United States General Accounting Office

GAO

Fact Sheet for the Honorable
Jim Sasser
United States Senate

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April 1987

FRAUD HOTLINE

8-Year GAO Fraud Hotline Summary

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

Office of the General Counsel

B-171019

April 8, 1987

The Honorable Jim Sasser
United States Senate

Dear Senator Sasser:

In response to your March 1987 request, we are providing a fact sheet summarizing our 8 years of operation of the GAO Fraud Hotline. This updates information provided to you in our last report on the Hotline dated February 20, 1986. This fact sheet is a brief overview which concentrates on Hotline statistics and examples of substantiated cases.

We hope this 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.

As you requested, unless you publicly announce its contents earlier, we will not distribute this document until 10 days from its date. After 10 days, we will make copies available to interested parties.

On December 7, 1987 the responsibility for the Hotline was transferred from GAO's Accounting and Financial Management Division to the General Counsel's new Office of Special Investigations. Mr. Carbone will continue to direct the Hotline's operation.

If you have any questions on this report or on the operation of the GAO Hotline, please contact Gary Carbone on (202) 275-9342.

Sincerely yours,

David C Williams

David C. Williams
Director
Office of Special Investigations

8-YEAR GAO FRAUD HOTLINE SUMMARY
(January 18, 1979-January 17, 1987)

I. Continuing Objectives, Goals, and Procedures

Since our last report (GAO/AFMD-86-32 FS, February 20, 1986) on the General Accounting Office (GAO) Fraud Hotline operation, the Hotline structure as well as the interviewing, screening, referral and follow-up procedures have not changed. However, the Hotline operation has recently become part of the new Office of Special Investigations within the Office of General Counsel. Our objectives and goals continue to be:

-- maintaining a nationwide, toll-free hotline for receiving information on fraud, waste, and mismanagement in the federal government and referring cases to the federal agencies involved for their own audits or investigations;

-- conducting investigations of alleged fraud, waste, and abuse involving agencies that do not have an inspector general (IG) or agencies with which GAO has not established referral procedures;

-- responding to congressional requests and inquiries involving fraud, waste, and mismanagement of federal funds;

-- following up on certain allegations referred to offices of inspectors general (OIGs) to ensure all issues have been investigated and corrective actions have been taken;

-- providing advisement letters (audit leads) to GAO divisions and agency OIGs based on our review of allegations and agency responses; and

-- providing information and assistance to federal, state, and local organizations establishing their own hotlines.

II. Statistical Overview

In the 8-year period, over 87,000 calls have been received on the toll free hotline, resulting in 13,019 cases warranting further review. The nationwide hotline phone number is 800-424-5454 and in the Washington, D.C., area, the number is 633-6987. 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 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 13,019 cases were reported to have taken place in the following geographic areas:

Washington, D.C.	941	Hawaii	49
Alabama	231	Idaho	49
Alaska	48	Illinois	353
Arizona	144	Indiana	173
Arkansas	154	Iowa	76
California	1,697	Kansas	101
Colorado	193	Kentucky	235
Connecticut	70	Louisiana	147
Delaware	15	Maine	48
Florida	567	Maryland	375
Georgia	529	Massachusetts	202

Michigan	371	Oregon	109
Minnesota	96	Pennsylvania	536
Mississippi	141	Rhode Island	30
Missouri	283	South Carolina	127
Montana	59	South Dakota	44
Nebraska	55	Tennessee	458
Nevada	61	Texas	717
New Hampshire	34	Utah	53
New Jersey	221	Vermont	16
New Mexico	119	Virginia	570
New York	581	Washington	311
North Carolina	266	West Virginia	103
North Dakota	49	Wisconsin	115
Ohio	597	Wyoming	19
Oklahoma	144	Overseas	129
		Missing codes	208

Referral to agencies

These 13,019 cases were subsequently referred to the following agencies for further review.

Department of Health and Human Services	3,578
Department of Defense	2,376
Internal Revenue Service	1,297
Department of Housing and Urban Development	843
Department of Labor	710
Department of Agriculture	703
Veterans Administration	607
General Accounting Office	415[a]
General Services Administration	390
Department of Justice	382
Postal Service	305
Department of the Interior	312
Department of Transportation	285
Department of Education	215
Department of the Treasury	205
Department of Energy	139
Environmental Protection Agency	134
Department of Commerce	135
Office of Personnel Management	116
Small Business Administration	109
Community Services Administration	90
Federal Emergency Management Agency	55
National Aeronautics and Space Administration	53
Tennessee Valley Authority	42
Department of State	25
Agency for International Development	20
Other agencies	66
Total Referrals	13,607[b]

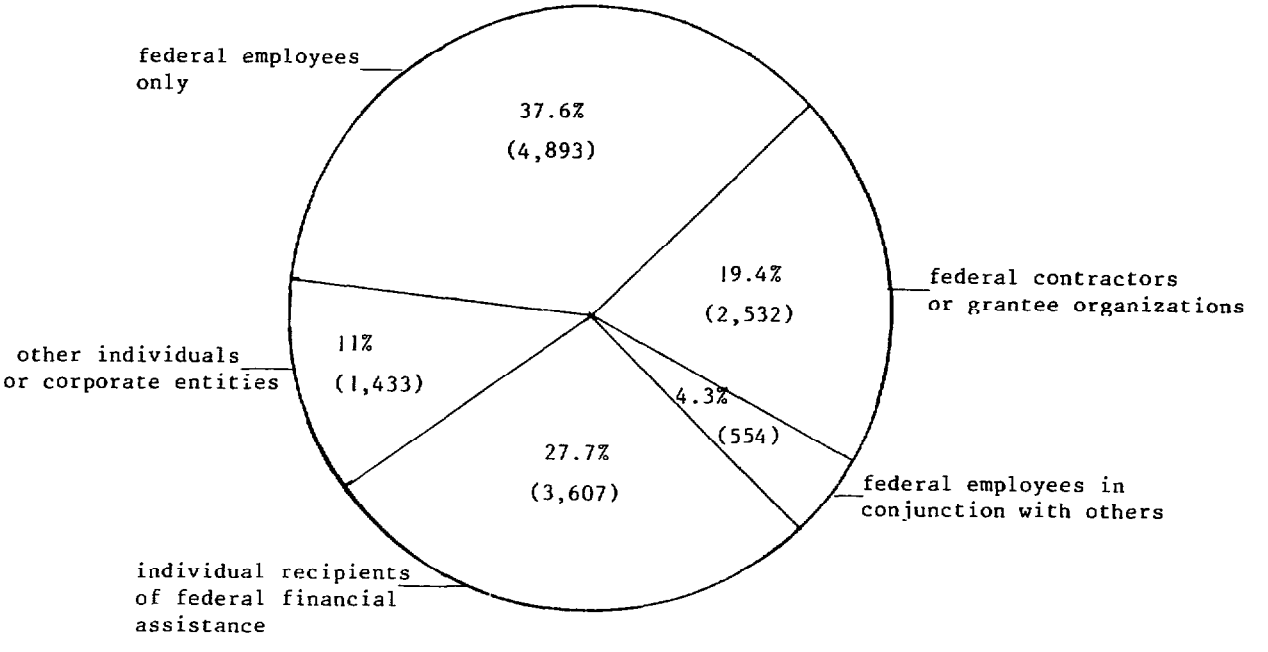
[a]These include cases investigated by the GAO hotline or referred to other GAO components.

[b]Total cases referred is greater than the number of cases warranting further review because some cases were referred to more than one agency.

Participants

Allegations 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 13,019 cases of wrongdoing and/or mismanagement, the highest proportion, 37.6 percent, was in the category "federal employees only."

The following chart shows the percentage for each participant category of the 13,019 cases referred for further review.



In the largest category, "federal employees only," we found 830 reports of employee work-hour abuse, 609 allegations of private use of government property, 555 reports of improper financial transactions, 471 allegations of noncompliance

with established agency procedures or policies, 320 allegations of theft, 183 reports of purchasing unnecessary equipment, 151 allegations of awarding unneeded contracts, and 1,774 other allegations of fraud and mismanagement.

In the second largest category, "individual recipients of federal financial assistance," we found 1,094 allegations of improper receipt of welfare benefits and 799 of improper receipt of disability benefits. There were also 631 cases of improper receipt of social security benefits, 239 instances of improper receipt of food stamps, 181 reports of housing subsidy abuse, 165 instances of improper receipt of veterans benefits, and 498 miscellaneous allegations.

The "federal contractors or grantee organizations" category was responsible for 829 allegations of improper expenditure of government funds, 380 reports of partial or nonperformance of contractor/grantee services, 218 allegations of medical personnel overbilling medicare/medicaid, 138 reports of the theft of government funds or property, 147 allegations of noncompliance with established procedures, 103 reports of false information provided on grants and contracts and 717 other allegations of fraud and mismanagement.

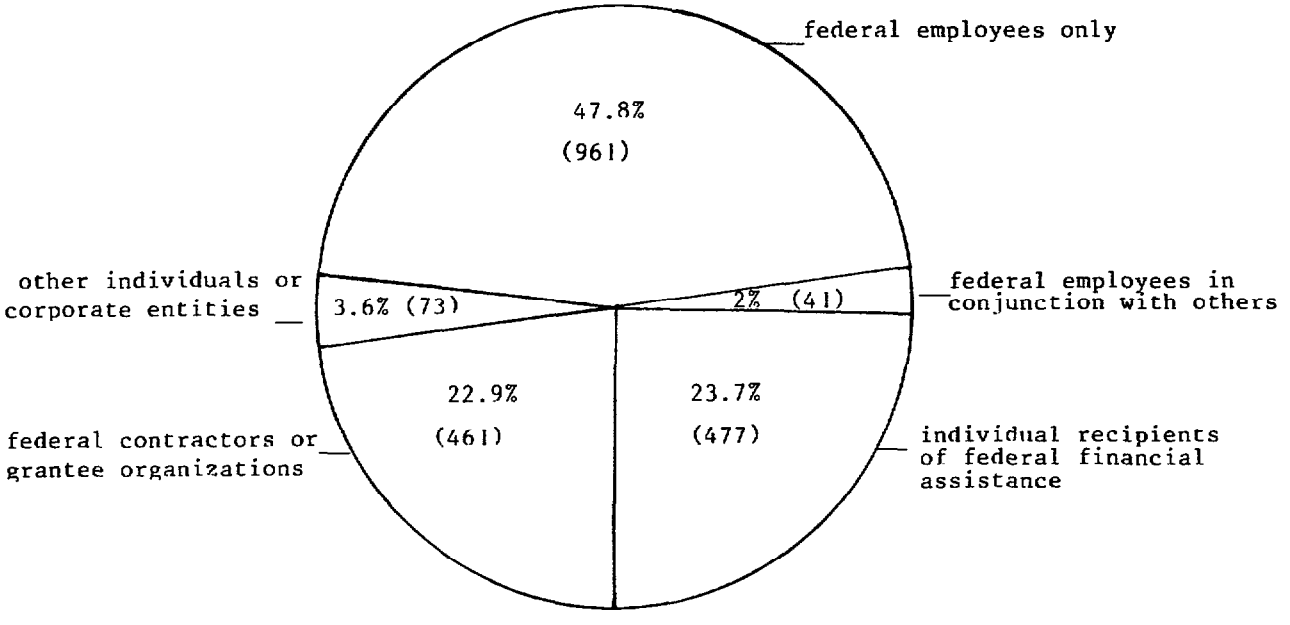
In the category "other individuals or corporate entities," there were 1,029 allegations of income tax cheating and 404 other allegations of improper activities.

In the final category, "federal employees in conjunction with others," there were 248 allegations involving bribery or kickbacks, 146 allegations of conflict of interest, and 160 miscellaneous allegations.

Action taken on referrals

Of the 13,019 cases referred or investigated by the GAO hotline, 10,553[1] have been closed. Of these closed cases, 1,468 were substantiated and in another 545, 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 2,013 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,

[1]This includes approximately 375 cases where the final disposition is unknown because the OIG's hotline could not locate the files.

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 8 years, 435 hotline cases were referred in this manner. The agencies told us that 142 of these cases resulted in some legal action. Defendants were convicted in 44 cases. Civil remedies or other legal actions were pursued in 98 cases. The remaining 293 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.

Misspent funds/savings

Due to the nature of some of our hotline allegations 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 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.

Examples of substantiated hotline cases closed in the last year are:[2]

-- A caller to the GAO Hotline alleged that a U.S. Coast Guard District Office was billed $129.32 by a contractor for the purchase of groceries, but the contractor received a check for $129,320.88. The contractor had notified the Coast Guard District Office in May 1984 of the improper overpayment, but as of October 1985 they had not taken any action to recoup the overpayment. Department of Transportation Office of the Inspector General auditors found the overpayment resulted from keypunch errors and because the District Office had not properly verified the authorizations for payment before the check was issued. The auditors also discovered this overpayment was due to certain weaknesses in financial controls and was not an isolated case. The Coast Guard District Office has in place a new automated accounting system that should alleviate this problem in the future.

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[2]Some of these examples may have been investigated by the agency before 1986 but GAO was not notified of the results until sometime between January 18, 1986 and January 17, 1987.

The DOT-OIG initiated a nationwide audit to determine whether these weaknesses are widespread among the other district offices and whether other funds can be recouped. Follow up determined that on February 19, 1986, a check was received from the contractor for $148,520.27, which included interest on the overpayment.

-- A caller alleged that an Interior employee was guilty of numerous improprieties, including questionable purchases of supplies and equipment and failure to follow established agency procedures. As a result of an investigation by Interior's Office of Inspector General, a Federal Grand Jury handed down a 7-count indictment against the employee for offenses which included fraudulent claims, theft of government property, and bribery. The employee was subsequently convicted, received a 3-year sentence, and was required to repay $12,000 to the government.

-- An anonymous caller alleged that an employee of the Small Business Administration (SBA) used a government vehicle for personal benefit on weekends and had been investigated for similar activity previously. GAO referred the allegation to the SBA Inspector General for investigation. The allegation was substantiated and the employee was suspended without pay for 35 days for misuse of a government vehicle and falsification of government records.

-- An anonymous caller alleged a couple falsely claimed they were separated so the wife and their children could qualify for welfare. The wife claimed desertion although the family lived together. Alimony and child support payments were paid by the husband to make the claimed separation look legitimate. It was also alleged that the husband was fully employed but was paid in cash. Investigation by the Social Security Administration substantiated the charges. Public assistance and food stamp overpayments totaling $40,733 were identified and recovery action is being pursued.

-- A concerned citizens group in New Jersey sent the GAO Hotline several documents questioning the administration of HUD funds granted to their community. The group alleged that funds were illegally diverted to different accounts and that some projects undertaken with HUD funds would financially benefit people administering the funds. Based on a review by HUD-OIG auditors, the housing authority and the city were required to reimburse $535,000 to the low income housing and urban development programs because of, among other reasons, excessive acquisition costs and for payments chargeable to other grants.

-- When an Air Force employee told the GAO Hotline that an alarm clock that cost $6.20 through the General Services Administration could be purchased for $4.90 at the local base exchange, GAO asked the GSA to explain the apparent price discrepancy. GSA's Office of Inspector General found that GSA had tried to contract with the manufacturer in 1985 for purchase of the clock, but the required minimum order (25,000) to obtain the low price exceeded GSA's needs so GSA bought the clocks through a dealer. GSA agreed to combine its requirements with those of the Army and Air Force Exchange Service on the next contract with the manufacturer.

-- A caller alleged a Navy employee in the Washington, D.C. area was operating a private business on government time and using government phones. Although the individual had recently sold the business, investigators found that he had made over 150 personal calls on government phones. The Navy recovered the cost of the phone calls and charged the employee with annual leave for his time spent on his personal activities. Also the employee was formally reprimanded and since a phone was not essential to his job, the phone was removed from his desk. The Navy command notified its personnel concerning the appropriate use of government telephones.

-- An anonymous caller alleged that a civilian high-level Air Force employee, who has signature authority on contracts, was receiving gratuities, favors and was on the payroll of an Air Force contractor in conflict with his federal employment. It was further alleged that this employee colluded with top management of the Air Force contractor and

abused his power by forcing the contractor to hire his friends and donate to an organization in which his wife is active. A DOD-OIG investigation found that the subject employee had falsified travel vouchers, violated standards of conduct by accepting gratuities, used his public office for private gain, etc. The U.S. Attorney declined prosecution because administrative action to remove the subject from his position had already been taken.

-- A writer alleged that an IRS employee was guilty of improper use of travel funds, and that the employee had improperly received payment of moving expenses. An investigation determined that the employee had properly received payment of moving expenses. However, the payment of per diem and travel expenses to the employee violated IRS travel regulations. The employee subsequently repaid $1,250.

-- An allegation that a taxi and limousine service company in Florida was overcharging the VA for transporting veterans to and from a medical center for treatment was substantiated after an investigation by the VA-OIG. As a result, hospital controls and procedures have been changed, the company's contract was terminated and overcharges of $13,900 by the company are under collection by VA.

-- A caller alleged that a Department of the Interior contractor was using questionable manufacturing techniques and supplying pipe with faulty welds for a dam project in Nebraska. An investigation by the Office of the Inspector General found that the company had submitted false testing certifications on the welds; some welds were not retested after leaks were repaired and others were never tested. As a result, a Federal Grand Jury handed down a 12-count indictment against the company and the firm's president on charges of mail fraud and false statements. The firm's president pled guilty to 1 count of mail fraud; the remaining counts were dismissed. The company was fined $1,000 and the firm's president was fined $1,000 and given 3 years probation. The agency is currently pursuing debarment action against the company.

-- An anonymous caller alleged that the General Services Administration (GSA) had rented space in a federally-owned building in Maryland to a private firm and had not collected utility payments from the tenant for 5 years. GSA's OIG audit showed that the tenant had not been billed for $105,000 in electric and water service as stipulated in the lease, actual rent charged was over $41,000 less than the fair market value, and award of the lease was not through competitive bidding. In addition, GSA officials plan a study to determine whether the building should be kept or sold. The tenant made an initial payment of $2,883 on the past due utility charges and, barring a settlement, GSA is prepared to institute legal proceedings to recover the balance.

-- A caller alleged that an NRC employee was routinely using a government telephone to make personal long-distance phone calls to a relative and other persons. As a result of an investigation by NRC's Office of Inspector and Auditor, the employee received an official reprimand and collection procedures were begun to recoup over $500 in connection with the abuse. During the investigation, a second employee was found to be guilty of the same offense. The employee also received an official reprimand and collection procedures were begun to recoup over $400.

-- The Hotline was told that a man living in government subsidized housing in Arkansas owned and operated a grocery store and owned two rental properties valued at about $150,000. The man paid $71 a month for his subsidized housing, which included utilities. GAO referred the allegation to HUD and, following an OIG investigation, he was indicted and convicted for submitting false statements to the government. His three year prison sentence was suspended to three years probation and he was ordered by the court to pay $10,000 in restitution to the government.

-- An anonymous caller to the Hotline alleged that a former federal employee who had retired with a physical disability bragged that she was receiving a retirement check while holding the same type of position in private industry in Florida. GAO

referred the allegation to the Office of Personnel Management where it was determined that she was no longer disabled, and action was taken to terminate her $775 monthly annuity.

-- An anonymous caller alleged that a husband and wife were collecting welfare and food stamps improperly because both were gainfully employed. The wife was concealing her employment by using her maiden name. Upon investigation by HHS, the allegation was substantiated. Overpayments totalling more than $13,500 were found. Prosecution is being considered.

-- A caller alleged a federal student loan recipient had not repaid the loan even though he was employed. The caller was able to provide present and former addresses, telephone numbers and a social security number on the former student. The Department of Education's Office of Postsecondary Education certified the account was in default and notified the Internal Revenue Service to recover the money through income tax refund offset.

-- An anonymous caller alleged that a Navy enlisted man assigned to a Naval hospital was misusing government vehicles and had submitted false vouchers for reimbursement of expenditures to repair his personally owned vehicle. An investigation by the Naval Inspector General, on behalf of the DOD-OIG, found that the enlisted man and his supervisor, a senior chief petty officer, were involved in these fraudulent activities. Although it is unknown what disciplinary action was taken against the enlisted man initially mentioned in the allegation, a Navy special court-martial convicted his supervisor of dereliction and larceny, reduced his grade to E-1, fined him $1,200 and gave him a Bad Conduct Discharge.

-- A caller to the Hotline alleged that a National Archives and Records Administration (NARA) employee was selling equipment to a contractor whose work performance he monitors, which is a direct conflict of interest. A GAO Hotline investigation confirmed the allegation; however, the evidence indicated the employee was unaware such transactions were prohibited, and it was found to be an isolated

incident. NARA officials were informed and the employee was issued a written reprimand. In addition, the employee, along with other NARA employees who deal with NARA contractors, were directed to attend a standards of conduct training session conducted by the Office of Government Ethics.

-- Anonymous HUD employees sent the GAO Hotline a detailed list of wrongdoings by a HUD field office manager. These allegations included frequent official travel by roundabout routes to earn maximum bonus travel mileage from the airlines that he used personally rather than turn in to his agency as required. There were also apparent conflicts of interest in his dealings with HUD contractors who were either friends or were doing work for him on property he owned. HUD-OIG substantiated the allegations and the manager resigned.

-- A caller alleged that a widow of a veteran had continued to receive monthly survivor benefits even though she had remarried in 1981. Investigation by the VA-OIG determined that the widow was remarried in 1981 and no longer entitled to these benefits. Her benefits were terminated retroactive to 1981. An overpayment of $14,304 is currently being repaid to the VA.

-- An informant alleged that an Interior employee was filing travel vouchers showing rental costs to himself for a camper he allegedly owned, together with rent receipts signed by an unidentified relative. The rental charges allegedly exceed the cost of motel rooms, and the informant considers this arrangement a deliberate deception by the employee. An investigation by the Office of Inspector General did not disclose any criminal wrongdoing, but found poor judgement on the part of the employee. In addition to instituting new administrative and accounting controls, the agency issued a Warning Notice for Misconduct to the employee.

-- A caller alleged to a congressional member that his State was delaying the disbursement of federal funds provided by the Department of Health and Human Services (HHS) under the Weatherization

Program. The caller also questioned whether these delays in disbursement occurred because the State was trying to maximize the interest earned on these federal funds. At the Congressman's request a GAO hotline investigation determined that while the state did not appear to deliberately delay the disbursement to the local communities, it drew down from HHS the entire weatherization funding (over $2 million) in a lump sum instead of on an "as needed basis" as required by law. The state agreed in the future to draw down these HHS funds as needed. HHS was advised of our findings.

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