

# SEMIANNUAL REPORT TO THE CONGRESS

OCTOBER 1, 2001 - MARCH 31, 2002



**U.S. DEPARTMENT OF LABOR  
OFFICE OF INSPECTOR GENERAL**



**Selected Statistics of the OIG  
for the Period  
October 1, 2001–March 31, 2002**

Investigative Recoveries, Cost Efficiencies, Restitutions, Fines/Penalties, Forfeitures, and Civil Monetary Action . . . . .	\$66 million*
Total Questioned Costs . . . . .	\$15.9 million
Dollars Resolved . . . . .	\$3.4 million
Allowed . . . . .	\$300,000
Disallowed . . . . .	\$3.1 million
Recommendations That Funds Be Put to Better Use . . . . .	\$2.7 million
Audit Reports Issued . . . . .	.47
Evaluation Reports Issued . . . . .	.8
Cases Opened . . . . .	.230
Cases Closed . . . . .	.309
Cases Referred for Prosecution . . . . .	.238
Cases Referred for Administrative/Civil Action . . . . .	.10
Indictments . . . . .	.218
Convictions . . . . .	.131
Debarments . . . . .	.15

\* This figure does not include an \$85.3 million cost efficiency that was realized by the government as the result of the State of New York Department of Transportation cancelling a contract.

Note: The OIG conducts criminal investigations of individuals that can lead to prosecutions ("convictions") by criminal complaints, warrants, informations, indictments, or pretrial diversion agreements. Successful prosecutions may carry sentences such as fines, restitutions, forfeitures, or other monetary penalties. The OIG financial accomplishments, which include administrative and civil actions, are further detailed and defined in the appendix of this report.

United States Department of Labor  
Office of Inspector General



Semiannual Report to the Congress  
October 1, 2001–March 31, 2002  
Volume 47

It is an honor to transmit to the Secretary and the Congress the 47th Semiannual Report of the U.S. Department of Labor (DOL) Office of Inspector General (OIG). During the period October 1, 2001, through March 31, 2002, the OIG continued to direct its audit, evaluation, and investigation resources to activities that support its goals of effecting positive change and reducing vulnerabilities in departmental programs and operations, producing a positive return on invested resources, and providing quality services to stakeholders. Our work is intended to assist the Department in its efforts to improve the economic prospects of the unemployed and underemployed; protect the lives, health, and rights of workers; provide appropriate benefits to injured or unemployed workers; and ensure accountability over taxpayer dollars invested in departmental programs.

Among our most significant audit work during this period was our audit of cash balance pension plan conversions. Through this audit, we determined that employees may be losing millions of dollars as a result of mistakes by employers. We also began a comprehensive review of audits conducted by independent accountants under the Single Audit Act on the billions of dollars spent below the Federal level. Our work is demonstrating that these audits are often inadequate and, therefore, cannot be relied upon by the Department to determine whether funds have been appropriately spent. Our audit and evaluations work resulted in over \$18 million in costs that were questioned and in funds that were recommended be put to better use.

During this reporting period, the OIG has worked with DOL's largest grantor agency, the Employment and Training Administration (ETA), to help assess weaknesses in its grant accountability procedures and to draft potential solutions. ETA provides approximately \$9 billion in grants each year, and the way that ETA manages these grants impacts both program performance and financial accountability. To this end, we have identified the most serious weaknesses that, if addressed, offer the greatest potential for improving the stewardship of grant monies and the effectiveness of the programs that they fund. It is the opinion of the OIG that ETA needs to improve the award, grant execution, reporting, oversight, and audit resolution processes. The audit work detailed in the employment and training section of this report is illustrative of the weaknesses that need to be corrected. ETA has indicated that it has established internal goals for improving grants management in FY 2002. The OIG is very encouraged by the Department's efforts in this area, and we will continue providing technical assistance to ETA and audit oversight as needed.

In the investigative area, our work resulted in nearly \$66 million in investigative recoveries, restitutions, fines, and penalties; 218 indictments; and 131 convictions. Among our most significant investigative work during this period was our work in the labor racketeering area. For example, U.S. Congressman James A. Traficant Jr. was convicted on racketeering charges after a joint investigation revealed that he sought bribes from businesspeople in exchange for his political influence. In another case, former labor union official John Serpico and two associates were sentenced on charges related to a multimillion-dollar scheme to defraud several Chicago-based union pension plans and a labor organization. In another joint investigation, our work led to the guilty pleas of the owners of a major construction company in New York after our investigation revealed that they made payoffs to Luchese Organized Crime Family members and union officials of the construction trade unions. As a result, the State of New York Department of Transportation

## Inspector General's Message

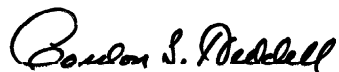
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cancelled an \$85 million contract with that company. In addition to our traditional investigative work, the OIG supported the FBI's investigation following the September 11th attacks by conducting evidence search and recovery, interviewing witnesses, and investigating leads.

During this reporting period, the OIG also issued its annual report on what we consider to be the most serious management challenges facing the Department of Labor. The following issues constitute the report, which was included in the Department's FY 2001 Accountability and Performance Report. These issues are detailed in the appendix of this report.

- Effectiveness of employment and training programs
- Financial performance
- Accountability: budget and performance integration
- Security of pension assets
- Protection of worker benefit funds
- Information technology and electronic government challenges
- Integrity of foreign labor certification programs
- Effectiveness of mine safety and health programs
- Rapid expansion of the Bureau of International Labor Affairs program
- Human capital management

The OIG is continuing to work with the Department to resolve management issues and areas of concern. My staff and I look forward to continuing to work constructively with the Secretary and the DOL team to further our common goal of ensuring the effectiveness, efficiency, and integrity of the programs that serve and protect the American workforce.



Gordon S. Heddell  
Inspector General

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## **Employment and Training**

During this reporting period, the OIG has worked with DOL's largest grantor agency, the Employment and Training Administration, to help assess weaknesses in its grant accountability procedures and to draft potential solutions. .... Page 9

OIG reviews on the quality of audits conducted by independent accountants under the Single Audit Act on the billions of Departmental dollars spent below the Federal level are demonstrating the serious shortcomings in the type of audit coverage that is provided to those funds. .... Page 14

An audit determined that, while the Job Corps spent nearly \$22 million annually for student transportation, no formal, national system existed for controlling these funds. .... Page 17

In an evaluation of the Youth Offender Demonstration project, we found that approximately 24% of the youth in our sample were placed in employment. Moreover, we found that not all sites provided their participants with comparable opportunities to succeed. .... Page 20

## **Worker Benefits Programs**

An audit of two states' Unemployment Insurance administrative costs determined that the Department had been overbilled nearly \$8 million. .... Page 29

An audit of cash balance plan conversions found that in 13 of the 60 cash balance conversions we reviewed the plan had improperly computed lump sum payments. The workers in these 13 plans may have been underpaid an estimated \$17 million each year. .... Page 32

A Black Lung medical provider was sentenced to nearly six years in jail and fined \$42,700, after being found guilty of 427 counts of dispensing narcotics, including Oxycontin, without a legitimate medical purpose. .... Page 36

## **Worker Safety and Health and Workplace Rights**

A Brooklyn, New York, general contractor pled guilty during this reporting period to willfully violating OSHA standards and was ordered to pay a \$100,000 fine. The investigation found that the contractor willfully disregarded OSHA safety rules, which led to the death of one of his employees after a 5,000 pound steel beam crushed the employee. .... Page 43

## **Departmental Management**

The Department of Labor received an unqualified opinion on its financial statements for the fifth year in a row. .... Page 47

The OIG found that DOL could save \$2.5 million annually by eliminating underutilized motor vehicles from its motor vehicle fleet. .... Page 52

**Labor Racketeering**

The OIG participated in a joint investigation that led to the guilty pleas of the owners of a major construction company in New York after our investigation revealed that they made payoffs to Luchese Organized Crime Family members and union officials of several construction trade unions. As a result, the State of New York Department of Transportation cancelled an \$85 million contract with that company. .... Page 57

A plan official of several Laborers' International Union of North America pension and welfare plans was charged in a 59-count indictment with embezzling more than \$2.2 million from several Locals. .... Page 58

Former labor union official John Serpico was sentenced on charges related to a multimillion-dollar scheme to defraud several Chicago-based union pension plans and a labor organization. The investigation found that, in return for placing union and pension funds at area banks, Serpico and another individual received at least \$5 million in personal and business loans on terms more favorable than those available to regular bank customers. .... Page 59

A former union official and the former president of Capital Consultants were sentenced for their roles in a scheme to defraud clients, which included various union pension plans. The individuals misrepresented and concealed facts relating to Capital Consultants' investment of client funds and exposed benefit plans to significant risks. .... Page 60

Several members and former employees of International Longshoremen's Association Local 1588 were convicted of embezzling over \$750,000 from the Local. .... Page 64

U.S. Representative James A. Traficant Jr. was found guilty of racketeering, bribery, and tax fraud. Traficant sought bribes from businesspeople in the Youngstown, Ohio, area in exchange for his political influence. .... Page 66







*Enhancing  
Opportunities  
for America's  
Workforce*

# **Employment and Training**

*The Department of Labor provides assistance to those new to the labor force and those wishing to improve their potential to achieve success in today's job market. The Department provides opportunities for individuals to obtain the skills necessary to succeed in the global economy, close the employment gap for out-of-school youth, and increase long-term jobs for people as they move from welfare to work.*

*The OIG works to optimize the use of funds appropriated for training and employment programs by enhancing program performance and accountability. This includes providing oversight to ensure the overall efficiency and effectiveness of DOL's progress in moving welfare recipients away from public assistance and into training, jobs, and self-sufficiency.*

The Department provides almost \$9.5 billion in grants each year, mostly in the employment and training area. Grantees receiving these funds pass a large share down to subgrantees and contractors. Over the years, the OIG has conducted numerous audits that have raised concerns about the Department's ability to manage its grants effectively. Most recently, the OIG has worked with DOL's largest grantor agency, ETA, to help assess weaknesses in its grant accountability procedures and to develop potential solutions.

The OIG's recent focus on grant accountability has identified the following five areas that, if addressed, offer the greatest potential for improving the stewardship of grant monies and the effectiveness of the programs that they fund:

- **Preaward/Award:** making sure that grants, subgrants, and contracts are awarded to entities that are capable of satisfying grant requirements and that such awards comply with procurement rules
- **Grant Execution:** ensuring that services are provided in accordance with grant terms, claimed costs, and program results are allowable
- **Reporting:** making sure that financial and performance reporting systems are adequate and sound, reporting terms are clearly defined, and controls exist over the timeliness and validity of reported financial and performance data
- **Oversight:** making sure that grantees, subgrantees, and contractors fully understand compliance requirements, monitoring subawards to identify problems early, requiring corrective actions, and providing technical assistance or imposing sanctions depending on the nature and severity of noted deficiencies
- **Resolution:** issuing proper and timely management decisions and completing corrective actions to address monitoring and audit findings

The importance of this effort is highlighted by OIG findings during the current reporting period in which we identified numerous deficiencies related to inadequate performance and/or unallowable charges. The following audits contain examples of deficiencies relative to the identified areas. They are summarized in a table on page 13.

### **Pinellas Workforce Development Board's WtW Grant**

The Pinellas Workforce Development Board (Florida) received a \$1.5 million Welfare-to-Work (WtW) competitive grant to place 300 hard-to-serve individuals in unsubsidized employment over a 36-month period. At ETA's request, we conducted an audit of grant activities for the period July 1, 1998, through June 30, 2001. We found a variety of procurement, financial, compliance, and program delivery concerns, as

well as concerns that the grant did not achieve its intended purpose. We recommended that ETA recover \$858,674 in misspent WtW grant funds. Pinellas County indicated that it was unable to respond to our report because it did not have the necessary files and did not assume liability for the grant. However, a transition plan indicates that Pinellas County assumed responsibility for the grant on January 19, 2001, and took custody of program documentation prepared before the transition. (OA Report No. 04-02-002-03-386, issued March 26, 2002)

### **Industrial Exchange WtW Grant**

The Tulsa Housing Authority (THA) received WtW funds from the Oklahoma Employment Security Commission (OESC) and the Office of Juvenile Affairs and contracted \$561,649 to Industrial Exchange, Inc. (IndEx). We performed a financial-related and performance audit of WtW funds received by IndEx for the period December 16, 1998, through June 30, 2001.

We found that THA circumvented required procurement procedures by sole-source contracting with IndEx and provided poor oversight of the IndEx contracts. We further found that IndEx failed to come close to meeting its contract performance goals and that it mismanaged, wasted, and misused WtW funds. As a result of these findings, the OIG questioned the entire \$561,649 for the IndEx WtW program. Neither OESC nor THA specifically responded to our findings regarding poor financial and program performance. However, OESC stated that not all costs should have been questioned because some participants received services. (OA Report No. 06-02-004-03-386, issued March 20, 2002)

### **Madison County WtW Grant**

On October 1, 1999, the Madison County, Alabama, Commission received a \$4.7 million WtW grant to place 640 noncustodial parents in unsubsidized employment over a 30-month period. In response to a complaint, the OIG audited financial and program activities related to Madison County's WtW grant for the period October 1, 1999, through September 30, 2001.

We identified a variety of financial, compliance, and program delivery concerns. We also found that financial accountability over the grant was unsatisfactory and that the program's effectiveness was a concern. We recommended that ETA recover the \$358,229 in grant expenditures we questioned. We also recommended that ETA consider not extending the grant beyond its termination date of March 31, 2002, and monitor Madison County's grant closeout activities to ensure that the final Federal reports submitted to ETA are accurate and that any unspent grant funds are returned. The county disagreed with most of our conclusions and recommendations. (OA Report No. 04-02-001-03-386, issued March 26, 2002)

## City of Gary WtW Competitive Grant

The City of Gary, Indiana, received a \$5 million WtW competitive grant. The OIG audited financial and program activities under the grant for the period January 4, 1999, through March 31, 2001. We identified excessive, unsupported, and unallowable service provider claims, other unallowable costs, and ineligible participants. We recommended that ETA recover \$133,013 in questioned costs identified in our audit and direct the City of Gary to improve the contract administration system for procuring WtW participant services. City of Gary officials generally concurred with our recommendations but took exception to our recommendation to improve the contract administration system for procuring WtW participant services. (OA Report No. 05-02-001-03-386, issued March 18, 2002)

## New York Department of Labor Year 2000 Grant Expenditures

Congress appropriated funds to assist State Employment Security Agencies in making their automated Unemployment Insurance and Employment Service systems year 2000 (Y2K) compliant. ETA awarded the State of New York Department of Labor \$14,889,355 in supplemental Federal funding for Y2K compliance activities. We reviewed uses made of Y2K funds received by the agency during the period October 1, 1997, through September 30, 2000.

We questioned almost \$4 million in grant expenditures that were not spent in accordance with Federal requirements. Although New York concurred in part with the draft report, the State generally believed that costs should not have been questioned because it had spent its Y2K funding for intended purposes and in accordance with policy guidance from ETA. (OA Report No. 04-02-007-03-315, issued January 25, 2002)

## Audit of DOL Grants to Assist Trade-Affected Dislocated Workers in El Paso, Texas

We conducted a performance audit of the results of Unemployment Insurance, Trade Adjustment Assistance, North American Free Trade Agreement–Transitional Adjustment Assistance, and Job Training Partnership Act (JTPA) assistance provided by the Upper Rio Grande Workforce Development Board and the Texas Workforce Commission to trade-certified dislocated workers in El Paso, Texas.

We found that approximately \$106 million, an average of about \$25,000 per participant, was expended to provide training and income support to 4,275 trade-certified dislocated workers in El Paso. Despite this large

investment, we found that placement outcomes were overstated, placement wages for those who entered employment were low, and needs-related payments provided a disincentive to employment. In responding to the draft report, ETA essentially agreed with our recommendations to improve services to low-skilled and limited-English-proficient workers but indicated that the recommendations that pertained to operational decisions would primarily have to be addressed by the State and local boards. (OA Report No. 06-02-003-03-340, issued November 19, 2001)

### **American Indian Community House**

The OIG audited costs claimed by the American Indian Community House, Inc. (AICH), for a DOL grant awarded under JTPA Title IV-A for the period July 1, 1997, through June 30, 1998. The grant was to provide training and other services to Native Americans who faced serious barriers to employment.

In our opinion, the JTPA annual status report for the audit period did not present fairly, in all material respects, the results of AICH's operations in accordance with applicable Federal regulations and cost principles. AICH did not maintain a system to adequately support costs and properly allocate costs to final cost objectives. For the audit period, AICH claimed costs of \$550,235, of which we questioned \$293,419 (53% of claimed costs). AICH disagreed with the findings and questioned costs as presented in the draft report. (OA Report No. 02-02-204-03-355, issued January 24, 2002)

### **Proteus, Inc., of Des Moines, Iowa**

The OIG performed a financial and performance audit of a DOL grant awarded to Proteus, Inc., of Des Moines to provide training and services to eligible migrant and seasonal farmworkers to strengthen their ability to achieve economic self sufficiency.

For the audit period July 1, 2000, through June 30, 2001, Proteus reported costs of \$1.16 million for 332 participants, of which we questioned \$215,792 primarily related to participant eligibility. We also questioned Proteus's practice of reporting participants as placements when the participants maintained the same employment from the time they enrolled in the program to the time they exited the program. (OA Report No. 21-02-003-03-365, issued March 29, 2002)

Entity	Preaward/Award	Execution	Reporting	ETA/Grantee Oversight
Pinellas Workforce Development Board	<ul style="list-style-type: none"> <li>⊘ Contracts were not competitively procured</li> <li>⊘ Fixed price contract requirements were circumvented, resulting in higher costs</li> <li>⊘ Profit was reimbursed contrary to WtW requirements</li> </ul>	<ul style="list-style-type: none"> <li>⊘ Two Federal agencies were charged for the same costs</li> <li>⊘ Benefit to program was not documented for certain costs incurred</li> </ul>	<ul style="list-style-type: none"> <li>⊘ Inaccurate and sporadic performance reports were submitted</li> </ul>	<ul style="list-style-type: none"> <li>⊘ Grantee did not perform required monitoring</li> </ul>
IndEx	<ul style="list-style-type: none"> <li>⊘ Subgrantee improperly sole-sourced contract to IndEx</li> </ul>	<ul style="list-style-type: none"> <li>⊘ IndEx served only 59 participants against plan of 170</li> <li>⊘ Only 12 participants completed the program</li> <li>⊘ The majority of costs were administrative; there was no direct benefit to participants</li> <li>⊘ 41% of participants received no wages</li> <li>⊘ Participants were enrolled in low-skilled work experiences without regard to their education or prior work experience</li> <li>⊘ Cost allocation system was not established</li> <li>⊘ Program income was not accounted for</li> </ul>		<ul style="list-style-type: none"> <li>⊘ Subgrantee exercised poor oversight</li> </ul>
Madison County Commission	<ul style="list-style-type: none"> <li>⊘ Transactions were improperly performed between related organizations</li> <li>⊘ Services were performed without formal agreements</li> </ul>	<ul style="list-style-type: none"> <li>⊘ Only 33 participants were placed, not the 640 stated in the plan</li> <li>⊘ Consultant costs exceeded daily limits contained in the grant</li> <li>⊘ Costs were incurred prior to grant period</li> <li>⊘ Equipment was improperly procured</li> <li>⊘ Payments were made for donated services, billings were inadequately supported, and activities did not benefit WtW participants</li> <li>⊘ Some participants were ineligible</li> </ul>	<ul style="list-style-type: none"> <li>⊘ Quarterly financial reports were not prepared on an accrual basis</li> </ul>	
City of Gary	<ul style="list-style-type: none"> <li>⊘ Procurement duties were not segregated</li> <li>⊘ Service provider agreements were inadequate</li> </ul>	<ul style="list-style-type: none"> <li>⊘ Duplicative, excessive, and unsupported costs were claimed for participant services</li> <li>⊘ Unallowable placement costs were paid</li> <li>⊘ Some participants were ineligible</li> <li>⊘ Services were paid that were not included in the agreements</li> </ul>	<ul style="list-style-type: none"> <li>⊘ Quarterly financial and performance reports could not be reconciled with grantee records</li> </ul>	
El Paso Dislocated Worker Program		<ul style="list-style-type: none"> <li>⊘ Costs averaged \$25,000 per participant</li> <li>⊘ Placement wages were low: over 50% of placed participants earned under \$6 per hour</li> <li>⊘ Needs-related payments served as disincentive to employment</li> </ul>	<ul style="list-style-type: none"> <li>⊘ Placement rate was overstated</li> <li>⊘ Grantee indicated a placement rate of 81% as compared with 36% determined by our audit</li> </ul>	
NY Y2K		<ul style="list-style-type: none"> <li>⊘ Costs were not vital to Y2K readiness</li> <li>⊘ Unallowable personnel costs were claimed</li> <li>⊘ Pre-Grant costs were paid</li> </ul>		<ul style="list-style-type: none"> <li>⊘ ETA issued confusing or erroneous policy</li> </ul>
American Indian Community House		<ul style="list-style-type: none"> <li>⊘ Costs claimed were not allowable</li> <li>⊘ Program was charged for costs that should have been allocated to other programs</li> </ul>	<ul style="list-style-type: none"> <li>⊘ Financial statements failed audit</li> <li>⊘ Adverse opinion issued</li> </ul>	
Proteus		<ul style="list-style-type: none"> <li>⊘ Some participants were ineligible</li> <li>⊘ Improper placements were claimed</li> </ul>		



*In FY 2002, the Department of Labor has an annual appropriation of nearly \$55 billion. Because over 85% of DOL's annual expenditures are spent by non-Federal entities, the audit of Federal funds at these entities is of paramount importance to DOL and the OIG. The majority of these funds are covered by the Single Audit Act (SAA) Amendments of 1996. The Act requires that non-Federal entities spending \$300,000 or more in Federal funds receive an independent audit in accordance with the Act. The purpose of the SAA audits is to determine whether Federal funds are spent in accordance with applicable laws and regulations and to make this determination without subjecting an entity to audits from multiple agencies; hence, the Act requires a "single" audit.*

*The OIG receives, from the Federal Audit Clearinghouse, SAA audit reports that contain findings related to DOL programs. The OIG provides SAA audits to DOL program agencies for resolution and participates with other Federal agencies on quality control reviews conducted for single audits of DOL recipients and subrecipients. We have initiated several studies to determine the reliability and usefulness of SAA audits to the Department, including use by the OIG in its annual audit of the Department's financial statements, as well as the most efficient and effective method of making such a determination on a recurring basis. Specifically, we are conducting studies to determine:*

- the information needed by DOL from SAA audits;*
- the sufficiency of independent audit work performed on DOL funds via the SAA audits; and*
- an efficient and effective means of conducting SAA audit quality control reviews.*

### **Inadequate Single Audit Work Performed**

During this semiannual period, we completed a limited study of SAA audit quality and the sufficiency of audit coverage of DOL funds. We reviewed SAA audits for two states, two state subrecipients, and two

nonprofits. We reviewed the SAA audit reports, met with the auditors, and reviewed the working papers supporting the audits.

Our review raised several concerns on the adequacy of audit work performed. The extent of testing (i.e., the number of sampled transactions tested for compliance with Federal laws and regulations) resulted in an audit risk ranging from 20 to 40 percent. Audit risk is the risk that the auditor formed the wrong conclusion based on his or her work. For example, in one audit, the auditor tested only 36 payments totaling \$118,000 out of \$110 million in DOL funds expended for one program. Based on this sample size, the audit risk in this audit would be in excess of 24%. The independent auditor concluded that this program's expenditures were in compliance with Federal laws and regulations after testing only one-tenth of 1 percent of the total expenditures.

The OIG also identified Federal program compliance requirements that received no testing by the auditor hired to conduct the SAA audits; most notable was the lack of eligibility testing for DOL's training programs for an entire state. We identified design problems with audit tests, which resulted in certain Federal funds being excluded from the test population. Finally, we noted a lack of adherence to generally accepted government auditing standards, primarily in not sufficiently documenting the work performed so that an independent reviewer could determine what was done.

We believe that the concerns we identified can be addressed through expanded audit guidance, specific training of SAA auditors and Federal monitors, and improved guidance (via the OMB Circular No. A-133 Compliance Supplement) from Federal agencies on the significant legal and regulatory requirements of their programs. We presented a briefing on our concerns at a recent Single Audit Roundtable hosted by the American Institute of Certified Public Accountants and OMB. We plan other outreach efforts to the Federal grants management and audit community.

*Job Corps was established in 1964 and is presently authorized under Title I, Subtitle C of the Workforce Investment Act of 1998. The overall purpose of the program is to provide economically disadvantaged youth with the opportunity to become more responsible and employable citizens. With annual funding of over \$1 billion, Job Corps is the largest Federal youth employment and training program and serves approximately 70,000 youths a year. Operations of the program are carried out at 118 residential facilities that provide a comprehensive and intensive array of academic training, vocational training, job placement, and support services to at-risk youths and young adults.*

## **Hawaii Job Corps Center**

The OIG conducted an audit of the Hawaii Job Corps Center's (HJCC's) \$10.7 million in reported expenses for the program year ending June 30, 2001. The HJCC is operated by the Management and Training Corporation (MTC) under contract with DOL. While our opinion on the Schedule of Job Corps Expenses was unqualified, we noted several matters that were required to be reported in accordance with the applicable audit standards.

Most significantly, we found that the reserves collected over the years to cover future uninsured losses far exceeded the actual amount paid to claimants. As of November 2000, the reserve balance was approximately \$6.5 million. Annual contributions during the period 1993 through 2000 averaged \$1.9 million, while annual payments against claims have averaged \$1.2 million. We also found that the funds were not deposited into an interest-bearing account or set aside specifically to pay future claims. Additionally, it is our understanding that MTC has not obtained approval from the Office of Job Corps for its self-insurance program as required by the regulations.

We recommended that MTC submit a written plan to the Office of Job Corps that details the self-insurance policies and practices used in charging insurance costs to its government contracts, as required by the Federal Acquisition Regulations. We also recommended that MTC ensure that future charges for uninsured losses be based on the present value of future payments in accordance with regulations. In addition, we recommended that MTC set aside the funds in an interest-bearing account. Finally, MTC should determine the present value of the future payments against the existing reserve and refund any excess balance (the proportionate share) to the Federal government.

In responding to our draft report, MTC officials stated that they believe that MTC's current insurance reserve policies are in accordance with the

regulations and that the reserve balance is not excessive based on its estimate of future insurance losses. We hold to our conclusion that the current reserve account balance significantly exceeds the actual payments made in any given year since the inception of the reserves and that the reserve funds should have been set aside for payment of insurance claims. This recommendation is unresolved and will be addressed in ETA's formal resolution process.

Our report also included findings related to MTC's controls over its construction and rehabilitation projects, inventories of expendable supplies, approval of general ledger transactions, and employee leave balances. MTC has agreed to take corrective actions related to these findings. (OA Report No. 03-02-003-03-370, issued March 29, 2002)

### **Job Corps Needs to Strengthen Oversight of Multimillion-Dollar Student Transportation System**

The Job Corps spends nearly \$22 million annually for student transportation. The OIG audited how effectively the Job Corps program controls unused airline tickets and pays student transportation charges. We reviewed transportation expenses in three Job Corps regions (Kansas City, Atlanta, and Philadelphia) during the 15-month period January 1, 2000, to March 31, 2001. We found that no formal, national system existed for controlling Federal funds spent for student transportation, including making sure trips were for authorized persons and purposes, and that refunds for unused tickets were returned to the Job Corps program. Additionally, we found that the regions were not complying with the Prompt Payment Act. We concluded that Job Corps lacked adequate necessary management controls to properly account for the nearly \$22 million in yearly transportation expenditures.

At the conclusion of our fieldwork, Job Corps was unable to properly account for about \$5.8 million of transportation tickets dating back to 1994. Based on our preliminary findings, Job Corps officials issued interim procedures to enhance the accountability of the student transportation system. Although we commend Job Corps for taking prompt action to address concerns raised during our audit, we believe additional action is necessary.

In our final report, we recommended that ETA immediately establish specific, standardized operating controls that will ensure the appropriate and prudent use of student transportation funds. We also recommended that Job Corps management determine which tickets were used and which tickets were not used nor refunded, and seek refunds as appropriate.

In responding to our draft report, ETA generally agreed with our recommendations and stated its intent to implement them as soon as practicable. ETA also indicated that after an additional review, it could account for all but \$200,000 of transportation tickets. Moreover, it indicated that it was able to recover \$200,000 in unused tickets issued for new student travel.

We believe that the actions proposed by ETA will satisfy our recommendations. However, the OIG is concerned about the current administrative framework because the new procedures to enhance accountability rely on the continued use of Transcor to provide travel services. As we reported in a March 2001 audit report, the existing legal arrangement (a Memorandum of Agreement) between Job Corps and Transcor is not a valid contract. We believe that ETA needs to address this important administrative issue. (OA Report No. 09-02-200-03-370, issued March 29, 2002)

### **\$450,000 in Questioned Costs at Two Job Corps Centers**

The OIG conducted a financial audit (for calendar year [CY] 1999) of two Job Corps contractors to determine whether their claimed costs were reasonable, allocable, and allowable in accordance with Federal regulations and the Job Corps Policy and Requirements Handbook (PRH). We audited ResCare, Inc., a publicly owned for-profit corporation located in Louisville, Kentucky, which received \$126.8 million in CY 1999 to operate 14 Job Corps centers. We also audited Minact, Inc., a privately owned for-profit corporation located in Jackson, Mississippi, which received \$53 million to operate eight Job Corps centers.

In both audits, we found that the centers' financial reports presented fairly, in all material respects, the results of ResCare's and Minact's operations in accordance with the PRH and applicable Federal regulations. However, we questioned \$302,909 in indirect costs and \$59,927 in direct costs claimed by ResCare. The questioned costs consisted of unsupported bonuses, improperly calculated state income taxes and excess depreciation, aircraft travel costs, executive compensation, and other unallowable costs. We also questioned \$100,348 of Minact's indirect costs, consisting of vehicle expenses for personal use and executive compensation in excess of the statutory ceiling. (OA Report Nos. 02-02-203-03-370, issued January 30, 2002, and 02-02-201-03-370, issued December 19, 2001)

## **\$305,000 in Improper Claims for Property Taxes**

During this period, the OIG audited another three Job Corps centers to determine whether their center operators claimed reimbursement for property taxes. The Workforce Investment Act prohibits the payment of such taxes. Our audits of the Iroquois and Homestead Job Corps Centers did not disclose any improper payments for taxes; however, our audit of the Sargent Shriver Job Corps Center (SSJCC) did identify such improper payments.

We questioned \$305,352 that Adams and Associates, Inc. (A&A), the contractor that operates SSJCC, paid in municipal service fees (which the OIG believes equates to property taxes) to the Devens Commerce Center during the period May 1998 through July 2001. We recommended that ETA recover this amount and ensure that A&A discontinues paying any municipal service fees that are based on square footage rather than the value of actual services received. In response, A&A stated that it will comply with the direction provided by ETA. (OA Report Nos. 02-02-208-03-370, issued March 21, 2002; 02-02-206-03-370, issued February 20, 2002; and 02-02-205-03-370, issued March 18, 2002)

*The Youth Offender Demonstration Grants program is a joint venture between ETA and the U.S. Department of Justice. Its goal is to provide insights into which strategies are most effective for preventing or intervening in juvenile crime and to provide transitional work experiences that will lead to long-term employment. The target group of participants for these demonstration projects is high-risk young individuals who generally are disconnected from the workforce development system and the education system and who are more likely to come into contact with either the juvenile or criminal justice systems.*

### **Youth Offender Demonstration Grants Project Needs to Deliver Services More Effectively to Improve Program Outcomes**

We conducted a study of the services and outcomes of ETA's Youth Offender Demonstration Grants projects, round one. In FY 1999, Congress appropriated \$12.5 million to initiate and develop projects aimed at youth offenders and youth at risk of participating in gang activity. Grants were awarded in round one for a period of 24 months. In FY 2001, \$13.9 million was appropriated to continue five of the original 11 projects and to expand to nine other sites. Currently, ETA has \$55 million earmarked for a third round of Youth Offender and related grants to begin in FY 2002.

Based on our work, we found that approximately 24% (214 out of a sample of 907) of youth, ages 18 to 24 were placed in either subsidized or unsubsidized employment during the grant period, with earnings averaging \$1,409 per quarter. We also found that ETA had developed a demonstration project that offered a wide range of types, intensity, and duration of services to its participants. However, the varying intensity and duration of services resulted in different employment and employability outcomes. For example, grant sites varied in their definitions and practices of termination and activity status, resulting in the uneven duration of services for youth participants across sites. Further, we found that not all sites provided their participants with comparable opportunities to succeed in the demonstration, because the policies and practices were uneven and often arbitrarily defined and applied.

We recommended that ETA clarify its policies on enrollment, activity status, and duration of services in order to enhance service delivery practices and potential outcomes. ETA agreed with our recommendations and has already begun to work with its grantees to clarify enrollment and termination policies and to explore these issues in its revised Federal review guide. (OCIE Report No. 2E-03-356-0001, issued March 29, 2002)

### **President of Nonprofit Sentenced for Theft of Government Funds**

On January 4, 2002, Ruby Buck, president and CEO of Mississippi Action for Community Education (MACE), a nonprofit rural development organization, was sentenced to 41 months in prison and was ordered to pay \$116,800 in restitution. In August 2001, Buck was convicted of making false statements and theft of Federal funds. Prior to this, in May 2001, ETA terminated a \$3.3 million WtW grant that was awarded to MACE for training and employing participants in the construction of pre-engineered homes. This investigation was conducted jointly with the Corporation for National and Community Services. *U.S. v. Buck* (N.D. Mississippi)

### **Defendants Plead Guilty to Million-Dollar Fraud**

Sandra Naclerio, the former finance director for the Community Action Agency of New Haven (CAANH), and Milton Greengas, a retired printer, pled guilty on February 25, 2002, to first-degree larceny charges for their roles in defrauding CAANH of over \$1 million. CAANH is a nonprofit corporation funded by the State of Connecticut Department of Social Services, the Department of Housing and Urban Development (HUD), DOL, and other governmental agencies and provides services to low-income families and individuals in the greater New Haven area. In 1999, ETA awarded CAANH a WtW grant of nearly \$3 million to serve 1,200 welfare recipients for a three-year period. The investigation revealed that, between 1996 and 2001, CAANH fraudulently paid over \$1 million to printing companies owned by Milton Greengas, of which over \$47,000 was derived from WtW grant funds. Naclerio had approval authority over CAANH's expenditures and paid Greengas the monies largely through invoices for nonexistent supplies and services. In turn, Greengas kicked back at least \$235,000 to Naclerio. This is a joint effort with the HUD OIG and the Connecticut State's Attorney's Office. *U.S. v. Naclerio, U.S. v. Greengas* (D. Connecticut)



*The Department of Labor's foreign labor certification programs are designed to provide employers access to foreign workers in specialty occupations or in areas in which there is a shortage of American workers. The permanent, H-2A, and H-2B programs are supposed to ensure that the admission of aliens to work in the United States on a permanent or temporary basis does not adversely affect the job opportunities, wages, and working conditions of American workers or legal resident aliens. The H-1B Visa Specialty Workers program is intended to allow U.S. businesses to compete in a global market in order to respond to rapid advances in technology. It requires employers who intend to employ foreign specialty-occupation workers temporarily to file labor condition applications with the Department stating that the required wage rates will be paid and that other requirements will be followed. Proper worker documentation must accompany these applications before a visa is issued. Under current law, the Department is required to certify applications unless it determines the applications to be "incomplete or obviously inaccurate." OIG audits and investigations have shown that the individuals allowed into the United States under this program often lack the specialized skills necessary for meeting the requirements for H-1B visas.*

*The OIG continues to identify fraud in the foreign labor certification programs, with the majority of cases involving the H-1B temporary work visa program. These cases involve fraudulent labor condition applications that are filed with DOL on behalf of fictitious companies and corporations, individuals who file petitions using the names of legitimate companies and corporations without their knowledge or permission, and immigration attorneys and labor brokers who collect fees and file fraudulent applications on behalf of aliens.*

## **H-1B Technical Skills Training Grantee Did Not Meet Program Intent**

DOL collects a user fee on each H-1B application, which, in part, is used to finance H-1B technical skills training grants. These grants are awarded to provide technical skills training to American workers so that firms can lessen their dependence on high-skilled foreign workers. As of December 31, 2001, DOL had awarded 52 grants in four rounds totaling approximately \$120 million.

In the first round, The WorkPlace, Inc., received a two-year \$1.5 million grant, beginning March 27, 2000. The OIG conducted a performance audit

of the grant for the interim period March 27, 2000, through June 30, 2001. We found that The WorkPlace did not implement what it had proposed and agreed to do in the grant. Even though the National Skills Standards Board had not yet developed standards, The WorkPlace should have developed alternative standards that could be tracked and measured. Further, the training that was provided was either non-technical or contained company-specific, proprietary information that could not be shared with non-employees. We found that, contrary to the grant provisions, training was not limited to individuals in the geographic region covered by the grant. Moreover, training was provided only to incumbent workers of the participating companies, to the exclusion of unemployed and underemployed individuals.

In our draft report, we questioned \$332,687, including over \$190,000 in administrative costs that were not authorized in the original grant. Based on an amendment to the governing statute, ETA retroactively modified all first-round grants to allow administrative costs; we therefore reduced our questioned costs to \$140,000. In response to the report, the grantee indicated that corrective action had been taken to address some of our recommendations. (OA Report No. 02-02-207-03-390, issued March 26, 2002)

### **New Jersey Woman Collected Nearly \$2 Million in Visa Fraud Scheme**

On October 2, 2001, a Newark, New Jersey, woman who posed as an attorney and her business partner were charged with forging alien employment certifications filed with DOL. The investigation revealed that the two had allegedly charged more than 200 alien certification applicants between \$4,500 and \$8,000 for each certification, amounting to nearly \$2 million in fees. This investigation with the Immigration and Naturalization Service (INS) is continuing.

### **Washington, D.C., Immigration Attorney Charged with Defrauding Clients of \$350,000**

On February 14, 2002, a Washington, D.C., immigration attorney was indicted on charges of visa fraud and conspiracy. The investigation revealed that, over the past eight years, the attorney allegedly defrauded her clients by charging them substantial legal fees and submitting false documents that misrepresented the aliens' work experience, education, prospective sponsors and employers, and current immigration status. For the nearly \$350,000 in fees the attorney collected, she routinely forged the signatures of the aliens and the sponsors on government documents. Moreover, she employed some of the illegal aliens as personal servants. This is a joint effort with the INS and the FBI.





*Promoting the  
Economic  
Security of  
Workers and  
Families*

# **Worker Benefits Programs**

*The Department of Labor is responsible for protecting workers' hours, wages, and other conditions when they are on the job, providing unemployment and compensation benefits when workers are unable to work, and expanding, enhancing, and protecting workers' pensions, health care, and other benefits. The Department carries out programs to ensure compliance with minimum-wage and overtime requirements; to enable working Americans to be economically secure when they retire; to provide more pensions for women and employees of small businesses; to provide better access to health care; and to facilitate community readjustment in those areas suffering from economic change by shortening periods of unemployment and increasing full-time jobs and wage replacement.*

*The OIG assists the Department in effectively administering and safeguarding Federal employee benefits programs (e.g., unemployment insurance and disability compensation benefits programs) and in overseeing the nation's pension system. Moreover, through our investigative efforts, we protect the integrity of programs by identifying and causing the termination of fraudulent claims and billings by ineligible recipients and medical providers.*

*Enacted over 60 years ago as a Federal-state partnership, the Unemployment Insurance (UI) program is the Department's largest income maintenance program. This multibillion-dollar program assists individuals who have lost their jobs through no fault of their own. While the framework of the program is determined by Federal law, the benefits for individuals are dependent on state law and are administered by State Workforce Agencies (SWAs) in 53 jurisdictions covering the 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands under the oversight of ETA. During this reporting period, we completed a number of audits and investigations that called attention to systemic weaknesses and unallowable costs claimed in the UI system.*

*The OIG continues to expand its investigative efforts to detect and investigate fictitious or fraudulent employer schemes used to defraud the UI program. In recent years, the program has suffered losses in the millions of dollars as a result of these types of schemes. Highlighted below are some of our accomplishments in this area. The OIG is also concerned with individuals who steal the identity of other individuals and use the stolen identity to apply for UI benefits. The use of these stolen identities complicates fraud detection in that preliminary fraud screening discloses that the employer and employee actually exist, thus circumventing those fraud detection techniques that focus on individual identifiers.*

## **Audit of the UI Data Validation Pilot Program**

The Government Performance and Results Act and OMB Circular No. A-11 require that agencies validate and verify performance data. ETA developed a pilot program to validate UI program data. The OIG performed an audit of the Unemployment Insurance Data Validation (UIDV) pilot program to determine whether management controls had been designed to provide reasonable assurance that performance data are complete, recorded in the proper period, and valued appropriately. We determined that controls had been properly designed as they relate to the performance data contained in the 53 reporting entities' management information systems. Tests of the UIDV methodology performed at one entity disclosed that performance data were properly reported to ETA. However, we noted and recommended ways to improve the pilot program by developing more comprehensive written procedures, changing the data validation frequency from once every

three years to an annual process for data that directly support GPRA goals, and requiring documentation retention for three years following the data validation. ETA agreed with the findings and recommendations.

Our audit also identified two best practices with respect to state-level UI validation of program data: Minnesota's use of the Social Security Administration (SSA) death match and North Carolina's validation query procedures. To prevent unissued Social Security numbers and those belonging to deceased persons from being used for fraudulent purposes, claimant Social Security numbers are matched against a database provided by SSA. Also, one state developed a unique data extraction program to separate reportable performance data into individual inquiries, in contrast to the comprehensive method used by other states. By separating the data, management is able to retrieve and validate information more expeditiously and hence reduce the staff-hours necessary to perform the validation. (OA Report No. 22-02-005-03-315, issued March 29, 2002)

### **OIG Recommendation Results in Recovery of \$15.7 Million in UI Taxes over Three Years**

Employers who seek to avoid payment of UI taxes, Social Security taxes, workers' compensation, and other costs associated with an employer-employee relationship sometimes reclassify employees as independent contractors. If such an employee subsequently files a claim for UI benefits and is denied due to insufficient wages, an SWA claims representative initiates a "blocked claim audit." Such an audit entails contacting the employee's former employer to determine the reason wages were not reported for the employee applying for UI. If this does not resolve the employment status or wage information needed to process the claim, the SWA may refer the matter to its field audit staff for further audit or investigation.

In a prior OIG audit report, we found that many SWAs were discouraged from conducting blocked claim audits, primarily because ETA did not consider them as audits for purposes of the SWAs' workload measure. As a result of our audit, ETA modified this policy in February 1999. Subsequently, the OIG followed up with certain SWAs to determine the results of the revised ETA policy. For CY 2001, SWAs reported that they identified more than 18,000 misclassified employees and recovered more than \$7.2 million of UI taxes from audits that would not have been conducted without the ETA policy revision. As the following table indicates, these results represent additional recoveries to the previously reported CY 1999 and CY 2000 results.

Number of States Reporting per Year			Misclassified Employees Identified per Year			Additional Taxes Recovered per Year Due to Policy Change		
1999	2000	2001	1999	2000	2001	1999	2000	2001
23	27	30	13,250	20,220	18,507	\$2,543,549	\$6,002,970	\$7,213,474

(OA Report No. 03-02-007-03-315, issued March 18, 2002)

### OIG Recommends Recovery of \$7.5 Million in UI Administrative Costs from Two States

DOL provides administrative funds to SWAs to operate training, income maintenance, and employment services. The OIG conducted audits in two states to determine whether direct and indirect administrative costs charged to DOL grants were allocable and allowable in accordance with OMB Circular No. A-87. Our audit of the New Jersey Department of Labor (NJDOL) covered the four-year period ending September 30, 2001. Our audit of the Commonwealth of Massachusetts Department of Labor and Workforce Development (DLWD) covered the three-year period ending June 30, 2001. Our audits found that both New Jersey and Massachusetts did not comply with OMB Circular No. A-87 requirements and overbilled DOL approximately \$6.2 million and \$1.3 million, respectively.

**New Jersey:** NJDOL did not comply with the requirements of the circular, which state that indirect costs, such as administrative, staff and technical (AS&T) costs, be allocated to all projects/programs on the basis of "relative benefits received." We determined that, for the four-year period, NJDOL's allowable AS&T costs totaled \$48 million instead of the over \$54 million billed, thus overcharging DOL grants by about \$6 million.

Among our recommendations was that DOL direct NJDOL to refund \$6.2 million and adjust its billing practices to preclude further overrecoveries of AS&T costs. NJDOL disagreed with our findings and recommendations. Although NJDOL admitted that it did not properly allocate AS&T costs among all programs, it claimed that DOL was actually undercharged due to other flaws in its methodology. However, we determined that NJDOL's methodology was consistent with its negotiated written agreement with DOL.

**Massachusetts:** Our audit disclosed that about \$1.3 million of the direct and indirect costs claimed and recovered by DLWD from DOL grants for the three years were unallowable because they were not adequately documented and were based on estimated rather than actual costs, contrary to Federal cost principles. Specifically, DLWD personnel, whose salary costs were charged both as direct and indirect costs to DOL grants, had failed to prepare the required personnel activity (time



distribution) reports, and their salaries were charged directly to projects or to an indirect cost pool based on preestablished budget estimates.

Among our recommendations were that DLWD refund to DOL \$1.3 million, adjust its billing practices to preclude further claims for unsupported and unallowable costs, and implement a time distribution system for personnel whose salary costs are charged both as direct and indirect costs to DOL grants. DLWD agreed to implement a time distribution system but stated that it believes that the costs claimed against the DOL grants were reasonable and should be allowed. (OA Report Nos. 03-02-002-03-315, issued March 29, 2002, and 03-02-001-03-315, issued March 29, 2002)

### **Former State of Michigan Employee Caught in Fraud Scheme**

On January 10, 2002, Dorothy Reeser, a former employee of the Michigan Unemployment Agency, was sentenced to one year in prison and two years' probation and was ordered to pay over \$210,000 in restitution for using false identities and Social Security numbers to secure unemployment compensation monies. The investigation found that, for nearly seven years, Reeser created numerous fictitious unemployment claimants using false Social Security numbers. She issued more than 200 checks to the fictitious claimants, which were sent to her. This investigation was conducted with the Michigan Unemployment Agency. *U.S. v. Reeser* (W.D. Michigan)

### **New Jersey Man Pleads Guilty in Fictitious Employer Scam**

On March 13, 2002, Zackary Epps entered a guilty plea to one count of mail fraud for defrauding the New Jersey Department of Labor's Unemployment Insurance Division of \$325,000 over a seven-year period. In addition, three co-conspirators either pled guilty or were found guilty of mail fraud. The investigation found that Epps sent false wage and employment information to local unemployment offices to verify the employment of as many as 30 co-conspirators. Epps used fictitious companies to facilitate the scam by falsely reporting that his co-conspirators were on the companies' payrolls. Epps's scheme consisted of registering four fictitious companies with the State of New Jersey for the purpose of "employing" his co-conspirators. Epps and his co-conspirators filed false UI applications claiming that they had been laid off from the companies and entitled to benefits. Epps then verified their employment with the unemployment offices and used a false name to disguise his involvement. In return, the co-conspirators agreed that they

would split their UI checks with him 50-50. This investigation was a joint effort with the U.S. Postal Inspection Service. *U.S. v. Epps* (D. New Jersey)

### **Defendants Plead Guilty in Identity Theft Scheme**

On February 4, 2002, Eddie Johnson pled guilty to two counts of mail fraud in a scheme to defraud the State of California UI program. On February 20, 2002, Leella Robertson, Johnson's girlfriend, pled guilty to mail fraud charges for her involvement. The investigation revealed that Johnson orchestrated an identity theft scheme designed to obtain UI benefits and filed over 30 fraudulent UI claims totaling more than \$130,000. Victims of the scheme included 18 Los Angeles City and two Los Angeles County employees. Johnson used the UI system to create fictitious employers and had the benefit checks sent to his residence. This investigation was conducted jointly with the California Employment Development Department and the U.S. Postal Inspection Service. *U.S. v. Johnson, U.S. v. Robertson* (C.D. California)

### **Counterfeiting Scam Thwarted in Missouri**

On February 22, 2002, a Federal grand jury in the Southern District of Illinois issued a superseding indictment charging 16 individuals for their part in a conspiracy to make, utter, and possess counterfeit securities totaling \$100,000. The investigation revealed that the group established a three-tier system that distributed approximately 150 counterfeit checks throughout East St. Louis. The counterfeit checks discovered during this investigation include checks from the Missouri Department of Employment Security; St. Clair County, Illinois; St. Louis University; and Illinois Child Support Disbursement Unit. The OIG is the lead agency in this joint investigative effort with the FBI, the IRS Criminal Investigations Division (CID), the SSA OIG, the Illinois State Police, and various police agencies in the East St. Louis area.

*The Pension and Welfare Benefits Administration's (PWBA's) mission is to help ensure the integrity of pensions, health plans, and other employee benefits. This involves over 6 million private employee benefit plans, which cover approximately 150 million people, including workers, their families, and retirees, and control approximately \$4.8 trillion in assets. In addition, PWBA facilitates plan participants and beneficiaries in obtaining the information they need to participate in and protect their benefits, assists plan officials in understanding their legal responsibilities, develops policies that encourage the growth of employment-based benefits, and deters and corrects violations of ERISA and other relevant statutes.*

### **Cash Balance Plan Participants May Be Underpaid Millions a Year**

The Employee Retirement Income Security Act (ERISA) of 1974, as amended, classifies pension plans as either defined benefit or defined contribution plans. Defined benefit plans generally use a final average pay formula that defines benefits. The employer, as the plan sponsor, is responsible for funding the promised benefit, investing and managing plan assets, and bearing the investment risk. Defined contribution plans, conversely, base benefits on the contributions and earnings to individual accounts established for each covered employee. Employees invest their accounts, at least in part, as they choose and bear the risk of poor investment performance. Cash balance plans are a hybrid of these two: legally they are defined benefit plans, but they include features that resemble defined contribution plans. As defined benefit plans, cash balance plans must offer retirement benefits in the form of a series of payments for life. However, like defined contribution plans, they express benefits as an individual account balance for each covered employee.

Industry sources estimate that since the mid-1980s, hundreds of traditional defined benefit pension plans have converted to cash balance plans. This encompasses over 8 million employees and involves over \$334 billion in pension assets. Employers have converted to cash balance plans because of their ease, the reduced cost of plan administration, the portability of benefits, and the plans' appeal to younger workers.

DOL's PWBA and the IRS oversee private pensions. While the IRS has the exclusive authority to issue regulations regarding participant benefits and PWBA is bound to follow the IRS regulations, PWBA has concurrent enforcement authority over participant benefits and works with the IRS on regulatory issues.

In a recent audit of cash balance plan conversions, we reviewed a judgmental sample of 60 converted plans to see whether plan sponsors complied with ERISA. Our objective was to determine the effectiveness of PWBA's oversight and, if problems were found, to determine how PWBA could intervene to protect workers' benefits.

We found that PWBA had devoted considerable resources to cash balance plans, focusing on participant disclosure and education. However, we found that PWBA had not:

- reviewed the manner in which plans calculate accrued benefits for those employees who leave before normal retirement age (usually age 65), or
- worked with the IRS to improve the clarity and thoroughness of the current guidance on computing participant benefits.

More specifically, we found that 13 of the 60 cash balance plans, or 22 percent, improperly computed lump sum payments and that the ERISA oversight processes were not detecting and correcting the lack of compliance. Workers who left these plans before normal retirement age did not receive all the accrued benefits to which they were legally entitled. These workers may have been underpaid an estimated total of \$17 million each year. If the estimation model used in our judgmental sample were applied to the estimated 300 to 700 converted plans, we would project that workers who leave their cash balance pension plans before normal retirement age may be underpaid between \$85 million and \$199 million each year.

The plans underpaid participants because plan administrators did not (1) properly project and discount participant benefits, (2) use the appropriate annuity conversion factor, (3) include cost-of-living allowances, or (4) correctly calculate the opening balance. Of these, the most prevalent problem, by far, was in properly projecting and discounting participant benefits.

We concluded that PWBA could take a more active role in protecting cash balance plan participant benefits. Additional PWBA oversight and intervention could help prevent future losses to workers in cash balance plans and correct underpayments, where possible. We recommended that PWBA strengthen its oversight of cash balance pension plans by:

- directing more enforcement resources to protecting cash balance plans' participant benefits;
- initiating specific enforcement action on the 13 plans with forfeitures identified in this audit; and
- working with the IRS to develop improved guidance for plan administrators in calculating participants' accrued benefits.

In response, PWBA identified potential legal restrictions to enforcing parts of ERISA and stated that it therefore needed the IRS's official view on the potential violations. PWBA provided interim comments on the recommendations while it awaited a response from the IRS. PWBA took issue with our sampling methodology's not being statistical and questioned our overall methodology. PWBA would not commit to redirecting enforcement resources to cash balance plan benefit calculations. PWBA agreed to take appropriate enforcement action on the other two recommendations, following up on the 13 plans and working with the IRS, depending on the IRS's response.

While we did not take a statistical sample of plans, it is possible to identify systemic problems by nonstatistical sampling or other means. We believe that our sample is indicative of the population of cash balance plans. Further, our review of these plans found that 22% of the plans had underpaid their participants. We believe this is a significant finding. The fact that problems existed in 22% of the plans reviewed should be cause for action. Since PWBA is reviewing cash balance plan conversion fees, it could expand the scope of that review to include participant benefits. (OA Report No. 09-02-001-12-121, issued March 29, 2002)

*The Employment Standards Administration's (ESA's) Office of Workers' Compensation Programs (OWCP) administers four major disability compensation programs: the Energy Employees' Occupational Illness Compensation program, the Federal Employees' Compensation program, the Black Lung Benefits program, and the Longshore and Harbor Workers' Compensation program. These programs provide wage replacement benefits, medical treatment, vocational rehabilitation, and other benefits to certain workers who experience work-related injury or occupational disease or to their dependents.*

### **Audit of the Federal Employees' Compensation Act Performance Measures System**

The Federal Employees' Compensation Act (FECA) program provides compensation and medical care for Federal employees who suffer job-related injury, disease, or death. FECA pays out over \$2.2 billion per year in medical and compensation benefits. The OIG conducted an audit of the FECA program's six performance measures for FYs 1999 and 2000. These performance measures are indicators of how well the program accomplishes its mission. Our audit objectives were to determine whether (1) the agency's stated mission related to its authorizing legislation and its reported performance measures reflected achievement of legislative intent; (2) all performance goals were measurable and management controls existed over data reporting, appropriateness, description, and definition; and (3) a system to identify the full cost of accomplishing these performance goals was developed.

We found that management controls over performance data reporting, appropriateness, description, and definition could be improved. Also, a system to identify the full cost of achieving reported performance, which would provide a more comprehensive picture of program accomplishment, had not been developed. However, we did find that the FECA program mission related to its legislative authority and that its performance goals provided accountability in that they were measurable and outcome oriented; we commend ESA for its efforts to develop and implement a strategic and annual performance plan that reflects its mission with outcome-based goals.

We recommended that ESA establish a performance goal for customer satisfaction that includes employing agencies, define "lost production days," define how the quality index score is calculated, and develop written procedures describing how the goals are computed and

reported. We also recommended that management establish a time line for developing and placing in operation a system that links costs with performance measures and the budget. ESA generally concurred with our findings and recommendations and has already implemented three of the five reported recommendations. (OA Report No. 22-02-006-04-431, issued March 29, 2002)

## **Medical Provider Fraud**

*Fraud by service providers is generally perpetrated by submitting claims for services or goods not provided or delivered, billing for treatment not related to the approved medical condition or disability, double-billing, upcoding (billing under a more expensive treatment service code than that for the treatment actually provided), or unbundling (breaking one service into several services with separate charge codes) to fraudulently obtain personal financial gain.*

### **Virginia Doctor Sentenced to Nearly Six Years in Jail**

On November 29, 2001, Dr. Franklin Sutherland of Grundy, Virginia, was sentenced to nearly six years in jail and fined \$42,700 after being found guilty during a jury trial in May 2001 of 427 counts of dispensing narcotics, including Oxycontin, without a legitimate medical purpose. Oxycontin is a Schedule II painkiller that is highly abused throughout southwestern Virginia, West Virginia, and eastern Kentucky. The investigation revealed that Dr. Sutherland, a large provider to the Federal Black Lung program, was unnecessarily dispensing prescription narcotics to Black Lung claimants. A review of Dr. Sutherland's Black Lung patient files reflected a pattern of unconfirmed and incorrect diagnoses, unnecessary and excessive office visits, inappropriate treatments, and the establishment and maintenance of controlled drug dependence. This investigation is part of a continuing OIG probe into Black Lung medical provider fraud in rural Virginia with the Virginia State Police, the FBI, the DEA, the IRS CID, the Department of Health and Human Services OIG, the Virginia Department of Health Professions, and the Virginia and West Virginia Medicaid Fraud Control Units. *U.S. v. Sutherland (W.D. Virginia)*

## Virginia Doctor Charged in Health Care Fraud Scheme

On February 1, 2002, a Virginia doctor and his co-defendants were indicted for illegally conspiring to distribute or dispense controlled substances without a legitimate medical purpose and for illegally distributing controlled substances without a legitimate medical purpose resulting in serious bodily injury or death. This physician provided services to Black Lung beneficiaries. In addition, the physician and a co-defendant were charged with health care fraud and with accepting kickbacks for referrals to another health care provider. The doctor's rehabilitation corporation was also charged with health care fraud.

## Texas Medical Provider Charged with Health Care Fraud

An owner of various San Antonio, Texas, occupational therapy businesses was named in a November 7, 2001, indictment for submitting over \$200,000 in false billings. He had allegedly submitted fraudulent invoices to OWCP and private insurance carriers for payment of treatments and services not fully rendered to workers' compensation patients. This is a joint investigation with the FBI and the Texas Workers' Compensation Commission.

## Claimant Fraud

*Claimant fraud involves the concealment or false reporting of employment and income by an individual who continues to receive program benefits or services. In the FECA program alone, over \$2 billion in medical and death benefits and wage loss compensation were paid from July 1, 1999, to June 30, 2000, with more than 53% of these benefits paid to injured employees of the U.S. Postal Service, the Department of the Navy, and the Department of the Army. The OIG continues to work joint cases with other Federal investigative agencies and advise them on how to conduct FECA investigations more efficiently and effectively. This has been especially true, most recently, with Department of Defense criminal investigative units from the U.S. Army and Navy. It is important to note that the removal of a single fraudulent claimant from Federal benefit rolls creates, on average, a \$300,000 to \$500,000 savings for the government.*



**Former DOD Firefighter  
Charged with Defrauding OWCP**

On March 8, 2002, Darrell K. Schlueter, a former Department of Defense firefighter, pled guilty to one count of wire fraud. As per his plea agreement, Schlueter agreed to pay \$113,000 in restitution. He was indicted on October 10, 2001, for not reporting his self-employment. In 1997, the former firefighter had suffered an on-the-job injury and began receiving FECA benefits. The OIG investigation disclosed that he had been earning money as a self-employed landscaper and snow plow operator and then failed to report over \$150,000 in earnings. *U.S. v. Schlueter* (E.D. Wisconsin)

**Former Ohio Postal Worker  
Sentenced to Repay over  
\$72,000**

On January 24, 2002, Michelle D. Wright, a former postal worker, was sentenced to eight months' incarceration followed by three years' supervised release and was ordered to pay over \$73,000 in restitution and fines. In October 2001, Wright pled guilty to charges of making false statements to obtain Federal employees' compensation, mail fraud, making false statements to a Federal agency, and Social Security fraud. The investigation found that Wright was enrolled in and completed a modeling class that required extensive physical movement, while she represented that she was in pain and had limited mobility. This was a joint investigation conducted with the U.S. Postal Inspection Service, the SSA OIG and the Veterans' Administration OIG. *U.S. v. Wright* (N.D. Ohio)

**Former Government Press Worker  
Sentenced for FECA Fraud**

Willie D. Felder, a former press worker for the Bureau of Engraving and Printing, was sentenced on February 8, 2002, to six months' house arrest and five years' probation and was ordered to pay \$65,400 in restitution after pleading guilty in September 2001 to charges of making false statements to obtain Federal employees' compensation. Felder moved from Washington, D.C., to Santee, South Carolina, in 1991 and began operating a convenience store and nightclub but did not report these employment activities or earnings to OWCP. Over a nine-year period, Felder's FECA benefits amounted to over \$247,000. This was a joint investigation with the Department of Treasury OIG. *U.S. v. Felder* (D. South Carolina)

*ESA's Office of Federal Contract Compliance Programs (OFCCP) has the responsibility for ensuring that employers doing business with the Federal government comply with the equal employment opportunity and affirmative action provisions of their contracts. Federal contractors, subcontractors, and federally assisted construction contractors are required to take affirmative action to ensure that all individuals have an equal opportunity for employment, without regard to race, color, religion, sex, or national origin. In addition, Federal contractors and subcontractors are required to take affirmative action to employ and advance qualified individuals with disabilities and protected veterans.*

## **OFCCP Enforcement of Veterans' Rights**

As the result of a congressional inquiry, the OIG audited OFCCP's enforcement of the Vietnam Era Veterans' Readjustment Assistance Act of 1974 (VEVRAA). We reviewed 85 complaint investigations and 34 compliance evaluation cases and evaluated 36 survey responses to 77 survey questionnaires mailed to veterans. We concluded that OFCCP has done an adequate job, overall, investigating veterans' complaints and evaluating compliance activities of employers that have contracts with the Federal government.

However, we identified the need to improve the timeliness of completing investigations (the cases reviewed took an average of 316 days to complete), to increase feedback to complainants prior to concluding the investigation of their cases, and to provide additional outreach to the veterans' community regarding the rights afforded by VEVRAA. Based on our analysis of the 85 complaints, veterans do not have a clear understanding of what is covered under VEVRAA. As a result, veterans often file complaints seeking redress for activities not covered by VEVRAA and are dissatisfied when OFCCP does not rule in their favor. OFCCP concurred with our recommendations and agreed to implement corrective actions. However, OFCCP stated its belief that the high average number of days was the result of a few extreme outliers that, in its view, were the result of highly unusual circumstances. (OA Report No. 05-02-004-04-410, issued March 29, 2002)

**OFCCP Needs to Improve Its  
Method of Selecting  
Construction Contractors for  
Compliance Reviews**

The OIG evaluated the methodology and criteria used by OFCCP for scheduling compliance reviews of construction contractors. OFCCP is responsible for conducting these reviews to assess whether Federal construction contractors are complying with the equal employment opportunity and the affirmative action obligations of their contracts.

We found that OFCCP is not consistent in how it determines which construction contractors will be selected for compliance reviews. Moreover, we found that OFCCP has not established and applied neutral selection criteria and that regional and district offices do not consistently document their rationale for selection decisions. OFCCP responded that it has had difficulty obtaining information on the identity of construction contractors because the agency relies on information that may or may not be submitted by contracting officials in other Federal agencies.

We identified several steps that OFCCP can take to improve its method of selecting construction contractors, including identifying sources of data for the regional and district offices to use, developing and publishing neutral selection criteria, and documenting the entire selection process. OFCCP concurred with our recommendations and agreed to implement corrective actions. (OCIE Report No. 2E-04-410-0002, issued March 6, 2002)



*Fostering  
Quality  
Workplaces  
That Are Safe,  
Healthy, and  
Fair*

# **Worker Safety, Health, and Workplace Rights**

*The responsibilities of the Department under this goal are to foster safe and healthy workplaces; interface with international bodies addressing core labor standards and international child labor issues; increase the representation, advancement, and promotion of women, minorities, veterans, and the disabled in jobs; and promote compliance with the Family and Medical Leave Act.*

*The OIG assists the Department in promoting the safety, health, and workplace rights of workers by assessing the effectiveness of programs designed to protect workers and, within our jurisdiction, investigating violations of such laws.*

*The mission of the Occupational Safety and Health Administration (OSHA) is to save lives, prevent injuries, and protect the health of workers. OSHA protects more than 100 million workers and is responsible for the safety and health of workers in nearly every workplace in the United States.*

## **Demolition Contractor Pleads Guilty to OSHA Violations**

Moshe Junger, a general contractor and owner of Brooklyn, New York–based Mordechai Rubbish, Inc. (MRI), pled guilty on January 25, 2002, to willfully violating OSHA standards. This was the result of the April 30, 2001, death of an employee (an undocumented worker from Mexico) who was crushed by a 5,000 pound steel beam. MRI foreman Ramon Acosta pled guilty on January 28, 2002, to making false statements to an OSHA compliance officer during an OSHA investigation into this death. Junger will pay a \$100,000 fine in order to settle the resulting citations.

The investigation revealed that OSHA had conducted an inspection at this site in March 2001. The general contractor, Freeport Construction, had a crew at the site that was improperly conducting demolition work. OSHA issued several violations concerning the improper and unsafe methods of operation. One of the violations consisted of not having a written engineer's survey for the demolition, which is required to ensure that the work is done in a safe manner. Subsequent to the OSHA inspection, MRI was hired by Freeport to finish demolition. Although Junger was aware of the OSHA violations and had agreed to conduct demolition in compliance with OSHA standards, Junger never ordered that an engineer's survey be conducted. *U.S. v. Junger, U.S. v. Acosta* (E.D. New York)

*The Davis-Bacon Act and related acts require the payment of prevailing wage rates and fringe benefits on federally financed or assisted construction. The OIG selectively focuses on investigating violations by contractors engaged in Federal construction projects who submit falsified certified payroll records.*

### **Suspension of Government Contractor Could Result in Loss of Millions**

On January 22, 2002, pursuant to a plea agreement, Michael F. Persons and his company, KAJACS Contractors, Inc., each entered guilty pleas to mail fraud charges. Persons and the company also agreed to pay fines totaling \$250,000. Moreover, the company was suspended from any future Federal government contracting work. In addition to the nearly \$7 million in Federal contracts named in the indictment, the company had several other ongoing or proposed public works contracts with various governmental agencies totaling in excess of \$21 million.

The investigation determined that in March 1996 the company incorrectly classified laborers and supervisors to avoid paying higher wage rates. The State of Missouri ordered the company to make restitution to the affected employees to make up the difference for the discrepancy in wages. The State also requested copies of the negotiated checks to verify the company's compliance; however, the investigation revealed that the owner had the employees endorse the checks, which the owner then deposited back into the company's account. DOL OIG is being assisted in this investigation by the SSA OIG, the Small Business Administration-OIG, and the FBI. *U.S. v. Persons* (E.D. Missouri)

### **Defendants Sentenced in Florida for Racketeering**

On February 13, 2002, Robert Fox and Robert Fox II, officials of Seminole Walls and Ceiling, Inc., were sentenced to 10 years' supervised probation for state crimes of racketeering, conspiracy to commit racketeering, organized fraud, and workers' compensation fraud. The court ordered the defendants to jointly pay nearly \$150,000 in restitution, fines, and other costs.

The company underreported and misrepresented employee status to the workers' compensation insurance carrier and provided false payroll and employee information relative to Federal contracts under the Davis-Bacon Act. In addition, in early 1998, the investigation discovered that the two defendants were also committing workers' compensation fraud. The joint investigation was undertaken with the Florida Department of Insurance. *State of Florida v. Fox*



*Maintaining a  
Departmental  
Strategic  
Management  
Focus*

# **Departmental Management**



*The OIG assists DOL in maintaining an effective management process. This includes conducting activities and providing appropriate technical assistance to DOL management to ensure effectiveness and efficiency in the management of DOL, the integrity of financial management systems, and the effective management of information technology.*

*The Chief Financial Officers Act of 1990 (CFO Act) requires Federal agencies to report annually to Congress on their financial status. To meet this requirement, the Department prepares annual financial statements, which the OIG audits. The Federal Managers' Financial Integrity Act and the Federal Financial Management Improvement Act place additional financial management reporting requirements on the Department. The OIG considers compliance with these acts as part of our audit of the Department's financial statements.*

## **Unqualified Audit Opinion for DOL Financial Statements**

The OIG's opinion on the Department's consolidated financial statements is unqualified for the fifth year in a row. Our report on compliance with laws and regulations disclosed no instances of material noncompliance. Our report on internal control reflected no material weaknesses, although we continue to note many reportable conditions that need management's attention. Following are the most significant reportable conditions.

Detection and Prevention of Unemployment Insurance Overpayments: The Department has two systems related to UI benefit overpayments: one detects individual claimant overpayments so they can be recorded in states' accounting records and pursued for collection and the other uses sampling techniques to estimate total improper payments that may be in the system. A comparison of the number and amount of overpayments identified and established for collection, by the states' benefit payment control system (\$700 million for FY 2001) with the overpayments projected by the states' benefits accuracy measurement (BAM) unit based on statistical sampling techniques (\$2.3 billion for FY 2001) reveals a difference of \$1.6 billion.

There are several factors that could contribute to the large difference between the systems. The Department's analysis of these data indicates that of the \$2.3 billion estimate, \$484 million, or 21%, was attributable to overpayments that cannot be recovered under state law, such as cases in which the statute of limitations has expired. The analysis further noted that \$859 million, or 38%, was not detectable using procedures in place at the states (for example, work search issues, which can be cost-effectively monitored and investigated only on a sample basis).

Our concern and recommendation to DOL management in this report involves the need for additional oversight of the states' identification

and prevention procedures for overpayments utilizing the lessons learned from an in-depth analysis of the BAM data. The lack of improvements in overpayment prevention and detection is evidenced by the fact that overpayment rates projected by the BAM unit over the past 12 years have remained relatively flat at approximately 8.5 percent (i.e., this measure of benefit payment accuracy has shown no improvement). In addition to our recommendations in the financial statement audit, we have initiated a separate audit of UI benefit overpayments. Although ETA did not specifically agree or disagree with our findings, it did indicate its plans to take a number of initiatives to improve the detection and prevention of overpayments.

Accounting for Employment and Training Grants and Contracts: Our audit of DOL's financial statements identified continuing weaknesses in the Department's financial controls over \$9 billion in employment and training-related grants and contracts. We continue to see untimely recording of grant and contract costs, due largely to delinquent reporting by grantees that goes unchecked. We identified 190 grants with cash advances totaling over \$533 million for which the grantees had yet to submit cost reports. We also identified errors in the recording of transactions at the national and regional offices and grants that have not been identified for closeout nor closed on a timely basis. We identified an estimated 600 grants that have not been forwarded for closeout. These conditions are due to a lack of attention to grant financial data and systems, including the lack of written grant accounting procedures at the national and regional levels. ETA concurred with the need to address chronic delinquent cost reporting but stated that cost reporting is more current and timely than ever. ETA also indicated that it will continue to provide instructions and guidance on data entry and agreed with the need to improve grant closeout. (OA Report No. 22-02-004-13-001, issued March 27, 2002)

*The Department currently operates 67 mission-critical applications and general support systems, and in FY 2001 alone the Department's information technology (IT) budget exceeded a quarter of a billion dollars. DOL relies on these critical information systems to monitor and analyze the nation's labor market and economic activities, manage workforce services, and protect and compensate American workers. During the first six months of FY 2002, the OIG continued to assist the Department in its efforts to enhance computer security controls. Recent audits revealed specific vulnerabilities in computer security and protection of assets.*

### **DOL Needs to Continue to Strengthen Controls to Limit Risk to Its IT Operations**

We conducted IT security evaluations of two of ETA's mission-critical systems (WtW and Alien Certification), as required by the Government Information Security Reform Act. We also conducted security testing and evaluation of ETA's national local area network general support system.

The results of these evaluations generally mirror those of our recent IT security audits of other DOL systems. Again, we found that the Department and/or ETA had developed and implemented information security policies and procedures; however, additional procedures, such as risk assessments, system security plans, improved incident response capabilities, and security controls to detect unauthorized access attempts are needed to strengthen the overall information security program. ETA generally concurred with our findings and recommendations, and it identified actions taken and planned to resolve the issues identified. (OA Report No. 23-02-001-03-001, issued November 26, 2001)

### **DOL Needs to Strengthen Its General Controls and Security over Financial Systems That Support DOL's Financial Statements**

As part of our mandatory audit of DOL's financial statements, we identified a universe of 14 computer systems in six component agencies that support the financial statements of the Department. Based on the OIG's five-year IT audit rotation strategy, we conducted an audit to determine whether the general controls and security were in place and effectively operating for 12 of these 14 systems.

DOL has made progress in correcting previously identified weaknesses; however, it continues to face significant IT risks and vulnerabilities that need additional attention. We found that DOL needs to (1) improve its risk assessment process, periodically monitor program agencies' compliance with departmental IT security policy and procedures, and correct security vulnerabilities in a timely manner; (2) ensure that program agencies comply with DOL's Systems Development Life Cycle Methodology; and (3) complete and fully test its plans for maintaining continuity of operations in the event of a disaster or an extended service interruption.

All six component agencies involved in this audit generally concurred with our findings and recommendations and agreed to take corrective actions. (OA Report No. 23-02-002-50-598, issued March 19, 2002)

### **Automated Controls over DOLAR\$ Need to Be Improved**

The OIG conducted a review of the automated controls over the Department of Labor Accounting and Related Systems (DOLAR\$), the Department's general ledger system.

The accuracy, completeness, and integrity of the information processed and stored by the DOLAR\$ application are weakened by controls that are not performing as intended. Our audit disclosed a lack of policies and procedures and effective monitoring and maintenance of user accounts. For example, several users had been granted unrestricted access to critical data entry screens, including the vendor account maintenance screen, which can be used to change vendor addresses or add vendors to the system. These users had no need for such access. We also noted that user accounts were maintained as active in the system long after users had any activity, which calls into question the need for these user accounts. Finally, we noted that several users were assigned more than one user ID. Unnecessary user IDs increase the effort required to administer log-on IDs and increase the points of entry for hackers to break into the system.

An important control in any automated system is maintaining a "trail" of the nature of activity that occurs with each record in the system and who initiated this activity. We noted that the transaction edit history maintains only the prior editor's ID and that there is no history maintained for certain fields such as Treasury payment schedule or invoice number. This limitation minimizes DOL's ability to identify changes.

Finally, we found that the vendor maintenance table is not adequately controlled. A large percentage (50 percent) of users have vendor update processing capability. Allowing this many users to have access increases the risk of duplicate payments and payments to unauthorized

vendors or persons and may cause vendors to be inadvertently deleted with the result that they do not receive their payments on time.

We made 12 specific recommendations to the chief financial officer (CFO) to improve controls over the DOLAR\$ application. The CFO agreed to take the recommended corrective actions for some recommendations but disagreed with others. We will continue to work with the CFO to resolve those issues on which we currently disagree. (OA Report No. 23-02-003-13-001, issued March 29, 2002)

## **DOL Needs to Reduce Government Travel Charge Card Misuse and Payment Delinquency**

We conducted an evaluation of DOL's travel card program, which under the Transportation Reform Act of 1998 requires government employees to use a government travel card to pay for official expenses, such as hotel rooms and airline tickets. We examined the roles of the Office of Chief Financial Officer (OCFO) and the Office of the Assistant Secretary for Administration and Management (OASAM) in administering the program, as well as the responsibilities of several program agencies (OIG, PWBA, and Veterans' Employment and Training Services).

We found that the travel card program is not administered consistently throughout DOL. OCFO and OASAM do not provide adequate guidance to agency coordinators on how to (1) review travel card transactions to determine possible misuse, and (2) handle possible misuse or delinquency once it is identified. This lack of guidance results in the establishment of policies and procedures by each individual agency coordinator. Consequently, employees receive disparate treatment based on which agency coordinator is reviewing their account. Further, since 1998, Citibank has written off a total of \$362,048 of DOL employee travel card charges that were over 180 days delinquent.

In addition, OCFO and OASAM need to ensure that employees receive adequate information about the proper use of the travel card. Employees should understand that DOL takes misuse and delinquency seriously and that there are consequences for inappropriate actions. In that regard, OCFO and OASAM also need to work with program agencies to develop guidelines on how to apply the *Standards of Ethical Conduct for Employees of the Executive Branch* to travel card misuse and delinquency. In addition to costing DOL money, misuse and delinquency can be indications that the employee may have personal and financial issues that should not remain unaddressed.

OCFO, OASAM, and the program agencies agreed with our findings and recommendations to strengthen the DOL travel card program and decrease travel card misuse and payment delinquency. (OCIE Report Nos. 2E-07-001-0001, 2E-09-910-0001, 2E-12-001-0004, and 2E-02-001-0001, issued March 26, 2002)

## **DOL Can Realize Significant Cost Savings by Better Managing Its Motor Vehicle Fleet**

At the request of OASAM, the OIG evaluated the Department's motor vehicle fleet program to determine whether the 4,019 vehicles operated

by DOL are cost-effective and necessary to the Department's mission. We found that DOL's motor vehicle fleet can be utilized more efficiently. For example, approximately 52% of the motor vehicles in DOL's fleet are driven less than 800 miles per month, creating unnecessary costs for DOL. We calculated that DOL could recognize cost savings of up to \$2.5 million annually by eliminating underutilized vehicles from the existing motor vehicle fleet.

Moreover, we found that DOL does not have a strategy that emphasizes improved fuel efficiency and a greater use of alternative vehicles and alternative fuels. DOL could substantially meet petroleum reduction targets by acquiring motor vehicles with higher fuel efficiency ratings and by increasing the acquisition and usage of alternative fuel vehicles in accordance with the Energy Policy Act of 1992. Also, additional administrative oversight is needed to ensure continued compliance with reductions in petroleum fuel consumption within DOL's motor vehicle fleet.

We recommended that OASAM take a series of actions to improve the utilization, effectiveness, and oversight of DOL's motor vehicle fleet, including development of a compliance strategy to meet the petroleum reduction requirements of Executive Order 13149 and a specific action plan to reduce the size of the existing fleet based on utilization figures. OASAM agreed with our findings and recommendations. (OCIE Report No. 2E-07-711-0001, issued March 4, 2002)

### **Former BLS Employee Pleads Guilty to Theft Charges**

On December 5, 2001, former Washington, D.C., Bureau of Labor Statistics (BLS) employee Siria Toala pled guilty to a superseding indictment charging her with aiding and abetting the theft of government property. According to the plea agreement, Toala was responsible for stealing \$298,000 from the government. The investigation revealed that Toala, a procurement clerk with BLS since 1987, had committed credit card fraud with the help of Miami Beach company owner Maruja Mondazzi. In March 2000, Toala abandoned her position and left for Florida. The investigation revealed that on 44 occasions, Mondazzi's company had charged Toala's government credit card for a total of \$351,000, originally for computer items. There were, however, procurement records for only six of the charges.

In addition, Toala's husband, Ricardo Perez, pled guilty to an information charging him with aiding and abetting the filing of false claims by his wife. The other defendant in this case, Mondazzi, fled prosecution in March 2001 and is believed to be in Venezuela. This is a joint investigative effort with the FBI. *U.S. v. Toala, et al.* (D. Columbia)







*Ensuring That a  
Union or Benefit  
Plan Is Operated  
for the Benefit of  
Its Members*

# Labor Racketeering

*The Office of Inspector General (OIG) at the Department of Labor is unique among Inspectors General because it has an "external" program function to conduct criminal investigations to combat the influence of labor racketeering and organized crime in the nation's labor unions. Labor racketeering is the infiltration, domination, and/or use of a union or employee benefit plan for personal benefit by illegal, violent, or fraudulent means. Organized crime is defined as activities carried out by groups with a formalized structure whose primary objective is to obtain money through illegal activities. Traditionally, organized crime has been carried out by La Cosa Nostra (LCN) groups, also known as the "mob" or "mafia." However, new groups are emerging and organizing. For example, organized crime groups now include Asian, Russian, Eastern European, Nigerian, and West African groups.*

*While the average American citizen may not be fully aware of the labor racketeering activities carried out by organized crime groups, they are directly affected by them. Because organized crime's exercise of market power is usually concealed from public view, millions of consumers unknowingly pay what amounts to a tax or surcharge on a wide range of goods and services. In addition, by controlling a key union local, organized crime can control the pricing in an entire industry. Moreover, the public also suffers when organized crime orchestrates illicit strikes and work slowdowns or resorts to violence to maintain its operation of labor rackets.*

*Over the past two decades, the OIG has conducted extensive criminal investigations of labor racketeering. Traditionally, organized crime has been involved in loan sharking, gambling, benefit plan fraud, violence against union members, embezzlement, and extortion. OIG investigations have uncovered millions of dollars of workers' dues and benefit monies that have been siphoned off by organized crime through embezzlement or more sophisticated devices, such as fraudulent loans or excessive fees paid to corrupt union and benefit plan service providers. Our investigations continue to identify complex financial and investment schemes used to defraud pension assets, resulting in millions of dollars in losses to plan participants.*

*Our investigations have also revealed that the construction, surface transportation, maritime, garment manufacturing, motion picture production, and gambling and hotel services industries are particularly prone to the infiltration of labor racketeering. Of major concern to the OIG is the boom in the highway construction industry created by the recently enacted Transportation Equity Act. This act provides \$200 billion in funding for highway projects and has provided a significant stimulus to the construction and maintenance sectors of the highway transportation industry. The infusion of vast sums of money into the construction industry, which has historically been influenced by organized crime and labor racketeering, has increased the need for oversight to reduce fraud and manipulation of unions, worker benefit plans, and labor management relationships. To this end, we have initiated a cooperative effort with the Department of Transportation's OIG as part of a nationwide probe of this industry, participating in its training conference and opening joint investigations.*

*Moreover, while traditional labor racketeering violations persist, the OIG is seeing new trends in the inventory of its cases. For example, unions are now being used to facilitate such illicit activities as smuggling, theft rings, and drug trafficking. In one recent joint OIG investigation, two Teamsters members who had pled guilty to conspiring to import controlled substances in a related U.S. Customs Bureau drug case testified that they had used their union membership to facilitate cocaine and marijuana importation. In addition, the OIG is participating in the Department of Justice's worker exploitation task force. Our investigations have involved alien smuggling and organized crime in the workplace, as well as worker exploitation. They also involve industries with significant organized crime influence, both traditional and nontraditional, in which illegal aliens are vulnerable to a variety of racketeering schemes.*

*As labor racketeering evolves and moves beyond its traditional activities, the OIG is expanding its investigative program to address these new areas. The following cases are illustrative of our work in helping to eradicate both traditional and nontraditional labor racketeering in the nation's labor unions, employee benefit plans, and workplaces.*

## **LCN Associates Sentenced for Conspiracy to Bribe Union Officials and to Evade Taxes**

Guiseppe “Joseph” and Fortunato “Fred” Scalamandre were sentenced on January 30, 2002, to six months’ house arrest and four years’ probation. On January 3, 2002, based on their guilty pleas, the New York State Department of Transportation’s Contract Review Unit determined that a Scalamandre joint venture was not a “responsible bidder” for highway projects and canceled a contract worth \$85.3 million. Moreover, on March 26, 2002, the State cancelled two other Scalamandre company road contracts worth over \$1.4 million. The Scalamandres pled guilty on November 14, 2001, to an information charging them with conspiring to make payoffs to Luchese LCN members and union officials of several construction trade unions and conspiring to defraud the IRS. In addition, they pled guilty to developing and participating in a tax fraud scheme between 1992 and 1998 in which they issued nearly \$1 million in corporate checks to their subcontractors, who converted the checks to cash and then returned the cash to the Scalamandres. Also as a result of the guilty pleas, Scalamandre & Sons, Inc., was removed by the State as a subcontractor hauling debris from the World Trade Center site. The Scalamandres were paid \$2.33 million for three months of hauling debris from the site, and it is estimated that in the 10 months remaining on the contract Scalamandre & Sons would have billed \$7.75 million for debris removal.

The Scalamandres, who operate numerous construction, real estate, and construction equipment and supply companies, have collective bargaining agreements with several union locals in the New York metropolitan area. The investigation found that the Scalamandres made payments of at least \$40,000 a year to the top leaders of the Luchese family from 1991 to 1998. In their plea agreement, they also acknowledged paying union officials. These payments were made in order to avoid paying contributions to union benefit funds, to avoid paying dues on behalf of the members, to unlawfully dictate the selection and assignment of union members, and to unlawfully influence the union officials.

As part of the plea agreement, they agreed to a criminal forfeiture of \$5 million. Moreover, they agreed to have a court-appointed monitor supervise their construction-related companies for the next five years to sever the Scalamandres’ relationship with LCN members. In a related development, Vijay Halvaldar, a Scalamandre associate, pled guilty on October 11, 2001, to conspiracy to defraud the United States in a money laundering scheme in which his company, V.V.S.S. Company, Inc., fraudulently posed as a minority business enterprise to direct over \$21,000,000 in public construction contracts to their companies. Separately, his company pled guilty to conspiracy to commit money laundering and was ordered to forfeit \$21,186,121 involved in the laundering activity. This investigation was conducted jointly with the DOT OIG, the FBI, the IRS, the U.S. Postal Inspection Service, and the New York City Department of Investigations. *U.S. v. Scalamandre* (E.D. New York)

*In addition to investigating corruption involving general union funds, the OIG is responsible for combating corruption involving the monies in union-sponsored benefit plans. These pension plans and health and welfare benefit plans control hundreds of billions of dollars in assets. Our investigations have shown that these vast sums of money remain vulnerable to corrupt union officials and organized crime influence. Service providers to union benefit plans continue to be a strong focus of the OIG's investigations, particularly those servicing pension plans. The OIG remains concerned that, with such large amounts of money and limited oversight, union-affiliated benefit plans remain vulnerable to fraud and corruption. The cases summarized in this section include examples of both health plan and pension plan corruption. Also highlighted below are examples of cases that involve employers who failed to make contributions to union retirement plans or who stole single-employer plan assets entrusted to them.*

### **Former Pennsylvania Borough Manager Sentenced**

On November 9, 2001, Thomas Esposito, a former Swissvale Borough manager, was charged on state charges of theft by unlawful taking or disposition, tampering with public records, and other charges related to his theft from borough accounts from 1989 to 2001. Shortly after the close of the reporting period, on April 4, 2002, Esposito pled guilty and was sentenced to two years and ten months to five years and nine months of incarceration and 24 years' probation and was ordered to pay \$840,000 in restitution. The investigation revealed that Esposito stole funds from the Borough of Swissvale payroll account by writing checks to himself as well as transferring funds directly to his personal bank account. Esposito attempted to conceal the theft by hiding the canceled checks written to himself and drawing funds from other borough accounts to cover the payroll. The payroll account included funds for union dues (Firefighters and Teamsters unions), pension plans, health care benefits, insurance, credit union deductions, and wage garnishments. This was a joint investigation with the Allegheny County District Attorney's Office of Investigation. *State of Pennsylvania v. Esposito*

### **New Jersey Union Plan Trustee Indicted for Embezzlement**

On December 10, 2001, a plan official of several Laborers International Union of North America (LIUNA) pension and welfare plans was charged in a 59-count indictment with embezzling more than \$2.2 million from the

pension, welfare, annuity, vacation, and training plans of the Hudson District Council of Laborers #11 and Laborers Local 325. The plan official was charged with conspiracy, health care fraud, and falsification of employee benefit plan records. The investigation found that from January 1995 through March 1999, the plan official purchased his primary residence in New Jersey, a condominium on Martha's Vineyard, vacations, lavish automobiles, jewelry, and other luxuries with funds he allegedly embezzled. In a related civil case, on November 20, 2001, the plan official, the plan trustees, and the service providers of the plans agreed to a \$1.2 million civil settlement. In addition, under the settlement, the plan official is permanently barred from acting as a fiduciary for any employee benefit plan. This is a joint investigative effort with the FBI and PWBA.

### **Former Chicago Labor Union Official Sentenced in Pension Kickback Scheme**

On March 15, 2002, former labor union official John Serpico and two associates were sentenced on mail fraud charges related to a multimillion-dollar scheme to defraud several Chicago-based union pension plans and a labor organization. Serpico received 30 months' imprisonment and three years' probation and was ordered to pay \$130,000 in restitution and fines. Maria Busillo was sentenced to 15 months in prison and three years' supervised release and was ordered to pay a \$100,000 fine. They were found guilty in July 2001 of charges brought in 1999. The investigation found that, in return for placing the Central States Joint Board union and pension funds at area banks, Serpico and Busillo received at least \$5 million in personal and business loans from banks on terms more favorable than those available to regular bank customers. This investigation was conducted with the FBI, the IRS, and DOL's Office of Labor-Management Standards (OLMS). *U.S. v. Serpico, et al.* (N.D. Illinois)

### **Union Plan Official Indicted in New York**

On February 7, 2002, three Carpenters Union officials were charged with taking bribes from a contractor in return for allowing the contractor to use nonunion workers to perform work at two Manhattan job sites. The defendants allegedly deprived the union's benefit funds of more than \$1 million that was to be paid by the contractor. The charges included grand larceny, bribery, and violation of a fiduciary duty to the Carpenters Union. One defendant was the benefit funds manager of the Carpenters Union's Stamps Enforcement Unit of the Benefit Funds of the District Council of New York and Vicinity and was responsible for ensuring that

contractors remitted to the benefits funds the payments required by the collective bargaining agreement on behalf of union members employed by contractors. This is a joint effort with the members of the New York State Organized Crime Task Force and the New York City Police Department.

### **Union Officials Charged in Massachusetts**

On January 17, 2002, the president and vice president of a Teamsters Local in Boston, Massachusetts, and six others were charged in four separate but related indictments in connection with a two-year investigation involving officials and members of the Local. The indictments charge the eight defendants with federal racketeering, conspiracy, extortion, bribery, and embezzlement; interstate transportation of stolen property; and conspiracy to distribute cocaine. For a period between 1992 and 2001, the investigation found that at least 12 individuals were placed on the payrolls of certain companies despite not being employed by the companies. This allowed the individuals to receive coverage from this Local's health benefit plan to which they otherwise would not have been entitled. The indictment alleges that this arrangement caused the Local's health fund to pay in excess of \$80,000 in claims. The Drug Enforcement Administration, the Massachusetts State Police, and the Everett Police Department are jointly participating in this investigation.

### **Defendants Sentenced for Defrauding Union Pension Plans in Oregon**

In November 2001, Barclay Grayson, Capital Consultants' former president, and John Abbott, former trustee of several Laborers' pension plans, were sentenced in Portland, Oregon, for their roles in a scheme to defraud clients of Capital Consultants, which included various union pension plans. Grayson was sentenced on November 20, 2001, to two years in jail and three years' probation. The restitution owed by Grayson will be determined at a later date. Abbott's sentencing occurred the next day, and he received more than a year in jail and one year's probation and was ordered to pay \$194,500 in restitution. Abbott pled guilty in February 2001 to charges of accepting gratuities and filing a false tax return and Grayson pled guilty in March 2001 to mail fraud charges. The investigation revealed that they misrepresented and concealed facts relating to Capital Consultants' investment of client funds and that Abbott exposed benefit plans including the Oregon Laborers' Defined Benefit Plan to significant risks as a result of plan investments with Capital Consultants. On October 2, 2001, the third defendant, who was the principal owner of Capital Consultants, was indicted for paying over

\$200,000 in gratuities to Abbott and was charged with mail fraud, money laundering, witness tampering, and conspiracy. This investigation is a joint effort with the IRS, the FBI, PWBA, and OLMS. *U.S. v. Grayson, U.S. v. Abbott* (D. Oregon)

### **Public Employees Union Official Indicted in Hawaii**

On December 19, 2001, a Federal grand jury in Honolulu, Hawaii, returned a 102-count superseding indictment against a prominent union official and his daughter, charging the two with embezzlement, mail fraud, and money laundering. In addition, the union official was charged with accepting over \$100,000 in cash from an insurance agent for the placement of life insurance policies covering members of the United Public Workers (UPW) union, an affiliate of the American Federation of State, County, and Municipal Employees. UPW represents not only government employees of Hawaii but also employees of private hospitals and nursing homes.

It is alleged that the union official failed to disclose to the UPW executive board and membership that UPW premiums paid for dental benefits were excessive and were inflated to include a consulting fee, which he had negotiated. He used this fee to pay off a personal loan, and after the loan was paid off he directed the service provider to pay the consulting fee to his daughter's company. This investigation is being conducted jointly with the IRS CID, the FBI, and the Honolulu Police Department.

### **Nevada Clinic Owner Sentenced for Health Care Fraud**

On December 14, 2001, Liliana Mirchou, the owner and operator of the Santa Ana Medical Clinic, in Las Vegas, Nevada, was sentenced for committing health care fraud. Mirchou was sentenced to five months in prison to be followed by five months of home detention, three years' probation, and a fine of \$30,000. Moreover, she was ordered to pay \$350,000 in restitution to the health and welfare fund of Hotel Employees and Restaurant Employees International Union Local 150 and to forfeit an additional \$350,000. The investigation revealed that, from January 1996 to November 1998, Mirchou authorized the submission of fraudulent medical claims to Local 150 by providing services to patients using unlicensed physicians. This was a joint investigation with the FBI and PWBA. *U.S. v. Mirchou* (D. Nevada)



### **Illinois Doctor Found Guilty of Defrauding Union Health and Welfare Funds**

Dr. Felix Vasquez-Ruiz of Chicago, Illinois, was found guilty on February 25, 2002, on 7 counts of mail fraud and 20 counts of health care fraud. He had defrauded 11 prominent Chicago-based union health and welfare funds, including those of the Teamsters, Laborers, United Food and Commercial Workers, Sheet Metal Workers, and others, by billing in excess of \$400,000 in unnecessary and expensive medical services. The investigation revealed that the doctor targeted Hispanic union members by enticing them with free laboratory screening exams and then subjecting them to painful, unnecessary tests while failing to provide the proper treatment for actual complaints. The investigation was jointly worked with PWBA and the FBI. *U.S. v. Vasquez-Ruiz* (N.D. Illinois)

### **Former Union President and Plan Trustee Indicted**

On December 19, 2001, a Federal grand jury in Chicago, Illinois, returned a four-count indictment against the former president and treasurer of the International Employees Welfare Union (IEWU). In addition, this individual was the former chairman of the board of trustees for the IEWU Death Benefit Trust Fund. The indictment charged him with three counts of mail fraud and embezzlement from an employee benefit plan. The investigation revealed that from December 1994 to June 1997 he wrote at least 30 fraudulent checks made payable to himself for approximately \$225,000 from the IEWU Death Benefit Trust Fund bank account and \$108,000 from IEWU bank accounts. This is a joint effort being conducted with DOL's PWBA.

### **Owner of Trucking Company Pleads Guilty to Embezzlement Charges**

On March 1, 2002, Frank Campanella, a Colombo LCN associate, pled guilty to embezzlement charges in violation of the RICO statute. Campanella acknowledged that he had knowingly underreported to Production Workers Union Local 400 the number of employees and hours worked at Suffolk Alpa, a trucking company he ran that was located in Syosset, New York. On February 10, 2002, his associate Anthony Sainato was acquitted of the embezzlement and mail fraud charges. The investigation found that he deprived Local 400's Health and Welfare and Pension Funds of nearly \$2 million. This is a joint investigation with the FBI, the IRS, and the INS. *U.S. v. Campanella* (E.D. New York)

### **Nursing Home Business and Executives Ordered to Pay Nearly \$2 Million in Restitution and Fines**

On December 17, 2001, William Cranwell, owner of HCMF Corporation, was sentenced to 18 months' probation and fined \$10,000 for his role in a health care fraud scheme against Medicaid and his company's health plan. HCMF, which owns and operates a number of nursing homes throughout Virginia, received one year's probation and was ordered to pay nearly \$2 million in restitution and fines. Pendleton Smith, the treasurer of HCMF, was sentenced to two years' probation and was ordered to pay nearly \$12,000 in restitution and fines. In addition, the company was required to pay \$250,000 in prosecution fees for submitting false cost reports to the Medicaid program. These claims included unallowable expenses such as excessive salaries of corporate officers and salaries of individuals not related to the nursing home business. Moreover, the company enrolled non-employees into the HCMF health plan, who did not meet the eligibility requirements. The group of non-employees included ex-spouses, girlfriends, and family members who did not work for HCMF. This investigation was a joint venture with the FBI and the Department of Health and Human Services. *U.S. v. Cranwell, U.S. v. Smith* (W.D. Virginia)

*Our internal union cases often involve instances of corruption, such as union officers' abuse of their positions of authority to embezzle money from union accounts for their own benefit. Investigations in this area also focus on situations in which organized crime groups control or influence a labor organization, frequently in order to exercise influence in an industry for corrupt purposes or to operate traditional vice schemes such as drug dealing and theft. Following are examples illustrative of our work in this area.*

### **Seven Defendants Charged with Extortion in New Jersey**

On March 7, 2002, seven individuals were charged in a state complaint in which associates of the Genovese Organized Crime Family were alleged to have extorted payoffs from International Longshoremen's Association (ILA) Local 1588 members for better-paying positions and advanced training. The complaint also charges that the organized crime members conspired with Local 1588 union officials to further this extortion scheme by using a "money for work" shakedown of dock workers at various New Jersey waterfront shipping terminals. The individuals were charged with state violations of racketeering, extortion, commercial bribery, and conspiracy. The investigation is being conducted with the New Jersey Criminal Justice Division and the Waterfront Commission of New York Harbor Police Division.

### **Union Officials Convicted in Embezzlement Scheme**

On December 17, 2001, a Federal jury in New Jersey convicted the following ILA Local 1588 members and former employees of conspiracy to embezzle and embezzlement of over \$750,000 from the Local: Joseph LoRe, the hiring agent of a stevedore company; Denise Bohn, the office manager; William Hurley, a former shop steward; Thomas Rackley, a former salaried employee; and Joseph Pelliccia, the secretary-treasurer and subsequently the vice president of the Local. LoRe was also convicted of filing a false claim under the Longshore and Harbor Workers' Compensation Act. The guilty verdict included all 15 counts contained in the superseding indictment, which was returned on December 19, 2000.

The superseding indictment had charged all five with conspiring to unlawfully convert over \$750,000 of union assets to their own use. Pelliccia, Rackley, and Hurley turned over approximately half of their weekly salary checks to LoRe. In addition, between 1994 and 1997 LoRe and Bohn received \$24,000 in kickbacks from service providers who had been permitted by LoRe and Bohn to improperly inflate their costs. Moreover, the conspiracy count detailed how Bohn and other co-conspirators had used Local 1588's credit card to charge thousands of dollars for goods and services such as dinners, hotel stays, liquor, and gifts. This investigation was conducted with primary assistance from the New Jersey State Police. *U.S. v. LoRe, et al.* (D. New Jersey)

## Former Union Officials Sentenced in New Jersey

An OIG investigation found that three family members embezzled assets of the American Federation of State, County, and Municipal Employees (AFSCME) union and its benefit plans through an agreement to receive kickbacks from a printing vendor and others that were doing business with the union and the plans. On November 26, 2001, Victor Garcia Sr., former president of AFSCME District 1999J (Newark, New Jersey) and trustee to the union's pension plan, was sentenced to over four years' imprisonment to be followed by three years of supervised release. Garcia Sr. was also ordered to pay \$100,000 in restitution to the union's pension plan after being convicted in September 2000 of conspiracy to embezzle benefit fund assets and conspiracy to accept a thing of value to be influenced in the operation of a benefit fund. On December 17, 2001, Victor Garcia Jr., former assistant executive director of the benefit funds of AFSCME District 1999J, was sentenced to nearly four years' imprisonment to be followed by three years of supervised release and was ordered to pay \$125,000 in restitution. Another of Garcia Sr.'s sons, James, was sentenced in November 2001 to three years' probation and was ordered to pay restitution of \$10,200 after pleading guilty with brother Victor Garcia Jr. in July 2001 for their roles in the scheme.

In a related case, on January 29, 2002, Danilo Medina, the owner of TM Studio, a printing business located in Morristown, New Jersey, that did business with AFSCME District 1999J, was sentenced to three years' probation and was ordered to pay nearly \$76,000 in restitution to the union's pension fund. The investigation revealed that Medina's company received printing contracts from the union and its funds totaling more than \$480,000. In return, Medina paid approximately \$86,000 in kickbacks to Garcia Jr. PWBA assisted in this investigation. *U.S. v. Garcia, U.S. v. Medina* (D. New Jersey)

## Former Chicago Local Union President Sentenced

Frank Zeuberis, the former president and business manager of Laborers Local 5 of Chicago Heights, Illinois, was sentenced on November 9, 2001, to nearly three years in prison. In addition, Zeuberis was ordered to pay nearly \$475,000 in restitution and also to forfeit nearly \$475,000. The investigation revealed that he conducted the affairs of Local 5 through a pattern of racketeering activity by stealing union funds for himself, his wife, and a reputed mob lieutenant who Zeuberis had installed in a top Local office. In addition, Zeuberis embezzled union funds by issuing unauthorized and fraudulent salary increases, bonuses, and vacation pay. The investigation was conducted with the FBI. *U.S. v. Zeuberis* (N.D. Illinois)

*Labor-management relations cases involve improper relationships between management and union officials. Typical labor-management cases range from collusion between representatives of management and corrupt union officials to the use of the threat of “labor problems” to extort money or benefits from employers. Known organized crime members have moved to positions with companies that use criminal contacts to gain favorable advantage through “contractor clubs” using bid-rigging arrangements. In these instances, contractors conspire to monopolize an industry, and each company takes a turn to win a contract. The union is used as a means to enforce bid rigging through extortion or bribery. Organized crime members act as middlemen or as representatives of employers to influence both labor and management. Exposing such relationships can lead to the elimination of illegal practices industrywide, benefitting workers, honest businesses, and the public at large.*

### **Ohio Congressman Indicted on Racketeering and Bribery Charges**

In a superseding indictment of October 26, 2001, James A. Traficant Jr., a United States Representative from Youngstown, Ohio, was charged with racketeering, bribery, and tax fraud. Shortly after the close of the reporting period, on April 11, 2002, he was found guilty of all charges. The investigation revealed that he sought bribes from established businesspeople in the Youngstown area in exchange for his political influence.

In a related case, James Sabatine, owner of Hardrives Paving, Inc., had pled guilty in August 2001 to violating the federal RICO and tax statutes for his \$2,400 payment to Traficant in exchange for his assistance in contacting railroad officials to obtain access to a rail line near Sabatine’s asphalt plant. Moreover, the office manager of Youngstown Laborers Local 125 was named in a four-count indictment charging her with conspiracy and mail fraud. She allegedly participated in a scheme with Sabatine to submit false documents indicating that her company, Tone, Crack, and Seal (TCS), would act as prime contractor on four road-paving projects set aside for minority business enterprises. However, TCS passed all or substantially all of the work to Hardrives Paving and other contractors. The Ohio Public Works Commission gave TCS nearly \$595,000 for the four projects and paid over \$516,000 to Hardrives Paving. Of the remaining \$79,000, TCS retained approximately \$15,000. This was a joint investigation with the IRS, the FBI, and the DOT OIG, with assistance from PWBA. *U.S. v. Traficant, U.S. v. Sabatine* (N.D. Ohio)

## Union President and Sister Charged with Racketeering

The president of the National Federation of Public and Private Employees Union in Plantation, Florida, and his sister, a former administrative assistant, were indicted on November 2, 2001, on charges of racketeering, mail fraud, embezzlement, gambling, and unlawful labor practices (receiving prohibited payments from employers) that resulted in significant losses to the union. The investigation revealed that, from 1994 through 2001, the defendants allegedly engaged in a pattern of racketeering by using their positions within the union to dominate and control its operation for their personal gain. The union president allegedly received or requested over \$300,000 from employers. He also allegedly gave his sister a union-owned vehicle as a gift worth over \$30,000 and had the union pay for the vehicle's insurance and operating costs. The union president's sister allegedly embezzled nearly \$116,000 from the union over a three-year period by using her administrative position to issue unauthorized payroll checks and then depositing them into her account.

*Since FY 2000, the OIG has supported the Justice Department's worker exploitation task force. We will continue to participate with the INS, U.S. Attorney's Offices, and DOL's Wage and Hour Division in investigations involving alien smuggling and organized crime in the workplace, as well as worker exploitation. These cases involve industries with significant organized crime influence, both traditional and nontraditional, in which illegal aliens are vulnerable to a variety of racketeering schemes. As situations of organized criminal worker exploitation arise, our efforts in those areas where we have expertise are expected to grow.*

### **Alien Smuggling Ring Thwarted**

On December 17, 2001, Yee Bun Cheung, a Pittsburgh, Pennsylvania, restaurant owner, was sentenced to two years' probation and was ordered to pay a \$30,000 fine for alien smuggling. His partner, To Tat Yeung, received two years' probation and was ordered to pay a \$30,000 fine. Their restaurant, Oriental Buffet, Inc., received two years' probation and a \$10,000 fine. The U.S. Attorney's Office (Western District of Pennsylvania) asked the OIG to join in this investigation to address potential labor violations.

In September 2001, Oriental Buffet, Yeung, and Cheung each entered guilty pleas for an alien smuggling scam. The investigation revealed that the defendants harbored illegal aliens, transported illegal aliens interstate, forced the aliens to work in order to pay off the smuggling fees, and did not pay the illegal aliens proper wages and benefits. This was a joint investigative effort with the INS. *U.S. v. Cheung, U.S. v. Yeung* (W.D. Pennsylvania)



*Strengthening  
Departmental  
Programs*

# **Legislative Recommendations**



*Section 4(a) of the Inspector General Act of 1978 requires the Inspectors General to review existing or proposed legislation and regulations and to make recommendations in the Semiannual Report concerning their impact on the economy and efficiency of the Department's programs and on the prevention of fraud and abuse. The following are legislative recommendations that we have identified as contributing to the efficiency and effectiveness of the OIG, the Department of Labor, and in some cases other government agencies.*

### **Permanent Statutory Law Enforcement Authority**

Since September 11, 2001, the resources of Federal law enforcement agencies have been redirected and strained in an effort to address changing circumstances and exigencies. Legislation providing for a permanent solution to law enforcement authority for the Inspector General community is supported by the OIG. For many years, the OIG has operated with temporary law enforcement authority, first through case-by-case deputation and currently with an organizational blanket deputation through a memorandum of understanding (MOU) with the Department of Justice (DOJ). Permanent legislation could easily mirror the framework under which our agents are currently deputized under the MOU and require the OIG to continue to follow DOJ operational guidelines, conform to DOJ's training and qualification requirements, and coordinate extensively through the cognizant U.S. Attorney's Office.

Permanent statutory authority is especially needed in this OIG because it is unique among Inspectors General in that it has an "external" program function to conduct criminal investigations to combat the influence of labor racketeering and organized crime in the nation's labor unions.

### **Improving the Integrity of the Federal Employees' Compensation Act**

The OIG supports legislation that would improve the integrity of the Federal Employees' Compensation Act (FECA). Implementing the following changes would result in significant savings for the Federal government:

- Move long-term disability claimants into a form of retirement (through, for example, an Office of Workers' Compensation Program—administered annuity, or the like) after such claimants reach a pre-determined age and are still injured. Under the

current system, there is an unintended incentive in the FECA program for claimants to remain on the disability rolls because their tax-free benefits often are greater than would be their taxed benefits in a Federal retirement program.

- Return the 3-day waiting period before benefits start to the beginning of the 45-day continuation of pay process, which would require employees to use their accrued sick leave, annual leave, or leave without pay for those three days before their FECA benefits begin. This return to the Department's earlier procedure would help to discourage the filing of unwarranted claims. Under the current process, the waiting period is at the end of the claims process.
- Grant authority to the Department to access Social Security wage records in order to help the Department identify those claimants who are defrauding the program.

### **Allow DOL Access to UI and Social Security Wage Records to Effectively Evaluate Program Performance**

This legislative proposal is discussed in the appendix of this report, on page 77.

### **Enhance Protection of Pension Plan Assets by Amending the Employee Retirement Income Security Act of 1974**

This legislative proposal is discussed in the appendix of this report, on pages 77–78.





*Reports  
and  
Statistics*

# Appendix

**Requirements Under the Inspector General Act of 1978**

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Note: This page cross-references the reporting requirements prescribed by the Inspector General Act of 1978, as amended, Senate Report No. 96-829 (Supplemental 1980 Appropriations and Rescissions Bill), and the Reports Consolidation Act of 2000, to the specific pages where they are addressed.

The Reports Consolidation Act of 2000 requires the OIG to prepare a statement that summarizes what the Inspector General considers to be the most serious management challenges facing the Department of Labor. The Act also requires that this statement be included, unmodified, in the Department's Annual Report on Performance and Accountability. The following areas were included in DOL's FY 2001 Annual Report.

Office of Inspector General  
Top Management Issues  
at the U.S. Department of Labor  
January 2002

**Effectiveness of Employment and Training Programs**

After three decades, the Department continues to face challenges in effectively administering a number of key employment and training programs. Recent OIG audits highlight our concerns about the efficient and effective administration of programs designed to address the needs of hard-to-serve welfare recipients, as well as skilled individuals who lose their jobs as a result of plant closings, imports and other layoffs.

Events such as those of September 11, 2001, and their aftermath, demonstrate the need for the programs of the Department to be ready to assist workers who experience layoffs and other employment interruptions. In such cases, the quick mobilization of funding and other resources must be tempered with the establishment of controls to assure the integrity of funds, the delivery of services, and the accuracy of reporting on how well the programs achieve the desired results. The following examples illustrate our concerns with the effectiveness of such programs.

**Welfare-to-Work Competitive Grant Program:** A recent audit disclosed that the Welfare-to-Work (WtW) competitive grant program, which is designed to provide services to the hardest-to-serve populations, falls short in keeping individuals in lasting unsubsidized employment. For example, our work disclosed that only 25% of our sample of 765 participants were continuously employed for more than six months. We also found that the numbers of competitive grant participants reported as placed in unsubsidized full-time and part-time employment were overstated by 27% and 43%, respectively. This example illustrates the challenges faced by the Employment and Training Administration (ETA) in obtaining quality performance data from its grantees.

**Trade Programs:** Another example involves the Department's Trade Adjustment Assistance and North American Free Trade Agreement-Transitional Adjustment Assistance Programs (collectively called the Trade Programs), which are designed to assist individuals who have become unemployed or whose earnings have been reduced as a result of increased imports to return to suitable employment (i.e., work of an equal to or higher than skill level than the former employment, and that pays at least 80% of the former wage). A recent OIG audit of the Trade Programs found that only 34% of program participants found suitable employment and that the programs' unified reporting system was incomplete and contained inaccurate data.

**Dislocated Worker Program:** The OIG remains concerned about the extent to which the Department's Dislocated Worker Program, funded at nearly \$1.6 billion, is providing retraining and support services to eligible dislocated workers. An OIG audit report issued in June 2000 on the Job Training Partnership Act (JTPA) Dislocated Worker Program found that 35% of our sample participants were ineligible or that documentation was insufficient to establish their eligibility.

We also raised concerns that the program's allocation process may not have distributed funds to areas where they were most needed. The JTPA Dislocated Worker Program was incorporated, with some modifications, into the new Workforce Investment Act (WIA) Program. Since the WIA Dislocated Worker Program is a key component of the Department's response to layoffs after September 11, a legislative change is needed to deploy funds to the right localities and beneficiaries, as this will be critical to the success of the response.

**Assistance to Trade-affected Dislocated Workers in El Paso, Texas:** Thousands of dislocated workers in the El Paso area who were certified as having been laid off as a result of foreign trade became entitled to benefits under the Trade Programs, in addition to regular Unemployment Insurance (UI). Substantial funding was also provided to supplement the services and benefits provided under UI and the Trade Programs. In total, approximately \$106 million, or about \$25,000 per participant, was expended on services provided to 4,275 El Paso dislocated workers. Despite this large infusion of funds, a recent OIG audit found that over 50% of those who entered employment had placement wage rates of less than \$6.00 per hour, and 16% earned only the minimum hourly wage \$5.15. Also, using the official definitions and reporting criteria applicable to the program, we verified a placement rate of 36.2% as of April 30, 2001, as opposed to the 81% captured in the program operator's management information system. This audit illustrates the risk of placing great emphasis on quickly dispersing funds in response to a need, without a corresponding emphasis on monitoring the results achieved in helping participants obtain lasting employment at livable wages.

#### **Financial Performance**

One of the Administration's five government-wide goals is improved financial performance. The Department has made great strides in financial reporting and has received clean audit opinions on its financial statements since FY 1997. The Department, however, does face significant challenges in producing timely financial information that can be used in its day-to-day management. Therefore, the Department needs to change its focus from financial statement preparation to proactive management of its financial records. Financial events and transactions need to be recorded when they occur rather than at year-end. Key to the proactive management of its financial records is vesting the necessary authority in the Department's Chief Financial Officer (CFO) to provide direct oversight of all financial management operations of the various DOL agencies. Historically, the CFO has not had this authority.

Another issue of concern in this area is the adequacy of information being provided to the Department via audit reports conducted by independent public accountants under the Single Audit Act. Over 90% of the Department's expenditures are audited under the Single Audit Act by scores of audit organizations throughout the country. The Department relies on the Single Audit Act to provide audits for grant costs as well as for UI benefit costs and employer tax receipts at each of the States. These audits are performed on an annual basis. In addition to the Single Audit Act reports, the Department relies on the Benefits Accuracy Management (BAM) system, which is operated by DOL in conjunction with the states, to oversee the states' benefit payments and employer tax receipts. This system, which estimates the overpayments of UI benefits to claimants on a state by state basis has identified approximately \$1.6 billion in overpayments. The Single Audit Compliance Supplement requires that the Single Audit Act auditor evaluate the results of the BAM overpayment calculations. Recent OIG visits to two states found that auditors under the Single Audit Act were not familiar with BAM and were not evaluating BAM results. In addition, the OIG found that the testing by the auditors of benefits payments and employer receipts are inadequate because the sample sizes were too small. Also, although one auditor found an overpayment due to ineligible claimants which projected to approximately \$60 million in questioned costs, no mention was made in the Single Audit Report.

In coordination with OMB, the OIG has begun a multi-year review of these Single Audit reports to determine the adequacy of the audit coverage and whether DOL can continue relying on them for financial management purposes.

#### **Accountability: Budget and Performance Integration**

A major goal of the Administration is the integration of budget and performance to ensure that the government is results-oriented and guided by performance rather than process. Key to this is the Department's success in capitalizing on a number of statutory initiatives designed to improve the quality of program and cost data that serve as the basis for determining the results achieved by Federal programs and operations. With the passage of the Government Performance and Results Act (GPRA), Congress created a

management process whereby Federal agencies develop strategic plans, articulate program goals, allocate Federal resources to meet desired performance levels, and measure and report program results. The quality and accessibility of such data, including data reported by entities below the Federal level, are of critical importance to the Department's GPRA reporting. Similarly, the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standard Number 4, which became effective in FY 1998, is aimed at providing reliable and timely accounting for the full cost of Federal programs and activities.

**Quality of Program Data:** The Department is limited in its ability to access and control the quality of program results data used to determine the attainment of its strategic plan goals. This includes difficulties associated with ensuring the quality of the myriad data provided by states and other sources below the Federal level, where 90% of the Department's budget is actually spent. Recent OIG audits of the WtW, Dislocated Worker, and Trade Programs continue to disclose high error rates in performance data reported to the Department by its state partners and other grantees. The errors affect performance measures, including participants' wages, training activities, and successes in obtaining jobs, that serve as key indicators in determining the outcomes and success of the program. ETA has initiated a data validation project to create more precise programming specifications and standards for use in validating that the state data concerning WtW, WIA, and other ETA programs are correctly reported to ETA. However, this project does not verify the accuracy of data contained in the state databases.

**Access to Data:** Two important tenets of GPRA are that agencies must evaluate program effectiveness and validate performance data. In the employment and training area, it is particularly important to know whether programs have resulted in individuals becoming self-sufficient by obtaining long-term unsubsidized employment at livable wages. Two important tools that may be used to this end are UI and Social Security Administration (SSA) wage records of individual program participants. However, the Department is limited in its ability to obtain such data for program evaluation and validation purposes. To enhance its ability to conduct program evaluation and validation in this and other equally important areas, the Department needs to have statutory authority to easily obtain and utilize these types of records, including the information contained in the National Directory of New Hires, which is administered by the Department of Health and Human Services.

**Managerial Cost Accounting:** Once performance data are determined to be reliable, managerial cost accounting, which matches cost information with program results, is the next step in managing for results. During FY 1999, the Department began implementing the managerial cost accounting standard through agency pilot programs. It was planned that the low-level structures developed in the pilot studies would ultimately be aggregated to result in an integrated agency-wide cost accounting system. However, the Department recently abandoned this "bottom-up" approach and is presently focusing on initiating a "top-down" alternative approach to the implementation of managerial cost accounting. This new effort will be defined by disaggregating high-level agency activities into their components. The OIG will review the revised plans for the implementation of cost accounting and specific agency or program implementation efforts and will continue our internal cost accounting efforts. An important element for matching the full cost of program activity to program results (cost effectiveness) is the ability to identify employee time to specific activities. The Department is currently revising its payroll system and has indicated that there are no plans to include activities-based costing in the new system. In order for DOL's GPRA reporting to be credible, it is important that DOL ensure that performance and cost information generated are accurate, accessible and auditable.

#### **Security of Pension Assets**

The security of pension assets is a priority of the Department and of the OIG. This includes ensuring that weaknesses, vulnerabilities, and criminal activity are identified and addressed. The following are two areas that we have identified as particularly problematic.

**Pensions Plan Audits:** Over the past several years, the OIG has raised concerns regarding the way pension plans are audited under the Employee Retirement Income Security Act (ERISA). ERISA contains a limited-scope provision that results in inadequate auditing of pension plan assets because it exempts from audit all



pension plan funds that have been invested in institutions such as savings and loans, banks, or insurance companies regulated by Federal or state governments. At the time ERISA was passed two decades ago, it was assumed that all of the funds invested in those regulated institutions were being adequately reviewed. Currently, because of this provision, independent public accountants conducting audits of pension plans cannot render an opinion on the plans' financial statements in accordance with professional auditing standards. These "no opinion" audits provide no substantive assurance of asset integrity to benefit participants or the Department.

*Pension Plan Security:* Another area of concern involves private pension plans, which serve as an attractive target to organized crime elements, corrupt pension plan officials, and individuals who influence the investment activity of pension assets. Labor racketeering investigations of pension plan monies that are jointly administered by labor union representatives and management representatives (Taft-Hartley plans) have elevated the OIG's concern over the security of the assets in this segment of the pension plan universe.

OIG pension plan investigations have uncovered multi-million dollar fraud enterprises by financial and investment service providers. These investigations continue to reveal abuses by sophisticated investment advisors and pension plan administrators who have the opportunity and ability to structure complex financial schemes to conceal their criminal activity. The OIG is concerned about abuses by financial investment service providers because of the potential for multi-million dollar losses, since they typically provide investment or financial advice for more than one plan.

Based on recent investigative results and the fact that service providers typically control the investment of hundreds of millions of dollars of pension funds, the OIG has identified this area of the pension arena as especially vulnerable to organized crime activity and abuse.

#### **Protection of Worker Benefit Funds**

The Department administers several programs and statutes designed to provide and protect the benefits of workers. Protection of such benefits is critically important because they affect the lives of millions of workers and retirees and involve billions of taxpayer dollars. The OIG has identified vulnerabilities involving the financial stability and program integrity within four of the Department's major worker benefit programs.

#### **FUNDING CONCERNS**

**Unemployment Trust Fund:** The unemployment trust fund (UTF) was created in 1935 to protect workers during temporary periods of unemployment by providing income maintenance benefits. These benefits replace part of the unemployed worker's lost wages and, in so doing, help to stabilize the economy during periods of recession.

After several years of decreasing unemployment rates, the numbers of unemployment claims have recently increased. The Department has estimated that if a severe recession should occur, UTF net assets would decline by \$60.2 billion, or 69%, over four years. We are concerned that during FY 2000, while in an extended period of economic expansion, the Department reported that 19 states were considered minimally solvent and, therefore, vulnerable to exhausting their unemployment trust funds in a recession. The recent economic slowdown, exacerbated by the events of September 11, heightens our concern that states may not have adequate reserves to meet the demands on their trust funds. This could in turn result in states needing to borrow from the U.S. Treasury to fund unemployment benefit entitlements.

Another issue affecting the assets of the UTF relates to the Department of the Treasury's charges to the UTF for its work in collecting and processing unemployment taxes and administering the fund. In a 1999 audit, the

OIG determined that the Treasury had overcharged the UTF \$48 million during FYs 1996, 1997, and 1998. Subsequent to the OIG's report, the Treasury reviewed its records and credited back to the UTF \$71 million for prior years' overcharges. The 1999 audit found that Treasury's method of charging for administrative costs was fragmented, cumbersome, and unreliable, and the OIG recommended that the Departments of Labor and Treasury negotiate an alternative method for charging administrative costs. To date, this alternative method has not been established, thus we are concerned that the Treasury continues to overcharge DOL millions of dollars in administrative fees.

**Black Lung Trust Fund Deficit:** DOL administers the Black Lung Trust Fund to provide disability benefits and medical services to eligible workers in the coal mining industry, when a mine operator cannot be determined liable for providing such benefits. The OIG is concerned with the escalating indebtedness of the trust fund. The Department's consolidated financial statements for FY 2001 reflect that the trust fund was in debt \$7.3 billion to the U.S. Treasury. This debt resulted from advances provided to the program, which have become an annual necessity for the trust fund. Currently, the excise taxes are sufficient to pay benefits and administrative costs; however, the trust fund must continue to borrow from the Treasury to pay the interest due on past advances.

DOL's annual projections of future receipts and outlays indicate that cumulative borrowings from Treasury could total \$32.3 billion (unaudited) or more by 2040. According to DOL's estimates, the excise tax collections by 2040 would cover less than 30% of the interest that is accruing and annual advances will exceed \$1.2 billion per year. The Department has acknowledged that, if current operating conditions continue, a change in the statutory operating structure of the trust fund will be necessary to meet its obligations.

**Energy Employees' Occupational Illness Compensation Programs:** The Energy Employees' Illness Occupational Compensation Program Act of 2000 authorized compensation for certain illnesses suffered by employees of the Department of Energy, its predecessor agencies, and contractors who performed work for the nuclear weapons program. Presently, the Fund is in the developmental stages with payments expected to increase dramatically over the next several years. While the Department is relying on OMB's initial PAYGO cost estimate for its calculation of the actuarial liability for the current year, it needs to develop its own actuarial model for future use.

#### PROGRAM INTEGRITY

**Unemployment Insurance:** The integrity of the UI Program was cited by Congress as one of the ten worst management issues in government. As with any multi-billion dollar benefit payment program, there are those who benefit from the UI program illegally. Through oversight of this program, we have identified a number of schemes used to defraud the program including fraudulent employer schemes, internal embezzlement schemes, fraudulent interstate claims, and the fraudulent collection of UI benefits by illegal aliens and others through the use of counterfeit or unissued Social Security numbers. Further, our investigations have disclosed that the ability to file electronic and mail claims has presented individuals with the opportunity to defraud multiple states from a single location. The OIG is very concerned about the continued proliferation of these types of schemes against the UI Program, as they have resulted in substantial losses to the UTF.

We believe that there is a need for increased training of state employees in fraud detection techniques, improved internal program controls, and improved enforcement. In addition, systemic weaknesses pose problems for the UI system, including loss of contributions due to the inability of states to search for hidden wages paid by employers who misclassify workers as independent contractors, employers who fail to report all wages paid, or employers who misrepresent their claims experience.

**Federal Employees Compensation Act:** The Federal Employees' Compensation Act (FECA) provides compensation and medical care for Federal employees who suffer job-related injuries, diseases or deaths. The OIG has been working with the Department to improve the cost-efficiency of the FECA Program. For

example, one audit concluded the Department could save millions each year by utilizing commercial code manipulation detection packages to screen for improper billings. In addition, we found that granting the Office of Workers' Compensation Programs (OWCP) routine access to IRS wage data through the SSA could provide a cost-effective tool to identify claimants who failed to report wages. We estimated that, if an automated SSA crossmatch were conducted annually (as opposed to the current system of once every three years), OWCP's savings would total \$3.6 million in reduced administrative expenses over 10 years. An annual crossmatch would also enable OWCP to better identify, and remove from the disability rolls, claimants who fraudulently conceal earnings.

Finally, OIG investigations continue to disclose the vulnerability of this program to fraud. Fraudulent activities include medical providers who bill the Government for services that were not rendered, charge multiple times for the same procedure, bill for non-existent illnesses or injuries, or overcharge for services; and claimants who defraud the program by reporting false injuries, recover but continue claiming benefits, or do not report or underreport their outside employment income to OWCP.

#### **Information Technology and Electronic Government Challenges**

One of the Administration's goals is the expansion of electronic government. This presents challenges for the Department in ensuring the security of its information technology (IT) assets, the seamless implementation of its new IT architecture, and the integrity of its benefits program in an electronic government environment.

**Security of IT Assets:** DOL currently operates 67 mission-critical information systems. The Department relies on these critical information systems to monitor and analyze the nation's labor market and economic activities, manage workforce services, and protect and compensate American workers. Recent OIG audits revealed specific vulnerabilities in computer security and protection of assets. Further, the Department is also implementing new IT architecture and is modernizing its IT systems. Although the Department has been proactive in moving to correct weaknesses as they are identified, the Department needs to be more vigilant and to secure its major systems against threats and loss of assets. This requires a chief information officer (CIO) with sufficient authority and organizational independence from other agencies within the Department. Currently, the CIO is the Assistant Secretary for Administration and Management, who is also responsible for numerous administrative functions of the Department that may either divert attention from, or conflict with, IT responsibilities.

**Program Integrity in an Electronic Environment:** The Department of Labor and its program partners, like many organizations, are moving from a paper environment to an electronic one for the delivery of services, benefits, and program administration. The use of automated procedures and Internet communications has the potential to broaden the range of services, increase hours of operation, and reduce administrative costs. However, this move also brings new and increased risk of misuse, fraud, and monetary loss. This has been evidenced in recent OIG casework in worker benefits programs. Therefore, to ensure program integrity, the Department must assess the risks involved and utilize a comprehensive, integrated approach of oversight and enforcement.

The OIG is also adapting its audit plan to assist the Department in addressing the challenges it faces in this new environment. For example, State Workforce Agencies are currently upgrading and modernizing their operations to offer customers telephone and Internet access to selected services. These services include UI claims filing, employer registration, employer wage and tax reporting, and appeals filing. The OIG will conduct audits in four to seven states in FY 2002 to determine the effectiveness of system security.

### **Integrity of Foreign Labor Certification Programs**

The Department of Labor's foreign labor certification programs are designed to provide employers access to foreign workers in areas in which there is a shortage of workers. The program is supposed to ensure that the admission of aliens to work in the United States on a permanent or temporary basis does not adversely affect the job opportunities, wages, and working conditions of American workers or legal resident aliens.

The H-1B Visa Specialty Workers program is intended to provide employers with access to highly qualified individuals in speciality occupations to allow them to compete in a global market. It requires employers who intend to temporarily employ foreign specialty-occupation workers to file labor condition applications with the Department stating that appropriate wage rates will be paid and workplace guidelines followed. The Department is required to certify applications unless it determines the applications to be "incomplete or obviously inaccurate." Under the current law, the Department's role in reviewing labor condition applications amounts to nothing more than a rubber stamp in the process.

The OIG has found that individuals allowed into the United States under this program often lack the specialized skills necessary for meeting the requirements for H-1B visas. We continue to identify fraud in the foreign labor certification programs, with the majority of cases involving the H-1B program. These cases involve fraudulent petitions that are filed with DOL on behalf of fictitious companies and corporations, individuals who file petitions using the names of legitimate companies and corporations without their knowledge or permission, and immigration attorneys and labor brokers who collect fees and file fraudulent applications on behalf of aliens.

The OIG believes that if the Department is to have a meaningful role in the labor certification process, it should have corresponding authority to ensure the integrity of the process. To do this, the Department needs to have the authority to ensure the validity of information provided on labor condition applications.

### **Effectiveness of Mine Safety and Health Programs**

The Mine Safety and Health Administration (MSHA) is responsible for ensuring the safety and health of miners. OIG reviews have identified a number of areas needing DOL's attention to ensure the effectiveness and efficiency of the programs designed to protect miners from injury or death. For example, in a recent OIG evaluation, we found that MSHA is unable to complete statutorily mandated inspections of Metal/Nonmetal mine operations because of the rapid growth in mine operations, reductions in the numbers of inspectors, and shifts toward compliance assistance. Chief among our recommendations in this area is the need for MSHA to study the allocation and geographic distribution of enforcement and compliance assistance resources to determine what combination of activities and inspections will produce the greatest effect on mine safety.

We have made a number of recommendations to address the various deficiencies that we have identified. For example, other OIG evaluations have disclosed that MSHA needs to do more to protect miners and their families from exposure to asbestos; improve the intake, management, tracking, and analysis of complaints; and improve educational, engineering and enforcement tools to more effectively contend with risk-taking behavior in the area of personal protective equipment.

### **Rapid Expansion of the Bureau of International Labor Affairs Program**

The Bureau of International Labor Affairs (ILAB) assists in formulating international economic, trade, and immigration policies affecting American workers. ILAB is also responsible for spotlighting significant

international child labor issues and contributing to the development and implementation of U.S. policy on international child labor. The increasing concern over child labor issues resulted, in part, in an almost sevenfold increase in ILAB's appropriations during the last two fiscal years. However, the OIG's evaluation and audit work have raised concerns over ILAB's management structure, managerial controls over grant programs, program results, evaluation methods, and the roles and responsibilities of individual staff to account for this increased level of funding adequately.

#### **Human Capital Management**

In January 2001, the General Accounting Office added strategic human capital management to its list of federal programs and operations identified as high risk. The OIG agrees that no management issue facing federal agencies could be more critical to their ability to serve the public than the ability to attract, retain, and motivate a highly-qualified workforce. The OIG is concerned about the human capital challenges that the Department faces in the next decade, particularly since the Department projects that over 27% of its entire workforce, as well as 47% of its supervisors, are eligible to retire in the next five years.

Management of human resources has been a priority for the Department of Labor. For example, DOL has instituted a number of policies to attract and retain a quality workforce. These include policies such as flexible work schedules, telecommuting, payment of student loans, transportation and child care subsidies, and training and professional development. Moreover, in its recent Score Card Report, the Office of Management and Budget has acknowledged that DOL is using tools such as succession planning, and retention and recruitment bonuses. DOL has indicated its plans to implement a Department-wide strategy to address succession planning, core competency analysis and training, and the further use of personnel flexibilities.

Given the challenges it faces, DOL needs to ensure the consistent and full utilization of current personnel flexibilities and DOL policies. In addition to these proactive efforts, there are a number of specific legislative, regulatory, and policy changes that would be helpful to Federal agencies like DOL, in more effectively competing with private industry for highly-skilled personnel and in retaining qualified employees. Flexibilities are needed in the areas of: salary levels, recruitment bonuses, and promotions, as well as a number of hiring rules such as the number of selected qualified candidates who may be considered from a certification list. With such flexibilities, however, come an even greater responsibility for DOL management to ensure that any new authorities are applied appropriately.

This schedule depicts the activity during the six-month reporting period for those funds that were recommended by the auditor to be put to better use.

	Number of Reports	Dollar Value (\$ millions)
A. For which no management decision had been made as of the commencement of the reporting period	6	2.5
B. Which were issued during the reporting period	1	<u>0.2*</u>
<b>Subtotals (A + B)</b>	<b>7</b>	<b>2.7</b>
C. For which a management decision was made during the reporting period	1	
• Dollar value of recommendations that were agreed to by management		0.5
• Dollar value of recommendations that were not agreed to by management		0.0
D. For which no management decision had been made as of the end of the reporting period	<u>6</u>	<u>2.2</u>
E. For which no management decision has been made within six months of issuance	<u>5</u>	<u>2.0</u>

\* This amount does not include \$2.5 million in funds put to better use that was included in an evaluation of DOL's motor vehicle fleet.

This schedule depicts the activity during the six-month reporting period for those funds that were recommended by the auditor to be put to better use.

	Number of Reports	Funds Recommended for Better Use (\$ millions)
A. For which final action had not been taken as of the commencement of the reporting period (as adjusted)	6	20.2
B. For which management decisions were made during the reporting period	<u>2</u>	<u>0.6</u>
<b>Subtotals (A + B)</b>	<b>8</b>	<b>20.8</b>
C. For which final action was taken during the reporting period	3	
• Dollar value of recommendations that were actually completed		7.6
• Dollar value of recommendations that management has subsequently concluded should not or could not be implemented or completed		<u>0.7</u>
D. For which no final action had been taken by the end of the period	<u>5</u>	<u>12.5</u>

This schedule shows the extent to which DOL management has taken steps, during the six-month reporting period, to resolve the costs questioned as having been improperly expended. Audit resolution occurs when management either agrees with the auditor's finding and disallows those costs that were questioned or decides that the expenditure should be allowed.

	Number of Reports	Questioned Costs (\$ millions)
A. For which no management decision had been made as of the commencement of the reporting period (as adjusted)	50	81.1
B. Which were issued during the reporting period	<u>21</u>	<u>15.9</u>
<b>Subtotals (A + B)</b>	<b>71</b>	<b>97.0</b>
C. For which a management decision was made during the reporting period	11	
• Dollar value of disallowed costs		3.1
• Dollar value of costs not disallowed		0.3
D. For which no management decision had been made as of the end of the reporting period	<u>60</u>	<u>93.6</u>
E. For which no management decision has been made within six months of issuance	<u>39</u>	<u>77.7</u>



This schedule presents the activity for costs that have been disallowed during the six-month reporting period.

	Number of Reports	Disallowed Costs (\$ millions)
A. For which final action had not been taken as of the commencement of the reporting period (as adjusted)	59	20.8
B. For which management or appeal decisions were made during the reporting period	<u>16</u>	<u>5.6</u>
<b>Subtotals (A + B)</b>	<b>75</b>	<b>26.4</b>
C. For which final action was taken during the reporting period*		
• Dollar value of disallowed costs that were recovered		4.3
• Dollar value of disallowed costs that were written off by management		0.4
D. For which no final action had been taken by the end of the reporting period	<u>62</u>	<u>21.7**</u>

\* Partial recoveries/write-offs are reported in the period in which they occur. Therefore, many audit reports will remain open awaiting final recoveries/write-offs to be recorded.

\*\* Does not include \$20.9 million of disallowed costs that are under appeal.

Agency/ Program	Accounts Receivable Current (\$ millions)	Accounts Receivable Delinquent (\$ millions)	Accounts Receivable Total (\$ millions)
BLS	0.02	0.04	0.06
ESA:			
Black Lung	0.3	2.7	3.0
FECA	1.7	18.3	20.0
Back Wage	1.1	9.2	10.3
Civil Monetary Penalties	1.6	5.7	7.3
ETA	0.2	9.9	10.1
MSHA	1.2	14.1	15.3
OSHA	8.8	45.6	54.4
PWBA	2.5	7.4	9.9
Total	<u>17.42</u>	<u>112.94</u>	<u>130.36</u>

Note: These figures are provided by departmental agencies. They are unaudited and may represent estimates. Amounts due to the Unemployment Trust Fund (interagency receivables, state unemployment taxes, and benefit overpayments) are not included. Amounts due from other Federal agencies for FECA workers' compensation benefits paid are not included.

# Appendix

## Unresolved Audits over Six Months Old

This schedule presents a summary of all audit reports that continue to remain unresolved for more than six months. For these reports, a management decision is still outstanding. (This schedule is required by Section 5(a)(10) of the Inspector General Act, as amended.)

Agency/Program	Date Issued	Name of Audit	Report Number	Number of Recommendations	Questioned Costs (\$)
<b>Nonmonetary Recommendations and Questioned Costs:</b>					
<b>Being Resolved in Conjunction with DOL Consolidated Financial Statement Audit:</b>					
ESA/Admin	08/18/94	Employment Standards Administration Salaries and Expenses	03-94-008-04-001	2	0
OASAM/Admin	06/15/95	FY94 DOL Consolidated Financials	12-95-004-07-001	2	0
CFO/Admin	02/27/98	FY97 Consolidated Financials	12-98-002-13-001	2	0
CFO/Admin	02/26/99	FY98 Consolidated Financials	12-99-002-13-001	1	0
CFO/Admin	09/02/99	FY98 Management Advisory Comments	12-99-009-13-001	3	0
CFO/Admin	02/29/00	FY99 DOL Consolidated Financial Statement	12-00-003-13-001	1	0
CFO/Admin	07/20/00	FY99 DOL Management Advisory Comments	12-00-006-13-001	2	0
CFO/Admin	02/22/01	DOL Consolidated Financial Statements	22-01-006-13-001	6	0
CFO/Admin	08/27/01	DOL Consolidated Financial Statement, FY00 Management Advisory Comments	22-01-009-13-001	2	0
CFO/Admin	03/27/01	DOL Managerial Costs	22-01-012-13-001	1	0
<b>Pending Indirect Cost Negotiations:</b>					
OASAM/OPGM	09/21/01	National Association of Counties Audit of Financial Status Report for July 1, 1997–April 30, 1998	03-01-003-07-735	1	10,098
OASAM/OPGM	11/04/94	Homebuilders Institute	18-95-001-07-735	1	628,158
OASAM/OPGM	11/04/94	Homebuilders Institute	18-95-002-07-735	2	748,379
OASAM/OPGM	11/04/94	Homebuilders Craft Skills	18-95-003-07-735	7	353,479
OASAM/OPGM	09/21/01	Maryland Department of Labor, Licensing and Regulations Audit of Indirect Costs	03-01-006-03-315	10	9,833,059
OASAM/OPGM	02/19/99	Advantage Resource Group	18-99-008-03-370	1	23,036
OASAM/OPGM	07/24/01	Management and Training Corporation	02-01-211-03-370	1	94,932
<b>Final Management Decision Being Evaluated by OIG:</b>					
ETA/UIS	10/19/99	Single Audit: State of Indiana–1997	18-00-501-03-315	10	161,548
ETA/UIS	10/19/99	Single Audit: State of Indiana–1998	18-00-502-03-315	7	311,872
ETA/UIS	01/10/00	Single Audit: State of Minnesota–1998	18-00-517-03-315	3	0
ETA/SESA	09/18/00	Single Audit: Puerto Rico Dept of Labor and Human Resources	02-00-218-03-325	6	287,065
ETA/SESA	08/23/00	Single Audit: State of Florida	12-00-514-03-325	8	0
ETA/JTPA	06/08/00	Single Audit: State of Florida–1998	12-00-535-03-340	2	0
ETA/JTPA	03/06/00	Single Audit: State of Iowa–1998	18-00-529-03-340	4	0
ETA/DINAP	06/08/00	Single Audit: Puyallup Tribe of Indians	12-00-525-03-355	4	0
ETA/OJC	09/22/99	Audit of Talking Leaves Job Corps Center	06-99-010-03-370	12	1,052,574
ETA/OJT	09/22/00	Followup Audit of Job Corps S&H	05-00-007-03-370	3	0
BLS/BLSG	09/24/01	Single Audit: State of Louisiana	22-01-507-11-111	4	169,335

# Appendix

## Unresolved Audits over Six Months Old

Agency/Program	Date Issued	Name of Audit	Report Number	Number of Recommendations	Questioned Costs (\$)
<b>Final Management Decision Issued by Agency Did Not Resolve – OIG Negotiating with Program Agency:</b>					
ETA/UIS	02/26/01	New Mexico Department of Labor Y2K Grant Expenditures	04-01-001-03-315	3	914,221
ETA/UIS	09/26/01	Security Testing and Evaluation Audit of the Office of Workforce Security System	23-01-004-03-315	6	0
ETA/JTPA	09/25/98	Cherokee Nation	06-98-009-03-340	1	0
ETA/JTPA	09/22/99	New Mexico Service Delivery Area	06-99-008-03-340	2	0
ETA/WTW	03/07/01	Greater Omaha Workforce Development	05-01-001-03-386	1	0
ETA/JTPA	09/29/00	Single Audit: Commonwealth of Kentucky–1998	12-00-528-03-340	4	0
OASAM/OPMS	08/16/01	Review of Hiring Complaint	21-01-301-07-753	1	0
<b>Final Management Decision Not Yet Issued by Agency:</b>					
VETS/CONTR	09/07/01	Single Audit: State of Louisiana	22-01-509-02-201	4	333,546
ETA/Admin	11/29/99	Xpand Corporation	18-00-001-03-001	2	106,757
ETA/Admin	07/25/01	Single Audit: State of Louisiana	22-01-506-03-001	28	23,201,664
ETA/UIS	09/26/97	Virgin Island UI	02-97-220-03-315	8	269,404
ETA/UIS	02/23/01	State of Maryland's UI ADP/IT Central Service Costs Charged to DOL Grants	03-01-002-03-315	2	0
ETA/UIS	03/19/01	Nevada Department of Employment and Training Y2K Grant Expenditures	04-01-004-03-315	3	758,427
ETA/UIS	09/21/01	Ohio Department of Job and Family Services' Y2K Grant Expenditures	04-01-006-03-315	4	1,085,283
ETA/UIS	09/21/01	California Employment Development Department's Y2K Grant Expenditures	04-01-008-03-315	5	848,643
ETA/UIS	09/17/01	Montana Department of Labor and Industry's Y2K Grant Expenditures	04-01-010-03-315	3	132,743
ETA/UIS	09/22/00	Single Audit: Michigan Consumer and Industry	12-00-524-03-315	2	0
ETA/UIS	01/10/00	Single Audit: State of Nevada–1997	18-00-520-03-315	2	0
ETA/UIS	04/17/00	Single Audit: State of Louisiana–1999	18-00-534-03-315	6	2,429,691
ETA/SESA	12/08/99	Puerto Rico Department of Labor and Human Resources	02-00-203-03-325	9	15,814,678
ETA/SESA	08/13/97	DOL Equity in SESA Real Property–New York	06-97-051-03-325	1	3,952,692
ETA/SESA	09/28/01	Real Property Issues Related to Federal Equity Properties	06-01-003-03-325	4	0
ETA/SESA	11/02/00	Single Audit: State of Alaska	12-01-500-03-325	4	0
ETA/JTPA	09/20/00	Florida Cash Management Practices	04-00-004-03-340	3	3,438,078
ETA/JTPA	07/31/00	Single Audit: State of New Mexico–1998, 1999	12-00-500-03-340	12	0
ETA/JTPA	08/04/00	American Association of Community Colleges	18-00-008-03-340	2	198,687
ETA/JTPA	01/10/00	Single Audit: State of Nevada–1998	18-00-521-03-340	1	0
ETA/JTPA	05/18/01	Single Audit: Government of Guam	22-01-505-03-340	2	229,816
ETA/DINAP	08/28/00	Single Audit: United Sioux Tribes of South Dakota	12-00-519-03-355	1	0
ETA/DINAP	09/15/00	Single Audit: Leech Lake Reservation	12-00-520-03-355	2	0
ETA/DOWP	06/08/00	Single Audit: State of Arizona–1998	12-00-538-03-360	1	0
ETA/DSFP	06/02/00	Central Valley Opportunity Center	09-00-003-03-365	13	535,579
ETA/DSFP	09/26/00	Audit of Center for Employment and Training	09-00-006-03-365	15	5,797,229
ETA/OJC	03/23/01	Adams and Associates, Inc.	02-01-203-03-370	2	167,863
ETA/OJC	03/22/02	Detroit Job Corps Center Expenses	02-01-204-03-370	1	0
ETA/OJC	03/22/01	Hubert H. Humphrey Job Corps Center	02-01-205-03-370	1	0
ETA/OJC	09/28/01	Audit of Loring Job Corps Center	02-01-212-03-370	4	691,220
ETA/STW	09/23/99	Hawaii Department of Education	18-99-501-03-385	1	50,000
ETA/WTW	05/22/00	Postaward Survey of Deveraux	03-00-006-03-386	1	0
ETA/WTW	09/28/01	Welfare-to-Work Competitive Grant Program Performance Audit	03-01-007-03-386	3	0
ETA/WTW	03/20/01	Stillman College Competitive Grant	04-01-002-03-386	3	194,936

# Appendix

## Unresolved Audits over Six Months Old

Agency/Program	Date Issued	Name of Audit	Report Number	Number of Recommendations	Questioned Costs (\$)
ETA/WTW	09/24/01	Indianapolis Private Industry Council WTW Competitive Grant	05-01-004-03-386	1	0
ETA/WTW	09/25/01	Chicago Housing Authority WTW Competitive Grant	05-01-005-03-386	3	86,278
ETA/WIA	02/08/00	Vermont's One Stop Readiness	02-00-205-03-390	4	0
ETA/WIA	02/22/00	Connecticut's One Stop Readiness	02-00-206-03-390	5	0
ETA/WIA	02/22/00	New York's One Stop Readiness	02-00-207-03-390	6	0
ETA/WIA	03/14/00	Illinois' One Stop Readiness	02-00-209-03-390	3	0
ETA/WIA	03/14/00	California's One Stop Readiness	02-00-210-03-390	6	0
ETA/WIA	03/22/00	Florida's One Stop Readiness	02-00-211-03-390	3	0
ETA/WIA	09/27/01	Role Models America, Inc.	21-01-200-03-390	8	2,309,455
OSHA/ADMIN	09/7/01	Single Audit: State of Louisiana	22-01-508-10-001	4	87,413
DOL/MULTI	09/16/99	Milwaukee Area American Indian Manpower	05-99-009-50-598	25	352,693
DOL/MULTI	09/20/99	SER Corporation of Kansas	05-99-021-50-598	3	3,783
Total Nonmonetary Recommendations and Questioned Costs:				352	77,664,344
<b>Total Funds Recommended for Better Use:</b>					
<b>Final Management Decision Issued by Agency Did Not Resolve – OIG Negotiating with Program Agency:</b>					
ETA/UIS	02/26/01	New Mexico	04-01-001-03-315	1	171,944
<b>Management Decision Not Yet Issued by Agency:</b>					
ETA/UIS	02/23/01	State of Maryland's Unemployment Insurance ADP/IT			
		Central Service Costs Charged to DOL Grants	03-01-002-03-315	2	1,339,695
ETA/JTPA	09/20/00	Florida Cash Management Practices	04-00-004-03-340	1	185,000
ETA/WTW	09/24/01	Audit of Indianapolis PIC WTW Competitive Grant	05-01-004-03-386	1	44,732
<b>Pending Negotiations Between Auditee and DOL Contracting Officer:</b>					
ETA/OJC	02/13/01	Memphis Cost Claim for Equitable Adjustment	04-01-003-03-370	1	332,611
Total Funds Recommended for Better Use:				6	2,073,982
Total Nonmonetary Recommendations, Questioned Costs, and Funds Recommended for Better Use:				358	79,738,326

# Appendix

## Final Audit Reports Issued by the OIG

<i>Strategic Goal</i> Program Name Name of Report	Date Issued	Report Number	Number of Non-Monetary Recommendations	Questioned Costs (\$)	Funds Put to Better Use (\$)	Other Monetary Impact (\$)
<b><i>Unemployment and Training</i></b>						
<b>United States Employment Service</b>						
Single Audit: Koahnie Broadcast Corporation	02-05-02	22-02-505-03-320	0	11,029	0	0
<b>Job Training Partnership Act</b>						
DOL Grants to Assist Trade-Affected Dislocated Workers in El Paso, TX	11-19-01	06-02-003-03-340	5	0	0	0
Single Audit: California Indian Manpower Consortium	02-01-02	22-02-500-03-340	0	10,255	0	0
Single Audit: Northumberland/Montour Training Services, Inc.	02-01-02	22-02-501-03-340	0	36,400	0	0
Single Audit: Career Options of Pinellas, Inc.	02-01-02	22-02-504-03-340	0	216,446	0	0
<b>Indian and Native American Programs</b>						
American Indian Community House, Inc.	01-24-02	02-02-204-03-355	1	293,419	0	0
Dallas Inter-Tribal Center	02-13-02	06-02-001-03-355	2	139,654	0	0
<b>Older Workers Programs</b>						
The National Council on the Aging, Inc.	02-11-02	02-02-202-03-360	2	614,375	0	0
<b>Seasonal Farmworkers Program</b>						
Proteus, Inc., of Des Moines, Iowa	03-29-02	21-02-003-03-365	3	215,792	0	0
<b>Job Corps</b>						
ResCare, Inc.	12-19-01	02-02-201-03-370	0	362,826	0	0
Minact, Inc.	01-30-02	02-02-203-03-370	4	100,348	0	0
Sargent Shriver Job Corps Center Municipal Service Fees	03-18-02	02-02-205-03-370	1	305,352	0	0
Iroquois Job Corps Center Property Taxes	02-20-02	02-02-206-03-370	0	0	0	0
Homestead Job Corps Center Property Taxes	03-21-02	02-02-208-03-370	0	0	0	0
Hawaii Job Corps Center Financial and Compliance Audit	03-29-02	03-02-003-03-370	10	0	0	0
Job Corps Needs to Strengthen Management and Oversight of the Student Transportation System	03-29-02	09-02-200-03-370	1	0	200,000	0
<b>School to Work Program</b>						
Single Audit: The School Study Council of Ohio	02-26-02	22-02-502-03-385	1	0	0	0
<b>Welfare to Work Program</b>						
Madison County Working Connection's WtW Competitive Grant	03-26-02	04-02-001-03-386	2	358,229	0	0
Pinellas Workforce Development Board's WtW Competitive Grant	03-26-02	04-02-002-03-386	0	858,674	0	0
City of Gary WtW Competitive Grant	03-18-02	05-02-001-03-386	10	136,618	0	0
CEDA of Cook County, Illinois, WtW Competitive Grant	03-26-02	05-02-002-03-386	8	86,519	0	0
Goodwill Industries of San Antonio, Texas: Technology Costs Audit	10-02-01	06-02-002-03-386	1	0	0	0
Industrial Exchange, Inc.		03-20-0206-02-004-03-386	5	561,649	0	0
Single Audit: Central Minnesota Jobs and Training Services	02-01-02	22-02-503-03-386	0	13,140	0	0
<b>Workforce Investment Act</b>						
The Workplace, Inc. (H-1B Technical Skills Training Grant)	03-26-02	02-02-207-03-390	5	140,000	0	0

# Appendix

## Final Audit Reports Issued by the OIG

<i>Strategic Goal</i> Program Name Name of Report	Date Issued	Report Number	Number of Non-Monetary Recommendations	Questioned Costs (\$)	Funds Put to Better Use (\$)	Other Monetary Impact (\$)
<b>Labor Statistics</b> State of Wyoming Staff Time Charging	03-18-02	21-02-300-11-001	6	0	0	0
<b>Goal Totals</b>		<b>26</b>	<b>67</b>	<b>4,460,725</b>	<b>200,000</b>	<b>0</b>
<b><u>Worker Benefits Programs</u></b>						
<b>Unemployment Insurance Service</b>						
Massachusetts Department of Labor and Workforce Development Audit of Direct and Indirect Costs	03-29-02	03-02-001-03-315	3	1,340,544	0	0
New Jersey Department of Labor–Indirect Costs	03-29-02	03-02-002-03-315	3	6,166,318	0	0
UI Field Audit Program– Follow up on the Results of Blocked Claim Audits for CY2001	03-18-02	03-02-007-03-315	0	0	0	7,213,474
New York Department of Labor Y2K Grant Expenditures	01-25-02	04-02-003-03-315	0	3,976,331	0	0
Unemployment Insurance Data Validation Pilot Program	03-29-02	22-02-005-03-315	3	0	0	0
<b>Federal Employees' Compensation Act</b>						
Special Report Relating to the FECA Special Benefit Fund–FY 2001	11-26-01	22-02-001-04-431	0	0	0	0
Federal Employees' Compensation Act Performance Measures System	03-29-02	22-02-006-04-431	5	0	0	0
<b>Longshore and Harbor Workers</b>						
District of Columbia Workmen's Compensation Act Special Fund Financial Statements and Related Reports	03-29-02	22-02-009-04-432	0	0	0	0
Longshore and Harbor Workers' Compensation Act Special Fund Financial Statements and Related Reports	03-29-02	22-02-010-04-432	0	0	0	0
<b>Pension and Welfare Benefits</b>						
PWBA Needs to Improve Oversight of Cash Balance Plan Lump Sum Distributions	03-29-02	09-02-001-12-121	3	0	0	17,000,000
<b>Goal Totals</b>		<b>10</b>	<b>17</b>	<b>11,483,193</b>	<b>0</b>	<b>24,213,474</b>
<b><u>Worker Safety and Health and Workplace Rights</u></b>						
<b>Office of Federal Contract Compliance Programs</b>						
Enforcement of Veterans' Employment Rights	03-29-02	05-02-004-04-410	4	0	0	0
<b>Occupational Safety and Health</b>						
North Carolina Council for Occupational Safety and Health	01-25-02	21-02-001-10-001	0	0	0	0
<b>Goal Totals</b>		<b>2</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>0</b>

# Appendix

## Final Audit Reports Issued by the OIG

<i>Strategic Goal</i> Program Name Name of Report	Date Issued	Report Number	Number of Non-Monetary Recommendations	Questioned Costs (\$)	Funds Put to Better Use (\$)	Other Monetary Impact (\$)
<b><i>Departmental Management Focus</i></b>						
<b>Information Technology Center</b>						
General Controls and Security for Selected Financial Systems as of September 30, 2001	03-19-02	23-02-002-50-598	3	0	0	0
<b>CFO Management</b>						
FY 2001 Opinion Statement	01-31-02	22-02-002-13-001	0	0	0	0
Special Report on the Agreed-Upon Procedures for Retirement, Health and Life Insurance Withholdings, Contributions, and Supplemental Semiannual Headcount	12-19-01	22-02-003-13-001	0	0	0	0
Findings and Recommendations to the Chief Financial Officer as a Result of an Audit of the U.S. Department of Labor's Principal Financial Statements (as of September 30, 2001)	03-27-02	22-02-004-13-001	12	0	0	0
Agreed-Upon Procedures Report for Federal Intragovernmental Activity and Balances	03-14-02	22-02-008-13-001	0	0	0	0
DOLAR\$ Application Control Review	03-29-02	23-02-003-13-001	12	0	0	0
<b>ETA Management</b>						
Government Information Security Reform Act Evaluation of ETA's WtW and Alien Certification Systems	11-26-01	23-02-001-03-001	19	0	0	0
<b>Other</b>						
Single Audit: Quality Review Position Paper	03-29-02	22-02-011-50-598	0	0	0	0
Agreed-Upon Procedures Report for Facts 1 Final Account Groupings Worksheet and Federal Intergovernmental Activity and Balances	03-14-02	22-02-007-98-599	0	0	0	0
<b>Goal Totals</b>			<b>9</b>	<b>0</b>	<b>0</b>	<b>0</b>



# Appendix

## Final Evaluation Reports Issued by the OIG

<i>Strategic Goal</i> Program Name Name of Report	Date Issued	Report Number	Number of Non-Monetary Recommendations	Questioned Costs (\$)	Funds Put to Better Use (\$)	Other Monetary Impact (\$)
<b><i>Employment and Training</i></b>						
Study of Services and Outcomes: Youth Offender Demonstration Grant Projects, Round 1	03/29/02	2E-03-356-0001	6	0	0	0
Evaluation of the Audit Resolution Process	03/05/02	2E-03-001-0001	7	0	0	0
<b><i>Worker Benefits</i></b>						
Evaluation of OFCCP's Method of Selecting Construction Contractors for Compliance Reviews	03/06/02	2E-04-410-0002	3	0	0	0
<b><i>Departmental Management</i></b>						
Evaluation of the DOL's Fleet Management Program	03/04/02	2E-07-711-0001	9	0	\$2,500,000	0
Evaluation of the DOL's Travel Card Program–OCFO/OASAM	03/26/02	2E-07-001-0001	4	0	0	0
Evaluation of the DOL's Travel Card Program–OIG		03/26/02E-09-910-0001		3	0	0
Evaluation of the DOL's Travel Card Program–PWBA	03/26/02	2E-12-001-0004	0	0	0	0
Evaluation of the DOL's Travel Card Program–VETS	03/26/02	2E-02-001-0001	0	0	0	0
<b><i>Evaluation Reports Totals</i></b>		<b>8</b>	<b>32</b>	<b>0</b>	<b>\$2,500,000</b>	<b>0</b>
<b><i>Total for Audits and Evaluations</i></b>		<b>55</b>	<b>166</b>	<b>\$15,943,918</b>	<b>\$2,700,000</b>	<b>\$24,213,474</b>

	Division Totals	Totals
<b>Cases Opened:</b>		
Program Fraud	173	
Labor Racketeering	54	230
<b>Cases Closed:</b>		
Program Fraud	246	
Labor Racketeering	63	309
<b>Cases Referred for Prosecution:</b>		
Program Fraud	142	
Labor Racketeering	96	238
<b>Cases Referred for Administrative/Civil Action:</b>		
Program Fraud	4	
Labor Racketeering	6	10
<b>Indictments:</b>		
Program Fraud	121	
Labor Racketeering	97	218
<b>Convictions:</b>		
Program Fraud	81	
Labor Racketeering	50	131
<b>Debarments:</b>		
Program Fraud	1	
Labor Racketeering	14	15
<b>Recoveries, Cost Efficiencies, Restitutions, Fines/Penalties, Forfeitures, and Civil Monetary Actions:</b>		
Program Fraud	\$20,941,077	
Labor Racketeering	\$44,839,306	\$65,780,383*

\* This figure does not include an \$85.3 million cost efficiency that was realized by the government as the result of the State of New York Department of Transportation's cancelling of a contract.

<b>Recoveries:</b>	\$4,752,642
(The dollar amount/value of an agency's action to recover or reprogram funds or to make other adjustments in response to OIG investigations)	
<b>Cost Efficiencies:</b>	\$23,342,423*
(The one-time or per annum dollar amount/value of management's commitment, in response to OIG investigations, to utilize the government's resources more efficiently)	
<b>Restitutions:</b>	\$8,993,182
(The dollar amount/value of restitutions resulting from OIG criminal investigations)	
<b>Fines/Penalties:</b>	\$22,054,098
(The dollar amount/value of fines, assessments, seizures, investigative/court costs, and other penalties resulting from OIG criminal investigations)	
<b>Civil Monetary Actions:</b>	\$6,638,038
(The dollar amount/value of forfeitures, settlements, damages, judgements, court costs, or other penalties resulting from OIG civil investigations)	
<b>Total:</b>	<u><u>\$65,780,383*</u></u>

\* This figure does not include an \$85.3 million cost efficiency that was realized by the government as the result of the State of New York Department of Transportation cancelling a contract.

	Convicted	Sentenced	Monetary <sup>1</sup>
<b>FOREIGN LABOR CERTIFICATION</b>			
ATTA, AHMED	X	X	\$700
HYDER, SALMAN	X	X	\$500
LOUIS, MARIO	X	X	\$250
NAUDE, HEYN	X	X	\$130,840
<b>Total</b>	<b>4</b>	<b>4</b>	<b>\$132,290</b>
<b>EMPLOYEE MISCONDUCT</b>			
BARNES-RILEY, PAMELA	X	X	\$26,918
PEREZ, RICARDO	X		
TOALA, SIRIA	X		
<b>Total</b>	<b>3</b>	<b>1</b>	<b>\$26,918</b>
<b>ESA-BLACK LUNG</b>			
AMERICAN DEVELOPMENT CORP.	X	X	
MURRAY, KATIE	X	X	\$3,682
SINGER, KAREN	X	X	\$2,024
SUTHERLAND, FRANKLIN, M.D.	X	X	\$42,700
<b>Total</b>	<b>4</b>	<b>4</b>	<b>\$48,406</b>
<b>ESA-FECA</b>			
ADAMS, THERESA	X		
BAYLOR, PATRICIA	X		
DUE, DON	X	X	\$38,901
FAIR, ADDISON	X	X	\$50,213
FELDER, WILLIE	X	X	\$65,400
FRANKS, STEVEN	X	X	\$22,988
HOAGLAND, JOHN	X	X	\$250
JEANE, JIMMY	X		
"PRE-TRIAL DIVERSION"	X	X	
LEWIS, JOYCE	X		
LINCOLN, TIMMOTHY	X		
LIPPOLD, JOANNE	X	X	\$17,471
LIPPOLD, RAYMOND	X	X	\$17,471
LUCIA, JAMIE	X		
MCDONALD, JOHN	X		
MOGELNICKI, JOHN	X	X	\$24,100
MORFIN, ELIUD	X		
SCHLUETER, DARRELL	X		
SWOAP, FLOYD	X	X	\$21,582
WDOWIAK, ANDRZEJ	X	X	\$15,622
WINLEY, DUANNE	X		
WRIGHT, MICHELLE	X	X	\$73,438
<b>Total</b>	<b>22</b>	<b>12</b>	<b>\$347,436</b>
<b>ESA-LONGSHORE</b>			
BLOOM, BRYAN	X		
<b>Total</b>	<b>1</b>		
<b>ESA-WAGE AND HOUR</b>			
AZTEC LANDSCAPE CONSTRUCTION	X		
BROADBENT, CARL	X	X	\$7,600
CONSTRUCTION PERSONNEL, INC.	X	X	\$333,536

<sup>1</sup> Monetary results include restitutions and fines that result from criminal court sentencings. They do not include administrative recoveries or cost efficiencies realized by the government.

	Convicted	Sentenced	Monetary <sup>1</sup>
"PRE-TRIAL DIVERSION"	X	X	
FOSTER, JESSE	X		\$23,366
FOX, ROBERT	X	X	\$149,869
FOX, ROBERT II	X	X	
GOODWIN, RON	X	X	\$328,286
KAJACS CONTRACTORS, INC.	X		
PERSONS, MICHAEL	X		
VOILES, TINA	X	X	\$500
WEAVER, ROY	X	X	\$294,185
<b>Total</b>	<b>12</b>	<b>8</b>	<b>\$1,137,342</b>
<b>ETA-JOB CORPS</b>			
GLANVILLE, SHEILA	X	X	\$84
<b>Total</b>	<b>1</b>	<b>1</b>	<b>\$84</b>
<b>ETA-UNEMPLOYMENT INSURANCE/SWA</b>			
ACOSTA, SHANE	X		
BLACK, JOHN	X	X	\$4,304
BRAZIEL, FLORA	X		
BRYANT, ERNEST	X	X	\$4,600
BRYANT, ESTELLE, JR.	X	X	\$1,887
BRYDIE, VANESSA	X		
CARDENAS, JAVIER	X		
CHEUNG, YEE BUN	X	X	\$30,000
CURLEE, MICHAEL	X	X	\$7,405
DAVIES, MARK	X	X	\$10,100
DUNMARS, NICQUELLE	X		
EDWARDS, ENARIS	X		
EPPS, RAYMOND	X		
EPPS, ZACKARY	X		
FARRINGTON, DEBORAH	X		
FREEMAN, THERESA	X	X	\$66,636
GINYARD, VIRGIL	X		
GLASPER, TONY, JR.	X	X	
GORDON, KEVIN	X		
HARDISON, SYLVESTER	X		
JOHNSON, EDDIE	X		
JOHNSON, RORY	X	X	\$5,246
JOHNSON, SHERRY	X	X	\$200
"PRE-TRIAL DIVERSION"	X	X	\$3,708
LEWIS, TRACY	X		
"PRE-TRIAL DIVERSION"	X	X	\$4,005
LUCKETT, RASHOD	X	X	\$275
MADISON, RAE	X	X	\$2,452
MARSHALL, KEVIN	X		
NGUYEN, SON THANH	X		\$10,000
NOTO, JERRY	X	X	\$7,140
NUNN, CANDACE	X		
ORIENTAL BUFFET, INC.	X	X	\$10,000
PATTERSON, ALVIN	X		
PAULEY, DUANE	X	X	\$310
POLLARD, TERRELL	X	X	\$50,150
REESER, DOROTHY	X	X	\$211,881
ROBERTSON, LEELA	X		

<sup>1</sup> Monetary results include restitutions and fines that result from criminal court sentencings. They do not include administrative recoveries or cost efficiencies realized by the government.

	Convicted	Sentenced	Monetary <sup>1</sup>
ROBERSON, MELVIN	X	X	\$2,303
ROBINSON, WILLIE	X		
SAENZ, UBALDO	X	X	\$13,232
ST. JACQUES, CHRISTINE	X	X	\$404,287
SMITH, KEITH	X	X	\$2,498
TOUSSAINT, JAKE, JR.	X		
"PRE-TRIAL DIVERSION"	X	X	\$2,756
WALKER, KEVIN	X	X	\$67,817
WATSON, EDWARD	X	X	\$23,907
WHITE, MICHAEL	X		
WHITMORE, MARVIN, SR.	X	X	\$3,305
WILLIAMS, IBERIA	X		\$5,840
YEUNG, TO TAT	X	X	\$30,000
<b>Total</b>	<b>50</b>	<b>28</b>	<b>\$986,244</b>
<b>ETA-WELFARE TO WORK</b>			
GREENGAS, MILTON	X		
NACLERIO, SANDRA	X		
<b>Total</b>	<b>2</b>		
<b>OSHA</b>			
ACOSTA, RAMON	X		
JUNGER, MOSHE	X		
<b>Total</b>	<b>2</b>		
<b>BENEFIT PLAN</b>			
ABBOTT, JOHN	X	X	\$194,600
BIGHAM, EDWARD, JR.	X		
BLUESTEN, DANIEL	X		
BUHITE, THOMAS	X	X	\$4,500
BUSCHER, FRANCIS	X		
CONTINO, WILLIAM	X		
CRANWELL, WILLIAM	X	X	\$10,000
GARCIA, JAMES	X	X	\$10,273
GARCIA, VICTOR, SR.	X	X	\$100,300
GARCIA, VICTOR, JR.	X	X	\$125,200
GRAYSON, BARCLAY	X	X	\$100
HCMF, INC.	X	X	\$1,975,000
"PRE-TRIAL DIVERSION"	X	X	
HALVALDAR, VIJAY	X		
HAMILTON, LESTER	X		
"PRE-TRIAL DIVERSION"	X	X	
KLIKAS, IRENE	X		
KROHN, ROBERT	X	X	\$90,000
MEDINA, DANILO	X	X	\$75,904
MIRCHOU, LILIANA	X	X	\$730,000
MILLER, ROBERT, M.D.	X	X	\$30,100
"PRE-TRIAL DIVERSION"	X		
ONEAL, JULIUS, III	X	X	\$10,604
PHILLIPS, GEORGE	X		
RIZZO, JOSEPH	X	X	\$30,000
SCALAMANDRE, FRED AND JOSEPH	X	X	\$5,000,000

<sup>1</sup> Monetary results include restitutions and fines that result from criminal court sentencings. They do not include administrative recoveries or cost efficiencies realized by the government.

	Convicted	Sentenced	Monetary <sup>1</sup>
SMITH, PENDLETON	X	X	\$11,900
STILES, PATRICK	X	X	\$244,000
VASQUEZ-RUIZ, FELIX, M.D.	X		
VVSS COMPANY	X		\$21,186,121
WEEKES, TONY	X		
WEIR, DONALD	X		
YOVANNO, SAM	X	X	\$15,200
<b>Total</b>	<b>33</b>	<b>22</b>	<b>\$29,843,802</b>
<b>INTERNAL UNION</b>			
ANGELONE, JOHN	X		
BELL, ERNEST	X	X	
BOHN, DENISE	X		
BUCKLEY, JEFF	X		
CAMPANELLA, FRANK	X		
"PRE-TRIAL DIVERSION"	X		
"PRE-TRIAL DIVERSION"	X	X	
CARTER, EARNEST	X	X	\$22,192
ERVOLINO, ANNA	X	X	\$144,470
GALLO, JOHN	X	X	\$15,100
GOWOREK, STEVEN	X		
HALL, CHARLIE	X	X	\$20,000
HURLEY, WILLIAM	X		
JONES, STEPHEN	X		
JONES, WAYNE	X	X	\$546
JOHNSTON, TERRELL	X		
LAMPKIN, KEITH	X	X	
LORE, JOSEPH	X		
MILLER, TAMARA	X	X	\$152,824
MINERD, CHRIST	X		
MURRAY, KENNETH	X	X	\$82,000
PANZARELLA, JAMES	X		
PELLICCIA, JOSEPH	X		
RACKLEY, THOMAS	X		
RICCARDO, THOMAS	X	X	\$5,000
SKIRPS, GARY	X	X	\$213
TERLECKI, JOHN	X		
WALKER, WILLIE	X		
WOOTEN, MAUREEN	X	X	\$105
ZEUBERIS, FRANK	X	X	\$946,312
<b>Total</b>	<b>30</b>	<b>14</b>	<b>\$1,388,762</b>
<b>LABOR MANAGEMENT</b>			
BUSILLO, MARIA	X	X	\$100,150
CATALDO, GILBERT	X	X	\$5,150
DAMBROSIA, DANIEL	X		
DINORSCIO, DOMINICK	X		
SERPICO, JOHN	X	X	\$130,300
SERVIDIO, JOSEPH	X		
VANHEYNINGEN, HANK	X	X	\$2,600
<b>Total</b>	<b>7</b>	<b>4</b>	<b>\$238,200</b>

<sup>1</sup> Monetary results include restitutions and fines that result from criminal court sentencing. They do not include administrative recoveries or cost efficiencies realized by the government.

The OIG Hotline provides a communication link between the OIG and persons who want to report alleged violations of law, rules, or regulations; mismanagement; waste of funds; abuse of authority; or danger to public health and safety. During this reporting period, the OIG Hotline received a total of 2,587 contacts. Of these contacts, 372 allegations required additional review. Listed below is a breakdown of those 372 allegations.

**Total Contacts for This Period: 2,587**

**Allegation Reports by Source:**

Hotline Operations – Calls, Letters, and Walk-ins from Individuals or Organizations	331
Letters from Congress	7
Letters from DOL Agencies	8
Incident Reports from DOL Agencies	3
Reports by OIG Components	7
Letters from Non-DOL Government Agencies	12
Government Accounting Office	4
<b>Total</b>	<b>372</b>

**Allegation Reports by Referral:**

Referred to OIG Components	54
Referred to DOL Program Management	210
Referred to Other Agencies	69
No Further Action Required	39
<b>Total</b>	<b>372</b>





United States Department of Labor  
Office of Inspector General

# Report Fraud, Waste and Abuse



CALL THE HOTLINE



Phone #:  
202.693.6999  
1.800.347.3756

Email:  
[hotline@oig.dol.gov](mailto:hotline@oig.dol.gov)

OIG Hotline  
U.S. Department of Labor  
Office of Inspector General  
Room S-5512  
200 Constitution Avenue, N.W.  
Washington, D.C. 20210

The OIG Hotline is open to the public and to Federal employees 24 hours a day, 7 days a week to receive allegations of fraud, waste, and abuse.



For more information, electronic copies of this report, or to learn more about the OIG, visit the OIG homepage:  
<http://www.oig.dol.gov>



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U.S. Department of Labor  
Office of Inspector General  
Room S-5506  
200 Constitution Avenue, N.W.  
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