

HOUSE OVERSIGHT EVALUATES FRAUD AMONG STATE ADMINISTERED FEDERALLY FUNDED PROGRAMS

EXECUTIVE SUMMARY

On April 15, the House Oversight and Government Reform Subcommittee on Government Operations held a [hearing](#) entitled “Fraud Prevention: Understanding Fraud in Federally Funded Programs Run by the States.” Throughout the session, lawmakers highlighted various fraud prevention tools — including the Pandemic Response Accountability Committee (PRAC) and U.S. Treasury’s Do Not Pay resource — that have proven to be effective in combating fraudulent activity. The discussion touched on challenges faced by states, as well as ways in which states and the federal government can refine their efforts to address fraud.

While there was considerable bipartisan agreement upon the widespread existence of fraud, Democrats criticized the Trump administration’s dismantling of related infrastructure, specifically focusing on the elimination of Inspector General (IG) positions throughout the U.S. Alternatively, Republicans’ conversations centered on generating ideas for ways in which fraud, waste, and abuse can be both detected and prevented altogether. In addition to emphasizing the importance of data sharing, witnesses encouraged more robust risk management capacities among state and federal agencies, stronger partnerships between the different levels of government, and a greater ability to access real-time information.

OPENING STATEMENTS

Chair Pete Sessions (R-TX) ([statement](#)) discussed his forthcoming bill, the Fraud Prevention and Accountability Act, which he suggested will ensure greater accountability. He argued that too little emphasis has been placed on fraud prevention, and he claimed that his bill would create an IG for Fraud, Accountability, and Recovery to house the anti-fraud, analytic and investigative capacities developed by the PRAC.

WITNESS TESTIMONY

Mr. Seto Bagdoyan ([testimony](#)), Director of Forensic Audits and Investigative Services at the U.S. Government Accountability Office (GAO), discussed the fraud risk landscape facing state administered, federally funded assistance programs, suggesting that “massive” spending during the COVID-19 pandemic exposed weaknesses in identifying fraud. He noted that Medicaid and unemployment insurance are on GAO’s high-risk list for significant program integrity weaknesses, and he listed factors contributing to fraud risks at the federal and state levels, which included: (1) an

absence of leadership priority to drive effective responses; (2) weak fraud risk management capacities; (3) inadequate preventative front and back end controls; (4) duplicate benefits across multiple jurisdictions; and (5) financial losses. Mr. Bagdoyan suggested that fraudsters utilize innovative technology to pursue schemes, and he assessed that state and federal agencies are not keeping up with “cascading” risk effects.

Dr. O.J. Oleka ([testimony](#)), Chief Executive Officer of the State Financial Officers Foundation (SFOF), touched on his organization’s inaugural oversight [report](#), which he said exhibited ways in which state financial officers are saving taxpayers money by preventing waste, fraud, and abuse. He claimed that fraud and waste in federal and state benefit programs increase costs for families and applauded President Trump’s taskforce to eliminate fraud, claiming that it is committed to ending the “fraud industrial complex” and restoring public trust among government benefit programs. Dr. Oleka provided the Committee with five recommendations to assist in preventing fraud: (1) amend the [IG Act of 1978](#) to require every federal IG to establish standing liaisons with state financial officers, mandatory data-sharing protocols, and joint task forces; (2) mandate real-time, nationwide cross-checking of income, residency, and citizenship status before benefits are issued; (3) accelerate adoption of modern fraud detection technologies across all federal benefit programs; (4) expand performance-based funding across federal benefit programs administered by states; and (5) create a real-time public dashboard that shows how much money is lost to fraud and waste.

Ms. Allison Ball ([testimony](#)), Auditor of Public Accounts at the Commonwealth of Kentucky, discussed fraudulent activity in Kentucky, touching on a special examination conducted by her predecessor exposing wasteful spending among managed care organizations (MCO) within the state. She highlighted a suite of waste, fraud, and abuse-related activities in Kentucky pertaining to a lack of inspections and payment error rates. Regarding solutions, she recommended that state auditors engage in special examinations to avoid wasteful expenditures, and she argued that data access can assist in ensuring that preventative entities are “well-equipped.”

Mr. Robert A. Westbrook ([testimony](#)), Former Federal Inspector General, explained that the prevalence and root causes of fraud vary by program, and he suggested that headlines involving larger dollar loss fraud cases erode public trust. He argued that the internet has reduced barriers to fraud, as individuals can now find fraud tutorials online, purchase stolen identities, and file claims from any location. Mr. Westbrook recommended analyzing the UK Public Fraud Authority as a model to consider best practices, guides, and standardization for counter fraud activities. He noted that officials must consider relevant risk factors, as well as weigh program objectives and the operating environment to design fit-for-purpose fraud controls. In sum, he advocated for a coordinated, comprehensive risk- and data-driven approach, as well as the leveraging of existing IG and accountability infrastructure to reduce losses and restore public trust.

DISCUSSION AND QUESTIONS

Challenges Faced by States

- Mr. Westbrook explained to **Rep. Tim Burchett (R-TN)** that states and territories have differing information systems, arguing that this makes it difficult for tools to be fully implemented. He added the importance of a coordinated approach in fraud prevention efforts.
- **Rep. James Walkinshaw (D-VA)** asked about challenges faced by states with respect to user interface (UI) programs being implemented by legacy information technology (IT) systems, to which Ms. Ball affirmed that she has dealt with this problem. She noted that she has seen “breakdowns” with eliminating legacy programs to incorporate new ones.
- **Rep. Emily Randall (D-WA)** asserted that states are not incentivized to properly oversee federally funded programs.
- In conversation with Rep. Randall, Mr. Westbrook suggested that states do not have counter fraud tools readily available. He argued that there is an opportunity for the federal government to standardize resources, as well as make them more readily available.

Fraud Prevention Strategies

- **Rep. Eleanor Holmes Norton (D-DC)** asked about the tools and resources that can be utilized by agencies to prevent unnecessary delays in benefits. Mr. Bagdoyan stressed the importance of technology, expedited reviews, and access to data.
- When prompted by Rep. Walkinshaw, Mr. Westbrook emphasized the importance of creating a central repository for government information that has the legal authorities to share that data with state and local partners.
- Mr. Bagdoyan drew attention to the importance of maintaining robust risk management capacities among state and federal agencies when asked by Rep. Burchett.
- **Rep. Virginia Foxx (R-NC)** questioned how improper payments can be avoided altogether, to which Ms. Ball suggested that there can be beneficial partnerships between officials at the federal and state levels.
- Dr. Oleka suggested to Rep. Burchett that state elected officials often are not privy to all resources available to them — such as the Do Not Pay list — that could be helpful in preventing fraud. Ms. Ball added the importance of accessing real-time information.
- In a dialogue with Chair Sessions, Mr. Westbrook suggested that the PRAC and Do Not Pay have a large amount of data. He recommended that states connect with Do Not Pay to verify eligibility with the database.
- Mr. Bagdoyan emphasized the importance of maintaining a culture of accountability when asked by Rep. Foxx.
- **Full Committee Chair James Comer (R-KY)** recommended the creation of additional guardrails, criticizing the existence of duplicative payments in Medicaid.
- Chair Sessions asked about the role of technology in addressing fraud, to which Mr. Westbrook suggested that while there are many existing tools pertaining to identity verification, privacy concerns often accompany them. Ms. Ball expressed her support for a secure, reliable identification process.

Role of IG in Addressing Fraud

- Rep. Norton drew attention to the role of IGs in detecting and preventing fraud while highlighting the Trump administration's firing of 19 IGs. Rep. Walkinshaw explained that acting IGs do not benefit from the same statutory protections as the IGs themselves.
- When prompted by Rep. Norton, Mr. Westbrook cautioned the impact of the proposed budget cuts among IG offices, suggesting that they need funding to ensure they can complete their job effectively. Rep. Norton recommended full funding for IG offices. Rep. Walkinshaw expressed concerns about cuts to the Department of Health and Human Services (HHS) IG, suggesting that, should they be put into effect, state auditors would not be able to partner with these offices to address fraud.

Other Topics

- Rep. Randall highlighted Washington state's efforts to engage in effective fraud prevention, drawing attention to various efforts on behalf of the state to address fraudulent activities. Of note, she explained that, in the case of Medicaid improper payments, the state has transitioned from a reactive system to a proactive, data-driven integrity model.
- **Rep. Maxwell Frost (D-FL)** criticized the One Big Beautiful Bill Act's (OBBBA) Supplemental Nutrition Assistance Program (SNAP) provision — nicknamed the "Alaska Carveout" — explaining that it delays cost-sharing requirement for states with high improper payment rates, ultimately penalizing states that make good faith efforts to improve integrity and reduce their errors.
- Rep. Randall assessed that overpayments and improper payments do not necessarily equate to fraud.
- Rep. Norton emphasized the importance of Social Security net programs — including SNAP and Medicare — and argued that agencies must conduct fraud prevention activities efficiently to ensure that individuals can access benefits without unnecessary delays.
- Full Committee Chair Comer claimed that there is fraud and mismanagement in the Medicaid program in Kentucky.