TESTIMONY OF THE HONORABLE CALVIN L. SCOVEL III
VICE CHAIRMAN, RECOVERY ACCOUNTABILITYAND TRANSPARENCY BOARD
BEFORE THE SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT
INFORMATION, FEDERAL SERVICES & INTERNATIONAL SECURITY
UNITED STATES SENATE
MAY 25, 2011

Mr. Chairman and Members of this Subcommittee, I want to thank you for the opportunity to appear before you today in my role as Vice Chairman of the Recovery Accountability and Transparency Board (Board). Today I will be speaking about the accomplishments of the Board, with particular emphasis on our use of technology in accountability and fraud prevention. After my opening remarks, I will be glad to answer any questions you have for me.

The American Recovery and Reinvestment Act, Public Law No. 111-5 (Recovery Act), was enacted in February 2009. The Recovery Act established our Board – a Board composed of Inspectors General (IGs) – and tasked us with a dual mission: transparency and accountability of Recovery Act funds. The Recovery Act explained in great detail what the Board would have to do to achieve the "Transparency" in our title, setting forth more than a dozen specific requirements. For example, we were required to set up a public-facing website that would provide information about the Recovery Act; detailed information on contracts and grants; IG audit findings; agency plans; job opportunities; and so forth.

However, with respect to our accountability mission, some particular functions were listed in the law, but overall, the statutory guidance was considerably less specific. Under the law, the Board must coordinate and conduct oversight of Recovery funds "to prevent fraud, waste, and abuse." As Inspectors General (IGs), all of the Board members

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are well-versed in fraud prevention and detection, which are part of our mandate under the Inspector General Act of 1978.

This massive economic stimulus, however, was like nothing any of us had dealt with previously. It was an infusion of billions of dollars that agencies were directed to disburse as quickly as possible. Smaller programs – such as weatherization and rural broadband – were getting an influx of funds like never seen before. Approximately $275 billion was set aside for contracts, grants, and loans, and roughly $224 billion was to be paid out in entitlements.

Early on, the Board realized that the old law enforcement paradigm of detecting fraud after it had occurred – the pay-and-chase model – needed to be bolstered by a heavy dose of prevention. To accomplish these oversight goals, we built the Recovery Operations Center, or ROC. As I will explain in greater detail, the ROC combines traditional law enforcement analysis with sophisticated software tools, government databases, and open-source information to track the money.

Let me present for you an image that many find helpful. If you picture fraud as not just the point in time where the scofflaw gets away with the crime, but rather as a set of points occurring on a timeline, you realize that there are an indeterminate number of steps along the way where enforcers can prevent or interrupt the commission of the fraud and prevent government funds from winding up in the wrong hands. That is what the Board strives to do with the Recovery funds: intercept the commission of fraud as early as we possibly can.

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UNITED STATES SENATE
MAY 25, 2011

To help us in that goal, we pulled together an accountability solution that provides an in-depth fraud analysis capability that utilizes a vast amount of public information (currently more than 13 million risk-relevant, global public records, and still growing) about entities receiving Recovery Act funds in order to identify non-obvious relationships between parties. These relationships can unveil facts that may not have been transparent to government officials at the time of contract or grant award. Using this tool has resulted in leads for investigations and audits, identified added risk factors, and pointed to excluded parties receiving Recovery Act funds.

This accountability solution, housed in the ROC, also provides a predictive-analysis model in order to focus limited government oversight resources (for example, auditors, investigators, and inspectors) where they are most needed. Simply stated, the Board looks at multiple risk factors to determine the most susceptible areas of fraud or waste. These risk-prone areas may be segregated by program, federal agency, or geographic region.

To add to the ROC's toolbox, the Board has recently begun to develop what can best be termed a "fraud-risk scorecard." Similar to the scores that have been successfully used for years by the credit industry in making credit-granting determinations, the fraud-risk scorecard is intended to be a risk-predictive tool that uses mathematical models to detect fraudulent transactions. We are currently examining past historical data and data patterns in order to make the scorecard as reliable as possible, and will start the validation process upon completion of the development stage.

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UNITED STATES SENATE
MAY 25, 2011

While technological advances and even statistical algorithms are certainly a boon for the oversight community, it bears stating that these high-tech tools do not operate by themselves. Without the right personnel – people who can put the data into the proper context and truly interpret and understand it – the seas of information out there could just amount to meaningless noise. The Board's skilled analysts look for early warning signs of trouble. Using the tools in the ROC, they can search multiple databases, looking for criminal convictions, lawsuits, tax liens, bankruptcies, risky financial deals, and suspension and debarment proceedings. Once the analysts recognize something as a warning sign, they go deeper into the data, performing an in-depth analysis before sharing their report with the appropriate agency Inspector General for further inquiry.

The Board initiates its analyses based on three sources of information: hotline complaints from the public, requests for assistance from other government agencies, and the Board's own proactive review of Recovery awards.

First, our public "hotline" actually consists of a phone number, fax number, a web-based form on Recovery.gov, and even a mailbox for old-fashioned letters. We have referred more than 200 complaints to the appropriate law enforcement entity for further inquiry.

Second, the Board receives requests for assistance from both federal and state oversight officials. Since the Board's inception, nearly 400 analyses have been conducted by the ROC in response to requests for assistance by various government agencies. These requests have included:

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INFORMATION, FEDERAL SERVICES & INTERNATIONAL SECURITY
UNITED STATES SENATE
MAY 25, 2011

- A U.S. Attorney requested an analysis of a real estate development company. A Board analyst discovered that the company had a $9.5 million grant pending from the Department of Housing and Urban Development, through the state of Indiana. Upon further analysis, it turned out that the company was a joint venture with a firm owned by four individuals who had previously been convicted of fraud and embezzlement. The U.S. Attorney requesting the investigation had prosecuted these individuals in 2006, but was unaware of their relationship with the company and its owner.

- An Assistant U.S. Attorney requested an analysis of six people who were indicted for fraud-related crimes involving the Medicare program. A Board analyst tied those individuals to 120 medical businesses, about a quarter of which had been unknown to the prosecuting attorney. The new information can now be used to strengthen any potential criminal sentence.

Last, the Board initiates preliminary investigations based on the knowledge and experience of its skilled analysts. Since the Board's inception, 260 leads have been internally generated by the Board's accountability staff, including:

- A construction company had much of its $9 million in Recovery contracts rescinded after a board investigator found that the firm had been suspended from doing business with the federal government.

- A Board investigator determined that a $1 million set-aside contract was awarded to a company that no longer qualified as a small business in a

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INFORMATION, FEDERAL SERVICES & INTERNATIONAL SECURITY
UNITED STATES SENATE
MAY 25, 2011

historically-underutilized business zone because the ownership had changed. As a result, the awarding agency rescinded the contract.

- A Board analyst recently found 6 companies that had improperly received a combined $2.6 million in Recovery contracts because they are currently suspended or debarred from doing business with the federal government. These leads were referred to the appropriate IG's office for further inquiry.

Of course, given the success of the ROC, the Board is not content to rest on our accomplishments to date. Rather, we are envisioning ways to share our preventative efforts with the greater oversight community – and agency awarding officials as well.

Earlier this year, the Board began testing a pilot program allowing four IG Offices to remotely access the ROC's tools. Trained personnel at these OIGs – all of which have Recovery fund oversight responsibilities – can themselves now scan and analyze data within the ROC, utilizing a secure portal.

Although this pilot program is currently limited to a few IGs, the Board has discussed the utility of bringing agency procurement and grant personnel to the table as well. One lesson the Board has learned over the past two and a half years is that our interrelated transparency and accountability tools are useful from a program as well as an oversight perspective and agencies and the IG community should have access to both. While these two pieces can clearly assist the investigatory and auditing functions of the IGs, the accountability *and* transparency data can also help agencies improve agency functions and administration. Typically, when the goal of an initiative is fraud detection, IGs come to

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INFORMATION, FEDERAL SERVICES & INTERNATIONAL SECURITY
UNITED STATES SENATE
MAY 25, 2011

the table with a great deal of enthusiasm while agencies seem less motivated. In overseeing these Recovery funds, the Board has learned that when the common goal is fraud *prevention*, agencies and IGs are equally enthusiastic, and a remarkable collaborative effort takes place between the two.

The Board is eager to continue assisting agencies in our common goal of preventing fraud. When Board Chairman Earl Devaney appeared before this Subcommittee in September, he testified that the ROC's tools were being tested in a pilot involving the Centers for Medicare and Medicaid (CMS). In the pilot, CMS partnered with the Board to investigate a group of high-risk providers. At the time of Chairman Devaney's testimony, the pilot had not been completed. I can now tell you that, by linking public, open-source data with other information like fraud alerts from other payers and court records, the pilot uncovered a potentially fraudulent scheme. The data confirmed several suspect providers who already were under investigation and, through link analysis, identified affiliated providers who now also are under investigation. Board analysts found that several providers recently accepted into the Medicare program involved individuals who were banned from doing business with the federal government at the time of enrollment. Our analysts also identified many others as having close ties to networks of entities known to have perpetrated fraud in the past, as well as a pattern of Medicare fraudsters using legitimate doctors' medical ID numbers in states far removed from where those doctors had their true practice.

TESTIMONY OF THE HONORABLE CALVIN L. SCOVEL III
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BEFORE THE SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT
INFORMATION, FEDERAL SERVICES & INTERNATIONAL SECURITY
UNITED STATES SENATE
MAY 25, 2011

In another interagency collaborative effort, the Board is working with the Veterans Affairs OIG to find firms that establish shell companies in order to receive Recovery monies through set aside and sole-source contracts awarded to Service-Disabled Veteran-Owned Small Businesses (SDVOSB). To date, more than 150 potential shell companies have been identified as warranting further investigation by the appropriate IG. Approximately half of these identified companies were awarded more than $1 million each in Recovery funds. It should be noted that more than $1 billion in sole-source and set-aside Recovery contracts were awarded to SDVOSBs.

Going forward, we are striving for new ways to expand our usefulness and share our tools with the most appropriate parties. One change from current practice that would make the ROC considerably more robust would be an exemption for the Board, the IGs, and the Council of Inspectors General on Integrity and Efficiency from the computer matching provisions of the Privacy Act. Such a statutory exemption, which was introduced last year in the House of Representatives Committee on Oversight and Government Reform, would allow us to compare data from different systems of records to detect improper payments and fraud. It could also give us the ability to identify proactively federal programs that are vulnerable to fraud, waste, and abuse of federal dollars.

In summary, the Board – which did not even exist just three short years ago – has demonstrated that with the right tools, right personnel, and right goals, the government can take fraud prevention to new heights. By working to detect *and* prevent fraud in

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BEFORE THE SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT
INFORMATION, FEDERAL SERVICES & INTERNATIONAL SECURITY
UNITED STATES SENATE
MAY 25, 2011

Recovery awards, the ROC has served the Board, the greater oversight community, and the American taxpayers.

Mr. Chairman, this concludes my prepared testimony. Thank you for this opportunity. I will be happy to answer any questions you or other Members of the Subcommittee might have.