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Internal Suspicions: GE's Drive to Purge Fraud Is Hampered By Workers' Mistrust --- Some Fear Getting the Ax If They Follow Directive To Report Wrongdoing --- Effect of Whistle-Blower Act

By Amal Kumar Naj. **Wall Street Journal** [New York, N.Y.] 22 July 1992: PAGE A1.[Hide highlighting](#)**Abstract (summary)**

General Electric Co., subject of several high-profile corporate scandals over the past decade, now has one of the most elaborate programs in corporate America to head off further embarrassments. Its centerpiece is a program to motivate employees who suspect anything fishy to report it immediately to GE officials. The effort GE makes is remarkable. Besides seminars and videos for employees, the company goes so far as to spring pop quizzes on workers in hallways, asking, for instance, "What are the three ways to report wrongdoing?" Correct answers win a coffee mug.

Why would an employee such as Mr. Walsh decline to use a compliance system GE had developed with such care? The question entails issues of concern not only to GE but to other corporations that must devise programs to prevent wrongdoing by employees. And it bears on the merits of a statute that is a kind of whistle-blower protection act, the False Claims Act.

That law permits employees whose tips result in federal fines or assessments against U.S. contractors to receive as much as 25% of the sums. And to GE, this law goes a long way to explain why Mr. Walsh kept his suspicions to himself. GE contends that he allowed the fraud to spread for four years after he discovered it in order to collect a larger bounty. Under the act, Mr. Walsh could receive as much as \$17.5 million of GE's \$70 million settlement, and at the very least he is likely to receive millions.

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Yet today, GE is expected to plead guilty and pay \$70 million to settle charges arising from a case in which an employee didn't use the internal compliance system, but instead kept his suspicions and eventually filed suit against the company and alerted government authorities. himself for years while gathering evidence, a

The employee is Chester Walsh, and the wrongdoing he spotted was a scheme by a high GE official and an Israeli general to divert U.S. aid for Israel into their personal accounts. With phony bills for projects that were never started by GE, the scheme defrauded the U.S. of about \$42 million.

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But Mr. Walsh has a different explanation. He says that despite GE's vociferous protestations, GE workers who blow the whistle on suspected wrongdoers aren't always protected. "I did a lot of research to see what happened to people who went up the chain of command and reported wrongdoings," says the 60-year-old Mr. Walsh. "All I found was they lost their jobs, their security; they lost everything."

Without question, fraud remains a concern at General Electric. Only two years ago, the Defense Department formed a special unit solely to investigate allegations of wrongdoing at GE.

And few of those allegations are emanating from GE's self-policing program. Of the 60 cases the unit has referred to various criminal investigative agencies, only 11 were voluntarily disclosed by GE; government auditors and whistle blowers like Mr. Walsh accounted for the rest, according to a spokesman at the Defense Logistics Agency, the Pentagon's procurement arm.

GE says that the large number of cases the special unit is investigating doesn't mean criminal charges are imminent. It notes that of 27 cases investigated and closed since 1985 by a different agency, the Defense Criminal Investigative Service, only one resulted in criminal charges, while many others ended with GE paying restitution for improper pricing and other problems. Many of these cases were voluntarily disclosed by GE.

Mr. Walsh and other GE employees who have gone outside to blow the whistle say GE's self-policing system is hampered by a culture that puts

extreme emphasis on profit. They say that culture is fostered at the top, where Chairman John F. Welch Jr. demands ever-rising earnings -- even though Mr. Welch has personally pushed the campaign to root out wrongdoing internally.

"If you have ever worked at GE you know that every quarter you make a phenomenal effort to generate income," says Mr. Walsh, echoing many other former and current GE employees.

Says GE: "We feel that competitiveness and integrity are utterly compatible. . . . You bet we compete. You bet we demand performance. Otherwise we wouldn't be the world leader in businesses."

Worker fear about turning in corporate wrongdoers is hardly limited to GE. Emil Stache, a quality control manager at Teledyne Inc., says he complained in 1990 to Teledyne's "ethics person," then to its vice president of quality, that some co-workers were falsifying test results of electronic components used in missile-guidance systems. But all that happened was that he got laid off, says Mr. Stache. In September 1990, he and a co-worker filed a whistleblower suit that the Justice Department has joined as a plaintiff. Teledyne declines to comment.

Throughout the defense industry, "if you're an employee and you complain of wrongdoing you take your career in your hand," says Jay Gourley, editor of DOJ Alert, a journal covering the Department of Justice.

In this climate, prosecutors say the False Claims Act is invaluable in fighting fraud. Since Congress increased the payout to whistle blowers in 1986, nearly 500 suits have been filed under the act, and about a quarter turned out to have merit, says the Justice Department. This month, in the largest payout yet, a court awarded \$7.5 million to an ex-employee of a Binghamton, N.Y., military contractor for exposing fraud.

But GE contends that the law undermines corporate compliance programs. It would like the statute changed so that whistle blowers couldn't bring suit unless they had tried to report their suspicions to a company compliance program and gotten no response.

At GE, its officials say, much has changed since the day in 1983 when a worker named John Gravitt complained to his division head about time-card cheating among supervisors and co-workers. Dismissed that very day, Mr. Gravitt sued GE in 1984, and GE settled after acknowledging time-card alterations.

That and other cases prompted Mr. Welch in 1985 to declare war on fraud. GE began training employees to keep an eye out for wrongdoing and to report it quickly. GE established toll-free numbers, special forms, even avenues for sending anonymous notes to Mr. Welch. It also began requiring nonunion workers to sign documents every year affirming that they knew of no wrongdoing. An instruction manual said: "If confronted with apparent conflicts between the demands of their jobs and the highest standards of conduct, employees should be guided by their sense of honor until the inconsistency has been reconciled."

But despite those measures, some GE workers continued going outside the company to blow the whistle. So GE beefed up the system even more, and it cites its Philadelphia aerospace division as an example of the self-policing it is doing throughout the company.

That operation boasts 160 interactive video terminals that offer mandatory compliance courses for the division's 30,000 employees. The courses, implemented 18 months ago, feature hypothetical situations dramatized by actors, with cameo appearances by top managers.

Training programs assure employees they needn't wait for "a preponderance of evidence" to report wrongdoing, says William Lytton, general counsel of GE Aerospace. GE officials strongly deny that whistle blowers are punished, adding that most whistle-blowing is anonymous anyway. Mr. Lytton says the company is evaluating approaches to take the fear out of reporting wrongdoing.

There is a need for that, say several former and current GE whistle blowers. They say they would have been encouraged to use the internal reporting system if GE had rewarded others for doing so.

"That hasn't happened at all," says Edward Russell, a former vice president of GE's Superabrasives division who has sued GE charging wrongful dismissal. Mr. Russell claims he was dismissed because he alleged that a meeting between certain GE officials and a South African cartel was for the purpose of fixing industrial diamond prices, a charge the Justice Department is investigating. GE denies that charge and says Mr. Russell was fired for poor performance.

GE also says employees shouldn't have to be rewarded for being ethical. "It's part of every employee's code of honor," says Mr. Lytton.

But some employees say they're honorably unemployed because they followed compliance procedures. Patricia Della Croce, a government property administrator in GE's Lynn, Mass., engine plant, says that in 1990 she told supervisors that some co-workers in her unit were unfairly billing the government for parts in an engine development program. "I was told I wasn't a team player and was ostracized," she says. Mrs. Della Croce, 59 years old and a 25-year GE employee, says that early this year she was abruptly told her job had been eliminated. "Actually, it was me whom they eliminated," she says.

When she appealed her dismissal to an ombudsman at the plant, a GE attorney, compliance representative and accountant also showed up. "It was like a jury trial. They pounded their fists on the table. I was in tears," she says. GE says it investigated Mrs. Della Croce's case and found no wrongdoing; it says her job was among many eliminated in deep staff cuts prompted by a shrinking defense budget.

Salvatore Cimorelli, who worked in the parts department of GE's Lynn, Mass., engine facility, tells a similar story. He says he was dismissed in 1989 after complaining to his boss and to GE's legal department about employees altering time vouchers and overcharging the government on a test engine being developed at the plant. GE won't comment, citing a whistle-blower suit that Mr. Cimorelli filed in federal court in Boston. Mr. Cimorelli, who had worked at GE for 29 years, says: "What it tells me is that Chester Walsh did the right thing keeping his mouth shut."

The Israeli scandal illustrates how GE's compliance program can fail when a high-level executive is involved. The scheme was plotted by a powerful Israeli Air Force general, Rami Dotan, and Herbert Steindler, who was in charge of GE's military marketing in Israel and was considered the "Israeli desk" within GE for his deep contacts in that country.

Over a period of years, Mr. Steindler and Gen. Dotan diverted about \$42 million of U.S. aid to Israel into personal accounts, say government officials. To account for the funds, Mr. Steindler, with the help of other GE employees, submitted false documents for nonexistent military projects whose completion Gen. Dotan attested to. Investigators say some of the money represented a bribe to Gen. Dotan to induce him to place actual orders for GE F-110 jet engines.

When Mr. Walsh learned of the scheme, he could have told his immediate boss, Robert Garvin. But he says Mr. Garvin was a close friend of Mr. Steindler's. GE says that Mr. Garvin is retired and isn't available for comment.

Another person Mr. Walsh could have reported the matter to was Brian Brimelow, then general manager for the F-110 engine program in Cincinnati. But according to Mr. Walsh, and to other GE employees who were in a position to detect the scheme, documents authorizing projects and payments that passed between Cincinnati and Tel Aviv bore Mr. Brimelow's signature. Mr. Brimelow was also on the compliance board of the GE aircraft engine unit that's supposed to investigate frauds. "Who the hell do you report it to?" asks Mr. Walsh. (Mr. Brimelow eventually was demoted from the head of the government products division to chief systems engineer, says GE, but it won't say whether he was accused of involvement in the scheme. He declines to comment.)

How about the 800 number? Mr. Walsh says that since he was the only GE man stationed in Israel and privy to the paper trail, "the call would have been easily traced back to me."

With people as senior as Mr. Steindler possibly involved in the scheme, Mr. Walsh decided against disclosing what he knew to superiors. Instead he read up on the False Claims Act, and hired an attorney. Then he began collecting documents and recording conversations with GE employees in Cincinnati.

After Mr. Walsh filed suit under the False Claims Act, GE fired Mr. Steindler, who faces criminal charges brought by the Department of Justice. He declines to comment. Gen. Dotan, convicted in Israel of bribery and other crimes, drew a 13-year sentence. GE fired or disciplined more than 20 other workers it said knew or should have known about the scheme and reported it.

Yet at least one GE employee, David McDonald, manager of the international engine support operation in Cincinnati, did report his suspicions to his bosses, nearly 20 months before Mr. Walsh filed suit. In a March 10, 1989, letter to Mr. Steindler -- with copies to Mr. Brimelow and Ken Bowman, Mr. McDonald's boss -- Mr. McDonald noted that GE had received "advance payment in full" for two projects that hadn't even been started. Because recording payment for incomplete projects violates compliance policies, the letter should have raised an immediate alarm at the top of that division, say former GE employees familiar with the letter.

Instead, it went unheeded. And in the wake of the government investigation of the GE-Israeli scandal, GE earlier this year fired Mr. McDonald, a 29-year veteran, for what it called "shortfall in compliance culture." Mr. McDonald declines to comment, citing a termination agreement he signed with GE.

A number of the GE employees fired for acts of "omission" in the scandal say that in the frenzy of meeting sales goals there was little time to scrutinize the phony transactions. Several say that when they did try to verify the existence of "test cells" and "support systems," they were rebuffed by Gen. Dotan and Mr. Steindler, who told them the projects were situated in "highly secured areas." The GE employees say they were afraid of alienating Israel, GE's second largest defense customer after the U.S. "GE taught me how to go through the brick wall to support the customer, and that's what we were doing," says one dismissed worker.

Mr. Lytton, the GE attorney, who is also an aerospace-division vice president, contends fraud isn't a widespread problem at the company. He says that "occasional instances of unauthorized illegal behavior" by GE's 275,000-member work force is "minuscule" compared with crime rates in cities of that size.

At the same time, he says, there is increasing pressure within the company "to make sure that every time we give a performance message -- make your number -- we also give a compliance message."

(See related letter: "Letters to the Editor: Wrong About GE" -- WSJ Aug. 5, 1992)

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