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Protecting integrity:
How to manage public-sector fraud, waste, and abuse

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Public-sector fraud, waste, and abuse are significantly undermining government efficiency and eroding trust. Here's how Canadian government organizations can get ahead of these issues.

Integrity and trust go hand in hand. Program integrity in the public sector assures citizens that their tax dollars are being spent wisely. When integrity is undermined due to fraud, waste, or abuse, trust is lost.

To be clear, fraud, waste, and abuse are everywhere—and getting worse in almost every sector. But they are particularly pernicious in the public sector due to organizational size, complexity, slow progress toward digitization, and unclear accountability.

The types of fraud, waste, and abuse that are possible vary widely across departments and programs. In some cases, this may include falsified identities to gain access to benefits or tax accounts. In other cases, there may be weaknesses in internal controls that allow inappropriate sums to flow to citizens through benefits, grants, and contributions, or via other financial gains.

Taming the beast

Public-sector fraud risk is made more challenging by its scale, which has been growing over the past few years. In the 2022 budget, the federal government will spend more than $200 billion[1] (more than four times the annual revenue of Canada's largest bank) on budgetary expenditures. Each year, the government will serve more than 38 million citizens (a number that is also set to increase). And trillions of transactions are estimated to be recorded as a result. The opportunity for fraud, waste, and abuse is massive. Finding these risks using traditional manual processes can be extraordinarily difficult and resource-intensive.

The complexity of the issue is compounded when you start to consider all of the possible systems, business processes, and legacy technologies that are in use. These variations make agreeing on a single view of the citizen within one government department difficult—and achieving a 360-degree view across all government operations close to impossible.

Perhaps the biggest challenge facing Public-sector integrity teams is the need to balance risk management with public good. These teams want to protect taxpayer dollars, but decisions made in the public sector can have an enormous impact on people's lives—think of an individual wrongly denied health-care benefits due to a false positive on a risk calculation. Whereas a bank could easily freeze a credit card if fraudulent activity is suspected, the government needs to move much more cautiously before freezing citizen benefits.

A relatively recent event illustrates this conundrum well. The CERB payments made at the start of the pandemic prioritized expediency but, as a result, sacrificed some fiscal prudence and standard risk-prevention practices. Individual concerns have been raised and investigations are under way; in addition, there has been supposition that fraud, overpayments, and inappropriate payments have led to waste, abuse, and an unknown but undeniably concerning loss.

[1] Government expenditure plan and main estimates (parts I and II), 2022-23 estimates, Government of Canada, March 10, 2022, updated July 12, 2022, https://www.canada.ca/en/treasury-board-secretariat/services/planned-government-spending/government-expenditure-plan-main-estimates/2022-23-estimates.html

Protecting integrity

Fraud matters, particularly in the public sector. Fraud, waste, and abuse siphon public funds away from important policy priorities and future investments. Payments-based fraud, including benefits fraud, takes funding away from those who actually deserve it. It drains resources through the need for investigation. It erodes public trust and confidence in the government's ability to be a good steward of public funds. It calls into question the integrity of public programs. And all this can leave the government unable to meet its policy objectives, fuelling public cynicism and voter apathy.

Consider this: In the United States, it is estimated that—in 2020—improper payments made up around 9% of unemployment insurance payouts,[2] almost 24% of Earned Income Tax Credit payments,[3] and more than 27% of funds put aside for cleanup after wildfires and hurricanes.[4] There is no reason to expect Canada's loss rates to be significantly lower.

Lack of program integrity is also a problem for the public sector because waste and abuse diminish citizen engagement and trust. In a truly functional democracy, public confidence is based on government accountability. The more confidence people have in their government, the more likely they are to vote, turn out on issues, and tune in to the news. Fraud, waste, and abuse erode public confidence in government and drain away citizen engagement and trust.

[2] Unemployment Insurance, 2021 Q1, "High-priority programs: Payment integrity scorecard," PaymentAccuracy.gov, https://www.cfo.gov/wp-content/uploads/2021/05/Unemployment%20Insurance%20Payments%20Integrity%20Scorecard%20FY%202021%20Q1.pdf, accessed October 17, 2022.

[3] Earned Income Tax Credit, 2021 Q1, "High-priority programs: Payment integrity scorecard," PaymentAccuracy.gov, https://www.cfo.gov/wp-content/uploads/2021/03/Earned%20Income%20Tax%20Credit%20Payments%20Integrity%20Scorecard%20FY%202021%20Q1.pdf, accessed October 17, 2022.

[4] Hurricane Harvey—Wildfires and Hurricane Indemnity Program, 2021 Q1, "High-priority programs: Payment integrity scorecard," PaymentAccuracy.gov, https://www.cfo.gov/wp-content/uploads/2021/03/Hurricane%20Harvey%20-%20Wildfires%20and%20Hurricane%20Indemnity%20Program%20Payments%20Integrity%20Scorecard%20FY%202021%20Q1.pdf, accessed October 17, 2022.

Pinpointing the oversight

We can presume everyone agrees that fraud is bad (except perhaps the fraudsters themselves), program integrity is good, and losses must be curbed. Yet action has been slow. At the same time, most government organizations are poorly equipped to deal with fraud—let alone proactively mitigate it.

In Canada, there are a range of ministers, watchdogs, official positions, and government offices that, in some form or other, oversee matters of fraud, waste, and abuse. In some departments, that could be a privacy commissioner, an internal auditor, an ombudsman, a risk manager, a senior leader, or a government minister. At the federal level, the auditor general has a mandate to audit and investigate potential abuse and fraud. The Treasury Board, made up of numerous cabinet ministers, also has some influence, which can be enacted through policies and procedures. If criminal proceedings are required, the RCMP, CSIS, FINTRAC,

and/or Revenue Canada could get involved. So, too, could foreign parties such as INTERPOL, depending on the scope of the case.

However, in most cases, Canadian government officials are poorly equipped to deal with fraud, waste, and abuse. Granted, most government departments and organizations have basic policies to deter and report fraud. But a recent survey conducted by British Columbia's auditor general found that 55% of provincial government organizations do not conduct any formal fraud risk assessments (and of these, only 10% do an assessment as part of their year-end financial-statement audits). Only 43% of the organizations surveyed had policies and procedures in place for cases in which an employee spots potential fraud (and of these, just 40% advise on when the employee should call the police).[5]

[5] Fraud risk management survey report—2020/21, Office of the Auditor General of British Columbia, November 2021, https://www.bcauditor.com/sites/default/files/publications/reports/BCOAG-Fraud-Risk-Management-Survey-Report-November-2021.pdf.

Seeing the bigger picture

There are two big challenges with this rather piecemeal approach. The first is that there is little collaboration or information-sharing between those responsible for uncovering, investigating, and prosecuting cases of fraud and/or abuse. That can not only lead to a duplication of effort, but it can also mean that cross-departmental and cross-functional insights are rarely uncovered, and thus root causes and valuable trends are not likely to be brought to light.

The second challenge is that the vast majority of Canada's fraud, waste, and abuse investigation and control activity is reactive. Someone needs to submit a complaint to the appropriate office; a whistleblower needs to call a hotline; the auditor general needs to uncover something particularly worrying in the course of routine business. Even those government organizations that do have intentional integrity approaches tend to focus on what happened in the past—as opposed to what could happen in the future. That means that nobody is really focusing on proactively trying to identify, control, and mitigate fraud, waste, and abuse in the Canadian public sector.

Canada is not alone in this quandary. Most other governments face similar challenges. That is why the United Kingdom recently set up the Public Sector Fraud Authority. In the United States, these tasks are broadly within the purview of the Government Accountability Office. Australia is also debating the value of creating a more centralized body to handle public-sector fraud. But more often than not, the controls and processes to manage fraud, waste, and abuse remain reactive, disconnected, and inefficient.

Getting proactive with program integrity

At Deloitte, we are convinced there is a better way for Canadian public‑sector organizations to manage fraud, waste, and abuse. We believe these institutions can be more proactive, more data-driven, more preventative, and more efficient and effective. And we are confident that big improvements—with impressive cost-benefit ratios—can be made quickly.

Making these updates will require organizations to move away from the traditional pay-and-chase approach and toward one more focused on prevention and program integrity. It will take some new capabilities, new approaches, and new technologies. Data will need to be shared and analyzed to find and prevent the risks and anomalies that can result in fraud and waste. Institutional knowledge and investigator experience will need to be coded into the system. In terms of best practices, the financial-services sector offers valuable lessons and ideas that public‑sector organizations could use.

However, no matter how mature or robust an institution's current policies and processes on fraud, waste, and abuse controls may be, we believe there are five things that all public‑sector organizations could be doing in order to move toward a more vigorous and holistic approach to program integrity.

Build awareness

Prevention cannot begin until leaders, employees, partners, and stakeholders are aware of the various risks they face. Everyone from the top of the organization down must hear and understand the importance of program integrity and the intention to stop fraud, waste, and abuse. Building awareness not only includes ensuring you have the right tone at the top, but also that you regularly communicate policies and expectations, provide appropriate employee training, and implement best practices such as whistleblower programs.

Assess the risks

Traditionally, most public-sector organizations have focused on preventing and/or reporting internal risks such as bribery and corruption. However, there are other types of risk that a public-sector entity must address, especially in terms of payments and financial processing. Conducting best practices such as risk assessments and root-cause analyses supported by accountable action plans helps to create a more complete and transparent understanding of program-integrity risks, and it can help better identify, manage, and mitigate fraud, waste, and abuse.

Get the basics right

Clear policies, procedures, and employee awareness are the building blocks of a strong culture of program integrity. However, these are not sufficient on their own to help prevent, detect, and correct fraud. Organizational frameworks—including operating models, clear roles and responsibilities with defined accountability, robust governance, and regularly updated policies—help provide clear guidance on how to tackle fraud when it occurs and how to prevent it from reoccurring. The result is generally an increase in an organization's transparency, as well as in its accountability for the full life cycle of fraud risk management.

Ensure that investigations are effective

Investigations are at the heart of intelligence in fraud risk-management practices, but typically they are a scarce resource. Regardless of an organization's state of maturity, enabling and empowering investigators or inspectors is critical. Data, analytics, and process improvements can allow these professionals to focus their efforts on high-risk cases. This not only can improve their efficiency, but it can also help lead to improved overall outcomes.

Plan the journey to program integrity

It takes time and organizational commitment to develop an understanding of risks and to build a solid program-integrity governance and operating model. Today's data and technology advancements make it possible to have an effective, accurate, and positive client experience while also protecting against fraud, waste, and abuse. And the type and level of risk helps to direct the analytically grounded prevention approaches taken.

Public-sector organizations are on the path toward digitization, with major transformations planned or under way. The move to digital transactions and business processes also creates the opportunity for proactive and preventative analytics—the key tool in moving away from the pay-and-chase model. A conscious effort to include integrity requirements and intention in these transformations is imperative to help ensure that new solutions don't involve the same unaddressed risks—or worse, create greater risks.

Getting started

At Deloitte, we have among the largest Financial Crime practices in Canada. And we have helped a wide range of organizations move from reactive pay-and-chase models to more proactive program-integrity methods. Our work suggests that government organizations could recoup massive returns by enhancing internal approaches to fraud, waste, and abuse.

Deloitte's experience and proven ability through previous collaborations also suggest there are opportunities to help accelerate and bring forward the value that a strong program-integrity approach can deliver. Those organizations already undergoing IT transformation initiatives, for example, may benefit from seeing how they can use those investments to accelerate the shift to program integrity. Even small data-driven investments can create insights that can help identify and reduce the risk for fraud.

By aligning such a program to a wider business agenda and bringing insights forward in small increments, government organizations can start to create positive impact, influence risk culture, and deliver real risk reduction. Even small actions toward stronger program integrity can deliver value.

One thing is clear: The fraud artists are determined, which means public‑sector fraud, waste, and abuse are not going to disappear under the status quo. Canada's governments and citizens deserve a better approach.

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