Assistance Administrative Costs

States' reimbursement for administrative costs is based on an approved State plan which is intended to be so structured as to assure an equitable distribution of central service support costs to the various Federal programs. The latter includes major programs administered by a number of Federal agencies.

For many years, audits have identified significant amounts of incorrectly claimed administrative costs. The primary reasons: States continue to use incorrect allocation methods; claim the same costs under more than one program; or claim costs that are ineligible. Over \$97.8 million has been identified in such improper claims during the last three calendar years. But, even though these erroneous costs were being identified, it was being done after-the-fact. Recoupment of funds requires taking costly, long drawn-out actions.

To help remedy this continuing problem, we worked with staff of the Assistant Secretary for Management and Budget. This cooperative effort calls for the plans to be initially reviewed by the Department's cost specialists. Audit's role in this effort to prevent improper expenditures will involve utilizing innovative audit techniques to review (i) the adequacy of the plan before operation and (ii) the ability of the accounting system to support the plan before operation. The expenditure claims will be reviewed after completion of these first two steps.

We anticipate that one of the benefits to be achieved under this approach will be that future audit exceptions should be relatively minor, since major errors would have already been weeded out.



## CHAPTER V

### EDUCATION PROGRAMS

In CY '79, the Office of Inspector General (OIG) continued to provide a significant focus on program problems within the Office of Education. In particular, the Student Financial Assistance programs received the most attention, followed by the Developing Institutions (Title III of the Higher Education Act) and the Indian Education programs.

The problems involving the effective management and administration of these programs are longstanding ones which do not necessarily lend themselves to quick and easy solutions. In this Chapter, we discuss 1979 special initiatives. Recommendations and information are provided herein for consideration by the Secretary of the new Department of Education and its Inspector General and Program Managers.

#### Student Financial Assistance Initiatives

- A. The OIG Audit Agency and Office of Investigations continued efforts to reduce fraud, abuse and management inefficiencies in the student financial aid programs as described below:

--The Audit Agency processed 2784 audit reports in 1979 on institutions administering student financial aid. Eighty percent of these reports disclosed one or more deficiencies--including such problems as: improper loan award and collection practices; improper use of Federal funds; failure to provide fair and equitable refund practices; maintenance of excessive Federal cash balances; improper determination of student eligibility; and excessive interest billings in the student loan program. Over \$1.8 billion of Federal student financial aid program expenditures were audited, and of this amount, adjustments were recommended totaling about \$13.2 million.

--The student financial aid programs require an independent audit biennially of each educational institution participating in their programs. The Audit Agency prepared guides in 1978 for the National Direct Student Loan Program, College Work Study Program, and the Supplementary Educational Opportunity Grant Program and Basic Educational Opportunity Grant Program for the conduct of such audits by independent auditors, subject to

quality control reviews by Audit Agency staff. These guides are now being revised to reflect changes in regulations and refinement of audit and reporting procedures, and will be available for the June 30, 1980 audit cycle. A draft guide has been prepared for the Guaranteed Student Loan Program but requires substantial revision due to issuance of final regulations. These guides have been prepared in concert with the Office of Education, the American Institute of Certified Public Accountants (AICPA) and other interested organizations.

- To assure receipt of quality, informative audit reports from non-Federal auditors, a training program - based on the audit guides discussed above - has been developed through the AICPA. A total of 14 training sessions have been held across the country for over 1,000 professionals concerned with audits of these programs. Seven more sessions are planned for 1980. Early indicators are that the training programs have been successful and that the quality of audit reports is improving.
- The Office of Investigations in CY '79 opened 38 new cases and closed 66 cases involving student financial aid. At the year's end, 79 cases were active pending and 30 were inactive pending. Most of these cases involved suspected misuse and misappropriation of funds, embezzlement, and various other schemes to defraud and misrepresent.
- Overall, 19 indictments and 26 convictions were obtained. A total of some \$123,000 was obtained in CY '79 through recoveries, restitutions, fines and savings.
- The Memorandum of Understanding was revised between the OIG Office of Investigations and the Bureau of Student Financial Assistance, Division of Compliance (DC) to expand the duties and responsibilities of DC to include investigation of apparent fraud by student beneficiaries of student financial aid programs, among other items.

#### B. Special Initiatives

A series of special initiatives have been implemented by the OIG to detect fraud and abuse in the student financial aid programs and to improve their management effectiveness.

1) The Guaranteed Student Loan Program (GSLP)

Project Cross Check used computer comparisons of government pay and loan default listings to identify some 16,500 Federal employees in default on their GSL with indebtedness of \$15.8 million. Phase I (HEW employees) and Phase II (civilian workforce) have been completed, and Phase III (military) is winding up. The overall management of the program is now in the hands of the Office of Education (OE).

A pilot effort is underway with State Guaranty Agencies, participating in the GSL program, to jointly develop and refine a series of computer programs designed to detect fraud and abuse in the student financial aid area. Assistance is being provided on a pilot basis to Pennsylvania and New Jersey with New York and Massachusetts likely to follow.

An evaluation is being conducted in the Guaranteed Student Loan Program to determine the cost effectiveness of OE's pilot use of private collection contractors versus its own collection activities, and to assess compliance with the Privacy Act.

There is a high level of interest in the OE pilot contracts because of the recent GAO Final Report in this area. There are government wide implications if this approach proves cost effective either as a supplement or as a replacement for the Federal collections activities. While preliminary analysis has been performed in CY '79, definitive results await final data submission from OE computer contractors. An interim report should be available by June 1980.

The GAO's recommended use of credit bureaus to improve Federal collection practices for both new and defaulted student loans was supported by the OIG. The Secretary of HEW approved the reporting of defaulted loan information to the credit bureau network as a test of the initiative. The Office of Education is now working with the GAO and other HEW offices to implement this effort.

The Department stated the need for a fair and equitable tuition refund policy in the GSL program. Final regulations for the program were published in the September 17 Federal Register. The regulations required institutional policies for the refund of

tuition and fees - except for minor technical changes - much as they have been since 1975. While comments have been received which are critical of the inclusion of any criteria for determining the fairness of school refund policies, it is our firm belief that it is in the best interest of GSLP borrowers and the program as a whole to retain such Federal requirements. The OIG supports the efforts of the American Council of Education, the National Association of College and University Business Officers, and others to develop "Policy Guidelines for Refund of Student Charges" for adoption by various accrediting associations. But we believe that the Commissioner of Education should retain the right to review and approve (or should disapprove where appropriate) tuition refund policies as being "fair and equitable".

This need for preserving the current tuition policy becomes more critical given the recent ruling by the 2nd Circuit Court of Appeals to "set aside and remand" the Final Proprietary Vocational and Home Study Schools Rule published by the Federal Trade Commission (FTC) last December 1978. We supported the FTC rule, and we provided comments to that fact to the FTC in 1979 regarding the petition of the National Association of Cosmetology Schools to exempt cosmetology schools from the Rule's requirements. Based on the experience of the OIG, and OE's Bureau of Student Financial Assistance, we opposed exemption for cosmetology schools. FTC has petitioned the 2nd Circuit Court of Appeals for a rehearing.

2) Basic Educational Opportunity Grant Program (BEOG)

An Industry Study is underway whereby the OIG is studying a select group of high risk institutions participating in the BEOG program to develop indicators which systematically and routinely detect institutional fraud and abuse in each of the student financial assistance programs. While the study originally was directed at the cosmetology industry, the focus was expanded in 1979 to include proprietary schools in general.

In CY '79, the Audit Agency conducted a series of computer scans of the application and recipient files of the BEOG program for award year 1977-78, and identified some 100 schools - proprietary and

private non-profit - which reflected unusual data trends worthy of follow up. Intensive audits of selected institutions were conducted - some audits are still underway - in order to verify the indicators. Additionally, criminal investigations were initiated in two instances involving multiple branches of the same school, and a group of related schools. These investigations are still in process.

The computer scans developed so far show great promise for the Department of Education. They can be applied to systematically weed out and identify potentially fraudulent or abusive behavior on the part of educational institutions, corporations, and individuals, and target these entities for program reviews, validation, or special audit or investigative action. As a test, one such corporation is being assessed to determine whether its applicant and recipient data is aberrant from the norm. If this proves to be the case, a "directed" audit may be the next step. This test is in addition to the Industry Study discussed above.

No integrated computerized system exists today in the student financial aid program. But certain components are now beginning to be adapted for use in the Bureau of Student Financial Assistance (BSFA) and through our pilot efforts, with the State Guaranty Agencies. Once the indicators are verified, however, we will be able to share our knowledge with the new Department and assist them in its use.

An audit report will be available on the Industry Study after 1) the audits are completed and 2) the release of data will not adversely affect on-going criminal investigations.

Computer Edit Checks were applied to the BEOG applications at the time of initial processing to validate the applicant's reporting of Social Security benefits, and Veterans benefits. This was tested as a pilot research match by the OIG in July 1978, and implemented in early 1979 against the BEOG applicant population. The results have been useful as a preventive measure and the project is to be applied again in 1980.

The BEOG Alternate Disbursement System (ADS) was reviewed during 1979 by the Audit Agency to evaluate OE's administration of the system and to

determine the extent to which the schools reviewed were complying with their administrative responsibilities. Under ADS, Basic Grant Awards are paid directly to the student recipient with the institution having very limited administrative responsibilities. The ADS audit field work has been completed and a report will be issued in early 1980. Preliminary findings disclosed that 44 out of 50 schools reviewed had one or more deficiencies in their administrative responsibilities. Additionally, the review showed that OE had not conducted program reviews of ADS schools, and that regulations are needed to clarify institutional liability for overpayment of BEOG awards.

Weaknesses in the BEOG Application and Payment Systems require correction. Simplification of the BEOG application form and the computerized application processing system have been discussed--minor changes were made in 1979, but it is felt that much remains to be done. We believe that there are major questions regarding comprehension of the BEOG application form and ability to complete the form accurately. There are concerns regarding the computer processing of the forms - with regards to confusing or misleading computer edit routines - coupled with complex application directions. The result may be that the interaction between the BEOG applicant and the BEOG computer processor becomes frustrating and counter productive.

These appear to be inadequate controls placed on the program to assure prudent financial accountability - either on the part of the educational institution or on the part of the Federal manager of the system. For example, in the past several years, many schools have expanded their participation in the BEOG program but have failed to validate funds received and obligated. OE in many cases either failed to request validation of funds received, or never followed up when schools simply ignored their requests for this information.

A Quality Control System does not exist in any of the student financial aid programs. The recent quality control study undertaken by OE has disclosed major systematic weaknesses in the BEOG program. These reflect some of our concerns (discussed above) regarding the present applicant and recipient systems, as well as the administrative deficiencies and abuses found at the institutional level. In

addition, it appears that despite computerized calculations of eligibility indices, the financial aid officer at the institutional level can determine the level of aid for the BEOG applicant. Based on the QC study, the error rate is approximately 55.2 percent with 35.9 percent receiving too much money and 19.4 percent receiving too little. Given the pervasiveness of the problems in the BEOG program, an effective quality control system for this program is a must.

Finally, the OIG believes that the accreditation and eligibility procedures used by OE are in need of close review. Major weaknesses in this system were detected during the current Industry Study. They support similar findings cited in an earlier report issued by GAO. Among the management inefficiencies found: inadequate validation of documents submitted by institutions and/or associations; insufficient monitoring practices and procedures for reviewing institutions and associations; poorly conceived procedures for initially determining accreditation or eligibility (open to abuse). Since student financial assistance is expanding rapidly the Inspector General believes OE needs to re-examine the process whereby OE approves institutional access to Federal funds.

3) National Direct Student Loan Program (NDSL)

The OIG continued to support the Office of Education's efforts to reduce the level of defaults in the NSDL program - equal to 911,000 students with unpaid principles of nearly \$842 million as of June 30, 1979. Schools have been encouraged by OE to turn over their default accounts for Federal handling; and in 1979 some 238,000 accounts worth \$215 million were received. These accounts are now being processed under OE's routine collections procedures.

In addition, we have supported OE's efforts to provide for better cash management of the NDSL program. A GAO report issued in 1979 titled "Better Cash Management Can Reduce the Cost of the National Direct Student Loan Program" cited an annual average of \$63 million in excess Federal funds being held by NDSL schools - resulting in some \$4 million lost annually in interest costs for the program. The Bureau of Student Financial Assistance has responded to these findings with a set of actions aimed at reducing excess

funds at the institutional level. An automated system will have to be developed and refined to monitor excess funds and recoup such funds on an annual basis. Additionally, regulations will be necessary to require institutions to place excess funds into interest-bearing accounts for redeposit to the NDSL program.

C. Areas for Future Consideration by the Department of Education (DEd)

The Student Financial Assistance Programs are among the most difficult programs to monitor and control from the viewpoint of detecting and preventing fraud and abuse. While the record of management improvements over the past few years is noteworthy, much remains to be done. Several matters warrant the attention of the new Department of Education:

- o The Guaranteed Student Loan Program and the National Direct Student Loan Program should continue their efforts to reduce defaulted student loans. Extensive use of credit bureaus and outside collections agencies may be necessary to support DEd's efforts. Innovative litigative alternatives as well as closer monitoring of student recipients may also be required. Additionally, it is recommended that legislation be enacted to permit the State Guaranty Agencies access to IRS address data on defaulters prior to submission of these accounts to BSFA for re-insurance payments. This would be similar to the current NDSL provision.
- o The Basic Educational Opportunity Grant program needs to reassess how best to meet the legislated intent of the program in the most effective and efficient manner possible.
- o Monitoring of Student Financial Assistance programs needs to be conducted routinely and systematically across the board in order to detect and prevent fraud and abuse. An early warning system needs to be developed that is able to draw upon the various major computerized program systems in place.
- o A Quality Control System needs to be developed and implemented for all student financial aid programs. Such systems have proved to be quite effective management tools to reduce error rates in other HEW programs.

- o A review should be undertaken of the eligibility and accreditation system currently in place for the Office of Education programs.
- o Training for program staffs (program review and investigative) should be continued and expanded through use of training courses and seminars similar to those currently being provided to investigators and non-Federal auditors.
- o A fair and equitable refund policy requirement should be retained for the Guaranteed Student Loan Program and expanded to cover all the student financial aid programs.
- o It is of utmost importance that the focus at the highest levels in the new Department of Education continue to apply sound management practices in the management of the SFA programs.

#### Indian Education Program Initiatives

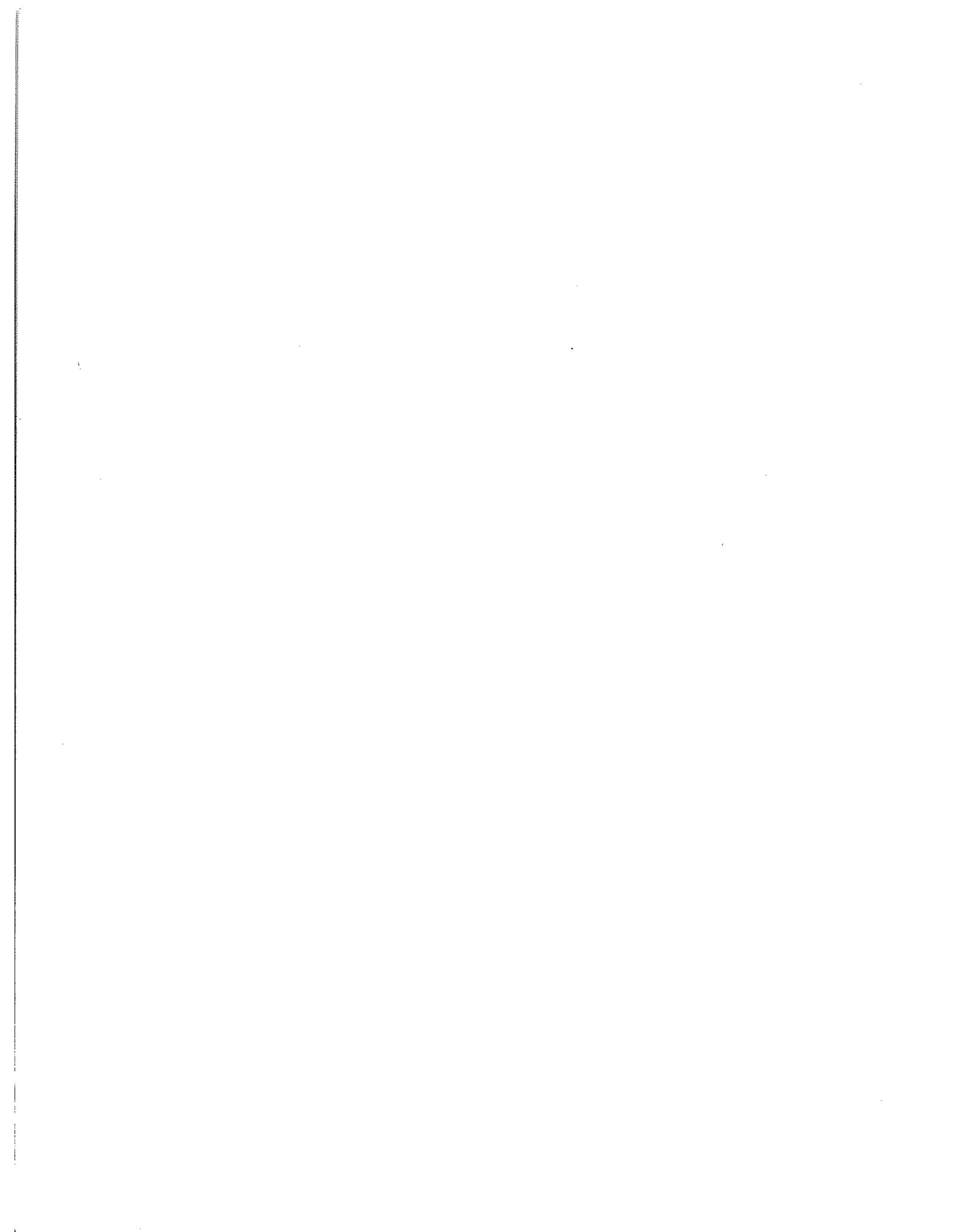
In the case of Indian Educational programs, the major focus has been on organizational and staffing problems that seem to have had an adverse effect on the efficiency of grant and contract program operations.

Up to 1974, the Administration opposed the need for a separate and distinct Office of Indian Education. At that time, the Office was established in the Office of the Commissioner of Education by detailing and consolidating staff. High turnover rates, uncertain staffing levels and special personnel management problems have had their impact on the program. This added to the problems of establishing a new operating entity within the Office of Education.

Recommended approaches to improvement are being submitted to the management of the new Department of Education. With top management assistance of the new Department, it is believed that long term corrections can be made.

#### Developing Higher Education Institutions Program Initiatives

The operation of the Title III, Developing Higher Education Institutions program has received a high degree of Congressional and press attention as well as review by the Office of Inspector General. Working with staff from the Title III program and the Office of Grants and Procurement Management Division of the Office of Education, weaknesses in the grant review and approval processes of earlier grant review cycles were identified to OE's top management.



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