119293

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

RESTRICTED — Not to be released outside the General Accounting Office except on the basis of specific approval by the Office of Congressional Relations.

RELEASED

B-208248

JULY 26, 1982

The Honorable Frank R. Wolf
House of Representatives

Dear Mr. Wolf:

Subject: Alleged Abuses in the U.S. Savings Bond Division of the Department of the Treasury (GAO/AFMD-82-70)

On May 8, 1981, you asked us to review allegations of abuses in the Savings Bond Division of the Department of the Treasury that were made by John W. Breen, a former bond salesperson. The principal allegations were that savings bond salespersons had submitted work reports claiming fictitious visits to promote savings bond sales and had submitted fraudulent vouchers for travel associated with the falsely reported work.

We subsequently advised your staff that the Treasury's Office of Inspector General had substantiated Mr. Breen's allegations and was attempting to establish how widespread the improprieties might be. As agreed with your office we have obtained information about the (1) Inspector General's approach to identify the salespersons who have submitted falsified reports and (2) system used to measure the salespersons' performance. Based on our limited work, we have established that:

--The Inspector General's investigation confirmed the existence of serious abuses prior to Mr. Breen's allegations, and available information shows that some abuses continue despite the Division's efforts to discourage them.

--The Division's performance measurement system, as Mr. Breen's allegations imply, contains serious shortcomings, and does not provide the data necessary to establish the cost-effectiveness of the salespersons' efforts.

--Although the question about the effectiveness of the Division's promotional efforts was raised in 1976 by the Office of Management and Budget and a major public accounting firm, Arthur Andersen & Co., data still are not available to show that the promotional efforts have a significant impact on sales volume.

119293

(905062)

523052 (119293)

The Division's management recognizes that Mr. Breen's allegations surfaced serious problems. It has established new control procedures to verify the calls savings bond salespersons report on their accounts and has forcefully dealt with those specifically found to be involved in abusive and fraudulent practices. It also contends, along with the Inspector General's office, that the new procedures are efficiently deterring abusive and fraudulent practices from continuing. We have serious reservations about this because of the limited coverage provided by the new procedures.

OBJECTIVES, SCOPE, AND METHODOLOGY

Your request transmitted several newspaper articles and statements by Mr. Breen detailing his improprieties while an employee of the Savings Bond Division. The improprieties involved the submission of work reports for promotional visits that Mr. Breen never made to his accounts, such as public corporations or commercial banks, as well as falsifying travel vouchers for the fictitious visits. Also, Mr. Breen's documents suggest that many savings bond salespersons have submitted false reports, and that the agency's activities, especially those of the Department's Office of Inspector General, were failing to properly investigate the allegations.

Our initial effort was to establish the extent to which the Office of Inspector General had investigated the allegations. We found the office to be in the process of investigating specific cases where evidence supplied by Mr. Breen, or others, suggested some improprieties. Thus, we were awaiting the results of the investigative work before deciding if it was necessary for us to investigate the allegations.

Upon completion of its work, the Inspector General's office concluded that Mr. Breen's allegations about the falsified reports by specific individuals had been largely substantiated, and decided to investigate the validity of work reports submitted by salespersons during a representative period before Mr. Breen's allegations. We advised your office of these facts and agreed that our review would be limited to obtaining information about the Inspector General's approach to identifying salespersons who were involved in the improprieties and to developing data necessary to comment on the adequacy of the Savings Bond Division system to measure its salespersons' productivity. In doing this, we:

- --Reviewed the documents transmitted with your request, which consisted primarily of newspaper articles on the alleged abuses in the Savings Bond Division and statements by Mr. Breen about the abuses.

- --Interviewed appropriate Treasury officials to establish procedures being used to investigate alleged abuses and to accumulate data used in the performance measurement system.

- --Evaluated the adequacy of deterrent procedures, especially those intended to discourage future abuse by salespersons.

--Examined documents from the Treasury's Office of Inspector General which presented the results of the investigations of alleged abuses.

--Accumulated data on economic conditions that would influence the sale of savings bonds.

Our review also included an analysis of two prior reports dealing with the effectiveness of the Savings Bond Division's promotional activities. One was a July 1976 report of a Treasury study team's analysis of concerns by the Office of Management and Budget about the need for continuing the Savings Bond Division's promotional efforts. The other was a report issued in February 1976 by Arthur Andersen on its study of the Division's productivity measurement system, which was undertaken at the request of the Office of the Secretary of the Treasury.

Our work was performed at Treasury headquarters in Washington, D.C. It relates to the efforts of the Savings Bond Division to promote the sale of savings bonds primarily through visits to commercial activities with 250 or more employees. About $12.3 million was requested for this activity in fiscal 1983, along with about $1.5 million for advertising and about $1 million for executive direction and administration. The $14.8-million request for the Division's operation is included in the Bureau of Public Debt's appropriation request for administration of the Public Debt.

The contents of this report were discussed with officials responsible for sales promotion activities being reported on, and their comments have been included where appropriate. Our work was performed in accordance with our current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

SERIOUS ABUSES HAVE EXISTED AND SOME STILL CONTINUE

Mr. Breen alleged that the practice of submitting false reports was widespread within the Savings Bond Division and that Treasury's Office of Inspector General had failed to properly investigate his allegations. As previously mentioned, the office was found to be thoroughly investigating the specific allegations, and in our opinion, has established that serious problems did exist. Moreover, the office found that some salespersons were still submitting false reports despite announced procedures to catch individuals doing this.

The allegations related to reports submitted by salespersons on each personal contact with an account, such as a corporation or commercial bank. The reports, referred to as field call reports, specifically identify the account and the official contacted, and provide a brief description of the salesperson's efforts to promote the sale of savings bonds. The information in the reports cannot be related to data in other Department of the Treasury reports; it can only be verified by contacting the officials listed in the reports to determine whether the visits were made. Even the contacts are not always conclusive, because the contacted officials do not always retain records of salespersons' visits, nor are they required to.

The office's investigative approach dealt with possible irregularities identified by three different sources. First, it investigated seven persons for possible irregularities in response to Mr. Breen's disclosures. Six, including Mr. Breen, were investigated as a direct result of his disclosures, and the other investigation resulted from concerns of a supervisor about the accuracy of a subordinate's reports. Of the seven persons investigated, one was found guilty of abusive practices, such as using Government time to solicit job interviews and falsifying annual leave records, and four were found to have submitted falsified reports and travel vouchers. The four were referred to the Department of Justice for possible criminal prosecution, but Justice declined prosecution because of the amount of money involved. However, Treasury officials working effectively with their Inspector General brought administrative charges against the employees involved. As a result, three employees have already resigned, and action is pending against the fourth.

The office also investigated the salespersons who the new procedures identified as possibly submitting false reports since March 1981. Under the procedures, a person in the Division's headquarters randomly selects four call reports submitted each week by 10 of the Division's current sales force of approximately 150 salespersons (recently reduced from 200). This person then makes telephone calls to the individuals listed as the contact persons on the call reports to see if the reported calls were actually made. When the effort fails to verify one call for a salesperson, the sample is expanded to include all that salesperson's reports for a 2-week period. The Inspector General's office is asked to investigate any salesperson found to be submitting two or more reports that were not verified. The office then not only verifies the results of the telephone survey, but also reviews a sample of prior call reports to determine whether a pattern exists.

To date, the procedures have identified six of the Division's sales force as having possibly submitted false reports. The Inspector General's office is still investigating one of the persons, but has confirmed that five did submit inaccurate reports. Two of these persons have been dismissed by the Division, one resigned, one retired, and one was suspended.

The Inspector General's office has investigated another 20 salespersons who were selected for review after it had largely substantiated Mr. Breen's allegations against specific individuals. These individuals, about 10 percent of the Division's sales force, were considered to be a nationwide representative sample. In reviewing the salespersons' reports for two 1-week periods, the office found one or more reported calls for each salesperson that could not be verified, either because the parties involved could not recall whether the visits had been made, or because the parties were unavailable to be interviewed. Under such circumstances, the Office of Inspector General decided to give credit for the call, but wherever discrepancies were discovered between the call reports and the statements of contact persons, the reports were classified as inaccurate.

The Office of Inspector General concluded that the call reports submitted by 10 of 20 employees selected for investigation were accurate. For the remaining 10, the office found:

--Two salespersons had reported a substantial number of calls that they did not actually make. For example, one did not make 29 of the 48 calls claimed, and this person was criminally prosecuted, pleaded guilty, and resigned. The second did not make 22 of the 38 calls claimed, but the United States Attorney declined prosecution in favor of administrative action.

--Five of the employees apparently did not make a small portion of the calls they claimed. The evidence, however, was not as clear as in the first two cases, and the number of calls which appear to have been falsified was substantially less. For example, one person selected for review apparently did not make two of the 18 calls claimed during the period. Another apparently inaccurately reported three of 37 call reports, and the other three each submitted one call report out of those selected for review which appeared questionable.

--Three employees apparently made all of the calls they claimed, but some of their reports contained minor inaccuracies, such as listing contacts with a higher level company official than was actually seen.

The Department's Inspector General found that, because of the passage of time, it would be increasingly unlikely that a definite conclusion to support disciplinary action could be reached on the accuracy of the call reports. He also found it costly to investigate the work reports submitted by each employee. Therefore, he decided that it would not be advisable to expand the investigation to cover all savings bond salespersons since "only two of 20 employees were found to have clearly falsified a substantial number of call reports."

Unquestionably, it would be costly for the Inspector General to expand his investigation to cover all bond salespersons and, in some cases, the results might be inconclusive because of the passage of time. However, the Inspector General's limited work suggests that 50 percent of the sales force was engaged in fraudulent or abusive practices prior to Mr. Breen's allegations. We believe that fraudulent or abusive practices should not be tolerated, and that reasonable efforts should be made to identify those engaged in such practices.

The Inspector General prefers to rely on the new control procedures to identify salespersons involved in fraudulent or abusive practices. According to Division officials and the Inspector General, the new procedures have been effective in deterring such practices. The officials acknowledge that some salespersons have possibly continued to submit false reports, but contend that over a period the persons will be identified by the new procedures. The officials cite the six salespersons identified by the new procedures as being evidence of their effectiveness. They also point out that the new procedures have not identified any questionable reports by salespersons in the past 4 months, and contend that this is evidence that irregularities are no longer a major problem.

We do not share this optimism about the system deterring fraudulent or abusive practices or identifying the salespersons engaged in them. As acknowledged by Division officials and the Inspector General, the new procedures are designed as a deterrent to discourage salespersons from submitting false reports and are not designed to catch all persons falsifying reports. For example, the weekly sample is not expanded to include other salespersons in cases where one or more persons are found to be submitting reports whose accuracy cannot be verified. Also, the weekly sample is quite small and, assuming that 5 percent of the sales force submitted false reports, there is a 77-percent chance that the reports of such persons would not be selected for verification. Yet, the procedures in less than a year have established that six, or approximately 3 percent of a sales force of 200 persons, were possibly engaged in fraudulent practices. These persons submitted the false reports after the Division had advised its sales force of the new procedures.

PERFORMANCE MEASUREMENT SYSTEM DOES NOT CONSIDER MEANINGFUL DATA OR MEASURE PRODUCTIVITY

Mr. Breen alleged that the salespersons' performances are measured against meaningless goals. Our analysis of the performance measurement system shows it to have serious shortcomings, some of which were pointed out in the 1976 Arthur Andersen report.

Under the system, goals are established annually for each salesperson in the following five categories: new savers and increased allotments, completed sales campaigns, canvass meetings, savings bond seminars, and daily newspaper advertisements. The goals are then periodically compared with the accomplishments reported by the salespersons in work reports--the Field Call Record and Report. According to Division officials, the performance measurement system that the Savings Bond Division is using is not a productivity measurement system. In our view, the system has the following shortcomings, as either a productivity or performance measurement system.

--Although it is generally recognized that productivity measurement systems must consider outputs (or final products) from resources expended, the only outputs being considered in the Division's system are in the category of new savers and increased allotments. However, those outputs are directly related to the sales efforts of persons within the companies that the savings bond salespersons contact.

--In the other four categories, the Division is measuring reported accomplishments against those expected for each salesperson. Such a measurement could provide indicators of the effectiveness of salespersons if the goals in the categories were weighted to give consideration to the amount of effort required for various types of expected accomplishments. We found no evidence of this being done.

--No effective means exist to check on the accuracy of accomplishments, especially the number of new savers or increased allotments attributable to a salesperson's promotional efforts. The new quality control procedures for the reports provide some safeguards against reporting promotional visits that were not made, but do not verify results attributed to the visits.

Similar observations about the system were made in the Arthur Andersen report. For example, the report points out that the system then did not weight activities being measured, and notes that the system did "not provide information on the effectiveness of activities reported." The report makes several suggestions for improving the Division's productivity measurement efforts, including the use of data on dollar sales volume, growth, market share, and percent of participation levels in performance measures of each of the Division's promotional activities. The report notes that such data could be obtained through sales analysis, and suggests a greater level of market research to determine the effectiveness of promotional efforts.

Our discussion with Division officials established that the system was automated so that it could produce more timely reports comparing accomplishments with goals. We were told that other improvements suggested in the report, especially those related to data on costs and sales volumes, have not been implemented because of their costs.

OTHERS HAVE RAISED QUESTIONS ABOUT EFFECTIVENESS OF PROMOTIONAL EFFORTS

Subsequent to Mr. Breen's allegations, there has been considerable debate about the extent to which the Division's advertising and promotional efforts influence the sale of savings bonds. This issue was raised in the past by the Office of Management and Budget and by Arthur Andersen. Yet, adequate studies have not been made to show whether the Division's efforts have a significant impact on savings bond sales volume, especially during periods when the savings bond interest rate is not competitive with the rates available for other types of securities that a small saver can invest in.

The Office of Management and Budget raised the issue about the effectiveness of savings bond sales promotions in February 1976. Its hypothesis was that savings bonds are sufficiently well known by investors and, like marketable Treasury issues, do not need special promotion. It requested that the Treasury study the matter to see if the promotional efforts were effective. In July 1976, the study group reported that the Division's promotional efforts had a significant and dominant effect on sales, both over the counter and by payroll deduction.

While the study gives some insight into factors influencing savings bond sales, we have serious concerns about it demonstrating the effectiveness of the Division's promotional efforts. First, the study's data is now outdated, being based on sales data for fiscal 1974. We also noted that the study was directed toward companies that had very active savings bond sales promotion programs of their own. To illustrate, according to the study about 75 percent of the 173 companies considered had better than average promotional programs of their own. Moreover, the study showed that about 40 percent of the companies had exceptional promotional programs, while only a little over 2 percent had no promotional activity. The companies included in the study were not randomly selected, but were the ones on which comparable data were readily available. Also, the study did not consider interest rates as a variable influencing sales.

As acknowledged in a 1981 Treasury report on the savings bond program, the volume of sales has always been influenced primarily by the interest rate for such bonds in relation to the rates available for other types of securities that potential bond investors could purchase. During the period of 1971 through 1977, the interest rates on savings bonds were relatively competitive with interest rates on other investments, such as money market funds. (See encl. I.) There appears to be some relationship between increased expenditures for advertising and promoting U.S. savings bonds and the resulting sales volume during that period. (See encl. II.) However, in fiscal 1978 and subsequent years, savings bond interest rates were no longer competitive with those for money market funds. The increased expenditures during those years appeared to have little effect on declining bond sales. The Department of the Treasury, incidentally, recently asked the Congress to authorize the use of a variable interest rate for savings bonds so that the rate can be kept competitive with those for competing investments.

The trends we noted suggest that increased expenditures for advertising and promotion may have the effect of increasing sales when interest rates on savings bonds are relatively competitive with rates on other securities. Yet, we cannot say this with any degree of certainty without a detailed, long term study that adequately accounts for economic growth and savings bond interest rates in relation to interest rates on other savings instruments. Even with such a study, we still would not know the full impact of promotion expenditures unless bonds were sold without any such expenditures.

The 1976 Arthur Andersen report noted that considerable debate and confusion existed then about the extent to which the Division's advertising and promotional powers influenced the behavior of savers. It suggested that the issue might be resolved by the Division doing market research to establish the extent varying degrees of promotional pressure affect the different markets with which the Division deals--the payroll savings and the over-the-counter markets. Treasury is currently soliciting bids for a study which will comprehensively assess the current savings market, evaluate the effectiveness of the Savings Bond Division's traditional marketing strategies, and recommend strategic and operational improvements.

CONCLUSIONS

The investigation by Treasury's Office of the Inspector General has specifically identified 16 salespersons who submitted reports for work not performed. Its investigation of selected salespersons suggests that possibly 35 percent of the sales force was engaged in this practice, and that another 15 percent was involved in less serious offenses. These findings substantiate Mr. Breen's allegations and raise questions about the need for savings bond sales promotional efforts.

On the other hand, the Savings Bond Division's management strongly believes that the promotional efforts contribute to the sale of savings bonds. There are no quantitative data that support this contention and it is doubtful whether extensive cost effectiveness studies could settle this issue.

The Division's management has taken some steps to ensure that the salespersons perform the work they report. The new control procedure implemented would normally be sufficient to discourage false reporting. However, some salespersons have continued to submit false reports even after the procedures were known to be in effect. Thus, it is apparent that the program must be better controlled in order to prevent the continuation of fraudulent and abusive practices.

One way to do this would be to develop a meaningful productivity measurement system that would consider the outputs from sales efforts, such as sales volumes and amounts. Another would be to expand the new control procedure to the point where most of the salespersons' reports would be verified periodically. However, either of these control alternatives could be very expensive and would not be a solution unless Treasury can show some definite benefits from the promotional efforts despite the additional control required.

RECOMMENDATIONS TO THE SECRETARY OF THE TREASURY

The Secretary should:

--Provide the Congress with specifics on benefits that will result from continuing the promotional efforts.

--Study alternatives that would provide better control over the sales force's activities (if the Congress continues funding them), including the implementation of a productivity measurement system and the expansion of procedures to check accuracy of work reports.

--Implement the alternative found to be the most cost effective.

AGENCY COMMENTS

As agreed with your office, we did not obtain formal agency comments on this report.

- - - - -

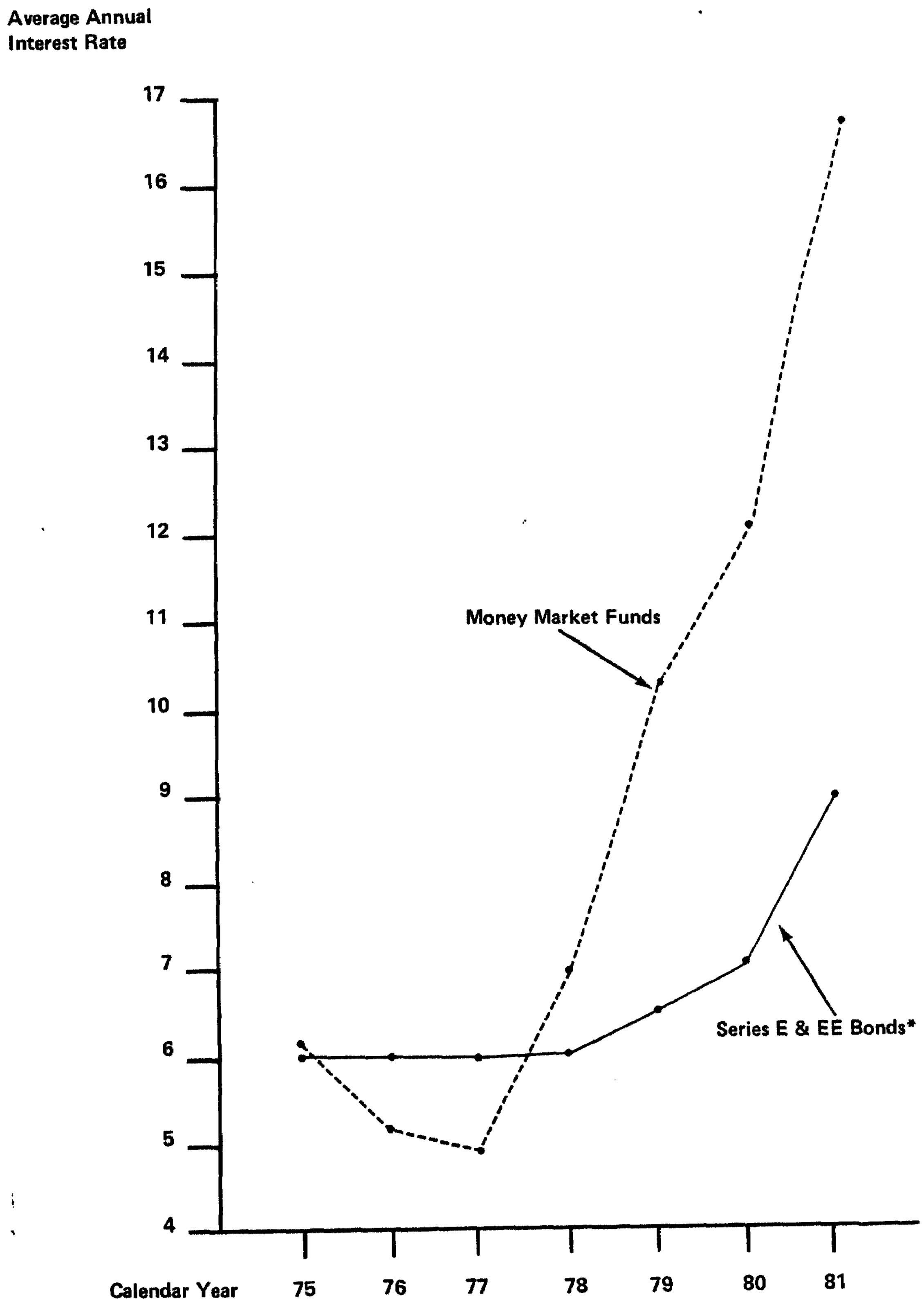
As agreed with your office, we will not release the report for 30 days, unless you release it or publicly announce its contents earlier. At that time, the report will be made available to the Department of the Treasury, congressional committees, and other interested parties.

Sincerely yours,

for Milton J. Socolar

Comptroller General
of the United States

AVERAGE ANNUAL INTEREST RATE COMPARISON BETWEEN SERIES E (AND EE) BONDS AND MONEY MARKET FUNDS



*Series EE Bonds Replaced Series E Bonds In January 1980

COMPARISON OF SAVINGS BOND SALES TO PROMOTIONAL EXPENDITURES

Year	Sales (millions)	Percent changed	Expenditures (millions)	Percent changed
71	$5,500	-	$ 8.8	-
72	6,200	12.7	9.4	6.8
73	6,300	1.6	9.6	2.1
74	6,900	9.5	10.0	4.2
75	7,000	1.4	11.5	15.0
76	7,600	8.6	12.0	4.3
77	8,000	5.3	12.6	5.0
78	8,000	-	14.3	13.5
79	7,000	-12.5	14.8	3.5
80	4,100	-41.4	15.5	4.7
81	3,500	-14.6	16.0	3.2