United States General Accounting Office

GAO

Report to Congressional Requesters

April 1996

USDA TELECOMMUNICATIONS

More Effort Needed to Address Telephone Abuse and Fraud

G A O

75 years 1921 - 1996

GAO/AIMD-96-59

GAO

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

Accounting and Information
Management Division

B-271347

April 16, 1996

The Honorable Richard G. Lugar
Chairman, Committee on Agriculture,
Nutrition and Forestry
United States Senate

The Honorable Carolyn B. Maloney
Ranking Minority Member
Subcommittee on Government Management,
Information and Technology
Committee on Government Reform and Oversight
House of Representatives

On September 22, 1995, we reported to you that the Department of Agriculture (USDA) does not cost-effectively manage and plan its telecommunications resources.[1] Specifically, we found that USDA agencies waste millions of dollars each year paying for (1) unnecessary telecommunications services, (2) leased equipment that is not used and services billed for but never provided, and (3) commercial carrier services that cost more than three times what they would under the FTS (Federal Telecommunications System) 2000 program. In large part, these problems existed because USDA had not established effective management controls over the acquisition and use of telecommunications resources, and we recommended necessary improvements to correct USDA's telecommunications management and planning weaknesses.

Following this report, we conducted additional work as part of your request to determine whether USDA ensures that the commercial telephone and long-distance services it pays for are used in accordance with federal regulations and departmental policy. This report discusses problems we identified involving fraud and abuse of the Department's telephone resources and provides an update on USDA's efforts to address recommendations from our past report.

Results in Brief

USDA does not have adequate controls for ensuring that its telephones are used properly. As a result, the Department, which spends about $50 million each year on commercial telecommunications services, is putting itself at risk to telephone abuse and fraud. We reviewed bills for all

[1]USDA Telecommunications: Better Management and Network Planning Could Save Millions (GAO/AIMD-95-203, Sept. 22, 1995).

collect calls over a 4-month period for USDA agencies and offices in the Washington, D.C., metropolitan area and found that they accepted over 600 inappropriate collect calls—about 50 percent of all collect calls accepted and paid for by USDA during this time—from individuals at 18 correctional institutions. Although these collect calls cost USDA only about $2,600, thousands more may have been lost because individuals at USDA who accepted the collect calls may have transferred the callers to other USDA long-distance lines. USDA has been aware of cases of collect calling abuse since 1994, but has not taken adequate action to stop it.

USDA agencies and offices in the Washington, D.C., metropolitan area also pay tens of thousands of dollars each month for long-distance calls to locations all over the world without knowing whether these calls are authorized because telephone bills are generally not reviewed. We reviewed bills for a few of these calls and found several cases where individuals placed unauthorized calls to adult entertainment lines, such as sex and party lines in other countries. We also found that USDA is vulnerable to other fraud and abuse because it does not track and monitor employees' use of telephone company credit cards. Moreover, there has been at least one instance where hackers broke into USDA's telephone system because of vulnerabilities in a USDA contractor's voice mail equipment and, according to USDA records, made an estimated $40,000 to $50,000 in international long-distance calls. USDA did not seek reimbursement for the cost of the fraudulent calls it paid for, even though the contractor acknowledged that it was responsible for the vulnerabilities in the voice mail equipment.

USDA does not know how widespread telephone abuse and fraud is at the Department. Until it determines the extent of these problems, USDA is not in a position to develop an appropriate plan with cost-effective controls to mitigate the risk of telephone abuse and fraud or take necessary action to cost-effectively address abuses that have occurred.

USDA has begun to take positive steps to correct some of the telecommunications management weaknesses we identified in past reports, such as planning an effort to reengineer and automate its current paper-based billing system so that telephone billing data can be cost-effectively verified. However, the Department has not yet responded to our September 1995 report with a written statement in accordance with 31 U.S.C. 720 on actions taken to implement our recommendations to resolve these problems.

Background

> "Every telecommunication user suffers from telabuse. The only question is how much each loses each month."[2]

> "There are two kinds of customers: those who have been victims of toll fraud, and those who will be."[3]

The abuse and theft of telecommunications services is one of the fastest growing crimes in the United States.[4] According to Telecommunications Advisors, Incorporated (TAI), a consulting firm that has done extensive research on telephone fraud and abuse problems, these crimes cost industry and government an estimated $9 billion each year.[5] Telephone abuse or "telabuse" is the misuse or waste of telephone resources by employees from within an organization or by their relatives or acquaintances. This typically involves personal long-distance calls made by employees at an organization's expense. Toll fraud is the theft of an organization's long-distance services by individuals from the outside. This can involve fraud committed by experienced telephone hackers who are able to penetrate an organization's voice message systems and private networks. It also involves the fraudulent use of telephone company calling cards and cellular telephones by hackers or others who steal calling card numbers and cellular telephone services.

A security manager for one major telephone company attributed a large part of the ever-increasing levels of toll fraud and telabuse to user neglect and inattention. According to the security manager, the attention and consideration industry and government organizations give to telephone equipment and services often stop after the initial purchase, leaving them more vulnerable to the risk of telephone abuse and fraud. Furthermore, it is commonplace, in industry and government, that bills for telecommunications services are often not reviewed to ensure that charges incurred are appropriate and justified. For most organizations, controls over telephone services, as expected, are secondary to many of the more pressing daily business functions. According to TAI, organizations often treat their telephone bills like other bills, such as rent and electric, and simply pay them without examination.

[2]Toll Fraud and Telabuse: A Multibillion Dollar National Problem, Volume I, Telecommunications Advisors, Incorporated, Feb. 1992.

[3]MCI, 1991 as quoted in Toll Fraud and Telabuse: A Multibillion Dollar National Problem, Volume I, Feb. 1992.

[4]Review of the Internal Revenue Service's Controls Over Voice Telecommunications Charges, Internal Revenue Service Internal Audit, Office of Regional Inspector, Sept. 1, 1993.

[5]Toll Fraud and Telabuse: A Multibillion Dollar National Problem, Volume I, Feb.1992.

Cases reported by TAI have also shown that failure to establish adequate controls over the use of telecommunications resources can have costly consequences. For example, one toll fraud incident at the Drug Enforcement Administration (DEA) reportedly cost the government over $2 million because DEA, which did not monitor telephone activity and review billing records, did not detect fraudulent calls by telephone hackers for 18 months. In another case, not adequately monitoring telephone calling activity at New York City's Human Resources Administration offices cost the city over $200,000 for thousands of employee calls to party lines and other personal services over several years. These problems are not confined to government. For example, a private company in Texas was billed $25,000 in 1 month for improper calls and, by instituting minor controls over employee use of telephones, a major utility company in the southeast was able to reduce its telephone bill by over $60,000 per year.

USDA and its 29 component agencies spend over $100 million on telecommunications annually, including more than $50 million for commercial telecommunications services obtained from over 1,500 telephone companies. These companies provide local telephone service as well as international and domestic long-distance services that are not available on the FTS 2000 network.[6] USDA headquarters offices and other USDA agency and staff offices within the Washington, D.C., metropolitan area pay for over 24,000 separate telephone lines each month.

The Federal Information Resources Management Regulation governs use of telecommunications services for all government agencies and states that telephone calls paid for by the government shall be used to conduct official business only.[7] Unauthorized calls, which are calls that are not necessary in the interest of the government, are prohibited, and agencies are required to collect for any unauthorized calls if it is cost-effective to do so. USDA's telecommunications policy (DR-3300-1) requires that USDA agencies ensure that government-provided telephones are used only for official business and for calls the agency considers necessary. Under DR-3300-1, the Office of Information Resources Management (OIRM) is responsible for establishing policy and procedures for the management and cost control of telecommunication systems and each component agency and staff office is responsible for ensuring compliance with departmental policy and that government telephones are used for authorized purposes only in accordance with this policy. USDA's Chief Financial Officer (CFO) is responsible for overseeing all financial

[6]USDA is required to use FTS 2000 network services for basic long-distance communications.

[7]41 CFR Ch. 201-21.6 - Use of Government Telephone Systems (1995). See also 31 U.S.C. Sec. 1348 (b).

management activities relating to the programs and operations of the Department, including managing USDA's National Finance Center (NFC).

Scope and Methodology

To assess USDA's controls over telephone use, we examined USDA's policies and procedures governing the use of government telephones. We also obtained and reviewed commercial telephone billing records for USDA agency offices in the Washington, D.C., metropolitan area for 4 months in fiscal year 1995, which totaled about $580,000 or 1 percent of the $50 million USDA spends annually for commercial telecommunications costs. The 4 months were selected from early, mid, and late parts of the fiscal year to adjust for any seasonal variations in calling patterns, and we reviewed billing records of all collect calls accepted by the Department during the 4 months as well as selected long-distance calls made during the month of August 1995.[8] In cases where billing records disclosed instances of telephone abuse, we discussed these cases with USDA officials and telephone company representatives and provided billing records of the calls to USDA officials for appropriate action. We also discussed cases involving collect calls from prisons with correctional facility personnel and USDA officials. In addition, we reviewed telephone company records and USDA documentation pertaining to a March 1995 hacker case at the Department and examined USDA actions taken in response to this attack. Appendix I provides further details on our scope and methodology.

We conducted our review from October 1995 through February 1996 in accordance with generally accepted government auditing standards. We discussed the facts in our report with USDA officials, including the Assistant Secretary and the Deputy Assistant Secretary for Administration, the acting Chief Financial Officer, the Director of USDA's Office of Information Resources Management, and the Assistant Inspector General for Investigations and have incorporated their comments where appropriate. We also provided a draft of the report to USDA for comment. USDA's comments are discussed in the report and are included in full in appendix II.

[8]We were unable to review all of USDA's telephone bills for the periods covered by our review because, as discussed in appendix I, the Department did not provide all the bills to us by the end of our audit work in February 1996.

Hundreds of Cases of Telephone Abuse Found at USDA

Our review of four monthly telephone bills for USDA agencies and offices in the Washington, D.C., metropolitan area found that 652 collect calls, or about 50 percent of all collect calls accepted and paid for by USDA during this 4-month period, were from individuals at 18 correctional institutions. In these cases, USDA paid about $2,600 for collect calls accepted from correctional centers in addition to unknown charges for subsequent calls placed by USDA on behalf of individuals at these centers. Because these subsequent calls cannot be easily differentiated from other calls on telephone bills, it is difficult to determine the extent to which this occurred and the total charges that resulted from all collect calls. Additionally, our review of just a few calls from the thousands of long-distance calls made by USDA agencies and offices in the Washington, D.C., metropolitan area each month found several other cases of telephone abuse involving personal long-distance calls outside the country to adult entertainment services and companies advertising jobs.

USDA has been aware of cases of collect calling abuse since at least 1994, but has not taken adequate action to stop it. Although USDA policy does not specifically address collect calls placed from a nongovernment number to a government number,[9] it states that USDA should ensure that government telephones are used only for authorized purposes. However, as discussed later in this report, USDA generally does not review its telephone bills to make such determinations.

USDA Accepts and Pays for Collect Calls From Individuals at Correctional Centers

Individuals in at least 20 different USDA agencies or offices in the Washington, D.C., metropolitan area have accepted, at USDA's expense, collect calls from individuals at federal, state, and county correctional institutions. This problem is exacerbated because individuals who accept these collect calls can use USDA telephones to place long-distance calls for the callers and transfer them to these calls. However, it is difficult to determine to what extent this has occurred or the total cost involved because charges for these additional calls cannot be easily identified. According to telephone company representatives, charges for these long-distance calls may appear on any one of many separate carriers' bills and, because the termination point of the call is unknown, it is difficult to identify these calls on bills. As discussed later, cases of telephone abuse in 1994 investigated by the Office of the Inspector General (OIG) found that collect calls from inmates at correctional centers were transferred to other calls.

[9]An October 1995 draft of USDA's revised policy due out in March 1996 states that collect calls may be accepted if the call is for official business or at the discretion of the supervisor.

Table 1 shows the number of collect calls made from correctional centers to USDA agencies and offices located in the Washington, D.C., metropolitan area. However, this may not represent all the collect calls made to USDA from correctional centers during this 4-month period because USDA could not provide us with complete billing records for these periods.

Table 1: Number of Collect Calls From Correctional Institutions Found

Correctional facility location	December 1994	March 1995	July 1995	August 1995	Totals
Alexandria, VA	6			34	**40**
Baltimore, MD		1			**1**
Bowling Green, VA	66	1			**67**
Culpeper, VA	1		25	24	**50**
Elkridge, MD	2	10			**12**
Fairfax, VA	46	2			**48**
Fort Dix, NJ				4	**4**
Fredericksburg, VA	12	49			**61**
Hagerstown, MD	3	1			**4**
Leonardtown, MD		9		2	**11**
Lewisburg, PA	6			2	**8**
Lorton, VA	51	36	106	28	**221**
Montgomery, PA		15			**15**
Prince Frederick, MD		3			**3**
Princess Anne, MD		2		1	**3**
Upper Marlboro, MD	33	9	18	8	**68**
Waldorf, MD				3	**3**
Waterloo, MD	29	1		3	**33**
Total Calls	**255**	**139**	**149**	**109**	**652**[a]
Total Charged	**$ 1,366**	**$ 610**	**$ 305**	**$ 327**	**$ 2,608**

[a]The 652 collect calls from prisons represent almost 50 percent of the total 1,372 collect calls we found in the 4 months' bills we reviewed. We did not attempt to determine whether or not the remaining 720 collect calls were authorized.

At the correctional facility in Upper Marlboro, Maryland, the facility operations manager told us that he was not surprised about the number of collect calls we found. His facility has over 1,200 inmates, most of whom have access to telephones. According to this official, a typical case is described as follows:

> An inmate uses a telephone in a correctional facility to place a collect call to a government agency or private company office telephone number. Upon answering the telephone, an individual at that agency or office hears a recorded message giving the inmate's name and the name of the correctional facility. The individual is then asked whether he/she will accept the charge for the collect call. An individual, who is cooperating with the inmate, will accept the unauthorized call. In many cases, after accepting the call, the cooperating individual will in turn make other long-distance calls for the inmate, which are also charged to the agency or office.

The facility operations manager stated that he is often contacted by individuals, government agencies, and private companies, who detect abuse on their telephones and arrange to have certain telephone numbers blocked.[10] Blocking the numbers prevents inmates from placing calls to these telephones. The operations manager added that, with large organizations such as USDA, this may not be a viable solution to the problem because there are often many different agency telephones involved. Although the operations manager told us he has never been contacted by USDA about any inmate collect calls, he stated that at least four other federal agencies over the past 6 years have contacted him about this problem. According to the operations manager, agencies have had success stopping some abuse by blocking agency telephone numbers and taking punitive action against employees responsible for this abuse.

While we were able to identify the cost of the collect calls (as shown in the table), charges for calls that are transferred were not identified. However, because many of these collect calls could have been transferred to long-distance lines, thousands more could have been added to USDA's telephone bills.

Collect Calling Abuse Identified by USDA in 1994, but Inadequate Action Taken to Stop It

In the past, USDA identified abuses involving collect calls from inmates similar to the cases we found. However, the Department did not take adequate action to stop the problem. According to USDA documentation, in August 1994, an OIRM telecommunications specialist uncovered cases of telabuse at the Department dating back to 1993, which involved collect calls from inmates at the Federal Corrections Center in Lorton, Virginia. This individual found these cases while examining monthly telephone charges on commercial carrier telephone bills. He told us he had made a special request for the billing records to review telephone charges for a

[10]A representative from the company which provides telephone service at the correctional facility in Upper Marlboro, Maryland, and at over 600 other correctional facilities throughout the country stated that inmates attempt to make about 1.8 million collect calls in these facilities each month.

contractor working on-site at USDA headquarters offices. Generally, as we discuss later in this report, USDA officials do not review commercial carrier telephone bills.

OIRM referred the matter to the Department's OIG in August 1994. The OIG conducted a preliminary inquiry and determined from billing records prior to December 1994 that employees working in several USDA agency offices in the Washington, D.C., metropolitan area were improperly accepting collect calls placed from six correctional institutions. These institutions are located in Lorton and Oakwood, Virginia; Waldorf and La Plata, Maryland; and New Bern and Bayboro, North Carolina. The OIG also found that, after accepting collect calls from inmates, USDA employees made other unauthorized long-distance calls for the inmates and transferred the inmates to those calls. Costs for these calls were also charged to the Department. According to the OIG, it determined that individuals in multiple USDA agencies and offices had accepted more than $4,500 in collect calls from inmates. In one case, the OIG identified a contractor employee who had been accepting collect calls from a correctional facility while working in the OIG's Washington, D.C., office. This individual, who had left USDA at the time of the inquiry, reimbursed the Department $177 for these unauthorized collect calls.

The OIG referred all the remaining open cases to OIRM for action. Specifically, in a May 1995 letter to the Director of the OIRM's Washington Service Center, the Deputy Assistant Inspector General for Investigations turned these cases over to OIRM for "handling and further distribution, as this type of misconduct matter is appropriately handled by the personnel investigators within each of the affected agencies." However, the Director could not explain why no further action on these specific cases was taken.

The OIG also tried to have some of the collect calls it identified from Lorton blocked, but USDA records indicate that collect calls continued because the carrier did not keep these blocks in place. As a result, the carrier agreed to reimburse USDA for collect calls from Lorton identified during the period investigated by the OIG. USDA received credit for some collect calls from Lorton. However, at the time of our review, USDA had not followed up to determine whether the Department received reimbursement for all the collect calls from Lorton because no one had reviewed the bills to match records of the calls with the credits being given.

Moreover, OIRM took no action to determine whether there were other collect calling abuses at the Department. Consequently, as shown by our

review, collect calls from correctional centers to the Department have persisted. In fact, our review found at least seven cases where the same office telephones identified by the OIG in 1994 were still being used to accept collect calls.

Other Types of Telephone Abuse

In reviewing USDA's Washington, D.C., telephone bills, we noted that agencies and offices spend over $30,000 per month for long-distance calls. We selected a few records from August 1995 bills for detailed examination of long-distance calls and identified several cases where unauthorized calls were made to the Dominican Republic. Some of these calls involved connections to adult entertainment lines, such as sex and party lines, and to companies advertising jobs. In one case, for example, USDA paid over $33 for four calls made from one office to a party line "chat" service in the Dominican Republic. In another case, the Department also paid for international calls made from several agency offices to job advertisement lines where home-based business and other employment opportunities are discussed. In addition, we found one case where a sex entertainment line in the Dominican Republic was called at USDA's expense.

Collect Calling and Other Abuses Go Undetected Because Telephone Bills Are Not Reviewed

In large part, these problems exist at USDA because bills for the tens of millions of dollars in commercial telephone services paid annually by USDA are generally not reviewed to monitor calling activity. USDA pays over 23,000 bills each month for commercial telephone services obtained from over 1,500 private vendors across the country. This includes the bills from telephone companies that provide commercial telephone and long-distance services to USDA offices in the Washington, D.C., metropolitan area. Vendors send these bills directly to USDA's NFC in New Orleans, Louisiana, where they are processed and paid.

USDA policy requires agencies and staff offices to ensure that government telephones are used for authorized purposes only. Specifically, the policy states that the use of government telephones shall be limited to the conduct of official business and other authorized uses, which can also include such things as making a brief daily telephone call to a spouse and children within a local commuting area. However, as we recently reported,[11] agency managers rarely review telephone bills. Consequently, agency managers lack the information they need to determine whether telephones and long-distance services are used properly in accordance with departmental policy.

[11](GAO/AIMD-95-203, Sept. 22, 1995).

In our prior reports, we also found that USDA wasted tens of thousands of dollars because it had not established adequate procedures for reviewing bills to verify the appropriateness of telephone charges by private vendors.[12] To help ensure that controls are appropriate and cost-effective, agencies need to consider the extent and cost of controls relative to the importance and risk associated with a given program. Because USDA rarely reviews its telephone bills, we reported in September 1995 that the Department had paid tens of thousands of dollars each year to lease telephone equipment, such as rotary telephones and outdated modems that were either no longer used or could not be located. In addition, USDA wasted thousands more paying for telephone services for field offices that had been closed more than a year.

USDA has begun to take positive steps in response to our previous reports to improve controls over payments for commercial telephone services. Specifically, USDA stopped payments for leased telecommunications equipment it no longer uses and is seeking reimbursement from carriers for overcharges. In addition, in October 1995, USDA formed a task force to investigate and develop action plans to correct telecommunications management deficiencies at the Department. In December 1995, the task force agreed with GAO's findings and reported that "the process of planning, acquiring, ordering, billing, invoicing, inventory control, payments, and management of telecommunications services and equipment is chaotic at best and totally out of control at the very least." Therefore, the task force recommended that USDA's current paper-based billing system be reengineered and subsequently automated so that billing data can be cost-effectively verified. On March 1, 1996, USDA's acting Chief Financial Officer told us that the Department agreed to implement the task force's recommendations which the Department estimates will take about 2 years to complete.

While this action is encouraging, USDA has not specifically responded to our September 22, 1995, report recommending, among other things, that the Secretary of Agriculture report the Department's management of telecommunications as a material internal control weakness under the Federal Managers' Financial Integrity Act (FMFIA) and that this weakness remain outstanding until USDA fully complies with federal regulations for managing telecommunications and institutes effective management controls. USDA's fiscal year 1995 FMFIA report did not identify the Department's management of telecommunications as a material internal control weakness, and on March 1, 1996, USDA's acting Chief Financial

[12](GAO/AIMD-95-219R, Sept. 5, 1995) and (GAO/AIMD-95-203, Sept. 22, 1995).

Officer and Assistant Secretary for Administration told us that the Department had not determined whether to report telecommunications management as an material internal control weakness for fiscal year 1996.

Since USDA has not yet established adequate and cost-effective controls for ensuring that its telephones are used properly, it is putting itself at continuing risk of telephone abuse and fraud. Moreover, because USDA does not know how widespread telephone abuse is at the Department or the total cost, it is not in a position to develop a plan defining cost-effective controls to mitigate the risk of telephone abuse and fraud or take appropriate action to address abuses that have occurred.

Risk of Other Types of Telephone Fraud, Waste, and Abuse Is Significant

We also found indications that USDA is vulnerable to other types of telephone fraud, waste, and abuse because bills are not reviewed. Billing records show that USDA agencies and offices in the Washington, D.C., metropolitan area pay tens of thousands of dollars each month for international calls. However, because these bills are generally not reviewed, USDA does not know whether these calls are authorized and it cannot detect instances where telephone fraud and abuse may have occurred.

USDA is at risk of further waste and abuse by employees who use telephone company credit cards, instead of FTS 2000 Federal Calling Cards, to charge thousands of dollars in long-distance calls each month which are paid by USDA. These cards, which have been issued to USDA offices by commercial carriers, are not approved for use by the Department. USDA's telecommunications policy DR 3100-1 states that the only telephone credit card approved for use by USDA employees is the FTS 2000 Federal Calling Card. Even though this policy has been in place over 2 years, some USDA employees have continued to use telephone company credit cards to charge their long-distance calls. Consequently, employees may be using these cards to charge long-distance calls at commercial rates, which are, according to USDA, as much as three times higher than FTS 2000 rates.

Moreover, USDA does not know whether calls charged to telephone company credit cards are authorized because, like other commercial telephone bills, credit card bills are generally paid by the Department without being reviewed. Also, USDA does not know whether there have been any cases of telephone fraud involving telephone company credit cards by individuals outside USDA because the Department has no inventory of these cards and it performs no periodic checks to ensure

proper accountability over their use. Therefore, USDA cannot tell whether any of these cards have been lost or stolen. Although USDA officials were unable to tell us how many employees have telephone company calling cards, one official told us hundreds of agency staff have been using them regularly to charge long-distance services.

USDA also does not know the extent to which it has been the victim of toll fraud committed by outside hackers. In this regard, USDA has had at least one instance where hackers broke into USDA's telephone system and, according to USDA records, made an estimated $40,000 to $50,000 in international long-distance calls over one weekend in March 1995. In this case, the hacker penetrated the Department's telephone system by successfully exploiting vulnerabilities in a USDA contractor's voice mail system. USDA only became aware of this incident after it was identified by a long-distance carrier and brought to the Department's attention. To make matters worse, USDA did not seek reimbursement for any of the fraudulent calls it paid for from the voice mail contractor even though the contractor acknowledged that it was to blame for the vulnerabilities in the voice mail system.

Conclusions

The extent of USDA's telephone abuse and fraud problem is unknown and could be costing the Department thousands of dollars each month. Like other problems we identified in earlier reports, the Department lacks adequate management controls over the $50 million it spends each year for commercial telecommunications services. To its credit, the Department has begun to take positive steps toward addressing some of its telecommunications management weaknesses by planning an effort to reengineer telecommunications management and making billing data more accessible to agency managers for review. If successful, this effort, which will take about 2 years to implement according to USDA, should also help deter telephone abuse and fraud. However, without taking interim steps to determine its vulnerability to telephone abuse and fraud, identify cost-effective ways to enforce current policies and procedures, and investigate and take action on past abuses, the Department is at risk of continued losses to telephone abuse and fraud.

Recommendations

We recommend that the Secretary direct the Assistant Secretary for Administration and the Chief Financial Officer, in cooperation with the Under Secretaries and the Office of Inspector General, to determine the risk of and vulnerability to telephone fraud, waste, and abuse

departmentwide, develop an appropriate plan with cost-effective controls to mitigate these risks, and expeditiously implement this plan. In developing this plan, among other things the Department should consider determining whether there is a need to continue to accept collect calls and, if deemed necessary, evaluate the viability and cost-effectiveness of alternatives to collect calls such as offering toll free numbers.

In the interim, the Department should identify and implement actions necessary, but at the same time cost-effective, to minimize USDA's exposure to telephone abuse. Alternatives that the Department might consider could include blocking collect calls to the Department, notifying commercial carriers to cancel all telephone company credit cards issued to USDA personnel, and/or identifying methods that other large organizations employ to combat telephone abuse and fraud.

The Secretary should also direct the Assistant Secretary for Administration and the Chief Financial Officer, in cooperation with the Under Secretaries and the Office of Inspector General, to take appropriate disciplinary actions against employees involved in the telabuse cases we identified to ensure that these abuses are stopped immediately and recover losses where it is cost-effective to do so.

We also recommend that the Secretary direct that billing records be reviewed to identify all long-distance and other service charges associated with the March 1995 hacker incident and expeditiously seek restitution for these amounts from the contractor responsible for the defective voice mail equipment that led to these charges.

We further recommend that the Secretary of Agriculture, in accordance with 31 U.S.C. 720, provide a written statement on actions taken on recommendations contained in our prior report, USDA Telecommunications: Better Management and Network Planning Could Save Millions (GAO/AIMD-95-203), to the Senate Committee on Governmental Affairs and the House Committee on Government Reform and Oversight. A written statement also must be sent to the House and Senate Committees on Appropriations. In addition, the Secretary should provide the appropriate congressional oversight committees with a report on the Department's planned actions to correct its telecommunications management weaknesses and mitigate the risk of telephone fraud, waste, and abuse.

Agency Comments and Our Evaluation

USDA's Assistant Secretary for Administration provided written comments on April 1, 1996, on a draft of this report. USDA's comments are summarized below and reproduced in appendix II.

The Assistant Secretary agreed with the need to strengthen telecommunications management controls in the Department and to prevent fraud and abuse of telecommunications services. Regarding cases of abuse that we identified involving collect calls from correctional centers, the Assistant Secretary stated that on March 13, 1996, the deputy administrators for management within each USDA agency in the Washington, D.C., area were briefed on telephone abuse and provided copies of the past 6 months' commercial telephone bills to review. In addition, the Assistant Secretary stated that the deputy administrators were also given telephone numbers to investigate and were instructed to pursue disciplinary action against employees who are found to have abused the use of USDA telephones.

The Assistant Secretary also stated that USDA is exploring the potential for blocking all third party and collect calls in the Washington, D.C., metropolitan area and nationwide, and replacing these services with the expanded use of "1-800" service and FTS 2000 telephone credit cards as a way of reducing telephone abuse and fraud. In addition, the Assistant Secretary stated that USDA will, as we recommended, seek reimbursement for the cost of all calls paid for by the Department during the March 1995 telephone hacker incident.

The Assistant Secretary also agreed that telephone abuse and fraud at USDA is indicative of systemic weaknesses in the Department's existing processes for billing and paying for telecommunications services. In this regard, the Assistant Secretary stated that a team is now being assembled to begin work on implementing the telecommunications task force's recommendation which we discussed.

We are encouraged by the actions described by the Assistant Secretary for Administration to prevent fraudulent use of government telephones at USDA. While the Assistant Secretary did not respond to our specific recommendations, it is important for the Department to address actions it plans to take on each recommendation as it moves ahead in preventing telephone fraud and abuse. It is especially important for the Department to implement our first recommendation that the Secretary direct the Assistant Secretary for Administration and the CFO, in cooperation with the Under Secretaries and the OIG, to determine the risk of and vulnerability to

telephone fraud, waste, and abuse departmentwide, develop an appropriate plan with cost-effective controls to mitigate these risks, and expeditiously implement this plan.

We are sending copies of this report to the Secretary of Agriculture; the Chairmen and Ranking Minority Members of the Senate Committee on Governmental Affairs, the Senate and House Committees on Appropriations, the House Committee on Agriculture, and the House Committee on Government Reform and Oversight; the Director of the Office of Management and Budget; the Administrator of the General Services Administration; and other interested parties. Copies will also be made available to others upon request.

Please contact me or Steve Schwartz at (202) 512-6240 if you or your staff have any questions concerning the report.

Jack L. Brock, Jr.
Director, Information Resources
Management/Resources, Community,
and Economic Development

Scope and Methodology

To assess USDA's controls over telephone use, we obtained and reviewed commercial telephone billing records representing 4 monthly billing periods during fiscal year 1995 for USDA agency offices in the Washington, D.C., metropolitan area. Our 4-month sample of commercial telephone billing records totaled about $580,000 or 1 percent of the $50 million USDA spends annually for commercial telecommunications costs. The four months in our review—December 1994, March 1995, July 1995, and August 1995—were selected from early, mid, and late parts of the fiscal year to adjust for any seasonal variations in calling patterns. We reviewed billing records of all collect calls accepted by the Department during these 4 months as well as selected long-distance calls made during the month of August 1995.

We were unable to review all of USDA's telephone bills for the periods covered by our review because the Department did not provide all the bills to us by the end of our audit work in February 1996. According to the official at USDA's National Finance Center responsible for handling our request for bills, there were delays because complex computer runs were necessary to identify commercial billing accounts associated with all the 24,000 separate telephone lines in the Washington, D.C., metropolitan area and because a manual process is used at the National Finance Center for tracking down each paper bill. USDA subsequently provided additional bills in March 1996, but since this information was submitted after we had completed our audit work, it was not included in our report.

To confirm that the cases we identified involved telephone abuse, we also discussed them with officials in USDA's Office of Information Resources Management as well as telephone company representatives and we provided records for these calls to USDA officials for appropriate action. To obtain detailed information on cases of collect calling abuse we found, we interviewed correctional facility personnel about cases involving collect calls from correctional centers and discussed these cases with officials in USDA's Office of Inspector General and Office of Information Resources Management. In addition, we reviewed telephone company records and USDA documentation pertaining to a March 1995 hacker case at the Department and interviewed telephone company representatives, voice mail vendor staff, and USDA officials involved in the incident.

To identify USDA's procedures for processing commercial telephone bills for its offices in the Washington, D.C., metropolitan area, we interviewed officials from USDA Office of Information Resources Management and General Services Administration. We also reviewed industry publications

and reports on telabuse and toll fraud. We examined the Department's policies and procedures for managing the use of government telephones and commercial telephone and long-distance services and USDA plans for improving telecommunications management controls.

We performed our audit work from October 1995 through February 1996, in accordance with generally accepted government auditing standards. Our work was primarily done at USDA headquarters in Washington, D.C. We also conducted work at the General Services Administration in Washington, D.C.; Prince George's County Correctional Center in Upper Marlboro, Maryland; and the Animal and Plant Health Inspection Service in College Park, Maryland.

Comments From the Department of Agriculture

DEPARTMENT OF AGRICULTURE

OFFICE OF ASSISTANT SECRETARY FOR ADMINISTRATION

WASHINGTON, D. C. 20250-0100

APR 0 1 1996

Mr. Gene L. Dodaro
Assistant Comptroller General
General Accounting Office
441 G Street N.W.
Washington, D.C. 20548

Dear Mr. Dodaro:

Thank you for the opportunity to provide input to your draft report entitled **USDA Telecommunications: More Effort Needed To Address Telephone Abuse and Fraud** (Job Code 511410). The Department of Agriculture has already taken a number of aggressive actions to strengthen telecommunications management in the Department to prevent fraud and abuse of telecommunications services. We are enclosing the Department's comments on a number of issues made by the General Accounting Office in this draft report.

Sincerely,

Wardell C. Townsend, Jr.
Assistant Secretary
for Administration

Enclosure

AN EQUAL OPPORTUNITY EMPLOYER

**STATEMENT OF RESPONSE TO
U.S. GENERAL ACCOUNTING OFFICE DRAFT REPORT
MARCH 21, 1996 ENTITLED
"USDA TELECOMMUNICATIONS: MORE EFFORT NEEDED TO ADDRESS
TELEPHONE ABUSE AND FRAUD**

USDA spends approximately $2 million per year on telephone services for the Washington metropolitan area and takes seriously the fiduciary and asset management responsibilities involved.

In May 1994, USDA analysts identified a pattern of collect calls billed to USDA from the Lorton Correctional facility and immediately turned the information over to the Inspector General for investigation. As a result, the Department has sought and recieved reimbursement from the phone companies and begun correcting systemic problems which made such abuse possible, including

- In December 1994, USDA instructed Bell Atlantic to block collect and third party calls from the Lorton facility.

- In December 1994, Bell Atlantic agreed to credit USDA, on a routine basis, for any third party or collect calls mistakenly billed to USDA from Lorton and to reimburse USDA as other unauthorized calls were identified.

- In April 1995, USDA notified the General Services Administration (GSA), to eliminate access to "900" numbers, and to require long distance call not billed to FTS 2000 be charged to a credit card.

- On March 13, 1996, departmental officials briefed the deputy administrators for management within each agency on telephone abuse and distributed the past six months of Washington area bills for an intensive review and action as appropriate. They have also been provided with specific telephone numbers to investigate. The deputy administrators were instructed to pursue disciplinary action against employees who are found to have abused the use of USDA telephones.

USDA is exploring the potential for blocking all third party and collect calls in the Washington area and nationwide and replacing these services with the expanded use of "1-800" service and the expanded use of FTS 2000 telephone credit cards for employees in travel status. The Department will implement a new policy within 90 days.

Telephone fraud by hackers is an increasing problem for all institutions. In the example cited by GAO, where an individual accessed USDA lines through voice mail equipment, the abuse was stopped within three days of its identification by the phone company as an unusual pattern of activity. USDA was not billed for most of the cost of this incident and will seek reimbursement for the balance.

Several USDA agencies have taken significant additional steps to guard against fraud and abuse. The Food and Consumer Service undertook a major review of its bills a year ago and current records reveal a substantial decrease in questionable calls. Several regions of the Forest Service have all telephone bills sent directly to the managers for their review and payment authorization.

However, we realize that the examples of fraud identified by our analysts and GAO are indicative of a larger problem with telecommunications management. In September 1995, a Telecommunications Executive Committee co-chaired by the Deputy Chief Financial Officer and the Deputy Assistant Secretary for Administration was created with representation from major telecommunications users in the Department. This committee established a USDA Telecommunications Task Force, which issued a report in February, 1996 that identified systemic problems with the ordering, asset management, billing and payment for telecommunications services.

USDA receives than 23,000 paper account billings from over 1500 providers each month. Bills are sent directly to the National Finance Center by the vendors in order to ensure prompt payment, before managers review and approve the billing. These two factors, paper bills and the volume of billing accounts from multiple vendors, were identified in the Telecommunications Task Force Report as major deterrents to the quick identification of incorrect billings, overcharges, fraud and abuse.

The major recommendation of the task force report is to redesign USDA's telecommunications services and systems to include the processes of acquiring, ordering, billing, invoicing, inventory control and payments. A team is now being assembled to accomplish this objective.

USDA realizes that its telephone system is a target for abuse, just like any large corporation or individual taxpayer. USDA will continue to work to deter abuses and fraud by looking at additional ways to minimize risk in a reasonable, cost-effective way. USDA believes that the actions undertaken, as expressed above, as well as those planned for the near future, reflect such an approach.

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066, or TDD (301) 413-0006.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

PRINTED ON RECYCLED PAPER

United States
General Accounting Office
Washington, D.C. 20548-0001

Bulk Rate
Postage & Fees Paid
GAO
Permit No. G100

Official Business
Penalty for Private Use $300

Address Correction Requested