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H.R. 4574  
Reauthorization of the Inspector General Cash  
Award Program For Cost Savings Disclosures

Statement of  
Rosslyn S. Kleeman, Senior Associate Director  
General Government Division

Before the  
Subcommittee on Civil Service  
Committee on Post Office and Civil Service  
House of Representatives



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H.R. 4574: REAUTHORIZATION OF THE INSPECTOR GENERAL CASH  
AWARD PROGRAM FOR COST SAVINGS DISCLOSURES

SUMMARY OF STATEMENT BY  
ROSSLYN S. KLEEMAN  
SENIOR ASSOCIATE DIRECTOR

Enactment of H.R. 4574 would permanently extend the Inspector General Cash Award Program for Cost Savings Disclosures, as well as modify aspects of the government's suggestion awards program.

In the absence of convincing evidence either to continue or terminate the program, GAO could not conclude whether the existing, temporary IG award program should be made permanent. In 1987, GAO recommended certain changes if the program is to be continued. These changes include broadening award eligibility to cover certain nonfederal personnel and disclosures to federal officials in addition to departmental IGs; providing awards for disclosures yielding intangible benefits; and stimulating agencies governmentwide to participate in the IG awards program. In addition to making the program permanent, H.R. 4574 would broaden award eligibility to include employees of Department of Defense contractors, as well as explicitly mandate the program in each agency. The bill does not address awards for disclosures to officials other than IGs, or for disclosures yielding intangible benefits.

GAO's current review of the suggestion awards program shows that many private sector employers have been more successful, in terms of employee participation and resulting cost savings, than the government, and that private sector employers generally approve more generous awards than the government for equivalent savings. Changes proposed by H.R. 4574 would not affect the current formula under which government awards are computed.

Madam Chairwoman and Members of the Subcommittee:

I am pleased to be here to discuss H.R. 4574, a bill proposing to permanently establish the Inspector General (IG) Cash Award Program for Cost Savings Disclosures. The bill also proposes a number of modifications to the government's employee suggestion awards program. During the past year, we issued reports on each program, and I would like to offer copies of those reports for the record at this time.

Agency officials administering these programs decide whether a cash award is justified based upon the advice of program managers working in the affected activities. These program managers are in the best position to determine whether a cost savings will result from a disclosure to an IG, or if a cost savings or other benefit will be achieved by implementing a suggestion. While both programs authorize the payment of cash awards, each program has a different purpose.

The current IG cash award program, which came into being in 1981 and is due to expire on September 30, 1988, is intended to encourage federal employees to disclose wrongdoing in the form of fraud, waste, or mismanagement in their agencies. An important feature of the IG program is its assurance of anonymity to persons making disclosures.

On the other hand, the federal suggestion awards program, which began in 1966, is intended to provide personal recognition to employees who, through their suggestions, contribute to greater efficiency, economy, or other improvement in government operations. Since the intention of this program is to publicly recognize and reward individual employee contributions, suggester anonymity is not an objective.

In a December 1987 report,<sup>1</sup> we discussed the effectiveness of the IG cash award program. We found an absence of convincing evidence either to continue or to terminate the program. Employees and IG officials believed factors other than cash were more important in eliciting disclosures of wrongdoing. We reported that a relatively small number of awards had been made to federal employees through this program. Of six federal departments and agencies reviewed, only the Department of Defense had an active program that it publicized and through which it granted cash awards. Although Defense reported receiving hundreds of disclosures, it granted just 25 cash awards, totaling about \$30,000, between May 1984 and March 1987.

In the course of our review, we identified a number of possible reasons why few awards had been made. Among these were the restriction that only federal employees receive such awards, the

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<sup>1</sup>Low activity in Awards Program for Cost Savings Disclosures (GAO/GGD-88-22, December 18, 1987).

requirement that disclosures be made directly to departmental IGs to qualify for awards, and the election by many individuals making disclosures not to identify themselves. We offered several recommendations for legislative changes to the program which we believed would enhance the program's operation if Congress decided to extend it.

First, we said that the program's coverage could be extended to authorize cash awards for nonfederal personnel, such as contractor personnel. Current law authorizes cash awards only to federal employees, thereby excluding others whose work may also put them in a position to identify fraud, waste, or mismanagement in the government. As a result, individuals such as the contractor employee cited in our December 1987 report whose disclosure led to a government contractor's replacement of defective materials valued at \$12.3 million, cannot now receive an IG cash award.

Section 1 of H.R. 4574 would authorize the payment of cash awards under the program to employees of Department of Defense contractors.

Second, we said that eligibility for cash awards could be extended to cover disclosures to federal officials or offices other than departmental IGs, such as to our Fraud Hotline or to Members of Congress. Such disclosures are routinely referred to

the appropriate IG's office for further investigation but awards are not made in these cases. Existing law has been interpreted to preclude the payment of awards in such circumstances. Since H.R. 4574 does not currently address this issue, we recommend that the bill be amended to authorize IG cash awards for disclosures made to others.

Third, we said that cash awards could be granted for disclosures that result in intangible benefits to the government. Current law requires that tangible cost savings must be identified before cash awards can be made. For this reason, it is very difficult to reward employees who make disclosures that are clearly beneficial to the government but are not readily quantifiable in cost savings terms. An example of this problem, cited in our December 1987 report, involved the difficulty the Veterans Administration experienced in its efforts to reward an employee who had exposed a fraudulent professional and academic credentials scheme. Since H.R. 4574 does not resolve this problem, we recommend that the bill be amended to also authorize awards for disclosures yielding intangible benefits.

Finally, we said that the intention of Congress that all agencies implement this program could be emphasized through explicit language in the enabling legislation, by specifically earmarking funds for disclosure awards in appropriation acts, or

by both means. Section 1 of H.R. 4574 addresses this issue through explicit language requiring the Inspector General of each agency to establish a cash awards program.

I would like to turn now to the suggestion awards program. As we noted in our March 1987 report,<sup>2</sup> suggestion program activities and results varied widely throughout the government. Some programs, such as the one managed by the Department of the Air Force, were very active and generated both substantial employee participation and cost savings to the government. Others, such as the program managed by the Department of State, generated almost no suggestions and, thus, virtually no cost savings.

During Subcommittee hearings last November, Madam Chairwoman, both you and Congressman Kasich expressed an interest in having us do further work to identify ways to enhance the suggestion awards program. We have such a review underway, with emphasis on identifying attributes of successful private sector programs which may have application to the government's program. As requested, we are also considering what legislative modifications might be appropriate. While our audit work has not yet been completed, I would like to share a few preliminary observations with you at this point.

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<sup>2</sup>Agencies Need to Make Greater Use of Employee Suggestion Programs (GAO/GGD-87-44BR, March 17, 1987).

Our findings indicate that monetary rewards, personal recognition, and the desire to contribute to operational improvements are among the motivational factors private employers most often cited as stimulating employee interest and participation in suggestion programs. In terms of eliciting employee participation in such programs, the private sector appears to have been more successful than the government. According to 1986 data reported to the National Association of Suggestion Systems, private employer-members averaged 33 suggestions that year for each 100 employees, while the government averaged just 5 suggestions for each 100 employees.

The data also showed that the average suggestion award made by the approximately 250 private employer-members reporting this information to the Association in 1986 was \$464, while the average suggestion award made by federal agencies was \$289. Our study indicates that federal suggestion awards may be lower on average than those of other employers because the federal program calculates tangible benefit awards using a regressive, sliding scale formula. As dollar savings achieved increase, award recipients receive a progressively smaller percentage of the savings. In contrast, private sector firms typically use a fixed percentage formula, with monetary recognition provided in direct relation to the cost savings achieved up to a specified amount.

The following example illustrates how these different approaches



affect the amount of the award granted. Under the federal suggestions program, the tangible benefits cash award is calculated by summing the products of (1) 10 percent times savings up to \$10,000; (2) 3 percent times savings from \$10,001 to \$100,000; and (3) 0.5 percent times all savings in excess of \$100,000. Thus, a suggestion yielding a cost savings of \$150,000 to the government would result in a cash award of \$3,950 to the suggester. However, were a flat 10-percent-of-savings formula applied, that same \$150,000 cost savings would result in an award of \$15,000. According to the National Association of Suggestion Systems, about 75 percent of its reporting members use a fixed percentage rate formula, with more than half of these members using a percentage rate greater than 10 percent. H.R. 4574 does not address the formula for computing the amount of the award.

We are also exploring the possible utility of paying suggestion awards resulting in tangible cost savings to the government directly from those cost savings. Currently, funds for federal suggestion awards come from money appropriated and budgeted for personnel costs, such as salaries and related expenses.

Were tangible benefit suggestion awards paid out of cost savings resulting from the suggestions, there would be no need to budget funds each fiscal year for these suggestion awards. Budgeted funds would thereafter be needed only for awards paid for

intangible benefit suggestions. As a result, agencies could reduce their annual budget requests accordingly, and the total dollar amount an agency could award for tangible benefit suggestions in any fiscal year would no longer be limited by budgetary considerations. This arrangement could be used in the IG cash awards program as well. H.R. 4574 does not address this matter.

This concludes my prepared statement, Madam Chairwoman. We would be pleased to answer questions.