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2021 GOVERNMENT FRAUD, WASTE, AND ABUSE STUDY

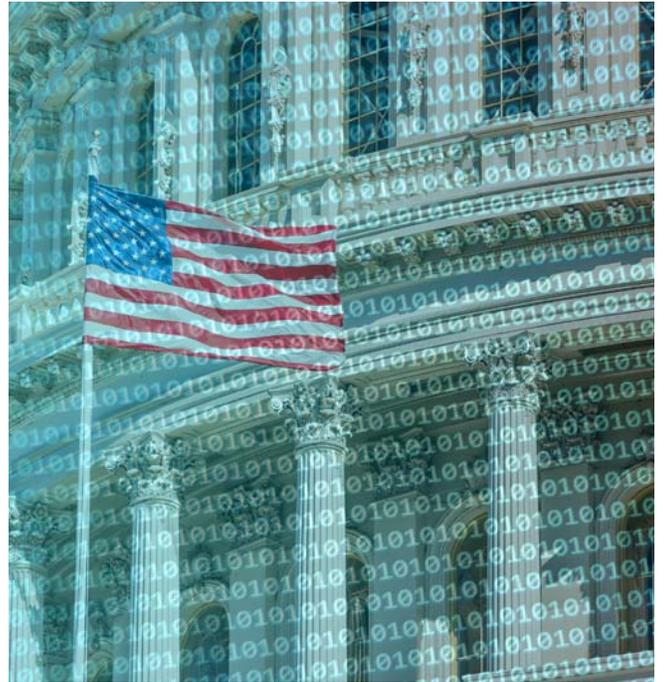
COVID-19 Impacts and Aftermath

Introduction

Even in the best of times, efforts to prevent fraud, waste, and abuse of government funds are a challenge complicated by any number of factors, including tight budgets, outdated IT systems, staff attrition, ever-increasing workloads and old-fashioned bureaucratic inertia. There is a natural tension in agencies to quickly distribute needed resources and services to their constituency while also protecting taxpayer dollars from fraudulent efforts.

In 2020, however, the challenges were even more formidable, as government systems at all levels were tested like never before. More than \$4 trillion in COVID-19 relief aid has been pumped into the economy since March, and millions of people filed for unemployment compensation, business loans, grants, and many other types of pandemic relief—all of which government officials had to process and distribute in record time.

Unfortunately, when huge sums of government money are distributed that quickly, it represents only one thing to fraudsters and criminals: opportunity. So, in addition to their regular duties, many front-line government employees who administer programs and work with vendors had the additional responsibility in 2020 of making sure that pandemic relief was distributed quickly without any procedural compromises that might invite fraudulent activity.



Study Methodology

When discussing government “fraud, waste, and abuse,” it should be understood that these are three different forms of misconduct. Fraud is illegal, while waste (excessive or unnecessary spending) and abuse (misuse of power and/or resources) may or may not be illegal, but are nevertheless serious violations of public trust, if not the law. Government officials are responsible for protecting public funds against all three, so for the purposes of this report they are combined, even if the word “fraud” is used independently.

Last year, Thomson Reuters surveyed government officials to find out how confident they were in their ability to detect and prevent fraud, waste, and abuse¹, given the resources at their disposal.

This year, Thomson Reuters surveyed more than 100 officials and administrators at all levels of state and local government to evaluate the efficacy of their fraud-prevention efforts, and to find out how the COVID-19 pandemic and other stressors have impacted their ability to do their jobs. Respondents held numerous government positions, including appraisers, attorneys, investigators, and administrators, and worked in a variety of departments, including tax and revenue, health/human services, labor/employment, and child support. Data for the study was collected in November and December 2020, and the criteria for participating was that respondents had to conduct public records and/or investigative searches at least once per month.

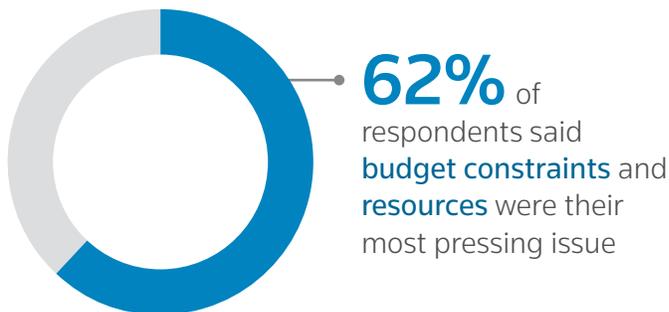
¹ From the Government Accountability Office (GAO): *Fraud* is attempting to obtain something of value through willful misrepresentation such as selling counterfeit goods to a government agency. *Waste* is squandering money or resources, even if it is not explicitly illegal. For example, buying overpriced office furniture from a favored vendor. *Abuse* is behaving improperly or unreasonably, or misusing one’s position or authority such as using an agency computer to download sexually explicit material or misusing government vehicles for personal trips.

COVID-19 and Other Challenges

The prevention and detection of fraud or waste at the state and local levels of government is largely the responsibility of program administrators, clerks, assessors, auditors, and other department-level employees—workers in the trenches whose time and resources were already stretched before the COVID-19 pandemic hit.

In this year's survey, almost half of respondents (46%) reported that COVID-19 had made their jobs either "significantly" or "slightly" more challenging as it relates to fraud prevention, while more than half (53%) said the pandemic had not significantly affected their ability to investigate fraud, waste and abuse. Those whose investigative efforts were not affected likely conducted most of their inquiries online even before the pandemic, so working remotely had little if any impact on their ability to conduct investigative research. Indeed, when asked *why* the pandemic had made their jobs more difficult, the top reason was "lack of in-person activity," (an indication of the importance of personal interaction and relationships in those positions) followed by less access to resources and an overall increase in fraudulent activity. Limited in-person activity also makes it more important to prioritize cases more efficiently, so that resources are still available for cases where personal attention is absolutely necessary.

In last year's survey, more than half (58%) of survey respondents said "too few resources or budget" was their top challenge, and in 2020, even more (62%) said budget constraints and resources were their most pressing issue. COVID-19 came in a close second (43%), and roughly a third of survey-takers reported increased workflows, retiring staff (and accompanying loss of institutional knowledge), staff recruitment, and implementation of new technology as roughly equal challenges.



Looking Ahead in 2021

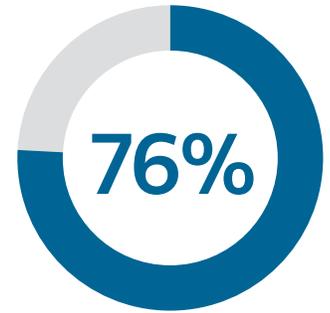
When last year's survey was conducted in late 2019, no one had even heard of COVID-19, so it was not an issue that affected government officials. In 2020, however, "COVID-19 impacts and aftermath" rocketed to the top of major issues officials said they expected to be dealing with in 2021. Another category that did not exist in 2019, "continuation of remote working," was also cited as a serious ongoing concern in 2021.

The pandemic aside, respondents in late 2020 reported dealing with roughly the same challenges as they did in 2019 in terms of budget constraints and staffing shortages. Interestingly, last year's top issue, "IT/keeping up with tech," was much less of a concern, with only 7% of the respondents saying they expected to encounter significant tech issues next year. Considering the persistence of "budget concerns," however, a lack of investment in new technology is the most likely reason for a general lack of concern about tech, not a sudden spike in technological know-how.

Investigations and Tools

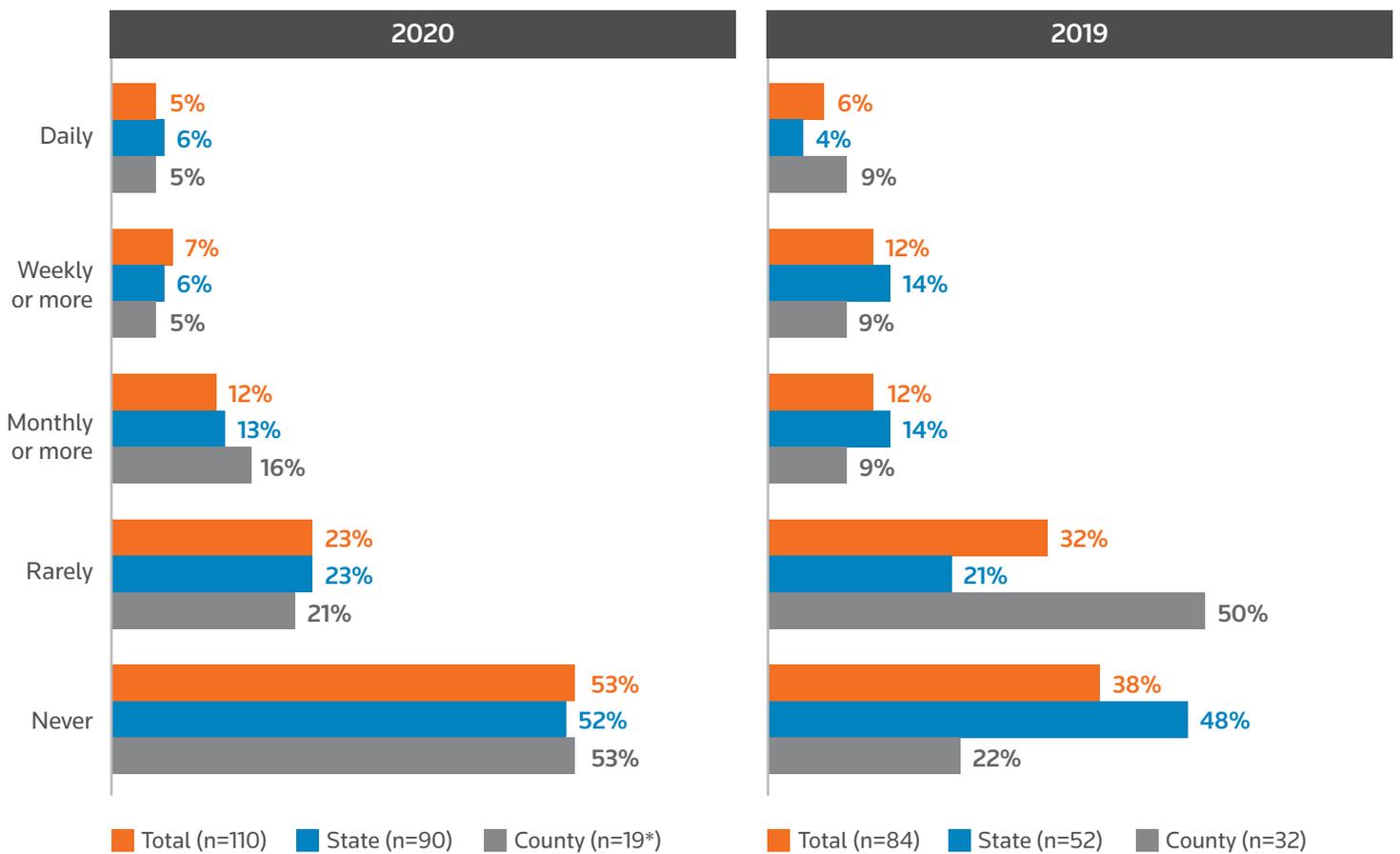
Participants in the Thomson Reuters survey reported conducting public records and/or investigative searches at least once per month, and many did so on a weekly or daily basis.

In general, the investigative work of respondents was focused primarily on fraud investigations. Similar to 2019, 76% of respondents in 2020 said they rarely or never spend time accessing information on vendors, bidders, and other companies. Monthly inquiries are the most common, though a small amount (5% to 7%) search for such information on a daily basis, likely because their job directly involves procurement and/or some aspects of program administration.



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Frequency of Access to Information on Vendors, Bidders, and Other Companies



*Caution – small sample size

Those who conduct regular vendor screening on government contractors said their primary source of information was public records, followed by standard web searches and searches for people with associated businesses. Search frequencies shifted significantly between 2019 and 2020, however. In 2019, 51% of respondents answering the same questions said they were accessing public records on a daily basis, whereas in 2020, only 29% said they have been accessing public records daily. County officials recorded the most significant drop, from 66% in 2019 to 37% in 2020. However, there was a slight increase in weekly and monthly searches, perhaps indicating a strategic shift in resource allocation due to the pandemic or other stressors on individual departments.

Use of overall investigative resources held steady from 2019 to 2020, with roughly a quarter (23%) using those resources on a daily basis. Still, almost half of respondents (45%) reported that Google searches were their primary tool for vendor screening, an indication that more advanced search technologies have yet to be widely adopted at the state and county levels of government.

This year's survey results also indicated an increasing reliance on social media for monitoring eligibility changes in the populations served, as reports of social-media monitoring doubled from 13% in 2019 to 26% in 2020. Again, this increase could be the result of the COVID-19 pandemic forcing house-bound officials to do their jobs entirely online—but it also suggests that these officials are using search technologies that do not adequately prioritize information based on the legitimacy of different sources.

Tellingly, other more sophisticated technologies are also in short supply at the state and county levels of government. For example, almost two-thirds of respondents (64%) said they do not use any kind of case-management software or integrated matter-management solution, both of which provide the sort of accountability and transparency that government officials say they want. Such solutions also provide a more sophisticated technological buffer against fraud, waste, and abuse.

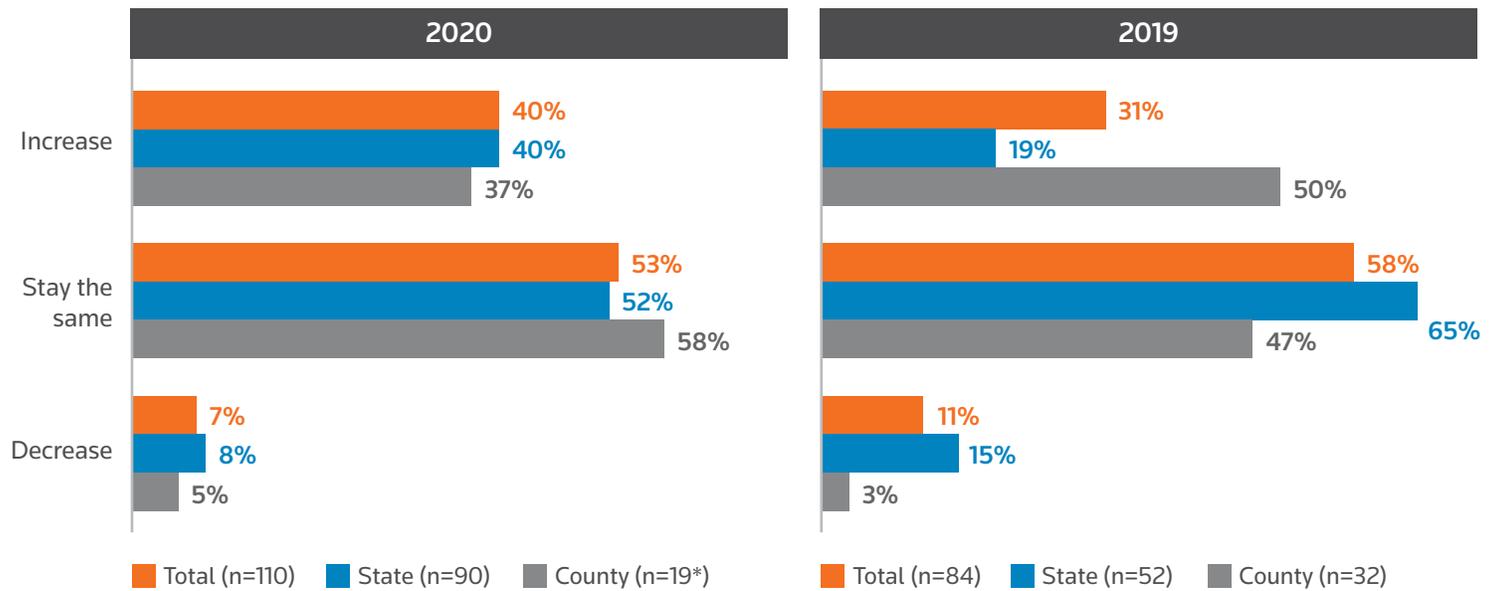
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A Better Cure: *Prevention*

The stressors facing government officials in 2020 show few signs of diminishing in the coming year. Forty percent of respondents in the trenches reported believing that the prevalence of fraud, waste, and abuse would increase in 2021, whereas more than half (53%) felt things would stay the same.

Prevalence of Fraud, Waste, and Abuse

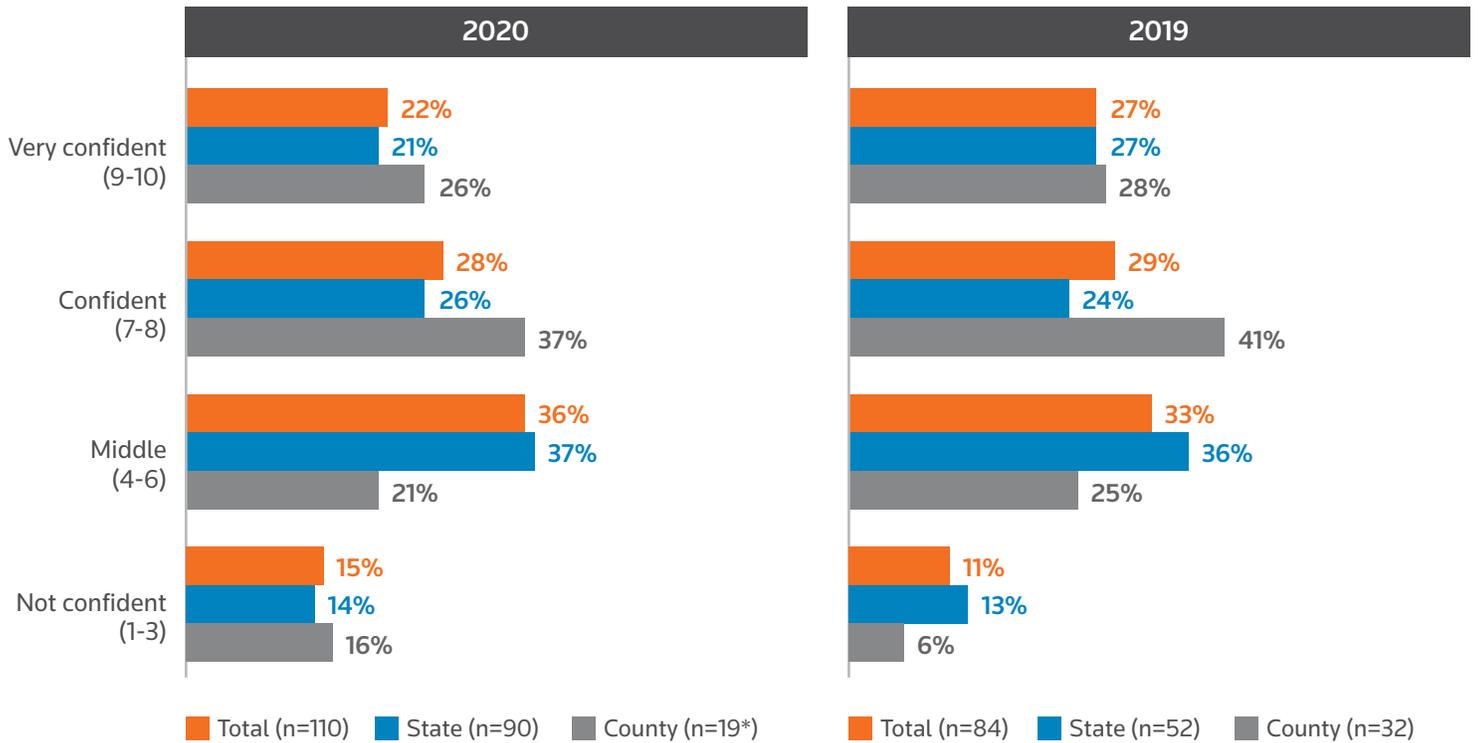


*Caution – small sample size

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The big question, however, is how confident these officials are that their departments have the tools and resources necessary to prevent fraudulent activity. Here again, there was roughly a 50/50 split between those who were confident or very confident about their department’s ability to prevent fraud, and those who weren’t. Only 22% were “very confident,” however, a slight dip from 27% in 2019.

Confidence That Tools/Resources are in Place to Prevent Fraudulent Activity



*Caution – small sample size

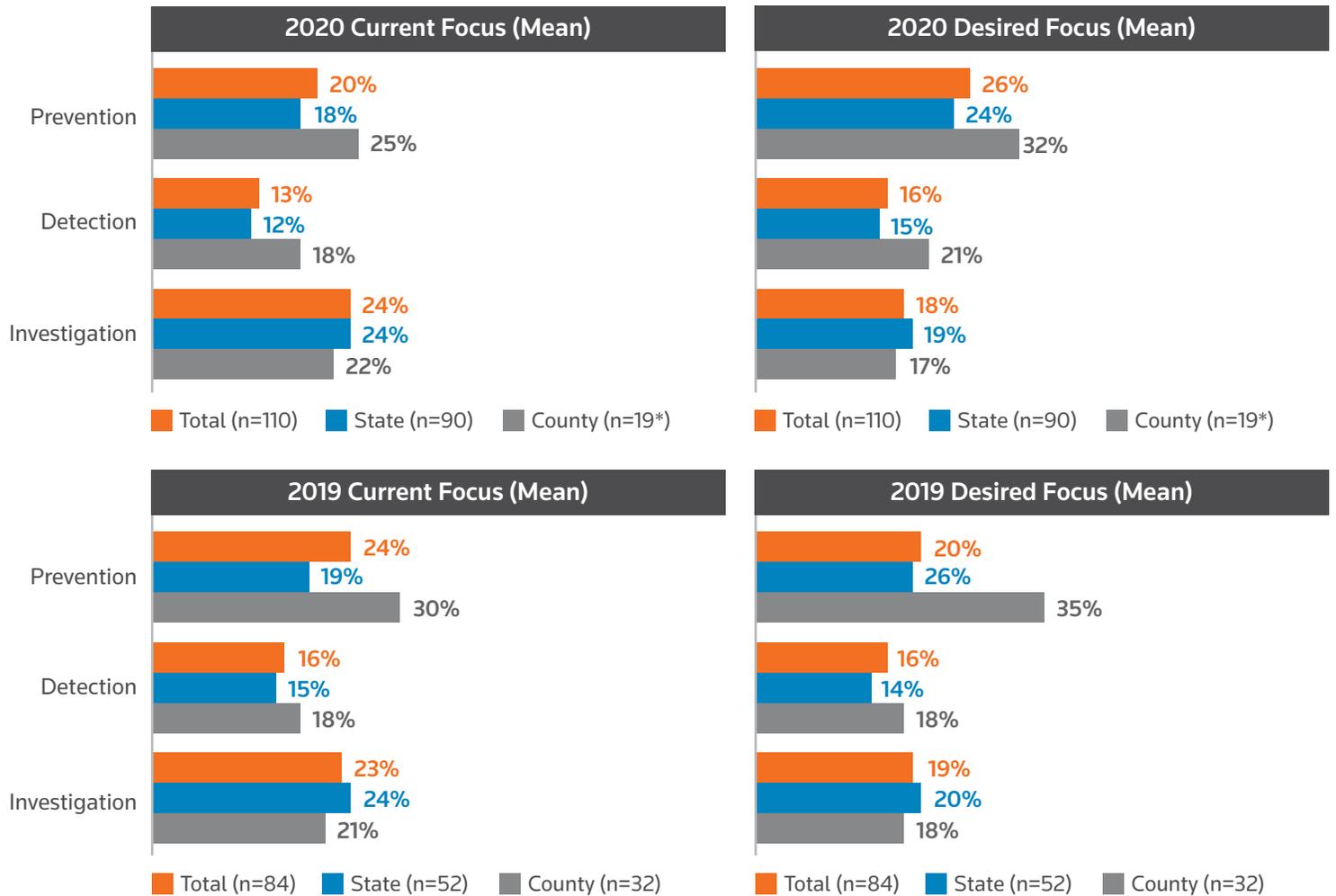
Some of that confidence may come from the fact that many departmental efforts to detect and prevent fraud are routine checks already baked into the process. Almost half (49%) of the investigative issues handled by survey respondents were routine, they said, including 28% of whom reported that they track the impact of fraud, waste, and abuse through audits, which essentially makes them automatic. Thirty-five percent also reported that their department had approved budget allocations for tools and resources dedicated to fraud prevention, a positive sign that these departments are taking 2020’s unique fraud threats seriously.

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An Ounce of Prevention

As far as day-to-day investigative work is concerned, respondents in 2020 echoed the same desire expressed in 2019 to shift more resources to prevention of fraud rather than investigation and detection. Currently, respondents said they are spending approximately 20% of their time on prevention efforts but would prefer to spend closer to a quarter of their time (26%) on prevention.

Focus of Fraud, Waste, and Abuse



*Caution – small sample size

This desire to spend more time on prevention is likely driven by the knowledge that in the long run, prevention efforts are much more time-efficient and cost-effective than detecting and investigating fraud. After all, *investigation* of fraud can only happen after suspicious activity is detected, which can only happen after it has already happened. By then, a fraud scheme may have been occurring for months or years, and the money may not be recoverable. In theory then, aiming more resources at *prevention* reduces the need for investigation, saving time and money. Better prevention also eases the burden on investigators themselves, allowing them to conduct more thorough investigations into matters that require a higher level of professional scrutiny.

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Summary/Conclusion

In general, many of the basic functions and processes of fraud prevention held steady in 2020, though it was evident that some resource-shifting had taken place to address fluctuating priorities. For example, some investigative activities that were being done on a daily basis in 2019 are now being done on a weekly or monthly basis. This juggling of priorities also suggests that a great deal of focus is being directed at realizing efficiencies wherever possible.

For government officials, the COVID-19 pandemic presented numerous logistical challenges related to \$4 trillion in relief funds that had to be distributed in record time. Consequently, many of the questions asked on the survey had to do with how the pandemic has affected the ability of government managers, administrators, and investigators to both distribute funds to the public quickly and protect the public's money from an accompanying surge in fraudulent activity and other forms of waste and abuse.

Almost half of 2020's survey respondents confirmed that the COVID-19 pandemic has made their jobs more challenging, and many agreed that these challenges would continue well into 2021. Tight budgets and lack of resources were still cited as the top concern facing most departments, but pandemic-related challenges came in a close second, including the logistics of continuing to work remotely.

Our latest survey also revealed that adoption of more sophisticated search technologies and case-management software is still lacking in state and local governments. Simple Google searches are still the most common way government officials conduct much of their investigative work, and respondents also indicated an uptick in social-media monitoring, though how and why such monitoring is being conducted was beyond the scope of the survey.

Finally, only about half of the survey's respondents felt confident that their departments had the tools and resources necessary to prevent fraudulent activity, and only 22% felt "very confident" in this regard. Going into 2021, that confidence is likely to be tested. Almost half (40%) of survey respondents believed that prevalence of fraud, waste, and abuse would increase in 2021, and if it does, the pressure on front-line government officials will continue to mount, especially if budgets and resources are shaved too close to the bone.



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