

June 1988

FRAUD

Characteristics, Sanctions, and Prevention at Agriculture, Labor, and GSA



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Accounting and Financial
Management Division

B-224759

June 23, 1988

The Honorable William V. Roth, Jr.
United States Senate

Dear Senator Roth:

At your request, we reviewed information on fraud investigations that inspectors general at the Departments of Agriculture and Labor and the General Services Administration (GSA) had referred to the Department of Justice for prosecution. As agreed with your office, we conducted detailed reviews at these agencies, as well as the Departments of Defense and Health and Human Services (specifically the Medicare and Medicaid programs). Earlier we briefed your staff on the results of those similar reviews at the Departments of Health and Human Services and Defense and subsequently issued separate reports on those agencies.¹ We briefed your staff on the results of this review at the Departments of Agriculture and Labor and the General Services Administration on June 6, 1988. This report is a written version of that briefing.

The purpose of our review was to identify the (1) characteristics of fraud being referred for prosecution to the Department of Justice or state and local authorities by the offices of inspectors general (OIG) and (2) actions taken against those who were referred for prosecution. We also determined whether the OIG investigators identify underlying causes of fraud and provide this information to program managers so that internal controls can be improved to minimize the possibility of future losses.

In conducting this review, we used fiscal year 1983 through 1985 information on closed fraud cases from the inspector general data bases on fraud investigations and data on fraud reported in their semiannual reports to the

¹Health Care Fraud: Characteristics, Sanctions, and Prevention (GAO/AFMD-87-29BR, July 15, 1987) and DOD Fraud Investigations: Characteristics, Sanctions, and Prevention (GAO/AFMD-88-5BR, January 20, 1988).

Congress. (A case is considered closed when all probable actions have been taken by prosecutive authorities and/or agency officials.) When we began our review in May 1986, this was the most current information available. During late 1987, we attempted to update the data. While the Agriculture OIG was able to provide data on its fiscal year 1986 fraud case referrals, the Labor and GSA OIGs could not.

In addition, we reviewed data on punitive actions taken and monetary recoupments achieved as depicted in the OIG semiannual reports to the Congress for fiscal years 1983 through 1987. We also talked to investigative officials in each OIG about the characteristics of fraud they investigated, trends in investigations, and their efforts to identify and report underlying causes of fraud. Further details about our scope and methodology and the results of our work are in appendixes I through IV. Our observations regarding each agency follow.

DEPARTMENT OF AGRICULTURE

The most prevalent type of illegal activity referred for prosecution by the Agriculture Inspector General during fiscal years 1983 through 1986 involved food program fraud. This accounted for about 58 percent of these cases, followed by Farmers Home Administration (FmHA) loan fraud which accounted for about 20 percent, and commodity price support program fraud, about 12 percent, with other types of fraud accounting for the remaining 9 percent. According to Agriculture OIG officials, the vast majority of the cases of food program fraud involved the Food and Nutrition Service's (FNS) food stamp program. We found that food program fraud investigations by the Agriculture OIG had decreased from 998 in fiscal year 1983 to 226 in fiscal year 1986. OIG officials attributed this to a concerted effort to concentrate more investigative resources on higher dollar value fraud in the agency's loan programs. We also found that the OIG referred 3,333 cases to the Department of Justice for prosecution during fiscal years 1983-86. Of these, 1,861 were accepted for prosecution and resulted in 2,328 convictions. Recoveries, collections, fines, claims, restitutions, and cost avoidances totaled just over \$64 million.

DEPARTMENT OF LABOR

The Labor Inspector General referred for prosecution and closed 1,431 cases during fiscal years 1983-85. The most prevalent type of illegal activity referred--about 80 percent of all referrals--was claimant fraud, primarily involving the unemployment insurance program. Another 13 percent involved such things as violations of minimum wage and overtime standards and employee misconduct, while the remaining 7 percent dealt with alleged fraud committed by providers (contractors, grantees, and medical and legal providers). Labor OIG referrals involving unemployment insurance program fraud have risen dramatically--from 33 in fiscal year 1983 to 504 in fiscal year 1985--after an FBI-Employment and Training Administration's memorandum of understanding giving the FBI responsibility for these types of investigations was rescinded in 1983.

We were unable to determine the disposition of the 1,431 closed fiscal year 1983-85 cases referred for prosecution because these data were not included during a conversion to a new computer system. However, the Labor Inspector General's semiannual reports to Congress showed that convictions and monetary results, or monetary recoupments have grown steadily. Reported convictions increased from 174 in fiscal year 1983 to 850 in fiscal year 1987, and monetary recoupments (fines and penalties, settlements, judgments, and cost efficiencies) increased from \$6.6 million to \$14.9 million over the same period.

GENERAL SERVICES ADMINISTRATION

The GSA OIG investigated, referred for prosecution, and closed 492 fraud cases during fiscal years 1983-85. Forty-eight percent were categorized by the OIG as white collar crime. Another twenty-five percent of the cases were more specifically categorized as theft and about five percent as bribery or conflict of interest. The remaining 22 percent included other activities such as employee misconduct. According to OIG officials, the most significant type of white collar crime, in terms of both dollars lost and numbers of cases, involved procurement matters--primarily either illegal overcharging for goods and/or services or purposely failing to provide goods and/or services that meet contract terms.

The OIG's data base on fraud cases shows that 133 of the 492 cases were accepted for prosecution, resulting in 164 legal actions against 189 subjects. These legal actions included 115 criminal convictions, 12 pretrial diversions, and 37 civil judgments or settlements totaling about \$13.4 million.

IG EFFORTS TO REPORT UNDERLYING
CAUSES OF DETECTED FRAUD

Each OIG has established a mechanism to report to program managers weaknesses discovered during investigations that allow or contribute to fraud so that corrective actions can be taken. Each also established procedures whereby such weaknesses identified during investigations are coordinated with OIG auditors prior to submission to managers. According to OIG records, reporting such weaknesses to managers has resulted in corrective actions that help prevent future problems. In one of these instances, a GSA OIG investigation revealed that poor contract administration and inspection practices resulted in about \$15,000 worth of work that was not performed at all or was improperly performed. After these weaknesses were reported to GSA management, several contract procurement processes were improved and the need for full-time, on-site inspection of multimillion dollar projects was reemphasized.

AGENCY COMMENTS AND OUR EVALUATION

We obtained comments on a draft of this report from the inspectors general in Agriculture, Labor, and GSA. They all believed that the report accurately reflected their activities for the period reviewed. Copies of their written comments are in appendixes V, VI, and VII.

We would be pleased to discuss this information with you at your convenience. Unless you publicly announce the contents of this report earlier, we will not distribute it until 30 days from its date. At that time, we will send copies to the Director of the Office of Management and Budget, the Secretary of Agriculture, the Secretary of Labor, the Administrator of the General Services Administration, the three respective inspectors general, and interested congressional committees. We will give

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copies to others who request them. If you or members of your staff have any questions about the results of our work, please call me on 275-9359.

Sincerely yours,

A handwritten signature in cursive script that reads "John J. Adair". The signature is written in black ink and is positioned above the typed name and title.

John J. Adair
Associate Director

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ABBREVIATIONS

ADP	Automatic Data Processing
ASCS	Agriculture Stabilization and Conservation Service
FmHA	Farmers Home Administration
FBI	Federal Bureau of Investigation
FECA	Federal Employment Compensation Act
FNS	Food and Nutrition Service
GSA	General Services Administration
JTPA	Job Training Partnership Act
OIG	Office of Inspector General

INTRODUCTION AND BACKGROUND

Senator William V. Roth, Jr., requested that we review fraud investigations that selected statutory offices of inspectors general (OIG) referred to the Department of Justice and/or state and local authorities for prosecution. Specifically, he asked us to analyze investigations of suspected fraud referred by the OIGs at the Departments of Agriculture, Defense, and Labor, the General Services Administration, and the Department of Health and Human Services for those cases involving the Medicare and Medicaid programs. This briefing report presents the results of our examination of fraud investigations at the Departments of Agriculture and Labor and the General Services Administration (GSA) that were referred to Justice or to state and local authorities for prosecution. As noted on page 1, we have already reported on the other agencies.

The Congress has established statutory inspectors general in 19 agencies. These offices were established as independent, objective units charged with

- providing leadership, coordination, and recommendations to prevent and detect fraud, waste, and abuse;
- conducting and supervising audits and investigations of agency programs and operations;
- complying with Comptroller General standards for audits of federal establishments, organizations, programs, activities, and functions;
- promoting economy, efficiency, and effectiveness in agency programs; and
- keeping the agency head and the Congress fully and promptly informed of any serious problems.

The three agencies discussed in this report are responsible for varied functions. The Department of Agriculture works to improve and maintain domestic farm income and to provide food assistance to the needy. In addition, the Department promotes rural development and assists landowners in protecting the soil, water, forest, and other natural resources. Agriculture also provides inspection and grading services for the nation's food supply. Agriculture's fiscal year 1987 funding totaled \$45.8 billion.

The Department of Labor works to promote and develop the welfare of the wage earners of the United States. It seeks to

improve their working conditions and to advance their opportunities for profitable employment. The Department administers a variety of federal labor laws guaranteeing workers' rights to safe and healthful working conditions, a minimum hourly wage and overtime pay, unemployment insurance, workers' compensation, and freedom from employment discrimination. The Department also protects workers' pension rights; provides for job training programs; helps workers find jobs; works to strengthen collective bargaining; and tracks changes in employment, prices, and other national economic measurements. In fiscal year 1987, the Labor Department's funding totaled \$28.5 billion.

GSA manages the federal government's records and property, including the construction and operation of buildings. GSA is responsible for procurement and distribution of supplies, and is lead agency in the use and disposal of property, and for government transportation, traffic, and communications management issues. Also, the agency is responsible for stockpiling of strategic materials and management of the governmentwide ADP resources program. For fiscal year 1987, GSA's funding totaled \$244.8 million. GSA managed about \$7 billion worth of activities, primarily involving the procurement of supplies, real and leased property, ADP and telecommunication equipment and services for which it is reimbursed by the federal agencies for whom the goods and services are provided.

OBJECTIVES

IDENTIFY THE TYPES OF FRAUD INVESTIGATED AND THE PROGRAMS MOST AFFECTED

DETERMINE THE ACTIONS TAKEN AGAINST SUBJECTS REFERRED FOR PROSECUTION

DETERMINE IF INVESTIGATORS IDENTIFY AND REPORT UNDERLYING CAUSES OF FRAUD TO PROGRAM MANAGERS SO THAT ACTION CAN BE TAKEN TO PREVENT FUTURE LOSSES

OBJECTIVES

The objectives of this review were to (1) identify the characteristics of fraud in terms of the most prevalent types of fraud being investigated and the programs most affected, (2) determine the actions taken against the subjects being investigated and referred for prosecution, and (3) determine if OIG investigators identify underlying causes of detected fraud and provide this information to program managers so that corrective action can be taken to reduce risks of future losses.

SCOPE AND METHODOLOGY

**ANALYZED DATA ON CLOSED FRAUD CASES REFERRED FOR PROSECUTION BY
LABOR AND GSA FOR 3 YEARS, AND BY AGRICULTURE FOR 4 YEARS**

REVIEWED OIG 1983-87 SEMIANNUAL REPORTS TO CONGRESS

**IDENTIFIED MEANS USED BY INVESTIGATORS TO IDENTIFY AND REPORT
UNDERLYING CAUSES OF DETECTED FRAUD**

SCOPE AND METHODOLOGY

To meet the first two objectives, we obtained and analyzed, but did not verify lists of all closed fraud cases referred for prosecution during the period October 1, 1982, through September 30, 1985. We obtained this material from the information systems used by the OIGs to generate data for their semiannual reports to the Congress. At Agriculture and GSA, these lists identified for each case the type of fraud, the program or activity in which the fraud occurred, and the punitive actions taken. At the time we began our review, this was the most current information available.

At Labor, a list of closed cases with types of fraud, programs affected, and actions taken was not readily available. OIG officials did provide data on cases referred for prosecution during this period. The data included information on the types of fraud referred and programs affected. While we did not conduct a reliability assessment of the data generated by the three OIGs' systems, OIG officials believed that the data accurately summarized fraud cases referred for prosecution in their respective agencies. We conducted our review between May 1986 and May 1987. In late 1987, we attempted to update the data. While the Agriculture OIG was able to provide data on fiscal year 1986 fraud cases closed as of September 30, 1987, similar data for Labor and GSA were not readily available. To augment our data, we also reviewed data on punitive actions taken against those who defrauded the government and on monetary recoupments obtained as depicted in semiannual reports submitted to the Congress by the three OIGs for fiscal years 1983-87.

In order to determine whether the OIGs identified the underlying causes of fraud and provided this information to program managers so that corrective action could be taken to reduce future losses, we (1) reviewed their procedural manuals and discussed relevant guidance and requirements for investigators with investigative officials and (2) identified mechanisms used to notify program managers of vulnerabilities to fraud and abuse discovered during criminal investigations.

We also talked with OIG investigative officials in each of the agencies about the characteristics of fraud they investigated, trends in investigations, and initiatives to determine and correct underlying causes of fraud.

DEPARTMENT OF AGRICULTURE

FOOD PROGRAM FRAUD CONSTITUTES ABOUT 58 PERCENT OF ALL CASES

MOST FRAUD IN FOOD PROGRAMS INVOLVED FOOD STAMPS

IN 1984, THE OIG BEGAN SHIFTING MORE INVESTIGATIVE RESOURCES AWAY FROM SMALL-DOLLAR FOOD STAMP FRAUD CASES TO LARGER-DOLLAR LOAN FRAUD INVESTIGATIONS

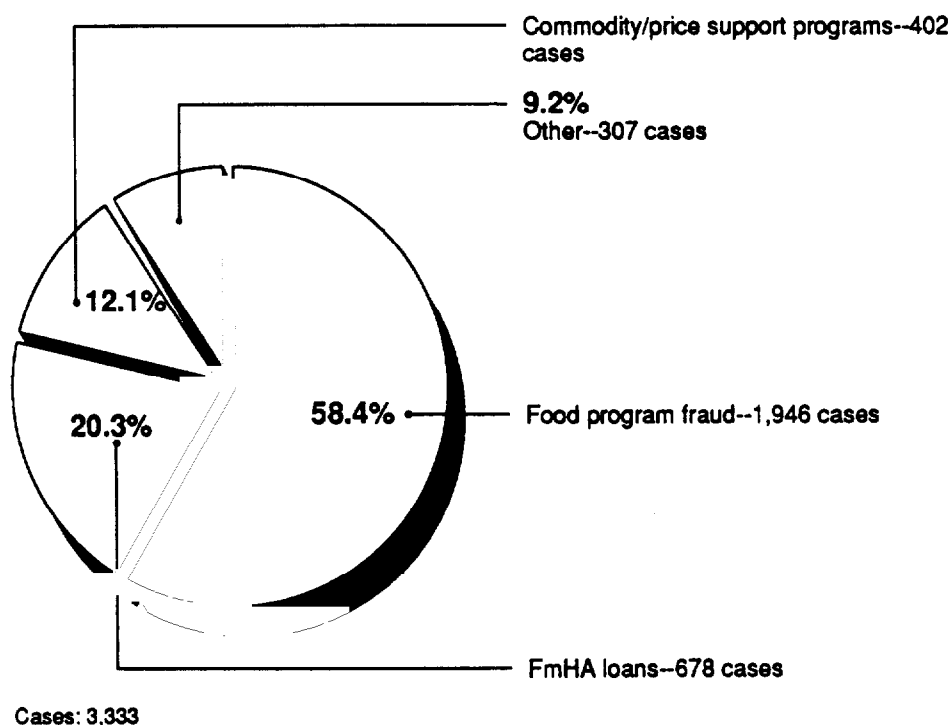
MONETARY IMPACT RESULTING FROM OIG FRAUD INVESTIGATIONS HAS INCREASED FROM \$18 MILLION IN FISCAL YEAR 1983 TO \$45.6 MILLION IN FISCAL YEAR 1987

OIG INVESTIGATORS ARE ENCOURAGED TO IDENTIFY AND REPORT UNDERLYING CAUSES OF DETECTED FRAUD

DEPARTMENT OF AGRICULTURETYPES OF FRAUD AND ACTIVITIES AFFECTED

As shown in figure II.1, the major types of fraud referred for prosecution by the Department of Agriculture OIG included food program fraud which accounted for 58.4 percent of the 3,333 referrals, Farmers Home Administration loan fraud which accounted for 20.3 percent, and commodity/price support program fraud which made up 12.1 percent. The remaining 9.2 percent of the referrals in the "other" category involved a wide variety of illegal activities such as the solicitation of a bribe.

Figure II.1: Types of Agriculture Fraud Referred for Prosecution Fiscal Years 1983-86

Food Program Fraud

Food program fraud cases consisted primarily of fraud in programs of the Food and Nutrition Service (FNS) which represented about 91 percent (1,772 of 1,946 cases) of the food program referrals. The FNS administers programs that make food assistance available to people who qualify for it. These programs are

operated in cooperation with state and local governments. According to OIG officials, the vast majority of FNS fraud cases referred involved the food stamp program, under which eligible households can obtain food coupons to purchase food at retail stores. Monthly benefits depend on household size and income.

Food stamp program fraud includes such things as recipient fraud, case worker fraud, and the illegal sale, purchase, possession, exchange, or theft of food coupons. An example of food stamp fraud involved the unlawful acquisition and redemption of food stamps by a couple who owned their own food market. They purchased almost \$83,000 worth of food stamps for about \$36,000 cash from undercover OIG agents. The couple subsequently redeemed them for cash in their own food market, and in 16 other markets in two states. The subjects pleaded guilty to a violation of unauthorized acquisition of food stamps, were sentenced to 5 years probation, and ordered to make restitution in the amount of \$36,193.

A second example involved the illegal acquisition and sale of almost \$15,000 worth of food stamps by four individuals who subsequently used them to obtain both drugs and cash. The four subjects were convicted of illegal distribution of narcotics and the illegal acquisition and possession of food stamps. One subject was sentenced from 5 to 15 years imprisonment and 3 years probation to begin after his parole. The second subject was sentenced from 5 to 15 years and 5 years probation to begin after his parole. He also was fined \$25,000. A third subject was sentenced to 1 year in jail, which was suspended, and he was placed on probation for 1 year. The fourth person was sentenced to 1 year and 1 day imprisonment and 3 years' probation.

Another food program fraud case involved the Food Safety and Inspection Service. A packing company violated the Federal Meat Inspection Act by producing ground beef in unsanitary conditions for the federal school lunch program. Allegations against the company were made public on a national network television program and included reports of rodents in the slaughter area, the processing of cattle which were dead on arrival or died other than by slaughter, and the sale of impure meat products. After a 7-month investigation, a federal grand jury returned four separate indictments, charging the involved subjects with more than 20 counts of conspiracy, violations of the Federal Meat Inspection Act, mail fraud, the destruction of records, and attempting to influence a witness. The corporation and its principals were convicted and sentenced to various penalties, with fines up to \$70,000 and prison sentences up to 6 years.

FmHA Loan Program Fraud

Twenty percent (678 cases) of the cases referred for prosecution involve FmHA loan programs. The agency provides credit to farmers and rural home owners who are unable to obtain loans from other sources at reasonable rates and terms. The agency lends or guarantees billions of loan dollars for operating expense, farm ownership, emergency disaster, housing, and other purposes.

An example of fraud in FmHA's emergency loan program involved an individual who borrowed \$121,350. Emergency loans are made by FmHA to eligible farmers and ranchers for losses arising from natural disasters. The subject pledged real estate, livestock, and crops as collateral to FmHA. He later improperly sold his pledged crops and approximately half of his livestock that had been pledged as collateral to secure the loan for more than \$79,500 but used none of the proceeds to reduce his FmHA debt. The subject was subsequently convicted of unauthorized disposal of mortgaged property, fined \$500, placed on probation for 1 year, and ordered to pay FmHA \$53,097. Approximately 6 months later, the subject's attorney advised the court that the subject could not repay FmHA and had filed for bankruptcy.

Agricultural Stabilization and Conservation Service Fraud

Fraud involving Agricultural Stabilization and Conservation Service (ASCS) programs represented 12 percent (402) of the total cases referred for prosecution during our survey period. The Service administers commodity and related land use programs designed for voluntary production adjustment; resource protection; and price, market, and income stabilization.

An example of fraud involving the Agricultural Stabilization Conservation Service's commodity price support program occurred when a farmer unlawfully disposed of more than 192,000 bushels of feed corn that was pledged as security for nine Farm Storage Loans. The subject subsequently pleaded guilty to one count of unlawful conversion of mortgaged property; he was convicted, sentenced to 3 years probation, and fined \$10,000. Further, the subject was ordered to repay \$552,000 to the government.

Other Fraud

Nine percent (307 cases) of the cases involved other types of fraudulent activities which were referred for prosecution during the period of our survey. In one case, a Farmer's Home Administration county supervisor embezzled \$1,028,000 in farm loan funds. Colluding with two local farmers, the county supervisor approved loans totaling \$425,000. One farmer borrowed \$250,000,

retained \$100,000 and "lent" the county supervisor \$150,000 toward the purchase of a jet helicopter. The second farmer borrowed \$175,000, the proceeds of which were also improperly used to help purchase that helicopter for both his and the county supervisor's personal use. In addition, the second farmer, who owned the helicopter firm, received \$38,486 in federal funds from the county supervisor for flying lessons, rental fees, repairs, and maintenance.

The county supervisor also created and approved \$533,000 in fictitious loans and converted the proceeds to his personal use. In addition, he embezzled about \$70,000 from FmHA bank accounts.

The embezzlement schemes were initially discovered by FmHA employees who told the OIG their discovery; an OIG investigation resulted in the conviction of the county supervisor and the two farmers. The county supervisor was sentenced to 7 years imprisonment while one farmer was sentenced to 2 years probation and fined \$10,000. The second farmer was sentenced to 5 years probation, fined \$10,000, and was ordered to pay any deficiency that FmHA suffered from the sale of the helicopter. More than \$226,000 was recovered from a sale of property purchased by the county supervisor with embezzled funds.

DISPOSITION OF REFERRALS

The Department of Agriculture OIG referred 3,333 cases for prosecution during our survey period. Of those cases for which the OIG recorded disposition in its data base (2,786 cases), 67 percent (1,861 cases) were accepted for prosecution and 33 percent (925) were declined. The OIG data base did not include the final disposition of 547 cases at the time of our review. The 1,861 cases accepted for prosecution resulted in 2,808 indictments and 2,328 convictions. The OIG's data base does not include information on prison or probation sentences levied.

The OIG data base also does not include dollar losses for all cases. The data base did contain monetary results of the disposition of the cases. We found that 2,534 cases resulted in recoupments totaling \$64,154,337, as shown in table II.1.

Table II.1: Monetary Recoupment in Agriculture Cases Referred for Prosecution, Fiscal Years 1983-86

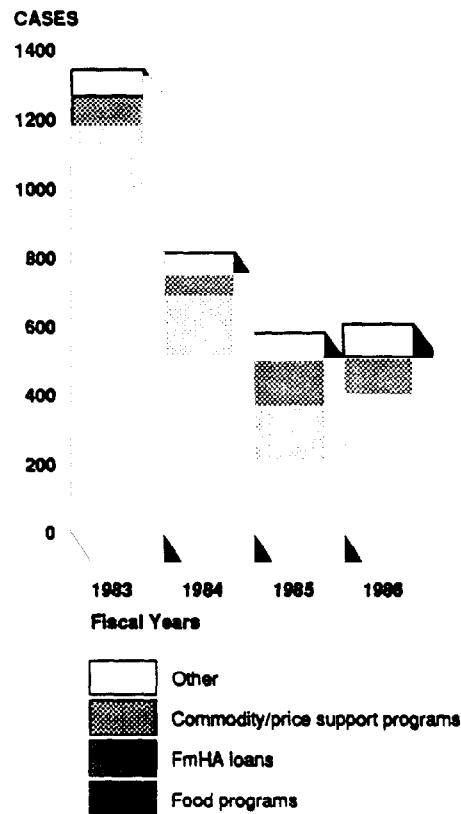
<u>Type of recoupment</u>	<u>Cases</u>	<u>Dollars</u>	<u>Percentage of dollars</u>
Recoveries/collections	885	\$20,621,507	32
Cost avoidance ^a	21	7,423,939	12
Fines	690	5,659,532	9
Claims established	583	20,733,716	32
Restitutions	<u>355</u>	<u>9,715,643</u>	<u>15</u>
Total	<u>2,534</u>	<u>\$64,154,337</u>	100

^aIncludes prevention of dollar losses to the government such as the denial of a loan to an insolvent applicant.

TRENDS IN REFERRALS FOR PROSECUTION

Figure II.2 shows that the number of referrals for prosecution in food programs has decreased significantly, from 998 in fiscal year 1983 to 226 in fiscal year 1986. The number of referrals over this period in FmHA loan programs has remained relatively constant, and those in ASCS commodity programs increased from 85 to 111.

Figure II.2: Closed Agriculture Fraud Cases Referred for Prosecution by Type of Program, Fiscal Years 1983-86



Cases: 3,333

The Assistant Inspector General for Investigations told us that these changes occurred because of a 1984 OIG reassessment as to the best use of investigative resources. He told us that in fiscal years 1983 and 1984, cases in food programs (primarily food stamp fraud) were high in number but required fewer work days to complete than other types of cases. He added that most investigations and subsequent indictments during that time resulted from proactive "matching" efforts. The efforts followed an attorney general public statement announcing concentrated prosecutive efforts against food stamp program violators.

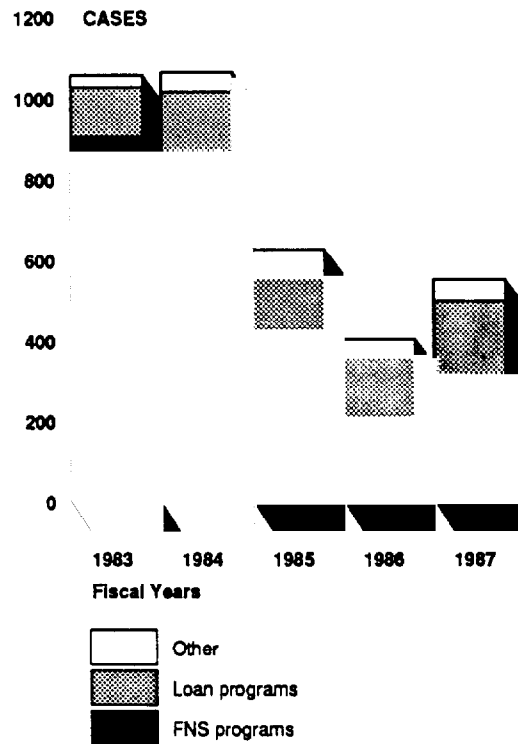
By 1984, the OIG decided it could no longer sustain the 1983-84 level of investigations in food programs without jeopardizing the integrity of USDA loan programs because a single loan program case could equal the dollars lost in several cases of retail store fraud or recipient fraud in food programs. This

reassessment resulted in an OIG decision to utilize about 40 percent of its investigative resources for the agency's loan program and about 30 percent in FNS programs. Subsequently, the Agriculture OIG and the Secret Service agreed that the Secret Service would assume responsibility for conducting food stamp investigations involving nonprogram participants and counterfeiters.

Figure II.2 also shows that total referrals decreased by about 50 percent from fiscal year 1983 to fiscal year 1986. According to OIG officials, this decrease was anticipated and was the result of the shift in emphasis from food stamp fraud investigations, which take a relatively short time to complete, to fraud cases in loan programs, which take considerably longer to investigate and refer.

As shown in figure II.3, while the shift in emphasis has resulted in a significant decrease in total Agriculture fraud convictions since fiscal year 1984, Agriculture loan program convictions have increased from 11 percent of total convictions in fiscal year 1983 to 33 percent in fiscal year 1987.

Figure II.3: Agriculture Fraud Convictions by Type of Program, Fiscal Years 1983-87



Cases: 3,698

Our review of Agriculture OIG semiannual reports showed that the monetary impact (recoveries, collections, fines, claims, restitutions, cost avoidances, and savings) more than doubled from about \$18 million in fiscal year 1983 to \$45.6 million in fiscal year 1987. Table II.2 shows the monetary impact of Agriculture OIG investigations during fiscal years 1983-87.

Table II.2: Monetary Impact of Agriculture OIG Fraud Investigations, Fiscal Years 1983-87

	Fiscal Year					Total
	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	
	----- (millions) -----					
Monetary Impact	\$18.1	\$29.4	\$30.0	\$30.0	\$45.6	\$153.1

OIG EFFORTS TO IDENTIFY AND REPORT UNDERLYING CAUSES OF DETECTED FRAUD

The Agriculture OIG investigative manual encourages investigators to highlight important observations and findings developed during criminal investigations and report them to program managers. We found that in 30 instances, during fiscal years 1983-85, investigators pointed out to program managers weaknesses that had allowed or contributed to fraud.

In one of these instances, a farmer was able to borrow almost \$15,000 by falsely certifying and pledging as collateral 3,300 bushels of soybeans while he only had 848 bushels. When he sold the soybeans and applied the proceeds of the sale to the loan, the farmer still owed the government almost \$11,000.

The investigator pointed out to management that the commodity inspector did not verify the existence of the collateral prior to loan approval as required. The case was declined by the U.S. attorney because Agriculture's inspector had certified but failed to verify the existence of the collateral.

The Agriculture OIG investigative manual also encourages investigators to report significant weaknesses to OIG auditors so that such weaknesses can be considered in identifying and planning future audits. In one instance, weaknesses allowing a fraudulent act to occur were reported to management as well as the Office of Audit. After an embezzlement investigation, the investigator concluded that two cashiers were able to steal almost \$60,000 in cash as well as equipment bought with imprest fund moneys over a 4-year period because of poor internal controls over imprest funds. The two cashiers had produced over 500 fraudulent documents, most

of which were authorizations for reimbursement from Agriculture's National Finance Center for amounts at or near the \$250 individual transaction limitation. Both subjects were convicted and sentenced to 90 days in jail, 5 years probation, and 200 hours of community service. They also had to repay \$59,169.

Based on the findings of the investigation, the Regional Inspector General for Investigations communicated the following weaknesses to agency management for its use in instituting corrective action: (1) no supervisory review or approval of reimbursement vouchers, (2) incomplete or nonexistent imprest fund audits and verifications, (3) unchecked and unjustified growth of aggregate imprest fund disbursements (from \$2,000 per month to over \$10,000 per month), and (4) flawed cashier selection and approval process. According to OIG officials, these findings were also reported to the OIG auditors who incorporated them, as well as similar ones identified in other investigations, into a national OIG audit of controls over disbursements and receipts. The auditors found and recommended actions to correct similar deficiencies nationwide.

DEPARTMENT OF LABOR

MOST PREVALENT FRAUD REFERRED FOR PROSECUTION INVOLVED INDIVIDUALS' FALSE STATEMENTS MADE TO RECEIVE EMPLOYMENT RELATED PAYMENTS OR BENEFITS (80 PERCENT OF THE CASES)

MOST SUSPECTED CLAIMANT FRAUD INVOLVED THE UNEMPLOYMENT INSURANCE PROGRAM

CONVICTIONS HAVE INCREASED FROM 174 IN FY 1983 TO 850 IN FY 1987

MONETARY RESULTS HAVE INCREASED FROM \$6.6 MILLION IN FY 1983 TO \$14.9 MILLION IN 1987

OIG INVESTIGATORS ARE REQUIRED TO IDENTIFY AND REPORT SYSTEM WEAKNESSES THAT CAUSED OR CONTRIBUTED TO WASTE, FRAUD, OR ABUSE FOUND DURING INVESTIGATIONS

DEPARTMENT OF LABORTYPES OF FRAUD AND ACTIVITIES AFFECTED

As shown in figure III.1, the most prevalent type of illegal activity referred for prosecution involved claimant fraud, which consisted of individuals making false statements or claims to receive employment related payments or benefits for which they were not eligible. Provider fraud, which made up about 7 percent of the referrals, involved illegal activities committed by grantees, contractors, or medical or legal providers. The "other" category, which made up about 13 percent of the cases, involved such things as employee misconduct and violations of minimum wage and overtime standards. While more current data on fraud cases closed subsequent to fiscal year 1985 were not readily available, Labor OIG investigative officials told us the types of fraud referred for prosecution during fiscal years 1986 and 1987, and the programs with which they are associated, are consistent with the results as reflected in figures III.1 and III.2.

Figure III.1: Types of Labor Fraud Cases Referred for Prosecution, Fiscal Years 1983-85

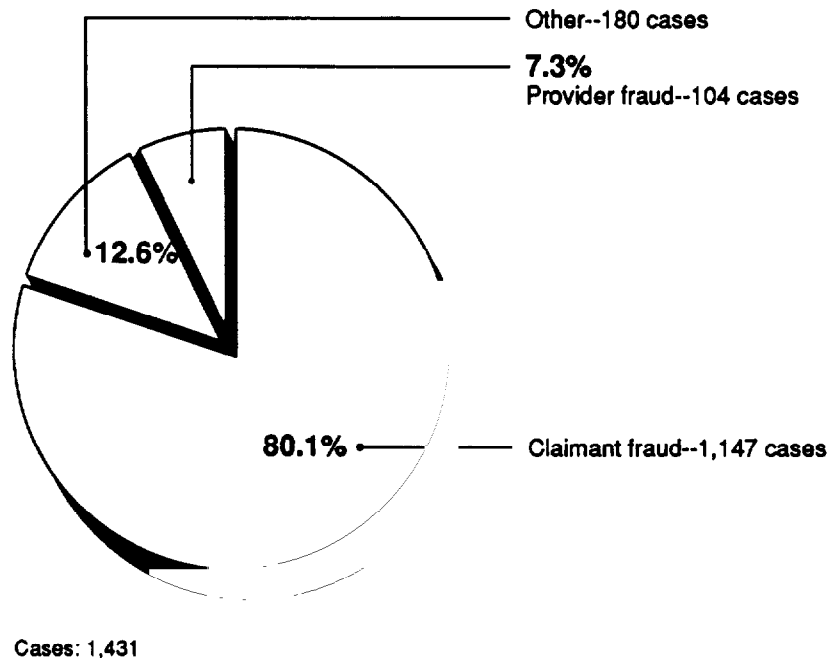
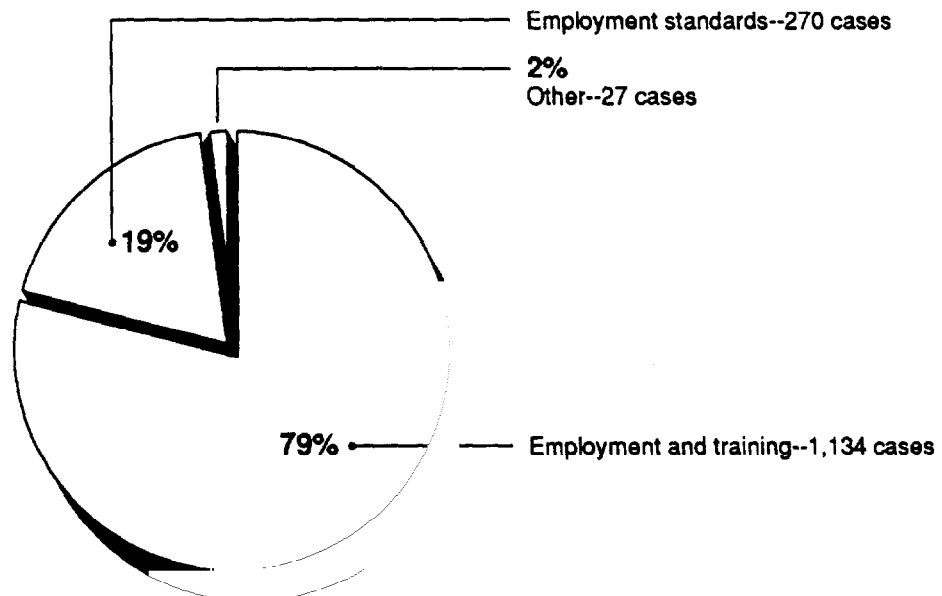


Figure III.2 shows that almost all fraud referred for prosecution occurred in Labor's employment and training programs (79 percent) and employment standards programs (19 percent).

Figure III.2: Labor Fraud Cases Referred for Prosecution by Program Area, Fiscal Years 1983-85



Cases: 1,431

Most (about 76 percent) of the employment and training fraud referrals involved the unemployment insurance program. This program was established in 1935 under the Social Security Act as a support system for workers who have lost their jobs but are available for work. It is a Federal-state partnership that is implemented through individual state legislation but is based upon federal law. The states are responsible for operating the program and are free to set their operational rules based on broad federal guidelines. Regular benefits are financed by a state tax on employers and vary according to benefit levels set by each state. Labor is responsible for ensuring proper and efficient administration of the states' programs and makes available administrative financial assistance, loans, and so forth.

A senior OIG investigations official told us that the unemployment insurance program, which constitutes the majority of total employment and training program referrals, involves high dollars and potential for fraud. He told us that previously, under

a memorandum of understanding between the Employment and Training Administration and the Federal Bureau of Investigation (FBI), the FBI had responsibility for investigating unemployment insurance fraud. However, after this agreement was rescinded in October 1983, states were to refer suspected unemployment insurance fraud to the Labor OIG for investigation. Consequently, OIG fraud referrals for prosecution involving unemployment insurance increased from 33 in fiscal year 1983 to 504 in fiscal year 1985.

An example of unemployment insurance fraud involved a subject who devised a scheme to defraud 13 state unemployment insurance programs of approximately \$75,000. It was estimated that the amount could have escalated to over \$460,000 had he not been apprehended. The subject would report and pay unemployment insurance taxes withheld using nonexistent or fictitious business names and addresses. Through several complex schemes, he was able to obtain names and matching social security numbers for employees who supposedly worked for these companies. He was arrested while attempting to pick up checks at a post office in Black Canyon City, Arizona, convicted and sentenced to 5 years imprisonment and 5 years probation. Also, he was fined \$11,789.

A majority (52 percent) of the employment-standard fraud cases referred for prosecution involved the Federal Employment Compensation Act (FECA) program. The program was established to provide workers' compensation benefits to federal employees who suffer on-the-job injury or occupational-related disease. The Department of Labor is responsible for administering the act. In fiscal year 1987, FECA's appropriation for funding these payments totaled about \$1.2 billion.

In one case, a mechanic injured on the job was determined eligible for benefits. He was also self-employed for 6 of the years he received benefits, and he made false statements to conceal the earned income. Based on an OIG investigation, charges were made against the subject, who then entered into a plea bargaining agreement. He received a 3-year suspended prison sentence with probation for 5 years, was fined \$2,000, and was ordered to repay the workers' compensation benefits.

ACTIONS TAKEN AGAINST THOSE WHO DEFRAUD LABOR PROGRAMS

Data on closed cases for fiscal years 1983 and 1984 were not included when the Labor OIG fraud data base was converted from a contractor provided to in-house system. Consequently, we were unable to identify all of the punitive actions taken in the 1,431 cases referred for prosecution during our survey period. We did, however, analyze information in the Labor OIG's semiannual reports regarding convictions and monetary results obtained from fraud

investigations for this same time period and for fiscal years 1986 and 1987 as well. As shown in table III.1, convictions have increased dramatically, and monetary recoupment has more than doubled.

Table III.1: Labor Convictions and Monetary Recoupments, Fiscal Years 1983-87

<u>Fiscal Year</u>	<u>Convictions</u>	<u>Monetary results^a</u> ---(millions)---
1983	174	\$ 6.6
1984	258	13.7
1985	570	10.8
1986	521	18.7
1987	<u>850</u>	<u>14.9</u>
Total	<u>2,373</u>	<u>\$64.7</u>

^aIncludes fines and penalties, settlements, judgments, and cost efficiencies. (The Department of Labor considers cost efficiencies to be results of management actions in response to OIG recommendations to avoid unnecessary expenditures.)

According to the Labor OIG, these large increases are due to growth in unemployment insurance fraud referrals, which increased from 12 percent of total referrals for prosecution in 1983 to 83 percent in 1985. Other factors cited by OIG officials include increases in (1) investigative personnel (approximately 11 percent), (2) experience gained by investigators and U.S. attorneys in the intricacies of departmental programs, (3) innovative investigative/prosecutive strategies, and (4) emphasis on achieving financial results by affording priority handling to those cases involving potentially significant recoveries, restitutions, judgments, and cost efficiencies.

OIG EFFORTS TO IDENTIFY AND REPORT
UNDERLYING CAUSES OF DETECTED FRAUD

An OIG Office of Investigations instruction states that when appropriate, field investigators should detail in the body of the final investigative report, under the heading "System Weaknesses," those problems or system weaknesses identified during the investigation which caused or contributed to waste, fraud, or

abuse. The instruction also requires that a memorandum to Labor management be prepared when weaknesses are identified. Prior to submission to management, the investigative memoranda are supposed to be reviewed by a Regional Inspector General for Audit for technical content, sufficiency, clarity, scope, and concurrence with the facts and recommendations. Once submitted to management, the OIG regional audit staff tracks the actions taken to prevent future fraud, waste, or abuse pertaining to Labor field operations. Those memoranda involving weaknesses more appropriately addressed by managers at Labor headquarters are required to be referred to and approved by headquarters investigative OIG officials, who (1) forward the completed product to appropriate managers and (2) notify the investigator who developed the report of any action taken.

Our review of investigative memos submitted to management in fiscal years 1986 and 1987 identified five instances where underlying causes of fraud were communicated to program managers. During one OIG investigation of, among other things, nepotism involving Job Training Partnership Act (JTPA) funds, the OIG found that because there were no regulations to prohibit such actions, one JTPA subcontractor had hired family members and paid them with JTPA funds. The OIG pointed out this problem in a management memo to the Regional Administrator of Labor's Employment and Training Administration, who subsequently reported that policy directives on nepotism and conflicts of interest applicable to JTPA were being developed.

GENERAL SERVICES ADMINISTRATION

MOST SIGNIFICANT TYPE OF SUSPECTED FRAUD REFERRED FOR PROSECUTION INVOLVED DEFECTIVE PRICING AND DEFECTIVE PERFORMANCE

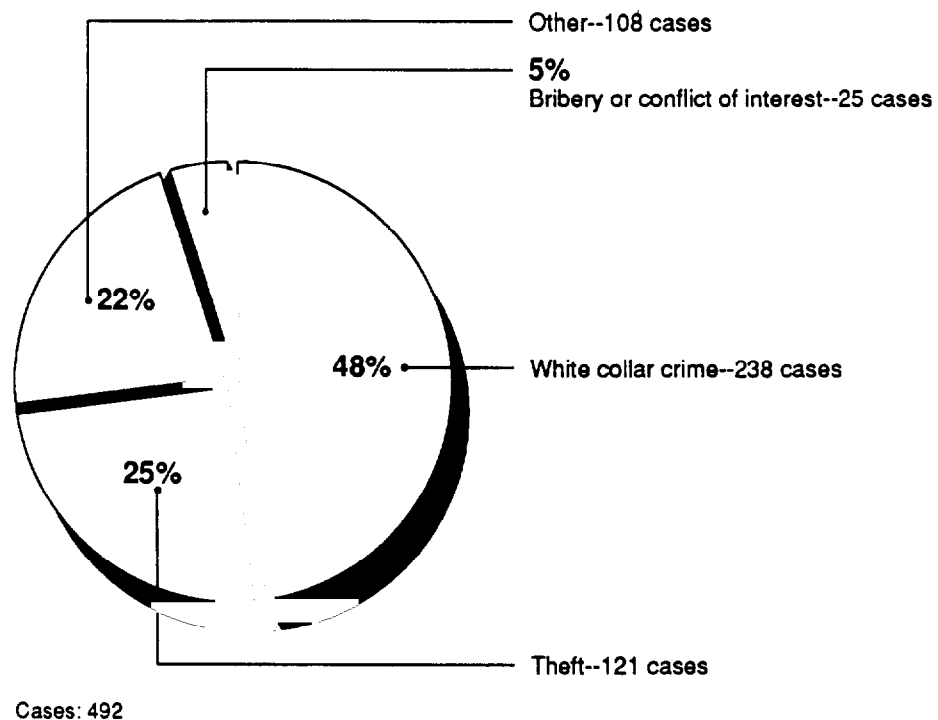
SUSPENSIONS AND DEBARMENTS OF CONTRACTORS HAVE INCREASED STEADILY FROM FISCAL YEAR 1983 THROUGH FISCAL YEAR 1987

OIG INVESTIGATORS ARE REQUIRED TO IDENTIFY AND REPORT MANAGEMENT DEFICIENCIES THAT ALLOW FRAUD TO OCCUR

GENERAL SERVICES ADMINISTRATIONTYPES OF FRAUD AND ACTIVITIES AFFECTED

Figure IV.1 shows that 48 percent of suspected GSA fraud cases were categorized by the OIG as white collar crime. Twenty-five percent of the cases involved theft and about five percent involved bribery/conflict of interest matters. The remaining 22 percent involved other activities such as employee misconduct.

Figure IV.1: Types of GSA Fraud Cases Referred for Prosecution, Fiscal Years 1983-85²



²Data as to the type of fraud and punitive actions taken in closed fraud cases that had been referred for prosecution subsequent to fiscal year 1985 were not readily available. OIG officials told us that the major difference in investigati activity after fiscal year 1985 was that they started to focus more on white collar crime cases which are more labor intensive. Consequently, the number of cases investigated and the number of referrals for prosecution declined.

We were unable to break out all specific types of GSA fraud because the OIG's data base identifies all fraud or white collar crime under a single classification called fraud. However, based on our discussions with OIG investigative officials and our review of selected cases, we determined that the most prevalent type of fraud referred for prosecution involved procurement matters, primarily defective pricing and defective performance practices committed by contractors. OIG officials told us that these types of fraud were the most significant in the white collar crime category in terms of both numbers of cases and dollars lost. In addition, we reviewed 51 of the 238 fraud or white collar crime cases with the largest dollar losses and found that 37 involved referrals of defective pricing or defective performance procurement fraud.

Defective pricing involves a contractor purposely substituting outdated, inaccurate, or incomplete discount schedules or marketing data, resulting in higher prices for the government than those offered to other customers of the contractor.

In one of these cases, the OIG audited the supplier's pricing and discount practices to determine the validity of information submitted in its offer and to evaluate its compliance with the defective pricing and price reduction clauses of the contract. The audit determined that the company failed to disclose complete, current, and accurate discount and pricing data which resulted in higher charges to GSA, thereby violating the defective pricing and price reduction clauses of its contract. Sales to the government under four contracts with this supplier amounted to \$70 million; the audit determined that \$3,554,458 was owed the government due to defective pricing, price reductions, and billing errors. GSA's investigation disclosed that the contractor knew that the firm's offer to GSA contained inaccurate information. In response to civil action, the company made a \$3.2 million lump sum payment to the government.

Defective performance procurement fraud includes contractors purposely providing products and/or services that do not meet contract terms. An example of defective performance was uncovered by a GAO audit which prompted a GSA OIG audit and investigation, and a subsequent grand jury investigation. An officer, director, and shareholder of a firm submitted claims in connection with a GSA/Air Force ground support equipment repair and service contract for parts and materials not actually purchased and used under the contract. As a result of the investigation, the participants were convicted, debarred for 3 years, and ordered to pay \$112,000.

The second most prevalent type of fraud referred for prosecution involved theft of government property. In one of these cases, five individuals purchased 10 surplus government automobiles

at a GSA spot bid auction, using personal checks totaling almost \$31,000, which were not backed by sufficient funds. The defendants were indicted, pleaded guilty to both felony and misdemeanor violations and were sentenced to various prison and probation sentences. Also, they were ordered to make restitution.

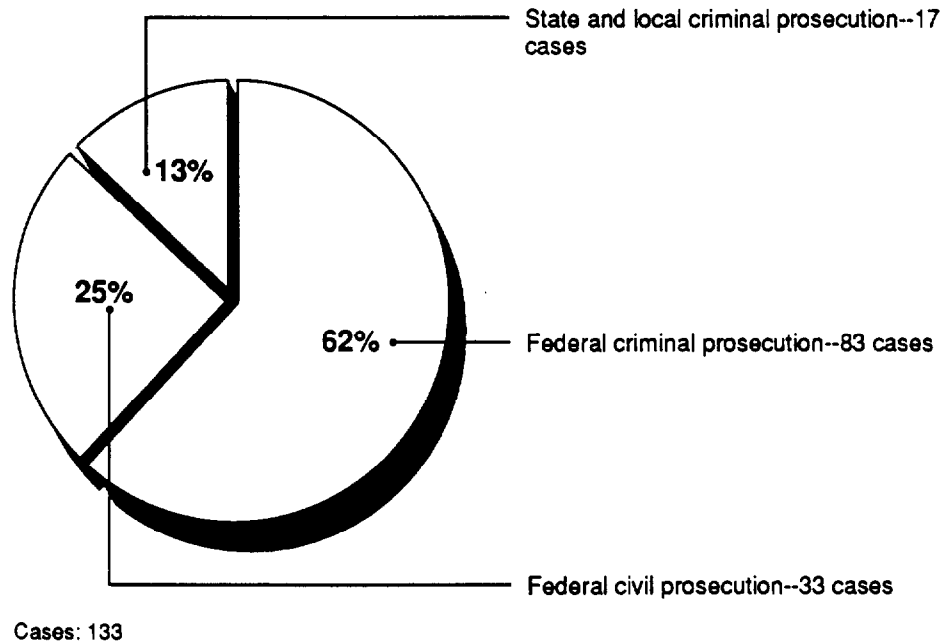
OIG officials told us that this type of fraud had been a significant problem until GSA's policy was changed to require certified checks for all purchases at its auctions.

ACTIONS TAKEN ON GSA REFERRALS FOR PROSECUTION

GSA referred 492 cases for prosecution during our survey period. These cases were closed at the time of our review. While 133 cases (27 percent) were accepted for prosecution, 359 cases were declined.

As shown in figure IV.2, of the 133 cases accepted for prosecution, 83 were accepted by federal prosecutive authorities for criminal prosecution, 33 cases were accepted by federal authorities for civil action, and 17 were accepted by state or local prosecutive authorities for criminal prosecution. A senior OIG investigations official informed us that an investigator generally refers a case to state or local prosecutors only after a U.S. attorney declines the case.

Figure IV.2: Courts Where GSA Fraud Cases Were Prosecuted, Fiscal Years 1983-85



The 133 cases accepted for prosecution involved 189 subjects. In total, 164 legal actions were taken against these subjects including 115 criminal convictions, 12 criminal pretrial diversions, and 37 civil judgments or civil settlements. As shown in table IV.1, 226 judicial sanctions were imposed as a result of the criminal convictions and pretrial diversions.

Table IV.1: Judicial Sanctions Against Those Who Defrauded GSA, Fiscal Years 1983-85

<u>Type of sanction</u>	<u>Number of sanctions^b</u>	<u>Range</u>	<u>Average</u>
Jail sentences ^a	57	10 days - 5 years	1.63 years
Probation sentences	69	100 days - 6 years	2.65 years
Community service	17	50 - 2,080 hours	341 hours
Restitution	45	\$50 - \$22,585	\$3,947
Fines	36	\$25 - \$100,000	\$3,620
Penalties assessed	<u>2</u>	\$2,000 - \$13,000	\$7,500
Total	<u>226</u>		

^aThe portion of jail sentences that were suspended was not recorded in the OIG's fraud data base.

^bThe total number of sanctions exceed the number of criminal convictions and pretrial diversions because more than one sanction can be taken against subjects.

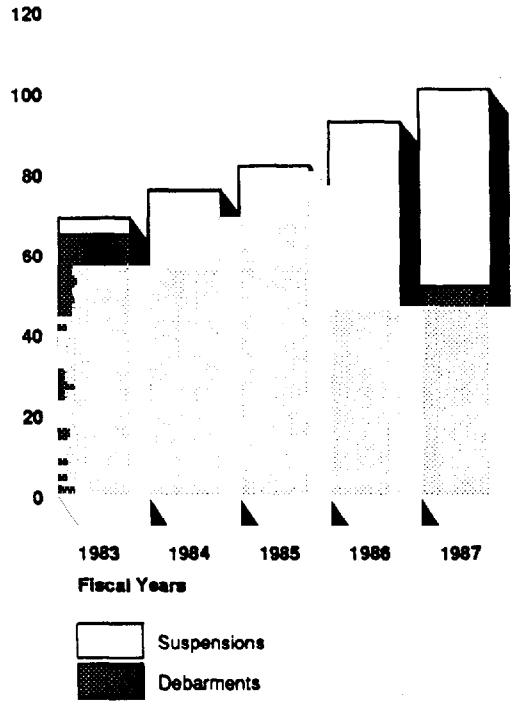
In addition to judicial sanctions discussed above, we found that 37 civil actions were taken. Table IV.2 shows the results of these civil actions.

Table IV.2: Number of Civil Actions Taken Against Subjects Referred for Prosecution, by Range of Assessment, Fiscal Years 1983-85

<u>Number of civil actions</u>	<u>Dollar ranges of civil actions</u>	<u>Total dollars assessed in civil actions</u>
21	up to 5,000	\$ 35,185
5	5,001 - 100,000	126,623
7	100,000 - 1,000,000	2,444,489
<u>4</u>	more than 1,000,000	<u>10,775,000</u>
Total <u>37</u>		<u>\$13,381,297</u>

At the time of our review, the GSA OIG could not provide from its data base administrative actions taken against subjects referred for prosecution. However, from GSA OIG semiannual reports to the Congress, we were able to identify the number of contractors that GSA suspended and debarred because of unethical business practices. Table IV.3 shows the number of suspensions and debarments in fiscal years 1983-87.

Figure IV.3: GSA Suspensions and Debarments of Contractors, Fiscal Years 1983-87



Suspensions: 131

Debarments: 290

Source: OIGs' semiannual reports to the Congress

OIG EFFORTS TO IDENTIFY AND REPORT UNDERLYING CAUSES OF DETECTED FRAUD

GSA OIG's policy and procedures manual specifies that investigators should be alert during an investigation to possible management deficiencies that allow fraud to occur. The manual states that the investigator should report in writing to the OIG's Office of Audit any identified deficiencies. Each report is to describe the deficiency, detail the reasons for believing the deficiency exists, and provide any available supporting documentation. All such reports are required to be reviewed by

the Regional Inspector General for Investigations, and forwarded to the Assistant Inspector General for Investigations who makes the formal referral to the Assistant Inspector General for Audit.

The Office of Audit may either transmit the finding to management, or request the OIG Office of Counsel or the OIG Office of Policy, Plans, and Management to take an internal action such as schedule an audit. The Office of Audit is responsible for monitoring action management takes in response to these deficiency reports.

We found that during fiscal years 1983 through 1985³ investigators identified and reported management deficiencies in 10 instances. In one of these instances, an OIG investigation into the performance of a \$2 million construction contract revealed poor GSA contract administration and inspection procedures resulting in, among other things, approximately \$15,000 worth of work that was not performed or was improperly performed. After these weaknesses were reported to management, several contract procurement practices were improved and the need for full time on-site inspection of multimillion dollar projects was reemphasized.

³Data on the number of management deficiencies reported subsequent to fiscal year 1985 was not readily available.

COMMENTS FROM THE DEPARTMENT OF AGRICULTURE

United States
Department of
Agriculture

Office of
Inspector
General

Washington,
D.C.
20250

MAY 11 1988

Frederick D. Wolf
Director, Accounting and
Financial Management Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Wolf:

We appreciate the opportunity to comment on GAO's review of fraud cases investigated by the Office of Inspector General, Department of Agriculture and referred to the Department of Justice for prosecution.

I believe that we have an effective fraud prevention and fraud detection program in place in OIG, and are pleased with the support and cooperation we have received from the Department of Justice and the respective United States Attorneys.

We continue to encourage our investigative staff to not only address the instant cases of fraud, but to be mindful of underlying problems in Departmental programs that make them vulnerable to fraud and to report those vulnerabilities to our audit staff and to program managers for corrective action.

We believe your draft briefing report accurately reflects our activities pertaining to the issues of your review.

Sincerely,

for Leon Sneed
ROBERT W. BEULEY
Inspector General

COMMENTS FROM THE GENERAL SERVICES ADMINISTRATION

General Services Administration
Office of Inspector General
Washington, DC 20405



MAY 16 1988

Mr. Frederick D. Wolf
Director
Accounting and Financial
Management Division
General Accounting Office
Washington, DC 20548

Dear Mr. Wolf:

We have reviewed the draft report titled "Fraud: Characteristics, Punitive Actions and Prevention at Agriculture, Labor and GSA." We found that the report fairly presents the results of GSA fraud cases referred to the Department of Justice by my office between fiscal years 1983 and 1985.

See page 35. I would, however, appreciate your making a correction on page 55. The GSA Office of Inspector General's data base does include administrative actions taken against subjects referred for prosecution. Unfortunately, our data base was not operational during the period your staff requested this information.

We appreciate the opportunity to comment on the draft report. If you or your staff have any additional questions, please call Mr. Thurman Dutton at (202) 566-1492. He is on the staff of the Assistant Inspector General for Investigations.

Sincerely,

William R. Barton
William R. Barton
Inspector General

COMMENTS FROM THE DEPARTMENT OF LABOR

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

U.S. Department of Labor

Inspector General
Washington, D C 20210



WV 6 1988

Frederick D. Wolf
Director
Accounting and Financial
Management Division
General Accounting Office
Washington, D. C. 20548

Dear Mr. Wolf:

I have reviewed with interest the draft report on the Department of Labor fraud cases referred to the Department of Justice. My observations are as follows:

See page 3.

PAGE 4 - LAST SENTENCE

Change Sentence to Read:

Labor OIG referrals involving Unemployment Insurance program fraud have risen dramatically -- from 33 in Fiscal Year 1983 to 504 in Fiscal Year 1985 -- after an FBI Employment and Training Administration (ETA) Memorandum of Understanding giving the FBI responsibility for these types of investigations was rescinded in 1983.

See page 25.

PAGE 37 - LAST SENTENCE

See comment 1.

Comment:

Data is available on the type of fraud cases referred for prosecution during Fiscal Years 1986 and 1987.

See page 27.

PAGE 40 - LAST PARAGRAPH - SECOND SENTENCE

Change to Read:

He told us that previously, under a Memorandum of Understanding between the ETA and the Federal Bureau of Investigation (FBI), the FBI had responsibility for investigating Unemployment Insurance fraud.

-2-

See page 28.

PAGE 43 - LAST SENTENCE

Change to Read:

Other factors cited by OIG officials include increases in (1) investigative personnel (approximately 11 percent), (2) experience gained by investigators and U.S. attorneys in the intricacies of Departmental programs, (3) innovative investigative/prosecutive strategies, and (4) emphasis on achieving financial results by affording priority handling to those cases involving potentially significant recoveries, restitutions, judgements, and cost efficiencies.

See page 29.

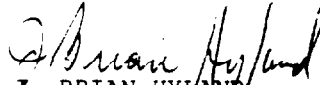
PAGE 44 - LAST SENTENCE

Change to Read:

Those memoranda involving weaknesses, more appropriately addressed by managers at Labor Headquarters, are required to be referred to and approved by Headquarters investigative OIG officials who (1) forward the completed product to appropriate managers and (2) notify the investigator who developed the report of any action taken.

Thank you again for the opportunity to share my observations in this matter.

Sincerely,


J. BRIAN HYLAND
Inspector General

The following are GAO's comments on the Department of Labor letter dated May 6, 1988.

GAO COMMENTS

1. While Labor's system is now operational, it does not include all the cases that were open during the period covered by our evaluation. Accordingly, we could not use the system to update the status of those cases.

(911617)

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