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United States General Accounting Office

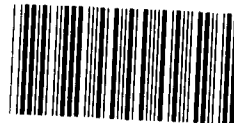
GAO

Fact Sheet for the Honorable
Jim Sasser, U.S. Senate

April 1988

FRAUD HOTLINE

9-Year GAO Fraud Hotline Summary



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United States
General Accounting Office
Washington, D.C. 20548

Office of Special Investigations

B-171019

April 19, 1988

The Honorable Jim Sasser
United States Senate

Dear Senator Sasser:

In response to your February 1988 request, we are providing a fact sheet summarizing our 9 years of operation of the GAO Fraud Hotline. This updates information provided to you in our last Hotline report, dated April 8, 1987.

This fact sheet is a brief overview of our Hotline operation and concentrates on Hotline statistics and examples of substantiated cases. It also outlines changes in our procedures to improve the efficiency of our operation. We hope this report will be helpful to you in your efforts to assist the Congress and the public in combating fraud, waste, and mismanagement in the federal government.

If you have any questions on this report or on the operation of the GAO Fraud Hotline, please contact Gary Carbone on (202) 272-5500.

Sincerely yours,

David C. Williams
David C. Williams
Director

9-YEAR GAO FRAUD HOTLINE SUMMARY
(January 18, 1979-January 17, 1988)

I. CONTINUING OBJECTIVES,
GOALS, AND PROCEDURES

During our first full year as an integral part of the U.S. General Accounting Office (GAO), Office of Special Investigations (OSI), the GAO Fraud Hotline's objectives and goals have continued to be to

- operate a nationwide, toll-free hotline that anyone in the United States may use to report allegations of fraud or mismanagement of federal funds and, when those allegations are deemed to merit further review, refer them to the Inspector General (IG) of the cognizant federal agency for appropriate audit or investigation;
- conduct our own investigations of allegations directed against agencies without IGs;
- expedite responses to congressional requests that certain allegations be investigated;
- review IG responses to allegations we have referred to them, thereby ensuring that all issues have been investigated and corrective actions have been taken;
- advise GAO divisions and agency IGs of audit leads based on our review of allegations and agency responses; and
- provide information and assistance to federal, state, and local organizations establishing their own hotlines.

With 13 of the 19 statutory IG offices now providing toll-free hotlines and with the establishment of the President's Council on Integrity and Efficiency to coordinate the efforts of the IG offices, the role of the GAO Fraud Hotline has taken on different dimensions. It has become evident that we should take certain actions that respond to the decrease in the number of calls received by the GAO Hotline as a result of the increased number of toll-free hotlines used by the federal government to uncover fraud and mismanagement.

In the case of an allegation regarding entitlement or recipient fraud by an individual, we plan to direct the caller to the appropriate agency's toll-free hotline. This will expedite the resolution of the allegation and obviate any redundancies in the system.

We will continue to refer under our existing procedures recipient fraud allegations involving agencies without toll-free hotlines. However, in those instances, and in less serious allegations that we refer to an agency, we will not require that the agency respond to us with the results of their investigation or audit.

We will continue to track cases of a serious nature. We will also continue to track those cases that suggest a problem may be systemic to a program or agency.

Additionally, we have reduced our hotline's operating hours to 10:00 a.m. to 4:00 p.m. Eastern time. These hours include our periods of highest activity and assure adequate coverage of all areas of the Nation. We will continue to have a recorded message on at all other times.

The effect of these changes will allow us to intensify our oversight of agency hotline efforts and activities without increasing the size of the GAO Hotline staff. We believe these changes will better serve the needs of the public and the Congress.

In mid-December 1987, all Office of Special Investigations operations were consolidated at one location. Accordingly, we are providing our correspondents with the following new address:

GAO Fraud Hotline
Room 1000
600 E Street, N.W.
Washington, D.C. 20548

Our nationwide, toll-free hotline telephone number remains the same, (800) 424-5454, but the local number for the Washington, D.C., area has been changed to 272-5557.

II. STATISTICAL OVERVIEW

In our 9-year existence, we have received over 94,000 calls on our toll-free hotline, of which 13,992 cases have warranted further review. Of the calls warranting further review, 70 percent were received from anonymous sources. Part of these anonymous calls were from federal employees. Altogether, calls from federal employees totaled 26.2 percent of those warranting further review.

Calls not written up were for reasons such as the caller lacked specific information or the allegation did not involve a federal program. Those callers who had information on nonfederal matters were directed to the appropriate state or local agency.

Geographic Breakdown

The 13,992 cases we received were reported to have taken place in the following geographic areas:

Washington, D.C.	1,044	Nebraska	61
Alabama	246	Nevada	71
Alaska	51	New Hampshire	38
Arizona	157	New Jersey	235
Arkansas	157	New Mexico	130
California	1,843	New York	619
Colorado	204	North Carolina	288
Connecticut	74	North Dakota	54
Delaware	16	Ohio	649
Florida	601	Oklahoma	158
Georgia	559	Oregon	118
Hawaii	56	Pennsylvania	571
Idaho	52	Rhode Island	32
Illinois	375	South Carolina	134
Indiana	182	South Dakota	50
Iowa	79	Tennessee	481
Kansas	113	Texas	772
Kentucky	255	Utah	58
Louisiana	164	Vermont	17
Maine	48	Virginia	615
Maryland	409	Washington	344
Massachusetts	220	West Virginia	109
Michigan	382	Wisconsin	121
Minnesota	101	Wyoming	20
Mississippi	148	Overseas	139
Missouri	293	Missing Code	207
Montana	62		

Referral to Agencies

We subsequently referred these 13,992 cases to the following agencies for further review:

Department of Health and Human Services	3,807
Department of Defense	2,648
Internal Revenue Service	1,327
Department of Housing and Urban Development	905
Department of Labor	736
Department of Agriculture	745
Veterans Administration	654
General Accounting Office	460 ^a
General Services Administration	418

Department of Justice	422
Department of the Interior	353
Postal Service	321
Department of Transportation	303
Department of Education	227
Department of the Treasury	220
Department of Energy	154
Environmental Protection Agency	147
Department of Commerce	141
Office of Personnel Management	125
Small Business Administration	114
Federal Emergency Management Agency	58
National Aeronautics and Space Administration	57
Tennessee Valley Authority	44
Department of State	28
Agency for International Development	22
Other Agencies	164
Total Referrals	<u>14,600</u> ^b

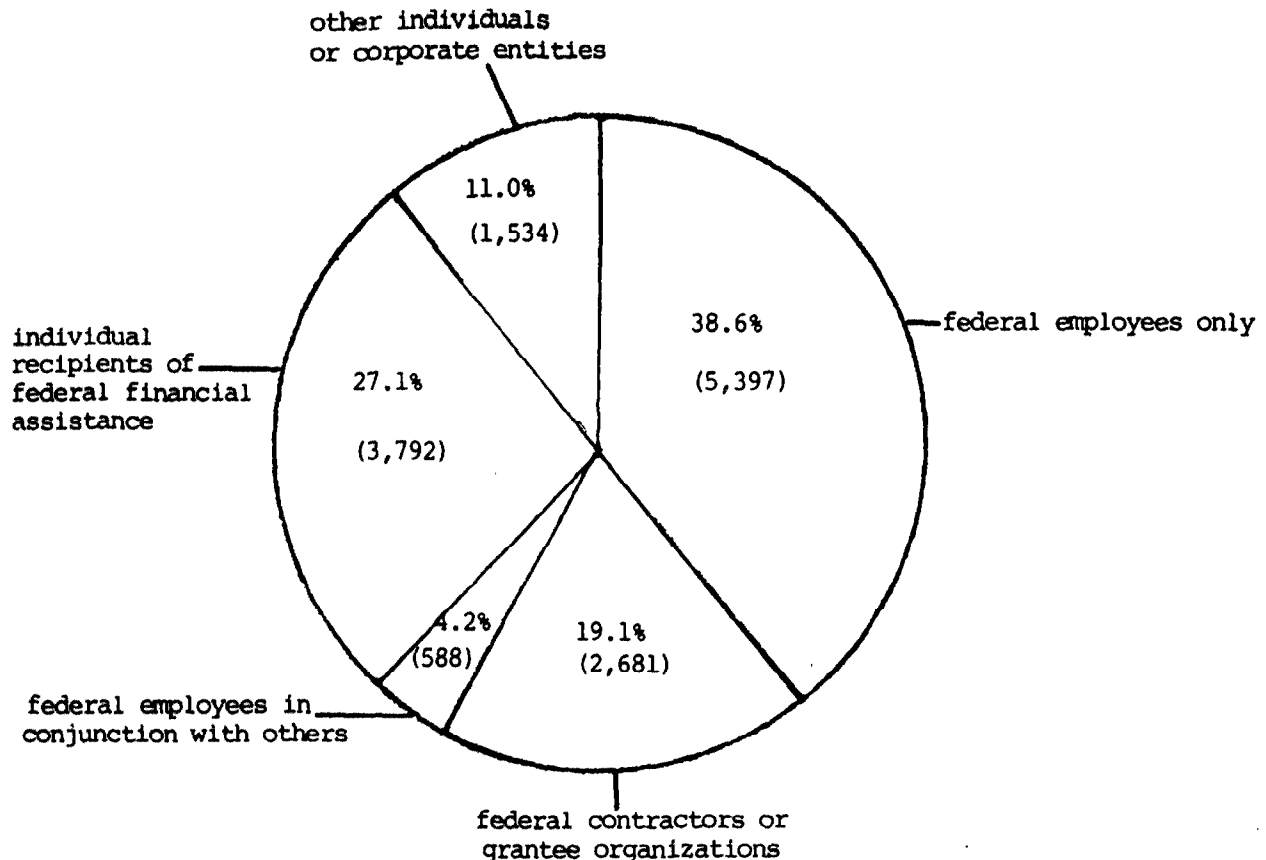
^aThese include cases the GAO Hotline investigated or referred to other GAO components.

^bThe total number of cases we referred is greater than the number of cases warranting further review because we referred some cases to more than one agency.

Participants

Allegations we referred for further review have also been categorized according to the participant in the alleged improper activity. We have established five such categories: (1) federal employees only, (2) federal employees in conjunction with others, (3) federal contractors or grantees, (4) individual recipients of federal financial assistance, and (5) other individuals or corporations. Of the 13,992 cases of wrongdoing and/or mismanagement, the highest proportion, 38.6 percent, was in the category "federal employees only."

The following chart shows the percentage for each participant category of the 13,992 cases we referred for further review.



In the largest category, "federal employees only," we found 891 reports of employee work-hour abuse, 654 allegations of private use of government property, 605 allegations of noncompliance with established agency procedures or policies, 597 reports of improper financial transactions, 338 allegations of theft, 192 reports of purchasing unnecessary equipment, 158 allegations of awarding unneeded contracts, and 1,962 other allegations of fraud and mismanagement.

In the second largest category, "individual recipients of federal financial assistance," we found 1,161 allegations of improper receipt of welfare benefits and 823 of improper receipt of disability benefits. There were also 676 cases of improper receipt of social security benefits, 249 instances of improper receipt of food stamps, 195 reports of housing subsidy abuse, 178 instances of improper receipt of veterans benefits, and 510 miscellaneous allegations.

In the category "federal contractors or grantee organizations," there were 867 allegations of improper expenditure of government funds, 403 reports of partial or nonperformance of contractor/grantee services, 226 allegations of medical personnel overbilling medicare/medicaid, 170 allegations of noncompliance with established procedures, 145 reports of the theft of government funds or property, 122 reports of false information provided on grants and contracts, and 748 other allegations of fraud and mismanagement.

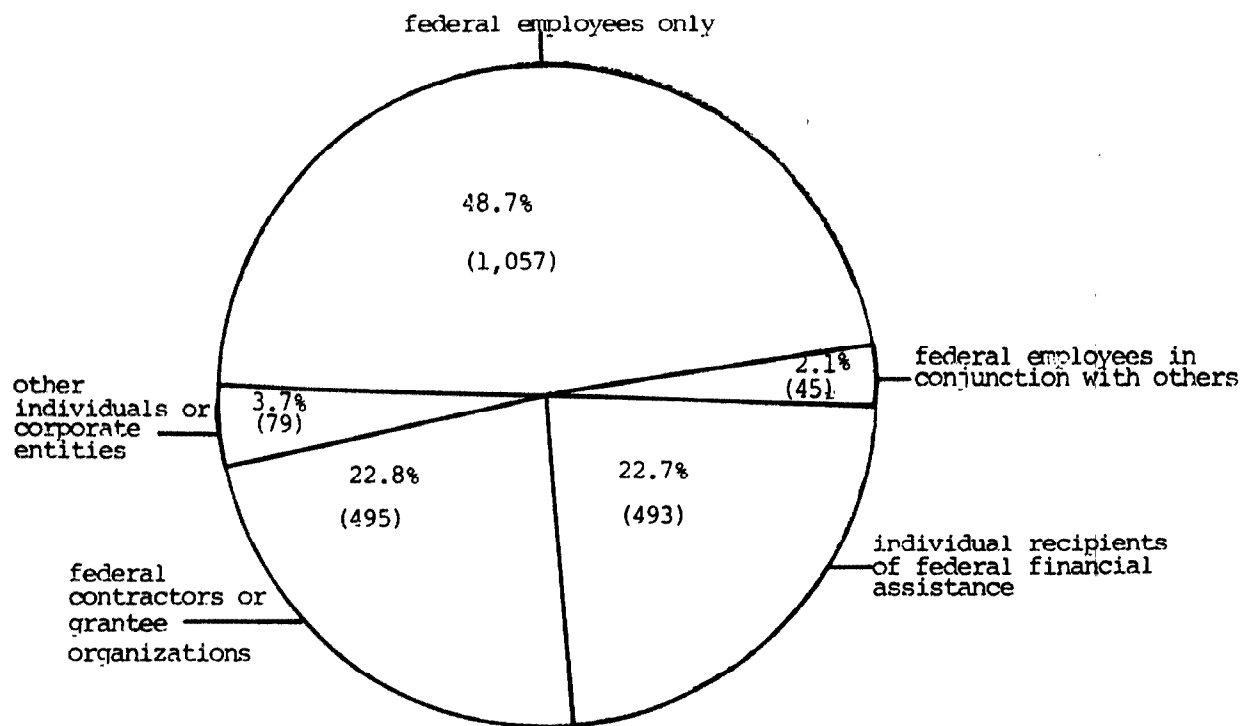
In the category "other individuals or corporate entities," there were 1,095 allegations of income tax cheating and 439 other allegations of improper activities.

In the final category, "federal employees in conjunction with others," there were 265 allegations involving bribery or kickbacks, 165 allegations of conflict of interest, and 158 miscellaneous allegations.

Action Taken on Referrals

Of the 13,992 cases the GAO Hotline investigated or referred, 11,246 have been closed. Of these closed cases, 1,589 were substantiated. In another 580, the reported allegations were not substantiated, but the agencies acted to prevent or minimize the possibility of an improper activity from occurring in the future.

The following chart shows the percentage for each participant category of the 2,169 cases in which allegations were substantiated or preventive action was taken.



The most common substantiated cases were private use of government property; work-hour abuse by federal employees; fraud by recipients of such benefits as welfare, social security, disability, and housing; and general mismanagement by government employees.

Legal and Administrative Action

If an investigation discloses a violation of criminal law, the agency should refer the report of the investigation to the Justice Department or state prosecutor for review and possible prosecution. In the GAO Hotline's 9 years of existence, agencies have told us that 146 of these cases resulted in some legal action. Defendants were convicted in 47 cases. In addition, other cases were declined for prosecution for such reasons as insufficient evidence, insignificant loss to the government, or administrative action by the agency would be more appropriate.

In numerous instances, the agency took administrative action against federal employees, contractors, and other individuals. These actions included employee dismissals, suspensions, demotions, or transfers. In addition, contractors and grantees were suspended or debarred, had contracts or grants canceled, or were issued warnings about their work.

The Hotline has also provided advisement letters identifying potential audit leads to GAO operating divisions and, on occasion, to appropriate agency officials. These leads have benefited GAO by providing the basis to initiate audits of agency programs or supporting ongoing audits with additional information. We have also provided information in support of OSI investigations and inspections.

Misspent Funds/Savings

Due to the nature of some of the allegations we receive and the fact that Inspector General offices do not always have records of dollar savings in their hotline case files, we have found it very difficult to estimate dollar savings attributable to the GAO Hotline. A number of these substantiated allegations do not lend themselves to estimating dollars saved, but do provide another type of savings. This involves actions taken by the agencies to prevent or deter activities in which the possibility for waste, abuse, and mismanagement exists. Based on the few substantiated cases that follow, we believe it is reasonable to conclude that millions of dollars in waste, fraud, abuse, and mismanagement have been identified as a result of calls to the GAO Hotline.

Substantiated GAO Hotline Cases

Examples of substantiated GAO Hotline cases closed in the past year are the following:¹

- An anonymous caller alleged that a federal prison official conspired with other employees in a bid-rigging scheme to have toxic wastes removed from prison property for a fee of \$12,000. The removal was prompted by a scheduled inspection by the prison's board of directors. The prison had no contract for waste removal. A prison foreman established a fictitious waste-disposal company at the direction of the official and a 3-year accumulation of toxic waste was removed to private property in 55-gallon drums. However, some spillage occurred resulting in soil damage. The business manager approved payment on the contract. An informant at the prison notified the Environmental Protection Agency (EPA) of the spillage and their investigation found that cleanup of the spill was required at an estimated cost of \$25,000. The caller complained that the government had already paid \$12,000 for the improper disposal, and must pay \$25,000 for the cleanup. The caller further complained that since the drums were returned to the prison property, the government must negotiate a legitimate contract to have the waste removed. The GAO Hotline referred the case to the Department of Justice. Their investigation substantiated the allegation. Three employees of the prison were dismissed and 1 was demoted. EPA's investigation resulted in a 6-count indictment being handed down against 3 employees. A trial date has not yet been set.

- An anonymous caller alleged that an Army general was improperly using an Army helicopter and crew members to commute to his duty station and that he had issued orders to cover up his misuse. This allegation was referred to the Army Inspector General, whose investigation partially substantiated the case. The Army General had used the helicopter to commute 42 miles to his duty station at least 10 days during a 1-month period at a cost of about \$4,665. No punitive action was taken against the General because he had relied on the advice of his Staff Judge Advocate about

¹Some of these examples may have been investigated by the agency before 1987, but GAO was not notified of the results until sometime between January 18, 1987 and January 17, 1988.

his aircraft use. The Army initiated a review of its regulations and told the General that an exception to the Secretary of the Army policy would have to be approved for the General to continue this transportation on a frequent basis.

- An anonymous caller alleged that a man collecting Railroad Retirement disability payments for a bad back was self-employed building houses. GAO referred the allegation to the Railroad Retirement Board's Office of Inspector General, whose investigation found that the man had improperly received over \$78,000 in Railroad Retirement benefits. The evidence was presented to the U.S. Attorney, who declined prosecution in favor of administrative action. The Railroad Retirement Board is taking action to recover the total overpayment.
- A caller alleged that a flight instructor with an Army Reserve unit had used a government aircraft to deliver sporting equipment and a microwave oven to his son who was attending a college less than 200 miles from the flight instructor's duty station. According to the caller, this flight had been made after 2 other instances of aircraft misuse for which the same instructor had been formally reprimanded. This allegation was referred to the Department of Defense Inspector General and investigated by the Reserve Command. As a result, the Commanding General of the Reserve amended his previous reprimand commenting that use of a military aircraft for personal reasons or transportation of personal cargo might have been common in the past but that it would not be condoned or permitted in the future. A subsequent review of flight records by the Command's Inspector General found that the personal use of military aircraft was no longer a problem.
- A caller contacted the Hotline to allege that an Army commander of a special forces group ordered some of his noncommissioned officers and enlisted men to wrongfully use government tents and vehicles to support a local civilian horse show in which his daughter was a participant. After the show, the Commander ordered his personnel to remove these tents. The allegation was referred to the Department of Defense Inspector General for investigation, who substantiated the allegations. The Commander received a letter of reprimand from the Commanding General for his actions. Also, the Commanding General has sent formal notification to all other Commanders reminding them of applicable Army regulations.
- An anonymous caller alleged that Department of Commerce employees were manipulating the evaluation of technical

proposals to keep one contractor in the running for a contract. The contractor's technical proposal did not comply with the requirements of the evaluation. We referred this allegation to the Department of Commerce Inspector General, who conducted an audit in this area and noted that a full-scale \$500 million production contract may result from this technical proposal. Although the IG could not fully sustain the allegation, serious management deficiencies were identified involving inadequate accountability for evaluations, inadequate criteria for judging proposals, and problems in the source-selection process. The agency took corrective action to resolve these deficiencies.

-- An anonymous caller alleged that some employees of an Immigration and Naturalization Service office in Washington, D.C., were attending a swimming pool party on government time. A routine check by the GAO Hotline determined that the employees were attending a birthday party for their supervisor at a local hotel swimming pool. A Department of Justice inquiry into the matter substantiated the allegation and the supervisor was reprimanded for allowing his employees to be absent from their jobs without taking leave.

-- A caller alleged that an Army general proposed to fly a C-12 plane to California to observe his troops participating in an exercise when commercial flights were readily available at a substantial savings. Also, it was alleged that the General was using a helicopter to avoid rush-hour traffic when visiting a nearby facility. The Hotline inquired into the first allegation since the General's trip to California was to take place within a few days. The allegation concerning helicopter misuse was referred to the Department of Defense Inspector General for investigation. As a result of the GAO inquiry into the first allegation, the General's staff changed his itinerary to a commercial flight at a savings of \$6,300. The investigation concerning helicopter misuse was conducted by the Army Inspector General but was unsubstantiated since the use of the helicopter was temporary and was considered consistent with the General's duties.

-- A caller to the Hotline alleged that a widow of a U.S. veteran, who died in 1980, had not reported to the Veterans Administration (VA) that she had remarried in 1983 and was continuing to receive VA benefits. The VA benefit checks were being deposited directly into her own personal bank account. This case was referred to the VA Inspector General and an examination by the VA's Department of Veterans Benefits substantiated the allegation. The widow will now have to repay the VA over \$16,000.

- An anonymous caller told the GAO Hotline that an official of the federal courts in Florida was assigning part-time employees preferentially and falsifying their attendance records. The matter was referred to the Administrative Office of the U.S. Courts, where the Office of Audit and Review found evidence substantiating the allegation. The official was given the opportunity to defend himself against the charges at a meeting of the district's judges or to submit his resignation. He opted to retire. The U.S. Attorney declined prosecution.

- An anonymous caller alleged that a government station wagon had been illegally used to deliver paint and other supplies to a private residence being remodeled in Miami, Florida. An investigation by the Department of Transportation's Office of Inspector General found that the government vehicle was permanently assigned to an employee of the Federal Aviation Administration. This employee admitted using the vehicle to deliver paint and other supplies to the house being remodeled. The allegation was substantiated, and the employee was suspended for 30 days.

- A caller alleged that a government inspector was covering up nonperformance of a janitorial contractor at a Naval installation because the contractor had hired the inspector's girlfriend. The caller also alleged that the same inspector was taking gratuities from the contractor and socializing with contractor personnel. This allegation was referred to the Department of Defense Inspector General, and the Naval Investigative Service (NIS) conducted the investigation. Although NIS did not find that the contractor was inadequately performing on the contract, they did find a gambling ring that was operating at the installation with government and contracting personnel involved. As a result, the government inspector was suspended for 3 days, and another government employee was convicted in a local court and given 6 months probation. Four other government employees were given either letters of caution or reprimand. In addition, 3 contract personnel were convicted in a local court, placed on 6 months probation, and debarred from working at the installation. Another resigned his position with the contractor.

- A caller from Minnesota told the Hotline that a local housing authority had illegally spent Housing and Urban Development funds for planning fees, salaries, benefits, and equipment for the city. The writer provided evidence documenting the allegation. The Hotline referred the matter to HUD's Office of Inspector General. Auditors substantiated the allegation. The housing authority returned \$13,336 to the federal treasury.

-- A caller alleged that a veteran was improperly collecting full disability benefits from the Veterans Administration for having suffered "convulsions" during basic training. The allegation was substantiated by the VA Inspector General after the GAO Hotline referred the case. The caller claimed the veteran owned and operated a marble-products business between 1978 and 1979 requiring "heavy labor" but failed to report the activities to the VA. A reexamination of the veteran revealed a remarkable physical improvement. The examination also revealed that he had ceased taking previously prescribed medications. Based on the evidence, the veteran's disability benefits were reduced from 100 percent. A savings of \$15,432 annually will be realized by the VA from the veteran's reduction in benefits.

-- A caller to the Hotline alleged that the Air Force could have saved over \$76,000 in travel costs if they had conducted their exercises in Honduras under field conditions instead of staying in hotels on per diem. The allegation was referred to the Department of Defense Inspector General and an investigation was conducted by the U.S. Southern Command, who substantiated the allegation. The Air Force had authorized an exception that 50 Air Force personnel could be billeted in hotels for a 2-week period. The rationale for billeting in this manner was based on the fact that the hotels were in close proximity to the duty location and only commercial billets were available. The policy on conducting exercises in Honduras under field conditions was reemphasized.

-- An anonymous informant alleged that a farmer was actually operating a commercial trucking business for hire and ignoring various state and federal regulations. The GAO Hotline referred this case to the Department of Transportation Inspector General, who directed the Federal Highway Administration (FHWA) to investigate the case. The FHWA substantiated the allegation. The farmer was found to be violating a number of regulations, which included using uncertified motor vehicle operators and poor recordkeeping. The farmer agreed to comply with the federal regulations he was violating. FHWA plans to monitor this carrier's business.

-- A caller alleged that a Navy contractor was falsifying and altering air freight bills to increase shipping costs on Navy purchases. This allegation was referred to the Department of Defense Inspector General, and an investigation was conducted by the Naval Investigative Service. Although the government did not prosecute the contractor, the government took administrative action and recovered over \$1,100 from the contractor.

- A student alleged that a school receiving U.S. Department of Education funds was not providing the hours of instructional services as shown in its catalog. Inquiries were made by the Office of Post Secondary Education and the Association of Independent Colleges and Schools. The school admitted to an error in course clock hours and made a refund of \$1,542 to the student making the allegation. The school will face a review of its accreditation status in reference to other unresolved issues found during the review.
- An anonymous caller alleged that the Federal Emergency Management Administration (FEMA) awarded a \$90,000 contract for a training package even though interagency advisory committee members notified FEMA that technical inaccuracies existed. A FEMA IG investigation substantiated the allegation and revealed that FEMA had no recourse against the contractor because of FEMA's knowledge of the inaccuracies before the contract was awarded. A year-long congressional study disclosed that FEMA needed to improve its procedures dealing with contracting and with FEMA's advisory committee and subcommittees. The Department of Justice (DOJ) conducted an investigation to determine whether fraud was involved in awarding the contract, but the DOJ closed the case without bringing criminal charges.
- An anonymous caller to the GAO Hotline alleged that an unemployment-benefits recipient was working at a warehouse in New York City and earning \$400 per week in addition to collecting \$170 per week in benefits. The GAO Hotline referred this allegation to the Department of Labor Inspector General after the caller claimed that employees of the local unemployment office said they would take no action on the matter. The case was sent to the U.S. Attorney who declined prosecution, but a repayment agreement was signed by the recipient for over \$6,500.
- An anonymous caller alleged that the project manager of a Housing and Urban Development subsidized housing development assigned units to members of her family regardless of their position on the list of eligible applicants. HUD's on-site management review found that housing applications were taken out of turn. The management agent, a contractor, has developed new written procedures and will closely supervise the project manager.
- According to an employee of a midwestern state's financial department, the staff was encountering difficulty in obtaining responses from various federal agencies concerning their recovery of dormant accounts. These agencies were being advised to reclaim funds due them from various bank

accounts that had been set up by the federal agencies. The banks subsequently turned the funds into the state as required because the accounts were dormant for 7 years. The state contacted the GAO Hotline, who agreed to claim these funds and return them to the federal treasury. In 1987, GAO collected over \$30,000 from the state.

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