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United States General Accounting Office

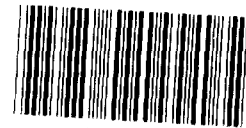
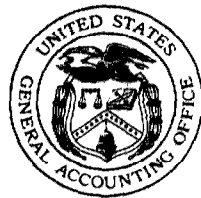
GAO

Report to the Congress

December 1987

# FEDERAL WORKFORCE

## Low Activity in Awards Program for Cost Savings Disclosures



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Comptroller General  
of the United States

B-228638

December 18, 1987

The Honorable George Bush  
President of the Senate

The Honorable James Wright  
Speaker of the House of  
Representatives

As required by Section 1225 of the Defense Authorization Act of 1986, we reviewed the Inspector General (IG) Cash Award Program for Cost Savings Disclosures. The program allows IGs to reward federal civilian employees and military personnel whose disclosures of instances of fraud, waste, and mismanagement result in cost savings or cost avoidances to the government.

The authority for the cash awards program was originally established by Section 1703 of the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35), which amended chapter 45 of title 5, United States Code, covering the government's Incentive Awards Program. Under the act, IGs could pay cash awards to civilian employees whose disclosures of fraud, waste, or mismanagement resulted in cost savings. Awards were limited to the lesser of \$10,000 or an amount equal to 1 percent of the cost savings attributable to the disclosure. The original program expired on September 30, 1984.<sup>1</sup>

During hearings in August 1984 to consider program extension, some IGs recommended that because the program had not been fully implemented, it be extended to allow its usefulness to be fully tested. In November 1985, the program was extended for a 3-year period, and military personnel were also made eligible for awards. The military part of the program is permanent, but the civilian part will expire on September 30, 1988.

## Objectives, Scope, and Methodology

As required by the act, our objectives were to assess whether the cash awards program for disclosures by civilian employees has been effective, whether it should be extended beyond September 30, 1988, and whether any modification of the legislation is appropriate. We focused on the programs at the six largest federal departments and agencies: the

<sup>1</sup>For a discussion of this phase of the program, see Executive Agencies' Employee Cash Awards Program for Disclosure of Fraud, Waste, or Mismanagement (GAO/GGD-84-74, May 8, 1984).

Departments of Agriculture, Defense, Health and Human Services, the Interior, and the Treasury and the Veterans Administration (VA). These agencies employ over 90 percent of the military and civilian personnel covered by the program. The program does not apply to the U.S. Postal Service.

At the six agencies, we examined policies, procedures, and practices relating to the cash awards program. We interviewed officials who were in a position to speak for the IGs to obtain their views of the program, its effectiveness, and how it could be improved. We also interviewed officials of the President's Council on Integrity and Efficiency, which is responsible for coordinating and implementing governmentwide activities to combat fraud and waste in government programs and operations. In addition, we examined studies done by the Merit Systems Protection Board<sup>2</sup> that addressed employee attitudes toward whistleblowing and incentive programs. Our review was performed from October 1986 to May 1987 in accordance with generally accepted government auditing standards.

## Disagreement Over the Program's Appropriateness

The objective of the cash awards program is to foster efforts to eliminate fraud, waste, and mismanagement in the federal government. In a report supporting the 1981 legislation, the House Post Office and Civil Service Committee stated it believed there was a need for inducement beyond the mere guarantee of protection against reprisals for employees making disclosures. Therefore, the Committee proposed that federal employees who make cost savings disclosures be eligible to receive cash awards.

Most of the IG officials we interviewed disagree that a cash awards program for disclosing wrongdoing is necessary. IG officials in four of the six agencies told us they believed employees should make disclosures as a matter of duty, and if employees have to be encouraged to disclose by cash incentives, the employees become, in effect, paid informants.

<sup>2</sup>Whistleblowing and the Federal Employee, Blowing the Whistle on Fraud, Waste, and Mismanagement - Who Does It and What Happens, U.S. Merit Systems Protection Board, October 1981.

Blowing the Whistle in the Federal Government: A Comparative Analysis of 1980 and 1983 Survey Findings, U.S. Merit Systems Protection Board, October 1984.

Getting Involved: Improving Federal Management With Employee Participation, U.S. Merit Systems Protection Board, May 1986.

According to an October 1981 report by the Merit Systems Protection Board, federal employees appear to support the IG officials' position. Of 8,600 employees responding to a questionnaire, 2 percent said a cash incentive would personally motivate them to disclose fraud, waste, or mismanagement. Many respondents indicated that cash was not as important as other factors—81 percent said they would be encouraged to disclose if they knew the conditions they were reporting would be corrected, and 41 percent said they would be encouraged to disclose if they knew they would be protected from any sort of reprisal.

The Department of Defense had the only active program among the six agencies we visited. Defense IG officials viewed their cash awards program as a useful mechanism for recognizing individuals who disclose waste, fraud, and mismanagement over the IG's hotline. However, they said they do not actively solicit disclosures with the promise of a possible cash award, nor do they believe that the objective of the program should be to encourage disclosures by offering awards.

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## Program Effectiveness

As of March 1987, five of the six IG offices had not granted cash awards since the program was extended in November 1985, and said they had made no attempt to publicize the program. The Department of Defense reported that it granted 25 cash awards totaling over \$30,000 between May 1984 and March 1987.<sup>3</sup> The 25 disclosures reportedly resulted in savings of \$29 million and \$14 million in cost avoidance. The Defense IG also received hundreds of other disclosures for which no awards were given. The Department's records do not indicate why the employees made disclosures and, in most instances, did not include the identities or addresses of the persons making the disclosures.

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## Few Awards Given

While we are not able to determine whether the program encouraged anyone to make a disclosure, certain factors could have contributed to the small number of awards.

IGs in four of the six agencies regarded the program as optional, not mandatory, and consequently chose not to make cash awards. They emphasized that the statute uses the word "may":

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<sup>3</sup>From October 1984 to November 1985, when the program was not in existence, Defense made cash awards from its incentive awards program.

"The Inspector General . . . may pay a cash award to any employee of such agency whose disclosure of fraud, waste or mismanagement to the Inspector General of the agency . . . has resulted in cost savings for the agency." 5 U.S.C. section 4512 (1982).

We interpret the use of the word "may" in this context as intending to allow discretion in selecting individual awardees, and not as offering agencies a choice to forego the disclosure awards program completely. We noted that the language of section 4512 mirrors the statutory language creating the program of incentive awards for superior accomplishments, which is not an optional program. However, the legislative history of the disclosure awards program does not provide a definitive interpretation and the statute itself leaves room for argument.

Many people making disclosures are ineligible for an award. During 1986, the Defense IG received 1,843 disclosures, 395 of which were referrals of disclosures that were originally made to us or to Congress. Also, many other investigative, inspection, or reviewing offices within the Department can receive disclosures of fraud, waste, and mismanagement, but individuals making such disclosures are ineligible for awards based on Defense's interpretation of the legislation establishing the program. According to the Department's General Counsel, employees who make disclosures to other investigative offices or hotlines such as the military service IGs, our fraud hotline, or to Members of Congress, instead of the Defense IG are not eligible for awards.

The Department's interpretation is narrow, but not inconsistent with the statute. In his 1984 testimony, the Defense IG recommended that the law be changed to allow employees making disclosures to these other offices to be covered by the program, but Congress did not adopt this recommendation.

Only federal employees are covered by the program. IG officials in three of the six agencies we contacted believe that others should be covered as well. Defense IG officials suggested that contractor employees should be covered and recognized for their disclosures the same as Department employees. They cited as an example a contractor employee who disclosed to the IG that the contractor was producing defective material. An IG investigation substantiated this disclosure and resulted in the contractor agreeing to replace the defective material valued at \$12.3 million. According to a Defense IG official, the office would likely have recommended that this individual be granted an award if the legislation had not been restricted to federal employees.

Awards also are limited to cost savings and cost avoidance disclosures. Officials in four of the IG offices noted that the legislation does not allow awards for disclosures leading to intangible benefits, which may have as much value to the government as cost savings and cost avoidances. For example, a VA employee exposed fraudulent schemes to manufacture and sell bogus professional credentials and degrees to agency personnel. The benefit from the disclosure was very difficult to quantify. A VA IG official believed that if the criteria in the legislation were expanded to include intangible benefits, IGs would have more latitude in granting cash awards. IG officials in all six offices said that it is often difficult to quantify savings as a result of disclosures.

Another factor contributing to the small number of awards is that many individuals prefer to remain anonymous. Of 1,448 disclosures made directly to the Defense IG in 1986 (excluding the 395 referrals from outside the department), 741 individuals did not identify themselves.

## Should the Program Be Modified and Extended?

In view of (1) the absence of convincing evidence to support or refute the program and (2) the opinion of employees and IG officials that factors other than a cash award are more important for stimulating cost savings and cost avoidance disclosures, we are unable to conclude that the program should be continued or that legislative modifications would increase the level of activity in the program enough to warrant its continuance. Nevertheless, some of the factors that may have contributed to the small number of awards under the program, such as ineligibility and the prevailing view of the IGs that the program is voluntary, could be addressed by legislation.

## Matters for Congressional Consideration

Extending the program is a policy matter for Congress to decide. Should it decide to extend the program, Congress may wish to consider

- expanding program coverage to include non-federal personnel, such as contractor employees, and federal employees who make disclosures to entities other than the department IG.
- allowing cash awards for disclosures that result in intangible benefits.
- clarifying the intent that the program is to be implemented by all agencies either by strengthening the language in the authorizing statute or by earmarking amounts for disclosure awards in agency appropriation acts or both.

## Agency Comments

The Veterans Administration and the Departments of Agriculture, Defense, the Interior, and the Treasury provided written comments on a draft of this report. Their responses are included as appendixes I through V. Comments were also requested from the Department of Health and Human Services but were not provided in time to be included in this report.

The Veterans Administration agreed with the report's finding that in the opinion of employees and IG offices there are more important factors than cash awards for motivating employee disclosures.

The Department of Agriculture said it believes implementation of the program is required and is reviewing internal comments on its proposed regulations to implement the program. The Department said it does not yet have a basis to comment on whether the program should be extended or to address suggested modifications to the present program.

The Department of Defense said it believes its program is a useful tool in fighting fraud and abuse and that it fully supports our matters for congressional consideration. The Department said that if Congress reacts favorably to our suggestions for possible changes, the number of cash awards should increase.

The Department of the Interior said the lack of awards did not necessarily mean the absence of a program, and that this could simply mean there were no appropriate recipients or no funds to award. Interior added that the program could be one of the tools available to IGs in eliminating fraud and waste, but believed it will continue to be of limited use without a specific source of award funds. The Department agreed that the Congress used the word "may" in the legislation in order to give IGs the discretion to determine whether an award should be given in a particular instance.

The Department of the Treasury said the report was factually correct and the suggestions for congressional consideration were appropriate. The Department reiterated its position that monetary incentives are not necessary to encourage Treasury employees to report alleged instances of fraud, waste, and mismanagement to the IG.

We are sending copies of this report to selected committees of Congress, the Administrator of Veterans Affairs, the Secretaries of the Treasury,



Agriculture, Defense, the Interior, and Health and Human Services, and  
the Director, Office of Management and Budget.

*D. J. Anderson*

*for*

Comptroller General  
of the United States

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## Abbreviations

IG	Inspector General
VA	Veterans Administration



# Agency Comments From the Office of the Administrator of Veterans Affairs

Office of the  
Administrator  
of Veterans Affairs

Washington DC 20420



OCT 7 1987

In Reply Refer To:

Mr. Richard L. Fogel  
Assistant Comptroller General  
Human Resources Division  
U. S. General Accounting Office  
Washington, DC 20548

Dear Mr. Fogel:

This responds to your request that the Veterans Administration (VA) review and comment on the General Accounting Office (GAO) September 4, 1987, draft report Low Activity in Awards Program for Cost Saving Disclosures.

GAO reviewed the Cash Award Program for Cost Saving Disclosures at six federal departments and agencies. The program allows Inspectors General (IG) to reward employees whose disclosures of instances of fraud, waste, and mismanagement result in cost savings or cost avoidances to the government.

GAO found that in the opinion of employees and IG offices there are more important factors than cash awards for motivating employee disclosures. There were no recommendations to the VA.

We agree with the report's finding and have no further comments.

Sincerely,

A handwritten signature in black ink, appearing to read 'Thomas K. Turnage', written in a cursive style.

THOMAS K. TURNAGE  
Administrator

*"America is #1—Thanks to our Veterans"*

Discussed on p. 6.

Discussed on p. 6.

# Agency Comments From the Department of Agriculture



United States  
Department of  
Agriculture

Office of  
Inspector  
General

Washington,  
D.C.  
20250

OCT 7 1987

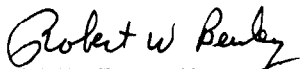
Mr. J. Dexter Peach  
Assistant Comptroller General  
Resources, Community, and Economic  
Development Division  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Peach:

This is in reply to your request for comments on the GAO draft report entitled "Federal Workforce: Low Activity in Awards Program for Cost Saving Disclosures." The Office of Inspector General, USDA, agrees that the disclosure awards program is required and has circulated within the Department of Agriculture a draft proposal for a system of "Monetary Awards for the Disclosure of Fraud, Waste and Mismanagement." We have requested, and received comments concerning this program from agencies within USDA. These comments are being reviewed and considered for inclusion in this draft Departmental Directive. These regulations, which will implement the program, will then be submitted to the Department for final promulgation.

Since we are in the process of implementing this program, we do not yet have any basis to comment on whether the program should be extended or to address suggested modifications to the present program.

Sincerely,

  
ROBERT W. BEULEY  
Inspector General

Discussed on p. 6.

Discussed on p. 6.

# Agency Comments From the Department of Defense



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202

7 OCT 1987

Mr. Frank C. Conahan  
Assistant Comptroller General  
United States General Accounting Office  
Washington, D.C. 20548

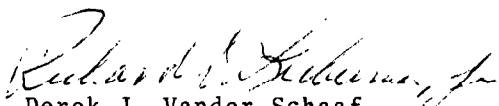
Dear Mr. Conahan:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "Low Activity in Awards Programs for Cost Saving Disclosures," dated September 2, 1987 (GAO Code 966270/OSD Case 7401). The DoD concurs with the GAO draft report.

The DoD fully supports all three "Matters for Congressional Consideration." The DoD continues to consider its cash awards program to be a useful tool in fighting fraud and abuse. The program provides an excellent mechanism for giving special recognition to an individual's integrity and willingness to take personal risk in making disclosures for the public good. If the Congress reacts favorably to the GAO suggestions contained in the report, the number of cash awards should increase even further.

The Department appreciates the opportunity to comment on this draft report.

Sincerely,

  
Derek J. Vander Schaaf  
Deputy Inspector General

Discussed on p. 6.

# Agency Comments From the Department of Interior



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL  
WASHINGTON, D.C. 20240



September 11, 1987

Honorable Charles A. Bowsher  
Comptroller General  
U.S. General Accounting Office  
Room 7071  
Washington, D.C. 20548

Dear Mr. Bowsher:

We have reviewed the Draft Report on "Low Activity in Awards Program for Cost Saving Disclosures" and offer the following comments. Although the report accurately portrays the low number of awards made under the program, the reasons for the low number may justify further explanation. The report neglects to mention the problem of funding for the the awards. Congress made no specific provision for the source of the award funds. If the Inspectors General are to provide the money, most of them would be unable to do so since there are no funds provided for awards and their appropriations are primarily made up of salary, benefits and travel money. If the awards are to come from program funds, then a possible conflict arises if the bureau objects to paying the award.

In our discussions with the GAO auditors, we did not talk about the use of the term "may" in the statute as it pertains to implementation of the program. We did, however, discuss the lack of funding as an impediment to granting awards. The report implies that the lack of awards indicates lack of implementation of the program. We feel this is faulty reasoning as there may simply be a lack of appropriate recipients or there are no funds to award. In addition, if the Congress were to substitute "shall" for "may," this would raise the question of entitlement to a cash award in the mind of a would-be recipient. We believe that the Congress used "may" in order to give an Inspector General the discretion to determine whether an award should be given in a particular instance.

We strongly support efforts to identify and eliminate fraud and waste. This program could be one of the tools available to the Inspectors General for use as they see appropriate. However, as long as there is no specific source of award funds, the program will continue to be of limited use.

Sincerely,

*James R. Richards*  
James R. Richards  
Inspector General

Discussed on p. 6.

Discussed on p. 6.

Discussed on p. 6.

# Agency Comments From the Department of Treasury



ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY  
WASHINGTON

October 8, 1987

Dear Mr. Anderson:

This is in response to your letter of September 2, 1987 requesting our comments on GAO's draft report entitled Low Activity in Awards Program for Cost Saving Disclosures. We have reviewed the report and believe its contents to be factually correct. Further, the report's suggestions appear to be appropriate items for possible Congressional consideration. Accordingly, we have no comments on the language of the draft report.

As you know, the Department's experience indicates that monetary incentives are not necessary to encourage Treasury employees to report alleged instances of fraud, waste, and mismanagement to our Inspector General. We will elaborate on this position if and when reauthorizing legislation is considered by the Congress. Thank you for the opportunity to review this draft report.

Sincerely,

A handwritten signature in black ink, appearing to read "John F. W. Rogers".

John F. W. Rogers  
Assistant Secretary  
of the Treasury (Management)

Mr. William J. Anderson  
Assistant Comptroller General  
United States General Accounting Office  
Washington, D.C. 20548

Discussed on p 6

Discussed on p 6



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