

GAO

United States General Accounting Office

Fact Sheet for the Honorable  
Jim Sasser  
United States Senate

February 1986

# FRAUD HOTLINE

## 7-Year GAO Fraud Hotline Summary



102192





UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

ACCOUNTING AND FINANCIAL  
MANAGEMENT DIVISION

February 20, 1986

B-171019

The Honorable Jim Sasser  
United States Senate

Dear Senator Sasser:

In response to your request to be kept apprised of the GAO Fraud Hotline progress, we are providing a fact sheet summarizing our 7 years of operation. This updates information provided to you in our last formal report on the Hotline dated September 25, 1984. This fact sheet is a brief overview which concentrates on Hotline statistics and examples of substantiated cases.

This formally transmits the data we provided to you on February 14, 1986. 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. If you have any questions on this report or on the operation of the GAO Hotline, please contact Gary Carbone of my staff on (202) 275-9342.

Sincerely yours,

*John J. Adair*  
John J. Adair  
Associate Director

NCJRS

AUG 4 1986

ACQUISITIONS

7-YEAR GAO FRAUD HOTLINE SUMMARY  
(January 18, 1979-January 17, 1986)

I. Continuing Objectives,  
Goals, and Procedures

Since our last formal report (GAO/AFMD-84-70, September 25, 1984) 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. Likewise, our objectives and goals have not changed significantly during the past 7 years. These are to:

- maintain a nationwide, toll-free hotline for receiving information on fraud, waste, and mismanagement in the federal government and refer cases to the federal agencies involved for their own audits or investigations;
- conduct 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;
- respond to congressional requests and inquiries involving fraud, waste, and mismanagement of federal funds;
- follow up on certain allegations referred to offices of inspectors general (OIGs) to ensure all issues are investigated and corrective actions are taken;
- provide advisement letters (audit leads) to GAO divisions and the OIGs based on our review of allegations and agency responses; and
- provide information and assistance to federal, state, and local organizations establishing their own hotlines.

## II. Statistical Overview

In the 7-year period, over 74,000 calls have been received on the toll free hotline, resulting in 11,828 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, 71 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 11,828 cases were reported to have taken place in the following geographic areas:

Washington, D.C.	840	Montana	56
Alabama	202	Nebraska	52
Alaska	40	Nevada	52
Arizona	136	New Hampshire	29
Arkansas	134	New Jersey	202
California	1,508	New Mexico	103
Colorado	177	New York	525
Connecticut	61	North Carolina	228
Delaware	15	North Dakota	45
Florida	504	Ohio	559
Georgia	486	Oklahoma	129
Hawaii	44	Oregon	96
Idaho	46	Pennsylvania	493
Illinois	320	Rhode Island	28
Indiana	101	South Carolina	118
Iowa	137	South Dakota	40
Kansas	89	Tennessee	434
Kentucky	221	Texas	662
Louisiana	137	Utah	50
Maine	44	Vermont	16
Maryland	348	Virginia	522
Massachusetts	172	Washington	280
Michigan	353	West Virginia	95
Minnesota	86	Wisconsin	102
Mississippi	120	Wyoming	16
Missouri	267	Overseas	104
		Missing codes	204

## Referral to agencies

These 11,828 cases were subsequently referred to the following agencies for further review.

Department of Health and Human Services	3,344
Department of Defense	1,954
Internal Revenue Service	1,207
Department of Housing and Urban Development	774
Department of Labor	662
Department of Agriculture	644
Veterans Administration	582
General Accounting Office	376
General Services Administration	374
Department of Justice	343
Postal Service	279
Department of the Interior	274
Department of Transportation	250
Department of Education	196
Department of the Treasury	183
Environmental Protection Agency	130
Department of Energy	124
Department of Commerce	123
Office of Personnel Management	104
Small Business Administration	99
Community Services Administration	90
Federal Emergency Management Agency	49
National Aeronautics and Space Administration	44
Tennessee Valley Authority	39
Agency for International Development	19
Department of State	19
Other agencies	62
Total referrals	<u>12,344<sup>a</sup></u>

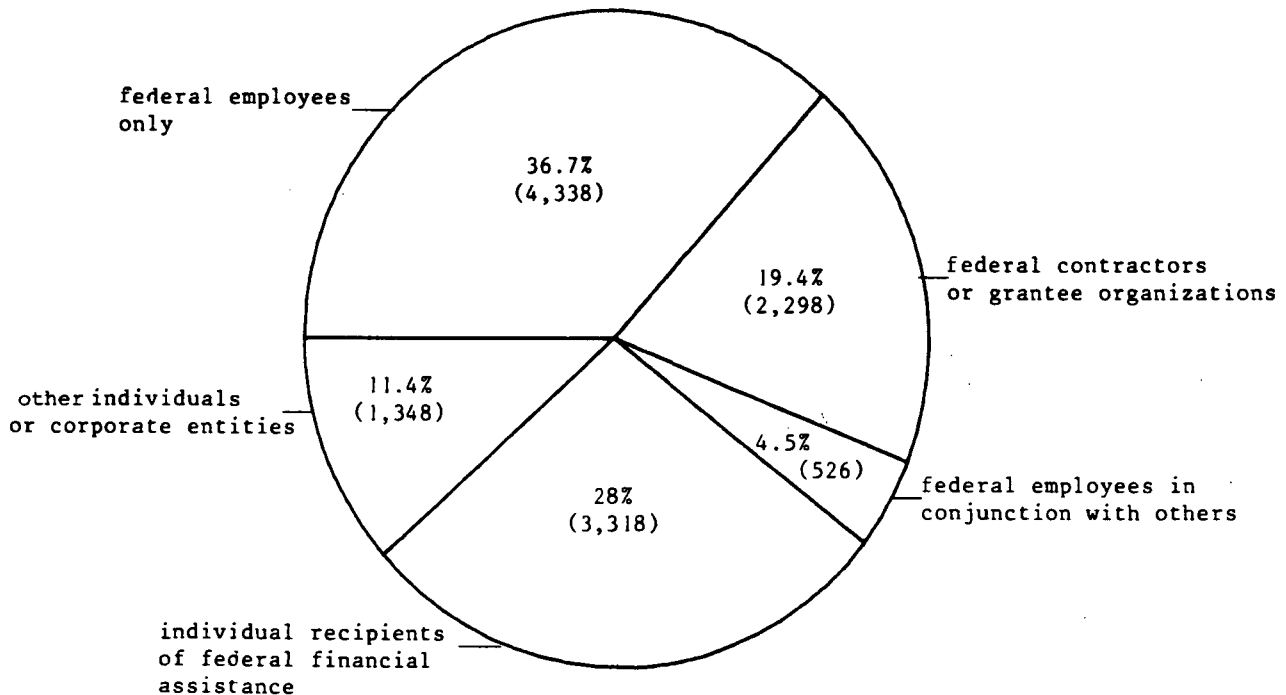
<sup>a</sup>Total cases referred is greater than the number of cases warranting further review because some cases were referred to more than one agency.

## 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 11,828 cases of wrongdoing and/or mismanagement, the highest proportion, 36.7 percent, was in the category "federal employees only."

The following chart shows the percentage for each participant category of the 11,828 cases referred for further review.



In the largest category, "federal employees only," we found 741 reports of employee work-hour abuse, 518 allegations of private use of government property, 486 reports of improper financial transactions, 303 allegations of theft, 270 allegations of noncompliance with established agency procedures or policies, 143 reports of purchasing unnecessary equipment, 128 allegations of awarding unneeded contracts, and 1,749 other allegations of fraud and mismanagement.

In the second largest category, "individual recipients of federal financial assistance," we found 1,031 allegations of improper receipt of welfare benefits and 733 of improper receipt of disability benefits. There were also 559 cases of improper receipt of social security benefits, 218 instances of improper receipt of food stamps, 161 reports of housing subsidy abuse, 151 instances of improper receipt of veterans benefits, and 465 miscellaneous allegations.

The "federal contractors or grantee organizations" category was responsible for 759 allegations of improper expenditure of government funds, 318 reports of non- or partial performance of contractor/grantee services, 192 allegations of medical personnel overbilling medicare/medicaid, 123 reports of the theft of government funds or property, 119 allegations of noncompliance with established procedures, and 787 other allegations of fraud and mismanagement.

In the category "other individuals or corporate entities," there were 945 allegations of income tax cheating and 403 other allegations of improper activities.

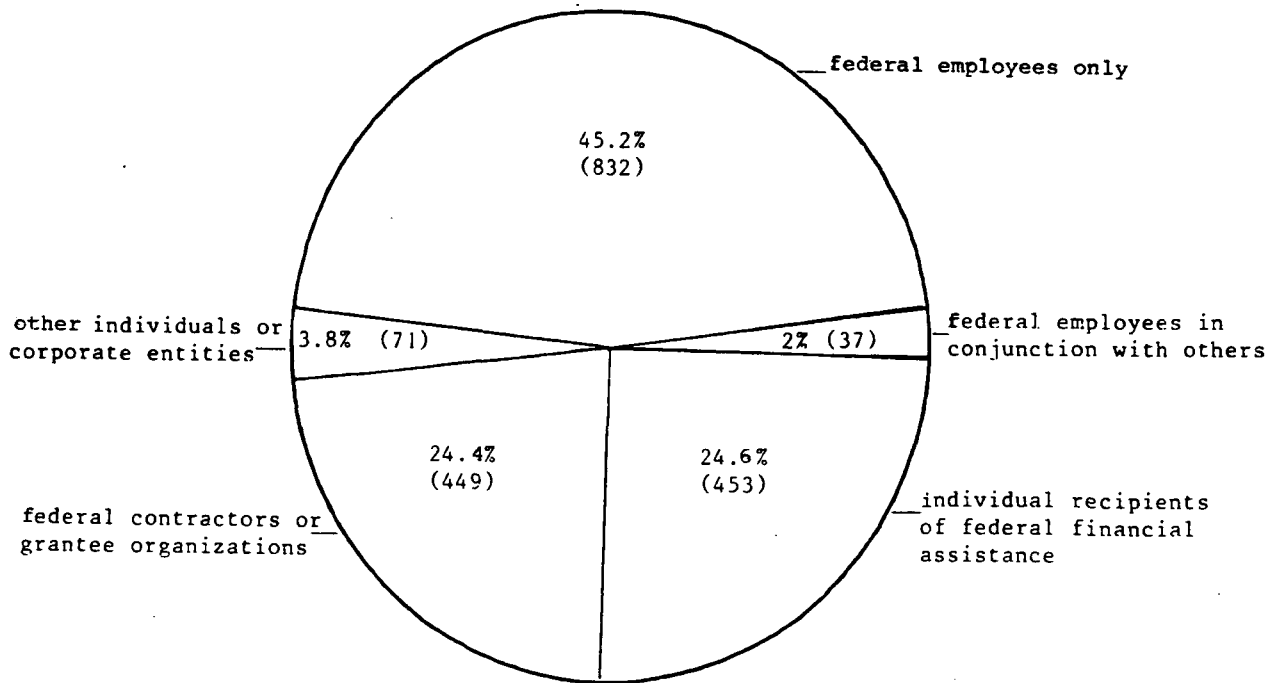
In the final category, "federal employees in conjunction with others," there were 224 allegations involving bribery or kickbacks, 119 allegations of conflict of interest, and 183 miscellaneous allegations.

#### Action taken on referrals

Of the 11,828 cases referred for further review, 9,199 have been closed. Of these closed cases, 1,349 were substantiated and in another 493, 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 1,842 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 lack of compliance with agency procedures.

#### Legal and administrative action

If an investigation discloses a violation of criminal law, the allegation is forwarded to the Justice Department or state prosecutor by the agency involved for review and possible prosecution. In the 7 years, 396 hotline cases were referred in this

manner. The agencies told us that 117 of these cases had been prosecuted. Defendants were convicted in 41 cases. Civil remedies or other legal actions were pursued in 76 cases. The remaining 279 cases were declined for prosecution for such reasons as insufficient evidence, insignificant loss of federal money or the case would be more appropriately handled administratively by the agency.

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 numerous 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

In our September 1984 report, we identified approximately \$20 million in misspent funds and estimated an additional \$24 million in projected savings. However, this was done using only 20 percent of our substantiated cases.

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:

- An anonymous caller alleged that a government contractor substituted plastic containers for the metal ones specified in the contract. General Services Administration (GSA) investigators substantiated the allegation that plastic containers were being used. However, the investigation also disclosed that the contract specifications writer inadvertently omitted the word "metal" in describing the containers. GSA submitted a claim to the contractor for \$91,697 representing an estimate of the savings which were not passed on to the government by the contractor's substitution.
- A caller to the hotline alleged that Metal Service Center of Georgia, Inc., was selling substandard metal to several government contractors including some with Department of Defense (DOD) contracts. The caller said that when the company lacked the type of metal needed to satisfy orders within a specified time frame, it substituted substandard metal which was readily available. To cover this substitution, quality certifications and test results were being falsified. Based on GAO's referral to the DOD IG, a joint investigation by the Naval Investigative Service and the FBI found the allegation to be substantiated. During the investigation, it was discovered that some of the defective metal had been intended for use in the U.S. Space Shuttle Program and for armor plating in the battleship New Jersey. As a result, the operations manager, the sales manager, and the salesman in charge of DOD contracts for the company were prosecuted and found guilty of fraud. The operations manager was sentenced to 3 years in prison. The other two individuals were each sentenced to 10 years in prison to be followed by 5 years probation. The DOD inspector general also conducted a separate investigation of a second company, Certified Products, Inc., which was operated by one of the individuals involved in the above case. This investigation disclosed violations similar to those in the Metal Service Center case. The two investigations were combined as part of the above guilty pleas. As a result of the investigations, both companies were debarred from doing business with the government for 10 years.

- An anonymous caller alleged an air traffic controller had admitted smoking marijuana while on duty at an airport. According to the caller, this information was overheard at a party at which the controller was observed smoking the drug. As a result of a Department of Transportation OIG investigation, three controllers at the airport admitted drug use during nonduty hours. One controller resigned. The other two completed a drug rehabilitation program and returned to work--subject to post rehabilitation follow-up and drug screening at their own expense.
- An anonymous informant alleged that a civilian Air Force contracting official and a contractor the official was doing business with lived together. Also, the official had instructed employees in the office not to report contract violations by this contractor. As a result of the investigation by the Air Force Office of Special Investigations, the official and immediate supervisor were formally notified that their employment was being terminated for violations of, and gross indifference to, Air Force regulations. The supervisor, because of her long and distinguished career, was allowed to retire. The other official's employment is being terminated.
- An anonymous caller reported to the Hotline that he had often seen a chauffeur-driven government car transporting a woman to and from a neighborhood grocery store. The caller provided the license number of the car which showed it to be assigned to the Department of Justice. Investigation by the Department revealed that the car was assigned to the Attorney General and that it had been improperly used more than 300 times by his wife for personal errands between 1981 and 1984. The former Attorney General reimbursed the government \$11,207 for the unauthorized use of the car.
- An anonymous caller alleged that he and other non-government employees were able to walk in off the street and obtain government office supplies (pens, pencils, staplers, etc.) from the supply store located in a Veterans Administration (VA) facility. The caller claimed this was happening because the government employees were not asking anyone to show identification or sign for the supplies. The informant also indicated that the store was much busier around September because children were returning to school. Upon investigation by the agency, it was found that supplies were being dispensed without requiring identification, resulting in nonemployees receiving government supplies. The store now requires presentation of an appropriate ID badge, and a formal system of controls was implemented to ensure against further losses.

--A Federal Aviation Administration (FAA) employee called to report that the FAA was buying batteries for use in runway lights at a cost of \$23 per battery when the same battery could be bought elsewhere for under \$10. FAA substantiated the charges, and paid \$6.75 per battery on a recent procurement. FAA buys about 250 to 300 of these batteries each year. The cost reduction will save about \$4,500 a year. In response to this case, the FAA center acting on this matter has set up its own hotline to identify overpriced items in its \$200 million dollar inventory.

--An anonymous informant alleged that a junior college had been awarded a \$7.7 million construction grant from the Department of Energy (DOE) but only a portion of the construction would be completed. The contractors involved were allegedly friends of the college's program director, and the informant alleged that illegal bidding, favoritism, and kickbacks were involved. A DOE IG investigation resulted in a subsequent referral to the FBI and the Department of Justice. The program director was indicted on 19 counts for submission of false claims. He plea bargained and pleaded guilty on one count but failed to appear for sentencing. Warrants were issued for his arrest. In addition, he and his affiliate corporations were debarred from doing business with the government for 5 years. In January 1986, he was apprehended upon his return from Libya and is currently being held for sentencing.

--An informant alleged that a wealthy individual had falsified statements to a VA Medical Center that he did not have sufficient money to pay for his treatment. The VA IG investigated and proved the individual did have the ability to pay for his treatment and had falsely signed VA statements. The U.S. Attorney, however, declined to prosecute because the form VA was using was ambiguous. The VA is in the process of collecting over \$16,000 from this individual for the treatment he received and is clarifying the forms used to apply for free VA care.

--An anonymous informant alleged that a contractor had not given credit to the Bureau of Printing and Engraving, Department of the Treasury, for the return of defective supplies, even though the supplies had been returned approximately 1 year earlier. A review of Treasury records revealed that the Bureau's Office of Financial Management (OFM) had never received the forms documenting the return of the supplies. Actions were taken to record a credit of \$130,000 against the next payment to the contractor. In addition, procedural changes were instituted to ensure that OFM received notification of any future returns.

- An anonymous caller alleged a U.S. Coast Guard employee was collecting a rental subsidy of about \$450 a month in Hawaii, while actually living with his parents rent free. Investigation by the DOT OIG substantiated that the subsidy was improper and it was terminated. In addition, the case prompted a study by the OIG resulting in five criminal convictions and recommendations to tighten rent subsidy program controls in Hawaii, Alaska, and Puerto Rico.
- A hotline caller alleged that a surgical supply center was billing Medicare in his name for equipment he had not received. An investigation of the billing procedure indicated that the supply center was billing for services not rendered, resulting in an overpayment in excess of \$1,900 to be repaid to Medicare.
- An anonymous caller alleged that the Department of Commerce was violating federal law by paying the full share of health benefits for part-time Commerce employees instead of prorating the costs. Office of Personnel Management officials discussed the allegation with Commerce officials who acknowledged the violation and took corrective action.
- An anonymous caller alleged that two employees of the National Oceanic and Atmospheric Administration were using a government computer to prepare documents associated with a private business venture. This was substantiated and both were admonished and counseled by their supervisor who obtained a commitment that there would be no further misuse of government equipment. They were also directed to attend a Standards of Conduct briefing.
- An anonymous caller alleged that a woman was receiving Aid to Families with Dependent Children (AFDC) and food stamps while receiving unreported income under an assumed name. The state's department of social services investigated and found that she had improperly received \$2,084 in AFDC and \$921 in food stamps. The woman was indicted by the Grand Jury for welfare fraud.
- An anonymous informant alleged that a Navy shipyard employee had hired five relatives and had unfairly assigned them overtime and preferential jobs. The Navy investigated and found that, while the employee had not been responsible for hiring his relatives (brother-in-law, son-in-law, and nephews), a number of them were working for him. As a result, the Navy IG recommended that the relatives be transferred to other jobs in the organization where they would not be under his supervision and that procedures be initiated to prevent recurrence.

Although the shipyard commander disagreed with some of the conclusions, he agreed to reassign one of the relatives and institute procedures to ensure that new supervisors are aware of prohibitions on nepotism.

- An informant alleged that a former Marine Corp sergeant had received government travel payments for trips he had taken with a woman posing as his dependent wife. Naval Investigative Service investigated and the sergeant admitted to owing over \$3,800 for unauthorized travel payments. The government is recovering this overpayment from his monthly retirement check.
- A caller alleged that an Illinois contractor added false labor charges to a Department of Housing and Urban Development (HUD) contract for renovating a low income housing project. The caller had copies of documents substantiating his allegations. HUD's investigation verified the allegations and the contractor entered a guilty plea to the charge of submitting false statements to HUD. He was sentenced to 30 days in a work release program, placed on probation for 5 years, and debarred from further participation in HUD programs for 3 years.
- An informant alleged that a company's advertisement might be a mail fraud scheme because the company was disguising itself as a federal government agency and requesting payment for its services. An investigation by the Postal Inspection Service resulted in a cease and desist order against the company, the owner, and his representatives and employees. Furthermore, the delivery of mail connected with the activity covered by the order and the payment of money orders to the company were forbidden.
- An anonymous informant made 12 allegations that the commanding officer of a major Army base was spending government money on unnecessary projects. The Army IG investigated each of these allegations and found that only one was substantiated. The IG found that the base golf course was improperly maintaining a putting green behind the general's house at a cost of \$750 to \$1,000 a year. This maintenance was stopped.
- An anonymous caller alleged that certain National Railroad Passenger Corporation (Amtrak) employees in Texas were not at work during their assigned hours. The GAO hotline coordinated this allegation with Amtrak officials. Amtrak's police investigation verified the allegation. Five employees were reprimanded and advised that a recurrence would result in dismissal. Their supervisor, who had condoned their absences, was given 20 days leave without pay and will now report to a different manager. Two other managers involved were reprimanded for not reviewing the operation over an 18-month period.

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